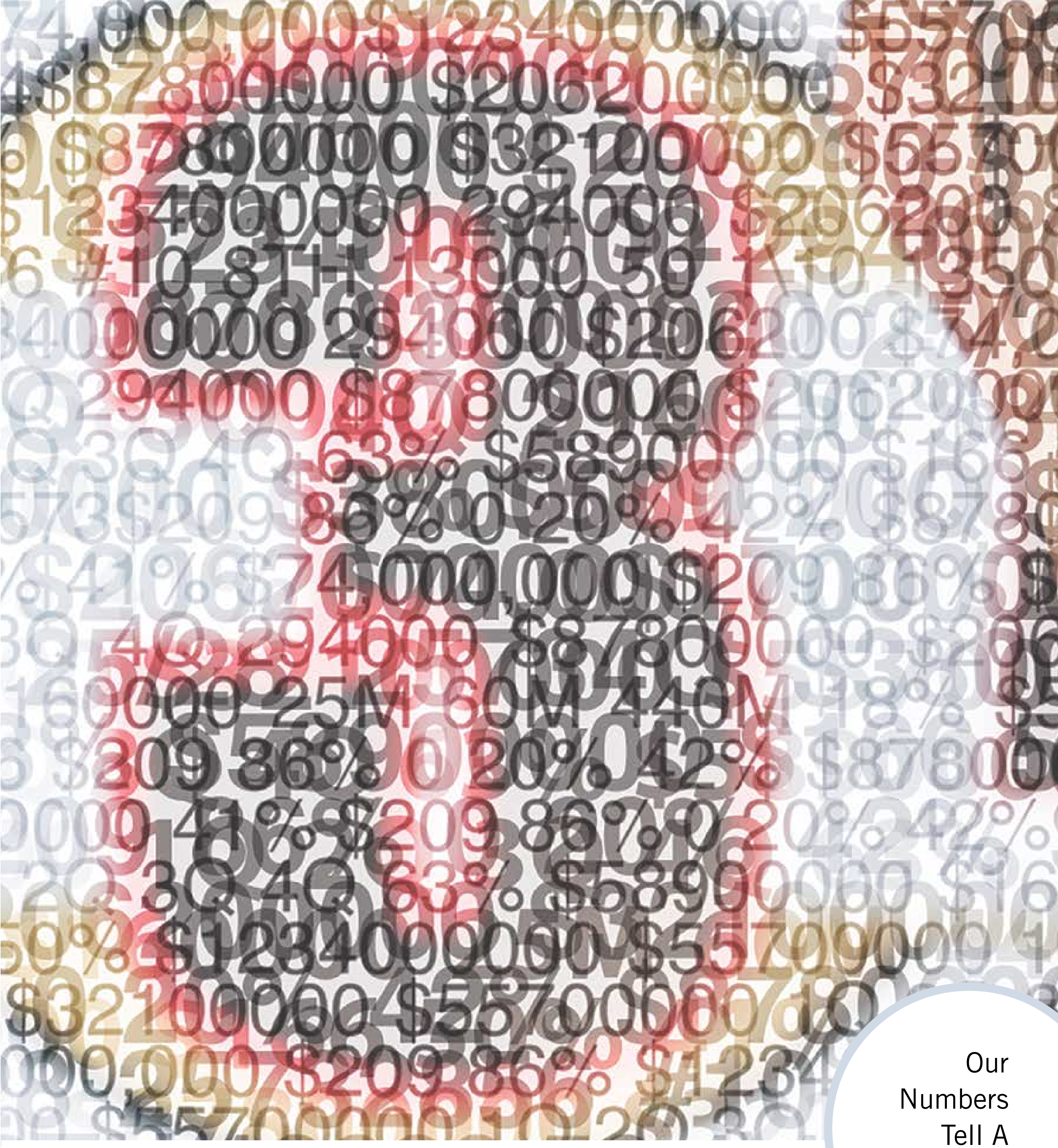


Our Numbers Tell A Bigger Story

2015 Annual Report

Empowering people who serve the public®

tyler technologies

Consistent strategic growth has enabled Tyler Technologies to expand our presence as the premier provider of end-to-end information management offerings and services for the public sector. With the recent acquisition of New World Systems, Tyler significantly increased both the breadth and depth of our public safety and financial software offerings. By continually extending our reach and evolving our products, Tyler offers an industry-leading portfolio of solutions that empower clients into the future.

Monroe Fire District #3 is one of more than

50 police and fire agencies

and **two 911 call centers** in Snohomish County, Washington,

that **share an integrated 911 emergency dispatch system** using Tyler's New World public safety software solutions.

Tyler software helps **improve the flow of information** across agencies to

save lives, preserve property

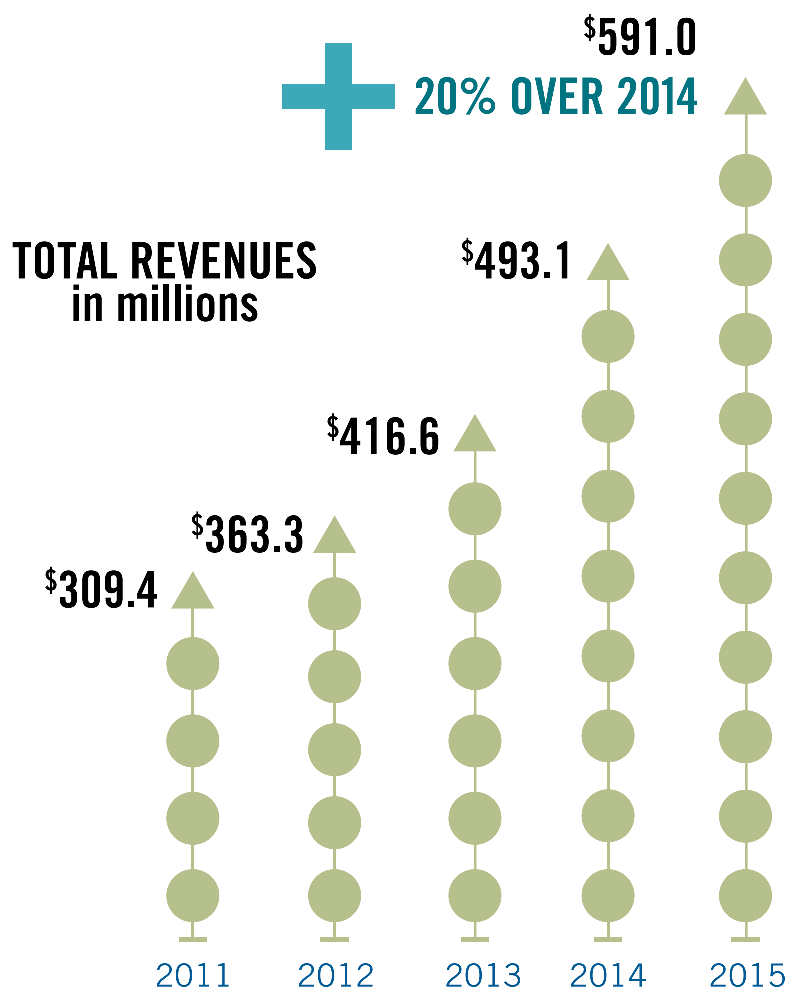
and maintain the security and safety of the county's citizens.

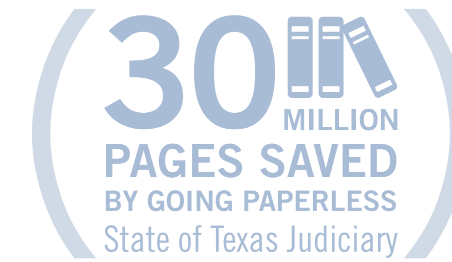
When our clients serve their constituents more efficiently, transparently and responsively, that's **our success story.**

We put our numbers to good use in 2015.

As the largest software company in North America focused solely on the public sector, Tyler Technologies has built and shaped a business characterized by consistent revenue and earnings growth, and a strong level of recurring revenues. Tyler pursues a sharply focused strategy of steady and significant investment in organic growth, adding further value through targeted acquisitions. Our future prospects are exciting and provide opportunities to deliver meaningful rewards for our shareholders, clients and colleagues.

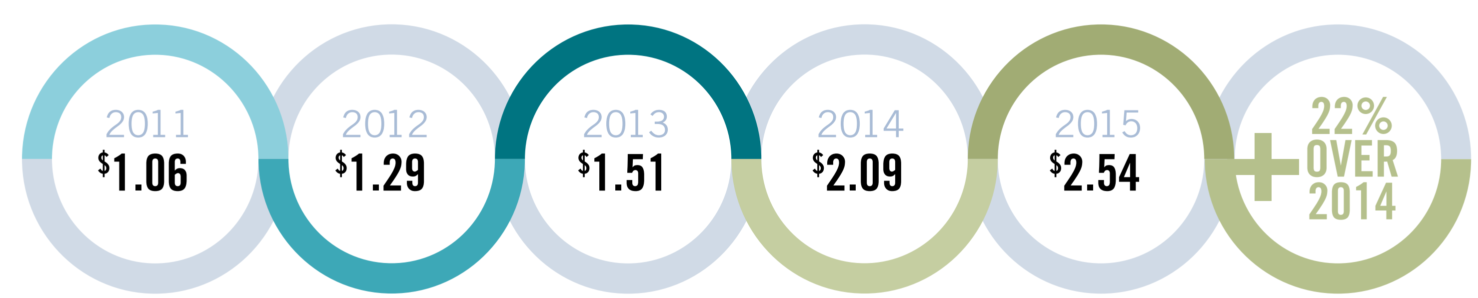
Tyler solutions deliver valuable services for the public sector, including: recording marriage and birth certificates, equipping jurisdictions to take 911 calls, improving access to justice with paperless courts, increasing public access to appraisal and tax documents, supporting local municipalities in planning and infrastructure, improving bus routes and student information systems, and streamlining payroll processes for public sector employees. Our solutions do more than make good financial sense – they add up to stronger communities.





QUARTERLY GROWTH

ANNUAL EARNINGS per share
(NON-GAAP)



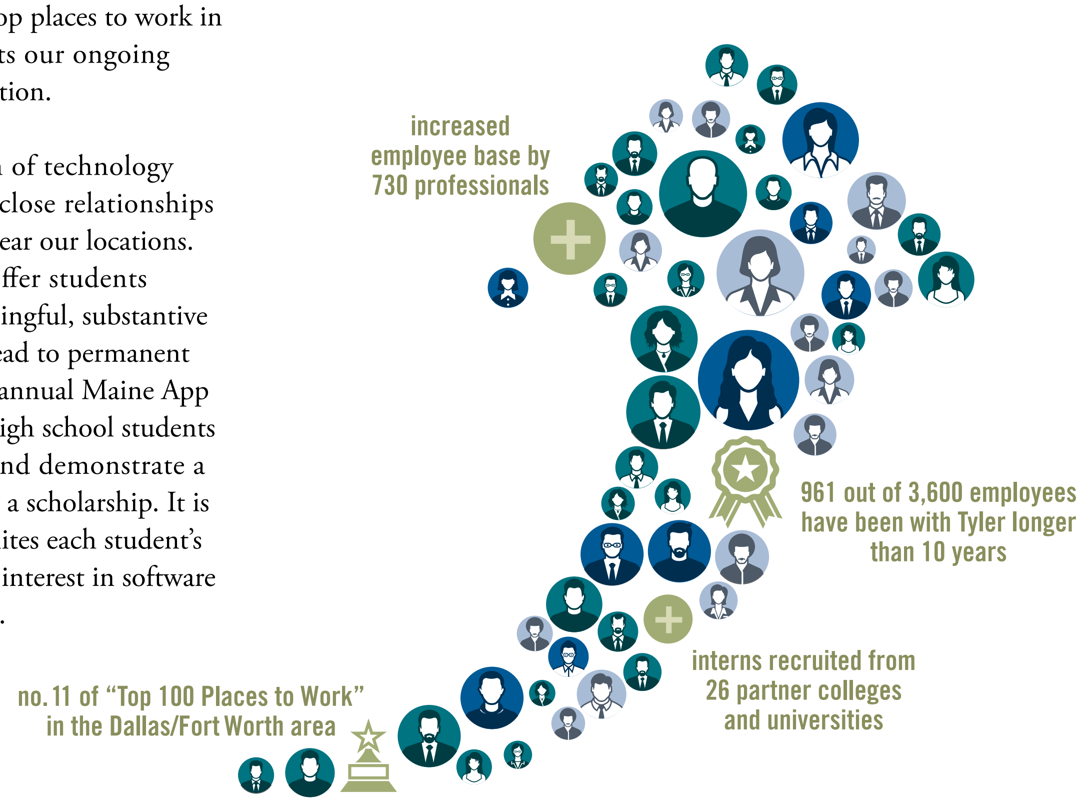
AN EMPLOYEE PARTNERSHIP IN SUCCESS

One key to our competitive performance is our wealth in human capital. Many Tyler employees have served in the public sector and are deeply knowledgeable about the needs of state and local governments and schools. They embrace the challenging initiatives that help our clients succeed, and they take great pride in providing quality solutions and excellent service to help our clients serve the public effectively.

We encourage and support our employees through personal and professional development opportunities and a commitment to work/life balance. Tyler consistently ranks among the top places to work in its communities, which reflects our ongoing dedication to employee satisfaction.

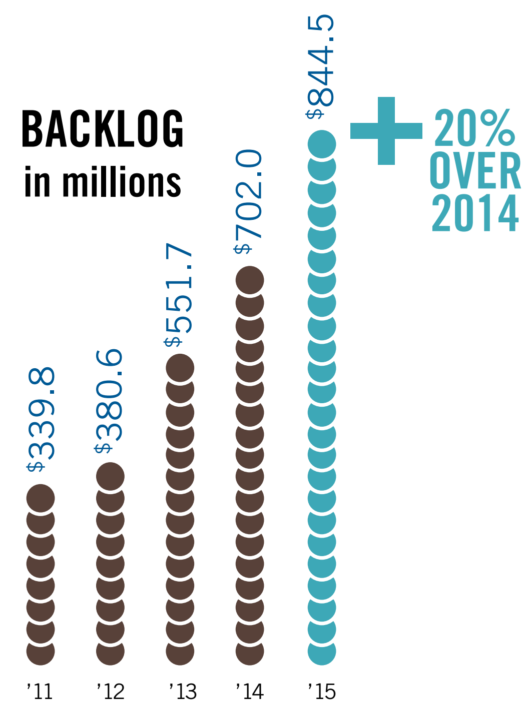
To recruit the next generation of technology professionals, we've nurtured close relationships with colleges and universities near our locations. We provide internships that offer students opportunities to perform meaningful, substantive work during tenures that can lead to permanent positions. We also sponsor the annual Maine App Challenge, which encourages high school students in Maine to design, develop and demonstrate a mobile app for a chance to win a scholarship. It is our hope that the challenge ignites each student's imagination and turns a casual interest in software development into a career path.

Across the entire company, our talented and engaged employees and our vibrant, supportive corporate culture help us meet and exceed our business goals, making Tyler Technologies a great place to work.



FINANCIAL HIGHLIGHTS

Our numbers speak for themselves.



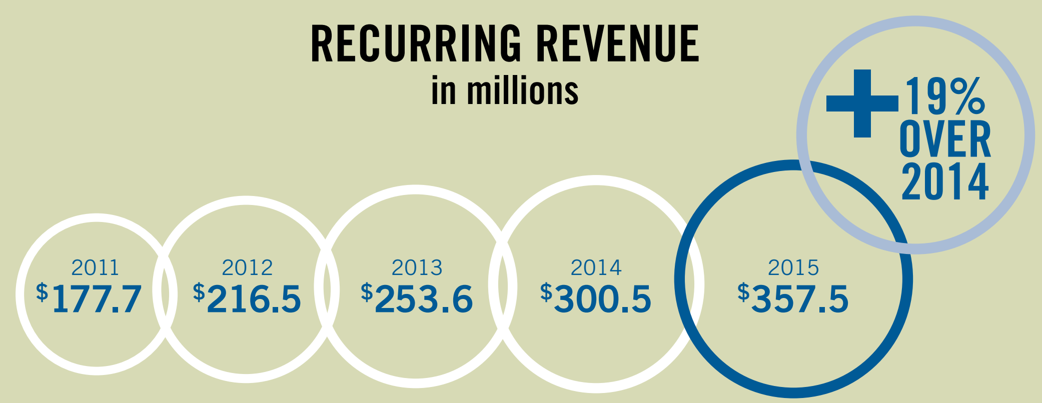
CASH & INVESTMENTS AT YEAR END
$64 million

DEBT AT YEAR END
$66 million

+15% compound annual growth in software related revenues 2002-2015

+12% compound organic growth in software related revenues 2002-2015

+27% subscriptions/SaaS: fastest growing revenue stream in 2015



GAAP NET INCOME
$64.9 million
or $1.77 per diluted share
+10.1% from 2014

NON-GAAP NET INCOME
$92.7 million
or $2.54 per diluted share
+25.5% from 2014

We don't just measure success by growing numbers.

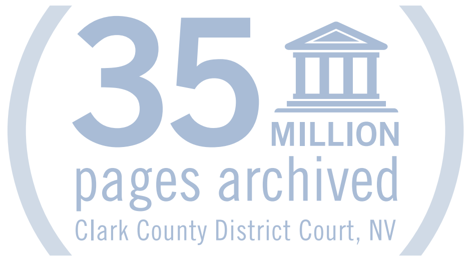
We're also proud of certain numbers that have moved down over the years. Our solutions have led to reductions in:

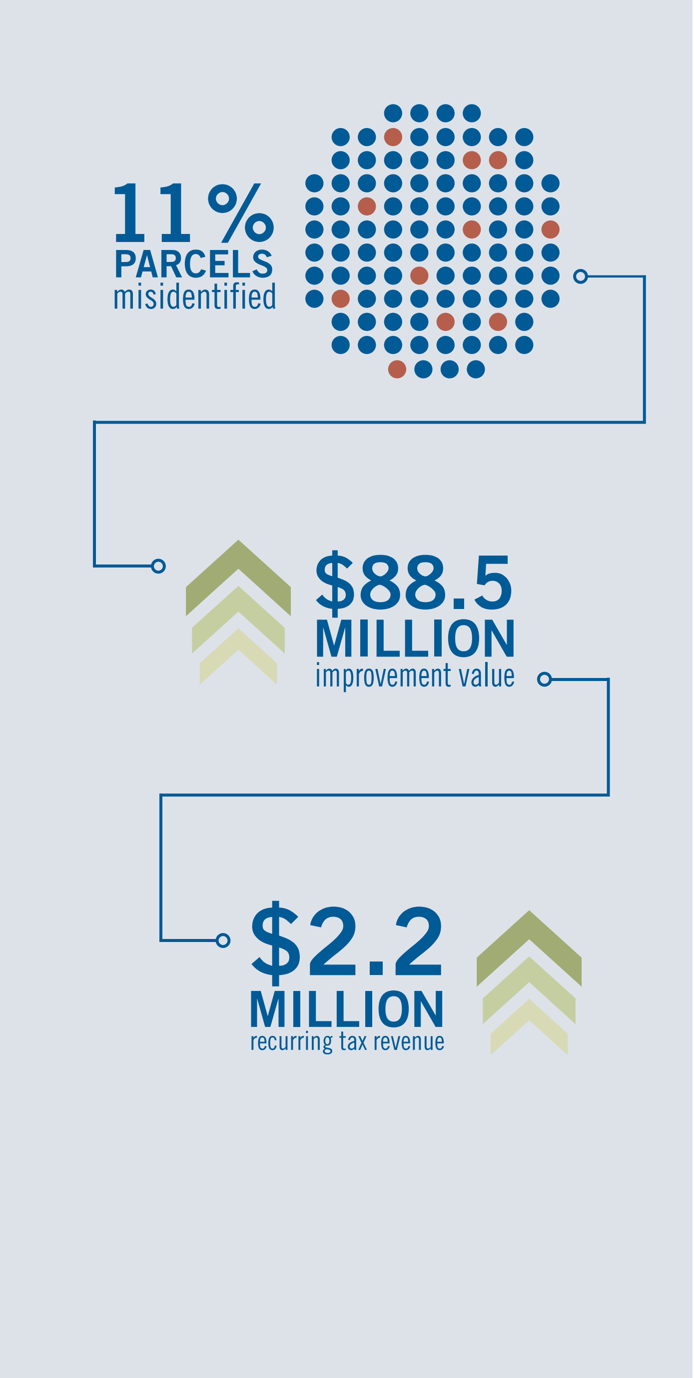
ERROR

By reducing waste and error, we help our clients uncover hidden revenue. Through Tyler Verify™, Williamson Central Appraisal District in Texas discovered 11 percent of parcels were misidentified, prompting them to add $88.5 million in improvement value to the tax rolls and recover $2.2 million in recurring tax revenue.

BUREAUCRACY

Tyler Content Manager™ helped the District School Board of Pasco County, Florida, reduce the paperwork required to manage the purchasing reports of 84 schools and 70 departments. The paperless workflow streamlined processes while making financial data more secure.





STORAGE SPACE

In Clark County, Nevada, our Odyssey File & Serve™ processes helped district court personnel archive 35 million pages of court records, which allowed them to convert the space previously used to store these documents into eight badly needed courtrooms.

PAPER

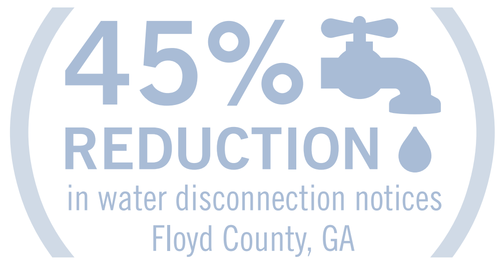
Thanks to eFileTexas, county courts across the state of Texas were able to eliminate a combined total of 27 million pages of paper waste in just one year.

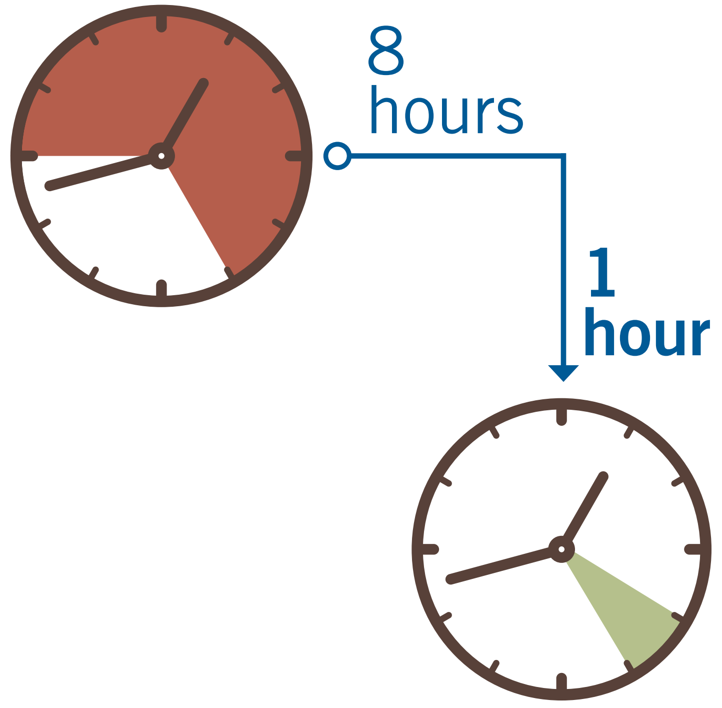
TIME

iasWorld® eFile™ helped New Mexico's Bernalillo County Assessor's Office streamline manual property tax assessment processes so efficiently that tasks once taking a full day can now be accomplished in one hour, freeing staff to provide other services.

UTILITY DISCONNECTION RATES

Tyler Notify™ helped Floyd County, Georgia, more quickly and easily notify customers of overdue balances, reducing monthly disconnections for nonpayment by 45 percent.





Our clients' success is Tyler's success

"Our financial success enables us to support our clients with solutions that allow them to do their jobs more efficiently and serve their constituents more transparently, effectively and responsively. This has a positive impact not only on our business, but on the quality of life in the thousands of communities where Tyler Technologies has a presence."

John S. Marr Jr.

President and Chief Executive Officer

To Our Shareholders:

2015 was an eventful year for Tyler Technologies. We achieved exceptional results across our business units from both operational and financial perspectives, as we continued to outperform our competition in a solid market. By virtually every meaningful measure, Tyler's financial results reached record levels. In addition, we continued to execute on our strategy of expanding our platform for long-term growth with key acquisitions and investments in our products.

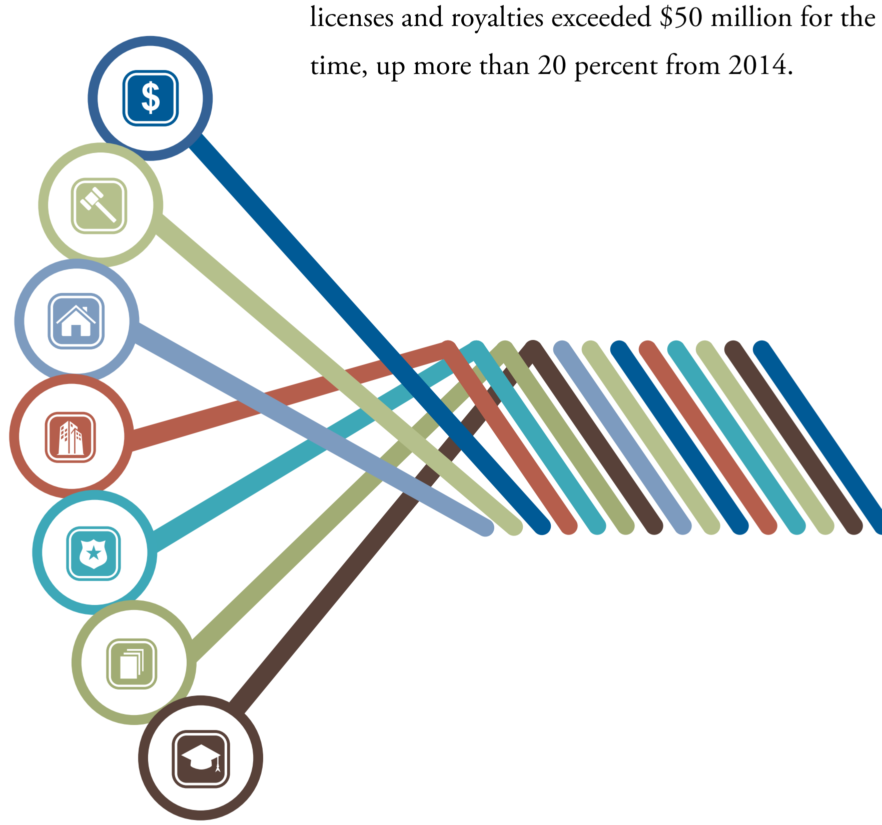
Financial Strength

Tyler's revenues grew nearly 20 percent (almost 17 percent organic) to $591.0 million, exceeding our long-term growth targets in part due to significant gains in revenue from our e-filing solutions and rapid expansion of courts and justice revenues in California. That said, our growth reflects balance across the entire Tyler portfolio, and we ended the year with our 17th straight quarter of double-digit revenue growth. Subscription revenues grew more than 27 percent to $111.9 million as our cloud-based offerings continue to gain momentum. Annual revenue from software licenses and royalties exceeded $50 million for the first time, up more than 20 percent from 2014.

7 SECTORS

GROWTH DRIVERS

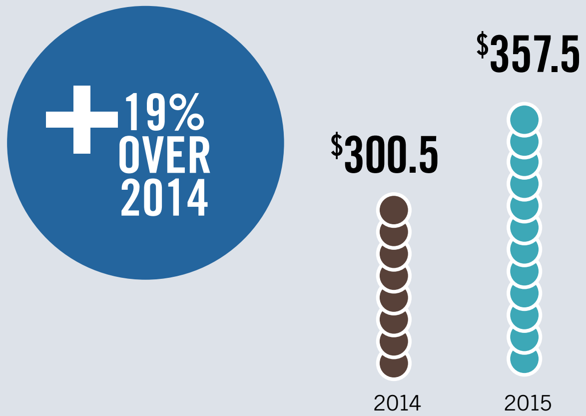
- **EXPANDING** OUR GEOGRAPHIC REACH
- **WINNING** LARGE-SCALE ACCOUNTS
- **EXTENDING** RELATIONSHIPS WITH EXISTING CLIENTS
- **BROADENING** OUR PRODUCT OFFERINGS



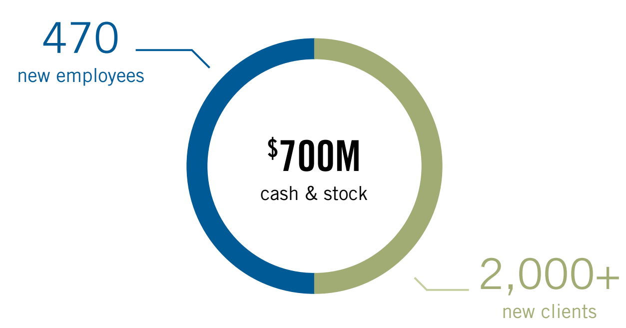
GAAP net income for the year was $64.9 million, or $1.77 per diluted share, up 10.1 percent. Non-GAAP net income rose more than 25 percent to $92.7 million, or $2.54 per diluted share. Our non-GAAP operating margin improved 150 basis points to 25.1 percent.

With our strong competitive position and an active marketplace, bookings for the year were solid and we ended 2015 with backlog at an all-time high of $844.5 million, up 20.3 percent. Interest in our cloud solutions continues to grow, and the total value of new SaaS contracts signed in 2015 increased 38.3 percent over 2014. With growth in both the volume and average term of our SaaS agreements, 44 percent of our backlog is expected to be recognized beyond the next 12 months, providing us with greater long-term visibility. Our balance sheet is strong, with $64.0 million in cash and investments and $66.0 million of debt at the end of 2015. In November 2015 we put in place a new five-year, $300.0 million credit facility, giving us increased flexibility to take advantage of opportunities to create shareholder value and drive growth.

RECURRING REVENUE
in millions



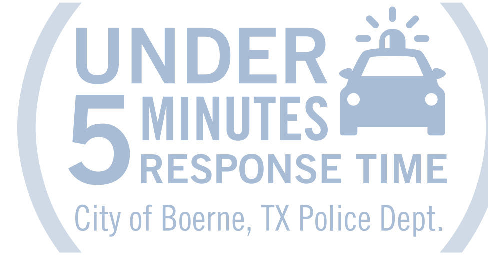
NEW WORLD SYSTEMS ACQUISITION



Strategic Investments

2015 was an active year for Tyler with respect to acquisitions and investments. On November 16, we acquired New World Systems Corporation in a deal valued at $700.3 million in cash and stock, the largest acquisition in Tyler's history. New World is a leading provider of public safety and financial management software for the public sector. New World's public safety solutions complement our industry-leading courts and justice solutions, and the employees and clients of both companies are excited about our vision for the market's first end-to-end integrated solution for public safety and courts.

Our May acquisition of Brazos Technology Corporation for $7.6 million also enhances our public safety portfolio. Brazos' law enforcement products include mobile handheld solutions for electronic citations and field accident reporting. In January 2015, we made a $15.0 million convertible preferred stock investment for a 20 percent stake in Record Holdings, an Australian company specializing in digitizing the spoken word in courts around the world.



Executing at a High Level

At the core of Tyler's success is our longstanding history of executing at a high level. Our growing team of dedicated professionals, from sales through development and implementation, have a deep domain expertise in the public sector. Through their efforts, we've established an unparalleled record of completing often complex implementations on time and on budget, cementing long-lasting client relationships. In 2015, we achieved more than 500 go-lives across the nation, including 11 California court systems.

Financial Success that Strengthens Communities

2015 was certainly a year of robust growth for Tyler. Looking forward, while we expect that from time to time there will be catalysts for higher growth, we continue to believe that a growth rate in the low to mid-teens is sustainable. Tyler's financial success in 2015 is the result of a focused long-term strategy of investment that has driven growth and shareholder value. We will continue to invest in Tyler at a high level in 2016 in order to broaden our product offerings and strengthen our competitive position for the future.

As remarkable as our financial performance was in 2015, we believe those numbers tell a bigger story. Our financial success enables us to support our clients with solutions that allow them to do their jobs more efficiently and serve their constituents more transparently, effectively and responsively. This has a positive impact not only on our business, but on the quality of life in the thousands of communities where Tyler Technologies has a presence. That's the story we're proudest to tell.

John S. Marr Jr.
President & Chief Executive Officer
March 18, 2016

The Driving Forces Behind Our Growth

85% PARENT participation in online registration
Raymore-Peculiar School District, MO

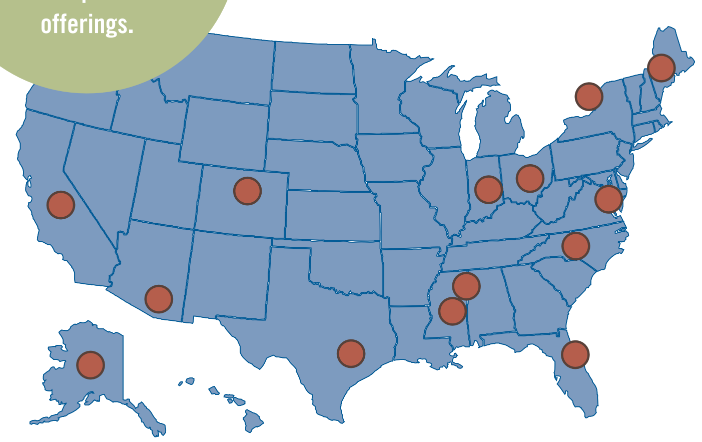
Expanding Our Geographic Reach

Tyler Technologies is the leading provider of integrated end-to-end management solutions and services for local governments, supplying software and services to more than 14,000 local government offices throughout the United States, Canada and other locations. Our solutions address a wide variety of public sector needs, including financial and public safety solutions for local municipalities, student management solutions for school districts, massive statewide implementations of digital workflows and much more. These solutions help public sector clients operate with more efficiency, transparency and responsiveness, and we continue to expand our reach to serve clients and constituents in new markets.

An illustration of geographic expansion as a major driver of growth is the successful implementation of our Odyssey® courts and justice solution in more than 30 jurisdictions in 2015. Tyler's experience, reputation and capacity to successfully manage numerous concurrent implementations – including the rollout of eFileTexas to all 254 of the state's counties nine months ahead of schedule and on budget – have contributed to extraordinary growth in the courts and justice sector.

GEOGRAPHIC SAMPLING OF NEW CONTRACTS IN 2015

The geographic cross section of contracts shows the depth and diversity of our product offerings.



Kodiak Island Borough School District, AK
Infinite Visions®
$147K

Santa Clara County, CA
Eagle Recorder™
$1.4M

Tucson USD, AZ
Versatrans®
$127K

Boulder, CO
EnerGov™
$1.5M

Brazos County, TX
Odyssey®
$3.7M

Jackson, MS
Incode®
$478K

Gadsden, AL
Tyler Public Safety™ & Incode®
$490K

State of Indiana
Odyssey File & Serve™
$20M

Franklin County, OH
CLT Appraisal Services™
$12.3M

Kingston, ON
Microsoft Dynamics® AX
$1.8M

Statesville, NC
New World™ Public Safety
$538K

St John County Sheriff, FL
Munis® & SoftCode™
$538K

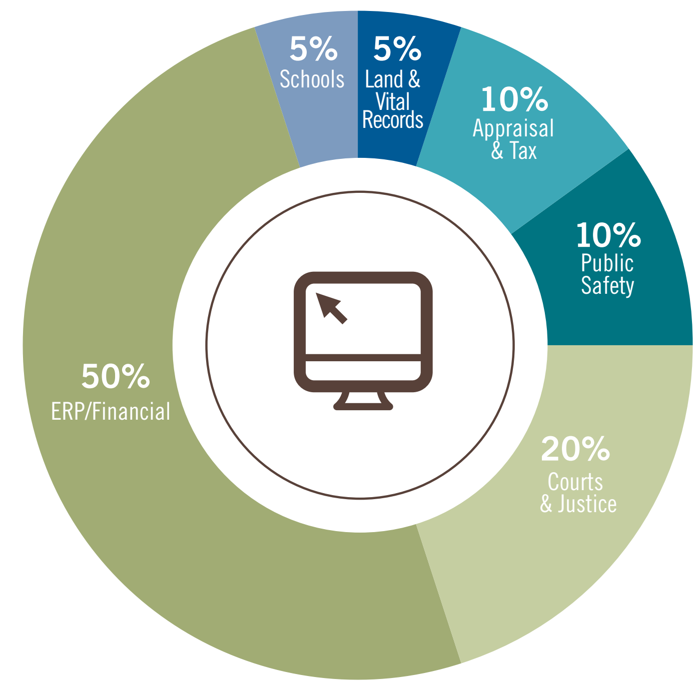
Stafford County Schools, VA
Munis®
$1.8M

Lewiston, ME
iasWorld® SaaS
$54K annually

In addition to expanding our position in the United States through new wins and organic growth, Tyler is selectively exploring international strategic partnerships and targeted sales opportunities where Tyler's expertise, leadership and solutions are a natural fit. By investing in Record Holdings Pty Limited, an Australian company, and its U.S. subsidiary, For The Record, Tyler gained a strategic relationship in the Australian market, as well as access to a diverse suite of products that can serve as an extension of Tyler's Odyssey court case management system.

Tyler's strategic alliance with Microsoft to jointly develop Microsoft Dynamics® AX, an enterprise resource planning (ERP) system for the public sector, provides the long-term potential to generate royalty revenues from outside our traditional markets.

REVENUE MIX



Winning Big

Tyler's 2015 win with Cook County, Illinois, is a prime example of a second growth driver: growing our presence with larger governments. Tyler was well-positioned to address the need to replace the 40-year-old property tax system used by the second most populous county in the United States. After a rigorous competitive review process, Cook County selected Tyler's iasWorld® appraisal and tax administration software solution to serve as the central database for the county's 1.8 million real estate parcels. This $30 million contract, which represents Tyler's biggest Appraisal & Tax software solutions deal in history, includes software licenses, implementation, maintenance and support.

Another significant win that underscores the growth potential in e-filing solutions is the four-year, $20 million contract with the Indiana Supreme Court. Tyler was chosen to implement the Odyssey File & Serve™ platform for the state of Indiana to handle an estimated 1.5 million filings annually for nearly 400 Indiana courts. This also represents the power of building on existing client relationships, as the court had already chosen Tyler's Odyssey® court case management software for Indiana trial and appellate courts.

63% REDUCTION in foot traffic
Wichita Falls Municipal Court, TX

Building on Relationships

A third driver of growth is expansion of our strong client relationships, which give us the credibility to broaden existing relationships and cross-sell solutions – adding additional applications within a suite of products, as well as additional product suites. Given Tyler's base of more than 14,000 local government offices, this ability represents a significant long-term growth opportunity.

The city of Newport News, Virginia, which already uses Tyler's Munis® ERP software suite and iasWorld® appraisal and tax solution, announced an agreement for Tyler's EnerGov™ planning and regulatory management suite. EnerGov's web-enabled applications and self-service kiosks will expand the city's public access and its mobile applications will provide staff real-time access to data in the field, substantially reducing labor-intensive and redundant procedures.

The Superior Court of California, San Bernardino County, an existing client of our Odyssey® court case management software solution for traffic and criminal cases, signed a follow-on agreement to implement this solution for all of its remaining case types, including civil, family, juvenile and probate. Kern County, California, signed a $5 million contract for the Odyssey integrated criminal justice solutions to be implemented in four Kern County criminal justice departments. In doing so, the county will join with Kern County Superior Court and other county justice agencies to operate on a single platform that will streamline criminal justice processes and allow agencies to more efficiently share information with one another. Kern County also selected the New World public safety solution for its ability to provide mission-critical data to first responders in the sheriff's office. It also provides a streamlined system for submitting case reports by deputies.

CREATED 8 NEW COURTROOMS
from storage space saved
Clark County District Court, NV

Another cross-selling opportunity includes integrated solutions that help local governments across multiple departments. The town of Addison, Texas, signed a multisolution agreement with Tyler that includes Tyler's Munis® ERP system, Incode® court case management solution and EnerGov™ planning, regulatory and maintenance platform. Contracts such as these not only help fulfill one of Tyler's strategies for organic growth, but also allow our clients to better serve their constituents with the support of innovative technology.

everGuide™

With a view toward cementing long-term relationships through outstanding support, Tyler has implemented a continuous improvement initiative that helps our clients maximize and protect their investment. EverGuide™ is a natural extension of Tyler's evergreen philosophy that ensures our clients have up-to-date product releases, as well as training and consulting services that help them take full advantage of their investments in our products. By equipping our clients to be responsive to their constituents, Tyler continues to support their success as we strengthen our business.

Investing in Opportunity

Tyler also drives growth by broadening our product offerings through both acquisitions and internal product development. The most significant example of this is the November 2015 acquisition of New World Systems Corporation, a leading provider of public safety and financial solutions for local governments. While this acquisition, valued at $700.3 million, is the largest in our history, New World's core competencies and culture are closely aligned with those of Tyler. In addition to expanding our industry-leading position in the public sector ERP market, acquiring New World launches Tyler into a leadership position in the public safety market. Our Odyssey courts and justice solutions and New World public safety offerings are highly complementary, creating tremendous long-term opportunities for cross-selling and leveraging product development. With our vision of integrating Tyler's courts and justice products with New World's public safety products, Tyler is positioned to develop the first fully integrated end-to-end solution spanning public safety through all phases of criminal justice.

Internal development projects that expanded our product offerings include the launch of Tyler SIS™ mobile applications for smart phones and tablets that give school staff real-time, on-the-go access to student information. Tyler also launched Traversa® Token Server for the Traversa product, a comprehensive solution for bus routing, fleet maintenance, activity trips and many other transportation functions. The advancement standardizes user authentication, enabling streamlined access for the entire suite, including tablets and apps.

$2 MILLION
surplus thanks to route efficiencies
Metropolitan School District
Lawrence Township, IN

SCHOOL SOLUTIONS

Tyler's integrated school management software offers student information, school financial and transportation solutions that help educators and administrators manage the needs of their constituents and put students first. From integrated financial solutions that take into account the unique budgeting, procurement and payroll needs of education clients to transportation offerings that enable efficient and safe transportation routing and management, Tyler's school solutions empower schools to focus on doing what they do best – educating students.

Tyler's key accomplishments included launching the new telematics group with Versatrans®, plus successful start-of-school-year go-lives including Tyler SIS™ v9 (in 15 school districts) and v10 (in 12 school districts, spread across four new states). We also kicked off development for the Tyler SIS smartphone app for IOS® and Android™, and the Student 360 mobile app was made available for download at Apple® and Google® app stores. 2015 also saw the installation of our 10,000th Tyler Telematic™ GPS unit, a solution that, in addition to using global positioning system (GPS) to track vehicle position, provides real-time insight into driver behavior and vehicle data such as fuel consumption and oil pressure.

IOS is a trademark or registered trademark of Cisco in the U.S. and is used under the license to Apple Inc.
Android is a trademark of Google Inc.

37,253 citizens
in Prince George County, Virginia

where **Director of Technology John Brockwell**
helped implement Tyler SIS™ and Tyler Pulse

in Prince George County Public Schools

so **474 teachers**

can track performance of **6,310 students**

identify at-risk students and make informed decisions that empower young learners to succeed

and **reach their potential.**

ERP & FINANCIAL SOLUTIONS

Nearly 5,000 government entities count on Tyler's financial solutions for efficient management of accounting, budgeting, payroll and human resources and for generating utility bills and collecting revenues.

Tyler continues to innovate with its enterprise resource planning (ERP) solutions to meet changing client needs. One notable advance was going live on multiple early-adoption sites with Munis v11, an HTML5 version that improves user and mobile experiences. Furthermore, Munis user group meetings were conducted for hundreds of clients across the country, which provided the opportunity for training, product updates and peer networking.

Notable contracts include the city of Bristol, Tennessee, which signed a seven-year software as a service (SaaS) agreement for an integrated suite of software solutions that included both our Munis® ERP and Incode® court case management solutions; and the city of Waco, Texas, who also selected multiple solutions, including Munis ERP, the EnerGov™ planning, regulatory and maintenance and Incode court solutions. The Gerald R. Ford International Airport in Grand Rapids, Michigan, chose Tyler's New World™ ERP solution.

Notable contacts for Tyler's Infinite Visions® financial and personnel management solution include Alaska's Kodiak Island Borough School Districts and West Valley School District #208 in Yakima, Washington, which became the fourth client in Washington to leave the state's cooperative for school business software in favor of Infinite Visions.

201,560 citizens
in Clermont County, Ohio

where Munis ERP software helps
Linda Fraley, County Auditor

account for **a $235 million budget**

manage **1,500 county employees**

and **prepare year-end reports** so she can

feel confident in her stewardship of taxpayer money

and her deputy auditor can take New Year's Eve off
— for the first time in 42 years.

APPRAISAL & TAX SOLUTIONS

Tyler has served more than 1,000 taxing authorities throughout the United States and Canada with computer-assisted mass appraisal (CAMA) solutions, billing and collections software, and reassessment and revaluation services.

One milestone for the Appraisal & Tax Division included completion of the first iasWorld® Field Mobile pilot program with Greene County, Missouri, for testing and evaluation of features that allow appraisers to access, review and edit parcel-level data from the field. Another milestone was the Orion™ software go-live with the Texas Comptroller of Public Accounts.

Notable contracts included a $6.8 million multiyear SaaS agreement with Lake County, Illinois, which includes the iasWorld® appraisal and tax administration system, and a $5.5 million agreement with Cobb County, Georgia, to provide commercial privatization of the county's commercial/industrial tax division using CLT Appraisal Services™.

536,433 citizens
in Montgomery County, Ohio

where Tyler's CLT Appraisal Services™ and Tyler Verify™ helped **Auditor Karl Keith**

conduct a reappraisal of **250,932 properties**

including **473 blighted structures**
targeted for strategic demolition

including those in Dayton's Roosevelt neighborhood where
30 new high-quality, low-income homes

are revitalizing the neighborhood
for the **765 residents** who live there.

PLANNING, REGULATORY & MAINTENANCE SOLUTIONS

Our 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, creating efficiencies and increasing accuracy.

We expanded our product suite for the EnerGov™ planning, regulatory and maintenance solution to include modules for asset management, work order and maintenance management, request management, inspection and investigations, and inventory management. The enhanced product suite includes features that can spatially map assets and affiliate them with a designated source.

Contract successes include a new agreement with Maui County, Hawaii, to replace its legacy solution with Tyler's EnerGov platform. Maui County is unique due to its large percentage of rental vacation homes and the tourism industry, that combine to make real estate a primary driver of revenue and commerce. EnerGov will play a major role in the Maui Automated Planning and Permitting System (MAPPS) project, helping the county centralize its geospatial data by developing a countywide geographic information system (GIS) data repository to support county land management and other processes. As part of the project, EnerGov will team with longtime partner Esri®, whose industry-leading GIS platform is embedded in EnerGov.

4.6 million citizens
in British Columbia, Canada

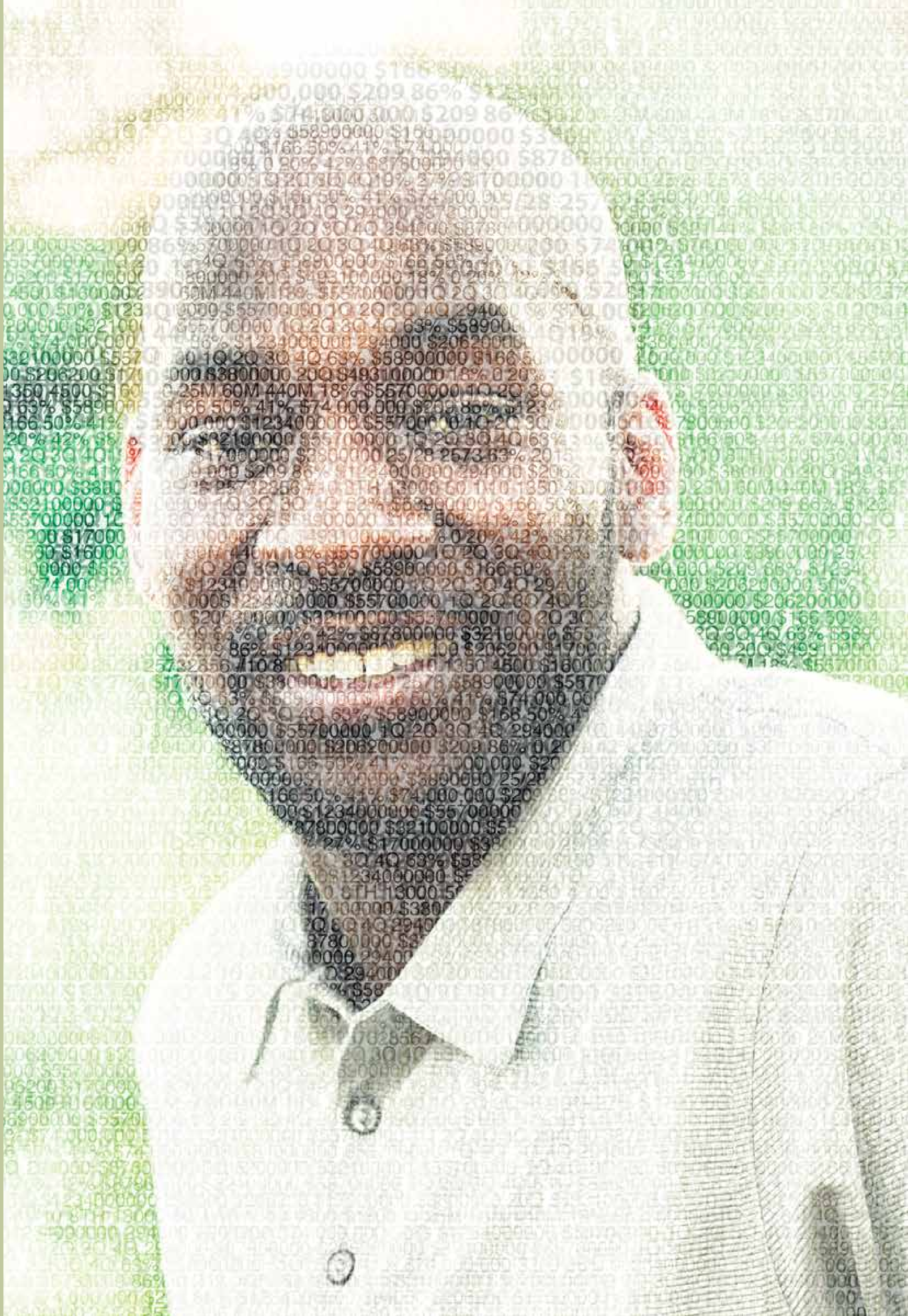
where a customized EnerGov iPad® app from Tyler helped British Columbia Safety Authority inspectors

cover **364,762 square miles**

conduct **34,208 physical assessments**

and find **6,467 physical assessment failures**

including **1 from a gas safety officer** who assessed a site having a carbon monoxide leak that, left undetected, could have resulted in a tragedy.



RECORDS & DOCUMENT SOLUTIONS

Our solutions are instrumental in the management of land records and other vital records, such as births, marriages and deaths, for more than 20 million citizens across the United States. A key benefit of Tyler's record and document management solutions is that the software is very flexible and responsive to legislative changes. When the Supreme Court of the United States ruled in June 2015 that same-sex couples could marry, Tyler's Document Pro™ software was able to quickly and easily accommodate the necessary changes. The Eagle™ product suite also continues to help local government across the United States increase the number of paper documents converted into digital files.

Tyler's Eagle Recorder™ was chosen by Santa Clara County, California's fifth largest county with approximately 1.8 million residents, to replace the county's legacy system and simplify land, vital and clerk-record management.

In Johnston County, North Carolina

1,510 birth certificates

and 1,083 marriage licenses

are recorded annually by the Johnston County Register of Deeds using Eagle Recorder™ and Eagle Web™

giving citizens **24/7 access** to

more than 37,000 new public records annually

so **computer systems analyst Jeff Wilson** no longer has to field late-night phone calls

and can instead go longboarding with his favorite riding partner, **a rescued whippet/lab mix named Marley.**

COURTS & JUSTICE SOLUTIONS

Our products provide a broad range of functionality for courts, prosecutors, law enforcement, corrections and supervision staff. More than one-third of the nation's population lives in jurisdictions that have licensed Tyler's Odyssey® case management or e-filing solutions.

Key innovations and results in Courts & Justice included a go-live in Miami-Dade County, Florida (the seventh most populous county in the United States), and the rollout of eFileTexas to all 254 of the state's counties. There were also e-file go-lives with first pilot courts in Washington and Idaho. Tyler completed a total of 11 new Odyssey implementations in California courts in 2015, in jurisdictions including the counties of San Diego, San Mateo and Santa Cruz.

We also secured our first integrated justice contract in California. The $5.0 million agreement with Kern County expands the county's use of the Odyssey® integrated criminal justice (ICJ) solution. The county's Odyssey ICJ agreement enables Kern Superior Court and county justice agencies to operate on a single platform that will streamline processes and allow agencies to more effectively share information. The agreement also included Odyssey Jail Manager™, to be implemented in the Sheriff's Office jail facilities and the Probation Department's juvenile detention facilities, and Odyssey® Attorney Manager, to be implemented in both the Kern County District Attorney's and Public Defender's offices. This agreement marks a significant move forward in Tyler's efforts to provide an integrated solution that streamlines information sharing across multiple justice agencies.

489,250 citizens
in Williamson County, Texas

50,756 court filings
processed electronically through eFileTexas™

eliminating **420,000 pieces of paper** per year

saving 500 square feet of office space

and enabling Precinct 3
Justice of the Peace Bill Gravell, Jr.

to sign weekend court orders on his tablet from home

and get back to **playing dolls with his granddaughter.**

PUBLIC SAFETY SOLUTIONS

Tyler's public safety solutions facilitate 911 dispatching and streamline the sharing of mission-critical information among first responders, dispatchers, jails and other public safety entities.

A key innovation in our Public Safety product suite is the addition of the Tyler Public Safety™ iPad app. The app delivers mission-critical functionality that enables first responders to make better decisions, communicate more effectively in the field, and increase officer safety by improving situational awareness. In Boerne, Texas, the iPad app has enabled the Boerne Police Department to decrease response time to less than five minutes and decrease mobile unit costs by roughly 77 percent while still keeping up with a rapidly increasing population and spending more time in the field.

Two acquisitions in 2015 boosted Tyler's product offerings and launched Tyler into a leadership position in the public safety sector. In May 2015, Tyler acquired Brazos Technology Corporation, a provider of mobile handheld solutions used primarily by law enforcement agencies for issuing citations electronically and for field accident reporting. The acquisition of Brazos represents an investment in line with Tyler's strategies for growth, complementing our existing suite of public safety solutions and expanding our mobile offerings.

The second acquisition – the largest in Tyler history – came in November 2015 when we acquired New World Systems Corporation. As a result, Tyler significantly expanded its position in the public safety market. Tyler's vision for the integration of the New World Systems public safety platform with Tyler's Odyssey® courts and justice solution will create the first true end-to-end law enforcement and integrated criminal justice solutions in the market.

757,600 citizens
in Snohomish County, Washington

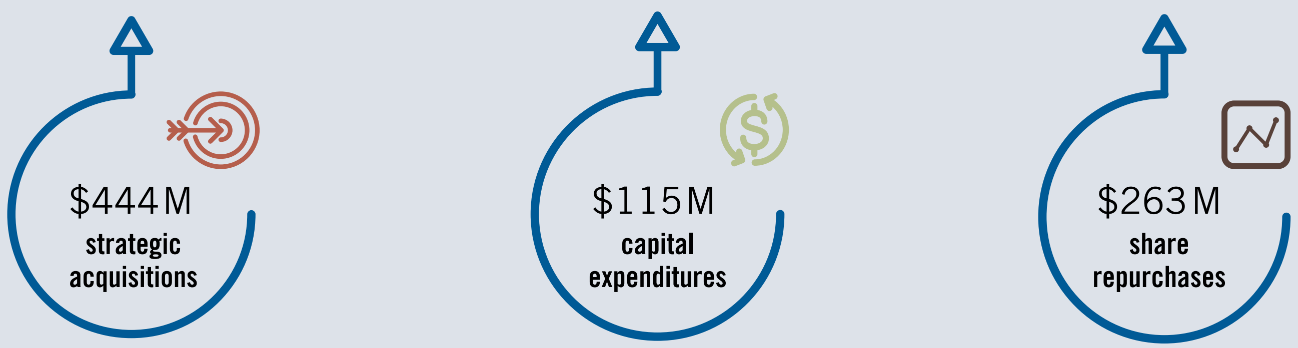
served by **1,675 miles of roads**
including **2.3 miles** of State Highway 99

where Edmonds **Police Officer Alan Hardwick**
saw a suspicious vehicle

ran the license plate through Tyler's New World software
called for backup and safely

captured an escaped convict
with a history of violence.

USES OF CASH OVER LAST 10 YEARS



Investing in Our Future

Putting Capital to Work

In addition to providing consistent revenue and earnings growth over an extended period of time, Tyler's operations consistently generate very strong cash flow. Over the past five years, Tyler's free cash flow has averaged 1.3 times its non-GAAP net income. We continuously evaluate alternatives to put that cash flow to work to generate value for our shareholders, but also have shown patience and discipline in seeking compelling uses of cash. Our strong cash flow and solid balance sheet give us a great deal of flexibility in considering strategic investments.

Investing in our products and internal expansion through our research and development efforts is a priority for Tyler. With a team of more than 1,000 software engineers and developers, we continuously enhance existing products and develop innovative new solutions to address our clients' evolving needs and challenges. Although all of our development in recent years has been expensed, we consider those efforts to be an investment that provides long-term growth and strengthens our competitive position. In addition, our breadth of products and depth of resources enable us to leverage R&D efforts across multiple products, and over time, realize operating margin leverage.

Strategic acquisitions have also been a significant use of our cash. We've completed 22 acquisitions in the last decade, with the largest being the acquisition of New World Systems in 2015. Much of our M&A activity is aimed at broadening our offerings of products or services. Some of these, such as our 2015 acquisition of Brazos Technology, expand existing product suites, while others, such as New World, represent the strengthening of our leadership position in the public sector market. We also occasionally complete consolidation acquisitions, where the acquired business has products that overlap with our portfolio.

The third use of our cash is for stock repurchases. As with M&A, we take an opportunistic approach to buying our stock – buying more aggressively when we believe the market's valuation does not fully reflect our long-term view of Tyler's future prospects. From 2002 through the end of 2015, we have cumulatively repurchased 26.1 million shares of our common stock, at an average price of $12.34 per share. With a board authorization to purchase 1.4 million additional shares at the end of 2015, we expect that stock repurchases will continue to represent a portion of our capital allocation.

Fueling Innovation

While the majority of our developers work on business logic, functional technology and coding that are at the core of our products, other developers are dedicated to pure technology initiatives. In fact, in 2015 we created a new group focused on innovative technologies and their application across Tyler's product portfolio.

The way the public sector works is evolving, and Tyler is committed to leveraging the best of existing and emerging technologies that enable us to deliver solutions that help our clients address their changing needs. Increasingly, clients and their constituents have an expectation for information to be available from anywhere at any time. Tyler is responding to these changes and opportunities with mobile technologies and cloud computing solutions specifically designed for the unique needs of the public sector.

Mobile applications have become an important part of supporting our public sector solutions, whether they involve conducting an appraisal in the field, issuing a building permit or writing a traffic citation.

Tyler has also made strides in offering proven cloud-based solutions for virtually all of our products, and we remain committed to offering our clients the most effective and efficient software delivery systems, whether online or on site. Tyler uses a hybrid cloud infrastructure that provides clients with always-on access to software and data. We also make investments in reengineering our products to work in the cloud, and we continue to invest significantly in our hosting facilities.

Leading the E-Filing Revolution

The ability to view and file documents electronically and make electronic payments has revolutionized the way courts, taxing jurisdictions and other government entities can serve their constituents with greater transparency, accuracy and responsiveness. Tyler Technologies has been at the forefront of this monumental shift; its Odyssey File & Serve™ platform is now being used in more than 30 jurisdictions, including 11 implementations at the statewide level.

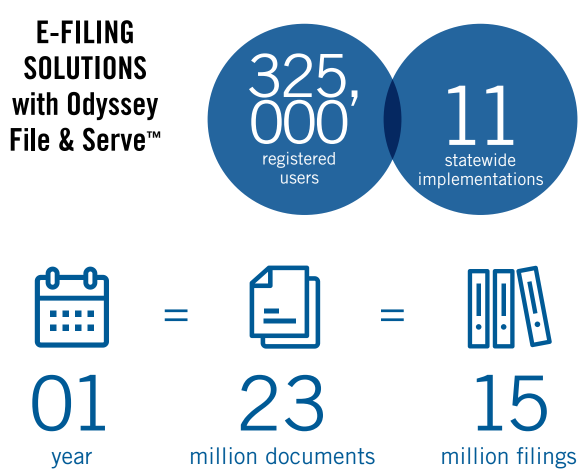
SaaS CONTRACTS

Nine California courts are using eFileCA to reduce costs, simplify filing processes, save paper, share information and increase citizens' fair access to justice. In Texas, Tyler successfully implemented eFileTexas in all 254 counties in the state nine months ahead of schedule. Already, eFileTexas has transformed the court system, reduced case backlog and facilitated confidence in the justice system. In 2015, Tyler also signed an agreement to implement a statewide e-filing system in Indiana and went live with pilot courts in Washington and Idaho.

The phenomenal growth in interest regarding e-filing solutions, the seamless integration across multiple jurisdictions and the almost-immediate benefits realized by the public sector make Tyler's e-filing solutions a strong area for growth.

Fostering A Community Of Users

Tyler Technologies has achieved exceptionally high retention rates with both clients and employees for good reason. Many of our employees have worked in the public sector and bring a deep level of knowledge and understanding of the challenges our clients face in serving the public. They also bring a passion for helping our clients overcome those challenges, and gain personal satisfaction and fulfillment from providing solutions that truly make a difference in the lives of fellow citizens.



Tyler's leadership position, coupled with our low client attrition rate, has been intensively hard-earned. One of the reasons our client relations remain so strong is that we never take our clients' loyalty for granted. EverGuide™ is a continuous improvement initiative that revolves around ensuring that our clients are taking full advantage of our products; our evergreen philosophy ensures that their investment is protected with up-to-date technology through the life of the product.

Tyler also understands that our clients can learn from each other. User group meetings and our annual Tyler Connect user conference offer our clients the opportunity to network and share experiences and best practices face to face. The Tyler Community is an online forum where Tyler clients can share ideas, pose questions and help solve each other's problems.

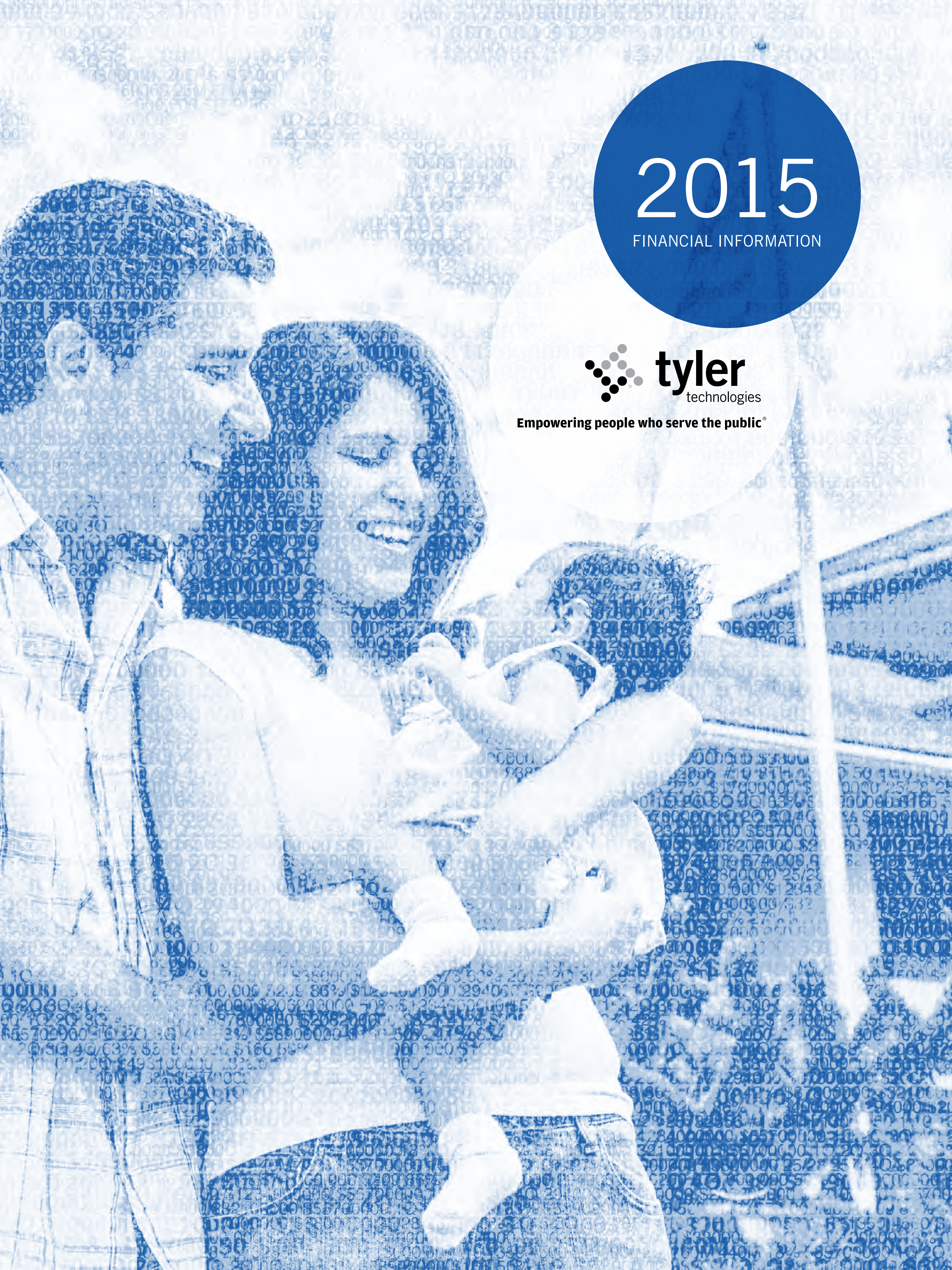
Providing these opportunities for our clients also helps Tyler better understand our clients' wants and needs so that features and functionality can be developed according to their evolving requirements. In this way, we at Tyler are helping to fulfill our promise of empowering those who serve the public by helping our clients work together and share best practices.

A Story of Service – A Story of Success

Every day at Tyler Technologies, we individually and collectively strive to build tools that genuinely help state and local governments and school districts work more efficiently, more cost-effectively and more transparently.

The Tyler story is grounded in the belief that we can help make communities stronger by empowering those who serve them. In this report, our numbers and our achievements add up to something bigger than our earnings. They add up to greater potential and a brighter future for our company, our investors, our clients and their citizens.

We call that a success story.



2015

FINANCIAL INFORMATION

tyler technologies

Empowering people who serve the public®

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Our common stock is traded on the New York Stock Exchange under the symbol "TYL." At December 31, 2015, we had approximately 1,585 stockholders of record. Most of our stockholders hold their shares in street name; therefore, there are substantially more than 1,585 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
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
2015:	First Quarter	$125.84	$103.18
	Second Quarter	133.54	118.05
	Third Quarter	152.91	127.25
	Fourth Quarter	184.01	150.00

We did not pay any cash dividends in 2015 or 2014. Our bank credit agreement contains restrictions on the payment of cash dividends. We intend to retain earnings for use in the operation and expansion of our business, and, therefore, we do not anticipate declaring a cash dividend in the foreseeable future.

During 2015, we purchased approximately 5,400 shares of our common stock for an aggregate purchase price of $645,000. As of December 31, 2015, we had authorization to repurchase up to 1.4 million additional shares of Tyler common stock. The 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

(In thousands, except per share data)	For the Years Ended December 31, 2015	2014	2013	2012	2011
STATEMENT OF OPERATIONS DATA:					
Revenues	$ 591,022	$ 493,101	$ 416,643	$ 363,304	$ 309,391
Cost and expenses:					
Cost of revenues (a)	313,835	259,730	223,440	195,602	167,479
Selling, general and administrative expenses (a)	133,317	108,260	98,289	86,706	75,650
Research and development expense	29,922	25,743	23,269	20,140	16,414
Amortization of customer and trade name intangibles (a)	5,905	4,546	4,517	4,279	3,331
Operating income	108,043	94,822	67,128	56,577	46,517
Other income (expenses), net	381	(355)	(1,309)	(2,709)	(2,404)
Income before income taxes	108,424	94,467	65,819	53,868	44,113
Income tax provision	43,555	35,527	26,718	20,874	16,556
Net income	$ 64,869	$ 58,940	$ 39,101	$ 32,994	$ 27,557
Net earnings per diluted share	$ 1.77	$ 1.66	$ 1.13	$ 1.00	$ 0.83
Weighted average diluted shares	36,552	35,401	34,590	32,916	33,154
STATEMENT OF CASH FLOWS DATA:					
Cash flows provided by operating activities	$ 89,013	$ 123,437	$ 66,090	$ 58,668	$ 56,435
Cash flows used by investing activities	(398,459)	(11,555)	(25,658)	(34,736)	(28,809)
Cash flows provided (used) by financing activities	136,366	15,409	32,038	(18,852)	(28,414)
BALANCE SHEET DATA:					
Total assets	$ 1,356,570	$ 569,812	$ 444,488	$ 338,666	$ 295,391
Revolving line of credit	66,000	—	—	18,000	60,700
Shareholders' equity	858,857	336,973	246,319	145,299	78,110

(a) On November 16, 2015, we completed the acquisition of New World Systems Corporation ("NWS"). Our operating results include the results of NWS from the date of acquisition and include expenses of approximately $5.9 million for financial advisory, legal, accounting, due diligence, valuation and other services necessary to complete the acquisition, as well as $3.5 million of amortization expense related to NWS acquisition intangibles.

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 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 six major functional areas: (1) financial management and education, (2) courts and justice, (3) public safety, (4) property appraisal and tax, (5) planning, regulatory and maintenance, and (6) 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; public safety; 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 17% in 2015 compared to 2014.

On November 16, 2015, we acquired all of the capital stock of New World Systems Corporation ("NWS"), which provides public safety and financial solutions for local governments. The purchase price, net of cash acquired of $22.5 million, was $337.5 million in cash, of which $4.0 million was accrued at December 31, 2015, and 2.1 million shares of Tyler common stock valued at $362.8 million.

On May 29, 2015, we acquired all of the capital stock of Brazos Technology Corporation ("Brazos"), which provides mobile hand held solutions primarily to law enforcement agencies for field accident reporting and electronically issuing citations. The purchase price, net of cash acquired and including debt assumed, was $6.1 million in cash and 12,500 shares of Tyler common stock valued at $1.5 million.

The operating results of NWS and Brazos are included with the operating results of the Enterprise Software Solutions segment since their respective dates of acquisition.

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 60% of our revenue in 2015. 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 2015, based on our number of customers, turnover was approximately 3%.

- Cost of Revenues and Gross Margins – Our primary cost component is personnel expenses in connection with providing software implementation, subscription-based services, maintenance and support, and appraisal services to our 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, 2015, our total employee count increased to 3,586 from 2,856 at December 31, 2014. This increase includes 513 employees added as a result of acquisitions completed in 2015.

- 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. In 2015, SG&A expenses include approximately $5.9 million for financial advisory, legal, accounting, due diligence, valuation and other various services necessary to complete the NWS acquisition.

- 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. In recent years, we have also received significant amounts of cash from employees exercising stock options and contributing to our Employee Stock Purchase Plan.

- 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

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

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.

On August 12, 2015, the FASB voted for a one-year deferral of the effective date of the new standard and now requires application of the new standard no later than annual reporting periods beginning after December 15, 2017, including interim reporting periods therein. However, under the proposal, public entities would be permitted to elect to early adopt the new standard as of the original effective date. We currently expect to adopt the new standard in fiscal year 2018 in accordance with the revised effective date.

Outlook

Activity in the local government software market continues to be good, and with the inclusion of NWS, our backlog at December 31, 2015 reached $844.5 million, a 20% increase from last year. With our strong financial position and cash flow, we plan to accelerate our investment in product development with expected research and development expense of approximately $47.0 million. We believe that increasing the investment in our products will better position us to continue to expand our competitive position in the public sector software market over the long term.

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, leases 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 2015, did not result in an impairment charge. During 2015, 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, 2015, 2014 and 2013.

	Percentage of Total Revenues		
Years Ended December 31,	2015	2014	2013
Revenues			
Software licenses and royalties	10.0%	10.0%	9.8%
Subscriptions	18.9	17.8	14.8
Software services	23.7	23.1	22.4
Maintenance	41.6	43.1	46.0
Appraisal services	4.2	4.4	5.0
Hardware and other	1.6	1.6	2.0
Total revenues	100.0	100.0	100.0
Operating Expenses			
Cost of software licenses, royalties and acquired software	1.0	0.8	1.1
Cost of software services, maintenance and subscriptions	48.2	47.9	47.9
Cost of appraisal services	2.7	2.9	3.3
Cost of hardware and other	1.1	1.1	1.3
Selling, general and administrative expenses	22.6	22.0	23.6
Research and development expense	5.1	5.2	5.6
Amortization of customer and trade name intangibles	1.0	0.9	1.1
Operating income	18.3	19.2	16.1
Other income (expense), net	0.1	(0.1)	(0.3)
Income before income taxes	18.4	19.1	15.8
Income tax provision	7.4	7.2	6.4
Net income	11.0%	11.9%	9.4%

2015 Compared To 2014

Revenues

On November 16, 2015, we acquired NWS, which provides public safety and financial solutions for local governments and its operating results are included with the operating results of the ESS segment since the date of acquisition. The following table details revenue for NWS for the period from November 16, 2015 to December 31, 2015, which is included in our consolidated statement of comprehensive income:

($ in thousands)	2015
Revenues:	
Software licenses	$ 1,507
Subscriptions	632
Software services	2,062
Maintenance	5,624
Hardware and other	259
Total revenues	$10,084

In May 2015, we acquired a company which provides mobile hand-held solutions primarily to law enforcement agencies for field accident reporting and electronically issuing citations. In August 2014, we acquired a company which provides civil process management, typically to county sheriff departments. The impact of these acquisitions on our operating results are not considered material and are not included in the table above. The results of their operations are included in our ESS segment from their respective dates of acquisition.

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)	2015	2014	$	%
ESS	$54,376	$46,047	$8,329	18%
ATSS	4,632	3,018	1,614	53
Total software licenses and royalties revenue	$59,008	$49,065	$9,943	20%

Excluding the results of acquisitions, software license revenue increased 15% compared to the prior year. The majority of this growth was 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 investment in product development in recent years. In addition, add-on sales to our existing customer base for courts and justice related solutions that assist and support the transition to a paperless environment increased approximately $1.3 million.

Although the mix of new contracts between subscription-based and perpetual license arrangements may vary from quarter to quarter and year to year, we expect our longer-term software license growth rate to be negatively impacted by a growing number of customers choosing our subscription-based options, rather than purchasing the software under a traditional perpetual software license arrangement. Subscription-based arrangements result in lower software license revenue in the initial year as compared to perpetual software license arrangements but generate higher overall revenue over the term of the contract. Our new client mix in 2015 was approximately 76% selecting perpetual software license arrangements and approximately 24% selecting subscription-based arrangements compared to a client mix in 2014 of approximately 74% selecting perpetual software license arrangements and approximately 26% selecting subscription-based arrangements. 134 new clients entered into subscription-based software arrangements in 2015 compared to 138 new clients in 2014.

Subscriptions.

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

			CHANGE	
($ in thousands)	2015	2014	$	%
ESS	$107,090	$84,322	$22,768	27%
ATSS	4,843	3,526	1,317	37
Total subscriptions revenue	$111,933	$87,848	$24,085	27%

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 27% compared to 2014. E-filing services contributed approximately $7.7 million of the subscriptions revenue increase in 2015. Most of the e-filing revenue increase related to several statewide contracts, several of which implemented mandatory electronic filing near the end of 2014 and throughout 2015. New SaaS clients as well as existing clients who converted to our SaaS model provided the remainder of the subscriptions revenue increase. In 2015, we added 134 new SaaS clients and 66 existing clients elected to convert to our SaaS model. The average contract sizes in 2015 were 38% and 22% higher than 2014 for new clients and clients converting to our SaaS model, respectively.

Software Services.

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

			CHANGE	
($ in thousands)	2015	2014	$	%
ESS	$129,068	$104,146	$24,922	24%
ATSS	10,784	9,675	1,109	11
Total software services revenue	$139,852	$113,821	$26,031	23%

Software services revenue primarily consists of professional services billed in connection with implementing our software, converting client data, training client personnel, custom development activities and consulting. 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. Excluding the results of acquisitions, software services revenue grew 20% compared to the prior year period. This growth is mainly due to much higher revenue from proprietary software arrangements, as well as additions to our implementation and support 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)	2015	2014	$	%
ESS	$227,586	$195,881	$31,705	16%
ATSS	17,951	16,815	1,136	7
Total maintenance revenue	$245,537	$212,696	$32,841	15%

We provide maintenance and support services for our software products and certain third-party software. Excluding the results of acquisitions, maintenance revenue grew 12% compared to the prior year. 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:

			CHANGE	
($ in thousands)	2015	2014	$	%
ESS	$ —	$ —	$ —	—%
ATSS	25,065	21,802	3,263	15
Total appraisal services revenue	$ 25,065	$ 21,802	$3,263	15%

The appraisal services business is somewhat cyclical and driven in part by statutory revaluation cycles in various states. Appraisal services revenue benefitted from the addition of several new revaluation contracts, including the City of Detroit, and the current appraisal cycle in Indiana, both of which began in mid-2014. In mid-2015, Franklin County, Ohio began a full reappraisal cycle, which also contributed to appraisal services revenue.

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)	2015	2014	$	%
Software licenses and royalties	$ 1,632	$ 1,900	$ (268)	(14)%
Acquired software	4,440	1,858	2,582	139
Software services, maintenance and subscriptions	285,340	236,363	48,977	21
Appraisal services	15,922	14,284	1,638	11
Hardware and other	6,501	5,325	1,176	22
Total cost of revenues	$313,835	$259,730	$54,105	21%

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

Gross Margin Percentage	2015	2014	CHANGE
Software licenses, royalties and acquired software	89.7%	92.3%	(2.6)%
Software services, maintenance and subscriptions	42.6	43.0	(0.4)
Appraisal services	36.5	34.5	2.0
Hardware and other	32.5	32.3	0.2
Overall gross margin	46.9%	47.3%	(0.4)%

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 2015, our software licenses, royalties and acquired software gross margin percentage declined compared to the prior year due to much higher amortization expense for acquired software resulting from our acquisition of NWS. Excluding the results of NWS, our software license, royalties and acquired software gross margin was 93.6% which increased 1.3% from the prior year period mainly due to higher revenues from proprietary software arrangements.

Software services, maintenance and subscriptions. Cost of software services, maintenance and subscriptions primarily consists of personnel costs related to installation of our software, conversion of client data, training client personnel and support activities and various other services such as custom client development and on-going operation of SaaS and e-filing arrangements. In 2015, the software services, maintenance and subscriptions gross margin percentage declined compared to the prior year mainly due to onboarding costs associated with accelerated hiring to ensure that we are well-positioned to deliver our current backlog and anticipated new business. Excluding 285 employees added with acquisitions, our implementation and support staff has grown by 200 employees since December 31, 2014. In addition, in 2015, we incurred $1.4 million more in contract labor cost than 2014 in an effort to maintain flexibility to accommodate fluctuations in demand for professional services. The gross margin decline was somewhat offset because costs related to maintenance and various other services such as SaaS and e-filing 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. Price increases also resulted in slightly higher rates on certain services.

Appraisal services. Appraisal services revenue comprised approximately 4% of total revenue. The appraisal services gross margin increased 2% compared to 2014. 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. The appraisal services gross margin was favorably impacted by operational efficiencies associated with a large revaluation contract that began late 2014.

Our 2015 blended gross margin declined 0.4% compared to 2014. The gross margin was negatively impacted by increased acquired software amortization expense associated with the NWS acquisition and expenses associated with increased hiring of implementation and development 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)	2015	2014	$	%
Selling, general and administrative expenses	$133,317	$108,260	$25,057	23%

SG&A as a percentage of revenue was 22.6% in 2015 compared to 22.0% in 2014. In 2015, our SG&A expenses include approximately $5.9 million for financial advisory, legal, accounting, due diligence, valuation and other various services necessary to complete the NWS acquisition. In addition, our 2015 operating results include $4.0 million of SG&A expenses for NWS from the date of acquisition. The remaining SG&A expense increase is mainly due to compensation cost related to increased staff levels, higher stock compensation expense and increased commission expense as a result of higher sales. Excluding 140 employees added with acquisitions, we have added 16 employees mainly to our sales and finance teams since December 31, 2014. In addition, our 2015 stock compensation expense rose $4.2 million, mainly due to increases in our stock price over the last few years.

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)	2015	2014	$	%
Research and development expense	$29,922	$ 25,743	$ 4,179	16%

Research and development expense consists 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 February 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, which is expected to occur in the first quarter of 2016. We are currently discussing with Microsoft Corporation the possibility of additional research and development beyond Dynamics AX 7. If we cannot agree to terms of any future commitments, we will continue to provide sustained engineering and technical support for the public sector functionality within Dynamics AX. 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.

Research and development expense in 2015 includes approximately $1.5 million related to NWS. The remaining increase compared to 2014 was primarily due to increased staffing to maintain and enhance our competitive position and annual wage adjustments.

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, leases 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 range from 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:

($ in thousands)	2015	2014	CHANGE $	CHANGE %
Amortization of customer and trade name intangibles	$ 5,905	$ 4,546	$ 1,359	30%

In 2015, we completed two acquisitions that increased amortizable customer and trade name intangibles by approximately $127.8 million. This amount is being amortized over a weighted average period of 15 years. We also added approximately $3.7 million to acquisition related intangibles to reflect the fair value of acquired leases, which will be amortized over the weighted average life of nine 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):

2016	$13,448
2017	13,448
2018	13,299
2019	11,944
2020	10,795

Amortization expense relating to acquired leases will be recorded as a reduction to other income and is expected to be $444,000 in 2016, $444,000 in 2017, $426,000 in 2018, $372,000 in 2019, $313,000 in 2020 and $1.7 million thereafter.

Other

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

($ in thousands)	2015	2014	CHANGE $	CHANGE %
Other income (expense), net	$381	$(355)	$736	N/A

Other income (expense) is comprised of interest income from invested cash, as well as interest expense and non-usage and other fees associated with our revolving credit agreement. Expenses in 2014 were comprised primarily of non-usage and other fees associated with a revolving debt agreement that terminated in August 2014, offset slightly by interest income from invested cash. In 2015, we had significantly higher invested cash balances than 2014 until we completed the NWS acquisition on November 16, 2015.

Income Tax Provision

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

($ in thousands)	2015	2014	CHANGE $	CHANGE %
Income tax provision	$43,555	$35,527	$8,028	23%
Effective income tax rate	40.2%	37.6%		

The effective income tax rates were different from the statutory United States federal income tax rate of 35% principally due to state income taxes, non-deductible share-based compensation expense, the qualified manufacturing activities deduction, disqualifying incentive stock option dispositions, non-deductible meals and entertainment costs and non-deductible transaction costs. A lower qualified manufacturing activities deduction and non-deductible transaction costs related to the NWS acquisition negatively impacted our 2015 effective tax rate.

In the past few years a relatively high amount of excess tax benefits related to stock option exercises have resulted in a reduction in our qualified manufacturing activities deduction. The qualified manufacturing activities deduction can be limited to a certain level of taxable income on the tax return. Therefore, any significant items that reduce taxable income, such as excess tax benefits on stock options, can reduce the amount of the qualified manufacturing activities deduction. We experienced significant stock option exercise activity in 2015 and 2014 that generated excess tax benefits of $45.3 million and $19.4 million, respectively.

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:

($ in thousands)	2014	2013	CHANGE $	CHANGE %
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.

Software license revenue 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. 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:

($ in thousands)	2014	2013	CHANGE $	CHANGE %
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 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, which was implemented in September 2013. The state of Texas mandated all counties use eFileTexas.gov. This contract provided a recurring revenue stream that totaled $17.0 million in 2014. 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:

($ in thousands)	2014	2013	CHANGE $	CHANGE %
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 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:

($ in thousands)	2014	2013	CHANGE $	CHANGE %
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%

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%

Appraisal services 2014 revenue benefitted by the mid-year addition of several new revaluation contracts in New York and the recent appraisal cycle in Indiana.

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. 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. 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 2013 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 in 2014 by 215 employees since 2013.

Appraisal services. 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

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

($ in thousands)	2014	2013	CHANGE $	CHANGE %
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 was 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 expenses.

Research and Development Expense

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

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

In 2014, research and development expense increased 11% compared to 2013 due to annual wage adjustments and increased staffing to maintain and enhance our competitive position.

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:

($ in thousands)	2014	2013	CHANGE $	CHANGE %
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.

Other

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

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

Other expense, net was primarily comprised of interest expense, non-usage and other fees associated with a revolving line of credit agreement that matured in August 2014, offset somewhat 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, which contributed 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.

Financial Condition and Liquidity

As of December 31, 2015, we had cash and cash equivalents of $33.1 million compared to $206.2 million at December 31, 2014. We also had $30.9 million invested in investment grade corporate and municipal bonds as of December 31, 2015. These investments mature between 2016 and mid-2017 and we intend to hold these investments until maturity. Cash and cash equivalents consist of cash on deposit with several domestic banks and money market funds. As of December 31, 2015, we had $66.0 million in outstanding borrowings and an outstanding letter of credit totaling $1.5 million in connection with one contract. We do not believe this letter of credit will be required to be drawn upon. This letter of credit expires in mid-2016. We believe our revolving line of credit, 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)	2015	2014	2013
Cash flows provided (used) by:			
Operating activities	$ 89,013	$123,437	$66,090
Investing activities	(398,459)	(11,555)	(25,658)
Financing activities	136,366	15,409	32,038
Net (decrease) increase in cash and cash equivalents	$ (173,080)	$127,291	$72,470

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 available credit are sufficient to fund our working capital requirements, capital expenditures, income tax obligations, and share repurchases for at least the next twelve months.

In 2015, operating activities provided cash of $89.0 million. Operating activities that provided cash were primarily comprised of net income of $64.9 million, non-cash depreciation and amortization charges of $19.6 million and non-cash share-based compensation expense of $20.2 million. Cash provided by operating activities was negatively impacted in 2015 by tax payments that were $17.1 million higher than the prior year partly due to more taxable income and partly due to timing of stock option exercises and our ability to utilize related excess tax credits to determine estimated tax payments during the year. Our excess tax credit in 2015 was $45.3 million of which, over 70% was generated in the fourth quarter and as a result we recorded a $21.1 million income tax receivable at December 31, 2015. Accounts receivable also increased due to timing of annual maintenance and subscription billings due to growth in our customer base as well as normal maintenance billings of approximately $15.0 million associated with NWS. These negative impacts on operating cash were offset somewhat by growth in deferred maintenance revenue. 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. In addition, deferred revenue included one unusually large customer deposit of $7.5 million at December 31, 2015.

Days sales outstanding in accounts receivable were 100 days at December 31, 2015, compared to 80 days at December 31, 2014, mainly due to the impact on the DSO calculation of having approximately seven weeks of post-acquisition revenues from NWS but included all of their outstanding accounts receivable at December 31, 2015. 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. Excluding NWS, DSOs were 79 days at December 31, 2015.

Investing activities used cash of $398.5 million in 2015 compared to $11.6 million in 2014. On November 16, 2015, we acquired all of the capital stock of NWS, which provides public safety and financial solutions for local governments. The purchase price, net of cash acquired of $22.5 million, was $337.5 million in cash, of which $4.0 million was accrued at December 31, 2015, and 2.1 million shares of Tyler common stock valued at $362.8 million. On May 29, 2015, we acquired all of the capital stock of Brazos Technology Corporation, which provides mobile hand held solutions primarily to law enforcement agencies for field accident reporting and electronically issuing citations. The purchase price, net of cash acquired and including debt assumed, was $6.1 million in cash and 12,500 shares of Tyler common stock valued at $1.5 million. On January 30, 2015, we made a $15.0 million investment in convertible preferred stock representing a 20% interest in Record Holdings Pty Limited. We also invested $30.9 million in investment grade corporate and municipal bonds maturing between 2016 and mid-2017. The remaining use of cash was for capital expenditures related to computer equipment, furniture and fixtures in support of internal growth, particularly with respect to growth in our cloud-based offerings. These expenditures were funded from cash generated from operations, cash on hand and bank borrowings.

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. Investing activities in 2013 included $20.3 million paid in connection with the construction of an office building in Plano, Texas.

Financing activities provided cash of $136.4 million in 2015 compared to $15.4 million in 2014. Financing activities were comprised of net borrowings of $66.0 million, collections of $27.8 million from stock option exercises and employee stock purchase plan activity and $45.3 million excess tax benefit from exercises of share-based arrangements. We purchased approximately 5,400 shares of our common stock for an aggregate purchase price of $645,000 in 2015 and paid $2.1 million in debt issuance costs. 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.

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, 2015, 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. 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 borrowings under our credit facility 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.

Subsequent to December 31, 2015 and through February 22, 2016, we purchased approximately 241,000 shares of our common stock for an aggregate cash purchase price of $31.3 million.

On November 16, 2015 we entered into a $300.0 million Credit Agreement (the "Credit Facility") with various lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent. The Credit Facility provides for a revolving credit line of $300.0 million with a $10.0 million sublimit for letters of credit. The Credit Facility matures on November 16, 2020. Borrowings under the Credit Facility may be used for general corporate purposes, including working capital requirements, acquisitions and share repurchases. In 2015, we paid $2.1 million in related debt issuance costs, which are included with other assets on the accompanying balance sheet.

Borrowings under the Credit Facility bear interest at a rate of either (1) the Wells Fargo Bank prime rate (subject to certain higher rate determinations) plus a margin of 0.25% to 1.00% or (2) the 30, 60, 90 or 180-day LIBOR rate plus a margin of 1.25% to 2.00%. In 2015, our effective average interest rate for borrowings was 1.8%. As of December 31, 2015 our interest rate was 1.6%. The Credit Facility is secured by substantially all of our assets. The Credit Facility requires us to maintain certain financial ratios and other financial conditions and prohibits us from making certain investments, advances, cash dividends or loans, and limits incurrence of additional indebtedness and liens. As of December 31, 2015, we were in compliance with those covenants.

At December 31, 2015, we had $66.0 million in outstanding borrowings and unused borrowing capacity of $234.0 million under the Credit Facility.

We paid income taxes, net of refunds received, of $27.3 million in 2015, $10.2 million in 2014, and $9.3 million in 2013. We experienced significant stock option exercise activity in 2015 that generated $45.3 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. However, more than 70% of our 2015 excess tax benefit was generated in the fourth quarter of 2015 and as a result we recorded an income tax receivable of $21.1 million, which will reduce income tax payments in 2016. In 2014 and 2013, excess tax benefits were $19.4 million and $28.2 million, respectively.

Excluding acquisitions, we anticipate that 2016 capital spending will be between $31.0 million and $33.0 million. We expect the majority of this capital spending will consist of computer equipment and software for infrastructure replacements and expansion. We also expect to purchase a leased office building in Falmouth, Maine for approximately $10.0 million. We currently do not expect to capitalize significant amounts related to software development in 2016, 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, cash flows from operations and borrowings under our revolving line of credit.

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 2022. Most leases contain renewal options and some contain purchase options.

Summarized in the table below are our obligations to make future payments under our Credit Facility and lease obligations at December 31, 2015 (in thousands):

	2016	2017	2018	2019	2020	Thereafter	Total
Revolving line of credit	$ —	$ —	$ —	$ —	$66,000	$ —	$ 66,000
Lease obligations	5,912	6,250	3,845	3,204	3,050	2,223	24,484
Total future payment obligations	$5,912	$6,250	$3,845	$3,204	$69,050	$2,223	$ 90,484

As of December 31, 2015, 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, 2015, our capitalization consisted of $66.0 million of outstanding borrowings and $858.9 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.

As of December 31, 2015, we had $66.0 million in outstanding borrowings under the Credit Facility. Loans under the Credit Facility bear interest, at Tyler's option, at a per annum rate of either (1) the Wells Fargo Bank prime rate (subject to certain higher rate determinations) plus a margin of 0.25% to 1.00% or (2) the 30, 60, 90 or 180-day LIBOR rate plus a margin of 1.25% to 2.00%.

In 2015, our effective average interest rate for borrowings was 1.8%. As of December 31, 2015 our interest rate was 1.6%. The Credit Facility is secured by substantially all of our assets.

Assuming borrowings of $66.0 million, a hypothetical 10% increase in our interest rate at December 31, 2015 for a one year period would result in approximately $106,000 of additional interest rate expense.

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, 2015. 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, 2015.

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, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Based on our assessment, we concluded that, as of December 31, 2015, Tyler's internal control over financial reporting was effective based on those criteria.

Management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of New World Systems Corporation, which is included in our 2015 consolidated financial statements and constituted 57% of total assets as of December 31, 2015 and 2% of revenues for the year then ended.

Tyler's internal control over financial reporting as of December 31, 2015 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 59 hereof.

Changes in Internal Control Over Financial Reporting — During the quarter ended December 31, 2015, 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, 2015, 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.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of New World Systems Corporation, which is included in the 2015 consolidated financial statements of Tyler Technologies, Inc. and constituted 57% of total assets as of December 31, 2015 and 2% of revenues for the year then ended. Our audit of internal control over financial reporting of Tyler Technologies, Inc. also did not include an evaluation of the internal control over financial reporting of New World Systems Corporation.

In our opinion, Tyler Technologies, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, 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, 2015 and 2014, 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, 2015 and our report dated February 24, 2016 expressed an unqualified opinion thereon.

Ernst & Young LLP

Dallas, Texas
February 24, 2016

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, 2015 and 2014, 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, 2015. 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, 2015 and 2014, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company has adopted ASU 2015-17 Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes.

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, 2015, 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 24, 2016 expressed an unqualified opinion thereon.

Ernst & Young LLP

Dallas, Texas
February 24, 2016

Consolidated Statements of Comprehensive Income

For the years ended December 31,	2015	2014	2013
In thousands, except per share amounts			
Revenues:			
Software licenses and royalties	$ 59,008	$ 49,065	$ 40,841
Subscriptions	111,933	87,848	61,864
Software services	139,852	113,821	93,267
Maintenance	245,537	212,696	191,720
Appraisal services	25,065	21,802	20,825
Hardware and other	9,627	7,869	8,126
Total revenues	591,022	493,101	416,643
Cost of revenues:			
Software licenses and royalties	1,632	1,900	2,377
Acquired software	4,440	1,858	2,078
Software services, maintenance and subscriptions	285,340	236,363	199,617
Appraisal services	15,922	14,284	13,809
Hardware and other	6,501	5,325	5,559
Total cost of revenues	313,835	259,730	223,440
Gross profit	$277,187	$ 233,371	$ 193,203
Selling, general and administrative expenses	133,317	108,260	98,289
Research and development expense	29,922	25,743	23,269
Amortization of customer and trade name intangibles	5,905	4,546	4,517
Operating income	108,043	94,822	67,128
Other income (expense), net	381	(355)	(1,309)
Income before income taxes	108,424	94,467	65,819
Income tax provision	43,555	35,527	26,718
Net income	$ 64,869	$ 58,940	$ 39,101
Earnings per common share:			
Basic	$ 1.90	$ 1.79	$ 1.23
Diluted	$ 1.77	$ 1.66	$ 1.13
Unrealized gains on investment securities available-for-sale	$ —	$ —	$ 341
Income tax benefit related to components of other comprehensive income	—	—	119
Other comprehensive income, net of tax	$ —	$ —	$ 222
Comprehensive income	$ 64,869	$ 58,940	$ 39,323

See accompanying notes.

Consolidated Balance Sheets

December 31,	2015	2014
In thousands, except par value and share amounts		
ASSETS		
Current assets:		
Cash and cash equivalents	$ 33,087	$206,167
Accounts receivable (less allowance for losses of $1,640 in 2015 and $1,725 in 2014)	176,360	112,660
Short-term investments	13,423	—
Prepaid expenses	22,334	17,851
Income tax receivable	21,080	19
Other current assets	1,931	339
Total current assets	268,215	337,036
Accounts receivable, long-term	2,777	1,761
Property and equipment, net	101,112	65,910
Deferred income taxes	—	5,504
Other assets:		
Goodwill	653,666	124,142
Other intangibles, net	295,378	34,722
Cost method investment	15,000	—
Non-current investments and other assets	20,422	737
	$1,356,570	$569,812
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 6,789	$ 4,119
Accrued liabilities	49,156	39,508
Deferred revenue	281,627	189,212
Total current liabilities	337,572	232,839
Revolving line of credit	66,000	—
Deferred revenue, long-term	3,115	—
Deferred income taxes	91,026	—
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 2015 and 2014	481	481
Additional paid-in capital	607,755	201,389
Accumulated other comprehensive loss, net of tax	(46)	(46)
Retained earnings	326,019	261,150
Treasury stock, at cost; 11,373,666 and 14,678,782 shares in 2015 and 2014, respectively	(75,352)	(126,001)
Total shareholders' equity	858,857	336,973
	$1,356,570	$569,812

See accompanying notes.

Consolidated Statements of Shareholders' Equity

For the years ended December 31, 2015, 2014 and 2013

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock		Total Shareholders' Equity
	Shares	Amount				Shares	Amount	
In thousands								
Balance at December 31, 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
Net income	—	—	—	—	64,869	—	—	64,869
Issuance of shares pursuant to stock compensation plan	—	—	4,332	—	—	1,118	18,828	23,160
Stock compensation	—	—	20,182	—	—	—	—	20,182
Issuance of shares pursuant to employee stock purchase plan	—	—	3,879	—	—	43	792	4,671
Federal income tax benefit related to exercise of stock options	—	—	45,314	—	—	—	—	45,314
Treasury stock purchases	—	—	—	—	—	(5)	(645)	(645)
Issuance of shares for acquisitions	—	—	332,659	—	—	2,149	31,674	364,333
Balance at December 31, 2015	48,148	$ 481	$ 607,755	$ (46)	$ 326,019	(11,374)	$ (75,352)	$ 858,857

See accompanying notes.

Consolidated Statements of Cash Flows

For the years ended December 31,	2015	2014	2013
In thousands			
Cash flows from operating activities:			
Net income	$ 64,869	$ 58,940	$39,101
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization	19,574	14,605	13,786
Share-based compensation expense	20,182	14,819	11,653
Provision for losses - accounts receivable	1,756	1,897	729
Excess tax benefit from exercises of share-based arrangements	(45,314)	(19,402)	(28,207)
Deferred income tax benefit	(7,956)	(3,804)	(1,497)
Changes in operating assets and liabilities, exclusive of effects of acquired companies:			
Accounts receivable	(28,172)	(8,912)	(7,488)
Income tax receivable	24,255	29,117	18,898
Prepaid expenses and other current assets	(3,054)	(3,696)	(4,154)
Accounts payable	652	1,586	(574)
Accrued liabilities	490	6,326	7,655
Deferred revenue	41,731	31,961	16,188
Net cash provided by operating activities	89,013	123,437	66,090
Cash flows from investing activities:			
Cost of acquisitions, net of cash acquired	(339,961)	(3,242)	(181)
Purchase of cost method investment	(15,000)	—	—
Purchase of marketable security investments	(31,907)	—	—
Proceeds from marketable security investments	900	808	1,090
Additions to property and equipment	(12,501)	(9,343)	(26,858)
Decrease in other	10	222	291
Net cash used by investing activities	(398,459)	(11,555)	(25,658)
Cash flows from financing activities:			
Increase (decrease) in net borrowings on revolving line of credit	66,000	—	(18,000)
Purchase of treasury shares	(645)	(22,817)	—
Contributions from employee stock purchase plan	4,671	4,144	3,542
Proceeds from exercise of stock options	23,160	14,680	18,289
Debt issuance costs	(2,134)	—	—
Excess tax benefit from exercises of share-based arrangements	45,314	19,402	28,207
Net cash provided by financing activities	136,366	15,409	32,038
Net (decrease) increase in cash and cash equivalents	(173,080)	127,291	72,470
Cash and cash equivalents at beginning of period	206,167	78,876	6,406
Cash and cash equivalents at end of period	$ 33,087	$ 206,167	$78,876

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 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 in excess of that necessary for operating requirements is invested in short-term, highly liquid, income-producing investments. Investments with original maturities of three months or less are classified as cash and cash equivalents, which primarily consist of cash on deposit with several banks and money market funds. 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 Accounting Standards Codification ("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 seven 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 $29.9 million during 2015, $25.7 million during 2014, and $23.3 million during 2013.

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.

On November 20, 2015, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. The standard amends the current requirement for entities to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, entities will now be required to classify all deferred tax assets and liabilities as noncurrent. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, with early adoption permitted. We early adopted this standard during fourth quarter 2015, utilizing the retrospective application as permitted. As such, certain prior period amounts have been reclassified to conform to the current presentation.

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 2015, 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 and acquired software each comprise approximately half 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. There have been no significant impairments of intangible assets in any of the periods presented. 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.

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. 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. The fair value of our revolving line of credit approximates book value as of December 31, 2015, because our interest rates reset approximately every 30 days or less. See Note 6 – "Revolving Line of Credit" for further discussion.

As of December 2015, we have $30.9 million in investment grade corporate and municipal bonds with maturity dates ranging from 2016 through mid-2017. We intend to hold these bonds to maturity and have classified them as such. We believe cost approximates fair value because of the relatively short duration of these investments. The fair values of these securities are considered Level II as they are based on inputs from quoted prices in markets that are not active or from other observable market data. These investments are included in short-term investments and non-current investments and other assets.

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 proceedings. The fair value of this investment is based on valuations using Level III, unobservable inputs that are supported by little or no market value activity and that are significant to the fair value of the investment.

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, accounts receivable from trade customers, and investments in marketable securities. Our cash and cash equivalents primarily consists of operating account balances and money market funds, which are maintained at several major domestic financial institutions and the balances often exceed insured amounts. As of December 31, 2015 we had cash and cash equivalents of $33.1 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, 2015.

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,	2015	2014	2013
Balance at beginning of year	$ 1,725	$ 1,113	$ 1,621
Provisions for losses - accounts receivable	1,756	1,897	729
Collection of accounts previously written off	153	—	—
Deductions for accounts charged off or credits issued	(1,994)	(1,285)	(1,237)
Balance at end of year	$ 1,640	$ 1,725	$ 1,113

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.

We have recorded unbilled receivables of $29.7 million and $14.8 million at December 31, 2015 and 2014, respectively. We also have recorded retention receivables of $4.7 million at December 31, 2015 and 2014, 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' liability 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.

New Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued 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.

On August 12, 2015, the FASB voted for a one-year deferral of the effective date of the new standard and now requires application of the new standard no later than annual reporting periods beginning after December 15, 2017, including interim reporting periods therein. However, under the proposal, public entities would be permitted to elect to early adopt the new standard as of the original effective date. We currently expect to adopt the new standard in fiscal year 2018 in accordance with the revised effective date.

(2) Acquisitions

2015

On November 16, 2015, we acquired all of the capital stock of New World Systems Corporation ("NWS"), which provides public safety and financial solutions for local governments. The purchase price, net of cash acquired of $22.5 million, was $337.5 million in cash, of which $4.0 million was accrued at December 31, 2015, and 2.1 million shares of Tyler common stock valued at $362.8 million, which was based on the closing price on November 16, 2015. We also incurred fees of approximately $5.9 million for financial advisory, legal, accounting, due diligence, valuation and other various services necessary to complete the acquisition. These fees were expensed in 2015 and are included in selling, general and administrative expenses.

Tyler has performed a preliminary valuation analysis of the fair market value of NWS' assets and liabilities. The following table summarizes the allocation of the preliminary purchase price as of the acquisition date.

Cash	$ 22,486
Accounts receivable	37,098
Other current assets	2,371
Property and equipment	30,672
Identifiable intangible assets	264,814
Goodwill	527,618
Accounts payable	(1,382)
Accrued expenses	(7,282)
Deferred revenue	(53,098)
Deferred tax liabilities, net	(104,484)
Total consideration	$718,813

In connection with this transaction we acquired total tangible assets of $70.1 million and assumed liabilities of approximately $61.8 million. We recorded goodwill of $527.6 million, none of which is expected to be deductible for tax purposes, and other intangible assets of approximately $264.8 million. Approximately $261.1 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 11 years. Also included in other intangibles is an asset for approximately $3.7 million to reflect the fair value of existing lease agreements, and this intangible will be amortized over the weighted average life of these lease agreements of approximately 9 years and reduces other income. In addition, we recorded deferred tax liabilities of $104.5 million related to estimated fair value allocations. We believe this transaction will broaden our courts and justice software solutions and will create a unique end-to-end enterprise criminal justice solution. We believe that likely market participants for this transaction would be entities with a presence in the judicial and public safety markets. Therefore, the goodwill of $527.6 million arising from this acquisition is primarily attributed to our ability to integrate NWS solutions with our existing portfolio and generate increased revenues, earnings and cash flow. As of December 31, 2015, the purchase price allocation for NWS is not yet complete. The preliminary estimates of fair value assumed at the acquisition date for intangible assets, receivables and deferred revenue and related deferred taxes are subject to change as valuations are finalized.

The following unaudited pro forma information of the consolidated results of operations have been prepared as if the NWS acquisition had occurred at January 1, 2014, after giving effect to certain adjustments, including amortization of intangibles, interest, transaction costs and tax effects. The pro forma results of operations include compensation costs of $16.2 million and $16.0 million in 2015 and 2014, respectively, for certain NWS executives whose employment terminated at the date of acquisition.

Pro forma information does not include acquisitions that are not considered material to our results of operations. The pro forma information does not purport to represent what our results of operations actually would have been had such transaction or event occurred on the dates specified, or to project our results of operations for any future period.

For the years ended December 31,	2015	2014
Revenues	$ 691,711	$ 590,071
Net income	55,164	44,436
Basic earnings per common share	1.62	1.26
Diluted earnings per common share	1.51	1.18

On May 29, 2015, we acquired all of the capital stock of Brazos Technology Corporation ("Brazos"), which provides mobile hand held solutions primarily to law enforcement agencies for field accident reporting and electronically issuing citations. The purchase price, net of cash acquired of $312,000 and including debt assumed of $733,000, was $6.1 million in cash and 12,500 shares of Tyler common stock valued at $1.5 million. As a result, we acquired total tangible assets of approximately $2.1 million and assumed liabilities of approximately $2.6 million. We have recorded total goodwill of approximately $1.9 million, all of which is expected to be deductible for tax purposes, and other intangible assets of approximately $6.2 million. The $6.2 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 ten years.

The operating results of NWS and Brazos are included with the operating results of the Enterprise Software Solutions segment since their dates of acquisition. Revenues from NWS included in 2015 results of operations totaled approximately $10.0 million and net income was not significant. Our balance sheet as of December 31, 2015, 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 III, unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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.

(3) Property and Equipment, Net

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

	Useful Lives (years)	2015	2014
Land	—	$ 8,146	$ 7,736
Building and leasehold improvements	5-39	77,020	51,309
Computer equipment and purchased software	3-5	42,245	34,058
Furniture and fixtures	5	16,661	11,812
Transportation equipment	5	252	238
		144,324	105,153
Accumulated depreciation and amortization		(43,212)	(39,243)
Property and equipment, net		$101,112	$ 65,910

Depreciation expense was $9.1 million during 2015, $7.9 million during 2014, and $6.4 million during 2013.

We own office buildings in Bangor and Yarmouth, Maine; Lubbock and Plano, Texas; Troy, Michigan; and Moraine, Ohio. We lease some space in these buildings to third-party tenants. These leases expire between 2016 and 2025 and are expected to provide rental income of approximately $1.7 million during 2016, $1.6 million during 2017, $1.6 million during 2018, $1.5 million during 2019, $1.3 million during 2020, and $6.6 million thereafter. Rental income from third-party tenants was $913,000 in 2015, $945,000 in 2014, and $704,000 in 2013.

(4) Goodwill and Other Intangible Assets

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

	2015	2014
Gross carrying amount of acquisition intangibles:		
Customer related intangibles	$181,671	$61,325
Acquired software	172,666	33,103
Trade name	10,765	3,331
Leases acquired	3,694	—
	368,796	97,759
Accumulated amortization	(73,418)	(63,037)
Total intangibles, net	$295,378	$34,722

Total amortization expense for intangibles was $10.3 million in 2015, $6.4 million in 2014, and $6.8 million during 2013.

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

	December 31, 2015			December 31, 2014		
	Gross Carrying Amount	Weighted Average Amortization Period	Accumulated Amortization	Gross Carrying Amount	Weighted Average Amortization Period	Accumulated Amortization
Non-amortizable intangibles:						
Goodwill	$653,666	—	$ —	$124,142	—	$ —
Amortizable intangibles:						
Customer related intangibles	181,671	15 years	38,754	61,325	15 years	33,194
Acquired software	172,666	7 years	32,880	33,103	5 years	28,441
Trade name	10,765	12 years	1,747	3,331	15 years	1,402
Leases acquired	3,694	9 years	37	—	—	—

The changes in the carrying amount of goodwill for the two years ended December 31, 2015 are as follows:

	Enterprise Software Solutions	Appraisal and Tax Software Solutions and Services	Total
Balance as of 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
Goodwill acquired during 2015 related to the purchase of NWS	527,618	—	527,618
Goodwill acquired during 2015 related to the purchase of Brazos	1,906	—	1,906
Balance as of December 31, 2015	$647,109	$6,557	$653,666

Estimated annual amortization expense relating to acquired leases will be recorded as a reduction to other income and is expected to be $444,000 in 2016, $444,000 in 2017, $426,000 in 2018, $372,000 in 2019, $313,000 in 2020 and $1.7 million thereafter. 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:

2016	$35,182
2017	34,204
2018	33,528
2019	32,100
2020	30,804

(5) Accrued Liabilities

Accrued liabilities consist of the following at December 31:

	2015	2014
Accrued wages, bonuses and commissions	$32,006	$30,977
Other accrued liabilities	17,150	8,531
	$49,156	$39,508

(6) Revolving Line of Credit

On November 16, 2015, we entered into a $300.0 million Credit Agreement (the "Credit Facility") with the various lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent. The Credit Facility provides for a revolving credit line up to $300.0 million, including a $10.0 million sublimit for letters of credit. The Credit Facility matures on November 16, 2020. Borrowings under the Credit Facility may be used for general corporate purposes, including working capital requirements, acquisitions and share repurchases.

Borrowings under the Credit Facility bear interest at a rate of either (1) Wells Fargo Bank's prime rate (subject to certain higher rate determinations) plus a margin of 0.25% to 1.00% or (2) the 30, 60, 90 or 180 day LIBOR rate plus a margin of 1.25% to 2.00%. As of December 31, 2015, our interest rate was 1.6%. The Credit Facility is secured by substantially all of our assets. The Credit Facility requires us to maintain certain financial ratios and other financial conditions and prohibits us from making certain investments, advances, cash dividends or loans, and limits incurrence of additional indebtedness and liens. As of December 31, 2015, we were in compliance with those covenants.

As of December 31, 2015, we had $66.0 million in outstanding borrowings and unused borrowing capacity of $234.0 million under the Credit Facility. In addition, as of December 31, 2015, we had an outstanding $1.5 million letter of credit in favor of one of our clients. The letter of credit guarantees our performance under a software contract and expires in 2016.

We paid interest of $223,000 in 2015.

(7) Income Tax

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

Years ended December 31,	2015	2014	2013
Current:			
Federal	$44,841	$34,504	$25,625
State	6,670	4,827	2,590
	51,511	39,331	28,215
Deferred	(7,956)	(3,804)	(1,497)
	$43,555	$35,527	$26,718

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

Years ended December 31,	2015	2014	2013
Federal income tax expense at statutory rate	$37,949	$33,064	$23,037
State income tax, net of federal income tax benefit	3,715	2,867	2,371
Non-deductible business expenses	2,414	1,485	1,110
Qualified manufacturing activities	(466)	(1,720)	—
Other, net	(57)	(169)	200
	$43,555	$35,527	$26,718

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

	2015	2014
Deferred income tax assets:		
Operating expenses not currently deductible	$ 9,953	$ 9,093
Stock option and other employee benefit plans	13,504	9,815
Capital loss and credit carryforward	179	177
Property and equipment	—	46
Total deferred income tax assets	23,636	19,131
Deferred income tax liabilities:		
Intangible assets	(111,653)	(13,424)
Property and equipment	(2,781)	—
Other	(228)	(203)
Total deferred income tax liabilities	(114,662)	(13,627)
Net deferred income tax (liability) asset	$ (91,026)	$ 5,504

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 $45.3 million and $19.4 million of excess tax benefits related to share-based arrangements in 2015 and 2014, 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, 2015 and 2014 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.

The Internal Revenue Service ("IRS") is examining our U.S. income tax return for the year 2012. In addition, there is one open state audit for the year 2011. As of February 22, 2016, 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 2012. We are no longer subject to state and local income tax examinations by tax authorities for the years before 2011.

We paid income taxes, net of refunds received, of $27.3 million in 2015, $10.2 million in 2014, and $9.3 million in 2013.

(8) Shareholders' Equity

The following table details activity in our common stock:

	Years ended December 31,					
	2015		2014		2013	
	Shares	Amount	Shares	Amount	Shares	Amount
Stock option exercises	1,118	$ 23,160	855	$ 14,680	1,443	$18,289
Purchases of common stock	(5)	(645)	(294)	(22,817)	—	—
Employee stock plan purchases	43	4,671	53	4,144	64	3,542
Shares issued for acquisitions	2,149	364,333	17	1,473	—	—

Subsequent to December 31, 2015 and through February 22, 2016, we repurchased 241,000 shares for an aggregate purchase price of $31.3 million. As of February 22, 2016, we had authorization from our board of directors to repurchase up to 1.2 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, 2015, there were 3.7 million shares available for future grants under the plan from the 20.0 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,	2015	2014	2013
Expected life (in years)	6.0	6.0	6.4
Expected volatility	28.3%	30.9%	32.4%
Risk-free interest rate	1.7%	1.8%	1.4%
Expected forfeiture rate	1.7%	3.0%	3.0%

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,	2015	2014	2013
Cost of software services, maintenance and subscriptions	$ 3,380	$ 2,177	$ 1,509
Selling, general and administrative expenses	16,802	12,642	10,144
Total share-based compensation expenses	20,182	14,819	11,653
Tax benefit	(5,986)	(4,237)	(3,363)
Net decrease in net income	$14,196	$10,582	$ 8,290

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, 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		
Granted	747	145.71		
Exercised	(1,118)	20.71		
Forfeited	(2)	19.61		
Outstanding at December 31, 2015	5,164	64.43	7	$568,239
Exercisable at December 31, 2015	1,940	40.69	6	$259,257

We had unvested options to purchase 3.1 million shares with a weighted average grant date exercise price of $78.86 as of December 31, 2015 and unvested options to purchase 3.3 million shares with a weighted average grant date exercise price of $55.61 as of December 31, 2014. As of December 31, 2015, we had $69.8 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 3.4 years.

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

	2015	2014	2013
Weighted average grant-date fair value of stock options granted	$ 45.17	$ 31.32	$ 23.27
Total intrinsic value of stock options exercised	149,542	69,768	99,393

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, 2015, there were 899,000 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,	2015	2014	2013
Numerator for basic and diluted earnings per share:			
Net income	$64,869	$ 58,940	$ 39,101
Denominator:			
Weighted-average basic common shares outstanding	34,137	33,011	31,891
Assumed conversion of dilutive securities:			
Stock options	2,415	2,390	2,699
Denominator for diluted earnings per share - Adjusted weighted-average shares	36,552	35,401	34,590
Earnings per common share:			
Basic	$ 1.90	$ 1.79	$ 1.23
Diluted	$ 1.77	$ 1.66	$ 1.13

Stock options representing the right to purchase common stock of 417,000 shares in 2015, 481,000 shares in 2014, and 62,000 shares in 2013 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 2022. In addition to rent, the leases generally require us to pay taxes, maintenance, insurance and certain other operating expenses.

Rent expense was approximately $7.2 million in 2015, $6.7 million in 2014, and $7.5 million in 2013, which included rent expense associated with related party lease agreements of $1.8 million in 2015, $1.7 million in 2014, and $1.7 million in 2013.

Future minimum lease payments under all non-cancelable leases at December 31, 2015 are as follows:

Years ending December 31,	
2016	$ 5,912
2017	6,250
2018	3,845
2019	3,204
2020	3,050
Thereafter	2,223
	$ 24,484

Included in future minimum lease payments are non-cancelable payments due to related parties of $1.9 million in 2016, $1.9 million in 2017 and $14,000 in 2018.

(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 $5.3 million during 2015, $4.3 million during 2014, and $3.8 million during 2013.

(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 and public safety 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 and public safety 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 and public safety 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 2013 included $19.6 million for the construction of a new building and purchase of an existing building and land.

As of the year ended December 31, 2015	Enterprise Software Solutions	Appraisal and Tax Software Solutions and Services	Corporate	Totals
Revenues				
Software licenses and royalties	$ 54,376	$ 4,632	$ —	$ 59,008
Subscriptions	107,090	4,843	—	111,933
Software services	129,068	10,784	—	139,852
Maintenance	227,586	17,951	—	245,537
Appraisal services	—	25,065	—	25,065
Hardware and other	6,935	12	2,680	9,627
Intercompany	4,025	—	(4,025)	—
Total revenues	$529,080	$63,287	$ (1,345)	$ 591,022
Depreciation and amortization expense	$ 15,413	$ 867	$ 3,294	$ 19,574
Segment operating income	$141,401	$15,477	$ (38,490)	$ 118,388
Capital expenditures	$ 6,112	$ 646	$ 6,746	$ 13,504
Segment assets	$265,877	$22,283	$1,068,410	$1,356,570

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	$382,980	$ 569,812

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

Reconciliation of reportable segment operating income to the Company's consolidated totals:	2015	2014	2013
Total segment operating income	$118,388	$101,226	$73,723
Amortization of acquired software	(4,440)	(1,858)	(2,078)
Amortization of customer and trade name intangibles	(5,905)	(4,546)	(4,517)
Other income (expense), net	381	(355)	(1,309)
Income before income taxes	$108,424	$ 94,467	$65,819

(15) Quarterly Financial Information (unaudited)

The following table contains selected financial information from unaudited statements of income for each quarter of 2015 and 2014.

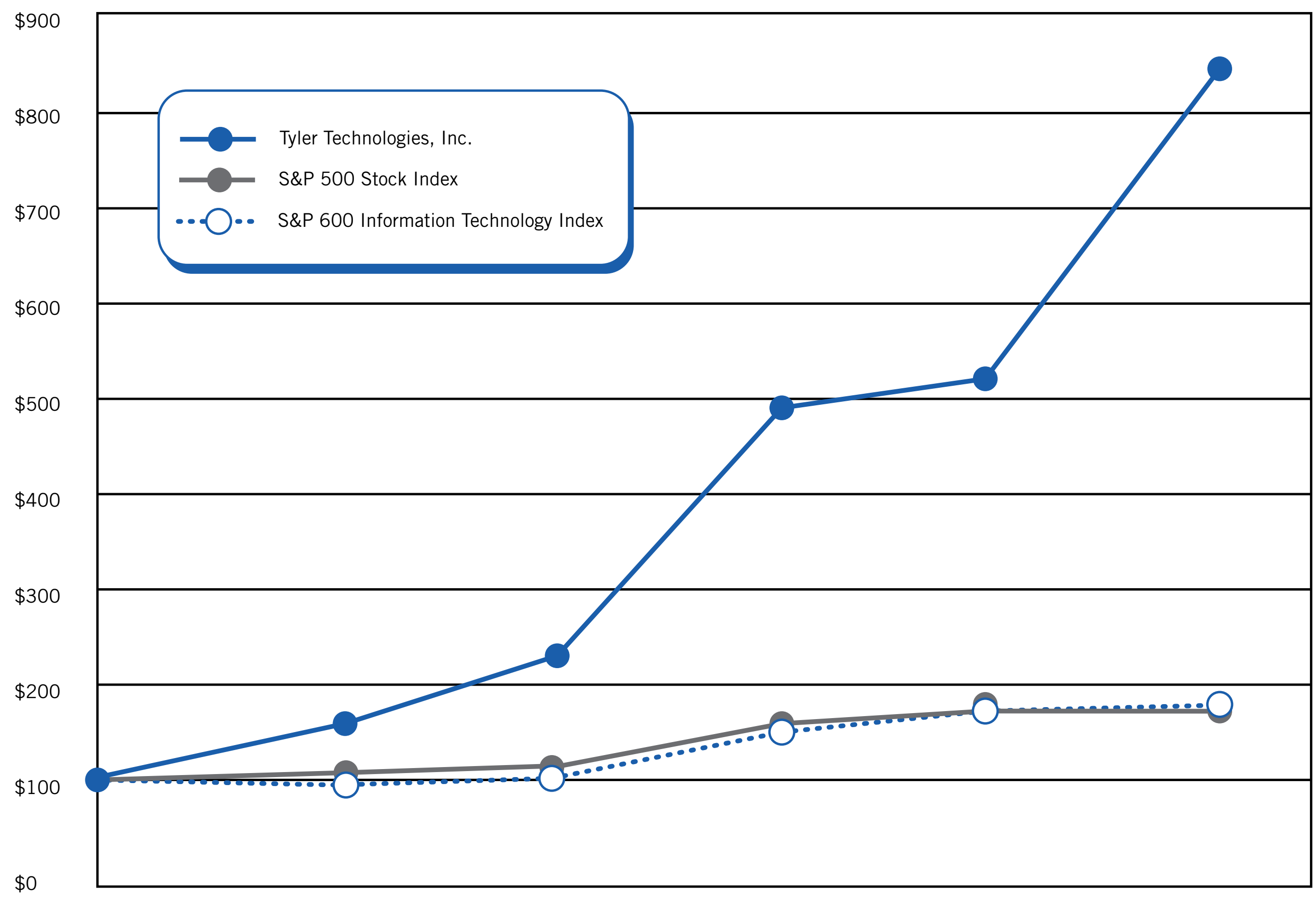
	2015				2014			
Quarters ended	Dec. 31 (a)	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Revenues	$158,916	$150,845	$146,295	$134,966	$127,440	$128,664	$124,371	$112,626
Gross profit	73,222	71,833	68,253	63,879	60,491	61,792	58,558	52,530
Income before income taxes	19,540	31,744	29,781	27,359	24,760	26,698	23,406	19,603
Net income	8,618	20,142	18,836	17,273	15,317	17,000	14,740	11,883
Earnings per diluted share	0.23	0.55	0.52	0.48	0.43	0.48	0.42	0.33
Shares used in computing diluted earnings per share	37,864	36,349	36,097	35,895	35,661	35,284	35,161	35,500

(a) Operating results for the three months ended December 31, 2015, include $5.5 million for financial advisory, legal, accounting, due diligence, valuation and other services necessary to complete the NWS acquisition as well as $3.5 million amortization expense related to NWS acquisition intangibles.

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, 2010. 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



	2010	2011	2012	2013	2014	2015
	100	145.04	233.33	491.96	527.17	839.69
	100	102.11	118.45	156.82	178.29	180.75
	100	95.98	107.52	155.80	176.51	184.72

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

Bruce E. Graham
Chief Strategy Officer

Matthew B. Bieri
Chief Information Officer

Samantha B. Crosby
Chief Marketing Officer

W. Michael Smith
Chief Accounting Officer

Robert J. Sansone
Vice President
Human Resources

Terri L. Alford
Controller

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.

Larry D. Leinweber
Retired President and
Chief Executive Officer
New World Systems Corporation

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

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www.amstock.com

Independent Registered Public Accounting Firm

Ernst & Young LLP
Dallas, Texas

Annual Meeting of Stockholders

Wednesday, May 11, 2016
9:30 a.m. CDT
The Westin Stonebriar
1549 Legacy Drive
Frisco, Texas 75034

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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LISTED
NYSE

Operational Leadership

ENTERPRISE GROUP

Andrew D. Teed
President
Enterprise Group and
Appraisal & Tax Division

Christopher P. Hepburn
President
ERP & School Division

Dane L. Womble
President
Local Government Division

JUSTICE GROUP

D. Bret Dixon
President
Justice Group

Jeffrey D. Puckett
President
Courts & Justice Division

Greg T. Sebastian
President
Public Safety Division

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