

TYLER TECHNOLOGIES INC
Form 10-K
February 20, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2018

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 (I.R.S. employer
or organization) identification no.)

5101 Tennyson Parkway 75024
Plano, Texas

(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (972) 713-3700

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
COMMON STOCK, \$0.01 PAR VALUE	NEW YORK STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES NO

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 NO

Indicate by check mark if disclosure of delinquent filer pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to the Form 10-K. YES 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 NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

(Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was \$8,417,174,000 based on the reported last sale price of common stock on June 30, 2018, which is the last business day of the registrant's most recently completed second fiscal quarter.

The number of shares of common stock of the registrant outstanding on February 19, 2019 was 38,293,000.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Part III of this annual report is incorporated by reference from the registrant's definitive proxy statement for its annual meeting of stockholders to be held on May 7, 2019.

TYLER TECHNOLOGIES, INC.
FORM 10-K
TABLE OF CONTENTS

	PAGE
<u>PART I</u>	
Item 1. <u>Business</u>	3
Item 1A. <u>Risk Factors</u>	11
Item 1B. <u>Unresolved Staff Comments</u>	17
Item 2. <u>Properties</u>	17
Item 3. <u>Legal Proceedings</u>	17
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	17
<u>PART II</u>	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	18
Item 6. <u>Selected Financial Data</u>	20
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	41
Item 8. <u>Financial Statements and Supplementary Data</u>	41
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	41
Item 9A. <u>Controls and Procedures</u>	41
Item 9B. <u>Other Information</u>	42
<u>PART III</u>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	42
Item 11. <u>Executive Compensation</u>	42
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	42
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	42
Item 14. <u>Principal Accounting Fees and Services</u>	42
<u>PART IV</u>	

Item 15. <u>Exhibits, Financial Statement Schedules</u>	<u>43</u>
---	-----------

<u>Signatures</u>	<u>45</u>
-------------------	-----------

PART I

ITEM 1. BUSINESS.

DESCRIPTION OF BUSINESS

Tyler Technologies, Inc. (“Tyler”) is a major provider of integrated information management solutions and services for the public sector, with a focus on local governments. We partner with clients to make government more accessible to the public, more responsive to the needs of citizens and more efficient in its operations. We have a broad line of software solutions and services to address the information technology (“IT”) needs of major areas of operations for cities, counties, schools and other government entities. Most of our clients have our software installed in-house. For clients who prefer not to physically acquire the software and hardware, most of our software applications can be delivered as software as a service (“SaaS”), which primarily utilize the Tyler private cloud. We provide professional IT services to our clients, including software and hardware installation, data conversion, training and, at times, product modifications. In addition, we are the nation’s largest provider of outsourced property appraisal services for taxing jurisdictions. We also provide continuing client support services to ensure product performance and reliability, which provides us with long-term client relationships and a significant base of recurring maintenance revenue. In addition, we provide electronic document filing (“e-filing”) solutions, which simplify the filing and management of court documents.

Tyler was founded in 1966. Prior to 1998, we operated as a diversified industrial conglomerate, with operations in various industrial, retail and distribution businesses, all of which have been divested. In 1997, we embarked on a multi-phase growth plan focused on serving the specialized information management needs of local governments nationwide. We entered the local government IT market through a series of strategic acquisitions in 1998 and 1999.

MARKET OVERVIEW

The state and local government market is one of the largest and most decentralized IT markets in the country, consisting of all 50 states, approximately 3,000 counties, 36,000 cities and towns and 13,900 school districts. This market is also comprised of approximately 37,000 special districts and other agencies, each with specialized delegated responsibilities and unique information management requirements.

Traditionally, local government bodies and agencies performed state-mandated duties, including property assessment, record keeping, road maintenance, law enforcement, administration of election and judicial functions, and the provision of welfare assistance. Today, a host of emerging and urgent issues are confronting local governments, each of which demands a service response. These areas include criminal justice and corrections, administration and finance, public safety, health and human services, planning, regulatory and maintenance and records and document management. Transfers of responsibility from the federal and state governments to county and municipal governments and agencies in these and other areas also place additional service and financial requirements on these local government units. In addition, constituents of local governments are increasingly demanding improved service and better access to information from public entities. As a result, local governments recognize the increasing value of information management systems and services to, among other things, improve revenue collection, provide increased access to information, and streamline delivery of services to their constituents. Local government bodies are now recognizing that “e-government” is an additional responsibility for community development. From integrated tax systems to integrated civil and criminal justice information systems, many counties and cities have benefited significantly from the implementation of jurisdiction-wide systems that allow different agencies or government offices to share data and provide a more comprehensive approach to information management. Many city and county governmental agencies also have unique individual information management requirements, which must be tailored to the specific functions of each particular office.

Many local governments also have difficulties attracting and retaining the staff necessary to support their IT functions. As a result, they seek to establish long-term relationships with reliable providers of high quality IT products and services such as Tyler.

Although local governments often face budgetary constraints in their operations, their primary revenue sources are usually property taxes, and to a lesser extent, utility billings and other fees, which historically tend to be relatively stable. In addition, the acquisition of new technology typically enables local governments to operate more efficiently, and often provides a measurable return on investment that justifies the purchase of software and related services.

Gartner, Inc., a leading information technology research and advisory company, estimates that state and local government application and vertical specific software spending will grow from \$16.1 billion in 2019 to \$19.6 billion in 2022. The professional services and support segments of the market are expected to expand from \$31.6 billion in 2019 to \$35.2 billion in 2022. Application and vertical specific software sales in the primary and secondary education segments of the market is expected to expand from \$2.8 billion in 2019 to \$3.6 billion in 2022 while professional services and support are expected to grow from \$1.9 billion in 2019 to \$2.2 billion in 2022.

3

PRODUCTS AND SERVICES

We provide a comprehensive and flexible suite of products and services that addresses the information technology needs of cities, counties, schools and other local government entities. We derive our revenues from five primary sources:

• Sales of software licenses and royalties

• Subscription-based arrangements

• Software services

• Maintenance and support

• Appraisal services

We design, develop, market and support a broad range of software solutions to serve mission-critical “back-office” functions of local governments. Many of our software applications include Internet-accessible solutions that allow for real-time public access to a variety of information or that allow the public to transact business with local governments via the Internet. Our software solutions and services are generally grouped in seven major areas:

• Financial Management and Education

• Courts and Justice

• Public Safety

- Property Appraisal and Tax

• Planning, Regulatory and Maintenance

• Land and Vital Records Management

• Data and Insights

Each of our core software systems consists of several fully integrated applications. For clients who acquire software for use on premises, we generally license our systems under standard perpetual license agreements that provide the client with a fully paid, nonexclusive, nontransferable right to use the software. In some of the product areas, such as financial management and education and property appraisal and tax, we offer multiple solutions designed to meet the needs of different sized governments.

We also offer SaaS arrangements, which generally utilize the Tyler private cloud, for clients who do not wish to maintain, update and operate these systems or to make up-front capital expenditures to implement these advanced technologies. For these clients, the software and client data are hosted at our data centers or at third-party locations, and clients typically sign multi-year contracts for these subscription-based services.

Historically, we have had a greater proportion of our annual revenues in the second half of our fiscal year due to governmental budget and spending cycles and the timing of system implementations for clients desiring to “go live” at the beginning of the calendar year.

A description of our suites of products and services follows:

Software Licenses

Financial Management and Education

Our financial management and education solutions are enterprise resource planning systems for local governments, which integrate information across all facets of a client organization. Our financial management solutions include modular fund accounting systems that can be tailored to meet the needs of virtually any government agency or not-for-profit entity. Our financial management systems include modules for general ledger, budget preparation, fixed assets, requisitions, purchase orders, bid management, accounts payable, contract management, accounts receivable, investment management, inventory control, project and grant accounting, work orders, job costing, GASB reporting, payroll and human resources. All of our financial management systems are intended to conform to government auditing and financial reporting requirements and generally accepted accounting principles.

We sell utility billing systems that support the billing and collection of metered and non-metered services, along with multiple billing cycles. Our Web-enabled utility billing solutions allow clients to access information online such as average consumption and transaction history. In addition, our systems can accept secured Internet payments via credit cards and checks.

We also offer specialized products that automate numerous city and county functions, including municipal courts, parking tickets, equipment and project costing, animal licenses, business licenses, permits and inspections, code enforcement, citizen complaint tracking, ambulance billing, fleet maintenance, and cemetery records management. In addition to providing financial management systems to K-12 schools, we sell student information systems for K-12 schools, which manage such activities as scheduling, grades and attendance. We also offer student transportation solutions to manage school bus routing optimization, fleet management, field trips and other related functions. Tyler's financial management and education solutions include Web components that enhance local governments' service capabilities by facilitating online access to information for both employees and citizens and enabling online transactions.

Courts and Justice

We offer a complete, fully integrated suite of judicial solutions designed to handle complex, multi-jurisdictional county or statewide implementations as well as single county systems. Our solutions help eliminate duplicate data entry, promote more effective business procedures and improve efficiency across the entire justice process.

Our unified court case management system is designed to automate the tracking and management of information involved in all case types, including criminal, traffic, civil, family, probate and juvenile courts. It also tracks the status of cases, processes fines and fees and generates the specialized judgment and sentencing documents, notices and forms required in the court process. Documents received by the court can be scanned into the electronic case file and easily retrieved for viewing. Documents generated by the court can be electronically signed and automatically attached to the electronic case file. Additional modules automate the management of court calendars, coordinate judges' schedules and generate court dockets. Our targeted courtroom technologies allow courts to rapidly review calendars, cases and view documents in the courtroom. Courts may also take advantage of our related jury management system.

Our court and law enforcement systems allow the public to access, via the Internet, a variety of information, including non-confidential criminal and civil court records, jail booking and release information, bond and bondsmen information, and court calendars and dockets. In addition, our systems allow cities and counties to accept payments for traffic and parking tickets over the Internet, with a seamless and automatic interface to back-office justice and financial systems.

Our prosecutor system enables state attorney offices to track and manage criminal cases, including detailed victim information and private case notes. Investigative reports and charging instrument documents can be generated and stored for later viewing. Prosecutors can schedule and record the outcome of grand jury hearings. When integrated with the court system, prosecutors can view the electronic case file and related documents, as well as manage witness lists and subpoenas needed for court hearings.

Our supervision system allows pre-trial and probation offices to manage offender caseloads. Supervision officers can track contact schedules, risk/needs assessments and reassessments, detailed drug test results, employment histories, compliance with conditions and payments of fees and restitution. Documents and forms, like pre-sentence investigations or revocation orders, can be generated and stored for easy viewing. When integrated with the jail and court systems, supervision officers obtain easy access and quick notification of offenders that have court hearings scheduled, are arrested locally, and have new warrants issued.

We also offer a court case management solution that automates and tracks all aspects of municipal courts and offices. It is a fully integrated, graphical application that provides effective case management, document processing and cash/bond management. This system complies with all state reporting and conviction reports and includes electronic reporting and also integrates with certain of our financial management solutions and public safety solutions.

Public Safety

Our public safety software is a fully unified and comprehensive solution for law enforcement, fire and EMS, including 911 / computer aided dispatch (“CAD”), records management, mobile computing, corrections management, Web-based information sharing and decision support. The modules are fully integrated, utilizing a common database and providing full functionality between modules, reducing data entry. The software provides fast, efficient dispatching, and quick access to records, reports and actionable information from an agency’s database.

Our 911 / CAD solutions provide real-time, critical response dispatch functions in either single- or multi-jurisdictional environments. When integrated with our records management software, a vital link exists between dispatch and the most comprehensive records database available. Within seconds, the dispatch operator and the officer in the field can access critical information, such as prior incidents and outstanding warrants, increasing officer knowledge and safety. The solutions offer strong geographic information systems integration to help dispatchers quickly locate and send the best response during an emergency. Tyler’s 911 / CAD solutions dramatically improve performance, response time and unit safety.

Our records management solutions for law enforcement and fire track statistical, operational, investigative and management data for inquiry and reporting. The systems create an efficient case processing workflow and help solve crimes with an accessible database that maintains central files on people, places, property, vehicles and criminal activity. Tyler’s public safety records management solutions enable easy access to information and simplify reporting. Our mobile computing solutions for law enforcement and fire provide instant access to local, state, regional and federal databases via mobile devices. Officers and firefighters can experience the benefits of obtaining critical, real-time information in the field, while saving time by preparing reports directly in their vehicles.

Our jail management systems document and manage information that meets the requirements of a modern jail facility. This includes the booking and housing of persons in custody, supervising defendants on a pre-trial release, maintaining offenders sentenced to local incarceration and billing other agencies for housing inmates. Searching, reporting and tracking features are integrated, allowing reliable, up-to-date access to current arrest and incarceration data, including digital mug shots. Our systems also provide warrant checks for visitors or book-ins, inmate classification and risk assessment, commissary, property and medical processing, automation of statistics, and state and federal reporting.

Our civil processing solutions manage civil process needs from document receipt through service, payment process and final closeout. We also have a mobile electronic citation solution through which law enforcement officers can easily enter citation information in a mobile device, which is automatically uploaded into the court or public safety records management systems, rather than hand-writing citations that must be re-entered into the systems.

Property Appraisal and Tax

We provide systems and software that automate the appraisal and assessment of real and personal property, including record keeping, mass appraisal, inquiry and protest tracking, appraisal and tax roll generation, tax statement processing, and electronic state-level reporting. These systems are image and video-enabled to facilitate the storage of and access to the many property-related documents and for the online storage of digital photographs of properties for use in defending values in protest situations. Other related tax applications are available for agencies that bill and collect taxes, including cities, counties, school tax offices, and special taxing and collection agencies. These systems support billing, collections, lock box operations, mortgage company electronic payments, and various reporting requirements.

Planning, Regulatory and Maintenance

Our planning, regulatory and maintenance software solutions are designed for public sector agencies such as community development, planning, building, code enforcement, tax and revenues, public works, transportation, land control, environmental, fire safety, storm water management, regulatory controls and engineering. These solutions help public sector agencies better manage their day-to-day business functions while streamlining and automating the many aspects of their land management, permitting and planning systems. Our mobile solutions extend automation to the field and Web access brings online services to citizens 24 hours a day, 365 days a year.

Land and Vital Records Management

We also offer a number of specialized software applications designed to help local governments enhance and automate operations involving records and document management. These systems record, scan and index information for the many documents maintained by local governments, such as deeds, mortgages, liens, UCC financing statements and vital records (birth, death and marriage certificates). These applications include fully integrated imaging systems with batch and scan processing capabilities and fully integrated receipting and cashiering systems, as well as Web-enabled public access.

Our content management solutions allow state and local governments and school districts to capture, deliver, manage and archive electronic information. These solutions streamline the flow of digital information throughout the organization to increase efficiency by transforming paper forms and documents into electronic images that drive key business processes.

Data and Insights

Our data and insights solutions make existing government data discoverable, usable, and actionable for government workers and the people they serve. The data and insights solution includes a data-as-a-service platform and cloud applications for open data and citizen engagement, exclusively for city, county, state, and federal government organizations. Our data and insights solutions allow government to analyze, visualize, and securely share data across multiple departments and programs. These solutions deliver data-driven innovation and cost-savings by bringing together disparate systems and leveraging the cloud to dramatically enhance the effectiveness of government programs, to improve quality of life for residents, to positively impact local economies, and to achieve excellence in government operations.

Subscription-Based Services

Subscription-based revenue is primarily derived from our SaaS arrangements, which generally utilize the Tyler private cloud, as well as our transaction-based offerings such as e-filing solutions.

We are able to provide the majority of our software products through our SaaS model. The clients who choose this model typically do not wish to maintain, update and operate these systems or make up-front capital expenditures to implement these advanced technologies. The contract terms for these arrangements range from one to 10 years but are typically contracted for initial periods of three to five years. The majority of our SaaS or hosting arrangements include additional professional services as well as maintenance and support services. In certain arrangements, the client may also acquire a license to the software.

As part of our subscription-based services, we provide e-filing solutions that simplify the filing and management of court related documents for courts and law offices. Revenues for e-filing are included in subscription-based revenues and are derived from transaction fees and in some cases, fixed fee arrangements.

Software Services

We provide a variety of professional IT services to clients who utilize our software products. Virtually all of our clients contract with us for installation, training, and data conversion services in connection with their implementation of Tyler's software solutions. The complete implementation process for a typical system includes planning, design, data conversion, set-up and testing. At the culmination of the implementation process, a data implementation team is generally onsite at the client's facility to ensure the smooth go-live with the new system. Implementation fees are charged separately to clients on either a fixed-fee or hourly charge basis, depending on the contract.

Both in connection with the installation of new systems and on an ongoing basis, we provide extensive training services and programs related to our products and services. Training can be provided in our training centers, onsite at clients' locations, or at meetings and conferences and can be customized to meet clients' requirements. The vast majority of our clients contract with us for training services, both to improve their employees' proficiency and productivity and to fully utilize the functionality of our systems. Training services are generally billed on an hourly or daily basis, along with travel and other expenses.

Maintenance and Support

Following the implementation of our software systems, we provide ongoing software support services to assist our clients in operating the systems and to periodically update the software. Support is provided to clients over the phone or via the Web through help desks staffed by our client support representatives. For more complicated issues, our

staff, with the clients' permission, can log on to clients' systems remotely. We maintain our clients' software largely through releases that contain improvements and incremental additions of features and functionality, along with updates necessary because of legislative or regulatory changes.

7

Virtually all of our software clients contract with us for maintenance and support; which provides us with a significant source of recurring revenue. We generally provide maintenance and support for our on-premises clients under annual, or in some cases, multi-year contracts, with a typical fee based on a percentage of the software product's license fee. These fees can generally be increased on renewal and may also increase as new license fees increase. Maintenance and support fees are generally paid annually in advance. Most maintenance contracts automatically renew unless the client or Tyler gives notice of termination prior to expiration. Similar support is provided to our SaaS clients and is included in their subscription fees, which are classified as subscription-based revenues.

Appraisal Services

We are the nation's largest provider of property appraisal outsourcing services for local government taxing authorities. These services include

- The physical inspection of commercial and residential properties
- Data collection and processing
- Sophisticated computer analyses for property valuation
- Preparation of tax rolls
- Community education regarding the assessment process
- Arbitration between taxpayers and the assessing jurisdiction

Local government taxing authorities normally reappraise properties from time to time to update values for tax assessment purposes and to maintain equity in the taxing process. In some jurisdictions, law mandates reassessment cycles; in others, they are discretionary. While some taxing jurisdictions perform reappraisals in-house, many local governments outsource this function because of its cyclical nature and because of the specialized knowledge and expertise requirements associated with it. Our appraisal services business unit has been in this business since 1938. In some instances, we also sell property tax and/or appraisal software products in connection with appraisal outsourcing projects, while other clients may only engage us to provide appraisal services. Appraisal outsourcing services are somewhat seasonal in nature to the extent that winter weather conditions reduce the productivity of data collection activities in connection with those projects.

STRATEGY

Our objective is to grow our revenue and earnings organically, supplemented by focused strategic acquisitions. The key components of our business strategy are to:

- Provide high quality, value-added products and services to our clients. We compete on the basis of, among other things, delivering to clients our deep domain expertise in local government operations through the highest value products and services in the market. We believe we have achieved a reputation as a premium product and service provider to the local government market.
- Continue to expand our product and service offerings. While we already have what we believe to be the broadest line of software products for local governments, we continually upgrade our core software applications and expand our complementary product and service offerings to respond to technological advancements and the changing needs of our clients. In 2010, we began providing e-filing for courts and law offices, which simplifies the filing and management of court related documents. We believe revenue from e-filing solutions will continue to grow over time as more local and state governments mandate electronic document filings. We also offer solutions that allow the public to access data and conduct transactions with local governments, such as paying traffic tickets, property taxes and utility bills online. We believe that the addition of such features enhances the market appeal of our core products. We have also broadened our offerings of consulting and business process reengineering services. In November 2015, we significantly expanded our presence in the public safety software market through the acquisition of New World Systems Corporation.

- Expand our client base. We seek to establish long-term relationships with new clients primarily through our sales and marketing efforts. While we currently have clients in all 50 states, Canada, the Caribbean, the United Kingdom, Australia, and other international locations, not all of our solutions have achieved nationwide geographic penetration. We intend to continue to expand into new geographic markets by adding sales staff and targeting marketing efforts by solutions in those areas. We also intend to continue to expand our customer base to include more large governments. While our traditional market focus has primarily been on small and mid-sized governments, our increased size and market presence, together with the technological advances and improved scalability of certain of our solutions, are allowing us to achieve increasing success in selling to larger clients. We also expect to expand our presence in international markets by leveraging our leadership position in the United States through the disciplined pursuit of selected opportunities in other countries.
- Expand our existing client relationships. Our existing customer base offers significant opportunities for additional sales of solutions and services that we currently offer, but that existing clients do not fully utilize. Add-on sales to existing clients typically involve lower sales and marketing expenses than sales to new clients.
- Grow recurring revenues. We have a large recurring revenue base from maintenance and support and subscription-based services, which generated revenues of \$605.1 million, or 65% of total revenues, in 2018. We have historically experienced very low customer turnover (approximately 2% annually) and recurring revenues continue to grow as the installed customer base increases. Subscription-based revenues have been our fastest growing revenue category over the past five years, increasing from \$87.8 million in 2014 to \$220.5 million in 2018.
- Maximize economies of scale and take advantage of financial leverage in our business. We seek to build and maintain a larger client base to create economies of scale, enabling us to provide value-added products and services to our clients while expanding our operating margins. Because we sell primarily “off-the-shelf” software, increased sales of the same solutions result in incrementally higher gross margins. In addition, we believe that we have a marketing and administrative infrastructure in place that can be leveraged to accommodate significant long-term growth without proportionately increasing selling, general and administrative expenses.
- Attract and retain highly qualified employees. We believe that the depth and quality of our management and staff is one of our significant strengths, and that the ability to retain such employees is crucial to our continued growth and success. We believe that our stable management team, financial strength and growth opportunities, as well as our leadership position in the local government market, enhance our attractiveness as an employer for highly skilled employees.
- Pursue selected strategic acquisitions. While we expect to primarily grow internally, from time to time we selectively pursue strategic acquisitions that provide us with one or more of the following:

- New products and services to complement our existing offerings

- Entry into new markets related to the public sector

- New clients and/or geographic expansion

SALES, MARKETING, AND CLIENTS

We market our products and services through direct sales and marketing personnel located throughout the United States. Other in-house sales staff focus on add-on sales, professional services and support.

Sales of new systems are typically generated from referrals from other government offices or departments within a county or municipality, referrals from other local governments, relationships established between sales representatives and county or local officials, contacts at trade shows, direct mailings, and direct contact from prospects already familiar with us. We are active in numerous national, state, county, and local government associations, and participate in annual meetings, trade shows, and educational events.

Clients consist primarily of federal, county and municipal agencies, school districts and other government offices. In counties, clients include the auditor, treasurer, tax assessor/collector, county clerk, district clerk, county and district court judges, probation officers, sheriff, and county appraiser. At municipal government sites, clients include directors from various departments, including administration, finance, utilities, public works, code enforcement, personnel, purchasing, taxation, municipal court, and police. Contracts for software products and services are generally implemented over periods of three months to one year, although some complex implementations may span multiple years, with annually renewing maintenance and support update agreements thereafter. Although either the client or we

can terminate these agreements, historically almost all support and maintenance agreements are automatically renewed annually. During 2018, approximately 41% of our revenue was attributable to ongoing support and maintenance agreements.

9

COMPETITION

We compete with numerous local, regional, and national firms that provide or offer some or many of the same solutions and services that we provide. Many of these competitors are smaller companies that may be able to offer less expensive solutions than ours. Many of these firms operate within a specific geographic area and/or in a narrow product or service niche. We also compete with national firms, some of which have greater financial and technical resources than we do, including Oracle Corporation, Infor, SAP AG, Workday, Inc., CentralSquare Technologies, Thomson Reuters Corporation, and Constellation Software, Inc. In addition, we sometimes compete with consulting and systems integration firms, which develop custom systems, primarily for larger governments. We also occasionally compete with central internal information service departments of local governments, which requires us to persuade the end-user department to discontinue service by its own personnel and outsource the service to us.

We compete on a variety of factors, including price, service, name recognition, reputation, technological capabilities, and the ability to modify existing products and services to accommodate the individual requirements of the client. Our ability to offer an integrated system of applications for several offices or departments is often a competitive advantage. Local governmental units often are required to seek competitive proposals through a request for proposal process and some prospective clients use consultants to assist them with the proposal and vendor selection process.

SUPPLIERS

Substantially all of the computers, peripherals, printers, scanners, operating system software, office automation software, and other equipment necessary for the implementation and provision of our software systems and services are presently available from several third-party sources. Hardware is purchased on original equipment manufacturer or distributor terms at discounts from retail. We have not experienced any significant supply problems.

BACKLOG

At December 31, 2018, our revenue backlog was approximately \$1.25 billion, compared to \$1.23 billion (as adjusted) at December 31, 2017. The backlog represents signed contracts under which the revenue has not been recognized as of year-end. Approximately \$625.6 million, or 50%, of the backlog is expected to be recognized during 2019.

INTELLECTUAL PROPERTY, PROPRIETARY RIGHTS, AND LICENSES

We regard certain features of our internal operations, software, and documentation as confidential and proprietary and rely on a combination of contractual restrictions, trade secret laws and other measures to protect our proprietary intellectual property. We generally do not rely on patents. We believe that, due to the rapid rate of technological change in the computer software industry, trade secrets and copyright protection are less significant than factors such as knowledge, ability and experience of our employees, frequent product enhancements, and timeliness and quality of support services. We typically license our software products under non-exclusive license agreements, which are generally non-transferable and have a perpetual term.

EMPLOYEES

At December 31, 2018, we had 4,525 employees. None of our employees are represented by a labor union or are subject to collective bargaining agreements. We consider our relations with our employees to be positive.

INTERNET WEBSITE AND AVAILABILITY OF PUBLIC FILINGS

We file annual, quarterly, current and other reports, proxy statements and other information with the Securities and Exchange Commission, or SEC, pursuant to the Securities Exchange Act. You may read and copy any materials we file with the SEC at the SEC's Public Reference Room by calling the SEC at 1-800-732-0330. The SEC maintains an Internet site that contains reports, proxy and other information statements, and other information regarding issuers, including us, that file electronically with the SEC. The address of this site is <http://www.sec.gov>.

We also maintain a website at www.tylertech.com. We make available free of charge through this site our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Forms 4 and 5, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. In addition, copies of our annual report will be made available, free of charge, upon written request.

Our "Code of Business Conduct and Ethics" is also available on our website. We intend to satisfy the disclosure requirements regarding amendments to, or waivers from, a provision of our Code of Business Conduct and Ethics by posting such information on our website.

ITEM 1A. RISK FACTORS.

An investment in our common stock involves a high degree of risk. Investors evaluating our company should carefully consider the factors described below and all other information contained in this Annual Report. Any of the following factors could materially harm our business, operating results, and financial condition. Additional factors and uncertainties not currently known to us or that we currently consider immaterial could also harm our business, operating results, and financial condition. This section should be read in conjunction with the Financial Statements and related Notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Annual Report. We may make forward-looking statements from time to time, both written and oral. We undertake no obligation to revise or publicly release the results of any revisions to these forward-looking statements. Our actual results may differ materially from those projected in any such forward-looking statements due to a number of factors, including those set forth below and elsewhere in this Annual Report.

Risks Associated with Our Software Products

Cyber-attacks and security vulnerabilities can disrupt our business and harm our competitive position.

Threats to IT security can take a variety of forms. Individuals and groups of hackers, and sophisticated organizations including state-sponsored organizations, may take steps that pose threats to our clients and our IT. They may develop and deploy malicious software to attack our products and services and gain access to our networks and data centers, or act in a coordinated manner to launch distributed denial of service or other coordinated attacks. Cyber threats are constantly evolving, thereby increasing the difficulty of detecting and successfully defending against them. Cyber threats can have cascading impacts that unfold with increasing speed across our internal networks and systems and those of our partners and clients. Breaches of our network or data security could disrupt the security of our internal systems and business applications, impair our ability to provide services to our clients and protect the privacy of their data, result in product development delays, compromise confidential or technical business information harming our competitive position, result in theft or misuse of our intellectual property or other assets, require us to allocate more resources to improve technologies, or otherwise adversely affect our business. Our business policies and internal security controls may not keep pace with these evolving threats.

Disclosure of personally identifiable information and/or other sensitive client data could result in liability and harm our reputation.

We store and process increasingly large amounts of personally identifiable and other confidential information of our clients. The continued occurrence of high-profile data breaches provides evidence of an external environment increasingly hostile to information security. Despite our efforts to improve security controls, it is possible our security controls over personal data, our training of employees on data security, and other practices we follow may not prevent the improper disclosure of client data that we store and manage. Disclosure of personally identifiable information and/or other sensitive client data could result in liability and harm our reputation.

Hosting services for some of our products are dependent upon the uninterrupted operation of data centers.

A material portion of our business is provided through software hosting services. These hosting services depend on the uninterrupted operation of data centers and the ability to protect computer equipment and information stored in these data centers against damage that may be caused by natural disaster, fire, power loss, telecommunications or Internet failure, acts of terrorism, unauthorized intrusion, computer viruses, and other similar damaging events. If any of our data centers were to become inoperable for an extended period, we might be unable to fulfill our contractual commitments. Although we take what we believe to be reasonable precautions against such occurrences, we can give no assurance that damaging events such as these will not result in a prolonged interruption of our services, which could result in client dissatisfaction, loss of revenue, and damage to our business.

We run the risk of errors or defects with new products or enhancements to existing products.

Our software products are complex and may contain errors or defects, especially when first introduced or when new versions or enhancements are released. Although we have not experienced material adverse effects from any such defects or errors to date, we cannot assure you that material defects and errors will not be found in the future. Any such defects could result in a loss of revenues or delay market acceptance. Our license agreements typically contain provisions designed to limit our exposure to potential liability. However, it is possible we may not always successfully negotiate such provisions in our client contracts or the limitation of liability provisions may not be effective due to

existing or future federal, state, or local laws, ordinances, or judicial decisions. Although we maintain errors and omissions and general liability insurance, and we try to structure contracts to limit liability, we cannot assure you that a successful claim could not be made or would not have a material adverse effect on our future operating results.

We must timely respond to technological changes to be competitive.

The market for our products is characterized by technological change, evolving industry standards in software technology, changes in client requirements, and frequent new product introductions and enhancements. The introduction of products embodying new technologies and the emergence of new industry standards can render existing products obsolete and unmarketable. As a result, our future success will depend, in part, upon our ability to enhance existing products and develop and introduce new products that keep pace with technological developments, satisfy increasingly sophisticated client requirements, and achieve market acceptance. We cannot assure you that we will successfully identify new product opportunities and develop and bring new products to market in a timely and cost-effective manner. The products, capabilities, or technologies developed by others could also render our products or technologies obsolete or noncompetitive. Our business may be adversely affected if we are unable to develop or acquire new software products or develop enhancements to existing products on a timely and cost-effective basis, or if such new products or enhancements do not achieve market acceptance.

We may be unable to protect our proprietary rights.

Many of our product and service offerings incorporate proprietary information, trade secrets, know-how, and other intellectual property rights. We rely on a combination of contracts, copyrights, and trade secret laws to establish and protect our proprietary rights in our technology. We cannot be certain that we have taken all appropriate steps to deter misappropriation of our intellectual property. There has also recently been an apparent evolution in the legal standards and regulations courts and the U.S. patent office may apply in favorably evaluating software patent rights. We are not currently involved in any material intellectual property litigation; however, we may be a party to such litigation in the future to protect our proprietary information, trade secrets, know-how, and other intellectual property rights. We cannot assure you that third-parties will not assert infringement or misappropriation claims against us with respect to current or future products. Any claims or litigation, with or without merit, could be time-consuming, costly, and a diversion to management. Any such claims and litigation could also cause product shipment delays or require us to enter into royalty or licensing arrangements. Such royalty or licensing arrangements, if required, may not be available on terms acceptable to us, if at all. Therefore, litigation to defend and enforce our intellectual property rights could have a material adverse effect on our business, regardless of the final outcome of such litigation.

Clients may elect to terminate our maintenance contracts and manage operations internally.

It is possible that our clients may elect to not renew maintenance contracts for our software, trying instead to maintain and operate the software themselves using their perpetual license rights (excluding software applications that we provide on a hosted or cloud basis). This could adversely affect our revenues and profits. Additionally, they may inadvertently allow our intellectual property or other information to fall into the hands of third-parties, including our competitors, which could adversely affect our business.

Material portions of our business require the Internet infrastructure to be further developed or adequately maintained. Part of our future success depends on the use of the Internet as a means to access public information and perform transactions electronically, including, for example, electronic filing of court documents. This in part requires the further development and maintenance of the Internet infrastructure. Among other things, this further development and maintenance will require a reliable network backbone with the necessary speed, data capacity, security, and timely development of complementary products for providing reliable Internet access and services. If this infrastructure fails to be further developed or be adequately maintained, our business would be harmed because users may not be able to access our government portals.

Risks Associated with Selling Products and Services into the Public Sector Marketplace

Selling products and services into the public sector poses unique challenges.

We derive substantially all of our revenues from sales of software and services to state, county, and city governments, other municipal agencies, and other public entities. We expect that sales to public sector clients will continue to account for substantially all of our revenues in the future. We face many risks and challenges associated with contracting with governmental entities, including

- Resource limitations caused by budgetary constraints, which may provide for a termination of executed contracts due to a lack of future funding

- Long and complex sales cycles

- Contract payments at times being subject to achieving implementation milestones, and we may have differences with clients as to whether milestones have been achieved

- Political resistance to the concept of contracting with third-parties to provide IT solutions

- Legislative changes affecting a local government's authority to contract with third-parties

- Varying bid procedures and internal processes for bid acceptance

- Various other political factors, including changes in governmental administrations and personnel

Each of these risks is outside our control. If we fail to adequately adapt to these risks and uncertainties, our financial performance could be adversely affected.

A prolonged economic slowdown could harm our operations.

A prolonged economic slowdown or recession could reduce demand for our software products and services.

Governments may face financial pressures that could in turn affect our growth rate and profitability in the future.

There is no assurance that government spending levels will be unaffected by declining or stagnant general economic conditions, and if budget shortfalls occur, they may negatively impact government IT spending and could adversely affect our business.

The open bidding process creates uncertainty in predicting future contract awards.

Many governmental agencies purchase products and services through an open bidding process. Generally, a governmental entity will publish an established list of requirements requesting potential vendors to propose solutions for the established requirements. To respond successfully to these requests for proposals, we must accurately estimate our cost structure for servicing a proposed contract, the time required to establish operations for the proposed client, and the likely terms of any other third-party proposals submitted. We cannot guarantee that we will win any bids in the future through the request for proposal process, or that any winning bids will ultimately result in contracts on favorable terms. Our failure to secure contracts through the open bidding process, or to secure such contracts on favorable terms, may adversely affect our revenue and gross margins.

We face significant competition from other vendors and potential new entrants into our markets.

We believe we are a leading provider of integrated solutions for the public sector. However, we face competition from a variety of software vendors that offer products and services similar to those offered by us, as well as from companies offering to develop custom software. We compete based on a number of factors, including

- The attractiveness of our "evergreen" business strategy

- The breadth, depth, and quality of our product and service offerings

- The ability to modify our offerings to accommodate particular clients' needs

- Technological innovation

- Name recognition, reputation and references

Price

Our financial strength and stability

We believe our market is highly fragmented with a large number of competitors that vary in size, product platform, and product scope. Our competitors include consulting firms, publicly held companies that focus on selected segments of the public sector market, and a significant number of smaller, privately held companies. Certain competitors have greater technical, marketing, and financial resources than we do. We cannot assure you that such competitors will not develop products or offer services that are superior to our products or services or that achieve greater market acceptance.

We also compete with internal, centralized IT departments of governmental entities, which requires us to persuade the end-user to stop the internal service and outsource to us. In addition, our clients and prospective clients could elect to provide information management services internally through new or existing departments, which could reduce the market for our services.

We could face additional competition as other established and emerging companies enter the public sector software application market and new products and technologies are introduced. Increased competition could result in pricing pressure, fewer client orders, reduced gross margins, and loss of market share. Current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third-parties, thereby increasing the ability of their products to address the needs of our prospective clients. It is possible that new competitors or alliances may emerge and rapidly gain significant market share. We cannot assure you that we will be able to compete successfully against current and future competitors, and the failure to do so would have a material adverse effect upon our business.

Fixed-price contracts may affect our profits.

Some of our contracts are structured on a fixed-price basis, which can lead to various risks, including

- The failure to accurately estimate the resources and time required for an engagement
- The failure to effectively manage our clients' expectations regarding the scope of services delivered for a fixed fee
- The failure to timely and satisfactorily complete fixed-price engagements within budget

If we do not adequately assess and manage these and other risks, we may be subject to cost overruns and penalties, which may harm our financial performance.

Changes in the insurance markets may affect our business.

Some of our clients, primarily those for our property appraisal services, require that we secure performance bonds before they will select us as their vendor. In addition, we have in the past been required to provide letters of credit as security for the issuance of a performance bond. We cannot guarantee that we will be able to secure such performance bonds in the future on terms that are favorable to us, if at all. Our inability to obtain performance bonds on favorable terms or at all could impact our future ability to win some contract awards, particularly large property appraisal services contracts, which could negatively impact revenues. In addition, the general insurance markets may experience volatility, which may lead to future increases in our general and administrative expenses and negatively impact our operating results.

Risks Associated with Our Periodic Results and Stock Price

Fluctuations in quarterly revenue could adversely impact our operating results and stock price.

Our revenues and operating results are difficult to predict and may fluctuate substantially from quarter to quarter for a variety of reasons, including

• Prospective clients' contracting decisions are often made in the last few weeks of a quarter

• The size of license transactions can vary significantly

• Clients may unexpectedly postpone or cancel procurement processes due to changes in strategic priorities, project objectives, budget, or personnel

• Client purchasing processes vary significantly and a client's internal approval, expenditure authorization, and contract negotiation processes can be difficult and time consuming to complete, even after selection of a vendor

• The number, timing, and significance of software product enhancements and new software product announcements by us and our competitors may affect purchase decisions

• We may have to defer revenues under our revenue recognition policies and GAAP

• Clients may elect subscription-based arrangements, which result in lower software license revenues in the initial year as compared to traditional, on-premise software license arrangements, but generate higher overall subscription-based revenues over the term of the contract

In each fiscal quarter, our expense levels, operating costs, and hiring plans are based to some extent on projections of future revenues and are relatively fixed. If our actual revenues fall below expectations, we could experience a reduction in operating results. Also, if actual revenues or earnings for any given quarter fall below expectations, it may lead to a decline in our stock price.

Increases in service revenue as a percentage of total revenues could decrease overall margins.

We realize lower margins on software and appraisal service revenues than on license revenue. The majority of our contracts include both software licenses and software services. Therefore, an increase in the percentage of software service and appraisal service revenue compared to license revenue could have a detrimental impact on our overall gross margins and could adversely affect operating results.

Our stock price may be volatile.

The market price of our common stock may be volatile. Examples of factors that may significantly impact our stock price include:

• Actual or anticipated fluctuations in our operating results

• Announcements of technological innovations, new products, or new contracts by us or our competitors

• Developments with respect to patents, copyrights, or other proprietary rights

• Conditions and trends in the software and other technology industries

• Adoption of new accounting standards affecting the software industry

• Changes in financial estimates by securities analysts

• General market conditions and other factors

In addition, the stock market has from time to time experienced significant price and volume fluctuations that have particularly affected the market prices of technology company stocks and may in the future adversely affect the market price of our stock. Sometimes, securities class action litigation is filed following periods of volatility in the market price of a particular company's securities. We cannot assure you that similar litigation will not occur in the future with respect to us. Such litigation could result in substantial costs and a diversion of management's attention and resources, which could have a material adverse effect upon our financial performance.

Our financial outlook may not be realized.

From time to time, in press releases and otherwise, we may publish forecasts or other forward-looking statements regarding our results, including estimated revenues or earnings. Any forecast of our future performance reflects various assumptions. These assumptions are subject to significant uncertainties, and as a matter of course, any number of them may prove to be incorrect. Further, the achievement of any forecast depends on numerous risks and other factors (including those described in this discussion), many of which are beyond our control. As a result, we cannot be certain that our performance will be consistent with any management forecasts or that the variation from such forecasts will not be material and adverse. Current and potential stockholders are cautioned not to base their entire analysis of our business and prospects upon isolated predictions, but instead are encouraged to utilize our entire publicly available mix of historical and forward-looking information, as well as other available information regarding us, our products and services, and the software industry when evaluating our prospective results of operations.

Risks Associated with Our Growth Strategy and Other General Corporate Risks

We may experience difficulties in executing our acquisition strategy.

A material portion of our historical growth has resulted from strategic acquisitions. Although our focus is on internal growth, we will continue to identify and pursue strategic acquisitions with suitable candidates. These transactions involve significant challenges and risks, including risks that a transaction does not advance our business strategy; that we do not achieve the expected return on our investment; that we have difficulty integrating business systems and technology; that we have difficulty retaining or integrating new employees; that the transactions distract management from our other businesses; that we acquire unforeseen liabilities; and other unanticipated events. Our future success will depend, in part, on our ability to successfully integrate future acquisitions into our operations. It may take longer than expected to realize the full benefits of these transactions, such as increased revenue, enhanced efficiencies, or increased market share, or the benefits may be ultimately less than we expected. Although we conduct due diligence reviews of potential acquisition candidates, we may not identify all material liabilities or risks related to acquisition candidates. There can be no assurance that any such strategic acquisitions will be accomplished on favorable terms or will result in profitable operations.

Our failure to properly manage growth could adversely affect our business.

We have expanded our operations significantly since 1998, when we entered the business of providing software solutions and services to the public sector. We intend to continue expansion in the foreseeable future to pursue existing and potential market opportunities. This growth places significant demands on management and operational resources. In order to manage growth effectively, we must implement and improve our operational systems, procedures, and controls on a timely basis. If we fail to implement these systems, our business may be materially adversely affected.

We may be unable to hire, integrate, and retain qualified personnel.

Our continued success will depend upon the availability and performance of our key management, sales, marketing, client support, and product development personnel. The loss of key management or technical personnel could adversely affect us. We believe that our continued success will depend in large part upon our ability to attract, integrate, and retain such personnel. We have at times experienced and continue to experience difficulty in recruiting qualified personnel. Competition for qualified software development, sales, and other personnel is intense, and we cannot assure you that we will be successful in attracting and retaining such personnel.

Compliance with changing regulation of corporate governance may result in additional expenses.

Changing laws, regulations, and standards relating to corporate governance and public disclosure can create uncertainty for public companies. The costs required to comply with such evolving laws are difficult to predict. To maintain high standards of corporate governance and public disclosure, we intend to invest all reasonably necessary

resources to comply with evolving standards. This investment may result in an unforeseen increase in general and administrative expenses and a diversion of management's time and attention from revenue-generating activities, which may harm our operating results.

We don't foresee paying dividends on our common stock.

We have not declared nor paid a cash dividend since we entered the business of providing software solutions and services to the public sector in 1998. We intend to retain earnings for use in the operation and expansion of our business. We do not anticipate paying any cash dividends on our common stock in the foreseeable future.

Provisions in our certificate of incorporation, bylaws, and Delaware law could deter takeover attempts.

Our board of directors may issue up to 1,000,000 shares of preferred stock and may determine the price, rights, preferences, privileges, and restrictions, including voting and conversion rights, of these preferred shares. These determinations may be made without any further vote or action by our stockholders. The rights of the holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock may make it more difficult for a third-party to acquire a majority of our outstanding voting stock. In addition, some provisions of our Certificate of Incorporation, Bylaws, and the Delaware General Corporation Law could also delay, prevent, or make more difficult a merger, tender offer, or proxy contest involving us.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

We occupy a total of approximately 1.0 million square feet of office space, of which approximately 746,000 square feet is in various office facilities we own. We own or lease offices for our major operations in the states of Arizona, Arkansas, California, Colorado, Georgia, Iowa, Maine, Massachusetts, Michigan, Missouri, Montana, New Hampshire, New York, Ohio, Texas, Washington and Wisconsin, and in Ontario, Canada.

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
5. ISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock is traded on the New York Stock Exchange under the symbol "TYL." At December 31, 2018, we had approximately 1,262 stockholders of record. Most of our stockholders hold their shares in street name; therefore, there are substantially more than 1,262 beneficial owners of our common stock.

We did not pay any cash dividends in 2018 or 2017. Our bank credit agreement contains restrictions on the payment of cash dividends. We intend to retain earnings for use in the operation and expansion of our business and do not anticipate paying a cash dividend in the foreseeable future.

The following table summarizes certain information related to our stock incentive plan, restricted stock units and our employee stock purchase plan. There are no warrants or rights related to our equity compensation plans as of December 31, 2018.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, purchase rights and vesting of restricted stock units as of December 31, 2018	Weighted average exercise price of outstanding options and unvested restricted stock units	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in initial column as of December 31, 2018)
Equity compensation plans approved by security shareholders:			
2018 Incentive Stock Plan (a)	4,425,728	\$ 136.43	3,835,338
Employee Stock Purchase Plan	14,869	157.95	749,410
Equity compensation plans not approved by security shareholders	—	—	—
	4,440,597	\$ 136.50	4,584,748

(a) In May 2018, stockholders approved our 2018 Stock Incentive Plan ("the 2018 Plan") which amended and restated the existing Tyler Technologies, Inc. 2010 Stock Option Plan ("the 2010 Plan"). Upon stockholder approval of the 2018 Plan, the remaining shares available for grant under the 2010 Plan were added to the shares authorized for grant under the 2018 Plan. Additionally, any awards previously granted under the 2010 Plan that expire unexercised or are forfeited are added to the shares authorized for grant under the 2018 Plan. Under the 2018 Plan, each award granted, other than stock options, reduces the number of securities available for issuance under the 2018 Plan by 2.5 shares.

As of December 31, 2018, we had authorization to repurchase up to approximately 1.2 million additional shares of Tyler common stock. During 2018, we purchased approximately 781,000 shares of our common stock for an

Edgar Filing: TYLER TECHNOLOGIES INC - Form 10-K

aggregate purchase price of \$150.1 million. A summary of the repurchase activity during 2018 is as follows:

Period	Total number of shares repurchased	Additional number of shares authorized that may be repurchased	Average price paid per share	Maximum number of shares that may be repurchased under current authorization
Three months ended March 31	—	\$	—\$—	1,973,560
Three months ended June 30	—	—	—	1,973,560
Three months ended September 30	—	—	—	1,973,560
October 1 through October 31	154,739	—	209.69	1,818,821
November 1 through November 30	457,503	—	189.13	1,361,318
December 1 through December 31	168,600	—	183.86	1,192,718
	780,842	—	\$192.16	

The repurchase program, which was approved by our board of directors, was announced in October 2002 and was amended at various times from 2003 through 2019. There is no expiration date specified for the authorization, and we intend to repurchase stock under the program from time to time.

Subsequent to December 31, 2018, our board of directors authorized the repurchase of an additional 1.5 million shares of Tyler common stock. As of February 20, 2019, we had remaining authorization to repurchase up to 2.7 million additional shares of our common stock.

Performance Graph

The following Performance Graph and related information shall not be deemed “soliciting material” or to be “filed” with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that we specifically incorporate it by reference into such filing.

The following table compares total shareholder returns for Tyler over the last five years to the Standard and Poor’s 500 Stock Index and the Standard and Poor’s 600 Information Technology Index assuming a \$100 investment made on December 31, 2013. Each of the three measures of cumulative total return assumes reinvestment of dividends. The stock performance shown on the graph below is not necessarily indicative of future price performance.

Company / Index	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18
Tyler Technologies, Inc.	100	107.16	170.68	139.79	173.36	181.94
S&P 500 Stock Index	100	113.69	115.26	129.05	157.22	150.33
S&P 600 Information Technology Index	100	113.29	118.56	158.70	175.01	159.38

ITEM 6. SELECTED FINANCIAL DATA.

FOR THE YEARS ENDED DECEMBER 31,

2018	2017 (a),(b)	2016 (a),(c)	2015	2014
	As Adjusted	As Adjusted		

STATEMENT OF

OPERATIONS DATA:

				50,627,335	50,627,335
Real estate		3,214,164		3,214,164	
Small-mid cap		17,065,852		17,065,852	
U.S. fixed-income securities		3,342,961		3,342,961	
U.S. money market securities		1,534,168		1,534,168	
Rio Tinto plc common stock ADRs	44,386,952			44,386,952	
Interest-bearing cash	6,307,743			6,307,743	
	\$ 417,323,455	\$ 299,514,470	\$ 716,837,925		

	Assets at Fair Value as of December 31, 2012				Total
	Level 1	Level 2	Level 3		
Mutual funds:					
Large cap	\$ 133,659,931	\$	\$	\$	133,659,931
Mid cap	34,764,146				34,764,146
Small cap	33,452,050				33,452,050
International	41,367,018				41,367,018
Bond investments	78,472,362				78,472,362
Stable value fund		194,572,398			194,572,398
Collective trust funds:					
Bond investments		31,378,192			31,378,192
Commodities futures market		3,507,864			3,507,864
Foreign		23,288,813			23,288,813
Large cap		45,056,176			45,056,176
Real estate		2,919,632			2,919,632
Small-mid cap		15,086,170			15,086,170
U.S. fixed-income securities		3,116,019			3,116,019
U.S. money market securities		1,384,117			1,384,117
Rio Tinto plc common stock ADRs	52,737,988				52,737,988
Interest-bearing cash	5,474,520				5,474,520
	\$ 379,928,015	\$ 320,309,381	\$	\$	700,237,396

Table of Contents**Kennecott Utah Copper 401(k) Savings Plan for Represented Hourly Employees****Notes to Financial Statements**

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. The Master Trust evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets available for benefits. For the year ended December 31, 2013, there were no transfers between levels.

The Master Trust follows guidance on how entities should estimate fair value of certain alternative investments. The fair value of investments within the scope of the guidance can be determined using NAV per share as a practical expedient, when fair value is not readily determinable, unless it is probable the investment will be sold at something other than NAV.

The following table includes categories of investments within the Master Trust where NAV is available as a practical expedient:

	Fair Value as of December 31		Redemption Frequency	Redemption Notice Period
	2013	2012		
Stable value fund:				
Invesco stable value fund (a)	\$ 161,009,250	\$ 194,572,398	Daily	None
Collective trust funds:				
Bond investments (b)	32,988,853	31,378,192	Daily*	None
Commodities futures market (c)	3,797,611	3,507,864	Daily*	None
Foreign (d)	25,934,276	23,288,813	Daily*	None
Large cap (e)	50,627,335	45,056,176	Daily*	None
Real estate (f)	3,214,164	2,919,632	Daily*	None
Small-mid cap (g)	17,065,852	15,086,170	Daily*	None
U.S. fixed-income securities (h)	3,342,961	3,116,019	Daily*	None
U.S. money market securities (i)	1,534,168	1,384,117	Daily*	None

*The fund trustee, in its sole discretion, reserves the right to value any contributions or withdrawals as of the next succeeding valuation date or another date as the fund trustee deems appropriate.

Edgar Filing: TYLER TECHNOLOGIES INC - Form 10-K

There are no unfunded commitments related to the categories of investments where NAV is available as a practical expedient.

- (a) The fund seeks preservation of principal and to provide interest income reasonably obtained under prevailing market conditions and rates, consistent with seeking to maintain required liquidity.

- (b) The fund seeks investment returns that approximate as closely as practicable, before expenses, the performance of a U.S. bond index over the long term.

- (c) The fund seeks investment returns that approximate as closely as practicable, before expenses, the performance of the Dow Jones-UBS Commodity Total Return IndexSM over the long term.

- (d) The fund seeks investment returns that approximate as closely as practicable, before expenses, the performance of the MSCI ACWI ex-USA IMI Index over the long term.

Table of Contents

Kennecott Utah Copper 401(k) Savings Plan for Represented Hourly Employees

Notes to Financial Statements

(e) The fund seeks investment returns that approximate as closely as practicable, before expenses, the performance of the S&P 500 over the long term.

(f) The fund seeks investment returns that approximate as closely as practicable, before expenses, the performance of the FTSE EPRA/NAREIT Developed Liquid Index over the long term.

(g) The fund seeks investment returns that approximate as closely as practicable, before expenses, the performance of the Russell Small Cap Completeness Index over the long term.

(h) The fund seeks investment returns that approximate as closely as practicable, before expenses, the performance of the Barclays U.S. 1-3 Year Government/Credit Bond Index over the long term.

(i) The fund seeks to maximize current income, to the extent consistent with the preservation of capital and liquidity and the maintenance of a stable \$1.00 per share NAV, by investing in U.S. dollar-denominated money market securities.

Note 6. Parties-in-Interest Transactions

The Master Trust is managed by State Street. Therefore, transactions within the Master Trust qualify as party-in-interest transactions. The Master Trust also holds collective trust funds that are managed by State Street Global Advisors (SSgA), the investment management division of State Street. Fees paid by the Master Trust or Plan for investment management services to State Street or SSgA were included as a reduction of the return earned on each investment, as they are paid through revenue sharing, rather than a direct payment.

The Master Trust invests in Rio Tinto plc common stock ADRs. The Master Trust held 789,193 and 912,975 shares of Rio Tinto plc common stock ADRs at December 31, 2013 and 2012, respectively, valued at \$56.24 and \$58.05, respectively. During the year ended December 31, 2013, purchases and sales of shares by the Master Trust totaled approximately \$14,395,000 and \$20,447,000, respectively.

Edgar Filing: TYLER TECHNOLOGIES INC - Form 10-K

During the year ended December 31, 2013, the Plan had transactions with Xerox Business Services, LLC, the Plan's record keeper, which are allowed by the Plan. These transactions qualify as party-in-interest transactions, which are exempt from prohibited transaction rules.

Note 7. Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of termination, all participants would become fully vested in their accounts.

Note 8. Tax Status

The Internal Revenue Service has determined and informed the Company by a letter dated December 9, 2002, that the Plan and related trust were designed in accordance with the applicable requirements of the IRC. The Plan has been amended since receiving the determination letter; however, the Plan Administrator and the Plan's legal counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the IRC and therefore believe that the Plan and the related trust are tax-exempt.

Table of Contents

Kennecott Utah Copper 401(k) Savings Plan for Represented Hourly Employees

Notes to Financial Statements

The Plan Administrator has evaluated the Plan's tax positions and concluded that the Plan had maintained its tax-exempt status and had taken no uncertain tax positions that require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements. With few exceptions, the Plan is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years prior to 2010.

Note 9. Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of the net assets available for benefits as presented in the financial statements to the Form 5500 as of December 31:

	2013	2012
Net assets available for benefits as presented in the financial statements	\$ 60,214,327	\$ 58,378,709
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	172,350	631,993
Net assets available for benefits as presented in the Form 5500	\$ 60,386,677	\$ 59,010,702

The following is a reconciliation of the net increase in net assets available for benefits before transfer as presented in these financial statements to the Form 5500:

	Year Ended December 31, 2013
Net increase in net assets available for benefits before transfers as presented in these financial statements	\$ 2,059,178
Subtract adjustment from fair value to contract value for fully benefit-responsive investment contracts for 2012	(631,993)
Add adjustment from fair value to contract value for fully benefit-responsive investment contracts for 2013	172,350
Net increase in net assets available for benefits before transfers as presented in Form 5500	\$ 1,599,535

Table of Contents

EXHIBIT INDEX

Exhibit Number	Document
23.1	Consent of Independent Registered Public Accounting Firm
