TYLER TECHNOLOGIES INC
Form 10-Q
April 24, 2008

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2008

OR

o **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 þ No o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o

(Do not check if a smaller reporting company)

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

The number of shares of common stock of registrant outstanding on April 21, 2008 was 38,012,335.

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

TYLER TECHNOLOGIES, INC.
CONDENSED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three months ended March 31, 2008	Three months ended March 31, 2007
Revenues:		
Software licenses	$ 8,369	$ 7,932
Subscriptions	3,265	2,245
Software services	16,525	12,949
Maintenance	24,849	19,939
Appraisal services	4,582	5,580
Hardware and other	1,761	1,687
Total revenues	59,351	50,332
Cost of revenues:		
Software licenses	2,203	1,958
Acquired software	436	394
Software services, maintenance and subscriptions	30,444	24,643
Appraisal services	3,167	3,996
Hardware and other	1,298	1,319
Total cost of revenues	37,548	32,310
Gross profit	21,803	18,022
Selling, general and administrative expenses	14,752	12,976
Research and development expense	1,816	1,223
Amortization of customer and trade name intangibles	567	347
Operating income	4,668	3,476
Other income, net	402	447
Income before income taxes	5,070	3,923
Income tax provision	1,944	1,522
Net income	$ 3,126	$ 2,401
Earnings per common share:		
Basic	$ 0.08	$ 0.06

Diluted	$ 0.08	$ 0.06
Basic weighted average common shares outstanding	38,020	38,813
Diluted weighted average common shares outstanding	39,527	42,066

See accompanying notes.

Table of Contents

TYLER TECHNOLOGIES, INC.
CONDENSED BALANCE SHEETS
(In thousands, except par value and share amounts)

	March 31, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 33,091	$ 9,642
Restricted cash equivalents	5,082	4,462
Short-term investments available-for-sale	2,125	41,590
Accounts receivable (less allowance for losses of $1,847 in 2008 and $1,851 in 2007)	59,271	63,965
Prepaid expenses	8,611	7,726
Other current assets	1,556	1,324
Deferred income taxes	1,922	2,355
Total current assets	111,658	131,064
Accounts receivable, long-term portion	529	398
Property and equipment, net	10,030	9,826
Non-current investments available-for-sale	5,825	
Other assets:		
Goodwill	82,450	71,677
Customer related intangibles, net	25,601	17,706
Software, net	9,425	9,588
Trade name, net	1,330	1,074
Sundry	600	175
	$ 247,448	$ 241,508
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 4,292	$ 3,323
Accrued liabilities	16,291	18,905
Deferred revenue	83,426	73,714
Income taxes payable	1,233	632
Total current liabilities	105,242	96,574
Deferred income taxes	9,415	7,723
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 2008 and 2007	481	481
Additional paid-in capital	150,138	149,568
Retained earnings	38,758	35,632
Treasury stock, at cost; 10,157,187 and 9,528,467 shares in 2008 and 2007, respectively	(56,586)	(48,470)
Total shareholders equity	132,791	137,211
	$ 247,448	$ 241,508

See accompanying notes.

Table of Contents

TYLER TECHNOLOGIES, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three months ended March 31,	
	2008	2007
Cash flows from operating activities:		
Net income	$ 3,126	$ 2,401
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	2,936	2,549
Share-based compensation expense	716	498
Changes in operating assets and liabilities, exclusive of effects of acquired companies:		
Accounts receivable	5,607	11,791
Income tax payable	740	1,129
Prepaid expenses and other current assets	(478)	(559)
Accounts payable	912	(2,075)
Accrued liabilities	(1,847)	(3,244)
Deferred revenue	6,056	(5,618)
Net cash provided by operating activities	17,768	6,872
Cash flows from investing activities:		
Proceeds from sale of short-term investments	42,265	2,610
Purchases of short-term investments	(8,625)	(3,850)
Cost of acquisitions, net of cash acquired	(13,864)	(4,963)
Investment in software development costs		(25)
Additions to property and equipment	(891)	(741)
(Increase) decrease in restricted investments	(620)	500
(Increase) decrease in other	(400)	38
Net cash provided by (used by) investing activities	17,865	(6,431)
Cash flows from financing activities:		
Purchase of treasury shares	(12,646)	(3,943)
Contributions from employee stock purchase plan	256	268
Proceeds from exercise of stock options	164	936
Excess tax benefits from share-based compensation expense	42	197
Net cash used by financing activities	(12,184)	(2,542)
Net increase (decrease) in cash and cash equivalents	23,449	(2,101)
Cash and cash equivalents at beginning of period	9,642	17,212

Cash and cash equivalents at end of period	$ 33,091	$ 15,111

See accompanying notes.

Table of Contents

Tyler Technologies, Inc.
Notes to Condensed Financial Statements
(Unaudited)
(Tables in thousands, except per share data)

(1) Basis of Presentation

We prepared the accompanying condensed 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 March 31, 2008 and December 31, 2007 and operating result amounts are for the three months ended March 31, 2008 and 2007, 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, 2007. 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.

Although we have a number of operating divisions, separate segment data has not been presented as they meet the criteria set forth in Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures About Segments of an Enterprise and Related Information to be presented as one segment.

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

(2) Revenue Recognition

Software Arrangements:

We earn revenue from software licenses, subscriptions, software related services, post-contract customer support (PCS or maintenance), and hardware. PCS includes telephone support, bug fixes, and rights to upgrades on a when-and-if available basis. We provide services that range from installation, training, and basic consulting to software modification and customization to meet specific customer needs. In software arrangements that include rights to multiple software products, specified upgrades, PCS, and/or other services, we allocate the total arrangement fee among each deliverable based on the relative fair value of each.

We typically enter into multiple element arrangements, which include software licenses, software services, PCS and occasionally hardware. The majority of our software arrangements are multiple element arrangements, but for those arrangements that involve significant production, modification or customization of the software, or where software services are otherwise considered essential to the functionality of the software in the customer s environment, we use contract accounting and apply the provisions of Statement of Position (SOP) 81-1 Accounting for Performance of Construction Type and Certain Production Type Contracts.

If the arrangement does not require significant production, modification or customization or where the software services are not considered essential to the functionality of the software, revenue is recognized when all of the following conditions are met:

i. persuasive evidence of an arrangement exists;

ii. delivery has occurred;

iii. our fee is fixed or determinable; and

iv. collectibility is probable.

For multiple element arrangements, each element of the arrangement is analyzed and we allocate a portion of the total arrangement fee to the elements based on the fair value of the element using vendor-specific objective evidence of fair value (VSOE), regardless of any separate prices stated within the contract for each element. Fair value is considered the price a customer would be required to pay if the element was sold separately based on our historical experience of stand-alone sales of these elements to third parties. For PCS, we use renewal rates for continued support arrangements to determine fair value. For software services, we use the fair value we charge our customers when those services are sold separately. We monitor our transactions to insure we maintain and periodically revise VSOE to reflect fair value. In software arrangements in which we have the fair value of all undelivered elements but not of a delivered element, we apply the residual method as allowed under SOP 98-9 in accounting for any element of a multiple element arrangement involving software that remains undelivered such that any discount inherent in a contract is allocated to the delivered element. Under the residual method, if the fair value of all undelivered elements is determinable, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered element(s) and is recognized as revenue assuming the other revenue recognition criteria are met. In software arrangements in which we do not have VSOE for all undelivered elements, revenue is deferred until fair value is determined or all elements for which we do not have VSOE have been delivered. Alternatively, if sufficient VSOE does not exist and the only undelivered element is services that do not involve significant modification or customization of the software, the entire fee is recognized over the period during which the services are expected to be performed.

Software Licenses

We recognize the revenue allocable to software licenses and specified upgrades upon delivery of the software product or upgrade to the customer, unless the fee is not fixed or determinable or collectibility is not probable. If the fee is not fixed or determinable, including new customers whose payment terms are three months or more from shipment, revenue is generally recognized as payments become due from the customer. If collectibility is not considered probable, revenue is recognized when the fee is collected. Arrangements that include software services, such as training or installation, are evaluated to determine whether those services are essential to the product s functionality.

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

For arrangements that involve significant production, modification or customization of the software, or where software services are otherwise considered essential, we recognize revenue using contract accounting. We generally use the percentage-of-completion method to recognize revenue from these arrangements. We measure progress-to-completion primarily using labor hours incurred, or value added. The percentage-of-completion method generally results in the recognition of reasonably consistent profit margins over the life of a contract because we have the ability to produce reasonably dependable estimates of contract billings and contract costs. We use the level of profit margin that is most likely to occur on a contract. If the most likely profit margin cannot be precisely determined, the lowest probable level of profit in the range of estimates is used until the results can be estimated more precisely. These arrangements are often implemented over an extended time period and occasionally require us to revise total cost estimates. Amounts recognized in revenue are calculated using the progress-to-completion measurement after giving effect to any changes in our cost estimates. Changes to total estimated contract costs, if any, are recorded in the period they are determined. Estimated losses on uncompleted contracts are recorded in the period in which we first determine that a loss is apparent.

For arrangements that include new product releases for which it is difficult to estimate final profitability except to assume that no loss will ultimately be incurred, we recognize revenue under the completed contract method. Under the completed contract method, revenue is recognized only when a contract is completed or substantially complete. Historically these amounts have been immaterial.

Subscription-Based Services

Subscription-based services primarily consists of revenues derived from application service provider (ASP) arrangements and other hosted service offerings, software subscriptions and disaster recovery services.

We recognize revenue for ASP and other hosting services, software subscriptions and disaster recovery ratably over the period of the applicable agreement as services are provided. Disaster recovery agreements and other hosting services are typically renewable annually. ASP and software subscriptions are typically for periods of three to six years and automatically renew unless either party cancels the agreement. The majority of the ASP and other hosting services and software subscriptions also include professional services as well as maintenance and support. In certain ASP arrangements, the customer also acquires a license to the software.

For ASP and other hosting arrangements, we evaluate whether each of the elements in these arrangements represents a separate unit of accounting, as defined by Emerging Issues Task Force (EITF) 00-21, using all applicable facts and circumstances, including whether (i) we sell or could readily sell the element unaccompanied by the other elements, (ii) the element has stand-alone value to the customer, (iii) there is objective reliable evidence of the fair value of the undelivered item, and (iv) there is a general right of return. We consider the applicability of EITF No. 00-03, Application of SOP 97-2 to Arrangements That Include the Right to Use Software Stored on Another Entity s Hardware on a contract-by-contract basis. In hosted term-based agreements, where the customer does not have the contractual right to take possession of the software, hosting fees are recognized on a monthly basis over the term of the contract commencing when the customer has access to the software. For professional services associated with hosting arrangements that we determine do not have stand-alone value to the customer, we recognize the services revenue ratably over the remaining contractual period once hosting has gone live and we may begin billing for the hosting services. We record amounts that have been invoiced in accounts receivable and in deferred revenue or revenues, depending on whether the revenue recognition criteria have been met.

If we determine that the customer has the contractual right to take possession of our software at any time during the hosting period without significant penalty, and can feasibly maintain the software on the customer s hardware or enter into another arrangement with a third party to host the software, we recognize the license, professional services and hosting services revenues pursuant to SOP 97-2.

Software Services

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

Computer Hardware Equipment

Revenue allocable to computer hardware equipment, which is based on VSOE, is recognized when we deliver the equipment and collection is probable.

Postcontract Customer Support

Our customers generally enter into PCS agreements when they purchase our software licenses. Our PCS agreements are typically renewable annually. Revenue allocated to PCS is recognized on a straight-line basis over the period the PCS is provided. All significant costs and expenses associated with PCS are expensed as incurred. Fair value for the maintenance and support obligations for software licenses is based upon the specific sale renewals to customers.

Appraisal Services:

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

Other:

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

Table of Contents

Prepaid expenses and other current assets include direct and incremental costs, consisting primarily of commissions associated with arrangements for which revenue recognition has been deferred and third party subcontractor payments. Such costs are expensed at the time the related revenue is recognized.

(3) Acquisitions

In the three months ended March 31, 2008, we completed the acquisitions of all of the capital stock of VersaTrans Solutions Inc. (VersaTrans) and certain assets of Olympia Computing Company, Inc. d/b/a Schoolmaster (Schoolmaster). VersaTrans is a provider of student transportation management software solutions for school districts and school transportation providers across North America, including solutions for school bus routing and planning, redistricting, GPS fleet tracking, fleet maintenance and field trip planning. Schoolmaster provides a full suite of student information systems, which manage such functions as grading, attendance, scheduling, guidance, health, admissions and fund raising. The combined purchase price for these transactions excluding cash acquired and including transaction costs, was approximately $13.9 million in cash and approximately 126,000 shares of Tyler common stock valued at $1.7 million. The operating results of these acquisitions are included in our results of operations since their respective dates of acquisition.

We believe these acquisitions will complement our business model by expanding our presence in the education market and will give us additional opportunities to provide our customers with solutions tailored specifically for local governments.

In connection with these two transactions we acquired total tangible assets of approximately $1.8 million and assumed total liabilities of approximately $7.0 million. We recorded goodwill of $10.7 million, $1.5 million of which is expected to be deductible for tax purposes, and other intangible assets of $10.1 million. The $10.1 million of intangible assets is attributable to acquired software, customer relationships and trade name that will be amortized over a weighted average period of approximately 10 years. Our balance sheet as of March 31, 2008 reflects the preliminary allocation of the purchase price to the assets acquired and liabilities assumed based on their estimated fair values at the dates of acquisition.

(4) Financial Instruments

Assets recorded at fair value in the balance sheet as of March 31, 2008 are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by SFAS 157 Fair Value Measurements 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 developed using estimates and assumptions developed by management, which reflect those that a market participant would use.

We measure the following financial assets at fair value on a recurring basis. The fair value of these financial assets was determined using the following inputs at March 31, 2008:

	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs

	Total	(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents [1]	$ 38,173	$ 38,173	$	$
Short-term investments available-for-sale [2]	2,125		2,125	
Non-current investments available-for-sale [2]	5,825		5,825	
Total	$ 46,123	$ 38,173	$ 7,950	$

(1) 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.

(2) Investments available-for-sale consists of auction rate municipal securities (ARS). We have included our investments related to ARS in the Level 2 category, as we believe there are significant observable inputs associated with these investments discussed below. ARS are long-term variable rate bonds tied to short-term interest rates that are reset through a

Table of Contents

Dutch Auction process that occurs every 28 to 35 days. We have the option to participate in the auction and sell ARS to prospective buyers through a broker-dealer. We do not have the right to put the security back to the issuer. Our investments in ARS all had AAA credit ratings at the time of purchase and represent interests in collateralized debt obligations supported by municipal and state agencies. 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 the past, the auction process has allowed investors to obtain immediate liquidity if so desired by selling the securities at their face amounts. However, as has been recently reported in the financial press, the current disruptions in the credit markets have adversely affected the auction market for these types of securities. ARS auctions fail when there are not enough buyers to absorb the amount of securities available for sale for that particular auction period. Historically, ARS auctions have rarely failed since the investment banks and broker dealers have been willing to purchase the securities when investor demand was weak. However, beginning in mid-February 2008, due to uncertainty in the global credit and capital markets and other factors, investment banks and broker dealers have been less willing to support ARS and many ARS auctions have failed. We will not be able to access non-current investments until future auctions for these ARS are successful, or until we sell the securities in a secondary market which currently is not active, although there have been instances of redemptions at par to date by municipalities through refinance of new debt.

As of March 31, 2008, we had $7.9 million of principal invested in ARS that had experienced failed auctions. Of this amount we were able to liquidate

$2.1 million for cash at par during the period April 1, 2008 through April 18, 2008. Accordingly, as of March 31, 2008, we classified the remaining $5.8 million in ARS as non-current since they were unable to be liquidated subsequent to our quarter-end. Although we have uncertainty with regard to the short-term liquidity of these securities, we continue to believe that the par value represents the fair value of these investments. Our broker dealers have received estimated market values from an independent pricing service as of the balance sheet date which carry these investments at par value, due to the overall quality of the underlying investments and taking into account credit support through insurance policies guaranteeing each of the bonds payment of principal and accrued interest, and the anticipated future market for such investments. Further evidence includes the fact that these investments consist solely of collateralized debt obligations supported by municipal and state agencies and do not include mortgage-backed securities, have redemption features which call for redemption at 100% of par value, have a current credit rating of A or AAA, and that we have the ability to hold these securities to maturity. Based on our cash and cash equivalents balance of $38.2 million, expected operating cash flows and the liquidation of $2.1 million of ARS subsequent to March 31, 2008, 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. All such items represent significant other observable inputs which are consistent with Level 2 assessments. We will continue to evaluate any changes in the market value of the failed ARS that have not been liquidated subsequent to quarter-end and in the future, depending upon existing market conditions, we may be required to record an other-than-temporary decline in market value. We are not certain how long we may be required to hold each security. However, given our current cash position, liquid cash equivalents and cash flow from operations we believe we have the ability and we intend to hold the failed ARS as long-term investments until the market stabilizes.

Table of Contents

(5) Shareholders Equity

The following table details activity in our common stock:

	Three months ended March 31, 2008		Three months ended March 31, 2007	
	Shares	Amount	Shares	Amount
Purchases of common stock	(814)	$(10,520)	(290)	$(3,943)
Stock option exercises	31	672	293	936
Employee stock plan purchases	29	318	24	282
Shares issued for acquisitions	126	1,719		

As of March 31, 2008 we have authorization from our board of directors to repurchase up to 967,000 additional shares of Tyler common stock.

(6) Income Tax Provision

For the three months ended March 31, 2008, we had an effective income tax rate of 38.3%, compared to 38.8% for the three months ended March 31, 2007. 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 $1.2 million in the three months ended March 31, 2008, compared to $228,000 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 March 31, 2008	Three months ended March 31, 2007
Numerator for basic and diluted earnings per share:		
Net income	$ 3,126	$ 2,401
Denominator:		
Weighted-average basic common shares outstanding	38,020	38,813
Assumed conversion of dilutive securities:		
Stock options	1,507	1,943
Warrants		1,310
Potentially dilutive common shares	1,507	3,253
Denominator for diluted earnings per share Adjusted weighted average shares	39,527	42,066

Earnings per common share:		
Basic	$ 0.08	$ 0.06
Diluted	$ 0.08	$ 0.06

Effective September 10, 2007, warrants to purchase 1.6 million shares of common stock at $2.50 per share expired and the effect of these warrants is not included in the potentially dilutive common shares after that date. See Note 9 Commitments and Contingencies for further information.

(8) Share-Based Compensation

The following table summarizes share-based compensation expense related to share-based awards under SFAS No. 123R, Share-Based Payment, recorded in the statements of operations:

	Three months ended March 31,	
	2008	2007
Cost of software services, maintenance and subscriptions	$ 69	$ 43
Selling, general and administrative expense	647	455
Total share-based compensation expense	$ 716	$ 498

(9) Commitments and Contingencies

Prior to September 11, 2007, we had warrants outstanding to purchase 1.6 million shares of common stock at $2.50 per share, which were held by Bank of America, N. A. (BOA) pursuant to the terms of two Amended and Restated Stock Purchase Warrants (collectively, the Warrants). The exercise price could be paid either in cash or by a cashless exercise in which the holder was required to surrender the Warrants in exchange for warrant shares based on the following formula: [(Market Price $2.50) / (Market Price)] x 1. 6 million shares, with the Market Price calculated as the immediately preceding 60-day trading average of our common stock. The Warrants identified specific exercise procedures for each method of exercise and further provided that any exercise would not be effective until we received all applicable documents, instruments, and the purchase price. The Warrants were originally issued on September 10, 1997 and were exercisable from that date until 5 p.m., Central Time, September 10, 2007, when they expired.

On September 10, 2007, at 4:44 p.m., Central Time, BOA attempted to effectuate a cashless exercise of the Warrants via email; however, we believe BOA did not comply with all of the requirements set forth in the Warrants for an effective exercise. At 5:37 p.m., Central Time, BOA recalled this email exercise notice, which we subsequently accepted. At 6:10 p.m., Central Time, BOA attempted to effectuate a cash exercise of the Warrants by emailing a different notice of exercise, which we believe also failed to comply with all of the requirements set forth in the Warrants for an effective exercise, and in any event, was after the expiration date of the Warrants. As a result, we believe these Warrants expired as of September 10, 2007 and have excluded the effect of the Warrants from potentially dilutive common shares as of such date in our earnings per share computation.

On October 12, 2007, we filed a declaratory judgment action against BOA in the District Court of Dallas County, Texas, 101st Judicial District requesting the court to declare, among other things, that the Warrants have expired pursuant to their terms. On November 14, 2007, BOA filed an original answer and counterclaim asserting, among other things, that the parties modified the exercise requirements of the Warrants, that Tyler breached the alleged modified contracts by refusing to deliver the warrant shares to BOA, and that BOA is therefore entitled to specific performance of the Warrants by us delivering the warrant shares or, in the alternative, to a recovery of damages, including attorneys fees, interest, and costs. While we believe the Warrants expired as of September 10, 2007, there can be no assurance as to the ultimate resolution of this matter. At this time it is not possible to reasonably estimate the potential loss or range of loss, if any.

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.

(10) Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board issued SFAS No. 141(R) Business Combinations. SFAS No. 141(R) changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer s income tax valuation allowance. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. We are currently evaluating the impact of the pending adoption of SFAS 141(R) on our financial statements.

Table of Contents

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

FORWARD-LOOKING STATEMENTS

The statements in this discussion that are not historical statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements about our business, financial condition, business strategy, plans and the objectives of our management, and future prospects. In addition, we have made in the past and may make in the future other written or oral forward-looking statements, including statements regarding future operating performance, short and long-term revenue and earnings growth, the timing of the revenue and earnings impact for new contracts, backlog, the value of new contract signings, business pipeline, and industry growth rates and our performance relative thereto. Any forward-looking statements may rely on a number of assumptions concerning future events and be subject to a number of uncertainties and other factors, many of which are outside our control, which could cause actual results to differ materially from such statements. These include, but are not limited to: our ability to improve productivity and achieve synergies from acquired businesses; technological risks associated with the development of new products and the enhancement of existing products; changes in the budgets and regulating environments of our government customers; competition in the industry in which we conduct business and the impact of competition on pricing, revenues and margins; with respect to customer contracts accounted for under the percentage-of-completion method of accounting, the performance of such contracts in accordance with our cost and revenue estimates; our ability to maintain health and other insurance coverage and capacity due to changes in the insurance market and the impact of increasing insurance costs on the results of operations; the costs to attract and retain qualified personnel, changes in product demand, the availability of products, economic conditions, costs of compliance with corporate governance and public disclosure requirements as issued by the Sarbanes-Oxley Act of 2002 and New York Stock Exchange rules, changes in tax risks and other risks indicated in our filings with the Securities and Exchange Commission. The factors described in this paragraph and other factors that may affect Tyler, its management or future financial results, as and when applicable, are discussed in Tyler s filings with the Securities and Exchange Commission, on its Form 10-K for the year ended December 31, 2007. Except to the extent required by law, we are not obligated to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. When used in this Quarterly Report, the words believes, plans, estimates, expects, anticipa intends, continue, may, will, should, projects, forecast, might, could or the negative of such terms expressions as they relate to Tyler or our management are intended to identify 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. In addition, we provide professional IT services to our customers, including software and hardware installation, data conversion, training and for certain customers, product modifications, along with continuing maintenance and support for customers using our systems. We also provide subscription-based services such as application service provider arrangements and other hosting services as well as property appraisal outsourcing services for taxing jurisdictions.

In the three months ended March 31, 2008, we acquired all of the capital stock of VersaTrans Solutions Inc. (VersaTrans) and certain assets of Olympia Computing Company, Inc. d/b/a Schoolmaster (Schoolmaster). The combined purchase price, excluding cash acquired and including transaction costs, was approximately $13.9 million in cash and approximately 126,000 shares of Tyler common stock valued at $1.7 million. See Note 3 in the Notes to the Unaudited Condensed Financial Statements.

As of March 31, 2008, our total full-time equivalent employee count increased to 1,784 from 1,586 at March 31, 2007. Approximately 78% of these additions or 155 full-time equivalent employees, were added as a result of several acquisitions completed since March 31, 2007.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations are based upon our condensed financial statements. These condensed 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, 2007. 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, 2007.

ANALYSIS OF RESULTS OF OPERATIONS

Revenues

The following table sets forth the key components of our revenues for the periods presented as of March 31:

	First Quarter				Change	
		% of		% of		
($ in thousands)	2008	Total	2007	Total	$	%
Software licenses	$ 8,369	14%	$ 7,932	16%	$ 437	6%
Subscriptions	3,265	5	2,245	4	1,020	45
Software services	16,525	28	12,949	26	3,576	28
Maintenance	24,849	42	19,939	40	4,910	25
Appraisal services	4,582	8	5,580	11	(998)	(18)
Hardware and other	1,761	3	1,687	3	74	4
Total revenues	$ 59,351	100%	$ 50,332	100%	$ 9,019	18%

Software licenses. Software license revenues consist of the following components for the periods presented as of March 31:

	First Quarter				Change	
		% of		% of		
($ in thousands)	2008	Total	2007	Total	$	%
Financial management and education	$ 5,947	71%	$ 5,172	65%	$ 775	15%
Courts and justice	1,558	19	1,481	19	77	5
Appraisal and tax and other	864	10	1,279	16	(415)	(32)
Total software license revenues	$ 8,369	100%	$ 7,932	100%	$ 437	6%

In the three months ended March 31, 2008, we signed 18 material, new contracts with average software license fees of approximately $599,000 compared to 16 material, new contracts signed in the three months ended March 31, 2007 with average software license fees of approximately $392,000. We consider contracts with a license fee component of $100,000 or more to be material. Although a contract is signed in a particular quarter, the period in which the revenue is recognized may be different because we recognize revenue according to our revenue recognition policy as described in Note 2 in the Notes to the Unaudited Condensed Financial Statements.

Changes in software license revenues consist of the following components:

Software license revenue related to our financial management and education solutions for three months ended March 31, 2008 increased 15% compared to the three months ended March 31, 2007. Revenue from student information and management solutions as well as student transportation management solutions acquired in the last twelve months provided the majority of the increase.

Appraisal and tax and other software license declined 32% for the three months ended March 31, 2008, compared to the three months ended March 31, 2007 due in part to the deferral of software license revenue on a customer arrangement pending establishment of a revised timeline for the completion of certain development and implementation services. In addition, a portion of the remaining decline was due to a small number of land records customers in 2008 choosing our subscription-based options, rather than purchasing the software under a traditional perpetual software license arrangement.

Table of Contents

Subscriptions. Subscription-based services revenue primarily consists of revenues derived from application service provider (ASP) arrangements and other hosted service offerings, software subscriptions and disaster recovery services. ASP and other software subscriptions agreements are typically for 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 ASP customers provided approximately two-thirds of the subscription revenue increase with the remaining increase due to new disaster recovery customers and slightly higher rates for disaster recovery services.

Software services. Changes in software services revenues consist of the following components:

Software services revenue related to financial management and education solutions, which comprise approximately half of our software services revenue in the periods presented, increased strongly compared to the three months ended March 31, 2007. This increase was driven in part by larger and more complex contracts, which include more programming and project management services. In addition, we acquired a student transportation management solution in the first quarter of 2008 which contributed approximately $400,000 to software service revenues for the three months ended March 31, 2008.

Software services revenue related to courts and justice products experienced substantial increases compared to the three months ended March 31, 2007, reflecting increased capacity to deliver backlog following additions to our implementation and support staff over the last few quarters.

Maintenance. We provide maintenance and support services for our software products and third party software. Maintenance revenues increased 25%. Maintenance and support services grew 16% excluding the impact of acquisitions completed in the prior twelve months. This increase was due to growth in our installed customer base and slightly higher maintenance rates on most of our product lines.

Appraisal services. Appraisal services revenue declined 18%. The appraisal services business is driven in part by revaluation cycles in various states. In 2007, we substantially completed several projects related to the Ohio revaluation cycle, which occurs every six years, as well as a few other large contracts. We have not yet fully replaced these appraisal contracts and expect appraisal revenue for the full year 2008 to decline moderately compared to 2007.

<u>*Cost of Revenues and Gross Margins*</u>

The following table sets forth a comparison of the key components of our cost of revenues, and those components stated as a percentage of related revenues for the periods presented as of March 31:

	First Quarter					
($ in thousands)	2008	% of related revenues	2007	% of related revenues	Change $	Change %
Software licenses	$ 2,203	26%	$ 1,958	25%	$ 245	13%
Acquired software	436	5	394	5	42	11
Software services, maintenance and subscriptions	30,444	68	24,643	70	5,801	24
Appraisal services	3,167	69	3,996	72	(829)	(21)
Hardware and other	1,298	74	1,319	78	(21)	(2)
Total cost of revenues	$ 37,548	63%	$ 32,310	64%	$ 5,238	16%

Table of Contents

The following table sets forth a comparison of gross margin percentage by revenue type for the periods presented as of March 31:

	First Quarter		
Gross margin percentage	2008	2007	Change
Software licenses and acquired software	68.5%	70.3%	(1.8)%
Software services, maintenance and subscriptions	31.8	29.9	1.9
Appraisal services	30.9	28.4	2.5
Hardware and other	26.3	21.8	4.5
Overall gross margin	36.7%	35.8%	0.9%

Software licenses. The main component of our cost of software license revenues is amortization expense for capitalized development costs on certain software products, with third party software costs making up the balance. Once a product is released, we begin to amortize the costs associated with its development over the estimated useful life of the product. Amortization expense is determined on a product-by-product basis at an annual rate not less than straight-line basis over the product s estimated life, which is generally five years. Development costs consist mainly of personnel costs, such as salary and benefits paid to our developers, and rent for related office space.

For the three months ended March 31, 2008, our software license gross margin percentage declined compared to the prior year period due to a product mix that included more third party software, which has higher associated costs than proprietary software.

Software services, maintenance and subscription-based 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 ASP and disaster recovery. For the three months ended March 31, 2008, the software services, maintenance and subscriptions gross margin increased 1.9% from the prior year period because maintenance and various other services such as ASP 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. We have increased our implementation and support staff by 235 full-time equivalent employees since March 31, 2007 in order to expand our capacity to train and deliver our contract backlog. This increase includes 118 full-time equivalent employees related to acquisitions completed since March 31, 2007.

Appraisal services. We often hire temporary employees to assist in appraisal projects whose term of employment generally ends with the projects completion. Our appraisal gross margin for the three months ended March 31, 2008 is slightly higher than the prior year period due to more inclement weather in the prior year period, which depressed productivity.

Our blended gross margin for the three months ended March 31, 2008 was slightly higher than the prior year period primarily due to leverage in the utilization of our support and maintenance staff and economies of scale.

Selling, General and Administrative Expenses

The following table sets forth a comparison of our selling, general and administrative (SG&A) expenses for the periods presented as of March 31:

	First Quarter					
		% of		% of	Change	
($ in thousands)	2008	revenues	2007	revenues	$	%
Selling, general and administrative expenses	$14,752	25%	$12,976	26%	$1,776	14%

SG&A as a percentage of revenues for the three months ended March 31, 2008 grew at a slower rate than the prior year period due to leverage in the utilization of our administrative and sales staff.

Table of Contents

Research and Development Expense

The following table sets forth a comparison of our research and development expense for the periods presented as of March 31:

	First Quarter				Change	
		% of		% of		
($ in thousands)	2008	revenues	2007	revenues	$	%
Research and development expense	$1,816	3%	$1,223	2%	$593	48%

Research and development expense consist mainly of costs associated with the Microsoft Dynamics AX project, in addition to costs associated with other new product development efforts. In January 2007, we entered into a strategic alliance with Microsoft Corporation to jointly develop core public sector functionality for Microsoft Dynamics AX to address the accounting needs of public sector organizations worldwide. Research and development costs increased over the prior year period because the Microsoft Dynamics AX development effort was not fully staffed until mid-2007. In the three months ended March 31, 2008, we offset our research and development expense by $130,000, which was the amount earned under the terms of our agreement with Microsoft. We did not receive any reimbursements from Microsoft in the three months ended March 31, 2007. We anticipate these costs and associated reimbursements from Microsoft will continue throughout 2008; however, the actual amount and timing of those 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 March 31:

	First Quarter		Change	
($ in thousands)	2008	2007	$	%
Amortization of customer and trade name intangibles	$567	$347	$220	63%

In the first quarter of 2008, we completed two acquisitions, which increased amortizable customer and trade name intangibles by $8.7 million. This amount will be amortized over approximately 11 years.

Income Tax Provision

The following table sets forth comparison of our income tax provision for the periods presented as of March 31:

	First Quarter		Change	
($ in thousands)	2008	2007	$	%
Income tax provision	$1,944	$1,522	$422	28%
Effective income tax rate	38.3%	38.8%		

The effective income tax rates for the three months ended March 31, 2008 and 2007 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 March 31, 2008, we had cash and cash equivalents (including restricted cash equivalents) of $38.2 million, short-term investments of 2.1 million, and non-current investments of $5.8 million, compared to cash and cash equivalents (including restricted cash equivalents) of $14.1 million and short-term investments of $41.6 million at December 31, 2007. As of March 31, 2008 we had outstanding letters of credit totaling $5.1 million to secure surety bonds required by some of our customer contracts. These letters of credit expire through January 2009.

The following table sets forth a summary of cash flows for the periods presented as of March 31:

Three Months Ended March 31,	2008	2007
Cash flows provided by (used by):		
Operating activities	$ 17,768	$ 6,872
Investing activities	17,865	(6,431)
Financing activities	(12,184)	(2,542)
Net increase (decrease) in cash and cash equivalents	$ 23,449	$ (2,101)

Operating Activities

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 and access to the capital markets. For the three months ended March 31, 2008, operating activities provided net cash of $17.8 million, primarily generated from net income of $3.1 million, non-cash depreciation and amortization charges of $2.9 million, non-cash share-based compensation expense of $716,000, and a net decrease in operating assets and liabilities of $11.0 million. Net operating assets and liabilities declined mainly due to the timing of collection of annual maintenance renewals that are billed near the end of December and a substantial advance payment from a customer.

Our short-term and non-current investments are comprised of auction rate municipal securities (ARS). ARS are long-term variable rate bonds tied to short-term interest rates that are reset through a Dutch Auction process that occurs every 28 to 35 days. We have the option to participate in the auction and sell ARS to prospective buyers through a broker-dealer. We do not have the right to put the security back to the issuer. Our investments in ARS all had AAA credit ratings at the time of purchase and represent interests in collateralized debt obligations supported by municipal and state agencies. As of March 31, 2008, we had $7.9 million of principal invested in ARS that had experienced failed auctions. Of this amount, we were able to liquidate $2.1 million for cash at par during the period April 1, 2008 through April 18, 2008. Accordingly, as of March 31, 2008, we classified the remaining $5.8 million in ARS as non-current since they were unable to be liquidated subsequent to our quarter-end. Based on our cash and cash equivalents at March 31, 2008 and our expected operating cash flows, we do not anticipate the current lack of liquidity of these investments will have a material effect on our ability to conduct business.

Our days sales outstanding (DSO) was 90 days at March 31, 2008 and 95 days at December 31, 2007. Our maintenance billing cycle is at one of its highest points in December, and the majority of the related cash payments are received in the first quarter of each year. As a result, our DSO decreased in the first quarter compared to the fourth quarter. DSO is calculated based on quarter-end accounts receivable divided by the quotient of annualized quarterly revenues divided by 360 days.

Investing activities provided cash of $17.9 million in the first three months of 2008 compared to $6.4 million cash used for the same period in 2007. In the three months ended March 31, 2008, we liquidated $33.6 million of short-term investments in ARS for cash at par, and we completed the acquisitions of all of the capital stock of VersaTrans Solutions Inc. (VersaTrans) and certain assets of Olympia Computing Company, Inc. d/b/a Schoolmaster (Schoolmaster) that expanded our presence in the education market. The combined purchase price, excluding cash acquired and including transaction costs, was approximately $13.9 million in cash and approximately 126,000 shares of Tyler common stock valued at $1.7 million. In the comparable prior year period, we acquired all of the capital stock of Advanced Data Systems, Inc. (ADS), along with an office building used in its business, for approximately $4.2 million in cash. Other investing activities in the first quarter of 2007 were primarily comprised of a net investment of $1.2 million in short term investments and investments of $741,000 in property and equipment. Capital expenditures and acquisitions were funded from cash generated from operations.

Table of Contents

Financing activities used cash of $12.2 million, in the first three months of 2008 compared to $2.5 million in the same period for 2007. Cash used in financing activities was primarily comprised of purchases of treasury shares, net of proceeds from stock option exercises and employee stock purchase plan activity.

During the three months ended March 31, 2008, we purchased 814,000 shares of our common stock for an aggregate purchase price of $10.5 million. At March 31, 2008, we had authorization to repurchase up to 967,000 additional shares of Tyler common stock. A summary of the repurchase activity during the first quarter of 2008 is as follows:

Period	Total number of shares repurchased	Average price paid per share	Maximum number of shares that may be repurchased under current authorization
January 1 through January 31	814	$ 12.92	967
February 1 through February 29			967
March 1 through March 31			967
Total first quarter	814	$ 12.92	

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 and May 2007. 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.

We made federal and state income tax payments, net of refunds of $1.2 million in the three months ended March 31, 2008 compared to $228,000 in the comparable prior year.

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. In the absence of future acquisitions, we believe our current cash balances and expected future cash flows from operations will be sufficient to meet our anticipated cash needs for working capital, capital expenditures and other activities through the next twelve months. If operating cash flows are not sufficient to meet our needs, we believe that credit or access to capital through issuance of equity would be available to us.

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. We are exposed to risk related to our investments in ARS. Liquidity for ARS is typically provided by an auction process that resets the applicable interest rate at pre-determined intervals, usually every 28 to 35 days. Because of the short interest rate reset period, we have historically recorded ARS as short-term investments available-for-sale. The liquidity of ARS has been negatively impacted by the uncertainty in the credit markets and the exposure of these securities to the financial condition of bond insurance companies. As of March 31, 2008, we had $7.9 million of principal invested in ARS that had experienced failed auctions. Of this amount, we were able to liquidate $2.1 million for cash at par during the period April 1, 2008 through April 18, 2008. Accordingly, as of March 31, 2008, we classified the remaining $5.8 million in ARS as non-current since they were unable to be liquidated subsequent to our quarter-end. These ARS had been subject to auction processes for which there had been insufficient bidders on the scheduled rollover dates. We will not be able to liquidate any of our non-current ARS until a future auction is successful, the issuer calls the security, a buyer is found outside the auction process or the securities are redeemed. Moreover, if the issuers are unable to successfully close future auctions and their credit ratings deteriorate, we may in the future be required to record an impairment charge on these investments. Maturity dates for these ARS investments range from 2017 to 2042.

We have no outstanding debt at March 31, 2008, and are therefore not subject to any interest rate risk.

Table of Contents

ITEM 4. Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that we are able to collect the information we are required to disclose in the reports we file with the Securities and Exchange Commission (SEC), and to process, summarize and disclose this information within the time periods specified in the rules of the SEC. Based on an evaluation of our disclosure controls and procedures as of the end of the period covered by this report conducted by our management, with the participation of the Chief Executive and the Chief Financial Officer, the Chief Executive and Chief Financial Officer believe that these controls and procedures are effective to ensure that we are able to collect, process and disclose the information we are required to disclose in the reports we file with the Securities and Exchange Commission within the required time periods.

Part II. OTHER INFORMATION

ITEM 1. Legal Proceedings

Prior to September 11, 2007, we had warrants outstanding to purchase 1.6 million shares of common stock at $2.50 per share, which were held by Bank of America, N. A. (BOA) pursuant to the terms of two Amended and Restated Stock Purchase Warrants (collectively, the Warrants). The exercise price could be paid either in cash or by a cashless exercise in which the holder was required to surrender the Warrants in exchange for warrant shares based on the following formula: [(Market Price $2.50) / (Market Price)] x 1. 6 million shares, with the Market Price calculated as the immediately preceding 60-day trading average of our common stock. The Warrants identified specific exercise procedures for each method of exercise and further provided that any exercise would not be effective until we received all applicable documents, instruments and the purchase price. The Warrants were originally issued on September 10, 1997 and were exercisable from that date until 5 p.m., Central Time, September 10, 2007, when they expired.

On September 10, 2007, at 4:44 p.m., Central Time, BOA attempted to effectuate a cashless exercise of the Warrants via email; however, we believe BOA did not comply with all of the requirements set forth in the Warrants for an effective exercise. At 5:37 p.m., Central Time, BOA recalled this email exercise notice, which we subsequently accepted. At 6:10 p.m., Central Time, BOA attempted to effectuate a cash exercise of the Warrants by emailing a different notice of exercise, which we believe also failed to comply with all of the requirements set forth in the Warrants for an effective exercise, and in any event, was after the expiration date of the Warrants. As a result, we believe these Warrants expired as of September 10, 2007 and have excluded the effect of the Warrants from potentially dilutive common shares as of such date in our earnings per share computation.

On October 12, 2007, we filed a declaratory judgment action against BOA in the District Court of Dallas County, Texas, 101st Judicial District requesting the court to declare, among other things, that the Warrants have expired pursuant to their terms. On November 14, 2007, BOA filed an original answer and counterclaim asserting, among other things, that the parties modified the exercise requirements of the Warrants, that Tyler breached the alleged modified contracts by refusing to deliver the warrant shares to BOA, and that BOA is therefore entitled to specific performance of the Warrants by us delivering the warrant shares or, in the alternative, to a recovery of damages, including attorneys fees, interest, and costs. While we believe the Warrants expired as of September 10, 2007, there can be no assurance as to the ultimate resolution of this matter. At this time it is not possible to reasonably estimate the potential loss or range of loss, if any.

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, you should carefully consider the discussion of various risks and uncertainties contained in Part I, Item 1A. Risk Factors in our 2007 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 first three months of 2008, 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, 2007.

Table of Contents

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

Table of Contents

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: April 22, 2008