TYLER TECHNOLOGIES INC
Form 10-Q
July 25, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the quarterly period ended June 30, 2013

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

Commission File Number 1-10485

TYLER TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**75-2303920**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. employer identification no.)**

5949 SHERRY LANE, SUITE 1400

DALLAS, TEXAS

75225

(Address of principal executive offices)

(Zip code)

(972) 713-3700

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller Reporting Company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The number of shares of common stock of registrant outstanding on July 19, 2013 was 31,842,000.

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

TYLER TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except per share amounts)

(Unaudited)

	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Revenues:				
Software licenses and royalties	$ 10,090	$ 8,422	$ 18,920	$ 15,985
Subscriptions	13,863	10,553	27,336	20,521
Software services	24,085	21,737	44,546	40,267
Maintenance	46,639	42,060	92,689	81,910
Appraisal services	5,056	5,771	10,647	11,453
Hardware and other	3,355	2,825	4,749	3,955
Total revenues	103,088	91,368	198,887	174,091
Cost of revenues:				
Software licenses and royalties	692	484	1,118	1,050
Acquired software	523	482	1,072	892
Software services, maintenance and subscriptions	48,833	43,118	95,215	82,931
Appraisal services	3,418	3,876	7,217	7,672
Hardware and other	2,580	2,709	3,378	3,428
Total cost of revenues	56,046	50,669	108,000	95,973
Gross profit	47,042	40,699	90,887	78,118
Selling, general and administrative expenses	24,971	21,699	47,617	43,034
Research and development expense	5,594	5,408	11,192	10,502
Amortization of customer and trade name intangibles	1,128	1,137	2,259	2,083
Operating income	15,349	12,455	29,819	22,499
Other expense, net	296	773	634	1,476
Income before income taxes	15,053	11,682	29,185	21,023
Income tax provision	6,006	4,577	11,645	8,237
Net income	$ 9,047	$ 7,105	$ 17,540	$ 12,786
Earnings per common share:				
Basic	$ 0.29	$ 0.24	$ 0.55	$ 0.42
Diluted	$ 0.26	$ 0.22	$ 0.51	$ 0.39
Comprehensive income	$ 9,106	$ 7,105	$ 17,599	$ 12,786

See accompanying notes.

TYLER TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value and share amounts)

	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,068	$ 6,406
Accounts receivable (less allowance for losses of $1,177 in 2013 and $1,621 in 2012)	121,256	99,212
Prepaid expenses	11,811	9,000
Other current assets	4,905	1,480
Deferred income taxes	5,512	5,544
Total current assets	146,552	121,642
Accounts receivable, long-term portion	800	1,187
Property and equipment, net	55,378	45,381
Non-current investments available-for-sale	2,103	2,037
Other assets:		
Goodwill	121,011	121,011
Other intangibles, net	42,289	45,800
Sundry	795	1,197
	$ 368,928	$ 338,255
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 3,776	$ 3,167
Accrued liabilities	23,583	26,018
Deferred revenue	155,903	140,550
Total current liabilities	183,262	169,735
Revolving line of credit		18,000
Deferred income taxes	5,511	5,221
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 2013 and 2012	481	481
Additional paid-in capital	159,164	154,018
Accumulated other comprehensive loss, net of tax	(209)	(268)
Retained earnings	180,649	163,109
Treasury stock, at cost; 16,321,141 and 16,816,903 shares in 2013 and 2012, respectively	(159,930)	(172,041)
Total shareholders equity	180,155	145,299
	$ 368,928	$ 338,255

See accompanying notes.

TYLER TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six months ended June 30, 2013	2012
Cash flows from operating activities:		
Net income	$ 17,540	$ 12,786
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	6,681	6,336
Share-based compensation expense	5,478	3,603
Excess tax benefit from exercises of share-based arrangements	(5,661)	(1,581)
Changes in operating assets and liabilities, exclusive of effects of acquired companies:		
Accounts receivable	(21,658)	(7,706)
Income tax payable	2,378	(190)
Prepaid expenses and other current assets	(2,596)	(262)
Accounts payable	671	(1,637)
Accrued liabilities	(1,601)	(2,152)
Deferred revenue	15,354	(772)
Net cash provided by operating activities	16,586	8,425
Cash flows from investing activities:		
Proceeds from sale of investments	25	25
Cost of acquisitions, net of cash acquired	(181)	(15,175)
Additions to property and equipment	(13,839)	(4,334)
Decrease (increase) in other	295	(61)
Net cash used by investing activities	(13,700)	(19,545)
Cash flows from financing activities:		
(Decrease) increase in net borrowings on revolving line of credit	(18,000)	5,000
Contributions from employee stock purchase plan	1,634	1,166
Proceeds from exercise of stock options	4,481	2,359
Excess tax benefit from exercises of share-based arrangements	5,661	1,581
Net cash (used) provided by financing activities	(6,224)	10,106
Net decrease in cash and cash equivalents	(3,338)	(1,014)
Cash and cash equivalents at beginning of period	6,406	1,326
Cash and cash equivalents at end of period	$ 3,068	$ 312

See accompanying notes.

Tyler Technologies, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(Tables in thousands, except per share data)

(1) Basis of Presentation

We prepared the accompanying condensed consolidated financial statements following the requirements of the Securities and Exchange Commission (SEC) and accounting principles generally accepted in the United States, or GAAP, for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP can be condensed or omitted for interim periods. Balance sheet amounts are as of June 30, 2013 and December 31, 2012 and operating result amounts are for the three and six months ended June 30, 2013 and 2012, and include all normal and recurring adjustments that we considered necessary for the fair summarized presentation of our financial position and operating results. As these are condensed financial statements, one should also read the financial statements and notes included in our latest Form 10-K for the year ended December 31, 2012. Revenues, expenses, assets and liabilities can vary during each quarter of the year. Therefore, the results and trends in these interim financial statements may not be the same as those for the full year.

Royalty revenue is recognized when the fees are fixed or determinable, which is known when we receive notice of the amounts earned pursuant to our third party royalty arrangements. Typically, we receive notice of royalty revenues earned on a quarterly basis 30 to 60 days after the end of the reporting period.

Certain amounts for the previous periods presented have been reclassified to conform to the current period presentation.

(2) Acquisitions

In November 2012, we acquired all of the capital stock of EnerGov Solutions, L.L.C. (EnerGov) which develops and sells enterprise permitting, land management, licensing and regulatory software solutions to governmental agencies. As of December 31, 2012 the purchase price allocation was not yet complete. In the three months ended March 31, 2013, we finalized the EnerGov purchase price allocation which resulted in additional goodwill of $1.1 million and a corresponding reduction in tangible assets. The balance sheet at December 31, 2012 has been retrospectively revised to include this adjustment.

(3) Financial Instruments

Assets recorded at fair value in the balance sheet as of June 30, 2013 are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, which are directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets, are as follows:

Level 1 Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date;

Level 2 Inputs other than Level 1 inputs that are either directly or indirectly observable; and

Level 3 Unobservable inputs, for which little or no market data exist, therefore requiring an entity to develop its own assumptions.

As of June 30, 2013 we held certain items that are required to be measured at fair value on a recurring basis. The following table summarizes the fair value of these financial assets:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments available-for-sale	2,103			2,103

Investments available-for-sale consist of two auction rate municipal securities (ARS) which are collateralized debt obligations supported by municipal agencies and do not include mortgage-backed securities. These ARS are debt instruments with stated maturities ranging from 19 to 29 years, for which the interest rate is designed to be reset through Dutch auctions approximately every 30 days. However, due to events in the credit markets, auctions for these securities have not occurred since February 2008. Both of our ARS have had a series of small partial redemptions at par in the period from July 2009 through February 2013. As of June 30, 2013 we have continued to earn and collect interest on both of our ARS.

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

The par and carrying values, and related cumulative unrealized loss for our non-current ARS as of June 30, 2013 are as follows:

	Par Value	Temporary Impairment	Carrying Value
Investments available-for-sale	$ 2,425	$ 322	$ 2,103

In association with this estimate of fair value, we have recorded an after-tax temporary unrealized gain on our non-current ARS of $59,000, net of related tax effects of $32,000 in the six months ended June 30, 2013, which is included in accumulated other comprehensive loss on our balance sheet. We consider the impairment in our ARS as temporary because we do not have the intent to sell, nor is it more-likely-than-not that we will be required to sell these securities before recovery of their cost basis. We believe that this decline in fair value is temporary, because the underlying assets of these securities are supported by municipal agencies and do not include mortgage-backed securities, have redemption features which call for redemption at 100% of par value and have a current credit rating of A or AA. The ratings on the ARS take into account credit support through insurance policies guaranteeing each of the bonds payment of principal and accrued interest, if it becomes necessary. In addition, both ARS have had a series of small partial redemptions at par in the period July 2009 through February 2013. Based on our cash and cash equivalents balance, expected operating cash flows and availability under our credit facility, we do not believe a lack of liquidity associated with our ARS will adversely affect our ability to conduct business, and believe we have the ability to hold the securities throughout the currently estimated recovery period. We will continue to evaluate any changes in the market value of our ARS and in the future, depending upon existing market conditions, we may be required to record an other-than-temporary decline in market value.

The following table reflects the activity for assets measured at fair value using level 3 inputs for the three and six months ended June 30, 2013:

Balance as of December 31, 2012	$ 2,037
Transfers into level 3	
Transfers out of level 3	
Purchases, sales, issuances and settlements	(25)
Unrealized gains included in accumulated loss	
Balance as of March 31, 2013	2,012
Transfers into level 3	
Transfers out of level 3	
Unrealized gains included in accumulated loss	91
Balance as of June 30, 2013	$ 2,103

(4) Shareholders Equity

The following table details activity in our common stock:

	Six months ended June 30,			
	2013		2012	
	Shares	Amount	Shares	Amount
Stock option exercises	461	$ 4,481	267	$ 2,359
Employee stock plan purchases	35	1,634	40	1,166

As of June 30, 2013 we had authorization from our board of directors to repurchase up to 1.7 million additional shares of Tyler common stock.

(5) Revolving Line of Credit

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

Borrowings under the Credit Facility bear interest at a rate of either (1) the Bank of America s prime rate plus a margin of 1.50% to 2.75% or (2) the 30, 60, 90 or 180-day LIBOR rate plus a margin of 2.50% to 3.75%, with the margin determined by our consolidated leverage ratio. The Credit Facility is secured by substantially all of our assets, excluding real property. The Credit Facility requires us to maintain certain financial ratios and other financial conditions and prohibits us from making certain investments, advances, cash dividends or loans, and limits incurrence of additional indebtedness and liens. As of June 30, 2013, we were in compliance with those covenants.

As of June 30, 2013, we had no outstanding borrowings and available borrowing capacity of $144.6 million under the Credit Facility. We had outstanding letters of credit totaling $5.4 million as of June 30, 2013. Some of our customers, primarily those for our property appraisal services, require that we obtain performance bonds in connection with our contract. The maximum potential amount of an outstanding performance bond would be the remaining cost of work to be performed under our contracts. The notional amount of performance guarantees outstanding as of June 30, 2013 was estimated to be $37.2 million. We provide letters of credit as security for the issuance of performance bonds. These letters of credit are issued under our revolving line of credit and reduce our available borrowing capacity. We do not believe these letters of credit will be required to be drawn upon. These letters of credit expire through mid-2014.

(6) Income Tax Provision

For the three and six months ended June 30, 2013, we had an effective income tax rate of 39.9% compared to 39.2% for the three and six months ended June 30, 2012. The effective income tax rates for the periods presented were different from the statutory United States federal income tax rate of 35% primarily due to state income taxes, non-deductible share-based compensation expense, the qualified manufacturing activities deduction, and non-deductible meals and entertainment costs.

We made federal and state income tax payments, net of refunds of $9.3 million in the six months ended June 30, 2013, compared to $8.4 million in net payments for the same period of the prior year.

(7) Earnings Per Share

The following table details the reconciliation of basic earnings per share to diluted earnings per share:

	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Numerator for basic and diluted earnings per share:				
Net income	$ 9,047	$ 7,105	$ 17,540	$ 12,786
Denominator:				
Weighted-average basic common shares outstanding	31,617	30,171	31,670	30,175
Assumed conversion of dilutive securities:				
Stock options	2,673	2,598	2,609	2,557
Denominator for diluted earnings per share Adjusted weighted-average shares	34,290	32,769	34,279	32,732
Earnings per common share:				
Basic	$ 0.29	$ 0.24	$ 0.55	$ 0.42
Diluted	$ 0.26	$ 0.22	$ 0.51	$ 0.39

For the three and six months ended June 30, 2013, stock options representing the right to purchase common stock of approximately 890,000 shares and 920,000 shares, respectively, were not included in the computation of diluted earnings per share because their inclusion would have had an anti-dilutive effect. For the three and six months ended June 30, 2012, stock options representing the right to purchase common stock of approximately 470,000 shares and 451,000 shares, respectively, were not included in the computation of diluted earnings per share because their inclusion would have had an anti-dilutive effect.

(8) Share-Based Compensation

The following table summarizes share-based compensation expense related to share-based awards recorded in the statements of comprehensive income, pursuant to ASC 718, Stock Compensation:

	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Cost of software services, maintenance and subscriptions	$ 343	$ 257	$ 679	$ 505
Selling, general and administrative expense	2,560	1,511	4,799	3,098
Total share-based compensation expense	$ 2,903	$ 1,768	$ 5,478	$ 3,603

(9) Segment and Related Information

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

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

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

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

We evaluate performance based on several factors, of which the primary financial measure is business segment operating income. We define segment operating income as income before noncash amortization of intangible assets associated with their acquisition, 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.

For the three months ended June 30, 2013

	Enterprise Software Solutions	Appraisal and Tax Software Solutions and Services	Corporate	Totals
Revenues				
Software licenses and royalties	$ 9,621	$ 469	$	$ 10,090
Subscriptions	13,089	774		13,863
Software services	21,952	2,133		24,085
Maintenance	42,566	4,073		46,639
Appraisal services		5,056		5,056
Hardware and other	1,566		1,789	3,355
Intercompany	748		(748)	
Total revenues	$ 89,542	$ 12,505	$ 1,041	$ 103,088
Segment operating income	$ 20,327	$ 2,304	$ (5,631)	$ 17,000

For the six months ended June 30, 2013

	Enterprise Software Solutions	Appraisal and Tax Software Solutions and Services	Corporate	Totals
Revenues				
Software licenses and royalties	$ 17,722	$ 1,198	$	$ 18,920
Subscriptions	25,990	1,346		27,336
Software services	40,693	3,853		44,546
Maintenance	84,448	8,241		92,689
Appraisal services		10,647		10,647
Hardware and other	2,960		1,789	4,749
Intercompany	1,336		(1,336)	
Total revenues	$ 173,149	$ 25,285	$ 453	$ 198,887
Segment operating income	$ 38,155	$ 4,630	$ (9,635)	$ 33,150

For the three months ended June 30, 2012

	Enterprise Software Solutions	Appraisal and Tax Software Solutions and Services	Corporate	Totals
Revenues				
Software licenses and royalties	$ 7,987	$ 435	$	$ 8,422
Subscriptions	10,297	256		10,553
Software services	19,832	1,905		21,737
Maintenance	37,985	4,075		42,060
Appraisal services		5,771		5,771
Hardware and other	1,166		1,659	2,825
Intercompany	759		(759)	
Total revenues	$ 78,026	$ 12,442	$ 900	$ 91,368
Segment operating income	$ 15,831	$ 2,299	$ (4,056)	$ 14,074

For the six months ended June 30, 2012

	Enterprise Software Solutions	Appraisal and Tax Software Solutions and Services	Corporate	Totals
Revenues				
Software licenses and royalties	$ 14,937	$ 1,048	$	$ 15,985
Subscriptions	20,009	512		20,521
Software services	36,446	3,821		40,267
Maintenance	73,730	8,180		81,910
Appraisal services		11,453		11,453
Hardware and other	2,296		1,659	3,955
Intercompany	1,104		(1,104)	
Total revenues	$ 148,522	$ 25,014	$ 555	$ 174,091
Segment operating income	$ 29,250	$ 4,376	$ (8,152)	$ 25,474

Reconciliation of reportable segment operating income to the Company s consolidated totals:	Three months ended June 30, 2013	2012	Six months ended June 30, 2013	2012
Total segment operating income	$ 17,000	$ 14,074	$ 33,150	$ 25,474
Amortization of acquired software	(523)	(482)	(1,072)	(892)
Amortization of customer and trade name intangibles	(1,128)	(1,137)	(2,259)	(2,083)
Other expense, net	(296)	(773)	(634)	(1,476)
Income before income taxes	$ 15,053	$ 11,682	$ 29,185	$ 21,023

(10) Commitments and Contingencies

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

ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that are not historical in nature and typically address future or anticipated events, trends, expectations or beliefs with respect to our financial condition, results of operations or business. Forward-looking statements often contain words such as believes, expects, anticipates, foresees, forecasts, estimates, plans, intends, continues, may, will, should, projects, might, cou phrases. Similarly, statements that describe our business strategy, outlook, objectives, plans, intentions or goals also are forward-looking statements. We believe there is a reasonable basis for our forward-looking statements, but they are inherently subject to risks and uncertainties and actual results could differ materially from the expectations and beliefs reflected in the forward-looking statements. We presently consider the following to be among the important factors that could cause actual results to differ materially from our expectations and beliefs: (1) changes in the budgets or regulatory environments of our customers, primarily local and state governments, that could negatively impact information technology spending; (2) our ability to protect client information from security breaches and provide uninterrupted operations of data centers; (3) material portions of our business require the Internet infrastructure to be further developed or adequately maintained; (4) our ability to achieve our financial forecasts due to various factors, including project delays by our customers, reductions in transaction size, fewer transactions, delays in delivery of new products or releases or a decline in our renewal rates for service agreements; (5) economic, political and market conditions, including the global economic and financial crisis, and the general tightening of access to debt or equity capital; (6) technological and market risks associated with the development of new products or services or of new versions of existing or acquired products or services; (7) our ability to successfully complete acquisitions and achieve growth or operational synergies through the integration of acquired businesses, while avoiding unanticipated costs and disruptions to existing operations; (8) competition in the industry in which we conduct business and the impact of competition on pricing, customer retention and pressure for new products or services; (9) the ability to attract and retain qualified personnel and dealing with the loss or retirement of key members of management or other key personnel; and (10) costs of compliance and any failure to comply with government and stock exchange regulations. A detailed discussion of these factors and other risks that affect our business are described in our filings with the Securities and Exchange Commission, including the detailed Risk Factors contained in our most recent annual report on Form 10-K. We expressly disclaim any obligation to publicly update or revise our forward-looking statements.

GENERAL

We provide integrated information management solutions and services for the public sector, with a focus on local governments. We develop and market a broad line of software products and services to address the information technology (IT) needs of cities, counties, schools and other local government entities as well as state governments. In addition, we provide professional IT services to our customers, including software and hardware installation, data conversion, and 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), which utilize the Tyler private cloud, and electronic document filing solutions (e-filings). In 2010 we began providing e-filings for courts and law offices which simplify the filing and management of court related documents. Revenues for e-filings are generally derived from transaction fees. We also provide property appraisal outsourcing services for taxing jurisdictions.

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

Total revenues increased 12.8% and 14.2% for the three and six months ended June 30, 2013, respectively, compared to the prior year periods. We completed several acquisitions in 2012 and organic total revenue growth for the three and six months ended June 30, 2013 was 9.5% and 10.4%, respectively, compared to the prior year periods.

Our total employee count increased to 2,431 at June 30, 2013 from 2,239 at June 30, 2012. This increase includes 66 employees added as a result of an acquisition in November 2012.

Outlook

We expect the trend of gradual improvements in the marketplace to continue in 2013. We plan to make significant investments in our business that we believe will enhance our market leadership and improve long-term revenue and margin growth. These investments include expenses associated with new e-filing contracts as well as accelerated hiring to ensure that we are well-positioned to deliver our current backlog and anticipated new business.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements. These condensed consolidated financial statements have been prepared following the requirements of accounting principles generally accepted in the United States (GAAP) for interim periods and require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition and amortization and potential impairment of intangible assets and goodwill and share-based compensation expense. As these are condensed financial statements, one should also read expanded information about our critical accounting policies and estimates provided in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, included in our Form 10-K for the year ended December 31, 2012. There have been no material changes to our critical accounting policies and estimates from the information provided in our 10-K for the year ended December 31, 2012.

ANALYSIS OF RESULTS OF OPERATIONS

Revenues

	Percentage of Total Revenue			
	Second Quarter		Six Months	
	2013	2012	2013	2012
Revenue:				
Software licenses and royalties	9.8%	9.2%	9.5%	9.2%
Subscriptions	13.4	11.5	13.7	11.8
Software services	23.4	23.8	22.4	23.1
Maintenance	45.2	46.1	46.6	47.1
Appraisal services	4.9	6.3	5.4	6.6
Hardware and other	3.3	3.1	2.4	2.2
Total revenue	100.0	100.0	100.0	100.0
Operating Expenses:				
Cost of software licenses, royalties and acquired software	1.2	1.1	1.1	1.1
Cost of software services, maintenance and subscriptions	47.4	47.2	47.9	47.7
Cost of appraisal services	3.3	4.3	3.6	4.4
Cost of hardware and other	2.5	3.0	1.7	2.0
Selling, general and administrative expenses	24.2	23.7	23.9	24.7
Research and development expense	5.4	5.9	5.6	6.0
Amortization of customer and trade name intangibles	1.1	1.2	1.2	1.2
Operating income	14.9	13.6	15.0	12.9
Other expense, net	0.3	0.8	0.3	0.8
Income before income taxes	14.6	12.8	14.7	12.1
Income tax provision	5.8	5.0	5.9	4.8
Net income	8.8%	7.8%	8.8%	7.3%

Software licenses and royalties.

The following table sets forth a comparison of our software licenses and royalties revenues for the periods presented as of June 30:

	Second Quarter		Change		Six Months		Change	
($ in thousands)	2013	2012	$	%	2013	2012	$	%
ESS	$ 9,621	$ 7,987	$ 1,634	20%	$ 17,722	$ 14,937	$ 2,785	19%
ATSS	469	435	34	8	1,198	1,048	150	14
Total software licenses and royalties revenue	$ 10,090	$ 8,422	$ 1,668	20%	$ 18,920	$ 15,985	$ 2,935	18%

Since March 2012, we have acquired two companies which provide financial and human capital management software solutions to the K-12 education market and one company that provides enterprise permitting, land management, licensing and regulatory software solutions to governmental agencies. The results of these acquisitions are included in our ESS segment from the dates of their acquisitions. Excluding the results of acquisitions, software license and royalty revenue for the three and six months ended June 30, 2013 increased 4% and 7%, respectively compared to the prior year periods. The majority of the growth was due to an increase of approximately $560,000 and $1.3 million for the three and six months ended June 30, 2013 in royalties on sales of Microsoft Dynamics AX by other Microsoft partners compared to the prior year periods. We record royalty revenue when the fees are fixed or determinable, which is known when we receive notice of the amounts earned pursuant to our royalty arrangements which are generally 30 to 60 days after each quarterly reporting period. Royalty revenue is dependent upon sales volume from Microsoft partners and can vary substantially from period to period. Software license revenues declined slightly compared to the prior year period because of a growing number of customers choosing our subscription-based options, rather than purchasing the software under a traditional perpetual software arrangement. Subscription-based arrangements result in lower software license revenues in the initial year as compared to traditional perpetual software license arrangements but generate higher overall subscription-based revenue over the term of the contract. We had 28 and 50 new customers enter into subscription-based arrangements in the three and six months ending June 30, 2013, respectively compared to 24 and 35 new customers in the three and six months ended June 30, 2012, respectively.

Subscriptions.

The following table sets forth a comparison of our subscription revenues for the periods presented as of June 30:

	Second Quarter		Change		Six Months		Change	
($ in thousands)	2013	2012	$	%	2013	2012	$	%
ESS	$ 13,089	$ 10,297	$ 2,792	27%	$ 25,990	$ 20,009	$ 5,981	30%
ATSS	774	256	518	202	1,346	512	834	163
Total subscriptions revenue	$ 13,863	$ 10,553	$ 3,310	31%	$ 27,336	$ 20,521	$ 6,815	33%

Excluding the impact of acquisitions, subscription-based services revenue grew approximately 30% and 32% for the three and six months ending June 30, 2013 compared to the prior year periods. Subscription-based services revenue primarily consists of revenues derived from SaaS arrangements, which utilize the Tyler private cloud. As part of our subscription-based services, we also provide electronic document filing solutions (e-filings) that simplify the filing and management of court related documents for courts and law offices. Revenues from e-filings are generally derived from transaction fees. The contract term for SaaS arrangements range from one to 10 years but are typically for periods of three to six years. New SaaS customers as well as existing customers who converted to our SaaS model provided the majority of the subscription revenue increase. In the three months ending June 30, 2013, we added 28 new customers and 15 existing customers elected to convert to our SaaS model. Since June 30, 2012, we have added 91 new customers and 68 existing customers elected to convert to our SaaS model. E-filing services also contributed approximately $395,000 and $880,000 of the subscription revenue increase for the three and six months ended June 30, 2013, respectively as the result of new clients implementing e-filing and two existing clients expanding mandatory e-filing for court documents.

Software services.

The following table sets forth a comparison of our software service revenues for the periods presented as of June 30:

	Second Quarter		Change		Six Months		Change	
($ in thousands)	2013	2012	$	%	2013	2012	$	%
ESS	$ 21,952	$ 19,832	$ 2,120	11%	$ 40,693	$ 36,446	$ 4,247	12%
ATSS	2,133	1,905	228	12	3,853	3,821	32	1
Total software services revenue	$ 24,085	$ 21,737	$ 2,348	11%	$ 44,546	$ 40,267	$ 4,279	11%

Software services revenues primarily consists of professional services billed in connection with the installation of our software, conversion of customer data, training customer personnel and consulting. New customers who purchase our proprietary software licenses generally also contract with us to provide for the related software services. Existing customers also periodically purchase additional training, consulting and minor programming services. Excluding the impact of acquisitions, software services revenue grew 6% for both the three and six months ended June 30, 2013 compared to the prior year periods. The increase in software services revenues is due to larger contract arrangements that included more programming and other services.

Maintenance.

The following table sets forth a comparison of our maintenance revenues for the periods presented as of June 30:

	Second Quarter		Change		Six Months		Change	
($ in thousands)	2013	2012	$	%	2013	2012	$	%
ESS	$ 42,566	$ 37,985	$ 4,581	12%	$ 84,448	$ 73,730	$ 10,718	15%
ATSS	4,073	4,075	(2)	(0)	8,241	8,180	61	1
Total maintenance revenue	$ 46,639	$ 42,060	$ 4,579	11%	$ 92,689	$ 81,910	$ 10,779	13%

We provide maintenance and support services for our software products and third party software. Excluding acquisitions, maintenance revenue increased 10% for both the three and six months ended June 30, 2013, respectively, compared to the prior year periods. Maintenance and support revenues increased due to growth in our installed customer base from new software license sales and maintenance rate increases on most of our product lines.

Appraisal services.

The following table sets forth a comparison of our appraisal service revenues for the periods presented as of June 30:

	Second Quarter		Change		Six Months		Change	
($ in thousands)	2013	2012	$	%	2013	2012	$	%
ESS	$	$	$	%	$	$	$	%
ATSS	5,056	5,771	(715)	(12)	10,647	11,453	(806)	(7)
Total appraisal services revenue	$ 5,056	$ 5,771	$ (715)	(12)%	$ 10,647	$ 11,453	$ (806)	(7)%

The appraisal services business is somewhat cyclical and driven in part by statutory revaluation cycles in various states. Appraisal services revenue declined compared to the prior year periods mainly due to the completion of a large contract in Pennsylvania. We expect appraisal revenues for 2013 will be moderately lower compared to 2012 due to delays in customer purchasing decisions.

Cost of Revenues and Gross Margins

The following table sets forth a comparison of the key components of our cost of revenues for the periods presented as of June 30:

	Second Quarter		Change		Six Months		Change	
($ in thousands)	2013	2012	$	%	2013	2012	$	%
Software licenses and royalties	$ 692	$ 484	$ 208	43%	$ 1,118	$ 1,050	$ 68	6%
Acquired software	523	482	41	9	1,072	892	180	20
Software services, maintenance and subscriptions	48,833	43,118	5,715	13	95,215	82,931	12,284	15
Appraisal services	3,418	3,876	(458)	(12)	7,217	7,672	(455)	(6)
Hardware and other	2,580	2,709	(129)	(5)	3,378	3,428	(50)	(1)
Total cost of revenues	$ 56,046	$ 50,669	$ 5,377	11%	$ 108,000	$ 95,973	$ 12,027	13%

The following table sets forth a comparison of gross margin percentage by revenue type for the periods presented as of June 30:

	Second Quarter		Change	Six Months		Change
	2013	2012	%	2013	2012	%
Software licenses, royalties and acquired software	88.0%	88.5%	(0.5)%	88.4%	87.9%	0.5%
Software services, maintenance and subscriptions	42.3	42.0	0.3	42.1	41.9	0.2
Appraisal services	32.4	32.8	(0.4)	32.2	33.0	(0.8)
Hardware and other	23.1	4.1	19.0	28.9	13.3	15.6
Overall gross margin	45.6%	44.5%	1.1%	45.7%	44.9%	0.8%

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 software acquired through acquisitions. We do not have any direct costs associated with royalties. For the three months ended June 30, 2013, our software licenses, royalties and acquired software gross margin percentage declined due to higher third party software costs which offset higher royalty revenue. For the six months ended June 30, 2013, our software licenses, royalties and acquired software gross margin percentage increased due to higher revenues from royalties.

Software services, maintenance and subscription services. Cost of software services, maintenance and subscriptions primarily consists of personnel costs related to installation of our software, conversion of customer data, training customer personnel and support activities and various other services such as SaaS arrangements and e-filings. For both the three months and six months ended June 30, 2013, the software services, maintenance and subscriptions gross margin percentage increased compared to the prior year periods in part because maintenance and various other services such as SaaS costs typically grow at a slower rate than related revenues due to leverage in the utilization of our support and maintenance staff and economies of scale, as well as slightly higher rates on certain services. The increase in the gross margin was offset somewhat by our investment in TexFile, a unified, statewide electronic filing system for Texas courts. In late 2012, we signed a contract with the Texas Office of Court Administration for our Odyssey File and Serve e-filing offering for TexFile. Subsequently, the state of Texas issued an order mandating e-filing in civil cases beginning in January 2014. Mandatory e-filing will be phased in over a two and a half year period, beginning with the largest counties in January 2014. We will be paid on a per-filing basis but expect very limited revenues from TexFile e-filings in 2013. However, during 2013 we expect to incur significant expense in the range of approximately $3.0

million to $3.5 million, in connection with implementing the system in courts across the state. Excluding the cost incurred in connection with implementing TexFile in the three and six months ended June 30, 2013, our software services, maintenance and subscription services gross margin would have been 43.2% and 42.9%, respectively. With the recent order mandating e-filing in Texas, we expect that this contract will provide a long-term recurring revenue stream of $15.0 million to $20.0 million annually when it becomes fully mandatory.

Excluding 57 additional employees added with an acquisition in November 2012, our implementation and support staff has increased by 130 employees since June 30, 2012.

Our blended gross margin increased 1.1% and 0.8% in the three and six months ended June 30, 2013, respectively, compared to the prior year periods. This increase was due to higher royalty revenue and leverage in the utilization of our support, maintenance and subscription-based services staff and economies of scale and slightly higher rates on certain services. The increase in our gross margin was offset somewhat by costs incurred related to our investment in TexFile with no related revenues for the three and six months ended June 30, 2013. Excluding our investment in TexFile, our blended gross margin would have been 46.4% and 46.3% for the three and six months ended June 30, 2013, respectively.

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 periods presented as of June 30:

	Second Quarter		Change		Six Months		Change	
($ in thousands)	2013	2012	$	%	2013	2012	$	%
Selling, general and administrative expenses	$ 24,971	$ 21,699	$ 3,272	15%	$ 47,617	$ 43,034	$ 4,583	11%

SG&A as a percentage of revenues was 24.2% and 23.9% for the three and six months ended June 30, 2013, respectively, compared to 23.7% and 24.7% for the three and six months ended June 30, 2012, respectively. Excluding costs from acquisitions, approximately half of the SG&A expense increase is due to higher stock compensation expense resulting from the substantial increase in our stock price over the last twelve months and higher payroll taxes associated with increased stock option exercise activity.

Research and Development Expense

The following table sets forth a comparison of our research and development expense for the periods presented as of June 30:

	Second Quarter		Change		Six Months		Change	
($ in thousands)	2013	2012	$	%	2013	2012	$	%
Research and development expense	$ 5,594	$ 5,408	$ 186	3%	$ 11,192	$ 10,502	$ 690	7%

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

We did not have any research and development expense offsets earned under the terms of our agreement with Microsoft in the three and six months ended June 30, 2013 or 2012.

Amortization of Customer and Trade Name Intangibles

Acquisition intangibles are composed of the excess of the purchase price over the fair value of net tangible assets acquired that is allocated to acquired software and customer and trade name intangibles. The remaining excess purchase price is allocated to goodwill that is not subject to amortization. Amortization expense related to acquired software is included with cost of revenues while amortization expense of customer and trade name intangibles is recorded as a non-operating expense. The following table sets forth a comparison of amortization of customer and trade name intangibles for the periods presented as of June 30:

	Second Quarter		Change		Six Months		Change	
($ in thousands)	2013	2012	$	%	2013	2012	$	%
Amortization of customer and trade name intangibles	$ 1,128	$ 1,137	$ (9)	(1)%	$ 2,259	$ 2,083	$ 176	8%

In 2012, we completed several acquisitions that increased customer and trade name intangibles by approximately $11.1 million. This amount is being amortized over a weighted average period of 11.8 years.

Other Expense, Net

	Second Quarter		Change		Six Months		Change	
($ in thousands)	2013	2012	$	%	2013	2012	$	%
Other expense, net	$ 296	$ 773	$ (477)	(62)%	$ 634	$ 1,476	$ (842)	(57)%

The majority of other expense is comprised of interest expense, non-usage and other fees associated with our revolving credit agreement. Interest expense was lower than the prior year period because we maintained higher debt levels in 2012 associated primarily with several acquisitions completed from October 2011 through November 2012. We had a very small amount of debt outstanding for a short period of time in the three months ended June 30, 2013.

Income Tax Provision

The following table sets forth a comparison of our income tax provision for the periods presented as of June 30:

	Second Quarter		Change		Six Months		Change	
($ in thousands)	2013	2012	$	%	2013	2012	$	%
Income tax provision	$ 6,006	$ 4,577	$ 1,429	31%	$ 11,645	$ 8,237	$ 3,408	41%
Effective income tax rate	39.9%	39.2%			39.9%	39.2%		

The effective income tax rates for the three and six months ended June 30, 2013 and 2012 were different from the statutory United States federal income tax rate of 35% primarily due to state income taxes, non-deductible share-based compensation expense, the qualified manufacturing activities deduction, and non-deductible meals and entertainment costs.

FINANCIAL CONDITION AND LIQUIDITY

As of June 30, 2013, we had cash and cash equivalents of $3.1 million and investments available-for-sale of $2.1 million, compared to cash and cash equivalents of $6.4 million and investments available-for-sale of $2.0 million at December 31, 2012. As of June 30, 2013, we had no outstanding borrowings and outstanding letters of credit totaling $5.4 million. Some of our customers, primarily those for our property appraisal services, require that we obtain performance bonds in connection with our contracts. The maximum potential amount of an outstanding performance bond would be the remaining cost of work to be performed under our contracts. The notional amount of performance guarantees outstanding as of June 30, 2013 was estimated to be $37.2 million. We provide letters of credit as security for issuance of performance bonds. We do not believe these letters of credit will be required to be drawn upon. These letters of credit expire through mid-2014. We currently believe our $150.0 million revolving line of credit provides us with sufficient flexibility to meet our long-term financial needs.

The following table sets forth a summary of cash flows for the six months ended June 30:

($ in thousands)	2013	2012
Cash flows provided (used) by:		
Operating activities	$ 16,586	$ 8,425
Investing activities	(13,700)	(19,545)
Financing activities	(6,224)	10,106
Net decrease in cash and cash equivalents	$ (3,338)	$ (1,014)

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

For the six months ended June 30, 2013, operating activities provided net cash of $16.6 million, primarily generated from net income of $17.5 million, non-cash depreciation and amortization charges of $6.7 million and non-cash share-based compensation expense of $5.5 million. Working capital, excluding cash, increased approximately $7.5 million partly due to higher accounts receivable because our maintenance billing cycle typically peaks at its highest level in June. Working capital also increased due to timing of payments on vendor invoices and prepaid royalties, as well as prepaid commissions on large contracts.

In general, changes in 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.

Our days sales outstanding (DSO) was 106 days at June 30, 2013, compared to 95 days at December 31, 2012 and 99 days at June 30, 2012. Our maintenance billing cycle typically peaks at its highest level in June and second highest level in December of each year and is followed by collections in the subsequent quarter. As a result our DSO is usually lower in the first quarter than the fourth quarter. Our maintenance billing volume for the three months ended June 30, 2013 has grown significantly as a result of several acquisitions completed in 2012 along with the addition of new customers. Substantially all of these new billings are not due until after June 30, 2013 and as a result our DSO for the three months ended June 30, 2013, increased compared to the prior year period. DSO is calculated based on quarter-end accounts receivable divided by the quotient of annualized quarterly revenues divided by 360 days.

Investing activities used cash of $13.7 million in the six months ending June 30, 2013 compared to $19.5 million for the same period in 2012. Investing activities in 2013 include approximately $10.1 million in connection with the construction of an office building in Plano, Texas. In the six months ended June 30, 2012, we completed the acquisitions of Akanda Innovations, Inc., UniFund, L.L.C and Computer Software Associates, Inc. The combined cash purchase price paid in 2012, net of cash acquired, was approximately $15.2 million. In June 2012 we also purchased an office building and land in Moraine, Ohio to support our appraisal and tax operations for a purchase price of $2.6 million which was comprised of $1.7 million in cash and land and a building valued at $900,000. These expenditures were funded from cash generated from operations and borrowings under our revolving credit line.

Non-current investments available-for-sale consist of two auction rate municipal securities (ARS) which are collateralized debt obligations supported by municipal agencies and do not include mortgage-backed securities. These ARS are debt instruments with stated maturities ranging from 19 to 29 years, for which the interest rate is designed to be reset through Dutch auctions approximately every 30 days. However, due to events in the credit markets, auctions for these securities have not occurred since February 2008. Both of our ARS have had a series of small partial redemptions at par in the period from July 2009 through February 2013. As of June 30, 2013, we have continued to earn and collect interest on both of our ARS. Because quoted prices in active markets are no longer available we determined the estimated fair values of these securities utilizing a discounted trinomial model. The model considers the probability of three potential occurrences for each auction event through the maturity date of each ARS. The three potential outcomes for each auction are (i) successful auction/early redemption, (ii) failed auction and (iii) issuer default. Inputs in determining the probabilities of the potential outcomes include but are not limited to, the securities collateral, credit rating, insurance, issuer s financial standing, contractual restrictions on disposition and the liquidity in the market. The fair value of each ARS is determined by summing the present value of the probability-weighted future principal and interest payments determined by the model. Since there can be no assurances that auctions for these securities will be successful in the near future, we have classified our ARS as non-current investments.

In association with this estimate of fair value, we have recorded an after-tax temporary unrealized gain on our non-current ARS of $59,000, net of related tax effects of $32,000 in the six months ended June 30, 2013, which is included in accumulated other comprehensive loss on our balance sheet.

We consider the impairment in our ARS as temporary because we do not have the intent to sell, nor is it more-likely-than-not that we will be required to sell these securities before recovery of their cost basis. We believe that this decline in fair value is temporary because the underlying assets of these securities are supported by municipal agencies and do not include mortgage-backed securities, have redemption features which call for redemption at 100% of par value and have a current credit rating of A or AA. The ratings on the ARS take into account credit support through insurance policies guaranteeing each of the bonds payment of principal and accrued interest, if it becomes necessary. In addition, both ARS have had a series of small partial redemptions at par in the period July 2009 through February 2013. Based on our cash and cash equivalents balance, expected operating cash flows and availability under our credit facility, we do not believe a lack of liquidity associated with our ARS will adversely affect our ability to conduct business, and believe we have the ability to hold the securities throughout the currently estimated recovery period. We will continue to evaluate any changes in the market value of our ARS and in the future, depending upon existing market conditions, we may be required to record an other-than-temporary decline in market value.

Financing activities used cash of $6.2 million in the six months ended June 30, 2013 compared to cash provided by financing activities of $10.1 million for the same period for 2012. Cash used by financing activities in 2013 was comprised of $18.0 million in net payments on our revolving line of credit offset slightly by collections of $6.1 million from stock option exercises and employee stock purchase plan activity. Cash provided by financing activities in 2012 consisted of $5.0 million borrowings on our revolving line of credit and collections of $3.5 million from stock option exercises and employee stock purchase plan activity.

At June 30, 2013, we had authorization to repurchase up to 1.7 million additional shares of Tyler common stock. There was no repurchase activity during the six months ended June 30, 2013. The repurchase program, which was approved by our board of directors, was announced in October 2002, and was amended in April 2003, July 2003, October 2004, October 2005, May 2007, May 2008, May 2009, July 2010, October 2010 and September 2011. There is no expiration date specified for the authorization and we intend to repurchase stock under the plan from time to time in the future.

Our Credit Agreement (the Credit Facility) provides for a revolving credit line of $150.0 million (which may be increased up to $200.0 million subject to our obtaining commitments for such increase), with a $25.0 million sublimit for letters of credit. As of June 30, 2013, we had no outstanding borrowings and available borrowing capacity of $144.6 million under the Credit Facility. The Credit Facility matures on August 11, 2014. Borrowings under the Credit Facility may be used for general corporate purposes, including working capital requirements, acquisitions and share repurchases.

Borrowings under the Credit Facility bear interest at a rate of either (1) the Bank of America s prime rate plus a margin of 1.50% to 2.75% or (2) the 30, 60, 90 or 180-day LIBOR rate plus a margin of 2.50% to 3.75%, with the margin determined by our consolidated leverage ratio. The Credit Facility is secured by substantially all of our assets, excluding real property. The Credit Facility requires us to maintain certain financial ratios and other financial conditions and prohibits us from making certain investments, advances, cash dividends or loans, and limits incurrence of additional indebtedness and liens. As of June 30, 2013, we were in compliance with those covenants.

We made federal and state income tax payments, net of refunds, of $9.3 million in the six months ended June 30, 2013 compared to payments of $8.4 million in the prior year.

Excluding acquisitions and investments in office buildings, we anticipate that 2013 capital spending will be between $7.7 million and $8.7 million. We expect the majority of our capital expenditures will consist of computer equipment and software for infrastructure replacements and expansion. We currently do not expect to capitalize significant amounts related to software development in 2013, but the actual amount and timing of those costs, and whether they are capitalized or expensed may result in additional capitalized software development. As of June 30, 2013 we have paid approximately $10.1 million in connection with the construction of an office building in Plano, Texas. Construction will be complete in the three months ended September 2013 and we expect to pay another $8.4 million in 2013 in connection with the completion of the office building. Capital spending, including the construction of the office facility, is expected to be funded from cash flows from operations and borrowings under our revolving credit line.

From time to time we engage in discussions with potential acquisition candidates. In order to consummate any 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 acquisitions and how such acquisitions may be financed.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

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

Non-current investments available-for-sale consist of two ARS with stated maturities ranging from 19 to 29 years, for which the interest rate is designed to be reset through Dutch auctions approximately every 30 days which would have qualified as Level 1 under ASC 820, Fair Value Measurements. However, due to events in the credit markets, auctions for these securities have not occurred since February 2008. Therefore, quoted prices in active markets are no longer available and we determined the estimated fair values of these securities as of June 30, 2013 utilizing a discounted trinomial model.

We consider the impairment in our ARS as temporary because we do not have the intent to sell, nor is it more-likely-than-not that we will be required to sell these securities before recovery of their cost basis. We believe that this decline in fair value is temporary, because the underlying assets of these securities are supported by municipal agencies and do not include mortgage-backed securities, have redemption features which call for redemption at 100% of par value and have a current credit rating of A or AA. The ratings on the ARS take into account credit support through insurance policies guaranteeing each of the bonds payment of principal and accrued interest, if it becomes necessary. In addition, both ARS have had a series of small partial redemptions at par in the period July 2009 through February 2013. Based on our cash and cash equivalents balance, expected operating cash flows and availability under our credit facility, we do not believe a lack of liquidity associated with our ARS will adversely affect our ability to conduct business, and believe we have the ability to hold the securities throughout the currently estimated recovery period. We will continue to evaluate any changes in the fair value of our ARS and in the future, depending upon existing market conditions, we may be required to record an other-than-temporary decline in market value.

As of June 30, 2013, we had no outstanding borrowings under our Credit Facility. Borrowings under the Credit Facility bear interest at a rate of either (1) the Bank of America s prime rate plus a margin of 1.50% to 2.75% or (2) the 30, 60, 90 or 180-day LIBOR rate plus a margin of 2.50% to 3.75%, with the margin determined by our consolidated leverage ratio.

ITEM 4. 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 the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of June 30, 2013.

Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the three months ended June 30, 2013, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 1A. Risk Factors

In addition to the other information set forth in this report, one should carefully consider the discussion of various risks and uncertainties contained in Part I, Item 1A. Risk Factors in our 2012 Annual Report on Form 10-K. We believe those risk factors are the most relevant to our business and could cause our results to differ materially from the forward-looking statements made by us. Please note, however, that those are not the only risk factors facing us. Additional risks that we do not consider material, or of which we are not currently aware, may also have an adverse impact on us. Our business, financial condition and results of operations could be seriously harmed if any of these risks or uncertainties actually occurs or materializes. In that event, the market price for our common stock could decline, and our shareholders may lose all or part of their investment. During the three months ended June 30, 2013, there were no material changes in the information regarding risk factors contained in our Annual Report on Form 10-K for the year ended December 31, 2012.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

ITEM 3. Defaults Upon Senior Securities

None

ITEM 4. Submission of Matters to a Vote of Security Holders

None

ITEM 5. Other Information

None

ITEM 6. Exhibits

Exhibit 31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certifications Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 101	Instance Document
Exhibit 101	Schema Document
Exhibit 101	Calculation Linkbase Document

Exhibit 101	Labels Linkbase Document
Exhibit 101	Definition Linkbase Document
Exhibit 101	Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TYLER TECHNOLOGIES, INC.

By: /s/ Brian K. Miller
Brian K. Miller
Executive Vice President and Chief Financial Officer (principal financial officer and an authorized signatory)

Date: July, 24, 2013