TRAVELCENTERS OF AMERICA LLC
Form 424B1
June 29, 2007

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PROSPECTUS

4,868,600 Shares

TravelCenters of America LLC

Common Shares

We are selling all 4,868,600 of our common shares offered in this prospectus.

Our common shares are traded on the American Stock Exchange under the symbol "TA". On June 28, 2007, the last reported sale price of our common shares on the American Stock Exchange was $41.10 per share.

Although we are a limited liability company, our common shares have voting, dividend and liquidation rights that are generally associated with common stock. Ownership of our shares by any person generally is limited to 9.8% of any class or series of our equity securities.

Investment in our shares involves a high degree of risk. You should read carefully this entire prospectus, including the section entitled "Risk factors" that begins on page 5 of this prospectus, which describes the material risks.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful and complete. Any representation to the contrary is a criminal offense.

	Per share	Total
Public offering price	$ 41.100	$ 200,099,460
Underwriting discounts and commissions	$ 2.466	$ 12,005,968
Proceeds, before expenses, to us	$ 38.634	$ 188,093,492

The underwriters may also purchase from us up to an additional 730,290 shares, at the public offering price less the underwriting discount, to cover over allotments, if any, within 30 days from the date of this prospectus.

The underwriters are offering our shares as described in "Underwriting". Delivery of the shares will be made on or about July 3, 2007.

Joint Book-Running Managers

UBS Investment Bank **Morgan Stanley**

Lead Manager

RBC Capital Markets

Banc of America Securities LLC

Ferris, Baker Watts
Incorporated

Janney Montgomery Scott LLC

Morgan Keegan & Company, Inc.

Oppenheimer & Co.

Stifel Nicolaus

The date of this prospectus is June 28, 2007.

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ABOUT THIS PROSPECTUS

References in this prospectus to "we", "us", "our", the "Company" or "TravelCenters of America" mean TravelCenters of America LLC and its subsidiaries.

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We believe that the information contained in this prospectus is accurate as of the date on the cover. Changes may occur after that date, and we do not expect to update this information except as required by applicable law.

Some of the descriptive material in this prospectus refers to the assets, liabilities, operations, results, activities or other attributes of the historical business conducted by our predecessor, TravelCenters of America, Inc., as if it had been conducted by us. For example, "our brands", "our assets" or similar words have been used in historical or current contexts to describe those matters which, while clearly attributable to our predecessor, have continuing relevance to us. However, our business as a whole is materially different from the business historically conducted by our predecessor, as more fully described in "Selected Financial Data." Accordingly, none of these references are intended to imply that the historical business, financial position, results of operations or cash flows of our predecessor are indicative of our business, financial position, results of operations or cash flows, now or at any future date or for any future period.

Prospectus summary

This summary highlights selected information contained in greater detail elsewhere in this prospectus. This summary may not contain all of the information that you should consider before investing in our common shares. You should carefully read the entire prospectus, including "Risk Factors" and the financial statements and related notes, before making an investment decision.

THE COMPANY

Business

We operate and franchise 233 travel centers primarily along the U.S. interstate highway system. Our travel centers include 164 that are operated under the "TravelCenters of America" or "TA" brand names and 69 that are operated under the "Petro" brand name. Our typical travel center includes:

- over 23 acres of land with parking for 190 tractor trailers and 100 cars;
- a full service restaurant and one or more quick service restaurants, or QSRs, operated by us primarily as a franchisee under various brands;
- a truck repair facility and parts store;
- multiple diesel and gasoline fueling points; and
- a travel and convenience store, game room, lounge and other amenities for professional truck drivers and motorists.

Our 233 travel centers

Pro forma 2006 revenue: $6.6 billion

Recent developments

Spin off. On January 31, 2007, Hospitality Properties Trust, a publicly owned real estate investment trust, or Hospitality Trust, acquired our predecessor and distributed all of our common shares to its shareholders and we became a separate public company. See " Our history".

Petro Acquisition. On May 30, 2007, we acquired Petro Stopping Centers, L.P., or Petro, for approximately $70 million. See " Our history".

Expansion activities. Since we became a public company on January 31, 2007, we have pursued expansion activities. We expect to spend $125 million to $150 million to improve our TA brand travel centers during the next four years; since January 31, 2007, we purchased one travel center; we have several single site acquisitions under conditional purchase agreements or discussion; and we have several development projects underway or planned. See " Growth strategies".

New credit facility. We are discussing a new credit facility with a large commercial bank. We expect this credit facility to be for at least $100 million and secured by certain of our accounts receivable and inventory.

Growth strategies

We expect to grow our business as follows:

Same site improvements. We expect to spend $125 million to $150 million during the next four years to, among other things, improve and expand parking lots, increase the number of our truck repair bays to reduce repair waiting times experienced at our centers and remodel the interior and exterior of many of our travel centers. We expect these improvements will make these travel centers more attractive to both professional truck drivers and motorists and increase our same site sales.

Acquisitions. In addition to our Petro acquisition, we purchased one travel center from a former TA franchisee in May 2007 for $3.1 million. We expect to substantially remodel this center for an additional cost of $1.6 million. We have nine other individual travel center purchases in various stages of negotiations, letters of intent or conditional purchase contracts. We estimate the total cost to purchase and remodel all nine of these travel centers to be $90 million; however, at this time, we are unable to assure you that any of these purchases will occur.

Development. We completed construction of a travel center in Livingston, CA, in March 2007. We expect to complete construction of another travel center in Laredo, TX, later this summer. We estimate the total cost of these two developments, including site acquisition costs, to be $30 million. We own, or have under negotiation for possible acquisition, 13 sites containing 400 acres of land which we believe may be suitable for development as travel centers. We have a 40% interest in a joint venture that may build a new travel center. We estimate our total cost to acquire and develop all of these sites to be $190 million; however, because the approval process for developing new travel centers can be long and complicated, at this time we are unable to assure you the total costs we may incur or that any of these development projects will be completed.

Franchising. Forty six of our travel centers are operated by our franchisees, 24 as Petro Stopping Centers® and 22 as TravelCenters of America®. Since January 1, 2006, we have added two TA travel centers and two Petro travel centers as franchised locations. We have agreed and expect to add one additional Petro franchised location and one additional TA franchised location in 2007. We expand our business by franchising when desirable locations are not available for purchase or when we believe a particular site can be more successfully operated by a franchisee than by us. We expect to add franchised sites; and, if a franchisee is no longer interested to operate a franchised travel center, we would consider whether to purchase the site and operate it directly.

Our history

On January 31, 2007, Hospitality Trust purchased our predecessor for approximately $1.9 billion. Simultaneously with this purchase, Hospitality Trust restructured our predecessor's business as follows: (i) Hospitality Trust retained the real estate of 146 of the 163 travel centers then operated or franchised by our predecessor and other assets; (ii) our predecessor's operating business and all its assets not retained by Hospitality Trust, plus approximately $200 million of net working capital, were contributed to us; (iii) we entered a long term lease for our predecessor's real estate retained by Hospitality Trust, which we refer to as the TravelCenters lease; and (iv) all of our shares were spun off to Hospitality Trust's shareholders and we became a separate public company.

On May 30, 2007, we acquired Petro; Hospitality Trust acquired the real estate at 40 of the 69 travel centers operated by Petro for approximately $630 million plus debt defeasance costs of approximately $25 million; and we entered a long term lease for those 40 travel centers from Hospitality Trust, which we refer to as the Petro lease.

Risk factors

Your ownership of our common shares includes the following risks, among others:

> The trading market for our common shares may be volatile and thin.

> Our operating margins are small; small changes in our revenues or operating expenses may cause us to experience losses.

> Interruptions in the availability of fuel may cause us to experience losses.

> We regularly incur environmental clean up costs; these costs may become more than we can afford.

> We are engaged in a large number of simultaneous expansion activities. As a result, we may incur higher expenses than our predecessor. These expenses may result in losses and our expansion activities may not be profitable.

> Our management team has been recently assembled from Reit Management & Research LLC, or Reit Management, and its affiliates, from our predecessor and from Petro and it may not be able to work together successfully.

> We may be unable to meet reporting requirements for publicly owned companies, or we may have to increase our expenses to do so.

> We are involved in several litigations that could be expensive to defend and may result in material liabilities.

> Our continuing relationships with Hospitality Trust and Reit Management may cause conflicts of interest.

> Various provisions in our governing documents and our contracts with Hospitality Trust and Reit Management may prevent a change of control of us.

General

We are a Delaware limited liability company. Our principal place of business is 24601 Center Ridge Road, Westlake, Ohio 44145, and our telephone number is (440) 808-9100.

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The offering

Common shares we are offering	4,868,600 shares
Common shares to be outstanding after this offering	13,677,175 shares
Use of proceeds	The estimated net proceeds to us from this offering will be $187.6 million, or $215.8 million if the underwriters' over allotment option is exercised in full. We intend to use these net proceeds for general business purposes including funding acquisitions and our other expansion activities.
American Stock Exchange symbol	TA

The number of shares to be outstanding after the offering is based on 8,808,575 shares outstanding on June 28, 2007. If the underwriters exercise their over allotment option in full, we will issue an additional 730,290 shares. Unless otherwise stated, all information contained in this prospectus assumes no exercise of the underwriters' over allotment option.

Risk factors

Investing in our common shares involves a high degree of risk. You should carefully consider the following risks, together with all of the other information included in this prospectus, before investing in our common shares. The risks described below may not be the only risks we face. Additional risks that we do not yet know of, or that we currently think are immaterial, may also impair our business operations or financial results. If any of the events or circumstances described in the following risks occurs, our business, financial condition or results of operations could suffer and the trading price of our securities could decline. Investors and prospective investors should carefully consider the following risks and the information contained in this prospectus under the heading "Warning Concerning Forward Looking Statements" before deciding whether to invest in our common shares.

The trading market for our common shares may be volatile and thin.

Our shares have only traded on the American Stock Exchange since we became a public company in early 2007. Assuming the underwriters do not exercise their over allotment option, we are selling 4,868,600 of our common shares in this offering, an amount equal to 55% of our shares outstanding prior to the offering. We cannot predict what effect this offering may have on the price of our common shares or the volume of transactions involving our shares in the market. Sales of a substantial amount of our common shares, or the perception that such sales could occur, could adversely affect the liquidity of the market for our common shares or their price. Large price changes or low volume may preclude you from buying or selling our shares at all, or at any particular price or during a time frame that satisfies your investment objectives.

Our operating margins are narrow.

Our pro forma total revenues for the year ended December 31, 2006, were $6.6 billion; and our pro forma cost of goods sold (excluding depreciation) and site level operating expenses for the same period totaled $6.3 billion. Fuel sales in particular generate low gross margins. Our pro forma fuel sales were $5.4 billion and our pro forma gross profit on fuel sales was $212 million for the year ended December 31, 2006. A small percentage decline in our future revenues or increase in our future expenses, especially revenues and expenses related to fuel, may have a material adverse effect upon our income or may cause us to experience losses.

An interruption in our fuel supplies would materially adversely affect our business.

To mitigate the risks arising from fuel price volatility, we generally maintain limited inventories of fuel. Accordingly, an interruption in our fuel supplies would materially adversely affect our business. Interruptions in fuel supplies may be caused by local conditions, such as a malfunction in a particular pipeline or terminal, or by national or international conditions, such as government rationing, acts of terrorism, war and the like. Any limitation in available fuel supplies that causes a decline in truck freight shipments or a limit on the fuel we can offer for sale may have a material adverse effect on our sales of fuel and non-fuel products and services or may cause us to experience losses.

Our storage and dispensing of petroleum products create the potential for environmental damages, and compliance with environmental laws may be costly.

Our business is subject to laws relating to the protection of the environment. The travel centers we operate include fueling areas, truck repair and maintenance facilities and tanks for the storage of petroleum products and other hazardous substances, all of which create the potential for environmental damages. As a result, we regularly incur environmental clean up costs. Because of the

uncertainties associated with environmental expenditures, it is possible that future expenditures could be substantially higher than the amounts we have previously accrued. Environmental laws expose us to the possibility that we may become liable to reimburse the government or third parties for damages and costs they incur in connection with environmental hazards. We cannot predict what environmental legislation or regulations may be enacted or how existing laws or regulations will be administered or interpreted with respect to our products or activities in the future; more stringent laws, more vigorous enforcement policies or stricter interpretation of existing laws in the future could cause us to experience losses. In addition, under the terms of the leases between us and Hospitality Trust, we have generally agreed to indemnify Hospitality Trust from all environmental liabilities it may incur arising at any of our travel centers.

Our management team has limited experience working together.

We are a recently reorganized business. Our board and our management team include persons associated with Hospitality Trust and its affiliates and with Reit Management as well as former executives of our predecessor and of Petro. This management team has limited experience working together and they may not be able to do so successfully. Although we implemented retention bonus plans for certain of our employees who are former employees of our predecessor or who were historically employees of Petro, we can provide no assurance that we will in fact retain any or all of these persons.

We may be unable to successfully integrate the business of Petro and our other expansion activities.

We recently acquired Petro. We also have undertaken other acquisition, development and franchise growth activities. The process of integrating our operations and those of Petro and our other expansion activities may involve unforeseen difficulties and may require a large amount of our management's attention and our other resources. We can give no assurance that we will effectively integrate and manage our expansion activities. These expansion activities may cause us to incur higher costs than our predecessor. If we are unable to successfully manage our enlarged operations, our expansion activities may not be profitable and we may realize losses.

We may be unable to meet financial reporting and internal control standards for a publicly owned company.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with the authorization of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

We may identify material weaknesses in our internal control over financial reporting in the future. Beginning with our Annual Report on Form 10-K for the year ending December 31, 2007, pursuant to

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Section 404 of the Sarbanes Oxley Act of 2002, our management will be required to assess the effectiveness of our internal control over financial reporting, and, beginning for the year ending December 31, 2008, we will be required to have our independent registered public accounting firm attest to the design and operating effectiveness of our internal control over financial reporting. If our management or our independent registered public accounting firm were to either identify a material weakness or otherwise conclude in their reports that our internal control over financial reporting was not effective, investors could lose confidence in our reported financial information and the value of our shares could be adversely affected which, in turn, could harm our business, have an adverse effect on our future ability to raise capital and cause the price of our traded securities to decline.

Our relationships with Hospitality Trust and Reit Management may limit the growth of our business.

In connection with our spin off from Hospitality Trust, we entered agreements which prohibit us from acquiring or financing real estate in competition with Hospitality Trust or other affiliates of Reit Management, unless those investment opportunities are first offered to Hospitality Trust or those other entities. These restrictions may make it difficult or impossible for us to alter our business strategy to include investments in real estate. Also, because our leases with Hospitality Trust limit our ability to incur debt and prohibit ownership of more than 9.8% of our shares by any party, we may be unable to independently finance future growth opportunities.

Ownership limitations and anti-takeover provisions may prevent you from receiving a takeover premium.

Our limited liability company agreement, or LLC agreement, places restrictions on the ability of any person or group to acquire beneficial ownership of more than 9.8% (in number of shares, vote or value, whichever is most restrictive) of any class or series of our equity securities. The terms of our leases with Hospitality Trust and our management and shared services agreement with Reit Management provide that our rights under those agreements may be cancelled by Hospitality Trust and Reit Management, respectively, upon the acquisition by any person or group of more than 9.8% of our shares, and upon other change of control events, as defined in those agreements. If the breach of these ownership limitations causes a lease default, shareholders causing the default are liable to us and may be liable to other shareholders for damages. These agreements and other provisions in our LLC agreement may increase the difficulty of acquiring control of us by means of a tender offer, open market purchases, a proxy fight or otherwise. Other provisions in our governing documents which may deter takeover proposals include the following:

>
staggered terms for members of our board of directors;

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the power of our board of directors, without a shareholders' vote, to authorize and issue additional shares and classes or series of shares on terms that it determines;

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a 75% shareholder vote and cause requirements for removal of directors; and

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advance notice procedures with respect to nominations of directors and shareholder proposals.

For these reasons, shareholders may be unable to cause a change of control of us or to realize a change of control premium for their common shares.

We have limited control of our franchisees.

Ten travel centers which we lease from Hospitality Trust are subleased to franchisees. An additional 36 travel centers are owned and operated by franchisees. For the year ended December 31, 2006, our pro

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forma rent and royalty revenues from these franchisee relationships were $16 million. Various laws and our existing franchise contracts limit the control we may exercise over our franchisees' business activities. A failure by our franchisees to pay rents and royalties to us may have a material adverse effect upon our financial results or may cause us to experience losses.

We expect we will incur costs and cash outlays which are significantly higher than those of our predecessor and may result in a prolonged period of substantial losses.

Our pro forma operating expenses for the year ended December 31, 2006, include expenses of $230 million incurred under the terms of our leases with Hospitality Trust and our management and shared services agreement. This amount is significantly higher than the depreciation, which is a noncash operating expense, and interest expenses that were incurred by our predecessor and Petro that we avoid after the HPT Transaction (as defined under "Business General") and our acquisition of Petro. Our leases with Hospitality Trust require us to make capital expenditures to maintain the travel centers we lease. Expenditures we make for improvements that are in excess of the $125 million that we may draw from Hospitality Trust for improvements at the leased TA sites will either be paid by us directly without reimbursement or, if they are reimbursed by Hospitality Trust, increase our rent expense. These additional expenses and cash outlays may result in future substantial losses and negative cash flow. We incurred substantial pro forma net losses for 2006 and for the three months ended March 31, 2007. Material losses or negative cash flow which persist over a significant period of time may prevent us from operating our business successfully and could cause the market price of our common shares to decline substantially.

We are involved in material litigation.

We are a defendant in several class action and antitrust litigations. These litigations seek material amounts of damages which may not be covered by insurance. Although we believe that we have defenses to these claims, it is impossible to predict the outcome of these litigations at this time. Moreover, the attorney's fees and other costs of this litigation are likely to be significant, and the management time required to defend these matters may distract us from other, income producing activities. See "Business Legal Proceedings" for more information about these litigations.

Our creation was, and our continuing business will be, subject to conflicts of interest with Hospitality Trust and Reit Management.

Our creation was, and our continuing business will be, subject to conflicts of interest, as follows:

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Two of our directors were trustees of Hospitality Trust at the time we were created.

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We have five directors: one of whom, Barry M. Portnoy, also is a trustee of Hospitality Trust and the majority owner of Reit Management; one of whom, Arthur G. Koumantzelis, is a former trustee of Hospitality Trust; and one of whom, Thomas M. O'Brien, is a former executive officer of Hospitality Trust.

>
Mr. O'Brien, who serves as our President and Chief Executive Officer, and John R. Hoadley, our Executive Vice President, Chief Financial Officer and Treasurer, are also employees of Reit Management. Reit Management is the manager for Hospitality Trust, and we purchase services from Reit Management pursuant to our management and shared services agreement.

These conflicts may have caused, and in the future may cause, adverse effects on our business, including:

>
Our leases with Hospitality Trust may be on terms less favorable to us than the terms we may have been able to obtain from a party other than Hospitality Trust.

>
The terms of our management and shared services agreement with Reit Management may be less favorable to us than we may have been able to obtain from a party other than Reit Management.

>
Future business dealings between us and Hospitality Trust, Reit Management and their respective affiliates may be on terms less favorable to us than those we could obtain from other parties.

>
We may have to compete with Hospitality Trust, Reit Management and their affiliates for the time and attention of Messrs. Portnoy, O'Brien and Hoadley.

Our leases with Hospitality Trust require that we indemnify Hospitality Trust from various liabilities.

Our leases with Hospitality Trust generally require that we pay for, and indemnify Hospitality Trust from, liabilities associated with the ownership or operation of our leased travel centers. Accordingly our business will be subject to all our business operating risks and all the risks associated with real estate including:

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costs associated with uninsured damages, including damages for which insurance may be unavailable or unavailable on commercially reasonable terms;

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costs that may be required for maintenance and repair of the travel centers; and

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costs due to compliance with and changes in laws and other regulations, including environmental laws and the Americans with Disabilities Act.

Use of proceeds

We will receive net proceeds of approximately $187.6 million from the sale of 4,868,600 shares, after deducting underwriting commissions and discounts and estimated expenses payable by us. If the underwriters exercise their over allotment option in full, then the net proceeds will be approximately $215.8 million.

We intend to use the net proceeds of this offering for general business purposes, including funding acquisitions and our other expansion activities. We expect that the net proceeds of this offering will be invested in short term, interest bearing securities pending other uses.

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Market price of common shares

Since February 1, 2007, our common shares have been traded on the American Stock Exchange under the symbol "TA". The following table presents the high and low sales prices for our common shares as reported on the American Stock Exchange for each calendar quarter since they began to trade:

Period		**Low**		**High**
First Quarter (February 1, 2007 to March 31, 2007)	$	28.59	$	43.00
Second Quarter (through June 28, 2007)	$	38.46	$	47.41

On June 28, 2007, the last reported sale price of our common shares on the American Stock Exchange was $41.10 per share. As of June 28, 2007, there were approximately 860 shareholders of record of our common shares.

Dividend policy

We do not expect to make any distributions to any shareholders in the foreseeable future.

Under the Delaware Limited Liability Company Act, we generally cannot make a distribution that would cause our liabilities to exceed the fair value of our assets.

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Capitalization

The following table describes our capitalization as of March 31, 2007:

> on an actual basis;

> on a pro forma basis after giving effect to our Petro acquisition; and

> on a pro forma as adjusted basis after giving effect to the Petro acquisition and the sale of 4,868,600 shares by us in this offering, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

	At March 31, 2007		
	Actual	**After giving pro forma effect to the Petro acquisition**	**As adjusted for this Offering and after giving pro forma effect to the Petro acquisition**

	At March 31, 2007		
	(in thousands except share data)		
Cash and cash equivalents	$ 149,838	$ 106,394	$ 293,987
Restricted investments[1]		$ 274,740	$ 274,740
Capital lease obligations[2]	$ 107,620	$ 107,620	$ 107,620
Debt[1]		$ 270,399	$ 270,399
Shareholders' equity:			
Common shares, no par value, 8,808,575 actual and pro forma shares issued and outstanding and 13,677,175 pro forma as adjusted shares issued and outstanding	333,120	333,120	520,713
Accumulated other comprehensive income	123	123	123
Accumulated deficit	(11,029)	(11,029)	(11,029)
Total shareholders' equity	322,214	322,214	509,807
Total capitalization	$ 429,834	$ 700,233	$ 887,826

(1) *Prior to our acquisition of Petro, $275 million of U.S. Treasury bonds were placed in escrow for the purpose of covenant defeasance of all Petro's debt which was not repaid in connection with the Petro acquisition. These treasury bonds are reflected on our balance sheet as restricted investments and are sufficient to pay the principal amount of this defeased debt, all of the interest that will accrue on the defeased debt until the February 15, 2008, redemption date and the redemption premium due on February 15, 2008.*

(2) *As a result of our application of Statement of Financial Accounting Standards No. 98 (SFAS 98), which sets forth accounting guidance related to sale leaseback transactions, to the TravelCenters lease, 13 of the travel centers we lease from Hospitality Trust do not qualify for operating lease treatment, because more than an insignificant portion of these travel centers is sublet to a third party. The amount shown as capital lease obligation will remain on our balance sheet unless and until the subleased portion of these travel centers is reduced to an insignificant level. We expect that the Petro lease will qualify for operating lease treatment, but that determination is subject to the results of a valuation study commissioned with an independent appraiser; the results of this independent study are not expected to be complete until later in 2007.*

Dilution

Our net tangible book value as of March 31, 2007, was $273.8 million, or $31.08 per share. Net tangible book value per share is determined by dividing our net tangible book value (total tangible assets less total liabilities) by the number of common shares outstanding. Without taking into account any changes in our net tangible book value after March 31, 2007, other than to give effect to the sale of the 4,868,600 shares in this offering, our net tangible book value at March 31, 2007, would have been $461.4 million, or $33.73 per share. This represents an immediate increase in net tangible book value of $2.65 per share to existing shareholders and an immediate dilution in net tangible book value of $7.37 per share to purchasers of our common shares in this offering. The following table illustrates this per share dilution:

Public offering price per share		$ 41.10
Net tangible book value per share before offering	$ 31.08	
Increase in net tangible book value per share attributable to new investors	2.65	
Net tangible book value per share after offering		$ 33.73

Dilution per share to new investors	$	7.37

If the underwriters exercise their over allotment option in full, the net tangible book value per share after the offering will be $489.6 million, or $33.98 per share. This amount represents an immediate increase in net tangible book value of $2.90 per share to the existing shareholders and an immediate dilution in net tangible book value of $7.12 per share to purchasers of our common shares in this offering.

Business

GENERAL

We are a limited liability company formed under Delaware law on October 10, 2006 as a wholly owned subsidiary of Hospitality Trust. Our initial capitalization in a nominal amount was provided by Hospitality Trust on our formation date. From that time through January 31, 2007, we conducted no business activities. On January 31, 2007, Hospitality Trust acquired our predecessor, restructured this acquired business and distributed all of our common shares to the shareholders of Hospitality Trust. In this prospectus we sometimes refer to these transactions as the HPT Transaction.

BUSINESS OVERVIEW

We operate and franchise travel centers primarily along the U.S. interstate highway system. Our customers include long haul trucking fleets and their drivers, independent truck drivers and motorists. As of May 31, 2007, after we completed our Petro acquisition, our business included 233 travel centers located in 41 states in the U.S. and the province of Ontario, Canada. Many of our travel centers were originally developed years ago when prime real estate locations along the interstate highway system were more readily available than they are today, a fact which we believe would make it difficult to replicate our business. We believe that our nationwide locations provide an advantage to long haul trucking fleets by enabling them to reduce the number of their suppliers by routing their trucks among our locations from coast to coast.

We offer a broad range of products and services, including diesel fuel and gasoline, truck repair and maintenance services, full service restaurants, more than 20 different brands of QSRs, travel and convenience stores and other driver amenities.

The U.S. travel center and truck stop industry in which we operate consists of travel centers, truck stops, diesel fuel outlets and similar properties. We believe that the travel center and truck stop industry is highly fragmented, with in excess of 6,000 travel centers and truck stops in the U.S.

HISTORY

Our Predecessor. Our predecessor was formed in December 1992 by a group of institutional investors. In April 1993 our predecessor acquired the travel center business of Unocal Corporation, or Unocal. This Unocal business included 139 travel centers, of which 95 were leased to third party operators, 42 were franchisee operated and two were operated by our predecessor. Unocal operated this business principally as a fuel wholesaler and franchisor. In December 1993, our predecessor acquired the travel center business of The British Petroleum Company plc, or BP. This BP business included 38 company operated and six franchisee operated travel centers.

In January 1997, our predecessor changed its business strategy to combine the operations of the former Unocal and BP travel center businesses under the TravelCenters of America and TA brand names. From January 1997 through January 31, 2007, our predecessor:

> acquired 50 travel centers, including three multi-property acquisitions of more than ten travel centers;

> designed, developed and constructed five travel centers;

>

began to operate directly 51 travel centers which were previously leased to and operated by franchisees; and

>

sold or closed 41 travel centers which were considered nonstrategic.

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As a result of these steps, at the time of the HPT Transaction, our predecessor's business included 163 travel centers, of which 140 were operated by our predecessor, 10 were operated by franchisees on sites leased from our predecessor and 13 were operated by franchisees on sites they owned.

The HPT Transaction. We commenced business on January 31, 2007. In order to govern relations before and after the spin off, we entered into a transaction agreement with Hospitality Trust and Reit Management. The material provisions of the transaction agreement are summarized as follows:

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Simultaneously with Hospitality Trust's closing of its acquisition of our predecessor, the business of our predecessor was restructured. As a result of the restructuring:

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the real property interests of 146 travel centers which we operate or franchise and certain other assets held by our predecessor were transferred to subsidiaries of Hospitality Trust that we did not own;

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we leased the 146 travel centers owned by Hospitality Trust and agreed to operate our travel centers business;

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we continued to own all of our working capital assets (primarily consisting of cash, receivables and inventory) and liabilities (primarily consisting of trade payables and accrued liabilities);

>

we owned one travel center in Ontario, Canada, and leased two travel centers from, and managed one travel center for, owners other than Hospitality Trust; we became the franchisor of 13 travel centers owned and operated by third parties; we owned certain other assets historically owned and used by our predecessor in connection with the travel centers business, including furniture, vehicles and substantially all other moveable equipment employed at the travel centers that we operate and buildings that are situated on land owned by Hospitality Trust for nine travel centers that we operate; and

>

Hospitality Trust contributed cash to us so that the sum of our cash, receivables and inventory, net of trade payables and accrued liabilities, was about $200 million at the time of our spin off.

>

On January 31, 2007, Hospitality Trust distributed all of our shares to its shareholders.

>

We entered into a management and shared services agreement with Reit Management. See "Management Management and Shared Services Agreement with Reit Management".

>

We provided Hospitality Trust a right of first refusal to purchase, lease, mortgage or otherwise finance any interest we own in a travel center before we sell, lease, mortgage or otherwise finance that travel center with another party.

>

We granted Hospitality Trust and other affiliates of Reit Management a right of first refusal to acquire or finance any real estate of the types in which they invest before we do.

>

We agreed to restrict the ownership of our shares and conduct all of our business activities in a manner which may prevent a change of control of us or a sale of a material portion of our assets. See "Description of our limited liability company agreement Restrictions on Share Ownership and Transfer".

>
We and Hospitality Trust agreed to cooperate in filing tax returns and addressing other tax matters including appropriate allocations of taxable income, expenses and other tax attributes associated with the HPT Transaction.

>
We agreed to indemnify Hospitality Trust for liabilities relating to our business and operations for periods before and after the spin off.

>
Hospitality Trust agreed to pay all of the costs and expenses of the spin off and the restructuring.

Activities Since January 31, 2007. Since we began operations on January 31, 2007, we have completed or begun a number of business initiatives which we believe may improve our future financial performance, including:

>
We entered retirement agreements with the president, the chief financial officer and the general counsel of our predecessor who continued in those positions immediately after we began operations. These agreements require us to make termination payments to these individuals through December 31, 2007. We appointed a new president, chief financial officer and general counsel.

>
We have accelerated a same site improvement program for our TA locations with an emphasis upon build outs of revenue generating improvements, such as expanding the number of our truck repair bays in order to reduce waiting times for repairs.

>
We have expanded our travel center acquisition and development efforts to identify individual sites which will allow us to fill in locations along the U.S. interstate highways where we do not currently have a travel center. These efforts have begun to produce results, as we have purchased one location from a former franchisee and are having discussions regarding several other possible individual site purchases.

>
We have begun a strategic review of all our contractual arrangements to determine if any should be discontinued or expanded. For example, we have given notice to terminate a contract under which a third party markets hedged sales contracts to trucking fleets that in turn fuel at our TA locations in return for low pumping fee payments to us. Similarly, we have begun negotiations with a supplier to change the terms on which we buy lubricants and grease.

The Petro Acquisition. On May 30, 2007, we acquired Petro for approximately $70 million. Petro operates or franchisees 69 travel centers along the U.S. interstate highways. These 69 centers are similar to the TravelCenters locations which we operate, except that they are generally larger and newer.

Also, on May 30, 2007, Hospitality Trust acquired the real estate of 40 Petro centers for $630 million and Hospitality Trust and Petro defeased certain secured debts of Petro and paid a net defeasance cost (in addition to the debt principal included in Hospitality Trust acquisition price) of about $25 million. Simultaneously with Hospitality Trust's acquisition of this real estate, we leased these 40 locations from Hospitality Trust. See " Our Leases with Hospitality Trust".

The Petro assets we acquired include:

>
Two travel centers owned and operated by Petro.

>
Two travel centers that Petro leases from third parties other than Hospitality Trust.

>
A 40% minority interest in a joint venture which owns a travel center that is managed by Petro.

>

Contract rights as franchisor of 24 Petro travel centers.

>

Four land parcels which we believe are suitable for development of new travel centers.

>

Various items of personal property, contract rights and working capital.

The majority owner of the joint venture in which we acquired a 40% interest has an option to purchase our 40% interest for $16 million, and we have offered to purchase their remaining 60% interest for $24 million. However, at this time, we do not expect that this majority owner will exercise either of these options.

In connection with the Petro acquisition, we have offered to purchase from former owners of Petro their minority interests in an entity which is a franchisee of four Petro travel centers and related assets. We believe that this entity is currently evaluating this offer. The result of this evaluation may be, generally at this franchisee's option, one of: (1) our proceeding to purchase these interests for $11 million; (2) this franchisee's other owners purchasing these interests for $11 million; or (3) our purchase of 100% of this entity and related interests for $35 million. All of these possibilities are subject to negotiation of a binding contract between the parties. It is possible that this franchisee will offer alternatives to any of the options set forth above, in which case, generally we will have the option to either proceed on the terms proposed or to pursue the purchase of the minority interests of the former owners of Petro for $11 million.

We expect to continue to operate both Petro and TA branded travel centers. We believe that the primary factors which attract customers to our travel centers are their locations and the variety, quality and prices of goods and services offered at each travel center, not the brands. We also believe that certain business activities may historically have been better operated by either Petro or our predecessor, and we have formed a management team to study and compare the historical operations at our TA and Petro operations so that we may implement the better operating practices throughout our business.

OUR GROWTH STRATEGY

Same site improvements. We plan to continue to expand and standardize many of our TA locations to increase the services we offer to attract professional truck drivers and motorists. We expect to spend $125 million to $150 million during the next four years, among other things, to improve and expand parking lots, to increase the number of our truck maintenance and repair bays to expand business and reduce repair waiting times experienced at our travel centers, to remodel the interior and exterior of many of these travel centers and for other improvements. We have identified eight TA locations that we operate that we intend to re-image and one TA location which we intend to raze and rebuild over the next two to three years. We have also identified certain TA locations at which we believe we can add 40 maintenance and repair bays during that same time period. We believe that we have other opportunities to increase our revenues, including, but not limited to, the expansion of the number of gasoline lanes at several of our travel centers to increase the number of gasoline customers serviced simultaneously. We expect soon to begin a thorough review of our Petro locations to determine what site improvements, if any, may be appropriate at these locations. We believe these improvements will make these travel centers more attractive to both professional truck drivers and motorists and increase our same site sales.

Acquisitions. In addition to the Petro acquisition, we purchased one travel center from a former TA franchisee in May 2007 for $3.1 million. We expect to substantially remodel this center for an additional cost of $1.6. There are segments along the U.S. interstate and Canadian highway systems that we consider to be strategic but where we believe we do not have an adequate presence. We intend to pursue acquisitions in these locations. We regularly evaluate opportunities to expand through acquisitions, some of which may be significant in size. We have a contract to purchase minority interests in four Petro franchised locations for approximately $11 million, and we may be required to purchase 100% of the entity that owns these locations for an additional $24 million. We have nine other individual center purchases in various stages of negotiations, letters of intent or conditional purchase contracts at this time. We estimate the total cost to purchase and remodel all nine of these centers to be $90 million; however, at this time, we are unable to assure you that any of these purchases will occur.

Development. We completed construction of a travel center in Livingston, CA, in March 2007. We expect to complete construction of another travel center in Laredo, TX, later this summer. We estimate the total cost of these two developments, including site acquisition costs, to be $30 million. We plan to continue expansion by building new travel centers. We have a standard design for new travel centers appropriate for markets in which we can obtain large parcels of land and where there appears to be sufficient demand to support a full service restaurant and a different standard design for markets in which less land is available or where there appears to be less or different potential business. We own, or have under negotiation for possible acquisition, 13 sites containing approximately 400 acres of land which we believe may be suitable for development as travel centers. We have a 40% interest in a joint venture that may build a new travel center. We estimate our total cost to acquire and develop all of these sites to be $190 million; however, because the approval process for developing new travel centers can be long and complicated, at this time we are unable to assure you the total costs we may incur or that any of these development projects will be completed.

Franchising. Forty six of our travel centers are operated by our franchisees, 24 as Petro Stopping Centers® and 22 as TravelCenters of America®. Since January 1, 2006, we have added two TA travel centers and two Petro travel centers as franchised locations. We have agreed and expect to add one additional Petro franchised location and one additional TA franchised location in 2007. We expand our business by franchising when desirable locations are not available for purchase or when we believe a particular site can be more successfully operated by a franchisee than by us. We expect to add franchised sites; and, when a franchisee is no longer interested to operate a franchised travel center, we would consider, when we have the option, whether to purchase the site and operate it directly.

OUR TRAVEL CENTER LOCATIONS

At May 31, 2007, our travel centers consisted of:

- 176 travel centers leased from Hospitality Trust and operated by us;
- ten travel centers leased from Hospitality Trust and subleased to and operated by our franchisees;
- five travel centers we operate on sites we own;
- five travel centers that we operate on sites owned by parties other than Hospitality Trust;
- one travel center we operate for a joint venture in which we own a 40% equity interest; and
- 36 travel centers that are owned and operated by our franchisees.

Our travel centers include 164 that are operated under the TravelCenters of America or TA brand names and 69 that are operated under the Petro brand name. Our typical travel center includes:

- over 23 acres of land with parking for 190 tractor trailers and 100 cars;
- a full service restaurant and one or more QSRs operated by us as a franchisee under various brands;
- a truck repair facility and parts store;
- multiple diesel and gasoline fueling points; and
- a travel and convenience store, game room, lounge and other amenities for professional truck drivers and motorists.

Substantially all of our travel centers are full service sites located on or near an interstate highway and offer fuel and non-fuel products and services 24 hours per day, 365 days per year.

Properties. The physical layouts of our travel centers vary from site to site. The majority of the developed acreage at our travel centers consists of truck and car fuel islands, separate truck and car parking lots, a main building, which contains a full service restaurant and one or more QSRs, a travel

and convenience store, a truck maintenance and repair shop and other amenities. Many of our TA locations have one building with separate service areas, but many of our Petro locations have several separate buildings.

Product and Service Offering. We offer many products and services to complement our diesel fuel business, including:

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Gasoline. We sell branded and unbranded gasoline. Of our 233 travel centers as of May 31, 2007, we offer branded gasoline at 155 travel centers and unbranded gasoline at 59 travel centers. Only 19 of our travel centers do not sell gasoline.

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Full Service Restaurants and QSRs. Most of our travel centers have both full service restaurants and QSRs that offer customers a wide variety of nationally recognized branded food choices. The substantial majority of our full service restaurants are operated under the "Iron Skillet®," "Country Pride®," "Buckhorn Family Restaurants®" and "Fork in the Road®" brands and offer menu table service and buffets. We also offer more than 20 different brands of QSRs, including Arby's®, Burger King®, Pizza Hut®, Popeye's Chicken & Biscuits®, Starbuck's Coffee®, Subway® and Taco Bell®. As of May 31, 2007, 210 of our travel centers included a full service restaurant, 162 of our travel centers offered at least one QSR, and a total of 287 QSRs are operated in our 233 travel centers. The restaurants and QSRs in travel centers we operate are generally staffed by our employees.

>

Truck Repair and Maintenance Shops. All but 13 of our travel centers have truck repair and maintenance shops. The typical repair and maintenance shop has between three and six service bays and a parts storage room and is staffed by our mechanics. These shops generally operate 24 hours per day, 365 days per year, and offer extensive maintenance and emergency repair and road services, ranging from basic services such as oil changes and tire repair to specialty services such as diagnostics and repair of air conditioning, air brakes and electrical systems, some of which work is backed by our warrantees. Most of our TA truck repair and maintenance facilities provide certain warranty work on Freightliner brand trucks through our participation in the Freightliner ServicePoint® program, as described below.

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Travel and Convenience Stores. Each of our travel centers has a travel and convenience store which offers merchandise to truck drivers, motorists, recreational vehicle operators and bus drivers and passengers. Each travel and convenience store has a selection of over 4,000 items, including food and snack items, beverages, non-prescription drug and beauty aids, batteries, automobile accessories, and music and video products. In addition to complete travel and convenience store offerings, the stores sell items specifically designed for the truck driver's on the road lifestyle, including laundry supplies, clothing and truck accessories. Most of our stores also have a "to go" snack bar as an additional food offering.

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Additional Driver Services. We believe that trucking fleets can improve the retention and recruitment of truck drivers by directing them to visit high quality, full service travel centers. We try to provide a consistently high level of service and amenities to professional truck drivers at all of our travel centers, making our travel centers an attractive choice for trucking fleets. Most of our travel centers provide truck drivers with access to specialized business services, including an information center where drivers can send and receive faxes, overnight mail and other communications and a banking desk where drivers can cash checks and receive funds transfers from fleet operators. Our typical travel center also has a video game room, a laundry area with washers and dryers, private showers and areas designated for truck drivers only, including a theater or television room with a video player and comfortable seating.

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Marketing. We offer truck drivers "loyal fueler" programs, called the RoadKing Club^SM and the Petro Passport^SM, that are similar to the frequent flyer programs offered by airlines. Drivers receive a point for each gallon of diesel fuel purchased and each dollar spent on selected non-fuel products and services. These points can be redeemed for discounts on non-fuel products and services at our travel centers. We publish a bi-monthly magazine called "Road King^SM" which includes articles and advertising of interest to professional truck drivers.

OPERATIONS

Fuel. We purchase diesel fuel from various suppliers at rates that fluctuate with market prices and generally are reset daily, and we sell fuel to our customers at prices that we establish daily. By establishing supply relationships with several alternate suppliers per location, we believe we are able to effectively create competition for our purchases among various diesel fuel suppliers. We also believe that purchasing arrangements with multiple diesel fuel suppliers may help us avoid product outages during times of diesel fuel supply disruptions. We have single sources of supply for gasoline at each of our travel centers that offer branded gasoline; but our travel centers selling unbranded gasoline generally purchase gasoline from multiple sources.

Generally our fuel purchases are delivered directly from suppliers' terminals to our travel centers. We do not contract to purchase substantial quantities of fuel to keep as inventory. We generally have less than three days of diesel fuel inventory at our travel centers. We are exposed to price increases and interruptions in supply. We believe our exposure to market price increases for diesel fuel is mitigated by the significant percentage of our total diesel fuel sales volume that is sold under pricing formulae that are indexed to market prices, which reset daily. We do not engage in any fixed price fuel contracts with customers. We may engage, from time to time, in a minimal level of hedging of the price of our fuel purchases with futures and other derivative instruments that primarily are traded on the New York Mercantile Exchange.

Non-fuel products. We have many sources for the large variety of non-fuel products that we sell. We have developed strategic relationships with several suppliers of key non-fuel products, including Freightliner LLC for truck parts, Bridgestone/Firestone Tire Sales Company for truck tires and ExxonMobil Oil Corporation for lubricants and oils. We believe that our relationships with these and our other suppliers are satisfactory. We maintain a distribution center near Nashville, Tennessee with 85,000 square feet of space. Our distribution center distributes certain non-fuel, non-perishable products to our TA travel centers using a combination of contract carriers and our fleet of trucks and trailers.

Freightliner Agreement. We are party to an agreement with Freightliner LLC, a DaimlerChrysler company. Freightliner is a leading manufacturer of heavy trucks in North America. We are an authorized provider of repair work and specified warranty repairs to Freightliner's customers through the Freightliner ServicePoint® program. Most of our TA truck maintenance and repair facilities are part of Freightliner's 24 hour customer assistance database for emergency and roadside repair referrals and we have access to Freightliner's parts distribution, service and technical information systems. This agreement does not presently include our Petro locations.

OUR TRAVEL CENTERS

Our travel centers are geographically diversified, located in 41 states in the U.S. and in Ontario, Canada. The travel centers we operate and their significant services and amenities are generally described in the chart below (travel centers operated by our franchisees are shown separately see "Relationships with Franchisees"). The listed properties are owned by Hospitality Trust and leased by us unless otherwise indicated.

Count	Brand	City	State	Total acres	Building area	Truck parking spaces	Number of diesel lanes	Truck repair facility	Car parking spaces	Gasoline	Travel/ convenience store
1	Petro	Bucksville	AL	48	14,400	255	12	X	167	X	X
2	TA	Mobile	AL	15	16,685	89	6	X	77	X	X
3	Petro	Shorter(1)	AL	9	12,700	50	4		50	X	X
4	TA	Tuscaloosa	AL	15	28,619	151	10	X	140	X	X
5	Petro	N. Little Rock	AR	17	21,130	250	10	X	75	X	X
6	TA	Prescott	AR	26	19,202	292	10	X	144	X	X
7	Petro	W. Memphis	AR	24	15,700	280	12	X	172	X	X

						Truck parking spaces	Number of diesel lanes	Truck repair facility	Car parking spaces		Travel/ convenience store
8	TA	West Memphis	AR	47	21,895	170	8	X	76	Current assets:	

Cash and cash equivalents	$ 93,247	$ 185,926
Accounts receivable [less allowance for doubtful accounts of $5,105 in 2018 and $5,427 in 2017]	299,253	246,188
Short-term investments	59,459	43,159
Prepaid expenses	34,985	32,206
Income tax receivable	13,100	11,339
Other current assets	1,944	1,997
Total current assets	501,988	520,815
Accounts receivable, long-term	12,387	12,107
Property and equipment, net	154,464	152,315
Other assets:		
Goodwill	740,146	657,987
Other intangibles, net	293,194	229,617
Non-current investments and other assets	57,580	38,510
Total assets	$ 1,759,759	$ 1,611,351
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,839	$ 8,174
Accrued liabilities	52,959	64,675
Deferred revenue	316,084	298,613
Total current liabilities	373,882	371,462
Deferred revenue, long-term	785	1,274
Deferred income taxes	44,803	46,879
Commitments and contingencies		
Shareholders' equity:		

Truck parking spaces	Number of diesel lanes	Truck repair facility	Car parking spaces	Travel/ convenience store

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 and outstanding as of June 30, 2018 and December 31, 2017	481	481
Additional paid-in capital	686,782	626,867
Accumulated other comprehensive loss, net of tax	(46)	(46)
Retained earnings	701,449	624,463
Treasury stock, at cost; 9,517,525 and 10,262,182 shares in 2018 and 2017, respectively	(48,377)	(60,029)
Total shareholders' equity	1,340,289	1,191,736
Total liabilities and shareholders' equity	$ 1,759,759	$ 1,611,351

See accompanying notes.

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

	Six Months Ended June 30, 2018	2017 As Adjusted
Cash flows from operating activities:		
Net income	$76,986	$64,539
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	29,649	26,102
Share-based compensation expense	23,490	17,577
Deferred income tax benefit	(5,196)	(8,847)
Changes in operating assets and liabilities, exclusive of effects of acquired companies:		
Accounts receivable	(48,870)	(32,334)
Income taxes	(1,762)	(9,311)
Prepaid expenses and other current assets	(815)	(4,797)
Accounts payable	(4,599)	2,152
Accrued liabilities	(12,185)	(11,061)
Deferred revenue	10,532	5,555
Net cash provided by operating activities	67,230	49,575
Cash flows from investing activities:		
Additions to property and equipment	(14,952)	(30,123)
Purchase of marketable security investments	(74,850)	(21,392)
Proceeds from marketable security investments	39,154	17,029
Cost of acquisitions. net of cash acquired	(157,152)	(5,855)
Increase in other	(186)	(68)
Net cash used by investing activities	(207,986)	(40,409)
Cash flows from financing activities:		
Decrease in net borrowings on revolving line of credit	—	(10,000)
Purchase of treasury shares	—	(7,032)
Proceeds from exercise of stock options	44,317	23,360
Contributions from employee stock purchase plan	3,760	3,427
Net cash provided by financing activities	48,077	9,755
Net (decrease) increase in cash and cash equivalents	(92,679)	18,921
Cash and cash equivalents at beginning of period	185,926	36,151
Cash and cash equivalents at end of period	$93,247	$55,072

See accompanying notes.

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

(1) Basis of Presentation

We prepared the accompanying condensed consolidated financial statements following the requirements of the Securities and Exchange Commission (“SEC”) and accounting principles generally accepted in the United States, or GAAP, for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP can be condensed or omitted for interim periods. Balance sheet amounts are as of June 30, 2018, and December 31, 2017, and operating result amounts are for the three and six months ended June 30, 2018, and 2017, respectively, 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, 2017. 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.

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions, and other events and circumstances from non-owner sources and includes all components of net income (loss) and other comprehensive income (loss). We had no items of other comprehensive income (loss) for the three and six months ended June 30, 2018 and 2017.

Effective January 1, 2018, we adopted the requirements of Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, utilizing the full retrospective approach as discussed in Note 2 - Accounting Standards and Significant Accounting Policies. All amounts and disclosures set forth in this Form 10-Q have been updated to comply with the new standard, as indicated by the "as adjusted" footnote.

(2) Accounting Standards and Significant Accounting Policies

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except for the accounting policies for revenue recognition and deferred commissions that were adjusted as a result of adopting ASU No. 2014-09, there have been no changes to our significant accounting policies described in the Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on February 21, 2018, that have had a material impact on our condensed consolidated financial statements and related notes.

USE OF ESTIMATES

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include revenue recognition, determining the nature and timing of satisfaction of performance obligations, and determining the standalone selling price (“SSP”) of performance obligations, variable consideration, and other obligations such as returns and refunds; loss contingencies; the estimated useful life of deferred commissions; the carrying amount and estimated useful lives of intangible assets; determining share-based compensation expense; the valuation allowance for receivables; and determining the potential outcome of future tax consequences of events that have been recognized on our consolidated financial statements or tax returns. Actual results could differ from estimates.

REVENUE RECOGNITION

Nature of Products and Services

We provide integrated software systems and related services for the public sector, with a focus on local governments. We develop and market a broad line of software solutions and services to address the information technology ("IT") needs of cities, counties, schools and other local government entities. In addition, we provide professional IT services, including software and hardware installation, data conversion, training, and for certain customers, product modifications, along with continuing maintenance and support for customers using our systems. We also provide subscription-based services such as software as a service ("SaaS") arrangements, which utilize the Tyler private cloud, and electronic document filing solutions ("e-filing"). In addition, we provide property appraisal outsourcing services for taxing jurisdictions.

We earn revenue from software licenses, royalties, subscription-based services, software services, post-contract customer support ("PCS" or "maintenance"), hardware, and appraisal services. Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. We determine revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, we satisfy a performance obligation

Most of our software arrangements with customers contain multiple performance obligations that range from software licenses, installation, training, and consulting to software modification and customization to meet specific customer needs (services), hosting, and PCS. For these contracts, we account for individual performance obligations separately when they are distinct. We evaluate whether separate performance obligations can be distinct or should be accounted for as one performance obligation. Arrangements that include software services, such as training or installation, are evaluated to determine whether those services are essential to the product's functionality. The transaction price is allocated to the distinct performance obligations on a relative SSP basis. We determine the SSP based on our overall pricing objectives, taking into consideration market conditions and other factors, including the value of our contracts, the applications sold, customer demographics, and the number and types of users within our contracts. Revenue is recognized net of allowances for sales adjustments and any taxes collected from customers, which are subsequently remitted to governmental authorities.

Software Arrangements:

Software Licenses and Royalties

Many of our software arrangements involve "off-the-shelf" software. We recognize the revenue allocable to "off-the-shelf" software licenses and specified upgrades at a point in time when control of the software license transfers to the customer, unless the software is not considered distinct. We consider off-the-shelf software to be distinct when it can be added to an arrangement with minor changes in the underlying code, it can be used by the customer for the customer's purpose upon installation and 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 not considered distinct, we recognize revenue over time by measuring progress-to-completion. We measure progress-to-completion primarily using labor hours incurred as it best depicts the transfer of control to the customer which occurs as we incur costs on our contracts. These arrangements are often implemented over an extended 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.

Software license fees are billed in accordance with the contract terms. Typically, a majority of the fee is due when access to the software license is made available to the customer and the remainder of the fee due over a passage of time stipulated by the contract. 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.

We recognize royalty revenue when earned under the terms of our third-party royalty arrangements. Currently, our third-party royalties are recognized at a point in time when we receive notice of amounts earned. Typically, we receive notice of royalty revenues earned and billed on a quarterly basis in the quarter immediately following the royalty reporting period.

Software Services

As noted above, some of our software arrangements include services considered essential or require significant customization to meet the customer's desired functionality. For these software arrangements, both the software licenses and related software services revenue are not distinct and are recognized over time using the progress-to-completion method. We measure progress-to-completion primarily using labor hours incurred as it best depicts the transfer of control to the customer which occurs as we incur costs on our contracts. Contract fees are typically billed on a milestone basis as defined within contract terms. 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. When software services are distinct, the fee allocable to the service element is recognized over the time we perform the services and is billed on a time and material basis.

Post-Contract Customer Support

Our customers generally enter into PCS agreements when they purchase our software licenses. PCS includes telephone support, bug fixes, and rights to upgrades on a when-and-if available basis. PCS is considered distinct when purchased with our software licenses. Our PCS agreements are typically renewable annually. PCS is recognized over time on a straight-line basis over the period the PCS is provided. All significant costs and expenses associated with PCS are expensed as incurred.

Computer Hardware Equipment

Revenue allocable to computer hardware equipment is recognized at a point in time when control of the equipment is transferred to the customer.

Subscription-Based Services:

Subscription-based services consist of revenues derived from SaaS arrangements, which utilize the Tyler private cloud, and electronic filing transactions. Revenue from subscription-based services is generally recognized over time on a ratable basis over the contract term, beginning on the date that our service is made available to the customer. Our subscription contracts are generally three to five years or longer in length, billed annually in advance, and non-cancelable.

For SaaS arrangements, we evaluate whether the customer has the contractual right to take possession of our software at any time during the hosting period without significant penalty and whether the customer can feasibly maintain the software on the customer’s hardware or enter into another arrangement with a third-party to host the software. We allocate contract value to each performance obligation of the arrangement that qualifies for treatment as a distinct element based on estimated SSP. When it is determined that software is distinct and the customer has the ability to take control of the software, we recognize revenue allocable to the software license fee when access to the software license is made available to the customer. We recognize hosting services ratably over the term of the arrangement, which range from one to ten years but are typically for a period of three to five years. For software and software services associated with SaaS arrangements that are not distinct or are contingent on the transfer of other performance obligations, we recognize the revenue ratably over the remaining contractual period once we have provided the customer access to the software. We record amounts that have been invoiced in accounts receivable and in deferred revenue or revenues, depending on whether the revenue recognition criteria have been met.

Electronic filing transaction fees primarily pertain to documents filed with the courts by attorneys and other third-parties via our e-filing services and retrieval of filed documents via our access services. For each document filed with a court, the filer generally pays a transaction fee and a court filing fee to us and we remit a portion of the transaction fee and the filing fee to the court. We record as revenue the transaction fee, while the portion of the transaction fee remitted to the courts is recorded as cost of sales as we are acting as a principal in the arrangement. Court filing fees collected on behalf of the courts and remitted to the courts are recorded on a net basis and thus do not affect the statement of comprehensive income. For e-filing transaction fees, we have the right to charge the customer an amount that directly corresponds with the value to the customer of our performance to date. Therefore, we recognize revenue for these services over time based on the amount billable to the customer in accordance with the 'as invoiced' practical expedient in ASC 606-10-55-18. In some cases, we are paid on a fixed fee basis and recognize the revenue ratably over the contractual period.

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Costs of performing services under subscription-based arrangements are expensed as incurred, except for certain direct and incremental contract origination and set-up costs associated with SaaS arrangements. Such direct and incremental costs are capitalized and amortized ratably over the useful life.

Appraisal Services:

For our property appraisal projects, we recognize revenue using the progress-to-completion method of revenue recognition since many of these projects are implemented over one to three-year periods and consist of various unique activities. Appraisal services require a significant level of integration and interdependency with various individual service components; therefore, the service components are not considered distinct. Appraisal services are recognized over time by measuring progress-to-completion primarily using labor hours incurred as it best depicts the transfer of control to the customer which occurs as we incur costs on our contracts. These arrangements are often implemented over an extended 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. Contract fees are typically billed on a milestone basis as defined within contract terms. 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.

Significant Judgments:

Our contracts with customers often include multiple performance obligations to a customer. When a software arrangement (traditional or subscription) includes both software licenses and software services, judgment is required to determine whether the software license is considered distinct and accounted for separately, or not distinct and accounted for together with the software services and recognized over time.

The transaction price is allocated to the separate performance obligations on a relative SSP basis. We determine the SSP based on our overall pricing objectives, taking into consideration market conditions and other factors, including the value of our contracts, the applications sold, customer demographics, and the number and types of users within our contracts. We use a range of amounts to estimate SSP when we sell each of the products and services separately and need to determine whether there is a discount to be allocated based on the relative SSP of the various products and services. In instances where SSP is not directly observable, such as when we do not sell the product or service separately, we determine SSP using the expected cost-plus margin approach.

For arrangements that involve significant production, modification or customization of the software, or where software services otherwise cannot be considered distinct, we recognize revenue as control is transferred to the customer over time using progress-to-completion methods. Depending on the contract, we measure progress-to-completion primarily using labor hours incurred, or value added. The progress-to-completion method generally results in the recognition of reasonably consistent profit margins over the life of a contract because we can provide 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 margin 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.

Typically, the structure of our arrangements does not give rise to variable consideration. However, in those instances whereby variable consideration exists, we include in our estimates additional revenue for variable consideration when we believe we have an enforceable right, the amount can be estimated reliably and its realization is probable.

Refer to Note 12 - Disaggregation of Revenue for further information, including the economic factors that affect the nature, amount, timing, and uncertainty of revenue and cash flows of our various revenue categories.

Contract Balances:

Accounts receivable and allowance for doubtful accounts

Timing of revenue recognition may differ from the timing of invoicing to customers. We record an unbilled receivable when revenue is recognized prior to invoicing, or deferred revenue when revenue is recognized subsequent to invoicing. For multi-year agreements, we generally invoice customers annually at the beginning of each annual coverage period. We record a receivable related to revenue recognized for on-premises licenses as we have an unconditional right to invoice and receive payment in the future related to those licenses.

We maintain allowances for doubtful accounts, which are provided at the time the revenue is recognized. Since most of our customers are domestic governmental entities, we rarely incur a loss resulting from the inability of a customer to make required payments. Events or changes in circumstances that indicate that the carrying amount for the allowances for doubtful accounts may require revision, include, but are not limited to, deterioration of a customer's financial condition, failure to manage our customer's expectations regarding the scope of the services to be delivered, and defects or errors in new versions or enhancements of our software products.

The following table summarizes the changes in the allowance for doubtful accounts:

	June 30, 2018
Balance, beginning of period December 31, 2017	$5,427
Provisions for losses - accounts receivable	1,147
Collection of accounts previously written off	(212)
Deductions for accounts charged off or credits issued	(1,257)
Balance, end of period	$5,105

The allowance for doubtful accounts reflects our best estimate of probable losses inherent in the accounts receivable balance. We determine the allowance based on known troubled accounts, historical experience, and other currently available evidence.

In connection with our appraisal services contracts and certain software services contracts, we may perform work prior to when the software and services are billable and/or payable pursuant to the contract. 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 value of products delivered or services performed in the event of early termination. We have historically recorded such unbilled receivables (costs and estimated profit in excess of billings) in connection with (1) property appraisal services contracts accounted for using progress-to-completion method of revenue recognition using labor hours as a measure of progress towards completion in which the services are performed in one accounting period but the billing normally occurs subsequently and may span another accounting period; (2) software services contracts accounted for using progress-to-completion method of revenue recognition using labor hours as a measure of progress towards completion in which the services are performed in one accounting period but the billing for the software element of the arrangement may be based upon the specific phase of the implementation; (3) software revenue for which we have recognized revenue at the point in time when the software is made available to the customer but the billing has not yet been submitted to the customer; (4) some of our contracts which provide for an amount to be withheld from a progress billing (generally between 5% and 20% retention) until final and satisfactory project completion is achieved; and (5) in a limited number of cases, extended payment terms, which may be granted to customers with whom we generally have a long-term relationship and favorable collection history.

The opening balance of current and long-term accounts receivable, net of allowance for doubtful accounts, was $226.8 million (as adjusted) as of January 1, 2017.

As of June 30, 2018, and December 31, 2017, total current and long-term accounts receivable, net of allowance for doubtful accounts, was $311.6 million and $258.3 million (as adjusted), respectively. We have recorded unbilled receivables of $77.9 million and $64.6 million (as adjusted) at June 30, 2018, and December 31, 2017, respectively. Included in unbilled receivables are retention receivables of $10.8 million and $7.2 million at June 30, 2018, and December 31, 2017, respectively, which become payable upon the completion of the contract or completion of our fieldwork and formal hearings. Unbilled receivables expected to be collected within one year have been included with accounts receivable, current portion in the accompanying condensed consolidated balance sheets. Unbilled receivables and retention receivables expected to be collected past one year have been included with accounts receivable, long-term portion in the accompanying condensed consolidated balance sheets.

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Payment terms and conditions vary by contract type, although, terms generally include a requirement of payment within 30 to 60 days. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined our contracts generally do not include a significant financing component. The primary purpose of our invoicing terms is to provide customers with simplified and predictable ways of purchasing our products and services, not to receive financing from our customers or to provide customers with financing. Examples include invoicing at the beginning of a subscription term with revenue recognized ratably over the contract period, and multi-year on-premises term licenses that are invoiced annually with revenue recognized upfront.

Deferred Revenue

The majority of deferred revenue consists of deferred 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. Refer to Note 12 - Deferred Revenue and Performance Obligations for further information, including deferred revenue by segment and changes in deferred revenue during the period.

Deferred Commissions

Sales commissions earned by our sales force are considered incremental and recoverable costs of obtaining a contract with a customer. Sales commissions for initial contracts are deferred and then amortized on a straight-line basis over a period of benefit that we have determined to be three to seven years. We utilized the 'portfolio approach' practical expedient in ASC 606-10-10-4, which allows entities to apply the guidance to a portfolio of contracts with similar characteristics because the effects on the financial statements of this approach would not differ materially from applying the guidance to individual contracts. Using the 'portfolio approach', we determined the period of benefit by taking into consideration our customer contracts, our technology life-cycle and other factors. Sales commissions for renewal contracts are deferred and then amortized on a straight-line basis over the remaining period of benefit. Deferred commissions have been included with prepaid expenses in the accompanying condensed consolidated balance sheets. Amortization expense related to deferred commissions is included in selling, general and administrative expenses in the accompanying condensed consolidated statements of income. Refer to Note 5 - Deferred Commissions for further information.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Revenue from Contracts with Customers. In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, Revenue from Contracts with Customers. ASU No. 2014-09 supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") Topic 605, Revenue Recognition ("Topic 605"), and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the considerations to which the entity expects to be entitled to in exchange for those goods or services. This model involves a five-step process that includes identifying the contract with the customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract and recognizing revenue when (or as) the entity satisfies the performance obligations. Topic 606 also includes Subtopic 340-40 Other Assets and Deferred Costs - Contracts with Customers, which requires the deferral of incremental costs of obtaining a contract with a customer. Collectively, we refer to ASU No. 2014-09 and Subtopic 340-40 as the "new standard."

We adopted the requirements of the new standard as of January 1, 2018, utilizing the full retrospective method of transition. Adoption of the new standard resulted in changes to our accounting policies for revenue recognition, trade and other receivables, and deferred commissions as detailed below. We applied the new standard using a practical expedient where the consideration allocated to the remaining performance obligations or an explanation of when we expect to recognize that amount as revenue for all reporting periods presented before the date of the initial application is not disclosed.

The impact of adopting ASU No. 2014-09 on our total revenues for 2017 and 2016 was not material. The impact of adopting the new standard on our retained earnings and deferred commissions is material. The most significant impact of the new standard relates to our accounting for software license revenue. Specifically, under the new standard, software license fees under perpetual agreements are no longer subject to 100% discount allocations from other performance obligations in the contract. Discounts in arrangements are allocated across all performance obligations increasing license revenues and decreasing revenues allocated to other performance obligations. In addition, in most cases, net license fees (total license fees less any allocated discounts) are recognized at the point in time when control of the software license transfers to the customer versus our legacy policy of recognizing revenue upon delivery and only to the extent billable per the contractual terms. Under the new standard, time-based license fees are no longer recognized over the contractual period of the license and are instead recognized at the point in time when the control of the software license transfers to the customer. Revenues related to our PCS renewals, SaaS offerings and appraisal services remain substantially unchanged. Due to the complexity of certain contracts, the actual revenue recognition treatment required under the new standard is dependent on contract-specific terms and may vary in some instances from recognition at the time of billing.

Adoption of the new standard requires that incremental costs directly related to obtaining a contract (typically sales commissions) must be recognized as an asset and expensed on a systematic basis that is consistent with the transfer to the customer of the goods and services to which the asset relates, unless that life is less than one year. Prior to adoption of the new standard, we deferred sales commissions and recognized expense over the relevant initial contractual term, which was generally one to two years. Under the new standard, we amortize these costs over a period of benefit that we have determined to be three to seven years.

We adjusted our condensed consolidated financial statements from amounts previously reported due to the adoption of the new standard. Select unaudited condensed consolidated statement of income line items, which reflect the adoption of the new standard, are as follows (in thousands, except per share data):

	Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
	As Reported	Adjustments	As Adjusted	As Reported	Adjustments	As Adjusted
Statement of Income:						
Software licenses and royalties	$17,107	$ 2,199	$ 19,306	$35,330	$ 5,734	$ 41,064
Subscriptions	40,947	(430)	40,517	81,049	(670)	80,379
Software services	47,372	(1,512)	45,860	92,390	(4,034)	88,356
Maintenance	89,412	(601)	88,811	176,271	(1,153)	175,118
Appraisal services	6,366	—	6,366	12,978	—	12,978
Hardware and other	7,919	(16)	7,903	10,647	(50)	10,597
Total revenues	209,123	(360)	208,763	408,665	(173)	408,492
Selling, general and administrative expenses	43,451	(451)	43,000	86,593	(813)	85,780
Amortization of customer and trade name intangibles	3,463	(132)	3,331	6,921	(265)	6,656
Operating income	37,075	223	37,298	73,224	905	74,129
Income tax provision	5,396	31	5,427	9,049	250	9,299
Net income	$31,578	$ 192	$ 31,770	$63,884	$ 655	$ 64,539
Earnings per common share:						
Basic	$0.85		$ 0.86	$1.72		$ 1.74
Diluted	$0.81		$ 0.81	$1.63		$ 1.65

Select condensed consolidated balance sheet line items, which reflect the adoption of the new standard, are as follows (in thousands):

	December 31, 2017		
	As Reported	Adjustments	As Adjusted
Balance Sheet:			
Accounts receivable	$227,127	$ 19,061	$246,188
Prepaid expenses	27,252	4,954	32,206
Accounts receivable, long-term	7,536	4,571	12,107
Other intangibles, net	236,444	(6,827)	229,617
Total assets	1,589,592	21,759	1,611,351
Deferred revenue	309,461	(10,848)	298,613
Deferred income taxes	38,914	7,965	46,879
Retained earnings	599,821	24,642	624,463
Total liabilities and shareholders' equity	$1,589,592	$ 21,759	$1,611,351

Our adoption of ASU No. 2014-09 had no impact on our net cash provided by or used in operating, investing or financing activities for any of the periods reported.

Recent tax legislation. On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Act") was enacted into law. The Tax Act amends the Internal Revenue Code to reduce tax rates and modify policies, credits and deductions for businesses and individuals. For businesses, the Tax Act reduces the U.S. corporate federal income tax rate from a maximum of 35% to a flat 21% rate and transitions from a worldwide tax system to a territorial tax system. The Tax Act also adds many new provisions including changes to bonus depreciation, the deduction for executive compensation and a tax on global intangible low-taxed income (GILTI). The most significant impact of the Tax Act to us is the reduction in the U.S. federal corporate income tax rate. Refer to Note 8 - Income Tax Provision for further information.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Leases. On February 25, 2016, the FASB issued its new lease accounting guidance in ASU No. 2016-02, Leases ("Topic 842"). Under the new guidance, lessees will be required to recognize the following for all leases (except for short-term leases) at the commencement date:

- A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and
- A right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term.

Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach.

Topic 842 is effective for fiscal years beginning after December 15, 2018, including interim periods therein. Early application is permitted for all business entities upon issuance. We are assessing the financial impact of adopting the new standard, however; we are currently unable to provide a reasonable estimate regarding the financial impact. We will adopt the new standard in fiscal year 2019.

(3) Acquisitions

On April 30, 2018, we acquired all of the capital stock of Socrata, Inc. ("Socrata"), a company that provides open data and data-as-a-service solutions including cloud-based data integration, visualization, analysis, and reporting solutions for state and local government agencies. The purchase price, net of cash acquired of $1.7 million, was $147.6 million paid in cash, of which approximately $1.1 million was accrued at June 30, 2018.

We have performed a preliminary valuation analysis of the fair market value of Socrata's assets and liabilities. The following table summarizes the allocation of the preliminary purchase price as of the acquisition date.

Cash	$1,724
Accounts receivable	3,616
Other current assets	2,057
Other noncurrent assets	68
Identifiable intangible assets	75,000
Goodwill	78,909
Accounts payable	(1,254)
Accrued expenses	(1,717)
Deferred revenue	(5,915)
Deferred tax liabilities, net	(3,120)
Total consideration	$149,368

In connection with this transaction, we acquired total tangible assets of $7.5 million and assumed liabilities of approximately $8.9 million. We recorded goodwill of $78.9 million, none of which is expected to be deductible for tax purposes, and other identifiable intangible assets of approximately $75.0 million. The $75.0 million of intangible assets are attributable to customer relationships, acquired software, and trade name and will be amortized over a weighted average period of approximately 14 years. We recorded deferred tax liabilities of $3.1 million related to estimated fair value allocations. Socrata's solutions are a direct complement to our current offerings and will provide a new and important additional revenue stream. By offering Socrata within virtually every Tyler product suite, our clients will have the opportunity to make their existing data discoverable, usable and actionable, but more importantly, potentially include data from other agencies and jurisdictions to make analysis even more powerful and meaningful. Therefore, the goodwill of $78.9 million arising from this acquisition is primarily attributed to our ability to integrate Socrata's solutions with our existing portfolio and to generate increased revenues, earnings and cash flow by leveraging our sales resources and client base. We also incurred fees of approximately $578,000 for financial advisory, legal, accounting, due diligence, valuation and other various services necessary to complete the acquisition. These fees were expensed in 2018 and are included in selling, general and administrative expenses.

The following unaudited pro forma information of the consolidated results of operations have been prepared as if the Socrata acquisition had occurred at January 1, 2017, after giving effect to certain adjustments, including amortization of intangibles, interest, transaction costs and tax effects.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues	$238,432	$215,209	$465,675	$421,209
Net income	36,196	27,528	68,839	55,480
Basic earnings per share	0.94	0.74	1.79	1.49
Diluted earnings per share	$0.90	$0.70	$1.71	$1.41

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

On April 30, 2018, we acquired all of the equity interests of Sage Data Security, LLC ("Sage"), a cybersecurity company offering a suite of services that supports an entire cybersecurity lifecycle, including program development, education and training, technical testing, advisory services, and digital forensics. The total purchase price was $11.6 million paid in cash. Tyler has performed a preliminary valuation analysis of the fair market value of Sage's assets and liabilities. As a result, we acquired total tangible assets of approximately $1.8 million and assumed liabilities of approximately $730,000. We have recorded total goodwill of approximately $3.5 million, all of which is expected to be deductible for tax purposes, and other intangible assets of approximately $7.0 million. The $7.0 million of intangible assets is attributable to customer relationships, acquired software and trade name and will be amortized over a weighted average period of approximately 14 years.

As of June 30, 2018, the purchase price allocations for Socrata and Sage are not yet complete. The preliminary estimates of fair value assumed at the acquisition date for intangible assets, receivables and deferred revenue and related deferred taxes are subject to change as valuations are finalized. The operating results of Socrata and Sage are included with the operating results of the Enterprise Software segment since their date of acquisition. Revenues from Socrata included in Tyler's results of operations totaled approximately $3.0 million and the net loss was $4.0 million for both the three and six months ended June 30, 2018. Revenues and operating results from Sage included in 2018 results were not significant.

Our balance sheet as of June 30, 2018, reflects the allocation of the purchase price to the assets acquired based on their fair value at the date of each acquisition. The fair value of the assets and liabilities acquired are based on valuations using Level III, unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

(4) Shareholders’ Equity

The following table details activity in our common stock:

	Six Months Ended June 30,			
	2018		2017	
	Shares	Amount	Shares	Amount
Purchases of treasury shares	—	$ —	(42)	$ (6,171)
Stock option exercises	722	44,317	534	23,360
Employee stock plan purchases	23	$ 3,760	27	$ 3,427

As of June 30, 2018, we had authorization from our board of directors to repurchase up to 2.0 million additional shares of Tyler common stock.

(5) Deferred Commissions

Sales commissions earned by our sales force are considered incremental and recoverable costs of obtaining a contract with a customer. Sales commissions for initial contracts are deferred and then amortized commensurate with the recognition of associated revenue over a period of benefit that we have determined to be three to seven years. Deferred commissions were $21.2 million and $19.3 million (as adjusted) as of June 30, 2018, and December 31, 2017, respectively. Amortization expense was $3.7 million and $7.1 million for the three and six months ended June 30, 2018, respectively and $2.7 million and $5.3 million for the three and six months ended June 30, 2017(as adjusted), respectively. There were no indicators of impairment in relation to the costs capitalized for the periods presented. Deferred commissions have been included with prepaid expenses in the accompanying condensed consolidated balance sheets. Amortization expense related to deferred commissions is included in selling, general and administrative expenses in the accompanying condensed consolidated statements of income.

(6) Other Assets

Cash and cash equivalents consist of cash on deposit with several domestic banks and money market funds.
As of June 30, 2018, we have $99.2 million in investment grade corporate and municipal bonds with maturity dates ranging through mid-2021. We intend to hold these bonds to maturity and have classified them as such. We believe cost approximates fair value because of the relatively short duration of these investments. The fair values of these securities are considered Level II as they are based on inputs from quoted prices in markets that are not active or other observable market data. These investments are included in short-term investments and non-current investments and other assets.

We have a $15.0 million investment in convertible preferred stock representing a 20% interest in Record Holdings Pty Limited, a privately held Australian company specializing in digitizing the spoken word in court and legal proceedings. The investment in convertible preferred stock is accounted under the cost method because we do not have the ability to exercise significant influence over the investee and the securities do not have readily determinable fair values. Our investment is carried at cost less any impairment write-downs. Annually, our cost method investments are assessed for impairment. We do not reassess the fair value of cost method investments if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investments. This investment is included in non-current investments and other assets.

(7) Revolving Line of Credit

On November 16, 2015, we entered into a $300 million credit agreement with various lender parties and Wells Fargo Bank, National Association, as Administrative Agent (the “Credit Facility”). The Credit Facility provides for a revolving credit line up to $300 million, including a $10 million sublimit for letters of credit. The Credit Facility matures on November 16, 2020. Borrowings under the Credit Facility may be used for general corporate purposes, including working capital requirements, acquisitions and share repurchases.

Borrowings under the Credit Facility bear interest at a rate of either (1) Wells Fargo Bank’s prime rate (subject to certain higher rate determinations) plus a margin of 0.25% to 1.00% or (2) the 30, 60, 90 or 180 day LIBOR rate plus a margin of 1.25% to 2.00%. As of June 30, 2018, the interest rates were 5.25% under the Wells Fargo Bank's prime rate and 3.34% under a 30-day LIBOR contract. The Credit Facility is secured by substantially all of our assets. The Credit Facility requires us to maintain certain financial ratios and other financial conditions and prohibits us from making certain investments, advances, cash dividends or loans, and limits incurrence of additional indebtedness and liens. As of June 30, 2018, we were in compliance with those covenants.

As of June 30, 2018, we had no outstanding borrowings. Available borrowing capacity under the Credit Facility was $300 million.

(8) Income Tax Provision

We had an effective income tax rate of negative 3.9% and 0.2% for the three and six months ended June 30, 2018, respectively, compared to 14.6% and 12.6% (as adjusted) for the three and six months ended June 30, 2017, respectively. The effective income tax rates for the periods presented were different from the statutory United States federal income tax rate of 21% in 2018 and 35% in 2017 principally due to excess tax benefits related to stock option exercises. The excess tax benefits related to stock option exercises realized was $11.5 million and $20.7 million for the three and six months ended June 30, 2018, respectively, compared to $8.5 million and 18.6 million for the three and six months ended June 30, 2017, respectively. Excluding the excess tax benefits, the effective rate was 26.7% and 27.0% for the three and six months ended June 30, 2018, respectively, compared to 37.3% and 37.7% (as adjusted) for the three and six months ended June 30, 2017, respectively. Other differences from the federal statutory income tax rate include state income taxes, non-deductible business expenses, the tax benefit of research tax credits, and in 2017, the tax benefit of the domestic production activities deduction.

The decrease in effective tax rate for the three and six months ended June 30, 2018, as compared to the same periods in 2017 was due primarily to the reduction of the U.S. corporate tax rate from 35% to 21% as a result of the Tax Act, the increase in excess tax benefit related to stock option exercises and the research tax credit benefit, offset by the elimination of the domestic production activities deduction and the increased limitations on the deduction for executive compensation. In the fourth quarter of 2017, we recorded a $26.0 million (as adjusted under Topic 606) tax benefit due to the remeasurement of deferred tax assets and liabilities at a lower tax rate. As of June 30, 2018, we have not recorded any adjustments to the provisional amounts for the income tax effects of the Tax Act recorded in 2017. However, based on a continued analysis of the estimates and further guidance on the application of the law, it is anticipated that additional revisions may occur throughout the allowable measurement period. Overall, the changes due to the Tax Act will favorably affect income tax expense and future U.S. earnings.
We made tax payments of $7.1 million and $27.5 million in the six months ended June 30, 2018, and 2017, respectively.

(9) Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017 As Adjusted	2018	2017 As Adjusted
Numerator for basic and diluted earnings per share:				
Net income	$39,161	$ 31,770	$76,986	$ 64,539
Denominator:				
Weighted-average basic common shares outstanding	38,390	37,154	38,416	37,144
Assumed conversion of dilutive securities:				
Stock options	1,834	2,047	1,834	2,067
Denominator for diluted earnings per share - Adjusted weighted-average shares	40,224	39,201	40,250	39,211
Earnings per common share:				
Basic	$1.02	$ 0.86	$2.00	$ 1.74
Diluted	$0.97	$ 0.81	$1.91	$ 1.65

For the three and six months ended June 30, 2018, stock options representing the right to purchase common stock of approximately 742,000 and 926,000 shares were not included in the computation of diluted earnings per share because their inclusion would have had an anti-dilutive effect. For the three and six months ended June 30, 2017, stock options representing the right to purchase common stock of approximately 1,251,000 and 1,205,000 shares were not included in the computation of diluted earnings per share because their inclusion would have had an anti-dilutive effect.

(10) Share-Based Compensation

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Cost of software services, maintenance and subscriptions	$2,955	$2,253	$5,731	$4,350

Selling, general and administrative expenses	9,978	6,648	17,759	13,227
Total share-based compensation expense	$12,933	$8,901	$23,490	$17,577

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(11) Segment and Related Information

We provide integrated information management solutions and services for the public sector, with a focus on local governments.
We provide our software systems and services and appraisal services through five business units, which focus on the following products:

- financial management, education and planning, regulatory and maintenance software solutions;
- financial management, municipal courts, planning, regulatory and maintenance, and land and vital records management software solutions;
- courts and justice and public safety software solutions;
- data and insights solutions; and
- appraisal and tax software solutions and property appraisal services.

In accordance with ASC 280-10, Segment Reporting, the financial management, education and planning, regulatory and maintenance software solutions unit; financial management, municipal courts, planning, regulatory and maintenance, and land and vital records management software solutions unit; courts and justice and public safety software solutions unit; and the data and insights solutions unit meet the criteria for aggregation and are presented in one reportable segment, the Enterprise Software ("ES") segment. The ES segment provides municipal and county governments and schools with software systems and services to meet their information technology and automation needs for mission-critical "back-office" functions such as financial management and courts and justice processes; public safety; planning, regulatory and maintenance; land and vital records management, and data analytics. The Appraisal and Tax ("A&T") segment provides systems and software that automate the appraisal and assessment of real and personal property as well as property appraisal outsourcing services for local governments and taxing authorities. Property appraisal outsourcing services include: the physical inspection of commercial and residential properties; data collection and processing; computer analysis for property valuation; preparation of tax rolls; community education; and arbitration between taxpayers and the assessing jurisdiction.
We evaluate performance based on several factors, of which the primary financial measure is business segment operating income. We define segment operating income for our business units as income before non-cash amortization of intangible assets associated with their acquisitions, interest expense and income taxes. Segment operating income includes intercompany transactions. The majority of intercompany transactions relate to contracts involving more than one unit and are valued based on the contractual arrangement. Segment operating income for corporate primarily consists of compensation costs for the executive management team and certain accounting and administrative staff and share-based compensation expense for the entire company. Corporate segment operating income also includes revenues and expenses related to a company-wide user conference.
For the three months ended June 30, 2018

	Enterprise Software	Appraisal and Tax	Corporate	Totals
Revenues				
Software licenses and royalties	$19,991	$ 2,409	$—	$22,400
Subscriptions	50,637	2,372	—	53,009
Software services	45,002	5,672	—	50,674
Maintenance	89,795	6,281	—	96,076
Appraisal services	—	5,532	—	5,532
Hardware and other	3,724	33	4,612	8,369
Intercompany	3,086	—	(3,086)	—
Total revenues	$212,235	$ 22,299	$1,526	$236,060
Segment operating income	$58,417	$ 5,502	$(17,012)	$46,907

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For the six months ended June 30, 2018

	Enterprise Software	Appraisal and Tax	Corporate	Totals
Revenues				
Software licenses and royalties	$40,680	$ 4,496	$—	$45,176
Subscriptions	97,321	4,716	—	102,037
Software services	85,289	11,324	—	96,613
Maintenance	177,609	12,364	—	189,973
Appraisal services	—	10,926	—	10,926
Hardware and other	7,526	33	4,950	12,509
Intercompany	6,322	—	(6,322)	—
Total revenues	$414,747	$ 43,859	$(1,372)	$457,234
Segment operating income	$115,032	$ 10,149	$(30,739)	$94,442

For the three months ended June 30, 2017

As Adjusted	Enterprise Software	Appraisal and Tax	Corporate	Totals
Revenues				
Software licenses and royalties	$17,553	$ 1,753	$—	$19,306
Subscriptions	38,621	1,896	—	40,517
Software services	41,184	4,676	—	45,860
Maintenance	83,706	5,105	—	88,811
Appraisal services	—	6,366	—	6,366
Hardware and other	3,279	—	4,624	7,903
Intercompany	2,486	—	(2,486)	—
Total revenues	$186,829	$ 19,796	$2,138	$208,763
Segment operating income	$54,036	$ 4,595	$(12,642)	$45,989

For the six months ended June 30, 2017

As Adjusted	Enterprise Software	Appraisal and Tax	Corporate	Totals
Revenues				
Software licenses and royalties	$37,662	$ 3,402	$—	$41,064
Subscriptions	76,695	3,684	—	80,379
Software services	79,329	9,027	—	88,356
Maintenance	165,319	9,799	—	175,118
Appraisal services	—	12,978	—	12,978
Hardware and other	5,973	—	4,624	10,597
Intercompany	4,649	—	(4,649)	—
Total revenues	$369,627	$ 38,890	$(25)	$408,492
Segment operating income	$106,524	$ 8,921	$(23,890)	$91,555

Reconciliation of reportable segment operating income to the Company's consolidated totals:	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017 As Adjusted	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017 As Adjusted
Total segment operating income	$46,907	$45,989	$94,442	$91,555
Amortization of acquired software	(5,724)	(5,360)	(11,106)	(10,770)
Amortization of customer and trade name intangibles	(4,041)	(3,331)	(7,356)	(6,656)
Other income (expense), net	558	(101)	1,157	(291)
Income before income taxes	$37,700	$37,197	$77,137	$73,838

(12) Disaggregation of Revenue

The tables below show disaggregation of revenue into categories that reflect how economic factors affect the nature, amount, timing, and uncertainty of revenue and cash flows.

Timing of Revenue Recognition

Timing of revenue recognition by revenue category during the period is as follows:

For the three months ended June 30, 2018

	Products and services transferred at a point in time	Products and services transferred over time	Total
Revenues			
Software licenses and royalties	$ 17,260	$ 5,140	$22,400
Subscriptions	—	53,009	53,009
Software services	—	50,674	50,674
Maintenance	—	96,076	96,076
Appraisal services	—	5,532	5,532
Hardware and other	8,369	—	8,369
Total	$ 25,629	$ 210,431	$236,060

For the six months ended June 30, 2018

	Products and services transferred at a point in time	Products and services transferred over time	Total
Revenues			
Software licenses and royalties	$ 36,323	$ 8,853	$45,176
Subscriptions	—	102,037	102,037
Software services	—	96,613	96,613
Maintenance	—	189,973	189,973
Appraisal services	—	10,926	10,926
Hardware and other	12,509	—	12,509
Total	$ 48,832	$ 408,402	$457,234

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For the three months ended June 30, 2017

As Adjusted	Products and services transferred at a point in time	Products and services transferred over time	Total
Revenues			
Software licenses and royalties	$ 16,135	$ 3,171	$ 19,306
Subscriptions	—	40,517	40,517
Software services	—	45,860	45,860
Maintenance	—	88,811	88,811
Appraisal services	—	6,366	6,366
Hardware and other	7,903	—	7,903
Total	$ 24,038	$ 184,725	$ 208,763

For the six months ended June 30, 2017

As Adjusted	Products and services transferred at a point in time	Products and services transferred over time	Total
Revenues			
Software licenses and royalties	$ 33,250	$ 7,814	$ 41,064
Subscriptions	—	80,379	80,379
Software services	—	88,356	88,356
Maintenance	—	175,118	175,118
Appraisal services	—	12,978	12,978
Hardware and other	10,597	—	10,597
Total	$ 43,847	$ 364,645	$ 408,492

Recurring Revenue

The majority of our revenue is comprised of recurring revenues from maintenance and subscriptions. Virtually all of our on-premises 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. The contract terms for subscription arrangements range from one to 10 years but are typically contracted for initial periods of three to five years, providing a significant source of recurring revenues on an annual basis. Non-recurring revenues are derived for all other revenue categories.

Recurring revenues and non-recurring revenues recognized during the period are as follows:

For the three months ended June 30, 2018

	Enterprise Software	Appraisal and Tax	Corporate	Totals
Recurring revenues	$ 140,432	$ 8,653	$ —	$ 149,085
Non-recurring revenues	68,717	13,646	4,612	86,975
Intercompany	3,086	—	(3,086)	—
Total revenues	$ 212,235	$ 22,299	$ 1,526	$ 236,060

For the six months ended June 30, 2018

	Enterprise Software	Appraisal and Tax	Corporate	Totals
Recurring revenues	$274,930	$ 17,080	$—	$292,010
Non-recurring revenues	133,495	26,779	4,950	165,224
Intercompany	6,322	—	(6,322)	—
Total revenues	$414,747	$ 43,859	$(1,372)	$457,234

For the three months ended June 30, 2017

As Adjusted	Enterprise Software	Appraisal and Tax	Corporate	Totals
Recurring revenues	$122,327	$ 7,001	$—	$129,328
Non-recurring revenues	62,016	12,795	4,624	79,435
Intercompany	2,486	—	(2,486)	—
Total revenues	$186,829	$ 19,796	$2,138	$208,763

For the six months ended June 30, 2017

As Adjusted	Enterprise Software	Appraisal and Tax	Corporate	Totals
Recurring revenues	$242,014	$ 13,483	$ —	$255,497
Non-recurring revenues	122,964	25,407	4,624	152,995
Intercompany	4,649	—	(4,649)	—
Total revenues	$369,627	$ 38,890	$ (25)	$408,492

(13) Deferred Revenue and Performance Obligations

Total deferred revenue, including long-term, by segment is as follows:

	June 30, 2018	December 31, 2017 As Adjusted
Enterprise Software	$299,332	$ 277,198
Appraisal and Tax	15,199	20,387
Corporate	2,338	2,302
Totals	$316,869	$ 299,887

The opening balance of total deferred revenue, including long-term, was $290.1 million (as adjusted) as of January 1, 2017.

Changes in total deferred revenue, including long-term, were as follows:

	June 30, 2018
Balance, beginning of period December 31, 2017 (As Adjusted)	$299,887
Deferral of revenue	414,396
Recognition of deferred revenue	(397,414)
Balance, end of period	$316,869

Transaction Price Allocated to the Remaining Performance Obligations

The aggregate amount of transaction price allocated to the remaining performance obligations represent contracted revenue that has not yet been recognized ("Backlog"), which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. Backlog as of June 30, 2018 was $1.2 billion, of which we expect to recognize approximately 51% as revenue over the next 12 months and the remainder thereafter.

(14) Commitments and Contingencies

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

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

CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

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

GENERAL

We provide integrated information management solutions and services for the public sector, with a focus on local governments. We develop and market a broad line of software products and services to address the IT needs of cities, counties, schools and other local government entities. In addition, we provide professional IT services to our clients, including software and hardware installation, data conversion, training, and for certain clients, product modifications, along with continuing maintenance and support for clients using our systems. We also provide subscription-based services that utilize the Tyler private cloud such as e-filing, which simplifies the filing and management of court related documents. We also provide property appraisal outsourcing services for taxing jurisdictions.

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Our products generally automate seven major functional areas: (1) financial management and education, (2) courts and justice, (3) public safety, (4) property appraisal and tax, (5) planning, regulatory and maintenance, (6) records and documents, and (7) data and insights. We report our results in two segments. The Enterprise Software ("ES") segment provides municipal and county governments and schools with software systems and services to meet their information technology and automation needs for mission-critical "back-office" functions such as financial management; courts and justice processes; public safety; planning, regulatory and maintenance; records and documents; and data and insights. The Appraisal and Tax ("A&T") segment provides systems and software that automate the appraisal and assessment of real and personal property as well as property appraisal outsourcing services for local governments and taxing authorities. Property appraisal outsourcing services include: the physical inspection of commercial and residential properties; data collection and processing; computer analysis for property valuation; preparation of tax rolls; community education; and arbitration between taxpayers and the assessing jurisdiction.

Our total employee count increased to 4,367 at June 30, 2018, from 3,972 at June 30, 2017.

For the three and six months ended June 30, 2018, total revenues increased 13% and 12%, respectively, compared to the prior year periods. Organic revenue growth was 11% for both the three and six months ended June 30, 2018, compared to the prior year periods and revenues from acquisitions completed in April 2018 contributed 2% and 1% of growth for the three and six months ended June 30, 2018, respectively.

Subscriptions revenue grew 31% and 27% for the three and six months ended June 30, 2018, respectively, due to a gradual shift toward cloud-based, software as a service business, as well as continued strong growth in our e-filing revenues from courts. Organic subscriptions revenue increased 25% and 24% for the three and six months ended June 30, 2018, respectively.

Our backlog at June 30, 2018 was $1.2 billion, a 10.9% increase from last year.

Adoption of New Revenue Accounting Standard

On January 1, 2018, we adopted ASU No. 2014-09, using the full retrospective method of transition, which requires that the new standard be applied to all periods presented. The impacts of adoption are reflected in the financial information herein. For additional details, see Note 2 to our condensed consolidated financial statements in this report.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements. These condensed consolidated financial statements have been prepared following the requirements of accounting principles generally accepted in the United States ("GAAP") for the interim period 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, 2017. Except for the accounting policies for revenue recognition, trade and other receivables, and deferred commissions that were updated as a result of adopting ASU No. 2014-09, there have been no material changes to our critical accounting policies and estimates from the information provided in our Form 10-K for the year ended December 31, 2017.

ANALYSIS OF RESULTS OF OPERATIONS

	Percent of Total Revenues			
	Second Quarter		Six Months Ended	
	2018	2017 As Adjusted	2018	2017 As Adjusted
Revenues:				
Software licenses and royalties	9.5 %	9.2 %	9.9 %	10.1 %
Subscriptions	22.5	19.4	22.3	19.7
Software services	21.5	22.0	21.1	21.6
Maintenance	40.7	42.6	41.6	42.8
Appraisal services	2.3	3.0	2.4	3.2
Hardware and other	3.5	3.8	2.7	2.6
Total revenues	100.0	100.0	100.0	100.0
Cost of revenues:				
Software licenses, royalties and acquired software	2.9	2.9	2.9	3.0
Software services, maintenance and subscriptions	46.4	46.1	47.1	46.4
Appraisal services	1.5	2.1	1.6	2.1
Hardware and other	2.9	3.3	2.0	2.0
Selling, general and administrative expenses	22.1	20.6	21.8	21.0
Research and development expense	6.7	5.7	6.3	5.7
Amortization of customer and trade name intangibles	1.7	1.6	1.6	1.6
Operating income	15.8	17.7	16.7	18.2
Other income (expense), net	0.2	—	0.3	(0.2)
Income before income taxes	16.0	17.7	17.0	18.0
Income (benefit) tax provision	(0.6)	2.6	—	2.3
Net income	16.6 %	15.1 %	17.0 %	15.7 %

Revenues

On April 30, 2018, we acquired all of the capital stock of Socrata, Inc. ("Socrata"), a company that provides open data and data-as-a-service solutions for state and local government agencies including cloud-based data integration, visualization, analysis, and reporting solutions. The following table details revenue for Socrata for the periods presented as of June 30, 2018, which is included in our condensed consolidated statements of income:

	Second Quarter	Six Months Ended
Revenues:		
Software licenses and royalties	$ —	$ —
Subscriptions	2,477	2,477
Software services	538	538
Maintenance	—	—
Appraisal services	—	—
Hardware and other	—	—
Total revenues	$ 3,015	$ 3,015

We also acquired Sage Data Security, LLC ("Sage"), a cybersecurity company offering a suite of services that supports an entire cybersecurity lifecycle. The impact of this acquisition on our operating results is not considered material and is not included in the table above. The results of these acquisitions are included with the operating results of the ES segment from their dates of acquisition.

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Software licenses and royalties

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

	Second Quarter		Change		Six Months Ended		Change	
($ in thousands)	2018	2017 As Adjusted	$	%	2018	2017 As Adjusted	$	%
ES	$19,991	$ 17,553	$2,438	14%	$40,680	$ 37,662	$3,018	8 %
A&T	2,409	1,753	656	37	4,496	3,402	1,094	32
Total software licenses and royalties revenue	$22,400	$ 19,306	$3,094	16%	$45,176	$ 41,064	$4,112	10%

Software licenses and royalties revenue increased 16% and 10% for the three and six months ended June 30, 2018, respectively, compared to the prior year period. The increase is due to an active marketplace with generally good local government economic conditions, as well as our increasingly strong competitive position, which we attribute in part to our investment in product development over the past few years. Additions to our implementation staff, which increased our capacity to deliver backlog, also contributed to higher software license revenues.

Although the mix of new contracts between subscription-based and perpetual license arrangements may vary from quarter to quarter and year to year, we expect our longer-term software license growth rate to continue to be slow as a growing number of clients choose our subscription-based options, rather than purchasing the software under a traditional perpetual software license arrangement. Subscription-based arrangements result in lower software license revenue in the initial year as compared to perpetual software license arrangements but generate higher overall revenue over the term of the contract. Our new client mix for the six months ended June 30, 2018, was approximately 40% perpetual software license arrangements and approximately 60% subscription-based arrangements compared to a client mix for the six months ended June 30, 2017, of approximately 48% perpetual software license arrangements and approximately 52% subscription-based arrangements.

Subscriptions

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

	Second Quarter		Change		Six Months Ended		Change	
($ in thousands)	2018	2017 As Adjusted	$	%	2018	2017 As Adjusted	$	%
ES	$50,637	$ 38,621	$12,016	31%	$97,321	$ 76,695	$20,626	27%
A&T	2,372	1,896	476	25	4,716	3,684	1,032	28
Total subscriptions revenue	$53,009	$ 40,517	$12,492	31%	$102,037	$ 80,379	$21,658	27%

Subscriptions revenue primarily consists of revenue derived from our SaaS arrangements, which utilize the Tyler private cloud. As part of our subscription-based services, we also provide e-filing arrangements that simplify the filing and management of court related documents for courts and law offices. E-filing revenue is derived from transaction fees and fixed fee arrangements.

Excluding the results of acquisitions, subscriptions revenue grew 25% and 24% for the three and six months ending June 30, 2018, respectively, compared to the prior year. New SaaS clients as well as existing clients who converted to our SaaS model provided the majority of the subscriptions revenue increase. In the three and six months ending June 30, 2018, respectively, we added 126 and 248 new SaaS clients and 32 and 58 existing on-premises clients converted to our SaaS model. Since June 30, 2017, we have added 425 new SaaS clients while 92 existing on-premises clients converted to our SaaS model. Also, e-filing services contributed approximately $2.1 million and $4.2 million to the subscriptions revenue increase for the three and six months ended June 30, 2018, respectively, due to the addition of new e-filing clients, as well as increased volumes as the result of several existing clients mandating e-filing. The acquisition of Socrata, which primarily has a subscription revenue model, also contributed to the increase in subscription revenues.

Software services

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

	Second Quarter		Change		Six Months Ended		Change	
($ in thousands)	2018	2017 As Adjusted	$	%	2018	2017 As Adjusted	$	%
ES	$45,002	$41,184	$3,818	9 %	$85,289	$79,329	$5,960	8 %
A&T	5,672	4,676	996	21	11,324	9,027	2,297	25
Total software services revenue	$50,674	$45,860	$4,814	10%	$96,613	$88,356	$8,257	9 %

Software services revenue primarily consists of professional services delivered in connection with implementing our software, converting client data, training client personnel, custom development activities and consulting. New clients who acquire our software generally also contract with us to provide the related software services. Existing clients also periodically purchase additional training, consulting and minor programming services. Excluding the results from acquisitions, for the three and six months ended June 30, 2018, respectively, software services revenue grew 7% and 8% compared to the prior year period. This growth is primarily due to additions to our implementation and support staff which increased our capacity to deliver backlog. Excluding employees added with acquisitions, our implementation and support staff has grown by 158 employees since June 30, 2017.

Maintenance

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

	Second Quarter		Change		Six Months Ended		Change	
($ in thousands)	2018	2017 As Adjusted	$	%	2018	2017 As Adjusted	$	%
ES	$89,795	$83,706	$6,089	7 %	$177,609	$165,319	$12,290	7 %
A&T	6,281	5,105	1,176	23	12,364	9,799	2,565	26
Total maintenance revenue	$96,076	$88,811	$7,265	8 %	$189,973	$175,118	$14,855	8 %

We provide maintenance and support services for our software products and certain third-party software. Maintenance revenue grew 8% for both the three and six months ended June 30, 2018, compared to the prior year. Maintenance revenue increased mainly due to annual maintenance rate increases and growth in our installed customer base from new software license sales.

Appraisal services

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

	Second Quarter		Change		Six Months Ended		Change	
($ in thousands)	2018	2017 As Adjusted	$	%	2018	2017 As Adjusted	$	%
ES	$—	$ —	$—	— %	$—	$ —	$—	— %
A&T	5,532	6,366	(834)	(13)	10,926	12,978	(2,052)	(16)
Total appraisal services revenue	$5,532	$ 6,366	$(834)	(13)%	$10,926	$ 12,978	$(2,052)	(16)%

Appraisal services revenue for the three and six months ended June 30, 2018, respectively, decreased by 13% and 16% compared to the prior year primarily due to the successful completion of several large revaluation projects in mid-2017. The appraisal services business is somewhat cyclical and driven in part by statutory revaluation cycles in various states.

Cost of Revenues and Gross Margins

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

($ in thousands)	Second Quarter 2018	Second Quarter 2017 As Adjusted	Change $	Change %	Six Months Ended 2018	Six Months Ended 2017 As Adjusted	Change $	Change %
Software licenses and royalties	$1,204	$647	$557	86 %	$1,982	$1,378	$604	44 %
Acquired software	5,724	5,360	364	7	11,106	10,770	336	3
Software services, maintenance and subscriptions	109,487	96,172	13,315	14	215,572	189,712	25,860	14
Appraisal services	3,568	4,282	(714)	(17)	7,349	8,479	(1,130)	(13)
Hardware and other	6,801	6,799	2	—	9,144	8,115	1,029	13
Total cost of revenues	$126,784	$113,260	$13,524	12 %	$245,153	$218,454	$26,699	12 %

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

	Second Quarter 2018	Second Quarter 2017 As Adjusted	Change	Six Months Ended 2018	Six Months Ended 2017 As Adjusted	Change
Software licenses, royalties and acquired software	69.1%	68.9 %	0.2 %	71.0%	70.4 %	0.6 %
Software services, maintenance and subscriptions	45.2	45.1	0.1	44.5	44.8	(0.3)
Appraisal services	35.5	32.7	2.8	32.7	34.7	(2.0)
Hardware and other	18.7	14.0	4.7	26.9	23.4	3.5
Overall gross margin	46.3%	45.7 %	0.6 %	46.4%	46.5 %	(0.1)%

Software licenses, royalties and acquired software. Amortization expense for acquired software comprises the majority of costs of software licenses, royalties and acquired software. We do not have any direct costs associated with royalties. In the three and six months ended June 30, 2018, respectively, our software licenses, royalties and acquired software gross margin increased 0.2% and 0.6% compared to the prior year period due to higher incremental margins on software license revenues offset by amortization expense for acquired software resulting from acquisitions. Excluding the impact of acquisitions amortization expense, our software license, royalties and acquired software gross margin was 70.6% and 71.8% for the three and six months ended June 30, 2018, respectively.

Software services, maintenance and subscriptions. Cost of software services, maintenance and subscriptions primarily consists of personnel costs related to installation of our software, conversion of client data, training client personnel and support activities and various other services such as custom client development and on-going operation of SaaS and e-filing arrangements. The software services, maintenance and subscription gross margin in the three and six months ended June 30, 2018, respectively, increased 0.1% and decreased 0.3% from the comparable prior year period. Excluding employees added through acquisitions, our implementation and support staff has grown by 158 employees since June 30, 2017, as we accelerated hiring to ensure that we are well-positioned to deliver our current backlog and anticipated new business.

Appraisal services. Appraisal services revenue was approximately 2% of total revenue for both the three and six months ended June 30, 2018. The appraisal services gross margin for the three and six months ended June 30, 2018, respectively, increased 2.8% and decreased 2.0% compared to the same period in 2017. During the three months ended June 30, 2018, appraisal gross margin increased due to lower headcount of appraisal staff. During the six months ended June 30, 2018, appraisal gross margin decreased primarily due to the completion of certain higher-margin projects in 2017, and a lower volume of revenues in the current period to cover relatively fixed costs. The appraisal services business is somewhat cyclical and driven in part by statutory revaluation cycles in various states.

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For the three and six months ended June 30, 2018, respectively, our overall gross margin increased 0.6% and decreased 0.1% compared to the prior year period. Our overall gross margin increase for the three-months period was mainly due to a product mix that included more higher-margin recurring revenues from subscriptions and maintenance and improved margin on revenues from software licenses and appraisal services. Our overall gross margin decrease for the six-months period is mainly attributed to additions to our implementation staff and lower margin revenues from appraisal services, offset by improved margin on revenues from software licenses.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses consist primarily of salaries, employee benefits, travel, share-based compensation expense, commissions and related overhead costs for administrative and sales and marketing employees, as well as professional fees, trade show activities, advertising costs and other marketing related costs.

The following table sets forth a comparison of our SG&A expenses for the periods presented as of June 30:

	Second Quarter		Change		Six Months Ended		Change	
($ in thousands)	2018	2017 As Adjusted	$	%	2018	2017 As Adjusted	$	%
Selling, general and administrative expenses	$52,262	$43,000	$9,262	22%	$99,866	$85,780	$14,086	16%

SG&A as a percentage of revenues was 22% for both the three and six months ended June 30, 2018, compared to 21% for both the three and six months ended June 30, 2017. SG&A expense increased 22% and 16% for the three and six months ended June 30, 2018, respectively. This increase is mainly due to higher share-based compensation expense, increased staff levels, and an increase in commission expense as a result of higher sales. Excluding employees added with acquisitions, we have added 31 SG&A employees, mainly to our sales and finance teams, since June 30, 2017. For the three and six months ended June 30, 2018, respectively, stock compensation expense rose $3.3 million and $4.5 million compared to the same period in 2017, mainly due to an increase in share-based awards issued in connection with our stock compensation plan coupled with the higher fair value of each share-based award due to the increase in our stock price.

Research and Development Expense

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

	Second Quarter		Change		Six Months Ended		Change	
($ in thousands)	2018	2017	$	%	2018	2017	$	%
Research and development expense	$15,831	$11,874	$3,957	33%	$28,879	$23,473	$5,406	23%

Research and development expense consists mainly of costs associated with development of new products and technologies from which we do not currently generate significant revenue.

Research and development expense in the three and six months ended June 30, 2018, respectively, increased 33% and 23% compared to prior period mainly due to a number of new Tyler product development initiatives across our product suites. As a result of these initiatives, our research and development staff has grown by 72 since June 30, 2017.

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 of customer and trade name intangibles increased substantially from the comparable prior year periods due to the acquisition of Socrata in April 2018. Amortization expense related to acquired software is included with cost of revenues while amortization expense of customer and trade name intangibles is recorded as operating expense.

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The following table sets forth a comparison of amortization of customer and trade name intangibles for the periods presented as of June 30:

	Second Quarter		Change		Six Months Ended		Change	
($ in thousands)	2018	2017 As Adjusted	$	%	2018	2017 As Adjusted	$	%
Amortization of customer and trade name intangibles	$4,041	$ 3,331	$710	21%	$7,356	$ 6,656	$700	11%

Other Income (Expense), Net

The following table sets forth a comparison of our other income (expense), net, for the periods presented as of June 30:

	Second Quarter		Change		Six Months Ended		Change	
($ in thousands)	2018	2017	$	%	2018	2017	$	%
Other income (expense), net	$558	$(101)	$659	NM	$1,157	$(291)	$1,448	NM

Other income (expense), net is comprised of interest expense and non-usage and other fees associated with our revolving credit agreement, as well as interest income from invested cash. The change in other income (expense), net, in the three and six months ended June 30, 2018, respectively, compared to the prior period is due to increased interest income from significantly higher levels of cash investments resulting from cash generated in the last year. We had no debt in the current period, as we repaid all borrowings under the revolving line of credit in January 2017.

Income Tax Provision

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

	Second Quarter		Change		Six Months Ended		Change	
($ in thousands)	2018	2017 As Adjusted	$	%	2018	2017 As Adjusted	$	%
Income tax provision	$(1,461)	$5,427	$(6,888)	(127)%	$151	$9,299	$(9,148)	(98)%
Effective income tax rate	(3.9)%	14.6%			0.2%	12.6%		

The decrease in effective tax rate for the three months ended June 30, 2018, as compared to the same period in 2017 was due primarily to the reduction of the U.S. corporate tax rate from 35% to 21% as a result of the Tax Act, the increase in the excess tax benefit related to share-based compensation and research tax credit benefit, offset by the elimination of the domestic production activities deduction and the increased limitations on the deduction for executive compensation. The effective income tax rates for the three and six months ended June 30, 2018 and 2017, respectively, were different from the statutory United States federal income tax rate of 21% and 35%, respectively, principally due to excess tax benefits related to stock option exercises. The excess tax benefits related to stock option exercises realized was $11.5 million and $20.7 million for the three and six months ended June 30, 2018, respectively, compared to $8.5 million and $18.6 million for the three and six months ended June 30, 2017, respectively. Excluding the excess tax benefits, the effective rate was 26.7% and 27.0% for the three and six months ended June 30, 2018, respectively, compared to 37.3% and 37.7% (as adjusted) for the three and six months ended June 30, 2017, respectively. Other differences from the federal statutory income tax rate include state income taxes, non-deductible business expenses, the tax benefit of research tax credits, and in 2017, the tax benefit of the domestic production activities deduction.

FINANCIAL CONDITION AND LIQUIDITY

As of June 30, 2018, we had cash and cash equivalents of $93.2 million compared to $185.9 million at December 31, 2017. We also had $99.2 million invested in investment grade corporate and municipal bonds as of June 30, 2018.

These investments mature through mid-2021, and we intend to hold these investments until maturity. As of June 30, 2018, we believe our cash from operating activities, revolving line of credit, cash on hand and access to the capital markets provides us with sufficient flexibility to meet our long-term financial needs.

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

($ in thousands)	2018	2017
Cash flows provided (used) by:		
Operating activities	$67,230	$49,575
Investing activities	(207,986)	(40,409)
Financing activities	48,077	9,755
Net (decrease) increase in cash and cash equivalents	$(92,679)	$18,921

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

For the six months ended June 30, 2018, operating activities provided cash of $67.2 million. Operating activities that provided cash were primarily comprised of net income of $77.0 million, non-cash depreciation and amortization charges of $29.6 million and non-cash share-based compensation expense of $23.5 million. Working capital, excluding cash, increased approximately $62.9 million mainly due to higher accounts receivable because increase in unbilled receivables attributed to revenues recognized prior billings and our maintenance billing cycle peaks in June, the timing of payments related to bonuses, timing of tax payments and the deferred taxes associated with stock option activity during the period. These increases were offset by increase in deferred revenue during the period. In general, changes in deferred revenue are cyclical and primarily driven by the timing of our maintenance renewal billings. Our renewal dates occur throughout the year, but our largest renewal billing cycles occur in the second and fourth quarters. In addition, subscription renewals are billed throughout the year.

Our days sales outstanding ("DSO") was 114 days at June 30, 2018, compared to 102 days (as adjusted) at December 31, 2017 and 108 days (as adjusted) at June 30, 2017. The increase in our DSO is mainly due to an increase in unbilled receivables attributed to the increase in software license revenue for which we have recognized revenue at the point in time when the software is made available to the customer but the billing has not yet been submitted to the customer, as well as an increase in software services contracts accounted for using progress-to-completion method of revenue recognition in which the services are performed in one accounting period but the billing normally occurs subsequently in another accounting period. Furthermore, our maintenance billing cycle typically peaks at its highest level in June and second highest level in December of each year and is followed by collections in the subsequent quarter. DSO is calculated based on quarter-end accounts receivable divided by the quotient of annualized quarterly revenues divided by 360 days.

Investing activities used cash of $208.0 million in the six months ending June 30, 2018. On April 30, 2018, we acquired all of the capital stock of Socrata, a company that provides open data and data-as-a-service solutions for state local and government agencies including cloud-based data integration, visualization, analysis, and reporting solutions. The purchase price, net of cash acquired of $1.7 million, was $147.6 million paid in cash, of which approximately $1.1 million was accrued at June 30, 2018. We also acquired all of the equity interests of Sage, a cybersecurity company offering a suite of services that supports an entire cybersecurity lifecycle, including program development, education and training, technical testing, advisory services, and digital forensics. The total purchase price was $11.6 million paid in cash. Approximately $15.0 million was invested in property and equipment including $1.6 million for real estate construction costs. The remaining additions were for computer equipment, furniture and fixtures in support of internal growth, particularly with respect to data centers supporting growth in our cloud-based offerings.

Investing activities used cash of $40.4 million in the six months ending June 30, 2017. Approximately $30.1 million was invested in property and equipment. We purchased an office building in Latham, New York, for approximately $2.9 million and paid $9.5 million for construction to expand a building in Yarmouth, Maine. On May 30, 2017, we acquired all of the capital stock of Modria.com, Inc., a company that specializes in online dispute resolution for

government and commercial entities. The purchase price was $5.9 million in cash.
Financing activities provided cash of $48.1 million in the six months ended June 30, 2018 and were comprised of proceeds from stock option exercises and employee stock purchase plan activity. We did not repurchase any shares of our common stock during the six months ended June 30, 2018.

Financing activities provided cash of $9.8 million in the six months ended June 30, 2017, and were comprised of purchases of treasury shares, proceeds from stock option exercises and employee stock purchase plan activity. During the six months ended June 30, 2017, we purchased 42,000 shares of our common stock for an aggregate purchase price of $6.2 million at an average price paid per share of $147.30.
We had authorization from our board of directors to repurchase up to 2.0 million additional shares of Tyler common stock as of June 30, 2018. 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 2016. There is no expiration date specified for the authorization, and we intend to repurchase stock under the plan from time to time.

We made tax payments of $7.1 million in the six months ended June 30, 2018, compared to tax payments of $27.5 million in the six months ended June 30, 2017.

Excluding acquisitions, we anticipate that 2018 capital spending will be between $23 million and $26 million, including approximately $2 million related to real estate. We expect the majority of the other capital spending will consist of computer equipment and software for infrastructure replacements and expansion. We currently do not expect to capitalize significant amounts related to software development in 2018, but the actual amount and timing of those costs, and whether they are capitalized or expensed may result in additional capitalized software development. Capital spending is expected to be funded from existing cash balances, cash flows from operations and borrowings under our revolving line of credit.
From time to time we engage in discussions with potential acquisition candidates. In order to consummate any such opportunities, which could require significant commitments of capital, we may incur debt or issue potentially dilutive securities in the future. No assurance can be given as to our future acquisitions and how such acquisitions may be financed.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of loss that may affect us due to adverse changes in financial market prices and interest rates.
As of June 30, 2018, we had no outstanding borrowings under the Credit Facility. Loans under the Credit Facility bear interest, at Tyler’s option, at a per annum rate of either (1) the Wells Fargo Bank prime rate (subject to certain higher rate determinations) plus a margin of 0.25% to 1.00% or (2) the 30, 60, 90 or 180-day LIBOR rate plus a margin of 1.25% to 2.00%.
As of June 30, 2018, our interest rate was 5.25% under the Wells Fargo Bank prime rate and 3.34% under a 30-day LIBOR contract. The Credit Facility is secured by substantially all of our assets.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act) designed to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the SEC’s rules and forms. These include controls and procedures designed to ensure that this information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. Management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of June 30, 2018.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the three months ended June 30, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

ITEM 1. Legal Proceedings
Other than routine litigation incidental to our business, there are no material legal proceedings pending to which we are party or to which any of our properties are subject.

ITEM 1A. Risk Factors
In addition to the other information set forth in this report, one should carefully consider the discussion of various risks and uncertainties contained in Part I, “Item 1A. Risk Factors” in our 2017 Annual Report on Form 10-K. We believe those risk factors are the most relevant to our business and could cause our results to differ materially from the forward-looking statements made by us. Please note, however, that those are not the only risk factors facing us. Additional risks that we do not consider material, or of which we are not currently aware, may also have an adverse impact on us. Our business, financial condition and results of operations could be seriously harmed if any of these risks or uncertainties actually occurs or materializes. In that event, the market price for our common stock could decline, and our shareholders may lose all or part of their investment. During the three months ended June 30, 2018, 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, 2017.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds
None

ITEM 3. Defaults Upon Senior Securities
None

ITEM 4. Submission of Matters to a Vote of Security Holders
None

ITEM 5. Other Information
None

ITEM 6. Exhibits

Exhibit 31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certifications Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 10.1	Employment and Non-Competition Agreement between Tyler Technologies, Inc. and John S. Marr Jr. effective February 26, 2018 (filed as Exhibit 10.1 to our Form 8-K dated March 9, 2018 and incorporated by reference herein).
Exhibit 10.2	Employment and Non-Competition Agreement between Tyler Technologies, Inc. and H. Lynn Moore, Jr effective February 26, 2018 (filed as Exhibit 10.2 to our Form 8-K dated March 9, 2018 and incorporated by reference herein).
Exhibit 10.3	Employment and Non-Competition Agreement between Tyler Technologies, Inc. and Brian K. Miller effective February 26, 2018 (filed as Exhibit 10.3 to our Form 8-K dated March 9, 2018 and incorporated by reference herein).
Exhibit 10.4	Agreement and plan of merger by and among Tyler Technologies, Inc. and Dedomena Acquisition, Inc., Socrata, Inc (filed as Exhibit 10.4 to our Form 10-Q dated May 10, 2018 and incorporated by reference herein).
Exhibit 10.5	Employee Stock Purchase Plan (filed as Exhibit 10.1 to our registration statement 333-225011 dated May 17, 2018 and incorporated by reference herein).
Exhibit 101	Instance Document
Exhibit 101	Schema Document
Exhibit 101	Calculation Linkbase Document
Exhibit 101	Labels Linkbase Document
Exhibit 101	Definition Linkbase Document
Exhibit 101	Presentation Linkbase Document

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

TYLER TECHNOLOGIES, INC.

By: /s/ Brian K. Miller
Brian K. Miller
Executive Vice President and Chief Financial Officer
(principal financial officer and an authorized signatory)
Date: August 1, 2018

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