connected communities

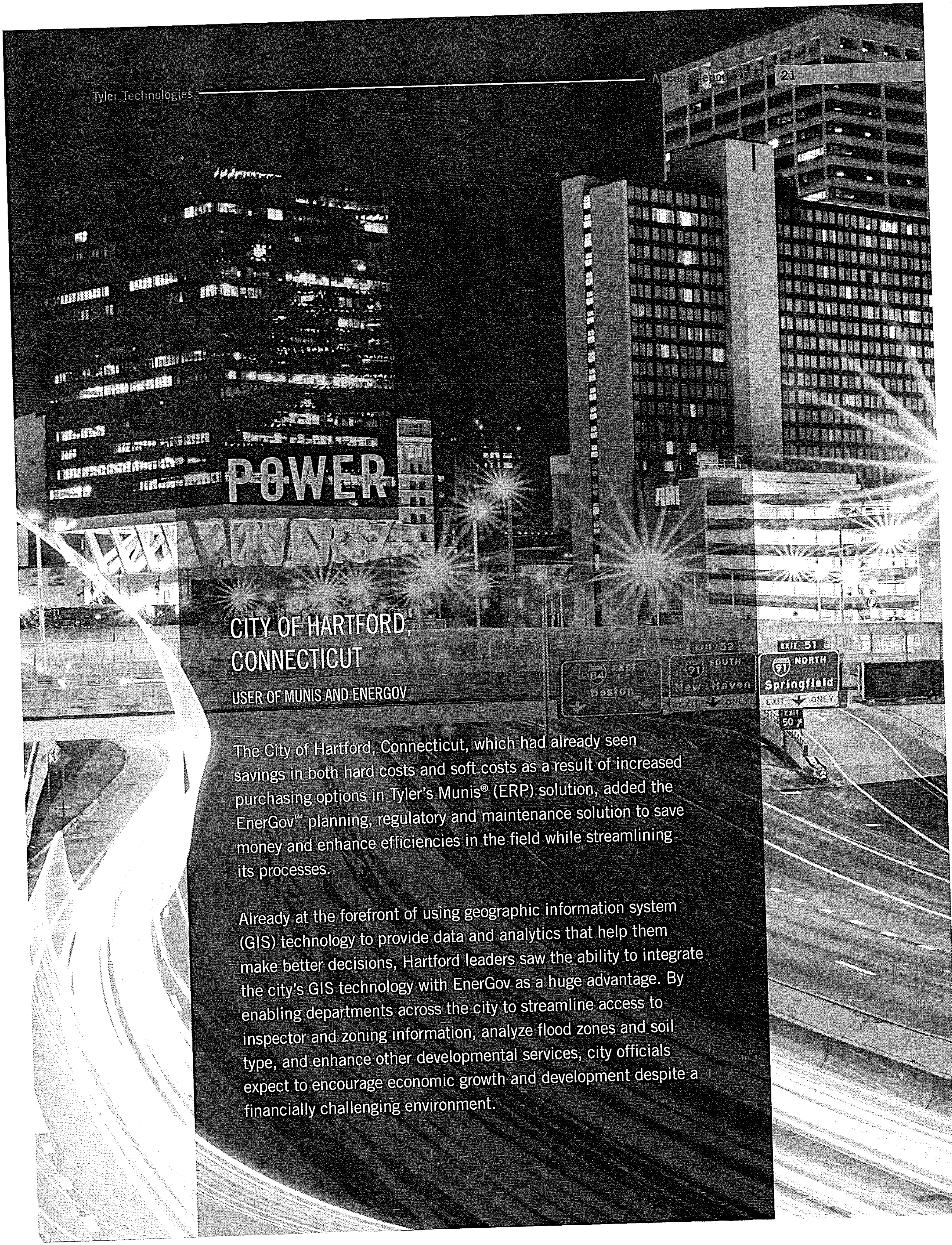
"WE'RE COMMITTED TO USING TECHNOLOGY AND DATA, NOT ONLY TO HELP US MAKE SMARTER POLICY DECISIONS, BUT ALSO TO HELP RESIDENTS AND BUSINESSES FEEL MORE CONNECTED TO THE DECISION-MAKING PROCESS."

— Mayor Luke Bronin
City of Hartford, Connecticut

The promise of technology has always been to amplify what one person can accomplish by making work more productive. By connecting data and organizations and networking communities, Tyler Technologies delivers on the promise of using technology to make local government more accessible, responsive and efficient.

Tyler's objective is to empower vibrant, thriving and engaged communities by enabling seamless connections between citizens and government agencies, ultimately creating better places to live and do business.

We have been steadily broadening our reach across the marketplace to support our vision of connected solutions. This leads us to the next step of connected communities. Our goal of expanding relationships by providing multiple products to an organization or jurisdiction is advanced, and our clients benefit with synergies that improve their operational effectiveness while helping them serve better-informed, happier and more engaged citizens—the pulse of a thriving community.



POWER USERS

CITY OF HARTFORD, CONNECTICUT

USER OF MUNIS AND ENERGOV

The City of Hartford, Connecticut, which had already seen savings in both hard costs and soft costs as a result of increased purchasing options in Tyler's Munis® (ERP) solution, added the EnerGov™ planning, regulatory and maintenance solution to save money and enhance efficiencies in the field while streamlining its processes.

Already at the forefront of using geographic information system (GIS) technology to provide data and analytics that help them make better decisions, Hartford leaders saw the ability to integrate the city's GIS technology with EnerGov as a huge advantage. By enabling departments across the city to streamline access to inspector and zoning information, analyze flood zones and soil type, and enhance other developmental services, city officials expect to encourage economic growth and development despite a financially challenging environment.

POWER USERS

CITY OF MOBILE, ALABAMA

USER OF MULITPLE TYLER PRODUCTS, INCLUDING MUNIS (ERP), INCODE (MUNICIPAL COURTS AND PUBLIC SAFETY), TYLER PARKS & REC, AND ENERGOV

In 2015, city leaders in Mobile, Alabama, signed a seven-year software-as-a-service (SaaS) agreement for an integrated suite of Tyler software solutions to replace the city's legacy system. Mobile is in the midst of a multi-year implementation of Tyler products including Munis®, EnerGov™, Incode® municipal court solution and the Incode public safety solution for a comprehensive set of integrated solutions.

Tyler's unique ability to integrate a city-wide cloud solution and manage day-to-day maintenance of the system provides value to Mobile by allowing city staff to focus on other critical functions. Financial benefits have also accrued to the city, contributing to budget surpluses since the go-live date.

"WE CHOSE TYLER BECAUSE WE FELT LIKE WE COULD GET EVERYTHING FROM ONE VENDOR. WHEN I HEARD ABOUT THE INTEGRATION IT WAS MUSIC TO MY EARS."

— Sue Farni
Executive Director, Information Technology
City of Mobile, Alabama

CONNECTING THE DOTS

Tyler has begun to realize the vision of connected communities through two long-term initiatives branded as Tyler Alliance™ for public safety, courts and justice clients in the Justice Group, and Tyler Nexus™ for municipal clients in the Enterprise Group.

Tyler Alliance and Tyler Nexus will each bring together related applications under a common user experience and enable data sharing and workflows across business processes. The goal is to break down barriers between the separate applications and have one continuous process that flows from agency to agency.

connected community initiatives

tyler alliance™

Tyler Alliance™ is an initiative to build a multi-agency distributed platform that integrates public safety and criminal justice systems by connecting across departments, agencies and jurisdictions to help create safer communities. It connects core courts and justice products like Odyssey®, SoftCode™ and Incode® with Tyler's public safety solutions, creating the first integrated end-to-end criminal justice solution on the market. New products and technologies from Tyler's acquisitions of New World and Brazos Technology Corporation in 2015 fit the long-term objective of enabling the exchange of cross-departmental and cross-jurisdictional data. Tyler Alliance can help law enforcement agencies interdict crime while also helping to ensure efficient judicial proceedings. For a glimpse into the potential of Tyler Alliance, we can turn to one of Tyler's 2016 Excellence Award Winners in Public Safety, the city of Greenwood Village, Colorado. Because of Greenwood Village's positive experience using Tyler's Incode municipal court software, the Greenwood Village Police Department chose both Incode (public safety) and Brazos™ to replace paper-based processes with software that would effectively manage its essential day-to-day functions. Incode's public safety solution manages records and computer-aided dispatch to streamline the police department's critical data, while Brazos electronic citation software eliminates manual ticketing processes to save time and money. The ability to share reliable, real-time data gives officers the information they need to make the split-second decisions necessary to keep officers and citizens safe.

FROM **DISPATCH** THROUGH **DISPOSITION**™

THE **DIGITAL FABRIC** FOR **THRIVING COMMUNITIES**™

tyler nexus™

Tyler Nexus™ is a similar initiative for counties, cities and other municipal groups, which typically have multiple, smaller, public-facing agencies with different types of needs and processes than justice organizations. Tyler Nexus builds what is in essence a digital fabric that connects disparate governmental agencies, each with its own priorities, functions and procedures, into one digital ecosystem. Key data will be shared across organizations and with constituents through custom portals that leverage a common foundation of application services. The mission is to enable connected communities where local government and schools function efficiently, effectively, transparently and responsively on behalf of their constituents, and where constituents feel engaged and empowered. As with Tyler Alliance, the success of Tyler Nexus will rely on extending core products through strategic acquisitions and product enhancements and integrating them through Tyler's technology initiatives. Several recent contracts demonstrate the potential of Tyler Nexus by combining core product suites like EnerGov™ and Munis® with products like Eagle Recorder™ and iasWorld® appraisal and tax software and integrating new applications from acquisitions like ExecuTime™.

NEW CONTRACTS PROVIDE A GLIMPSE INTO THE FUTURE

We signed a number of new contracts in 2016 that include multiple Tyler products.

In July, officials in Collin County, Texas, signed an agreement for Tyler's Munis® ERP solution and the EnerGov™ permitting, regulatory and maintenance platform. Together, these products provide Collin County with a comprehensive solution that will enable the county to communicate better across departments, integrate processes and expand residents' access to government through a citizen portal. Already a user of Tyler's justice products, including Odyssey® and Brazos™, Collin County's addition of these Enterprise solutions is an example of incremental growth through cross-selling products across agencies, while also furthering Tyler's vision of connected communities.

Seeking a platform of solutions that would allow for the city's growth and constant improvement initiatives while expanding citizen access, the city of Amarillo, Texas, entered into a SaaS agreement with Tyler for the EnerGov, Munis and Eagle Recorder™ products. A user of Tyler's Incode® municipal court case management solution, the addition of EnerGov will provide the city with permitting and inspections processing, as well as a citizen portal to expand access and transparency for residents. Munis will improve communication across multiple departments, and Eagle Recorder will streamline document and record management. Together, these integrated products allow for seamless coordination between various city departments and automated workflows to boost citizen access, customer service and communication, giving the citizens of Amarillo greater access to data through the city's 3-1-1 initiatives while offering the city cost savings and efficiencies.

Integrating EnerGov and Munis is proving to be an attractive offering for a number of clients. Tyler also entered into a SaaS agreement with the city of Tulsa, Oklahoma, which sought to use integrated Munis and EnerGov solutions to streamline business processes, eliminate redundancies and provide city staff and citizens access to real-time data. Opting for a SaaS solution also ensures that the city of Tulsa has up-to-date systems and built-in disaster recovery.

Another contract where the client has selected multiple Tyler products from different enterprise suites is the seven-year SaaS agreement between Tyler and the city of Healdsburg, California. Seeking to replace the city's legacy system with a modernized solution that can accommodate complex financial reporting requirements, Healdsburg officials chose a suite of Incode financial applications along with EnerGov and Tyler Content Manager™ to replace manual processes, improve customer support and communication, enhance reporting and increase productivity citywide.

The Frederick County Public Schools in Virginia entered into a seven-year SaaS contract for Tyler's Munis® ERP solution and Tyler SIS™ student information system. The client wanted a technology partner that could provide both solutions in order to ease integration, help eliminate disparate systems and reduce the overall technology footprint. The Tyler solution also allows data to be shared across departments, so when a new teacher is added to Munis payroll, the automated workflow also adds the teacher to Tyler SIS. Choosing Tyler's SaaS model provides built-in redundancies to prevent data loss and downtime, and frees overloaded IT staff to focus on other projects.

In August 2016, leaders in Lake County, Illinois, opted to integrate EnerGov with Tyler's iasWorld® for an integrated property tax administration and computer-assisted mass appraisal solution to automate manual processes, while establishing e-services for residents and mobile capabilities for staff. Integrating property assessment with permitting and inspection functionality improves efficiency and reporting capabilities. The five-year SaaS contract supports Lake County's growth strategies in one integrated, multi-solution approach that will help the county provide better service to its constituents by creating greater access to information.

In other 2016 contracts, Tyler leveraged existing relationships to provide additional products. Washtenaw County, Michigan, had an existing relationship with Tyler, having implemented the Eagle recording and property tax assessment solution, as well as Tyler's Odyssey court case management solution. The county sought to replace its ERP system with a system that would provide modern applications needed to support high-quality customer service and accommodate the county's growth. After a competitive review, the county entered into a new agreement in the first quarter of 2016 for Tyler's Munis ERP solution.

These new contracts and numerous others give us confidence that the Tyler Alliance and Tyler Nexus initiatives resonate with local governments. Interest in integrated solutions that cross agencies, jurisdictions and county lines continues to build. Selecting a single provider that can weave together a comprehensive digital solution for all of the community's needs encourages success. This is the future Tyler envisions.

CREATING

In 2016, Tyler continued to advance ongoing efforts to connect more of our products to mobile devices and to create native mobile applications. Going forward, we expect investment in mobile technologies to increase as we further integrate our products and introduce applications that enable mobile access for both users and citizens.

With clients growing increasingly comfortable with cloud-based systems that offer benefits like remote access capabilities, security risk mitigation, scheduled upgrades and enhancements, and disaster recovery, Tyler expects to continue to see a gradual increase in the percentage of our clients that are choosing Tyler's software as a cloud-based service.

With the expectation of a growing move to the cloud, we plan to increase investment in cloud technologies in 2017. This includes adding capacity to our dedicated development teams to prepare specific technologies and product enhancements that will enable us to realize our vision.

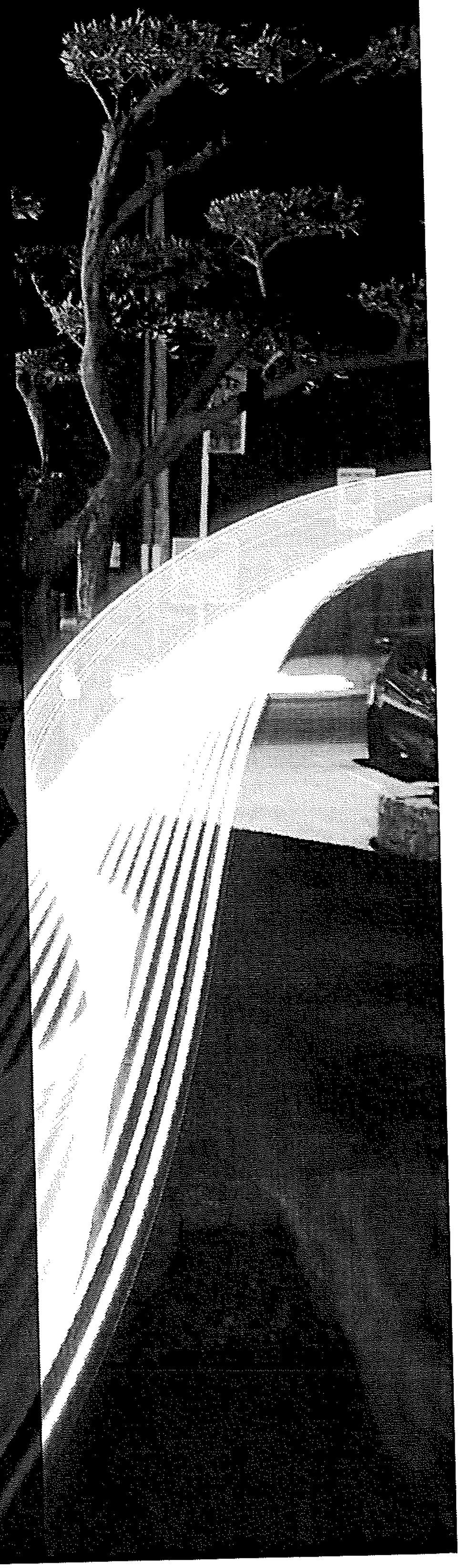
Our product development goals will result in a network effect in which the more Tyler products our clients implement, the more value they receive. Not only will this network benefit our clients in many ways, it will also solidify our favorable competitive position. Development

WE HAVE A STRATEGIC PLAN TO STANDARDIZE THESE NEW TECHNOLOGIES ACROSS ALL TYLER APPLICATIONS, PRIORITIZING DEPLOYMENT IN APPLICATIONS THAT OFFER THE HIGHEST VALUE TO OUR CLIENTS IN THE SHORTEST AMOUNT OF TIME.

SYNERGY

work in 2016 advanced our objectives toward improving the user experience, creating data exchanges, enhancing products and creating a common foundation that will knit together a digital environment where Tyler, our developers, our clients and our users can access data and fulfill necessary functions when and how they need it. While most of these technologies are still in development, we will begin to roll them out with future product updates in the next few years.

Tyler Identity™ is our engine for single sign-on that will allow any constituent with the proper authorization — whether a judge, an assessor, a bus driver, a county clerk or a citizen — to register for a single Tyler ID that will grant access to all Tyler applications. Tyler Identity is currently being tested by early adopters in some of our core products.



TYLER IS ALSO DEVELOPING SEVERAL OTHER FOUNDATIONAL TECHNOLOGIES:

- A powerful global search engine that will be able to search across all Tyler applications
- An enterprise service bus, currently deployed in the EnerGov citizen access portal, which enables Tyler's applications to communicate with each other and share data across the application boundaries
- A constitutent portal, serving as the framework for citizen communication through which all Tyler citizen-facing applications can be accessed
- Atlas, which allows citizens to easily browse and search aggregated data using a map interface.

We have a strategic plan to standardize these new technologies across all Tyler applications, prioritizing deployment in those that offer the highest value to our clients in the shortest amount of time.

building on success

"OUR CONFIDENCE IN MAKING THESE STRATEGIC INVESTMENTS – WHETHER IN OUR CURRENT TECHNOLOGY, OR IN NEWLY ACQUIRED PRODUCTS AND COMPANIES – COMES FROM KNOWING THAT THE NEARLY 4,000 EMPLOYEES WE HAVE ARE THE BEST IN THIS INDUSTRY."

— John S. Marr Jr.
Chairman of the Board and Chief Executive Officer

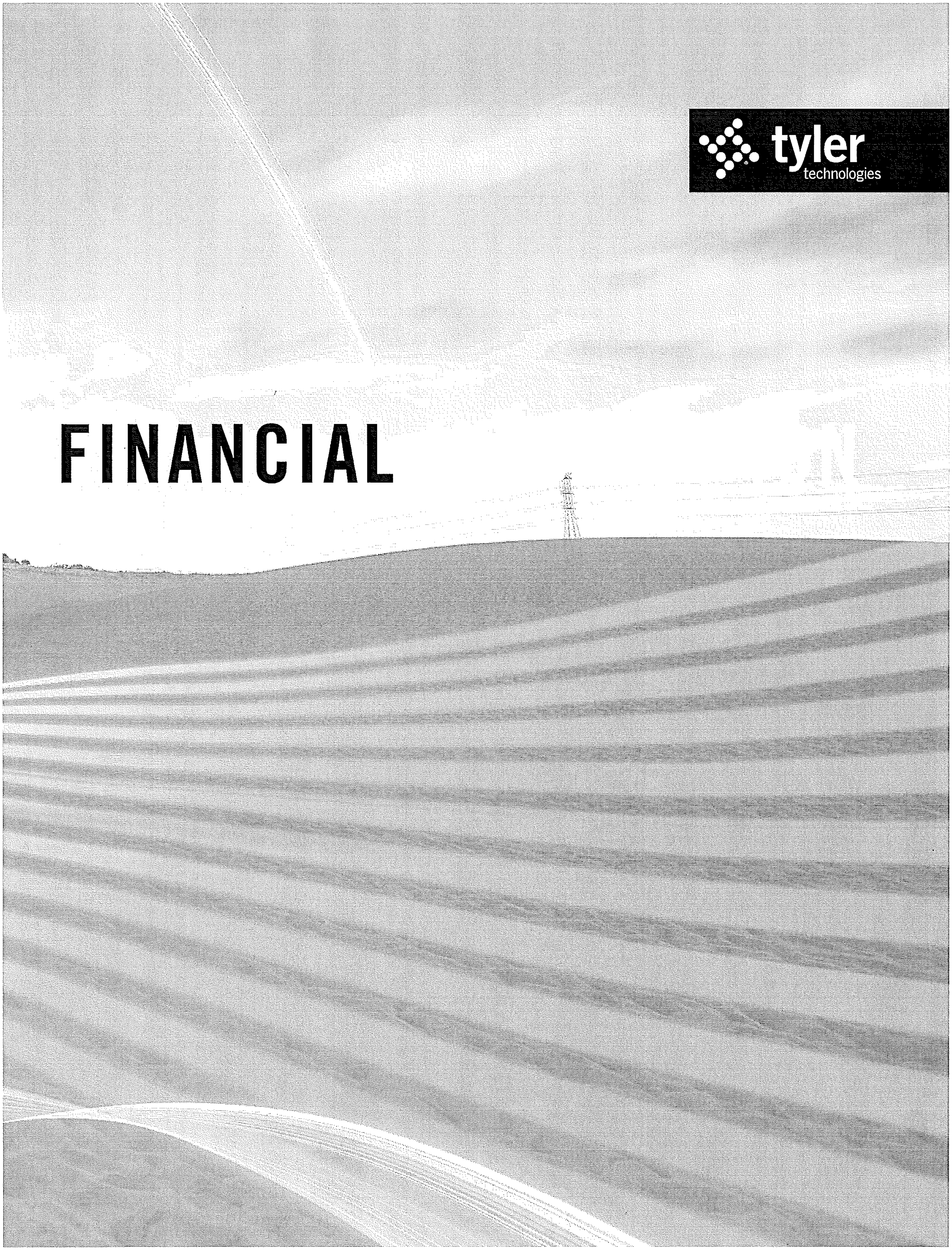
Tyler's shareholders stand to benefit substantially from our transition to this new phase in Tyler's evolution where we can genuinely create connected communities that enable citizens to thrive. BecauseTyler has a vision, a plan and the ability to repeat this connection in city after city, county after county, and state after state, the potential is enormous.

One of the keys to our longevity and success is our proven ability to consistently execute at a high level over a long period of time. This gives us the experience, the confidence and the credibility to win larger deals while continuing to perform at the highest level for clients of all sizes.

As Tyler continues to develop products and execute projects that help build connected communities, the potential is exciting. Because of the breadth and depth of our products, the talent and domain expertise of our team, and our clear-eyed vision of the future, we have the unique potential to blanket the country and beyond with solutions that empower those who serve the public sector.

We take pride in the fact that our solutions make tangible, positive differences in the lives of citizens every day. We help parents keep track of when and where their children get on and off a school bus. We help teachers record and access student information. We help citizens stay informed about how their home is valued. We help them submit payments for their utility bills and traffic tickets. We help cities and counties make informed decisions about investments in infrastructure, how their residents can be kept safe, how justice is served, and how tax dollars are spent. Tyler Technologies' solutions and initiatives make sure that all aspects of work in the public sector are made efficient, more transparent, and more effective.

TYLER IS THE PULSE THAT HELPS COMMUNITIES AND PEOPLE THRIVE.



FINANCIAL

Reconciliation of GAAP to NON-GAAP Financial Measures (Unaudited)

	2016	2015	2014	2013	2012
Reconciliation of non-GAAP total revenues					
GAAP total revenues	$756,043	$591,022	$493,101	$416,643	$363,304
Non-GAAP adjustments:					
Add: Write-downs of acquisition-related deferred revenue	15,063	3,186	—	—	—
Add: Amortization of acquired leases	444	37	—	—	—
Non-GAAP total revenues	$771,550	$594,245	$493,101	$416,643	$363,304
Reconciliation of non-GAAP gross profit and margin					
GAAP gross profit	$355,351	$277,187	$233,371	$193,203	$167,702
Non-GAAP adjustments:					
Add: Write-downs of acquisition-related deferred revenue	15,063	3,186	—	—	—
Add: Amortization of acquired leases	444	37	—	—	—
Add: Share-based compensation expense included in cost of revenues	6,548	3,380	2,177	1,509	1,084
Add: Amortization of acquired software	22,235	4,440	1,858	2,078	1,888
Non-GAAP gross profit	$399,641	$288,230	$237,406	$196,790	$170,674
GAAP gross margin	47.0%	46.9%	47.3%	46.4%	46.2%
Non-GAAP gross margin	51.8%	48.5%	48.1%	47.2%	47.0%
Reconciliation of non-GAAP operating income and margin					
GAAP operating income	$131,305	$108,043	$ 94,822	$ 67,128	$ 56,577
Non-GAAP adjustments:					
Add: Write-downs of acquisition-related deferred revenue	15,063	3,186	—	—	—
Add: Amortization of acquired leases	444	37	—	—	—
Add: Share-based compensation expense	29,747	20,182	14,819	11,653	7,411
Add: Employer portion of payroll tax related to employee stock transactions	1,001	1,506	514	982	311
Add: Acquisition-related costs	—	5,875	—	—	—
Add: Amortization of acquired software	22,235	4,440	1,858	2,078	1,888
Add: Amortization of customer and trade name intangibles	13,731	5,905	4,546	4,517	4,279
Non-GAAP adjustments subtotal	$ 82,221	$ 41,131	$ 21,737	$ 19,230	$ 13,889
Non-GAAP operating income	$213,526	$149,174	$116,559	$ 86,358	$ 70,466
GAAP operating margin	17.4%	18.3%	19.2%	16.1%	15.6%
Non-GAAP operating margin	27.7%	25.1%	23.6%	20.7%	19.4%
Reconciliation of non-GAAP net income and earnings per share					
GAAP net income	$109,857	$ 64,869	$ 58,940	$ 39,101	$ 32,994
Non-GAAP adjustments:					
Add: Total non-GAAP adjustments to operating income	82,221	41,131	21,737	19,230	13,889
Less: Tax impact related to non-GAAP adjustments	(56,230)	(13,318)	(6,658)	(6,014)	(4,307)
Non-GAAP net income	$135,848	$ 92,682	$ 74,019	$ 52,317	$ 42,576
GAAP earnings per diluted share	$ 2.82	$ 1.77	$ 1.66	$ 1.13	$ 1.00
Non-GAAP earnings per diluted share	$ 3.49	$ 2.54	$ 2.09	$ 1.51	$ 1.29
Detail of share-based compensation expense					
Cost of software services, maintenance and subscriptions	$ 6,548	$ 3,380	$ 2,177	$ 1,509	$ 1,084
Selling, general and administrative expenses	23,199	16,802	12,642	10,144	6,327
Total share-based compensation expense	$ 29,747	$ 20,182	$ 14,819	$ 11,653	$ 7,411

Stock Market Data

Our common stock is traded on the New York Stock Exchange under the symbol "TYL." At December 31, 2016, we had approximately 1,492 stockholders of record. Most of our stockholders hold their shares in street name; therefore, there are substantially more than 1,492 beneficial owners of our common stock.

The following table shows, for the calendar periods indicated, the high and low sales price per share of our common stock as reported on the New York Stock Exchange.

		High	Low
2015:	First Quarter	$125.84	$103.18
	Second Quarter	133.54	118.05
	Third Quarter	152.91	127.25
	Fourth Quarter	184.01	150.00
2016:	First Quarter	$172.50	$118.16
	Second Quarter	168.19	126.70
	Third Quarter	175.77	159.24
	Fourth Quarter	172.24	139.61

We did not pay any cash dividends in 2016 or 2015. Our bank credit agreement contains restrictions on the payment of cash dividends. We intend to retain earnings for use in the operation and expansion of our business, and, therefore, we do not anticipate declaring a cash dividend in the foreseeable future.

During 2016, we purchased approximately 882,000 shares of our common stock for an aggregate purchase price of $112.7 million. 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.

Selected Financial Data

For the Years Ended December 31,	2016	2015[b]	2014	2013	2012
(In thousands, except per share data)					
STATEMENT OF OPERATIONS DATA:					
Revenues	$ 756,043	$ 591,022	$493,101	$416,643	$363,304
Cost and expenses:					
Cost of revenues	400,692	313,835	259,730	223,440	195,602
Selling, general and administrative expenses	167,161	133,317	108,260	98,289	86,706
Research and development expense	43,154	29,922	25,743	23,269	20,140
Amortization of customer and trade name intangibles	13,731	5,905	4,546	4,517	4,279
Operating income	131,305	108,043	94,822	67,128	56,577
Other (expenses) income, net	(1,998)	381	(355)	(1,309)	(2,709)
Income before income taxes	129,307	108,424	94,467	65,819	53,868
Income tax provision[a]	19,450	43,555	35,527	26,718	20,874
Net income	109,857	64,869	58,940	39,101	32,994
Net earnings per diluted share	$ 2.82	$ 1.77	$ 1.66	$ 1.13	$ 1.00
Weighted average diluted shares[a]	38,961	36,552	35,401	34,590	32,916
STATEMENT OF CASH FLOWS DATA:					
Cash flows provided by operating activities[a]	$ 191,859	$ 134,327	$142,839	$ 94,297	$ 67,432
Cash flows used by investing activities	(50,720)	(398,459)	(11,555)	(25,658)	(34,736)
Cash flows (used) provided by financing activities[a]	(138,075)	91,052	(3,993)	3,831	(27,616)
BALANCE SHEET DATA:					
Total assets	$1,357,945	$1,356,570	$569,812	$444,488	$338,666
Revolving line of credit	10,000	66,000	—	—	18,000
Shareholders' equity	915,525	858,857	336,973	246,319	145,299

(a) During 2016, we adopted Accounting Standards Update ("ASU") No. 2016-09 "Improvements to Employee Share-Based Payment Accounting" requiring the recognition of excess tax benefits or tax deficiencies as a component of income tax expense; these benefits or deficiencies were historically recognized in equity. As the standard requires a prospective method of adoption, our net income in 2016 includes a $29.6 million income tax benefit due to the adoption that did not occur in the comparable periods presented above. In addition, the ASU updates the method of calculating diluted shares resulting in the inclusion of 519,000 additional shares in our diluted earnings per share calculation that is not comparable to the other periods presented. Refer to Note 1 "Summary of Significant Accounting Policies" for further discussion of this new accounting standard.

The adoption of ASU No. 2016-09 also requires excess tax benefits, previously presented as financing activities, to be classified as operating activities. As retrospective adoption for this component of the standard is allowable, we have adjusted all periods presented above to reflect this change in classification.

(b) On November 16, 2015, we completed the acquisition of New World Systems Corporation ("NWS"). Operating results for the twelve months ended December 31, 2015, include $5.9 million for financial advisory, legal, accounting, due diligence, valuation and other expenses necessary to complete the NWS acquisition as well as $3.5 million amortization expense related to NWS acquisition intangibles.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

In addition to historical information, this Annual Report contains forward-looking statements. The forward-looking statements are made in reliance upon safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinion only as of the date hereof. We undertake no obligation to revise or publicly release the results of any revisions to these forward-looking statements. Readers should carefully review the risk factors described in documents we file from time to time with the Securities and Exchange Commission.

When used in this Annual Report, the words "believes," "expects," "anticipates," "foresees," "forecasts," "estimates," "plans," "intends," "continues," "may," "will," "should," "projects," "might," "could" or other similar words or phrases are intended to identify forward-looking statements. Similarly, statements that describe our business strategy, outlook, objectives, plans, intentions or goals also are forward-looking statements.

Overview

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 such as software as a service ("SaaS"), which utilizes the Tyler private cloud, and electronic document filing solutions ("e-filing"), which simplify the filing and management of court related documents. Revenues for e-filing are derived from transaction fees and in some cases fixed fee arrangements. We also provide property appraisal outsourcing services for taxing jurisdictions.

Our products generally automate six 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, and (6) land and vital records management. 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; and land and vital records management. 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.

Total organic revenues increased 12% in 2016 compared to 2015.

On November 16, 2015, we acquired all of the capital stock of New World Systems Corporation ("NWS"), which provides public safety and financial solutions for local governments. The purchase price, net of cash acquired of $22.5 million, was $337.5 million in cash, of which $4.0 million was accrued at December 31, 2015, and 2.1 million shares of Tyler common stock valued at $362.8 million.

On May 29, 2015, we acquired all of the capital stock of Brazos Technology Corporation ("Brazos"), which provides mobile hand held solutions primarily to law enforcement agencies for field accident reporting and electronically issuing citations. The purchase price, net of cash acquired and including debt assumed, was $6.1 million in cash and 12,500 shares of Tyler common stock valued at $1.5 million.

The operating results of NWS and Brazos are included with the operating results of the Enterprise Software segment since their respective dates of acquisition.

Management's Discussion and Analysis of Financial Condition and Results of Operations

We monitor and analyze several key performance indicators in order to manage our business and evaluate our financial and operating performance. These indicators include the following:

- Revenues – We derive our revenues from five primary sources: sale of software licenses and royalties; subscription-based arrangements; software services; maintenance; and appraisal services. Subscriptions and maintenance are considered recurring revenue sources and comprised approximately 62% of our revenue in 2016. The number of new SaaS clients and the number of existing clients who convert from our traditional software arrangements to our SaaS model are a significant driver to our business, together with new software license sales and maintenance rate increases. In addition, we also monitor our customer base and churn as we historically have experienced very low customer turnover. During 2016, based on our number of customers, turnover was approximately 2%.
- Cost of Revenues and Gross Margins – Our primary cost component is personnel expenses in connection with providing software implementation, subscription-based services, maintenance and support, and appraisal services to our clients. We can improve gross margins by controlling headcount and related costs and by expanding our revenue base, especially from those products and services that produce incremental revenue with minimal incremental cost, such as software licenses and royalties, subscription-based services, and maintenance and support. Our appraisal projects are cyclical in nature, and we often employ appraisal personnel on a short-term basis to coincide with the life of a project. As of December 31, 2016, our total employee count increased to 3,831 from 3,586 at December 31, 2015.
- Selling, General and Administrative ("SG&A") Expenses – The primary components of SG&A expenses are administrative and sales personnel salaries and commissions, share-based compensation expense, marketing expense, rent and professional fees. Sales commissions typically fluctuate with revenues and share-based compensation expense generally increases when the market price of our stock increases. Other administrative expenses tend to grow at a slower rate than revenues. In 2015, SG&A expenses include approximately $5.9 million for financial advisory, legal, accounting, due diligence, valuation and other various services necessary to complete the NWS acquisition.
- Liquidity and Cash Flows – The primary driver of our cash flows is net income. Uses of cash include acquisitions, capital investments in property and equipment and discretionary purchases of treasury stock. Our working capital needs are fairly stable throughout the year with the significant components of cash outflows being payment of personnel expenses offset by cash inflows representing collection of accounts receivable and cash receipts from clients in advance of revenue being earned. In recent years, we have also received significant amounts of cash from employees exercising stock options and contributing to our Employee Stock Purchase Plan.
- Balance Sheet – Cash, accounts receivable and days sales outstanding and deferred revenue balances are important indicators of our business.

New Accounting Pronouncements Adopted in 2016

Improvements to Employee Share-Based Payment Accounting. In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. This standard is effective for our interim and annual reporting periods beginning December 15, 2016, and early adoption is permitted. We elected to early adopt this standard in fourth quarter of 2016. The impact of the early adoption was as follows:

- The standard eliminates additional paid in capital ("APIC") pools and requires excess tax benefits and tax deficiencies to be recorded in the income statement as a discrete item when the awards vest or are settled. The adoption of this guidance on a prospective basis resulted in the recognition of excess tax benefits in our provision for income taxes.

Management's Discussion and Analysis of Financial Condition and Results of Operations

- The standard requires excess tax benefits to be recognized regardless of whether the benefit reduces taxes payable. The adoption of this guidance is applied on a modified retrospective basis; however, it did not have an impact on our retained earnings as of January 1, 2016, as we had previously recognized all our excess tax benefits.
- As permitted, we have elected to continue to estimate forfeitures expected to occur to determine the amount of stock-based compensation cost to be recognized in each period. As such, the guidance relating to forfeitures did not have an impact on our retained earnings as of January 1, 2016.
- The new guidance changes the calculation of common stock equivalents for earnings per share purposes.
- As permitted, we elected to apply the statement of cash flows guidance that cash flows related to excess tax benefits be presented as an operating activity retrospectively.

Adoption of the new standard resulted in the recognition of excess tax benefits in our provision for income taxes rather than APIC of $29.6 million for the period ended December 31, 2016. As of December 31, 2016, the change in the calculation of common stock equivalents added approximately 519,000 weighted average shares for the diluted earnings per share calculations. The impact to our previously reported quarterly results for fiscal year 2016 is as follows:

	Three Months Ended March 31, 2016		Three Months Ended June 30, 2016		Three Months Ended September 30, 2016	
(In thousands, except per share amounts)	As Reported	As Adjusted	As Reported	As Adjusted	As Reported	As Adjusted
Income statements:						
Income tax provision	$ 10,495	$ 9,350	$11,323	$ 5,188	$ 14,155	$ 989
Net income	$ 17,079	$ 18,224	$18,872	$25,007	$ 22,264	$ 35,430
Basic earnings per common share	$ 0.47	$ 0.50	$ 0.52	$ 0.69	$ 0.61	$ 0.97
Diluted earnings per common share	$ 0.44	$ 0.47	$ 0.49	$ 0.65	$ 0.58	$ 0.91
Diluted weighted average common shares outstanding	38,557	39,071	38,196	38,738	38,506	39,062
Statement of cash flows:						
Net cash provided by operating activities	$ 40,270	$ 41,321	$13,877	$19,520	$ 67,091	$ 79,213
Net cash (used) provided by financing activities	$(15,860)	$(16,911)	$ 5,668	$ 25	$(77,973)	$(90,095)

Presentation of Financial Statements – Going Concern. In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The guidance requires an entity to evaluate whether there are conditions or events, in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the financial statements are available to be issued when applicable) and to provide related footnote disclosures in certain circumstances. The guidance is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. We adopted this standard in the fourth quarter of 2016 and its adoption did not have an impact on our consolidated financial statements.

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Recent Accounting Guidance not yet Adopted

Revenue from Contracts with Customers. On May 28, 2014, FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." This ASU is the result of a convergence project between the FASB and the International Accounting Standards Board. The core principle behind ASU No. 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for delivering those goods and 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. The ASU allows two methods of adoption: a full retrospective approach where three years of financial information are presented in accordance with the new standard, and a modified retrospective approach where the ASU is applied to the most current period presented in the financial statements. We currently anticipate adopting the standard using the full retrospective method to restate each prior reporting period presented. Our ability to adopt using the full retrospective method is dependent on system readiness, including software procured from third-party providers, and the completion of our analysis of information necessary to restate prior period financial statements.

The new standard requires application no later than annual reporting periods beginning after December 15, 2017, including interim reporting periods therein; however, public entities are permitted to elect to early adopt the new standard. We are assessing the financial impact of adopting the new standard and the methods of adoption; however, we are currently unable to provide a reasonable estimate regarding the financial impact. We will adopt the new standard in fiscal year 2018.

We anticipate this standard will have a material impact on our consolidated financial statements. While we are continuing to assess all potential impacts of the standard, we currently believe the most significant impact relates to our accounting for software license fees, installation fees, and incremental cost of obtaining a contract. Specifically, under the new standard we expect software license fees under perpetual agreements will no longer be subject to 100% discount allocations from other elements in the contract. Discounts in arrangements will be allocated across all deliverables 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) will be recognized at the point in time that control of the software license transfers to the customer versus our current policy of recognizing revenue only to the extent billable per the contractual terms. Time-based license fees currently recognized over the license term will no longer be recognized over the period of the license and will instead be recognized at the point in time that control of the software license transfers to the customer. Installation fees will no longer be considered distinct performance obligations and therefore will be recognized over the term of the arrangement or life of the performance obligation. We expect revenue related to our SaaS offerings and professional services to remain substantially unchanged. Due to the complexity of certain contracts, the actual revenue recognition treatment required under the standard will be dependent on contract-specific terms and may vary in some instances from recognition at the time of billing. Application of the new standard requires that incremental costs directly related to obtaining a contract (typically sales commissions plus any associated fringe benefits) must be recognized as an asset and expensed over the expected life of the arrangement, unless that life is less than one year. Currently, we defer sales commissions and recognize expense over the relevant initial contractual term. With the adoption the new standard, we expect amortization periods to extend past the initial term.

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 (with the exception of 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.

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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.

The ASU 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 expect to adopt the new standard in fiscal year 2019.

Outlook

Activity in the local government software market continues to be robust, and our backlog at December 31, 2016 reached $953.3 million, a 13% increase from last year. We expect to continue to achieve solid growth in revenue and earnings. With our strong financial position and cash flow, we plan to continue to make significant investments in product development to better position us to continue to expand our competitive position in the public sector software market over the long term.

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenues, cost of revenues and expenses during the reporting period, and related disclosure of contingencies. The Notes to the Financial Statements included as part of this Annual Report describe our significant accounting policies used in the preparation of the financial statements. Significant items subject to such estimates and assumptions include the application of the percentage-of-completion and proportional performance methods of revenue recognition, the carrying amount and estimated useful lives of intangible assets, determination of share-based compensation expense and valuation allowance for receivables. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies require significant judgments and estimates used in the preparation of our financial statements.

Revenue Recognition. We recognize revenues in accordance with the provisions of Accounting Standards Codification ("ASC") 605, Revenue Recognition and ASC 985-605, Software Revenue Recognition. Our revenues are derived from sales of software licenses and royalties, subscription-based services, appraisal services, maintenance and support, and services that typically range from installation, training and basic consulting to software modification and customization to meet specific customer needs. For multiple element software arrangements, which do not entail the performance of services that are considered essential to the functionality of the software, we generally record revenue when the delivered products or performed services result in a legally enforceable and non-refundable claim. We maintain allowances for doubtful accounts and sales adjustments, which are provided at the time the revenue is recognized. Because most of our customers are governmental entities, we rarely incur a loss resulting from the inability of a customer to make required payments. In a limited number of cases, we encounter a customer who is dissatisfied with some aspect of the software product or our service, and we may offer a "concession" to such customer. In those limited situations where we grant a concession, we rarely reduce the contract arrangement fee, but alternatively may perform additional services, such as additional training or creating additional custom reports. These amounts have historically been nominal. In connection with our customer contracts and the adequacy of related allowances and measures of progress towards contract completion, our project managers are charged with the responsibility to continually review the status of each customer

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on a specific contract basis. Also, we review, on at least a quarterly basis, significant past due accounts receivable and the adequacy of related reserves. Events or changes in circumstances that indicate that the carrying amount for the allowances for doubtful accounts and sales adjustments 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.

We use contract accounting, primarily the percentage-of-completion method, as discussed in ASC 605-35, Construction – Type and Certain Production – Type Contracts, for those software arrangements that involve significant production, modification or customization of the software, or where our software services are otherwise considered essential to the functionality of the software. We measure progress-to-completion primarily using labor hours incurred, or value added. In addition, we recognize revenue using the proportional performance method for our property appraisal projects, some of which can range up to five years. These methods rely on estimates of total expected contract revenue, billings and collections and expected contract costs, as well as measures of progress toward completion. We believe reasonably dependable estimates of revenue and costs and progress applicable to various stages of a contract can be made. At times, we perform additional and/or non-contractual services for little to no incremental fee to satisfy customer expectations. If changes occur in delivery, productivity or other factors used in developing our estimates of expected costs or revenues, we revise our cost and revenue estimates, and any revisions are charged to income in the period in which the facts that give rise to that revision first become known. In connection with these and certain other contracts, we may perform the work prior to when the services are billable and/or payable pursuant to the contract. The termination clauses in most of our contracts provide for the payment for the value of products delivered and services performed in the event of an early termination.

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. If we determine that the customer has the contractual right to take possession of our software at any time during the hosting period without significant penalty and can feasibly maintain the software on the customer's hardware or enter into another arrangement with a third-party to host the software, we recognize the license, professional services and hosting services revenues pursuant to ASC 985-605, Software Revenue Recognition. For SaaS arrangements that do not meet the criteria for recognition under ASC 985-605, we account for the elements under ASC 605-25, Multiple Element Arrangements using all applicable facts and circumstances, including whether (i) the element has stand-alone value, (ii) there is a general right of return and (iii) the revenue is contingent on delivery of other elements. We allocate the contract value to each element of the arrangement that qualifies for treatment as a separate element based on vendor-specific objective evidence of fair value ("VSOE"), and if VSOE is not available, third-party evidence, and if third-party evidence is unavailable, estimated selling price. For professional services associated with SaaS arrangements that we determine do not have stand-alone value to the customer or are contingent on delivery of other elements, we recognize the services revenue ratably over the remaining contractual period once hosting has gone live and we may begin billing for the hosting services. We record amounts that have been invoiced in accounts receivable and in deferred revenue or revenues, depending on whether the revenue recognition criteria have been met.

In connection with certain of our contracts, we have recorded retentions receivable or unbilled receivables consisting of costs and estimated profit in excess of billings as of the balance sheet date. Many of the contracts which give rise to unbilled receivables at a given balance sheet date are subject to billings in the subsequent accounting period. We review unbilled receivables and related contract provisions to ensure we are justified in recognizing revenue prior to billing the customer and that we have objective evidence which allows us to recognize such revenue. In addition, we have a sizable amount of deferred revenue, which represents billings in excess of revenue earned. The majority of this liability consists of maintenance billings for which payments are made in advance and the revenue is ratably earned over the maintenance period, generally one year. We also have deferred revenue for those contracts in which we receive a deposit and the conditions in which to record revenue for the service or product have not been met. On a periodic basis, we review by customer the detail components of our deferred revenue to ensure our accounting remains appropriate.

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Intangible Assets and Goodwill. Our business acquisitions typically result in the creation of goodwill and other intangible asset balances, and these balances affect the amount and timing of future period amortization expense, as well as expense we could possibly incur as a result of an impairment charge. The cost of acquired companies is allocated to identifiable tangible and intangible assets based on estimated fair value, with the excess allocated to goodwill. Accordingly, we have a significant balance of acquisition date intangible assets, including software, customer related intangibles, trade name, leases and goodwill. These intangible assets (other than goodwill) are amortized over their estimated useful lives. We currently have no intangible assets with indefinite lives other than goodwill.

When testing goodwill for impairment quantitatively, we first compare the fair value of each reporting unit with its carrying amount. If the carrying amount of a reporting unit exceeds its fair value, a second step is performed to measure the amount of potential impairment. In the second step, we compare the implied fair value of reporting unit goodwill with the carrying amount of the reporting unit's goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized. The fair values calculated in our impairment tests are determined using discounted cash flow models involving several assumptions. The assumptions that are used are based upon what we believe a hypothetical marketplace participant would use in estimating fair value. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. We evaluate the reasonableness of the fair value calculations of our reporting units by comparing the total of the fair value of all of our reporting units to our total market capitalization.

Our annual goodwill impairment analysis, which we performed quantitatively during the second quarter of 2016, did not result in an impairment charge. During 2016, we did not identify any triggering events that would require an update to our annual impairment review.

All intangible assets (other than goodwill) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of other intangible assets is measured by comparison of the carrying amount to estimated undiscounted future cash flows. The assessment of recoverability or of the estimated useful life for amortization purposes will be affected if the timing or the amount of estimated future operating cash flows is not achieved. Such indicators may include, among others: a significant decline in expected future cash flows; a sustained, significant decline in stock price and market capitalization; a significant adverse change in legal factors or in the business climate; unanticipated competition; and reductions in growth rates. In addition, products, capabilities, or technologies developed by others may render our software products obsolete or non-competitive. Any adverse change in these factors could have a significant impact on the recoverability of goodwill or other intangible assets.

Share-Based Compensation. We have a stock option plan that provides for the grant of stock options to key employees, directors and non-employee consultants. We estimate the fair value of share-based awards on the date of grant using the Black-Scholes option valuation model. Share-based compensation expense includes the estimated effects of forfeitures, which will be adjusted over the requisite service period to the extent actual forfeitures differ, or are expected to differ from such estimates. Changes in estimated forfeitures are recognized in the period of change and will also impact the amount of expense to be recognized in future periods. Forfeiture rate assumptions are derived from historical data. Our policy to estimate the impact of the forfeitures remains in accordance with the newly adopted accounting standard ASU No. 2016-09.

We estimate stock price volatility at the date of grant based on the historical volatility of our common stock. Estimated option life is determined using the weighted-average period the stock options are expected to be outstanding based primarily on the options' vesting terms, remaining contractual life and the employees' expected exercise based on historical patterns. Determining the appropriate fair-value model and calculating the fair value of share-based awards at the grant date requires considerable judgment, including estimating stock price volatility, expected option life and forfeiture rates.

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Analysis of Results of Operations and Other

The following discussion compares the historical results of operations on a basis consistent with GAAP for the years ended December 31, 2016, 2015 and 2014.

	Percentage of Total Revenues		
Years Ended December 31,	2016	2015	2014
Revenues:			
Software licenses and royalties	9.8%	10.0%	10.0%
Subscriptions	18.9	18.9	17.8
Software services	23.1	23.7	23.1
Maintenance	42.7	41.6	43.1
Appraisal services	3.5	4.2	4.4
Hardware and other	2.0	1.6	1.6
Total revenues	100.0	100.0	100.0
Operating Expenses:			
Cost of software licenses, royalties and acquired software	3.3	1.0	0.8
Cost of software services, maintenance and subscriptions	46.2	48.2	47.9
Cost of appraisal services	2.2	2.7	2.9
Cost of hardware and other	1.3	1.1	1.1
Selling, general and administrative expenses	22.1	22.6	22.0
Research and development expense	5.7	5.1	5.2
Amortization of customer and trade name intangibles	1.8	1.0	0.9
Operating income	17.4	18.3	19.2
Other (expense) income, net	(0.3)	0.1	(0.1)
Income before income taxes	17.1	18.4	19.1
Income tax provision	2.6	7.4	7.2
Net income	14.5%	11.0%	11.9%

2016 Compared to 2015

Revenues

On November 16, 2015, we acquired NWS, which provides public safety and financial solutions for local governments. In May 2015, we acquired a company which provides mobile hand-held solutions primarily to law enforcement agencies for field accident reporting and electronically issuing citations. The results of their operations are included in our ES segment from their respective dates of acquisition. For comparative purposes, we have provided explanations for changes in operations to exclude results of operations for these acquisitions noting the exclusion.

Software licenses and royalties.

The following table sets forth a comparison of our software licenses and royalties revenue for the years ended December 31:

			Change	
($ in thousands)	2016	2015	$	%
ES	$68,844	$54,376	$14,468	27%
A&T	5,462	4,632	830	18
Total software licenses and royalties revenue	$74,306	$59,008	$15,298	26%

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Excluding the results of acquisitions, software license revenue increased 3% compared to the prior year. The majority of this growth was due to a more active marketplace as the result of improvement in local government economic conditions, as well as our increasingly strong competitive position, which we attribute in part to our investment in product development in recent years. This increase was offset somewhat by lower sales to our existing customer base for courts and justice related add-on solutions that assist and support the transition to a paperless environment. By the end of 2015, the majority of our courts and justice clients had implemented these add-on solutions.

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 be negatively impacted by a growing number of customers choosing 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 in 2016 was approximately 68% selecting perpetual software license arrangements and approximately 32% selecting subscription-based arrangements compared to a client mix in 2015 of approximately 76% selecting perpetual software license arrangements and approximately 24% selecting subscription-based arrangements. 250 new clients entered into subscription-based software arrangements in 2016 compared to 134 new clients in 2015.

Subscriptions.

The following table sets forth a comparison of our subscriptions revenue for the years ended December 31:

			Change	
($ in thousands)	2016	2015	$	%
ES	$135,516	$107,090	$28,426	27%
A&T	7,188	4,843	2,345	48
Total subscriptions revenue	$142,704	$111,933	$30,771	27%

Subscription-based services 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 electronic document filing solutions ("e-filing") 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 acquisitions, subscription-based services revenue increased 24% compared to 2015. E-filing services contributed approximately $4.9 million of the subscriptions revenue increase in 2016. Most of the e-filing revenue increase related to several statewide contracts, several of which implemented mandatory electronic filing during 2015 and throughout 2016. New SaaS clients as well as existing clients who converted to our SaaS model provided the remainder of the subscriptions revenue increase. In 2016, we added 250 new SaaS clients and 53 existing clients elected to convert to our SaaS model. The average contract sizes in 2016 were 1% and 9% higher than 2015 for new clients and clients converting to our SaaS model, respectively.

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Software services.

The following table sets forth a comparison of our software services revenue for the years ended December 31:

($ in thousands)	2016	2015	Change $	Change %
ES	$158,478	$129,068	$29,410	23%
A&T	16,326	10,784	5,542	51
Total software services revenue	$174,804	$139,852	$34,952	25%

Software services revenue primarily consists of professional services billed in connection with implementing our software, converting client data, training client personnel, custom development activities and consulting. New clients who purchase our proprietary software licenses generally also contract with us to provide for the related software services. Existing clients also periodically purchase additional training, consulting and minor programming services. Excluding the results of acquisitions, software services revenue grew 11% compared to the prior year period. This growth is partly due to additions to our implementation and support staff, which increased our capacity to deliver backlog, and a contract mix that included more custom development and other services.

Maintenance.

The following table sets forth a comparison of our maintenance revenue for the years ended December 31:

($ in thousands)	2016	2015	Change $	Change %
ES	$304,380	$227,586	$76,794	34%
A&T	18,589	17,951	638	4
Total maintenance revenue	$322,969	$245,537	$77,432	32%

We provide maintenance and support services for our software products and certain third-party software. Excluding the results of acquisitions, maintenance revenue grew 9% compared to the prior year. Maintenance and support revenue increased mainly due to growth in our installed customer base from new software license sales as well as annual maintenance rate increases.

Appraisal services.

The following table sets forth a comparison of our appraisal services revenue for the years ended December 31:

($ in thousands)	2016	2015	Change $	Change %
ES	$ —	$ —	$ —	—%
A&T	26,287	25,065	1,222	5
Total appraisal services revenue	$26,287	$25,065	$1,222	5%

The appraisal services business is somewhat cyclical and driven in part by statutory revaluation cycles in various states. In 2016, appraisal services revenue increased 5% compared to prior year primarily due to the Franklin County, Ohio, revaluation project, which began late in the fourth quarter of 2015.

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Cost of Revenues and Gross Margins

The following table sets forth a comparison of the key components of our cost of revenues for the years ended December 31:

			Change	
($ in thousands)	2016	2015	$	%
Software licenses and royalties	$ 2,964	$ 1,632	$ 1,332	82%
Acquired software	22,235	4,440	17,795	N/M
Software services, maintenance and subscriptions	348,939	285,340	63,599	22
Appraisal services	16,411	15,922	489	3
Hardware and other	10,143	6,501	3,642	56
Total cost of revenues	$400,692	$313,835	$86,857	28%

The following table sets forth a comparison of gross margin percentage by revenue type for the years ended December 31:

Gross margin percentage	2016	2015	Change
Software licenses, royalties and acquired software	66.1%	89.7%	(23.6)%
Software services, maintenance and subscriptions	45.5	42.6	2.9
Appraisal services	37.6	36.5	1.1
Hardware and other	32.3	32.5	(0.2)
Overall gross margin	47.0%	46.9%	0.1%

Software licenses, royalties and acquired software. Costs of software licenses, royalties and acquired software are primarily comprised of amortization expense for acquired software and third-party software costs. We do not have any direct costs associated with royalties. In 2016, our software licenses, royalties and acquired software gross margin percentage declined compared to the prior year due to much higher amortization expense for acquired software resulting from our acquisition of NWS. Excluding the results of NWS, our software license, royalties and acquired software gross margin was 93.9% in 2016 compared to 93.6% in 2015.

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. In 2016, the software services, maintenance and subscriptions gross margin increased 2.9% compared to the prior year. Our implementation and support staff has grown by 169 employees since December 31, 2015. To support sales growth, we began making significant investments in our implementation and support staff in early 2015. Since December 31, 2014, excluding acquisitions, we have added 369 implementation and support employees. These additions contributed to the revenue growth in 2016. In addition, the NWS revenue mix includes a lower proportion of software services compared to Tyler's historical revenue mix, which also benefited the gross margin. Costs related to maintenance and various other services such as SaaS and e-filing typically grow at a slower rate than related revenue due to leverage in the utilization of support and maintenance staff and economies of scale. Maintenance and subscription price increases also resulted in slightly higher gross margins.

Appraisal services. Appraisal services revenue comprised approximately 3.5% of total revenue. The appraisal services gross margin increased 1.1% compared to 2015. A high proportion of the costs of appraisal services revenue are variable, as we often hire temporary employees to assist in appraisal projects, whose term of employment generally ends with the projects' completion.

Our 2016 blended gross margin remained consistent compared to 2015. Our overall gross margin was positively impacted by improved utilization of our support and maintenance staff; however, this benefit was offset by amortization expense for acquired software related to the NWS acquisition.

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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 following years ended December 31:

			Change	
($ in thousands)	2016	2015	$	%
Selling, general and administrative expenses	$167,161	$133,317	$33,844	25%

SG&A as a percentage of revenue was 22.1% in 2016 compared to 22.6% in 2015. In 2015, our SG&A expense included approximately $5.9 million for financial advisory, legal, accounting, due diligence, valuation and other various expenses necessary to complete the NWS acquisition. Excluding NWS transaction costs and SG&A from acquisitions, SG&A expense increased approximately 12% mainly due to compensation costs related to increased staff levels, higher stock compensation expense and increased commission expense as a result of higher sales. We have added 22 employees mainly to our sales and finance teams since December 31, 2015. In addition, our 2016 stock compensation expense rose $6.4 million, mainly due to increases in our stock price over the last few years.

Research and Development Expense

Research and development expense consists primarily of salaries, employee benefits and related overhead costs associated with product development. The following table sets forth a comparison of our research and development expense for the years ended December 31:

			Change	
($ in thousands)	2016	2015	$	%
Research and development expense	$43,154	$29,922	$13,232	44%

Research and development expense consists mainly of costs associated with development of new products and technologies from which we do not currently generate revenue, as well as costs related to the ongoing development efforts for Microsoft Dynamics AX. Our contractual research and development commitment to develop public sector functionality for Microsoft Dynamics AX was amended in March 2016, which significantly reduced our development commitment through March 2018. However, we will continue to provide sustained engineering and technical support for the public sector functionality within Dynamics AX. License and maintenance royalties for all applicable domestic and international sales of Dynamics AX to public sector entities will continue under the terms of the contract.

Excluding the results of acquisitions, research and development expense increased 1.5% in 2016 compared to the prior year period, mainly due to research and development efforts related to new Tyler product development initiatives. As a result of the Microsoft Dynamics AX amendment, we also redeployed certain development resources to enhance functionality on several existing solutions and these costs were recorded in cost of sales – software services, maintenance and subscriptions.

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Amortization of Customer and Trade Name Intangibles

Acquisition intangibles are comprised of the excess of the purchase price over the fair value of net tangible assets acquired that is allocated to acquired software, leases and customer and trade name intangibles. The remaining excess purchase price is allocated to goodwill that is not subject to amortization. Amortization expense related to acquired software is included with cost of revenues, while amortization expense of customer and trade name intangibles is recorded as operating expense. The estimated useful lives of both customer and trade name intangibles range from five to 25 years. The following table sets forth a comparison of amortization of customer and trade name intangibles for the years ended December 31:

			Change	
($ in thousands)	2016	2015	$	%
Amortization of customer and trade name intangibles	$13,731	$5,905	$7,826	133%

Amortization of customer and trade name intangibles increased substantially from the comparable prior year periods due to the acquisition of NWS in November 2015.

Estimated annual amortization expense relating to customer and trade name acquisition intangibles, excluding acquired software for which the amortization expense is recorded as cost of revenues, for the next five years and thereafter is as follows (in thousands):

2017	$13,808
2018	13,658
2019	12,395
2020	11,241
2021	11,121

Amortization expense relating to acquired leases will be recorded as a reduction to hardware and other revenue and is expected to be $442,000 in 2017, $426,000 in 2018, $373,000 in 2019, $314,000 in 2020, $312,000 in 2021 and $1.3 million thereafter.

Other

The following table sets forth a comparison of other (expense) income, net for the years ended December 31:

			Change	
($ in thousands)	2016	2015	$	%
Other (expense) income, net	$ (1,998)	$ 381	$ (2,379)	N/M

Other (expense) income 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. In 2015, we had significantly higher invested cash balances and no outstanding debt until we completed the NWS acquisition on November 16, 2015.

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Income Tax Provision

The following table sets forth a comparison of our income tax provision for the years ended December 31:

($ in thousands)	2016	2015	Change $	Change %
Income tax provision	$19,450	$43,555	$(24,105)	(55)%
Effective income tax rate	15.0%	40.2%		

The decrease in the income tax provision during 2016 was primarily driven by the adoption of ASU No. 2016-09, which requires the excess tax benefits from stock option exercises to be recognized as a reduction of the income tax provision, whereas they previously were accounted for as an increase to shareholders' equity. The adoption of ASU No. 2016-09 resulted in a $29.6 million decrease in our full year 2016 provision for income taxes. (see Note 1 – "Summary of Significant Accounting Policies" in the accompanying consolidated financial statements).

Excluding the impact of the adoption of ASU No. 2016-09, our income tax provision and effective tax rate in 2016 would have been $49.0 million and 37.9%, respectively.

The effective income tax rates in both 2016 and 2015 also differed from the statutory United States federal income tax rate of 35% due to state income taxes, the domestic production activities deduction, non-deductible share-based compensation expense, disqualifying incentive stock option dispositions, and non-deductible business expenses. We realized a lower domestic production activities deduction as a result of taxable income limitations and non-deductible transaction costs related to the NWS acquisition negatively impacted our 2015 effective tax rate. In the past few years a relatively high amount of excess tax benefits related to stock option exercises have resulted in a reduction in our qualified manufacturing activities deduction. The qualified manufacturing activities deduction can be limited to a certain level of taxable income on the tax return. Therefore, any significant items that reduce taxable income, such as excess tax benefits on stock options, can reduce the amount of the qualified manufacturing activities deduction. We experienced significant stock option exercise activity in 2016 and 2015 that generated excess tax benefits of $29.6 million and $45.3 million, respectively.

2015 Compared to 2014

Revenues

Software licenses and royalties.

The following table sets forth a comparison of our software licenses and royalties revenue for the years ended December 31:

($ in thousands)	2015	2014	Change $	Change %
ES	$54,376	$46,047	$8,329	18%
A&T	4,632	3,018	1,614	53
Total software licenses and royalties revenue	$59,008	$49,065	$9,943	20%

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Excluding the results of acquisitions, software license revenue increased 15% compared to the prior year. The majority of this growth was due to a more active marketplace as the result of improvement in local government economic conditions, as well as our increasingly strong competitive position, which we attribute in part to our investment in product development in recent years. In addition, add-on sales to our existing customer base for courts and justice related solutions that assist and support the transition to a paperless environment increased approximately $1.3 million.

Our new client mix in 2015 was approximately 76% selecting perpetual software license arrangements and approximately 24% selecting subscription-based arrangements compared to a client mix in 2014 of approximately 74% selecting perpetual software license arrangements and approximately 26% selecting subscription-based arrangements. 134 new clients entered into subscription-based software arrangements in 2015 compared to 138 new clients in 2014.

Subscriptions.

The following table sets forth a comparison of our subscriptions revenue for the years ended December 31:

			Change	
($ in thousands)	2015	2014	$	%
ES	$107,090	$84,322	$22,768	27%
A&T	4,843	3,526	1,317	37
Total subscriptions revenue	$111,933	$87,848	$24,085	27%

Subscription-based services revenue increased 27% compared to 2014. E-filing services contributed approximately $7.7 million of the subscriptions revenue increase in 2015. Most of the e-filing revenue increase related to several statewide contracts, several of which implemented mandatory electronic filing near the end of 2014 and throughout 2015. New SaaS clients as well as existing clients who converted to our SaaS model provided the remainder of the subscriptions revenue increase. In 2015, we added 134 new SaaS clients and 66 existing clients elected to convert to our SaaS model. The average contract sizes in 2015 were 38% and 22% higher than 2014 for new clients and clients converting to our SaaS model, respectively.

Software services.

The following table sets forth a comparison of our software services revenue for the years ended December 31:

			Change	
($ in thousands)	2015	2014	$	%
ES	$129,068	$104,146	$24,922	24%
A&T	10,784	9,675	1,109	11
Total software services revenue	$139,852	$113,821	$26,031	23%

Excluding the results of acquisitions, software services revenue grew 20% compared to the prior year period. This growth is mainly due to much higher revenue from proprietary software arrangements, as well as additions to our implementation and support staff, which increased our capacity to deliver backlog.

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Maintenance.

The following table sets forth a comparison of our maintenance revenue for the years ended December 31:

			Change	
($ in thousands)	2015	2014	$	%
ES	$227,586	$195,881	$31,705	16%
A&T	17,951	16,815	1,136	7
Total maintenance revenue	$245,537	$212,696	$32,841	15%

Excluding the results of acquisitions, maintenance revenue grew 12% compared to the prior year. Maintenance and support revenue increased mainly due to growth in our installed customer base from new software license sales as well as annual maintenance rate increases.

Appraisal services.

The following table sets forth a comparison of our appraisal services revenue for the years ended December 31:

			Change	
($ in thousands)	2015	2014	$	%
ES	$ —	$ —	$ —	—%
A&T	25,065	21,802	3,263	15
Total appraisal services revenue	$25,065	$21,802	$ 3,263	15%

Appraisal services revenue benefited from the addition of several new revaluation contracts, including the City of Detroit, and the current appraisal cycle in Indiana, both of which began in 2014. In late 2015, Franklin County, Ohio began a full reappraisal cycle, which also contributed to appraisal services revenue.

Cost of Revenues and Gross Margins

The following table sets forth a comparison of the key components of our cost of revenues for the years ended December 31:

			Change	
($ in thousands)	2015	2014	$	%
Software licenses and royalties	$ 1,632	$ 1,900	$ (268)	(14)%
Acquired software	4,440	1,858	2,582	139
Software services, maintenance and subscriptions	285,340	236,363	48,977	21
Appraisal services	15,922	14,284	1,638	11
Hardware and other	6,501	5,325	1,176	22
Total cost of revenues	$313,835	$259,730	$54,105	21%

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The following table sets forth a comparison of gross margin percentage by revenue type for the years ended December 31:

Gross margin percentage	2015	2014	Change
Software licenses, royalties and acquired software	89.7%	92.3%	(2.6)%
Software services, maintenance and subscriptions	42.6	43.0	(0.4)
Appraisal services	36.5	34.5	2.0
Hardware and other	32.5	32.3	0.2
Overall gross margin	46.9%	47.3%	(0.4)%

Software licenses, royalties and acquired software. In 2015, our software licenses, royalties and acquired software gross margin percentage declined compared to the prior year due to much higher amortization expense for acquired software resulting from our acquisition of NWS. Excluding the results of NWS, our software license, royalties and acquired software gross margin was 93.6% which increased 1.3% from the prior year period mainly due to higher revenues from proprietary software arrangements.

Software services, maintenance and subscriptions. In 2015, the software services, maintenance and subscriptions gross margin percentage declined compared to the prior year mainly due to onboarding costs associated with accelerated hiring to ensure that we are well-positioned to deliver our current backlog and anticipated new business. Excluding 285 employees added with acquisitions, our implementation and support staff has grown by 200 employees since December 31, 2014. In addition, in 2015, we incurred $1.4 million more in contract labor cost than 2014 in an effort to maintain flexibility to accommodate fluctuations in demand for professional services. The gross margin decline was somewhat offset because costs related to maintenance and various other services such as SaaS and e-filing typically grow at a slower rate than related revenue due to leverage in the utilization of our support and maintenance staff and economies of scale. Price increases also resulted in slightly higher rates on certain services.

Appraisal services. Appraisal services revenue comprised approximately 4% of total revenue. The appraisal services gross margin increased 2% compared to 2014. A high proportion of the costs of appraisal services revenue are variable, as we often hire temporary employees to assist in appraisal projects, whose term of employment generally ends with the projects' completion. The appraisal services gross margin was favorably impacted by operational efficiencies associated with a large revaluation contract that began late 2014.

Our 2015 blended gross margin declined 0.4% compared to 2014. The gross margin was negatively impacted by increased acquired software amortization expense associated with the NWS acquisition and expenses associated with increased hiring of implementation and development staff in order to expand our capacity to implement our contract backlog.

Selling, General and Administrative Expenses

The following table sets forth a comparison of our SG&A expenses for the following years ended December 31:

			Change	
($ in thousands)	2015	2014	$	%
Selling, general and administrative expenses	$133,317	$108,260	$25,057	23%

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SG&A as a percentage of revenue was 22.6% in 2015 compared to 22.0% in 2014. In 2015, our SG&A expenses include approximately $5.9 million for financial advisory, legal, accounting, due diligence, valuation and other various services necessary to complete the NWS acquisition. In addition, our 2015 operating results include $4.0 million of SG&A expenses for NWS from the date of acquisition. The remaining SG&A expense increase is mainly due to compensation cost related to increased staff levels, higher stock compensation expense and increased commission expense as a result of higher sales. Excluding 140 employees added with acquisitions, we have added 16 employees mainly to our sales and finance teams since December 31, 2014. In addition, our 2015 stock compensation expense rose $4.2 million, mainly due to increases in our stock price over the last few years.

Research and Development Expense

The following table sets forth a comparison of our research and development expense for the years ended December 31:

			Change	
($ in thousands)	2015	2014	$	%
Research and development expense	$29,922	$25,743	$4,179	16%

Research and development expense in 2015 includes approximately $1.5 million related to NWS. The remaining increase compared to 2014 was primarily due to increased staffing to maintain and enhance our competitive position and annual wage adjustments.

Amortization of Customer and Trade Name Intangibles

The following table sets forth a comparison of amortization of customer and trade name intangibles for the years ended December 31:

			Change	
($ in thousands)	2015	2014	$	%
Amortization of customer and trade name intangibles	$5,905	$4,546	$1,359	30%

In 2015, we completed two acquisitions that increased amortizable customer and trade name intangibles by approximately $127.8 million. This amount is being amortized over a weighted average period of 15 years. We also added approximately $3.7 million to acquisition related intangibles to reflect the fair value of acquired leases, which will be amortized over the weighted average life of 9 years.

Other

The following table sets forth a comparison of other income (expense), net for the years ended December 31:

			Change	
($ in thousands)	2015	2014	$	%
Other income (expense), net	$381	$(355)	$736	N/M

Expenses in 2014 were comprised primarily of non-usage and other fees associated with a revolving debt agreement that terminated in August 2014, offset slightly by interest income from invested cash. In 2015, we had significantly higher invested cash balances than 2014 until we completed the NWS acquisition on November 16, 2015.

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Income Tax Provision

The following table sets forth a comparison of our income tax provision for the years ended December 31:

($ in thousands)	2015	2014	Change $	Change %
Income tax provision	$43,555	$35,527	$8,028	23%
Effective income tax rate	40.2%	37.6%		

The effective income tax rates were different from the statutory United States federal income tax rate of 35% principally due to state income taxes, non-deductible share-based compensation expense, the qualified manufacturing activities deduction, disqualifying incentive stock option dispositions, non-deductible meals and entertainment costs and non-deductible transaction costs. A lower qualified manufacturing activities deduction and non-deductible transaction costs related to the NWS acquisition negatively impacted our 2015 effective tax rate.

In the past few years a relatively high amount of excess tax benefits related to stock option exercises have resulted in a reduction in our qualified manufacturing activities deduction as a result of taxable income limitations. We experienced significant stock option exercise activity in 2015 and 2014 that generated excess tax benefits of $45.3 million and $19.4 million, respectively.

Financial Condition and Liquidity

As of December 31, 2016, we had cash and cash equivalents of $36.2 million compared to $33.1 million at December 31, 2015. We also had $33.5 million invested in investment grade corporate and municipal bonds as of December 31, 2016. These investments mature between 2016 through mid-2018 and we intend to hold these investments until maturity. Cash and cash equivalents consist of cash on deposit with several domestic banks and money market funds. As of December 31, 2016, we had $10.0 million in outstanding borrowings and two outstanding letters of credit totaling $2.2 million in connection with a client contract and the expansion of our Yarmouth facility. Both letters of credit guarantee our performance under each contract. We do not believe the letters of credit will be required to be drawn upon. Both letters of credit expire in 2017. We believe our revolving line of credit, cash from operating activities, cash on hand and access to the credit markets provide us with sufficient flexibility to meet our long-term financial needs.

The following table sets forth a summary of cash flows for the years ended December 31:

($ in thousands)	2016	2015	2014
Cash flows provided (used) by:			
Operating activities	$ 191,859	$ 134,327	$142,839
Investing activities	(50,720)	(398,459)	(11,555)
Financing activities	(138,075)	91,052	(3,993)
Net increase (decrease) in cash and cash equivalents	$ 3,064	$(173,080)	$127,291

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 currently believe that cash provided by operating activities, cash on hand and available credit are sufficient to fund our working capital requirements, capital expenditures, income tax obligations, and share repurchases for at least the next twelve months.

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In 2016, operating activities provided cash of $191.9 million. Operating activities that provided cash were primarily comprised of net income of $109.9 million, non-cash depreciation and amortization charges of $50.3 million and non-cash share-based compensation expense of $29.7 million. Other sources of operating cash were higher deferred revenue balances due to growth in our installed software maintenance customer base and growth in subscription-based arrangements and timing of payments for wages and commissions. Somewhat offsetting these increases were annual maintenance and subscription billings.

In general, changes in the balance of 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 cycles occur in the second and fourth quarters.

Days sales outstanding in accounts receivable were 93 days at December 31, 2016, compared to 100 days at December 31, 2015. 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 (excluding long-term receivables, but including unbilled receivables) divided by the quotient of annualized quarterly revenues divided by 360 days.

Investing activities used cash of $50.7 million in 2016 compared to $398.5 million in 2015. We invested $20.3 million in investment grade corporate and municipal bonds with maturity dates ranging from 2016 through mid-2018. Approximately $37.7 million was invested in property and equipment. We purchased an office building in Falmouth, Maine, that was previously leased from an entity owned by an executive's father and brother, for approximately $9.7 million and paid $8.0 million for construction to expand a building in Yarmouth, Maine. We plan to spend approximately $18.7 million in 2017 in connection with the completion of this office expansion. The remaining additions were for computer equipment, furniture and fixtures in support of internal growth, particularly with respect to growth in our cloud-based offerings. We also made a small acquisition for approximately $7.4 million and paid $2.0 million related to the working capital holdback in connection with the NWS acquisition. These expenditures were funded from cash generated from operations, cash on hand and bank borrowings.

In 2015, we completed the acquisition of NWS for the purchase price of $337.5 million in cash, of which $4.0 million was accrued at December 31, 2015, and 2.1 million shares of Tyler common stock valued at $362.8 million. Also we completed the acquisition of Brazos Technology Corporation for the purchase price, net of cash acquired and including debt assumed, of $6.1 million in cash and 12,500 shares of Tyler common stock valued at $1.5 million. On January 30, 2015, we made a $15.0 million investment in convertible preferred stock representing a 20% interest in Record Holdings Pty Limited. We also invested $30.9 million in investment grade corporate and municipal bonds. The remaining use of cash was for capital expenditures related to computer equipment, furniture and fixtures in support of internal growth, particularly with respect to growth in our cloud-based offerings.

Financing activities used cash of $138.1 million in 2016 compared to cash provided by financing activities of $91.1 million in 2015. Financing activities in 2016 were comprised of $56.0 million net payments on our revolving line of credit offset somewhat by collections of $29.8 million from stock option exercises and employee stock purchase plan activity. We also purchased approximately 882,000 shares of our common stock for an aggregate purchase price of $112.7 million, of which $860,000 was accrued at December 31, 2016.

Financing activities in 2015 were comprised of net borrowings of $66.0 million and collections of $27.8 million from stock option exercises and employee stock purchase plan activity. We purchased approximately 5,400 shares of our common stock for an aggregate purchase price of $645,000 in 2015 and paid $2.1 million in debt issuance costs. Cash used by financing activities in 2014 were comprised of purchases of 294,000 shares of our common stock for an aggregate purchase price of $22.8 million offset substantially by collections of $18.8 million from stock option exercises and contributions from the employee stock purchase plan.

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On May 11, 2016, our board of directors authorized the repurchase of an additional 1.5 million shares of Tyler common stock. 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. As of December 31, 2016, we had remaining authorization to repurchase up to 2.0 million additional shares of our common stock. Our share repurchase program allows us to repurchase shares at our discretion. Market conditions influence the timing of the buybacks and the number of shares repurchased, as well as the volume of employee stock option exercises. Share repurchases are generally funded using our existing cash balances and borrowings under our credit facility and may occur through open market purchases and transactions structured through investment banking institutions, privately negotiated transactions and/or other mechanisms. There is no expiration date specified for the authorization and we intend to repurchase stock under the plan from time to time.

Subsequent to December 31, 2016 and through February 21, 2017, we purchased approximately 42,000 shares of our common stock for an aggregate cash purchase price of $6.2 million.

On November 16, 2015, we entered into a $300.0 million Credit Agreement (the "Credit Facility") with the various lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent. The Credit Facility provides for a revolving credit line of up to $300.0 million, including a $10.0 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 December 31, 2016, our interest rate was 1.96%. 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 December 31, 2016, we were in compliance with those covenants.

As of December 31, 2016, we had $10.0 million in outstanding borrowings and unused borrowing capacity of $287.8 million under the Credit Facility.

We paid income taxes, net of refunds received, of $30.2 million in 2016, $27.3 million in 2015, and $10.2 million in 2014. In 2016, we experienced significant stock option exercise activity that generated net tax benefits of $29.6 million and reduced tax payments accordingly. In 2015 and 2014, excess tax benefits were $45.3 million and $19.4 million, respectively.

Excluding acquisitions, we anticipate that 2017 capital spending will be between $52.0 million and $54.0 million, including approximately $24.0 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 2017, 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 pursue such opportunities, which could require significant commitments of capital, we may be required to incur debt or to issue additional potentially dilutive securities in the future. No assurance can be given as to our future acquisition opportunities and how such opportunities will be financed.

We lease office facilities, as well as transportation, computer and other equipment used in our operations under non-cancelable operating lease agreements expiring at various dates through 2023. Most leases contain renewal options and some contain purchase options.