TYLER TECHNOLOGIES INC
Form 10-Q
July 26, 2012

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, 2012

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 Yes ¨ No x

The number of shares of common stock of registrant outstanding on July 23, 2012 was 30,298,000.

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,		Six months ended June 30,	
	2012	2011	2012	2011
Revenues:				
Software licenses	$ 8,294	$ 8,308	$ 15,736	$ 15,130
Subscriptions	10,553	7,277	20,521	14,241
Software services	21,737	17,992	40,267	34,756
Maintenance	42,060	35,056	81,910	70,568
Appraisal services	5,771	5,987	11,453	12,184
Hardware and other	2,953	2,115	4,204	3,249
Total revenues	91,368	76,735	174,091	150,128
Cost of revenues:				
Software licenses	484	989	1,050	1,784
Acquired software	482	244	892	539
Software services, maintenance and subscriptions	43,118	35,502	82,931	70,682
Appraisal services	3,876	3,702	7,672	7,526
Hardware and other	2,709	2,161	3,428	2,837
Total cost of revenues	50,669	42,598	95,973	83,368
Gross profit	40,699	34,137	78,118	66,760
Selling, general and administrative expenses	21,699	18,466	43,034	35,754
Research and development expense	5,408	5,035	10,502	9,584
Amortization of customer and trade name intangibles	1,137	803	2,083	1,607
Operating income	12,455	9,833	22,499	19,815
Other expense, net	773	524	1,476	1,024
Income before income taxes	11,682	9,309	21,023	18,791
Income tax provision	4,577	3,685	8,237	7,439
Net income	$ 7,105	$ 5,624	$ 12,786	$ 11,352
Earnings per common share:				
Basic	$ 0.24	$ 0.18	$ 0.42	$ 0.36
Diluted	$ 0.22	$ 0.17	$ 0.39	$ 0.34
Comprehensive income	$ 7,105	$ 5,624	$ 12,786	$ 11,352

See accompanying notes.

TYLER TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value and share amounts)

	June 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 312	$ 1,326
Short-term investments available-for-sale	50	25
Accounts receivable (less allowance for losses of $1,016 in 2012 and $990 in 2011)	100,460	90,012
Prepaid expenses	8,159	8,348
Other current assets	3,184	2,286
Deferred income taxes	5,095	5,095
Total current assets	117,260	107,092
Accounts receivable, long-term portion	576	2,095
Property and equipment, net	42,500	40,915
Non-current investments available-for-sale	1,903	1,953
Other assets:		
Goodwill	112,750	106,094
Other intangibles, net	43,990	35,628
Sundry	1,467	1,614
	$ 320,446	$ 295,391
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,768	$ 3,211
Accrued liabilities	22,523	24,751
Deferred revenue	125,721	123,678
Total current liabilities	150,012	151,640
Revolving line of credit	65,700	60,700
Deferred income taxes	5,127	4,941
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 2012 and 2011	481	481
Additional paid-in capital	153,988	152,859
Accumulated other comprehensive loss, net of tax	(355)	(355)
Retained earnings	142,901	130,115
Treasury stock, at cost; 17,869,069 and 18,176,050 shares in 2012 and 2011, respectively	(197,408)	(204,990)
Total shareholders equity	99,607	78,110
	$ 320,446	$ 295,391

See accompanying notes.

TYLER TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six months ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income	$ 12,786	$ 11,352
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	6,336	5,219
Share-based compensation expense	3,603	2,969
Excess tax benefit from exercises of share-based arrangements	(1,581)	(1,692)
Changes in operating assets and liabilities, exclusive of effects of acquired companies:		
Accounts receivable	(7,706)	(8,026)
Income tax payable	(190)	1,552
Prepaid expenses and other current assets	(262)	(814)
Accounts payable	(1,637)	(295)
Accrued liabilities	(2,152)	1,197
Deferred revenue	(772)	7,865
Net cash provided by operating activities	8,425	19,327
Cash flows from investing activities:		
Proceeds from sale of investments	25	25
Cost of acquisitions, net of cash acquired	(15,175)	
Additions to property and equipment	(4,334)	(8,416)
(Increase) decrease in other	(61)	214
Net cash used by investing activities	(19,545)	(8,177)
Cash flows from financing activities:		
Increase in net borrowings on revolving line of credit	5,000	5,000
Purchase of treasury shares		(20,884)
Contributions from employee stock purchase plan	1,166	924
Proceeds from exercise of stock options	2,359	1,416
Excess tax benefit from exercises of share-based arrangements	1,581	1,692
Net cash provided (used) by financing activities	10,106	(11,852)
Net decrease in cash and cash equivalents	(1,014)	(702)
Cash and cash equivalents at beginning of period	1,326	2,114
Cash and cash equivalents at end of period	$ 312	$ 1,412

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, 2012 and December 31, 2011 and operating result amounts are for the three and six months ended June 30, 2012 and 2011, 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, 2011. 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.

(2) Acquisitions

In April 2012, we acquired all of the capital stock of Computer Software Associates, Inc. (CSA) for a cash purchase price of $9.4 million, net of cash acquired of $437,000. CSA is a reseller of Tyler s Infinite Visions school enterprise solution, and sells proprietary CSA tax and recording solutions to county governments, primarily in the Northwest. In connection with this transaction we acquired total tangible assets of approximately $1.3 million and assumed liabilities of approximately $1.9 million. We recorded goodwill of approximately $4.6 million, all of which is expected to be deductible for tax purposes, and other intangible assets of approximately $5.3 million. The $5.3 million of intangible assets is attributable to customer relationships, acquired software and trade name that will be amortized over a weighted average period of approximately 11 years.

In March 2012, we acquired all the capital stock of UniFund, L.L.C. (UniFund) for a cash purchase price of $4.6 million, net of cash acquired of $780,000. UniFund provides enterprise resource planning solutions to schools and local governments, primarily in the Northeast. UniFund is also a reseller of Tyler s Infinite Visions school enterprise solution. In connection with this transaction we acquired total tangible assets of approximately $745,000 and assumed liabilities of approximately $1.5 million. We recorded goodwill of approximately $1.1 million, all of which is expected to be deductible for tax purposes, and other intangible assets of approximately $4.3 million. The $4.3 million of intangible assets is attributable to customer relationships and acquired software that will be amortized over a weighted average period of approximately 11 years.

We recorded combined goodwill of approximately $5.7 million in connection with the acquisitions of CSA and UniFund which are both resellers of Tyler s Infinite Visions school enterprise solution. We believe likely market participants for these transactions would be software companies with a presence in the K-12 school market. Therefore, the combined goodwill of $5.7 million arising from these acquisitions is primarily attributed to our ability to maximize the value of the customer base through Tyler s software product suite that targets the K-12 school market and to a much lesser extent, the assembled workforces of CSA and UniFund. The operating results of CSA and UniFund are included with the operating results of the Enterprise Software Solutions segment since their date of acquisition.

In January 2012, we acquired substantially all of the assets of Akanda Innovation, Inc., a provider of web-based solutions to the public sector which are integrated with our property tax software, for a total purchase price of $2.9 million. The purchase price included certain liabilities we assumed of approximately $800,000, resulting in net cash paid to the sellers of $2.1 million, of which $900,000 was paid prior to December 31, 2011. We recorded goodwill of approximately $1.0 million, all of which is expected to be deductible for tax purposes, and acquired software of approximately $1.9 million that will be amortized over five years. The operating results of Akanda are included with the operating results of the Appraisal and Tax Software Solutions and Services segment since the date of acquisition.

Our balance sheet as of June 30, 2012 reflects the allocation of the purchase price to the assets acquired based on their estimated fair values at the date of acquisition.

(3) Financial Instruments

Assets recorded at fair value in the balance sheet as of June 30, 2012 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, 2012 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 as well as cash and cash equivalents:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	$ 312	$ 312	$	$
Investments available-for-sale	1,953	50		1,903
Total	$ 2,265	$ 362	$	$ 1,903

Cash and cash equivalents consist primarily of money market funds with original maturity dates of three months or less, for which we determine fair value through quoted market prices. 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 20 to 30 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 very small partial redemptions at par in the period from July 2009 through July 2012. As of June 30, 2012 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, 2012 are as follows:

	Par Value	Temporary Impairment	Carrying Value
Investments available-for-sale	$ 2,450	$ 547	$ 1,903

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 very small partial redemptions at par in the period July 2009 through July 2012. We did not record any unrealized gains or losses on our ARS in the six months ended June 30, 2012. Based on our cash and cash equivalents balance, expected operating cash flows and a $150.0 million credit line, we do not believe a lack of liquidity associated with our ARS will adversely affect our ability to conduct business, and believe we have the ability to hold the securities throughout the currently estimated recovery period. We will continue to evaluate any changes in the 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 six months ended June 30, 2012:

Balance as of December 31, 2011	$ 1,953
Transfers into level 3	
Transfers out of level 3	
Unrealized gains included in accumulated loss	
Balance as of March 31, 2012	1,953
Transfers into level 3	
Transfers out of level 3	(50)
Unrealized gains included in accumulated loss	
Balance as of June 30, 2012	$ 1,903

The fair value of our revolving line of credit approximates book value as of June 30, 2012 because our interest rates reset approximately every 30 days or less. See Note 5 for further discussion of our revolving line of credit.

(4) Shareholders Equity

The following table details activity in our common stock:

	Six months ended June 30,			
	2012		2011	
	Shares	Amount	Shares	Amount
Purchases of common stock		$	(913)	$ (20,884)
Stock option exercises	267	2,359	312	1,416
Employee stock plan purchases	40	1,166	49	924

As of June 30, 2012 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. Our effective average interest rate for borrowings during both the three and six months ended June 30, 2012 was 3.4%. As of June 30, 2012, our average interest rate was 3.4%. 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, 2012, we were in compliance with those covenants.

As of June 30, 2012, we had $65.7 million in outstanding borrowings and available borrowing capacity of $78.4 million under the Credit Facility. We had outstanding letters of credit totaling $5.9 million as of June 30, 2012. Some of our customers, primarily those for our property appraisal services, require that we obtain performance bonds before they will select us as a vendor. 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, 2012 was estimated to be $46.3 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-2013.

(6) Income Tax Provision

For the three and six months ended June 30, 2012, we had an effective income tax rate of 39.2% compared to 39.6% for the three and six months ended June 30, 2011. 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 $8.4 million in the six months ended June 30, 2012, compared to $5.9 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,		Six months ended June 30,	
	2012	2011	2012	2011
Numerator for basic and diluted earnings per share:				
Net income	$ 7,105	$ 5,624	$ 12,786	$ 11,352
Denominator:				
Weighted-average basic common shares outstanding	30,171	32,005	30,175	31,912
Assumed conversion of dilutive securities:				
Stock options	2,598	1,843	2,557	1,738
Denominator for diluted earnings per share - Adjusted weighted-average shares	32,769	33,848	32,732	33,650
Earnings per common share:				
Basic	$ 0.24	$ 0.18	$ 0.42	$ 0.36
Diluted	$ 0.22	$ 0.17	$ 0.39	$ 0.34

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. For the three and six months ended June 30, 2011, stock options representing the right to purchase common stock of approximately 562,000 shares and 790,000 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,		Six months ended June 30,	
	2012	2011	2012	2011
Cost of software services, maintenance and subscriptions	$ 257	$ 214	$ 505	$ 410
Selling, general and administrative expense	1,511	1,306	3,098	2,559
Total share-based compensation expense	$ 1,768	$ 1,520	$ 3,603	$ 2,969

(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, share-based compensation expense, interest expense and income taxes. Segment operating income includes intercompany transactions. The majority of intercompany transactions relate to contracts involving more than one unit and are valued based on the contractual arrangement. Segment operating income for corporate primarily consists of compensation costs for the executive management team and certain accounting and administrative staff and share-based compensation expense for the entire company.

For the three months ended June 30, 2012	Enterprise Software Solutions	Appraisal and Tax Software Solutions and Services	Corporate	Totals
Revenues				
Software licenses	$ 7,859	$ 435	$	$ 8,294
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	1,294		1,659	2,953
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	$ 14,688	$ 1,048	$	$ 15,736
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	2,545		1,659	4,204
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

For the three months ended June 30, 2011	Enterprise Software Solutions	Appraisal and Tax Software Solutions and Services	Corporate	Totals
Revenues				
Software licenses	$ 7,562	$ 746	$	$ 8,308
Subscriptions	7,089	188		7,277
Software services	15,625	2,367		17,992
Maintenance	31,315	3,741		35,056
Appraisal services		5,987		5,987
Hardware and other	1,018		1,097	2,115
Intercompany	463		(463)	
Total revenues	$ 63,072	$ 13,029	$ 634	$ 76,735
Segment operating income	$ 12,420	$ 2,407	$ (3,947)	$ 10,880

For the six months ended June 30, 2011	Enterprise Software Solutions	Appraisal and Tax Software Solutions and Services	Corporate	Totals
Revenues				
Software licenses	$ 13,849	$ 1,281	$	$ 15,130
Subscriptions	13,926	315		14,241
Software services	29,888	4,868		34,756
Maintenance	62,947	7,621		70,568
Appraisal services		12,184		12,184
Hardware and other	2,152		1,097	3,249
Intercompany	870		(870)	
Total revenues	$ 123,632	$ 26,269	$ 227	$ 150,128
Segment operating income	$ 24,768	$ 5,042	$ (7,849)	$ 21,961

Reconciliation of reportable segment operating income to the Company s consolidated totals:	For the three months ended June 30, 2012	2011	For the six months ended June 30, 2012	2011
Total segment operating income	$ 14,074	$ 10,880	$ 25,474	$ 21,961
Amortization of acquired software	(482)	(244)	(892)	(539)
Amortization of customer and trade name intangibles	(1,137)	(803)	(2,083)	(1,607)
Other expense, net	(773)	(524)	(1,476)	(1,024)
Income before income taxes	$ 11,682	$ 9,309	$ 21,023	$ 18,791

(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.

During 2011, Tyler performed certain software services for a customer under a contractual arrangement with a total value of approximately $785,000. During 2012, this customer notified us that it was rejecting acceptance of our services and further noted that it was considering a termination of the contract for cause. We have collected approximately $575,000 to date from this customer. In the event a termination for cause occurs, we could be liable for excess costs associated with the customer having to procure the services from another vendor. However, we believe the amounts collected and related services performed were valid under the terms of the arrangement.

(11) New Accounting Pronouncements

Accounting Standards Update (ASU) 2011-08 amended existing guidance by giving an entity the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. ASU 2011-08 became effective on January 1, 2012 and was applicable to us in our second quarter 2012. The adoption of ASU 2011-08 did not have a significant impact on the Company s consolidated financial position or results of operations.

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 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; (3) economic, political and market conditions, including the global economic and financial crisis, and the general tightening of access to debt or equity capital; (4) technological and market risks associated with the development of new products or services or of new versions of existing or acquired products or services; (5) 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; (6) 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; (7) 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 (8) 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 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) arrangements and other hosting services as well as property appraisal outsourcing services for taxing jurisdictions. In 2010 we began providing electronic document filing solutions (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.

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.

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

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

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

Our total employee count increased to 2,239 at June 30, 2012 from 2,010 at June 30, 2011. This increase includes 165 employees added as a result of several acquisitions.

Outlook

Consistent with 2011, we expect to continue to invest aggressively in product development in 2012. We believe that our competitive position is strong and that we are well-positioned to take advantage of an eventual return to a stronger economic environment. However, until we see signs of sustained improvement, we are expecting that the new business environment in 2012 will continue to be both challenging and unpredictable, and that the majority of our growth will again come from recurring revenues.

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, 2011. 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, 2011.

ANALYSIS OF RESULTS OF OPERATIONS

Revenues

	Percentage of Total Revenue Second Quarter		Percentage of Total Revenue Six Months	
	2012	2011	2012	2011
Revenue:				
Software licenses	9.1%	10.8%	9.0%	10.1%
Subscriptions	11.5	9.5	11.8	9.4
Software services	23.8	23.4	23.1	23.2
Maintenance	46.1	45.7	47.1	47.0
Appraisal services	6.3	7.8	6.6	8.1
Hardware and other	3.2	2.8	2.4	2.2
Total revenue	100.0	100.0	100.0	100.0
Operating Expenses:				
Cost of software licenses and acquired software	1.1	1.6	1.1	1.5
Cost of software services, maintenance and subscriptions	47.2	46.3	47.7	47.1
Cost of appraisal services	4.3	4.8	4.4	5.0
Cost of hardware and other	3.0	2.8	2.0	1.9
Selling, general and administrative expenses	23.7	24.1	24.7	23.8
Research and development expense	5.9	6.6	6.0	6.4
Amortization of customer base and trade name intangibles	1.2	1.0	1.2	1.1
Operating income	13.6	12.8	12.9	13.2
Other expense	0.8	0.7	0.8	0.7
Income before income taxes	12.8	12.1	12.1	12.5
Income tax provision	5.0	4.8	4.8	4.9
Net income	7.8%	7.3%	7.3%	7.6%

Software licenses.

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

	Second Quarter		Change		Six Months		Change	
($ in thousands)	2012	2011	$	%	2012	2011	$	%
ESS	$ 7,859	$ 7,562	$ 297	4 %	$ 14,688	$ 13,849	$ 839	6 %
ATSS	435	746	(311)	(42)	1,048	1,281	(233)	(18)
Total software license revenue	$ 8,294	$ 8,308	$ (14)	%	$ 15,736	$ 15,130	$ 606	4 %

Since October 2011, we have acquired several companies which provide a suite of financial and human capital management software solutions to the K-12 education market and are included in our ESS segment. Excluding the results of acquisitions software license revenue declined 6% and 1% for the three and six months ended June 30, 2012, respectively. Most of the decline was due to fewer add-on sales from our existing customer base. In addition, software license growth was reduced somewhat 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 24 and 35 new customers enter into subscription-based arrangements in the three and six months ending June 30, 2012, respectively compared to 13 and 26 new customers in the three and six months ended June 30, 2011, respectively. We currently expect ESS software license revenues in 2012 to be moderately higher than 2011.

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)	2012	2011	$	%	2012	2011	$	%
ESS	$ 10,297	$ 7,089	$ 3,208	45 %	$ 20,009	$ 13,926	$ 6,083	44 %
ATSS	256	188	68	36	512	315	197	63
Total subscriptions revenue	$ 10,553	$ 7,277	$ 3,276	45 %	$ 20,521	$ 14,241	$ 6,280	44 %

Excluding the impact of acquisitions, subscription-based services revenue grew approximately 41% and 40% for the three and six months ending June 30, 2012, respectively from the prior year periods. Subscription-based services revenue primarily consists of revenues derived from SaaS arrangements and other hosted service offerings, software subscriptions and disaster recovery services. We also provide electronic document filing solutions (e-filings) for courts and law offices which simplify the filing and management of court related documents. Revenues from e-filings are generally derived from transaction fees. SaaS and other software subscription agreements are typically for initial periods of three to six years and automatically renew unless either party cancels the agreement. Disaster recovery and miscellaneous other hosted service agreements are typically renewable annually. New customers for SaaS and other hosted service offerings provided the majority of the subscription revenue increase with the remaining increase due to new disaster recovery customers and slightly higher rates for disaster recovery services. In the three months ending June 30, 2012, we added 24 new customers and 17 existing customers elected to convert to our SaaS model. Since June 30, 2011, we have added 56 new customers and 63 existing customers elected to convert to our SaaS model. E-filing services also contributed approximately $600,000 and $1.1 million of the subscription revenue increase for the three and six months ended June 30, 2012, respectively as the result of new customers and one state expanding mandatory e-filings for court documents beginning in the last half of 2011.

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)	2012	2011	$	%	2012	2011	$	%
ESS	$ 19,832	$ 15,625	$ 4,207	27 %	$ 36,446	$ 29,888	$ 6,558	22 %
ATSS	1,905	2,367	(462)	(20)	3,821	4,868	(1,047)	(22)
Total software services revenue	$ 21,737	$ 17,992	$ 3,745	21 %	$ 40,267	$ 34,756	$ 5,511	16 %

Software services revenues primarily consists of professional services billed in connection with the installation of our software, conversion of customer data, training customer personnel and consulting. New customers who purchase our proprietary software licenses generally also contract with us to provide for the related software services as well. Existing customers also periodically purchase additional training, consulting and minor programming services. Excluding the impact of acquisitions, software services revenue grew 13% and 10% for the three and six months ended June 30, 2012, respectively compared to the prior year periods. The increase in software services revenues is partly due to several state-wide arrangements that include more third party vendor services to build certain software interfaces as well as contract arrangements that included more programming 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)	2012	2011	$	%	2012	2011	$	%
ESS	$ 37,985	$ 31,315	$ 6,670	21%	$ 73,730	$ 62,947	$ 10,783	17%
ATSS	4,075	3,741	334	9	8,180	7,621	559	7
Total maintenance revenue	$ 42,060	$ 35,056	$ 7,004	20%	$ 81,910	$ 70,568	$ 11,342	16%

We provide maintenance and support services for our software products and third party software. Excluding acquisitions, maintenance revenue increased 10% and 9% for the three and six months ended June 30, 2012, 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. Our maintenance growth rate has declined compared to the previous year s growth rate partly due to a number of customers converting to SaaS arrangements in the last twelve months as well as new customers choosing our subscription-based options, rather than purchasing the software under a traditional perpetual software license arrangement.

Appraisal services.

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

	Second Quarter		Change		Six Months		Change	
($ in thousands)	2012	2011	$	%	2012	2011	$	%
ESS	$	$	$	%	$	$	$	%
ATSS	5,771	5,987	(216)	(4)	11,453	12,184	(731)	(6)
Total appraisal services revenue	$ 5,771	$ 5,987	$ (216)	(4)%	$ 11,453	$ 12,184	$ (731)	(6)%

The appraisal services business is somewhat cyclical and driven in part by statutory revaluation cycles in various states. The decline for the three and six months ended June 30, 2012 compared to the prior year periods is mainly due to the completion of a large contract in Pennsylvania. This decline was offset somewhat by the start-up of smaller projects, including several in Ohio. We expect appraisal revenues for 2012 will decline slightly compared to 2011.

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)	2012	2011	$	%	2012	2011	$	%
Software licenses	$ 484	$ 989	$ (505)	(51)%	$ 1,050	$ 1,784	$ (734)	(41)%
Acquired software	482	244	238	98	892	539	353	65
Software services, maintenance and subscriptions	43,118	35,502	7,616	21	82,931	70,682	12,249	17
Appraisal services	3,876	3,702	174	5	7,672	7,526	146	2
Hardware and other	2,709	2,161	548	25	3,428	2,837	591	21
Total cost of revenues	$ 50,669	$ 42,598	$ 8,071	19 %	$ 95,973	$ 83,368	$ 12,605	15 %

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

($ in thousands)	Second Quarter 2012	2011	Change %	Six Months 2012	2011	Change %
Software license and acquired software	88.4 %	85.2 %	3.2 %	87.7 %	84.7 %	3.0 %
Software services, maintenance and subscriptions	42.0	41.2	0.8	41.9	40.9	1.0
Appraisal services	32.8	38.2	(5.4)	33.0	38.2	(5.2)
Hardware and other	8.3	(2.2)	10.5	18.5	12.7	5.8
Overall gross margin	44.5 %	44.5 %	%	44.9 %	44.5 %	0.4 %

Software licenses and acquired software. Costs of software license and acquired software is comprised of third party software costs, amortization expense for software acquired through acquisitions and amortization expense for capitalized development costs on certain software products.

For the three and six months ended June 30, 2012, cost of software license revenues relating to third party products was approximately one-half of our cost of software license revenues compared to approximately 75% of our cost of software license revenues for the three and six months ended June 30, 2011. The amortization expense of acquired software license was approximately one-half of the costs of software license for the three and six months ended June 30, 2012 compared to approximately 20% of costs of software license for the three and six months ended June 30, 2011. We completed several acquisitions in the period 2007 through the second quarter of 2012 and these costs are being amortized over a weighted average period of approximately five years.

For the three and six months ended June 30, 2012, our software license gross margin percentage increased because the product mix included less third party software. Third party software has a lower gross margin than proprietary software solutions.

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 and disaster recovery. For the three and six months ended June 30, 2012, the software services, maintenance and subscriptions gross margin increased 0.8% and 1.0%, respectively compared to the prior year period in part because maintenance and various other services such as SaaS and disaster recovery costs typically grow at a slower rate than related revenues due to leverage in the utilization of our support and maintenance staff and economies of scale, as well as slightly higher rates on certain services. We are also managing costs and staff levels to ensure they are in line with demand for professional services. Excluding 145 additional employees added with acquisitions, our implementation and support staff has increased by 72 employees since June 30, 2011. Due to the volume of recent contract signings we expect to add staff for the remainder of the year which will be slightly ahead of revenues and may negatively impact the gross margin in the short-term.

Appraisal services. Our appraisal services gross margin declined in the three and six months ended June 30, 2012 compared to the prior year period. The appraisal services gross margin in the three and six months ended June 30, 2011 was positively impacted by operational efficiencies associated with a large revaluation contract which began in mid-2010 and was substantially complete by mid-2011.

Our blended gross margin increased 0.4% in the six months ended June 30, 2012 compared to the prior year period. This increase was primarily due to 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 gross margin also benefited from lower third party software costs. The gross margin for the three months ended June 30, 2012 was flat compared to the prior year period and slightly lower than the year-to-date gross margin because we are adding staff to support our recent contract signings slightly ahead of revenues.

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)	2012	2011	$	%	2012	2011	$	%
Selling, general and administrative expenses	$ 21,699	$ 18,466	$ 3,233	18 %	$ 43,034	$ 35,754	$ 7,280	20 %

Excluding the impact of acquisitions, SG&A grew 13% and 17% for the three and six months ended June 30, 2012, respectively compared to the prior year periods. SG&A as a percentage of revenues for the three and six months ended June 30, 2012 was 23.7% and 24.7%, respectively compared to 24.1% and 23.8% for the three and six months ended June 30, 2011, respectively. SG&A expenses increased due to increased headcount in sales and related expenses to support geographic expansion; costs associated with consolidating office space in our new Yarmouth, Maine facility in August 2011 and other facilities related costs; higher stock compensation expense because our company stock price has increased substantially over the last twelve months; and payroll taxes associated with larger incentive compensation payments in the first quarter of 2012 relating to 2011 performance.

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)	2012	2011	$	%	2012	2011	$	%
Research and development expense	$ 5,408	$ 5,035	$ 373	7 %	$ 10,502	$ 9,584	$ 918	10 %

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 Microsoft Dynamics AX project, 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.

In the three and six months ended June 30, 2012 we did not have any research and development expense offsets compared to $415,000 for the six months ended June 30, 2011, which was the amount earned under the terms of our agreement with Microsoft. Under our amended agreement with Microsoft, the project includes offsets to research and development expense, varying in amount from quarter to quarter through 2012 for a total of approximately $6.2 million. As of June 30, 2012, we have recorded $5.2 million in cumulative offsets under this agreement from Microsoft and expect to record the remaining $1.0 million in the last half of 2012. The actual amount and timing of future research and development costs and related reimbursements and whether they are capitalized or expensed may vary.

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:

($ in thousands)	Second Quarter 2012	2011	Change $	%	Six Months 2012	2011	Change $	%
Amortization of customer and trade name intangibles	$ 1,137	$ 803	$ 334	42 %	$ 2,083	$ 1,607	$ 476	30 %

Since October 2011, we have completed several acquisitions that increased customer and trade name intangibles by approximately $14.0 million. This amount is being amortized over a weighted average period of 11 years.

Other Expense, Net

($ in thousands)	Second Quarter 2012	2011	Change $	%	Six Months 2012	2011	Change $	%
Other expense, net	$ 773	$ 524	$ 249	48%	$ 1,476	$ 1,024	$ 452	44%

The majority of other expense is comprised of interest expense, non-usage and other fees associated with our revolving credit agreement. Interest expense was higher than the prior year period due to higher debt levels associated primarily with several acquisitions completed since October 2011 and stock repurchases in the last half of 2011. The effective interest rate for both the three and six months ended June 30, 2012 was 3.4% compared to 3.5% and 3.2% for the three and six months ended June 30, 2011, respectively.

Income Tax Provision

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

($ in thousands)	Second Quarter 2012	2011	Change $	%	Six Months 2012	2011	Change $	%
Income tax provision	$ 4,577	$ 3,685	$ 892	24%	$ 8,237	$ 7,439	$ 798	11%
Effective income tax rate	39.2%	39.6%			39.2%	39.6%		

The effective income tax rates for the three and six months ended June 30, 2012 and 2011 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, 2012, we had cash and cash equivalents of $312,000 and investments available-for-sale of $2.0 million, compared to cash and cash equivalents of $1.3 million and investments available-for-sale of $2.0 million at December 31, 2011. As of June 30, 2012, we had $65.7 million in outstanding borrowings and outstanding letters of credit totaling $5.9 million. Some of our customers, primarily those for our property appraisal services, require that we obtain performance bonds before they will select us as a vendor. 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, 2012 was estimated to be $46.3 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-2013. 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)	2012	2011
Cash flows provided (used) by:		
Operating activities	$ 8,425	$ 19,327
Investing activities	(19,545)	(8,177)
Financing activities	10,106	(11,852)
Net decrease in cash and cash equivalents	$ (1,014)	$ (702)

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, 2012, operating activities provided net cash of $8.4 million, primarily generated from net income of $12.8 million, non-cash depreciation and amortization charges of $6.3 million and non-cash share-based compensation expense of $3.6 million. Working capital, excluding cash, increased approximately $12.7 million. Net operating assets increased 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 bonus payments and timing of payments on income tax liabilities and vendor invoices.

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 99 days at June 30, 2012, compared to 99 days at December 31, 2011 and 106 days at June 30, 2011. 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 usually increases in the second and fourth quarter. We collected several large accounts receivable in the three months ending March 31, 2012, one of which was outstanding for more than one year. 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 $19.5 million in the six months ending June 30, 2012 compared to $8.2 million for the same period in 2011. In 2012, we completed the acquisitions of Akanda, UniFund and CSA. The combined cash purchase price paid in 2012, net of cash acquired, was approximately $15.2 million. In the three months ended June 30, 2012 we 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. In March 2011 we paid $6.6 million for approximately 27 acres of land and a building in Plano, Texas. 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 20 to 30 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 very small partial redemptions at par in the period from July 2009 through July 2012. As of June 30, 2012 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.

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 very small partial redemptions at par in the period July 2009 through July 2012. We did not record any unrealized gains or losses on our ARS in the six months ended June 30, 2012. Based on our cash and cash equivalents balance, expected operating cash flows and a $150.0 million revolving credit line, we do not believe a lack of liquidity associated with our ARS will adversely affect our ability to conduct business, and believe we have the ability to hold the securities throughout the currently estimated recovery period. We will continue to evaluate any changes in the 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 provided cash of $10.1 million in the six months ended June 30, 2012 compared to $11.9 million cash used for the same period for 2011. 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. Cash used by financing activities in 2011 was primarily comprised of purchases of 913,000 shares of our common stock for $20.9 million. In the six months ended June 30, 2011, we collected $2.3 million from stock option exercises and employee stock purchase plan activity.

At June 30, 2012, 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, 2012. The repurchase program, which was approved by our board of directors, was announced in October 2002, and was amended in April and July 2003, October 2004, October 2005, May 2007, May 2008, 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. We had available borrowing capacity of $78.4 million as of June 30, 2012. 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. As of June 30, 2012, our effective average interest rate for borrowings during the three and six months ended June 30, 2012 was 3.4%. 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, 2012, we were in compliance with those covenants.

We made federal and state income tax payments, net of refunds, of $8.4 million in the six months ended June 30, 2012 compared to $5.9 million in the prior year.

Excluding acquisitions and investments in office buildings, we anticipate that 2012 capital spending will be between $7.5 million and $8.5 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 2012, but the actual amount and timing of those costs, and whether they are capitalized or expensed may result in additional capitalized software development. We also plan to spend approximately $16.8 million over the next two years in connection with the construction of an office building in Plano, Texas. We expect approximately $7.5 million of the total cost will be paid in 2012 with the remainder paid in 2013. Capital spending, including the construction of an 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 20 to 30 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, 2012 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 very small partial redemptions at par in the period July 2009 through July 2012. Based on our cash and cash equivalents balance, expected operating cash flows and a $150.0 million revolving credit line, we do not believe a lack of liquidity associated with our ARS will adversely affect our ability to conduct business, and believe we have the ability to hold the securities throughout the currently estimated recovery period. We will continue to evaluate any changes in the fair value of our ARS and in the future, depending upon existing market conditions, we may be required to record an other-than-temporary decline in market value.

As of June 30, 2012 we had $65.7 million in outstanding borrowings under the Credit Facility. These borrowings bear interest at a rate of either (1) the Bank of America s prime rate plus a margin of 1.50% to 2.75% or (2) the 30, 60, 90 or 180-day LIBOR rate plus a margin of 2.50% to 3.75%, with the margin determined by our consolidated leverage ratio. As of June 30, 2012 our average interest rate was 3.4%. Assuming borrowings of $65.7 million, a hypothetical 10% increase in our interest rate at June 30, 2012 for a one year period would result in approximately $225,000 of additional interest rate expense.

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, 2012.

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, 2012, 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 ordinary course, 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 2011 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, 2012, 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, 2011.

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	Presentation Linkbase Document
Exhibit 101	Definition 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 26, 2012