UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2024

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

Commission File Number 1-10485

TYLER TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	75-2303920
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

5101 TENNYSON PARKWAY	PLANO	Texas	75024
(Address of principal executive offices)	(City)	(State)	(Zip code)

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

Title of each class	Trading symbol	Name of each exchange on which registered
COMMON STOCK, $0.01 PAR VALUE	TYL	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data file required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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

The number of shares of common stock of registrant outstanding on April 22, 2024 was 42,455,267.

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	Three Months Ended March 31,	
	2024	2023
Revenues:		
Subscriptions	$ 313,243	$ 280,465
Maintenance	117,218	115,130
Professional services	64,806	60,929
Software licenses and royalties	8,734	10,130
Hardware and other	8,358	5,199
Total revenues	512,359	471,853
Cost of revenues:		
Subscriptions, maintenance, and professional services	268,870	252,415
Software licenses and royalties	1,565	2,313
Amortization of software development	4,363	2,588
Amortization of acquired software	9,239	8,920
Hardware and other	4,656	5,780
Total cost of revenues	288,693	272,016
Gross profit	223,666	199,837
Sales and marketing expense	36,427	37,103
General and administrative expense	72,710	72,360
Research and development expense	29,433	26,987
Amortization of other intangibles	18,118	18,407
Operating income	66,978	44,980
Interest expense	(2,184)	(7,684)
Other income, net	1,845	1,246
Income before income taxes	66,639	38,542
Income tax provision	12,469	7,667
Net income	$ 54,170	$ 30,875
Earnings per common share:		
Basic	$ 1.28	$ 0.74
Diluted	$ 1.26	$ 0.73

See accompanying notes.

TYLER TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2024	2023
Net income	$ 54,170	$ 30,875
Other comprehensive income, net of tax:		
Securities available-for-sale and transferred securities:		
Change in net unrealized holding gain (loss) on available for sale securities during the period	53	94
Other comprehensive income, net of tax	53	94
Comprehensive income	$ 54,223	$ 30,969

See accompanying notes.

TYLER TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value and share amounts)

	March 31, 2024 (unaudited)	December 31, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	$ 188,237	$ 165,493
Accounts receivable (less allowance for losses and sales adjustments of $20,198 in 2024 and $22,829 in 2023)	542,441	619,704
Short-term investments	8,707	10,385
Prepaid expenses	76,486	54,700
Other current assets	8,550	10,303
Total current assets	824,421	860,585
Accounts receivable, long-term	7,340	8,988
Operating lease right-of-use assets	37,874	39,039
Property and equipment, net	167,121	169,720
Other assets:		
Software development costs, net	69,795	67,124
Goodwill	2,532,125	2,532,109
Other intangibles, net	901,434	928,870
Non-current investments	5,492	7,046
Other non-current assets	63,153	63,182
	$ 4,608,755	$ 4,676,663
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 145,168	$ 146,339
Accrued liabilities	106,446	158,558
Operating lease liabilities	11,147	11,060
Current income tax payable	38,293	2,466
Deferred revenue	571,871	632,914
Current portion of term loans	—	49,801
Total current liabilities	872,925	1,001,138
Convertible senior notes due 2026, net	596,638	596,206
Deferred revenue, long-term	—	291
Deferred income taxes	54,274	78,590
Operating lease liabilities, long-term	37,631	39,822
Other long-term liabilities	24,152	22,621
Total liabilities	1,585,620	1,738,668
Commitments and contingencies	—	—
Shareholders' equity:		
Preferred stock, $10.00 par value; 1,000,000 shares authorized; none issued	—	—
Common stock, $0.01 par value; 100,000,000 shares authorized; 48,147,969 shares issued and outstanding as of March 31, 2024 and December 31, 2023	481	481
Additional paid-in capital	1,385,095	1,354,787
Accumulated other comprehensive loss, net of tax	(273)	(326)
Retained earnings	1,657,943	1,603,773
Treasury stock, at cost; 5,707,093 and 5,858,476 shares in 2024		

See accompanying notes.

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

	Three Months Ended March 31,	
	2024	2023
Cash flows from operating activities:		
Net income	$ 54,170	$ 30,875
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	40,097	38,112
Share-based compensation expense	26,866	27,896
Amortization of operating lease right-of-use assets	2,522	3,804
Deferred income tax benefit	(24,334)	(18,556)
Other	(35)	499
Changes in operating assets and liabilities, exclusive of effects of acquired companies:		
Accounts receivable	69,376	77,563
Income tax payable	35,827	25,670
Prepaid expenses and other current assets	(20,240)	(18,381)
Accounts payable	(1,140)	17,547
Operating lease liabilities	(3,461)	(2,246)
Accrued liabilities	(48,006)	(36,951)
Deferred revenue	(61,334)	(71,579)
Other long-term liabilities	1,531	456
Net cash provided by operating activities	71,839	74,709
Cash flows from investing activities:		
Additions to property and equipment	(7,282)	(2,020)
Purchase of marketable security investments	—	(10,617)
Proceeds and maturities from marketable security investments	3,271	22,975
Investment in software development	(7,386)	(9,079)
Cost of acquisitions, net of cash acquired	(1,302)	(1,875)
Other	18	16
Net cash used by investing activities	(12,681)	(600)
Cash flows from financing activities:		
Payment on term loans	(50,000)	(120,000)
Proceeds from exercise of stock options, net of withheld shares for taxes upon equity award settlement	10,033	(158)
Contributions from employee stock purchase plan	3,553	3,037
Net cash used by financing activities	(36,414)	(117,121)
Net increase (decrease) in cash and cash equivalents	22,744	(43,012)
Cash and cash equivalents at beginning of period	165,493	173,857
Cash and cash equivalents at end of period	$ 188,237	$ 130,845

See accompanying notes.

	Three Months Ended March 31,	
	2024	2023
Supplemental cash flow information:		
Cash paid for interest	$ 1,741	$ 6,784
Cash received for income taxes, net	(680)	(548)
Non-cash investing and financing activities:		
Non-cash additions to property and equipment	$ 277	$ 201

TYLER TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands)
(Unaudited)

	Common Stock					Treasury Stock		
	Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Shares	Amount	Total Shareholders' Equity
Balance at December 31, 2023	48,148	$ 481	$1,354,787	$ (326)	$1,603,773	(5,858)	$(20,720)	$2,937,995
Net income	—	—	—	—	54,170	—	—	54,170
Other comprehensive income, net of tax	—	—	—	53	—	—	—	53
Exercise of stock options and vesting of restricted stock units	—	—	(1,738)	—	—	195	22,978	21,240
Employee taxes paid for withheld shares upon equity award settlement	—	—	—	—	—	(26)	(11,207)	(11,207)
Stock compensation	—	—	26,866	—	—	—	—	26,866
Issuance of shares pursuant to employee stock purchase plan	—	—	3,513	—	—	10	40	3,553
Reimbursement of shares from escrow	—	—	1,667	—	—	(28)	(11,202)	(9,535)
Balance at March 31, 2024	48,148	$ 481	$1,385,095	$ (273)	$1,657,943	(5,707)	$(20,111)	$3,023,135

	Common Stock					Treasury Stock		
	Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Shares	Amount	Total Shareholders' Equity
Balance at December 31, 2022	48,148	$ 481	$1,209,725	$ (844)	$1,437,854	(6,365)	$(22,827)	$2,624,389
Net income	—	—	—	—	30,875	—	—	30,875
Other comprehensive income, net of tax	—	—	—	94	—	—	—	94
Exercise of stock options and vesting of restricted stock units	—	—	(668)	—	—	136	8,802	8,134
Employee taxes paid for withheld shares upon equity award settlement	—	—	—	—	—	(26)	(8,292)	(8,292)
Stock compensation	—	—	27,896	—	—	—	—	27,896
Issuance of shares pursuant to employee stock purchase plan	—	—	2,992	—	—	11	45	3,037
Balance at March 31, 2023	48,148	$ 481	$1,239,945	$ (750)	$1,468,729	(6,244)	$(22,272)	$2,686,133

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

(1) Basis of Presentation

We prepared the accompanying condensed consolidated financial statements following the requirements of the Securities and Exchange Commission ("SEC") and accounting principles generally accepted in the United States, or GAAP, for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP can be condensed or omitted for interim periods. Balance sheet amounts are as of March 31, 2024, and December 31, 2023, and operating result amounts are for the three months ended March 31, 2024, and 2023, respectively, and include all normal and recurring adjustments that we considered necessary for the fair summarized presentation of our financial position and operating results. As these are condensed financial statements, one should also read the financial statements and notes included in our latest Form 10-K for the year ended December 31, 2023. Revenues, expenses, assets, and liabilities can vary during each quarter of the year. Therefore, the results and trends in these interim financial statements may not be the same as those for the full year. Certain amounts for previous years have been reclassified to conform to the current year presentation.

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources and includes all components of net income (loss) and other comprehensive income (loss). During the three months ended March 31, 2024 and 2023, we had approximately $53,000 and $94,000 of other comprehensive income, net of taxes, from our available-for-sale investment holdings during the three months ended March 31, 2023.

(2) Accounting Standards and Significant Accounting Policies

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no changes to our significant accounting policies described in the Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on February 21, 2024, that have had a material impact on our condensed consolidated financial statements and related notes. See Recently Adopted Accounting Pronouncements below.

REVENUE RECOGNITION

Nature of Products and Services

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

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

Subscription-based services consist primarily of revenues derived from software as a service ("SaaS") arrangements and transactions from digital government services; payment processing; and electronic filing (‘‘e-filing”). We recognize SaaS arrangements ratably over the terms of the arrangements, which range from one to 10 years, but are typically for periods of three to five years. For professional services associated with certain SaaS arrangements, we have concluded that the services are not distinct, and we recognize the revenue ratably over the remaining contractual period once we have provided the customer access to the software. We record amounts that have been invoiced in accounts receivable and in deferred revenue or revenues, depending on whether the revenue recognition criteria have been met.

In those instances whereby variable consideration exists, we include in our estimates, additional revenue for variable consideration when we believe we have an enforceable right, the amount can be estimated reliably, and its realization is probable. For transaction-based fees, we have the right to charge the customer an amount that directly corresponds with the value to the customer of our performance to date. Therefore, we recognize revenue for these services as invoiced based on the amount billable to the customer. In some cases, we are paid on a fixed fee basis and recognize the revenue ratably over the contractual period.

Transaction-based fees primarily relate to digital government services and online payment services, which are sometimes offered with the assistance of third-party vendors. In general, when we are the principal in a transaction, we record the revenue and related costs on a gross basis. Otherwise, we net the cost of revenue associated with the service against the gross revenue (amount billed to the customer) and record the net amount as revenue.

Other software arrangements with customers contain multiple performance obligations that range from software licenses, installation, training, and consulting to software modification and customization to meet specific customer needs (services), hosting, and PCS. For these contracts, we account for individual performance obligations separately when they are distinct. We evaluate whether separate performance obligations can be distinct or should be accounted for as one performance obligation. Arrangements that include professional services, such as training or installation, are evaluated to determine whether those services are highly interdependent or interrelated to the product’s functionality. The transaction price is allocated to the distinct performance obligations on a relative standalone selling price (“SSP”) basis. We determine the SSP based on our overall pricing objectives, taking into consideration market conditions and other factors, including the value of our contracts, the applications sold, customer demographics, and the number and types of users within our contracts. For arrangements that involve significant production, modification, or customization of the software, or where professional services otherwise cannot be considered distinct, we recognize revenue as control is transferred to the customer over time using progress-to-completion methods. Depending on the contract, we measure progress-to-completion primarily using labor hours incurred, or value added. Amounts recognized in revenue are calculated using the progress-to-completion measurement after giving effect to any changes in our cost estimates. Changes to total estimated contract costs, if any, are recorded in the period they are determined. Estimated losses on uncompleted contracts are recorded in the period in which we first determine that a loss is apparent.

Revenue is recognized net of allowances for sales adjustments and any taxes collected from customers, which are subsequently remitted to governmental authorities.

Refer to Note 4, “Disaggregation of Revenue” for further information, including the economic factors that affect the nature, amount, timing, and uncertainty of revenues and cash flows of our various revenue categories.

<u>Contract Balances:</u>

Accounts receivable and allowance for losses and sales adjustments

Timing of revenue recognition may differ from the timing of invoicing to customers. We record an unbilled receivable when revenue is recognized prior to invoicing, or deferred revenue when invoicing occurs prior to revenue recognition. For multi-year agreements, we generally invoice customers annually at the beginning of each annual coverage period.

As of March 31, 2024, and December 31, 2023, total current and long-term accounts receivable, net of allowance for losses and sales adjustments, was $549.8 million and $628.7 million, respectively. We have recorded unbilled receivables of $121.1 million and $119.2 million at March 31, 2024, and December 31, 2023, respectively. Included in unbilled receivables are retention receivables of $10.7 million and $9.8 million at March 31, 2024, and December 31, 2023, respectively, which become payable upon the completion of the contract or completion of our fieldwork and formal hearings. Unbilled receivables expected to be collected within one year have been included with accounts receivable, current portion in the accompanying condensed consolidated balance sheets. Unbilled receivables and retention receivables expected to be collected past one year have been included with accounts receivable, long-term portion in the accompanying condensed consolidated balance sheets.

We maintain allowances for losses and sales adjustments, which losses are recorded against revenue at the time the loss is incurred. Since most of our clients are domestic governmental entities, we rarely incur a credit loss resulting from the inability of a client to make required payments. Consequently, we have not recorded a reserve for credit losses. Events or changes in circumstances that indicate the carrying amount for the allowances for losses and sales adjustments may require revision include, but are not limited to, managing our client’s expectations regarding the scope of the services to be delivered and defects or errors in new versions or enhancements of our software products. Our allowances for losses and sales adjustments are $20.2 million and $22.8 million at March 31, 2024, and December 31, 2023, respectively.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

We assess goodwill for impairment annually, or more frequently whenever events or changes in circumstances indicate its carrying value may not be recoverable. We begin with the qualitative assessment of the likelihood of impairment of each reporting unit. If the conclusion of this assessment is that it is more likely than not that a reporting unit's fair value is more than its carrying value, we are not required to perform a quantitative impairment test. When testing goodwill for impairment quantitatively, we first compare the estimated fair value of each reporting unit with its carrying amount. If the carrying amount of a reporting unit exceeds the fair value of that reporting unit, an impairment loss is recognized. The fair values calculated in our impairment tests are determined using discounted cash flow models involving several assumptions (Level 3 inputs). 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.

Determining the fair value of our reporting units involves the use of significant estimates and assumptions and considerable management judgment. We base our fair value estimates on assumptions we believe to be reasonable at the time, but such assumptions are subject to inherent uncertainty, such as weighted average cost of capital and revenue growth rates which are forward looking and affected by expectations about future market or economic conditions. Similarly, in a specific period, a reporting unit could significantly underperform relative to its historical or projected future operating results. Either situation could result in a meaningfully different estimate of the fair value of our reporting units, and a consequent future impairment charge.

For the three months ended March 31, 2024, no triggering event or changes to circumstances indicated that a potential impairment had occurred.

RECENTLY PRONOUNCED ACCOUNTING STANDARDS

In November 2023, the FASB issued Accounting Standards Update (ASU) 2023-07 - Segment Reporting (Topic 280), Improvements to Reportable Segment Disclosures. ASU 2023-07 enhances the disclosures required for reportable segments in annual and interim consolidated financial statements. The guidance is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, and early adoption is permitted. We are currently evaluating the impact that the new guidance will have on our consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09 – Income Taxes (Topic ASC 740) Income Taxes. The ASU improves the transparency of income tax disclosures by requiring (1) consistent categories and greater disaggregation of information in the rate reconciliation and (2) income taxes paid disaggregated by jurisdiction. It also includes certain other amendments to improve the effectiveness of income tax disclosures. ASU 2023-09 is effective for annual periods beginning after December 15, 2024, with early adoption permitted. We do not expect that this guidance will have a material impact upon our financial position and results of operations.

(3) Segment and Related Information

We report our results in two reportable segments. Business units that have met the aggregation criteria have been combined into our two reportable segments. The Enterprise Software ("ES") reportable segment provides public sector entities with software systems and services to meet their information technology and automation needs for mission-critical “back-office” functions such as: public administration solutions; courts and public safety solutions; education solutions, and property and recording solutions. The Platform Technologies ("PT") reportable segment provides public sector entities with software solutions to platform and transformative solutions including digital solutions, payment processing, streamlined data processing, and improve operations and workflows.

We evaluate performance based on several factors, of which the primary financial measure is business segment operating income. We define segment operating income for our business units as income before non-cash amortization of intangible assets associated with their acquisitions, interest expense, and income taxes. Segment operating income includes intercompany transactions. The majority of intercompany transactions relate to contracts involving more than one unit and are valued based on the contractual arrangement. Corporate segment operating loss primarily consists of compensation costs for the executive management team, certain shared services staff, and share-based compensation expense for the entire company. Corporate segment operating loss also includes revenues and expenses related to a company-wide user conference.

For the three months ended March 31, 2024	Enterprise Software	Platform Technologies	Corporate	Totals
Revenues				
Subscriptions:				
SaaS	$ 128,142	$ 20,642	$ —	$ 148,784
Transaction-based fees	51,884	112,575	—	164,459
Maintenance	111,182	6,036	—	117,218
Professional services	54,893	9,913	—	64,806
Software licenses and royalties	8,571	163	—	8,734
Hardware and other	8,358	—	—	8,358
Intercompany	6,171	—	(6,171)	—
Total revenues	$ 369,201	$ 149,329	$ (6,171)	$ 512,359
Segment operating income (loss)	$ 130,699	$ 28,255	$ (64,619)	$ 94,335

For the three months ended March 31, 2023	Enterprise Software	Platform Technologies	Corporate	Totals
Revenues				
Subscriptions:				
SaaS	$ 106,362	$ 15,553	$ —	$ 121,915
Transaction-based fees	42,052	116,498	—	158,550
Maintenance	110,081	5,049	—	115,130
Professional services	51,499	9,430	—	60,929
Software licenses and royalties	8,068	2,062	—	10,130
Hardware and other	5,199	—	—	5,199
Intercompany	5,083	—	(5,083)	—
Total revenues	$ 328,344	$ 148,592	$ (5,083)	$ 471,853
Segment operating income (loss)	$ 99,980	$ 29,537	$ (57,210)	$ 72,307

Reconciliation of reportable segment operating income to the Company's consolidated totals:	Three Months Ended March 31, 2024	2023
Total segment operating income	$ 94,335	$ 72,307
Amortization of acquired software	(9,239)	(8,920)
Amortization of other intangibles	(18,118)	(18,407)
Interest expense	(2,184)	(7,684)
Other income, net	1,845	1,246
Income before income taxes	$ 66,639	$ 38,542

(4) Disaggregation of Revenue

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

Timing of Revenue Recognition

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

For the three months ended March 31, 2024	Products and services transferred at a point in time	Products and services transferred over time	Total
Revenues			
Subscriptions:			
SaaS	$ —	$ 148,784	$ 148,784
Transaction-based fees	—	164,459	164,459
Maintenance	—	117,218	117,218
Professional services	—	64,806	64,806
Software licenses and royalties	8,100	634	8,734
Hardware and other	8,358	—	8,358
Total	$ 16,458	$ 495,901	$ 512,359

For the three months ended March 31, 2023	Products and services transferred at a point in time	Products and services transferred over time	Total
Revenues			
Subscriptions:			
SaaS	$ —	$ 121,915	$ 121,915
Transaction-based fees	—	158,550	158,550
Maintenance	—	115,130	115,130
Professional services	—	60,929	60,929
Software licenses and royalties	9,281	849	10,130
Hardware and other	5,199	—	5,199
Total	$ 14,480	$ 457,373	$ 471,853

Recurring Revenues

The majority of our revenues are comprised of revenues from subscriptions and maintenance, which we consider to be recurring revenues. Subscriptions revenue primarily consists of revenues derived from our SaaS arrangements and transaction-based fees, which relate to digital government services and payment processing. These revenues are considered recurring because revenues from these sources are expected to recur in similar annual amounts for the term of our relationship with the client. Transaction-based fees are generally the result of multi-year contracts with our clients that result in fees generated by payment transactions and digital government services and are collected on a recurring basis during the contract term. The contract terms for subscription arrangements range from one to 10 years but are typically contracted for initial periods of three to five years. Virtually all of our on-premises software clients contract with us for maintenance and support, which provides us with a significant source of recurring revenues. Maintenance and support is generally provided under annual, or in some cases, multi-year contracts. We consider all other revenue categories to be non-recurring revenues.

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

For the three months ended March 31, 2024	Enterprise Software	Platform Technologies	Corporate	Totals
Recurring revenues	$ 291,208	$ 139,253	$ —	$ 430,461
Non-recurring revenues	71,822	10,076	—	81,898
Intercompany	6,171	—	(6,171)	—
Total revenues	$ 369,201	$ 149,329	$ (6,171)	$ 512,359

For the three months ended March 31, 2023	Enterprise Software	Platform Technologies	Corporate	Totals
Recurring revenues	$ 258,495	$ 137,100	$ —	$ 395,595
Non-recurring revenues	64,766	11,492	—	76,258
Intercompany	5,083	—	(5,083)	—
Total revenues	$ 328,344	$ 148,592	$ (5,083)	$ 471,853

(5) Deferred Revenue and Performance Obligations

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

	March 31, 2024	December 31, 2023
Enterprise Software	$ 531,212	$ 589,295
Platform Technologies	32,690	39,597
Corporate	7,969	4,313
Totals	$ 571,871	$ 633,205

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

	Three months ended March 31, 2024
Balance as of December 31, 2023	$ 633,205
Deferral of revenue	274,562
Recognition of deferred revenue	(335,896)
Balance as of March 31, 2024	$ 571,871

Transaction Price Allocated to the Remaining Performance Obligations

The aggregate amount of transaction price allocated to the remaining performance obligations represents contracted revenue that has not yet been recognized (“backlog”), which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. Backlog as of March 31, 2024, was $2.02 billion, of which we expect to recognize approximately 45% as revenue over the next 12 months and the remainder thereafter.

(6) Deferred Commissions

Sales commissions earned by our sales force are considered incremental and recoverable costs of obtaining a contract with a customer. Sales commissions for initial contracts are deferred and then amortized commensurate with the recognition of associated revenue over a period of benefit that we have determined to be generally three to seven years. Deferred commissions were $49.0 million and $49.2 million as of March 31, 2024, and December 31, 2023, respectively. Amortization expense was $4.8 million and $4.3 million for the three months ended March 31, 2024, and 2023, respectively. There were no indicators of impairment in relation to the costs capitalized for the periods presented. Deferred commissions have been included with prepaid expenses for the current portion and non-current other assets for the long-term portion in the accompanying condensed consolidated balance sheets. Amortization expense related to deferred commissions is included in sales and marketing expense in the accompanying condensed consolidated statements of income.

(7) Acquisitions

2024

We did not complete any new acquisitions during the three months ended March 31, 2024.

During the three months ended March 31, 2024, we settled litigation that was assumed with the 2022 purchase of Rapid Financial Solutions, LLC. Our purchase agreement included an escrow that fully indemnified and reimbursed Tyler under the terms of the purchase agreement by the return of 27,702 shares of our common stock, with the approximate value of $9.5 million ,that was issued to an escrow account at the time of the purchase.

(8) Debt

The following table summarizes our total outstanding borrowings related to the amended 2021 Credit Agreement and Convertible Senior Notes:

	Rate	Maturity Date	March 31, 2024	December 31, 2023
2021 Credit Agreement				
Revolving credit facility	S + 1.125%	April 2026	$ —	$ —
Term Loan A-1	S + 1.125%	April 2026	—	50,000
Convertible Senior Notes due 2026	0.25%	March 2026	600,000	600,000
Total borrowings			600,000	650,000
Less: unamortized debt discount and debt issuance costs			(3,362)	(3,993)
Total borrowings, net			596,638	646,007
Less: current portion of debt			—	(49,801)
Carrying value			$ 596,638	$ 596,206

Amended 2021 Credit Agreement

In connection with the completion of the acquisition of NIC, Inc. on April 21, 2021, we, as borrower, entered into a $1.4 billion Credit Agreement (the “2021 Credit Agreement”) with the various lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Swingline Lender, and Issuing Lender. The 2021 Credit Agreement provides for (1) a senior unsecured revolving credit facility in an aggregate principal amount of up to $500 million, including sub-facilities for standby letters of credit and swingline loans (the “Revolving Credit Facility”), (2) an amortizing five-year term loan in the aggregate amount of $600 million (the “Term Loan A-1”), and (3) a non-amortizing three-year term loan in the aggregate amount of $300 million (the “Term Loan A-2”) and, together (the “Term Loans”). On January 28, 2023, we amended our 2021 Credit Agreement to replace the LIBOR reference rate with the Secured Overnight Financing Rate (“SOFR”) reference rate. The amended 2021 Credit Agreement matures on April 20, 2026, and the loans may be prepaid at any time, without premium or penalty, subject to certain minimum amounts and payment of any breakage costs. The Company is required to pay a commitment fee on the average daily unused portion of the Revolving Credit Facility, currently 0.15% per annum, ranging from 0.15% to 0.3% based upon the Company’s total net leverage ratio. The amended 2021 Credit Agreement 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.

For the three months ended March 31, 2024, we repaid $50.0 million of the Term Loans and have fully repaid amounts due under the amended 2021 Credit Agreement. Also as of March 31, 2024, we were in compliance with our covenants.

Convertible Senior Notes due 2026

On March 9, 2021, we issued 0.25% Convertible Senior Notes due 2026 in the aggregate principal amount of $600.0 million (“the Convertible Senior Notes” or “the Notes”). The Convertible Senior Notes were issued pursuant to, and are governed by, an indenture (the “Indenture”), dated as of March 9, 2021, with U.S. Bank National Association, as trustee. The net proceeds from the issuance of the Convertible Senior Notes were $591.4 million, net of initial purchasers’ discounts of $6.0 million and debt issuance costs of $2.6 million.

The Convertible Senior Notes are senior, unsecured obligations and are (i) equal in right of payment with our future senior, unsecured indebtedness; (ii) senior in right of payment to our future indebtedness that is expressly subordinated to the Notes; (iii) effectively subordinated to our future secured indebtedness, to the extent of the value of the collateral securing that indebtedness; and (iv) structurally subordinated to all future indebtedness and other liabilities, including trade payables, and (to the extent we are not a holder thereof) preferred equity, if any, of our subsidiaries.

The Convertible Senior Notes accrue interest at a rate of 0.25% per annum, payable semi-annually in arrears on March 15 and September 15 of each year, beginning on September 15, 2021. The Convertible Senior Notes mature on March 15, 2026, unless earlier repurchased, redeemed, or converted.

Before September 15, 2025, holders of the Convertible Senior Notes have the right to convert their Convertible Senior Notes only upon the occurrence of certain events. Under the terms of the Indenture, the Convertible Senior Notes are convertible into common stock of Tyler Technologies, Inc. (referred to as “our common stock” herein) at the following times or circumstances:

- during any calendar quarter commencing after the calendar quarter ended June 30, 2021, if the last reported sale price per share of our common stock exceeds 130% of the conversion price for each of at least 20 trading days (whether or not consecutive) during the 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter;

- during the five consecutive business days immediately after any five consecutive trading day period (such five consecutive trading day period, the “Measurement Period”) if the trading price per $1,000 principal amount of Convertible Senior Notes, as determined following a request by their holder in accordance with the procedures in the Indenture, for each trading day of the Measurement Period was less than 98% of the product of the last reported sale price per share of our common stock on such trading day and the conversion rate on such trading day;

- upon the occurrence of certain corporate events or distributions on our common stock, including but not limited to a “Fundamental Change” (as defined in the Indenture);

- upon the occurrence of specified corporate events; or

- on or after September 15, 2025, until the close of business on the second scheduled trading day immediately preceding the maturity date, March 15, 2026.

With certain exceptions, upon a change of control or other fundamental change (both as defined in the Indenture governing the Convertible Senior Notes), the holders of the Convertible Senior Notes may require us to repurchase all or part of the principal amount of the Convertible Senior Notes at a repurchase price equal to 100% of the principal amount of the Convertible Senior Notes, plus any accrued and unpaid interest to, but excluding, the redemption date.

As of March 31, 2024, none of the conditions allowing holders of the Convertible Senior Notes to convert have been met.

From and including September 15, 2025, holders of the Convertible Senior Notes may convert their Convertible Senior Notes at any time at their election until the close of business on the second scheduled trading day immediately before the maturity date. We will settle any conversions of the Convertible Senior Notes either entirely in cash or in a combination of cash and shares of our common stock, at our election. However, upon conversion of any Convertible Senior Notes, the conversion value, which will be determined over an “Observation Period” (as defined in the Indenture) consisting of 30 trading days, will be paid in cash up to at least the principal amount of the Notes being converted.

The initial conversion rate is 2.0266 shares of common stock per $1,000 principal amount of Convertible Senior Notes, which represents an initial conversion price of approximately $493.44 per share of common stock. The conversion rate and conversion price will be subject to adjustment upon the occurrence of certain events. In addition, if certain corporate events that constitute a “Make-Whole Fundamental Change” (as defined in the Indenture) occur, then the conversion rate will, in certain circumstances, be increased for a specified period of time.

The Convertible Senior Notes are redeemable, in whole or in part, at our option at any time, and from time to time, on or after March 15, 2024, and on or before the 30th scheduled trading day immediately before the maturity date, at a cash redemption price equal to the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, if any, up to, but excluding, the redemption date, but only if the last reported sale price per share of our common stock exceeds 130% of the conversion price of the Notes on (i) each of at least 20 trading days, whether or not consecutive, during the 30 consecutive trading days ending on, and including, the trading day immediately before the date we send the related redemption notice; and (ii) the trading day immediately before the date we send such notice. In addition, calling any Note for redemption constitutes a Make-Whole Fundamental Change with respect to that Note, in which case the conversion rate applicable to the conversion of that Note will be increased in certain circumstances if it is converted after it is called for redemption.

Effective Interest Rate

The weighted average interest rates for the borrowings under Convertible Senior Notes due 2026 were 0.25%, as of March 31, 2024. For the three months ended March 31, 2024, the effective interest rate was 8.66% for our term loan borrowings under the amended 2021 Credit Agreement and 0.54% for the Convertible Senior Notes, respectively. The following sets forth the interest expense recognized related to the borrowings under the amended 2021 Credit Agreement and Convertible Senior Notes and is included in interest expense in the accompanying condensed consolidated statements of income:

	Three Months Ended March 31,	
	2024	2023
Contractual interest expense - Revolving Credit Facility	$ (230)	$ (313)
Contractual interest expense - Term Loans	(761)	(5,641)
Contractual interest expense - Convertible Senior Notes	(375)	(375)
Amortization of debt discount and debt issuance costs	(818)	(1,355)
Total	$ (2,184)	$ (7,684)

As of March 31, 2024, we had one outstanding standalone letter of credit totaling $750,000. The letter of credit, which guarantees our performance under a client contract, renews automatically annually unless canceled in writing, and expires in the third quarter of 2026.

(9) Financial Instruments

The following table presents our financial instruments:

	March 31, 2024	December 31, 2023
Cash and cash equivalents	$ 188,237	$ 165,493
Available-for-sale investments	14,199	17,431
Equity investments	10,000	10,000
Total	$ 212,436	$ 192,924

Cash and cash equivalents consist primarily of money market funds with original maturity dates of three months or less, for which we determine fair value through quoted market prices.

Our investment portfolio is classified as available-for-sale in order to have the flexibility to buy and sell investments and maximize cash liquidity for potential acquisitions or for debt repayments. Our available-for-sale investments primarily consist of investment grade corporate bonds, municipal bonds, and asset-backed securities with maturity dates through 2027. These investments are presented at fair value and are included in short-term investments and non-current investments in the accompanying condensed consolidated balance sheets. Unrealized gains or losses associated with the investments are included in accumulated other comprehensive loss, net of tax in the accompanying condensed consolidated balance sheets and statements of comprehensive income. For our available-for-sale investments, we do not have the intent to sell, nor is it more likely than not that we would be required to sell before recovery of their cost basis.

As of March 31, 2024, we have an accrued interest receivable balance of approximately $59,000 which is included in accounts receivable, net. We record any losses within the maturity period or at the time of sale of the investment, and any write-offs to accrued interest receivables are recorded as reductions to interest income in the period of the loss. During the three months ended March 31, 2024, we have recorded no losses for accrued interest receivables. Interest income and amortization of discounts and premiums are included in other income, net in the accompanying condensed consolidated statements of income.

The following table presents the components of our available-for-sale investments:

	March 31, 2024	December 31, 2023
Amortized cost	$ 14,563	$ 17,866
Unrealized gains	—	—
Unrealized losses	(364)	(435)
Estimated fair value	$ 14,199	$ 17,431

As of March 31, 2024, we have $8.7 million of available-for-sale debt securities with contractual maturities of one year or less and $5.5 million with contractual maturities greater than one year. As of March 31, 2024, no available-for-sale debt securities has been in a loss position for one year or less and 16 securities with a fair value of $13.8 million have been in a loss position for greater than one year.

The following table presents the activity on our available-for-sale investments:

	Three Months Ended March 31,	
	2024	2023
Proceeds from sales and maturities	$ 3,271	$ 22,975
Realized losses on sales, net of tax	—	—

Our equity investments consist of an 18% interest in BFTR, LLC, a wholly owned subsidiary of Bison Capital Partners V L.P. BFTR, LLC is a privately held Australian company specializing in digitizing the spoken word in court and legal proceedings. The investment in common stock is carried at cost less any impairment write-downs because we do not have the ability to exercise significant influence over the investee and the securities do not have readily determinable fair values.

(10) Other Comprehensive Income (Loss)

The following table presents the changes in the balances of accumulated other comprehensive loss, net of tax by component:

	Unrealized Loss On Available-for-Sale Securities	Other	Accumulated Other Comprehensive Loss
Balance as of December 31, 2023	$ (326)	$ —	$ (326)
Other comprehensive income	53	—	53
Reclassification adjustment of unrealized gains (losses) on securities transferred from held-to-maturity	—	—	—
Reclassification adjustment for net loss on sale of available-for-sale securities, included in net income	—	—	—
Other comprehensive income	53	—	53
Balance as of March 31, 2024	$ (273)	$ —	$ (273)

	Unrealized Loss On Available-for-Sale Securities	Other	Accumulated Other Comprehensive Loss
Balance as of December 31, 2022	$ (844)	$ —	$ (844)
Other comprehensive income	94	—	94
Reclassification adjustment of unrealized gains (losses) on securities transferred from held-to-maturity	—	—	—
Reclassification adjustment for net loss on sale of available-for-sale securities, included in net income	—	—	—
Other comprehensive income	94	—	94
Balance as of March 31, 2023	$ (750)	$ —	$ (750)

(11) Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for that asset or liability. Guidance on fair value measurements and disclosures establishes a valuation hierarchy for disclosure of inputs used in measuring fair value defined as follows:

- Level 1—Inputs are unadjusted quoted prices that are available in active markets for identical assets or liabilities.

- Level 2—Inputs include quoted prices for similar assets and liabilities in active markets and quoted prices in non-active markets, inputs other than quoted prices that are observable, and inputs that are not directly observable, but are corroborated by observable market data.

- Level 3—Inputs that are unobservable and are supported by little or no market activity and reflect the use of significant management judgment.

The classification of a financial asset or liability within the hierarchy is determined based on the least reliable level of input that is significant to the fair value measurement. In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. We also consider the counterparty and our own non-performance risk in our assessment of fair value.

The following table presents fair values of our financial and debt instruments categorized by their fair value hierarchy as of March 31, 2024:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 188,237	$ —	$ —	$ 188,237
Available-for-sale investments	—	14,199	—	14,199
Equity investments	—	—	10,000	10,000
Convertible Senior Notes due 2026	—	604,920	—	604,920

The following table presents fair values of our financial and debt instruments categorized by their fair value hierarchy as of December 31, 2023:

	Level 1		Level 2		Level 3		Total	
Cash and cash equivalents	$	165,493	$	—	$	—	$	165,493
Available-for-sale investments		—		17,431		—		17,431
Equity investments		—		—		10,000		10,000
2021 Credit Agreement								
Term Loan A-1		—		49,801		—		49,801
Convertible Senior Notes due 2026		—		609,168		—		609,168

Assets that are measured at fair value on a recurring basis

Accounts receivables, accounts payables, short-term obligations and certain other assets carrying value approximate fair value because of the short maturity of these instruments.

As of March 31, 2024, we have $14.2 million in investment grade corporate bonds, municipal bonds and asset-backed securities with maturity dates through 2027. The fair values of these securities are considered Level 2 as they are based on inputs from quoted prices in markets that are not active or other observable market data.

Assets that are measured at fair value on a nonrecurring basis

As of March 31, 2024, we have an 18% interest in BFTR, LLC. As we do not have the ability to exercise significant influence over the investee and the securities do not have readily determinable fair values, our investment is carried at cost less any impairment write-downs. Periodically, our investment is assessed for impairment. We do not reassess the fair value of the investments if there are no identified events or changes in circumstances that indicate fair value of the investment or indicate impairment. No events or changes in circumstances have occurred during the period that require reassessment. There has been no impairment of this investment for the periods presented. This investment is included in other non-current assets in the accompanying condensed consolidated balance sheets.

As described in Note 2 "Summary of Significant Accounting Policies", we assess goodwill for impairment annually on October 1. In addition, we review goodwill, property and equipment, and other intangibles for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. During the fourth quarter of 2023, we completed our annual assessment of goodwill which did not result in an impairment charge. Further, we identified no indicators of impairment to goodwill, property and equipment, and other intangibles and therefore, no impairment was recorded as of and for the three months ended March 31, 2024.

Financial instruments measured at fair value only for disclosure purposes

The carrying amount of the Revolving Credit Facility and Term Loans is the par value less the debt discount and debt issuance costs that are amortized to interest expense using the effective interest method over the terms of the Term Loans. Interest expense is included in the accompanying condensed consolidated statements of income.

The fair value of our Convertible Senior Notes is determined based on quoted market prices for a similar liability when traded as an asset in an active market, a Level 2 input. See Note 8, “Debt,” for further discussion.

The carrying amount of the Convertible Senior Notes is the par value less the debt discount and debt issuance costs that are amortized to interest expense using the effective interest method over the term of the Convertible Senior Notes. Interest expense is included in the accompanying condensed consolidated statements of income.

The following table presents the fair value and carrying value, net, of the amended 2021 Credit Agreement and our Convertible Notes due 2026:

	Fair Value at		Carrying Value at	
	March 31, 2024	December 31, 2023	March 31, 2024	December 31, 2023
2021 Credit Agreement				
Revolving Credit Facility	$ —	$ —	$ —	$ —
Term Loan A-1	—	49,801	—	49,801
Convertible Senior Notes due 2026	604,920	609,168	596,638	596,206
	$ 604,920	$ 658,969	$ 596,638	$ 646,007

(12) Income Tax Provision

We had an effective income tax rate of 18.7% for the three months ended March 31, 2024, compared to 19.9% for the three months ended March 31, 2023. The decrease in the effective tax rate for the three months ended March 31, 2024, as compared to the prior period, is due to the increase in research tax credits and excess tax benefits related to stock incentive awards in the current year, offset by liabilities for uncertain tax positions, an increase in state income taxes, and an increase in non-deductible business expenses.

The effective income tax rates for the periods presented are different from the statutory United States federal income tax rate of 21% primarily due to research tax credits and excess tax benefits related to stock incentive awards, offset by state income taxes, liabilities for uncertain tax positions, and non-deductible business expenses.

We received income tax refunds, net of taxes paid of $680,000 and $548,000 in the three months ended March 31, 2024, and 2023, respectively.

(13) Share-Based Compensation Plan

The following table summarizes share-based compensation expense related to share-based awards recorded in the condensed consolidated statements of income:

	Three Months Ended March 31,	
	2024	2023
Subscriptions, maintenance, and professional services	$ 7,390	$ 6,342
Sales and marketing expense	2,983	2,393
General and administrative expense	16,493	19,161
Total share-based compensation expense	$ 26,866	$ 27,896

(14) Earnings Per Share

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

	Three Months Ended March 31,	
	2024	2023
Numerator for basic and diluted earnings per share:		
Net income	$ 54,170	$ 30,875
Denominator:		
Weighted-average basic common shares outstanding	42,332	41,832
Assumed conversion of dilutive securities:		
Stock awards	768	674
Convertible Senior Notes	—	—
Denominator for diluted earnings per share - Adjusted weighted-average shares	43,100	42,506
Earnings per common share:		
Basic	$ 1.28	$ 0.74
Diluted	$ 1.26	$ 0.73

For the three months ended March 31, 2024, and 2023, stock awards, representing the right to purchase common stock of approximately 162,000 and 501,000 shares, respectively, were not included in the computation of diluted earnings per share because their inclusion would have had an antidilutive effect.

We have used the if-converted method for calculating any potential dilutive effect of the Convertible Senior Notes due 2026 on our diluted net income per share. Under the if-converted method, the Notes are assumed to be converted at the beginning of the period and the resulting common shares are included in the denominator of the diluted earnings per share calculation for the entire period being presented and interest expense, net of tax, recorded in connection with the Convertible Senior Notes is not added back to the numerator, only in the periods in which such effect is dilutive. The approximately 1.2 million remaining resulting common shares related to the Notes are not included in the dilutive weighted-average common shares outstanding calculation for the three months ended March 31, 2024, and 2023, as their effect would be antidilutive given none of the conversion features have been triggered. See Note 8, “Debt,” for discussion on the conversion features related to the Convertible Senior Notes.

(15) Leases

We lease office facilities for use in our operations, as well as transportation and other equipment. Most of our leases are non-cancelable operating lease agreements with remaining terms of one to 11 years. Some of these leases include options to extend for up to six years. We have no finance leases and one related party lessor agreement (see Note 16, "Related party transactions") as of March 31, 2024. Right-of-use lease assets and lease liabilities for our operating leases are recorded in the condensed consolidated balance sheets. During the three months ended March 31, 2024, we had no lease restructuring costs, and during the three months ended March 31, 2023, we incurred lease restructuring costs resulting in an additional $1.4 million of operating lease costs.

The components of operating lease expense were as follows:

Lease Costs	Three Months Ended March 31, 2024	2023
Operating lease cost	$ 2,165	$ 4,391
Short-term lease cost	551	523
Variable lease cost	238	320
Net lease cost	$ 2,954	$ 5,234

Supplemental information related to leases is as follows:

Other Information	Three Months Ended March 31, 2024	2023
Cash flows:		
Cash paid amounts included in the measurement of lease liabilities:		
Operating cash outflows from operating leases	$ 3,185	$ 2,510
Right-of-use assets obtained in exchange for lease obligations (non-cash):		
Operating leases	$ 1,389	$ 1,406
Lease term and discount rate:		
Weighted average remaining lease term (years)	6.6	7.1
Weighted average discount rate	1.67 %	1.59 %

Rental income from third parties

We own office buildings in Bangor, Falmouth, and Yarmouth, Maine; Lubbock and Plano, Texas; Troy, Michigan; Latham, New York; Moraine, Ohio; and Kingston Springs, Tennessee. We lease space in some of these buildings to third-party tenants. The property we lease to others under operating leases consists primarily of specific facilities where one tenant obtains substantially all of the economic benefit from the asset and has the right to direct the use of the asset. These non-cancelable leases expire between 2024 and 2028, and some have options to extend the lease for up to 10 years. We determine if an arrangement is a lease at inception. None of our leases allow the lessee to purchase the leased asset.

Rental income from third-party tenants for the three months ended March 31, 2024, totaled $761,000, and for the three months ended March 31, 2023, totaled $466,000. Rental income is included in hardware and other revenue on the consolidated statements of income. As of March 31, 2024, future minimum operating rental income based on contractual agreements is as follows:

Year ending December 31,	Amount
2024 (Remaining)	$ 2,418
2025	2,450
2026	1,171
2027	913
2028	734
Thereafter	—
Total	$ 7,686

(16) Related Party Transactions

In April 2023, we entered into an arm's length lessor agreement under which we lease 25,000 square feet of office space in our Lubbock, Texas facility to a company co-owned by a member of the board of directors. Such member no longer serves on the board of directors. The lease agreement, which commenced on April 1, 2023, has an initial term of five years with a pro-rata base rent of $25,000 per month until December 1, 2023, and a base rent of $60,000 per month thereafter. We recognized rental income of $181,000 under this lease for the three months ended March 31, 2024.

(17) Commitments and Contingencies

Litigation

During the first quarter of 2022, we received a notice of termination for convenience under a contractual arrangement with a state government client. Upon receipt of the termination notice, we ceased performing services under the contractual arrangement and sought payment of contractually owed fees of approximately $15 million in connection with the termination for convenience.

The client was unresponsive to our outreach for several months. On August 23, 2022, we filed a lawsuit to enforce our rights and remedies under the applicable contractual arrangement. At the client's invitation, we then engaged directly with the client on payment resolution. The engagement was not successful. On March 20, 2024, reinitiated our lawsuit. Although we believe our products and services were delivered in accordance with the terms of our contract and that we are entitled to payment in connection with the termination for convenience, at this time the matter remains unresolved. We can provide no assurances that we will not incur additional costs as we pursue our rights and remedies under the contract.

Purchase Commitments

We have contractual obligations for third-party technology used in our solutions and for other services we purchase as part of our normal operations. In certain cases, these arrangements require a minimum annual purchase commitment by us. As of March 31, 2024, the remaining aggregate minimum purchase commitment under these arrangements was approximately $699.1 million through 2031.

(18) Subsequent Events

There have been no material events or transactions that occurred subsequent to March 31, 2024.

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

CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This document contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that are not historical in nature and typically address future or anticipated events, trends, expectations or beliefs with respect to our financial condition, results of operations or business. Forward-looking statements often contain words such as “believes,” “expects,” “anticipates,” “foresees,” “forecasts,” “estimates,” “plans,” “intends,” “continues,” “may,” “will,” “should,” “projects,” “might,” “could” or other similar words or phrases. Similarly, statements that describe our business strategy, outlook, objectives, plans, intentions or goals also are forward-looking statements. We believe there is a reasonable basis for our forward-looking statements, but they are inherently subject to risks and uncertainties and actual results could differ materially from the expectations and beliefs reflected in the forward-looking statements. We presently consider the following to be among the important factors that could cause actual results to differ materially from our expectations and beliefs: (1) changes in the budgets or regulatory environments of our clients, primarily local and state governments, that could negatively impact information technology spending; (2) disruption to our business and harm to our competitive position resulting from cyber-attacks and security vulnerabilities; (3) our ability to protect client information from security breaches and provide uninterrupted operations of data centers; (4) our ability to achieve growth or operational synergies through the integration of acquired businesses, while avoiding unanticipated costs and disruptions to existing operations; (5) material portions of our business require the Internet infrastructure to be adequately maintained; (6) our ability to achieve our financial forecasts due to various factors, including project delays by our clients, reductions in transaction size, fewer transactions, delays in delivery of new products or releases or a decline in our renewal rates for service agreements; (7) general economic, political and market conditions, including continued inflation and rising interest rates; (8) technological and market risks associated with the development of new products or services or of new versions of existing or acquired products or services; (9) competition in the industry in which we conduct business and the impact of competition on pricing, client retention and pressure for new products or services; (10) the ability to attract and retain qualified personnel and dealing with rising labor costs, the loss or retirement of key members of management or other key personnel; and (11) costs of compliance and any failure to comply with government and stock exchange regulations. These factors and other risks that affect our business are described in Item 1A, “Risk Factors”. We expressly disclaim any obligation to publicly update or revise our forward-looking statements.

GENERAL

We provide integrated information management solutions and services for the public sector. We develop and market a broad line of software products and services to address the IT needs of public sector entities. We provide subscription-based services such as software as a service (“SaaS”) and transaction-based fees primarily related to digital government services and online payment processing. 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. Additionally, we provide property appraisal outsourcing services for taxing jurisdictions.

We report our results in two reportable segments. Business units that have met the aggregation criteria have been combined into our two reportable segments. The Enterprise Software ("ES") reportable segment provides public sector entities with software systems and services to meet their information technology and automation needs for mission-critical “back-office” functions such as: public administration solutions; courts and public safety solutions; education solutions, and property and recording solutions. The Platform Technologies ("PT") reportable segment provides public sector entities with software solutions to platform and transformative solutions including digital solutions, payment processing, streamlined data processing, and improve operations and workflows.

We evaluate performance based on several factors, of which the primary financial measure is business segment operating income. We define segment operating income for our business units as income before non-cash amortization of intangible assets associated with their acquisitions, interest expense, and income taxes. Segment operating income includes intercompany transactions. The majority of intercompany transactions relate to contracts involving more than one unit and are valued based on the contractual arrangement. Corporate segment operating loss primarily consists of compensation costs for the executive management team, certain shared services staff, and share-based compensation expense for the entire company. Corporate segment operating loss also includes revenues and expenses related to a company-wide user conference.

See Note 3, "Segment and Related Information," in the notes to the financial statements for additional information.

Recent Acquisitions

2024

We did not complete any new acquisitions during the three months ended March 31, 2024.

2023

On October 31, 2023, we acquired Resource Exploration, Inc. (“ResourceX”), a leading provider of budgeting software to the public sector. Also on October 31, 2023, we acquired ARInspect, Inc. (“ARInspect”), a leading provider of AI powered machine learning solutions for public sector field operations. On August 8, 2023, we acquired Computing System Innovations, LLC (“CSI”), a leading provider of artificial intelligence automation, redaction, and indexing solution for courts, recorders, attorneys, and others. The actual operating results of CSI and ResourceX, from their respective dates of acquisition, are included in the operating results of the ES segment. The operating results of ARInspect are included in the operating results of the PT segment since the date of acquisition.

Operating Results

For the three months ended March 31, 2024, total revenues increased 9%, compared to the prior period primarily due to the increase in subscription revenue. Revenues from recent acquisitions contributed $3.0 million or 1% to the total revenue increase for the three months ended March 31, 2024, compared to the prior period.

Subscriptions revenue grew 12% for the three months ended March 31, 2024, compared to the prior period, primarily due to an ongoing shift toward SaaS arrangements, along with growth in our transaction-based revenues such as e-filing and payment services. Subscription revenues from recent acquisitions contributed $1.0 million or 0.4% to the increase for the three months ended March 31, 2024.

Our backlog as of March 31, 2024, was $2.02 billion, a 9.5% increase compared to March 31, 2023.

Our total employee count increased to 7,305 at March 31, 2024, including 68 employees who joined us through acquisitions completed since March 31, 2023, from 7,229 at March 31, 2023.

Annualized Recurring Revenues

Subscriptions and maintenance are considered recurring revenue sources. Annualized recurring revenues (ARR) are calculated by annualizing the current quarter's recurring revenues from maintenance and subscriptions as reported in our statement of income. Management believes ARR is an indicator of the annual run rate of our recurring revenues, as well as a measure of the effectiveness of the strategies we deploy to drive revenue growth over time. ARR is a metric we believe is widely used by companies in the technology sector and by investors, which we believe offers insight to the stability of our maintenance and subscription revenues to be recognized within the year, which are considered recurring in nature, with some seasonality.

Subscriptions revenue primarily consists of revenues derived from our SaaS arrangements and transaction-based fees, which relate to digital government services, e-filing transactions, and payment processing. These revenues are considered recurring because revenues from these sources are expected to re-occur in similar annual amounts for the term of our relationship with the client. Transaction-based fees are generally the result of multi-year contracts with our clients that result in fees generated by payment transactions and digital government services and are collected on a recurring basis during the contract term. Transaction-based fees are historically highest in the second quarter, which coincides with peak outdoor recreation seasons and statutory filing deadlines in many jurisdictions, and lowest in the fourth quarter due to fewer business days and lower transaction volumes around holidays. Because ARR is an annualized revenue amount, the metric can fluctuate from quarter to quarter due to this seasonality.

ARR was $1.72 billion and $1.58 billion as of March 31, 2024, and 2023, respectively. ARR increased 9% compared to the prior period primarily due to an increase in subscriptions revenue resulting from an ongoing shift toward SaaS arrangements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated financial statements. These condensed consolidated financial statements have been prepared following the requirements of GAAP for the interim period and require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, potential impairment of intangible assets and goodwill, and share-based compensation expense. As these are condensed financial statements, one should also read expanded information about our critical accounting policies and estimates provided in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, included in our Form 10-K for the year ended December 31, 2023. There have been no material changes to our critical accounting policies and estimates from the information provided in our Form 10-K for the year ended December 31, 2023.

ANALYSIS OF RESULTS OF OPERATIONS

	Percent of Total Revenues	
	Three Months Ended March 31,	
	2024	2023
Revenues:		
Subscriptions	61.2 %	59.4 %
Maintenance	22.9	24.4
Professional services	12.6	12.9
Software licenses and royalties	1.7	2.1
Hardware and other	1.6	1.2
Total revenues	100.0	100.0
Cost of revenues:		
Subscriptions, maintenance, and professional services	52.5	53.5
Software licenses, royalties, and amortization of acquired software	2.1	2.4
Amortization of software development	0.9	0.5
Hardware and other	0.9	1.2
Sales and marketing expense	7.1	7.9
General and administrative expense	14.2	15.3
Research and development expense	5.7	5.7
Amortization of other intangibles	3.5	4.0
Operating income	13.1	9.5
Interest expense	(0.4)	(1.6)
Other income, net	0.4	0.3
Income before income taxes	13.1	8.2
Income tax provision	2.4	1.7
Net income	10.7 %	6.5 %

Revenues

Subscriptions

The following table sets forth a comparison of our subscriptions revenue for the three months ended March 31 ($ in thousands):

	Three Months Ended		Change	
	2024	2023	$	%
ES	$ 180,026	$ 148,414	$ 31,612	21 %
PT	133,217	132,051	1,166	1
Total subscriptions revenue	$ 313,243	$ 280,465	$ 32,778	12 %

Subscriptions revenue consists of revenue derived from our SaaS arrangements and transaction-based fees primarily related to digital government services and payment processing. 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.

Subscriptions revenue grew 12% for the three months ended March 31, 2024, compared to the prior period, primarily due to an ongoing shift toward SaaS arrangements, along with growth in our transaction-based revenues. Subscription revenues from recent acquisitions contributed $1.0 million or 0.4% to the increase for the three months ended March 31, 2024.

Total subscriptions revenue derived from SaaS arrangements fees was $148.8 million for the three months ended March 31, 2024, compared to $121.9 million for the three months ended March 31, 2023. For the three months ended March 31, 2024, SaaS fees grew $26.9 million, or 22% compared to prior period. New SaaS clients as well as existing on-premises clients who converted to our SaaS model provided the majority of the subscriptions revenue increase. In the three months ended March 31, 2024, we added 200 new SaaS clients and 90 on-premises existing clients elected to convert to our SaaS model. Since March 31, 2023, we have added 687 new SaaS clients while 355 existing on-premises clients converted to our SaaS offerings. Our new software contract mix for the three months ended March 31, 2024, was approximately 8% perpetual software license arrangements and approximately 92% subscription-based arrangements compared to total new contract mix for the three months ended March 31, 2023, of approximately 17% perpetual software license arrangements and approximately 83% subscription-based arrangements.

Total subscriptions revenue derived from transaction-based fees was $164.5 million for the three months ended March 31, 2024, compared to $158.6 million for the three months ended March 31, 2023. For the three months ended March 31, 2024, transaction-based fees grew $5.9 million, or 4% compared to prior period. Contributing to the growth in transaction-based fees for the three months ended March 31, 2024, are the new transaction customers and volume increases from online payments and e-filing services and the impact of transaction-based fees from recent acquisitions of $1.0 million, compared to prior period.

Maintenance

The following table sets forth a comparison of our maintenance revenue for the three months ended March 31 ($ in thousands):

	Three Months Ended		Change	
	2024	2023	$	%
ES	$ 111,182	$ 110,081	$ 1,101	1 %
PT	6,036	5,049	987	20
Total maintenance revenue	$ 117,218	$ 115,130	$ 2,088	2 %

We provide maintenance and support services for our software products and certain third-party software. Maintenance revenue increased 2% for the three months ended March 31, 2024, compared to the prior period. For the three months ended March 31, 2024, maintenance revenue grew mainly due to annual maintenance rate increases and maintenance associated with new software license sales, partially offset by the impact of clients converting from on-premises license arrangements to SaaS.

Professional services

The following table sets forth a comparison of our professional services revenue for the three months ended March 31 ($ in thousands):

	Three Months Ended		Change	
	2024	2023	$	%
ES	$ 54,893	$ 51,499	$ 3,394	7 %
PT	9,913	9,430	483	5
Total professional services revenue	$ 64,806	$ 60,929	$ 3,877	6 %

Professional services revenue primarily consists of professional services billed in connection with implementing our software, converting client data, training client personnel, custom development activities, consulting and property appraisal outsourcing services. New clients who purchase our proprietary software licenses or subscriptions generally also contract with us to provide the related professional services. Existing clients also periodically purchase additional training, consulting and minor programming services.

Professional services revenue increased 6% for the three months ended March 31, 2024, compared to the prior period that increase is primarily attributable to higher new contract volume with increased billable rates and the addition of professional services staff to grow our capacity to deliver backlog.

Software licenses and royalties

The following table sets forth a comparison of our software licenses and royalties revenue for the three months ended March 31 ($ in thousands):

	Three Months Ended		Change	
	2024	2023	$	%
ES	$ 8,571	$ 8,068	$ 503	6 %
PT	163	2,062	(1,899)	(92)
Total software licenses and royalties revenue	$ 8,734	$ 10,130	$ (1,396)	(14)%

Software licenses and royalties revenue decreased 14% for the three months ended March 31, 2024, compared to the prior period. The decrease is primarily attributed to the shift in the mix of new software contracts toward more subscription-based agreements compared to the prior period.

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 the decline in software license revenues will accelerate as we continue to shift our model away from perpetual licenses to SaaS. 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.

Cost of revenues and overall gross margin

The following table sets forth a comparison of the key components of our cost of revenues for the three months ended March 31 ($ in thousands):

	Three Months Ended		Change	
	2024	2023	$	%
Subscriptions, maintenance, and professional services	$ 268,870	$ 252,415	$ 16,455	7 %
Software licenses and royalties	1,565	2,313	(748)	(32)
Amortization of software development	4,363	2,588	1,775	69
Amortization of acquired software	9,239	8,920	319	4
Hardware and other	4,656	5,780	(1,124)	(19)
Total cost of revenues	$ 288,693	$ 272,016	$ 16,677	6 %

Subscriptions, maintenance, and professional services. Cost of subscriptions, maintenance and professional services primarily consist of personnel costs related to installation of our software, conversion of client data, training client personnel and support activities, including enhancing existing solutions, and various other services such as custom client development, on-going operation of SaaS, property appraisal outsourcing activities, digital government services, and other transaction-based services such as e-filing. Other costs included are interchange fees required to process credit/debit card transactions and bank fees to process automated clearinghouse transactions related to our payments business.

The cost of subscriptions, maintenance, and professional services for the three months ended March 31, 2024, increased $16.5 million or 7%, compared to the prior period. The impact from recent acquisitions was $1.5 million for the three months ended March 31, 2024. The remaining subscriptions, maintenance and professional services expenses increased 6% for the three months ended March 31, 2024, due to duplicate hosting costs as we transition from our proprietary data centers to the public cloud and higher personnel costs. Excluding employees from recent acquisitions, our professional services staff grew by 96 employees since March 31, 2023, as we increased hiring to ensure that we are well-positioned to deliver our current backlog and anticipated new business.

Software licenses and royalties. Costs of software licenses and royalties primarily consist of direct third-party software costs. We do not have any direct costs associated with royalties.

The cost of software licenses and royalties for the three months ended March 31, 2024, decreased $0.7 million or 32%, compared to the prior period due to lower third-party software costs.

Amortization of software development. Software development costs included in cost of revenues primarily consist of personnel costs. We begin to amortize capitalized costs when a product is available for general release to customers. Amortization expense is determined on a product-by-product basis at a rate not less than straight-line basis over the software's remaining estimated economic life of, generally, three to five years.

For the three months ended March 31, 2024, amortization of software development costs increased $1.8 million or 69%, compared to the prior period and is attributable to new capitalized software development projects going into service in the past year.

Amortization of acquired software. Amortization expense related to acquired software attributed to business combinations is included with cost of revenues. The estimated useful lives of other intangibles range from five to 10 years.

For the three months ended March 31, 2024, amortization of acquired software increased $0.3 million or 4%, compared to the prior period due to amortization of newly acquired software from recent acquisitions completed in fiscal year 2023, offset by assets becoming fully amortized in the fourth quarter 2023.

The following table sets forth a comparison of overall gross margin for the periods presented as of March 31:

	Three Months Ended		
	2024	2023	Change
Overall gross margin	43.7 %	42.4 %	1.3 %

Overall Gross Margin. For the three months ended March 31, 2024, our overall gross margin increased 1.3%, compared to the prior period. The increase in overall gross margin compared to the prior period is attributed to a higher revenue mix for subscription revenues compared to the prior period resulting in an increase in incremental margin related to software services, maintenance and subscriptions. Costs related to maintenance and various other services such as SaaS typically grow at a slower rate than related revenue due to leverage in the utilization of support and maintenance staff and economies of scale. The margin increases are partially offset by lower revenue from software licenses, higher software development amortization expense, duplicate hosting costs as we transition from our proprietary data centers to the public cloud, and higher personnel costs.

Sales and marketing expense

Sales and marketing expense ("S&M") consists primarily of salaries, employee benefits, travel, share-based compensation expense, commissions and related overhead costs for sales and marketing employees, as well as professional fees, trade show activities, advertising costs and other marketing costs. The following table sets forth a comparison of our S&M expense for the three months ended March 31 ($ in thousands):

	Three Months Ended		Change	
	2024	2023	$	%
Sales and marketing expense	$ 36,427	$ 37,103	$ (676)	(2)%

S&M as a percentage of revenues was 7.1% for the three months ended March 31, 2024, compared to 7.9% for the three months ended March 31, 2023. For the three months ended March 31, 2024, S&M expense decreased approximately 2%, compared to the prior period. The decrease in S&M for the three months ended March 31, 2024, is primarily attributed to lower professional fees and trade-show event activities, offset by higher bonus and commission expenses.

General and administrative expense

General and administrative ("G&A") expense consists primarily of personnel salaries and share-based compensation expense for general corporate functions, including senior management, finance, accounting, legal, human resources and corporate development as well as third-party professional fees, travel-related expenses, insurance, allocation of depreciation, facilities and IT support costs, amortization of software development for internal use, acquisition-related expenses and other administrative expenses. The following table sets forth a comparison of our G&A expense for the three months ended March 31 ($ in thousands):

	Three Months Ended		Change	
	2024	2023	$	%
General and administrative expense	$ 72,710	$ 72,360	$ 350	— %

G&A as a percentage of revenue was 14.2% for the three months ended March 31, 2024, compared to 15.3% for the three months ended March 31, 2023. G&A expense remained flat for the three months ended March 31, 2024, compared to the prior period. The decrease in G&A as a percentage of revenue is primarily attributed to lower share-based compensation expense as a result of a lower number of awards granted and lower facilities costs from lease restructuring compare to prior period, offset by increase in total revenue, higher amortization of software development for internal use and higher bonus expense due to improved operating results.

Research and development expense

Research and development expense consists primarily of salaries, employee benefits and related overhead costs associated with new product development. Research and development expense consists mainly of costs associated with development of new products and technologies from which we do not currently generate significant revenue.

The following table sets forth a comparison of our research and development expense for the three months ended March 31 ($ in thousands):

	Three Months Ended		Change	
	2024	2023	$	%
Research and development expense	$ 29,433	$ 26,987	$ 2,446	9 %

Research and development expense increased 9% for the three months ended March 31, 2024, compared to the prior period, mainly due to a number of product development initiatives shifting from capitalized development projects to projects that are expensed to research and development.

Amortization of other intangibles

Other intangibles are comprised of the excess of the purchase price over the fair value of net tangible assets acquired that are allocated to acquired software and customer related, trade name, and leases acquired 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 related, trade name, and leases acquired intangibles is recorded as operating expense. The estimated useful lives of other intangibles range from one to 25 years. The following table sets forth a comparison of amortization of other intangibles for the three months ended March 31 ($ in thousands):

	Three Months Ended		Change	
	2024	2023	$	%
Amortization of other intangibles	$ 18,118	$ 18,407	$ (289)	(2)%

For the three months ended March 31, 2024, amortization of other intangibles decreased compared to the prior period due to the impact of certain trade name intangibles assets becoming fully amortized as a result of accelerated amortization expense in the fourth quarter of 2023 and partially in 2024.

Interest expense

The following table sets forth a comparison of our interest expense for the three months ended March 31 ($ in thousands):

	Three Months Ended		Change	
	2024	2023	$	%
Interest expense	$ (2,184)	$ (7,684)	$ 5,500	(72)%

Interest expense is comprised of interest expense and non-usage and other fees associated with our borrowings. The change in interest expense in the three months ended March 31, 2024, compared to the prior period is primarily attributable to lower interest incurred as a result of our accelerated repayment of the term loans.

Other income, net

The following table sets forth a comparison of our other income, net, for the three months ended March 31 ($ in thousands):

	Three Months Ended		Change	
	2024	2023	$	%
Other income, net	$ 1,845	$ 1,246	$ 599	48 %

Other income, net, is primarily comprised of interest income from invested cash. The change in other income, net, in the three months ended March 31, 2024, compared to the prior period is due to increased interest income generated from invested cash as a result of higher interest rates in 2024 compared to 2023.

Income tax provision

The following table sets forth a comparison of our income tax provision for the three months ended March 31 ($ in thousands):

	Three Months Ended		Change	
	2024	2023	$	%
Income tax provision	$ 12,469	$ 7,667	$ 4,802	63 %
Effective income tax rate	18.7 %	19.9 %		

The decrease in the effective tax rate for the three months ended March 31, 2024, as compared to the prior period, is due to the increase in research tax credits and excess tax benefits related to stock incentive awards in the current year, offset by liabilities for uncertain tax positions, an increase in state income taxes, and an increase in non-deductible business expenses.

The effective income tax rates for the periods presented are different from the statutory United States federal income tax rate of 21% primarily due to research tax credits and excess tax benefits related to stock incentive awards, offset by state income taxes, liabilities for uncertain tax positions, and non-deductible business expenses.

FINANCIAL CONDITION AND LIQUIDITY

As of March 31, 2024, we had cash and cash equivalents of $188.2 million compared to $165.5 million at December 31, 2023. We also had $14.2 million invested in investment grade corporate bonds, municipal bonds and asset-backed securities as of March 31, 2024. These investments have varying maturity dates through 2027 and are held as available-for-sale. We had one outstanding letter of credit totaling $750,000 in favor of a client contract as of March 31, 2024. We believe our cash on hand, cash from operating activities, availability under our revolving line of credit, and access to the capital 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 three months ended March 31:

	2024	2023
Cash flows provided (used) by:		
Operating activities	$ 71,839	$ 74,709
Investing activities	(12,681)	(600)
Financing activities	(36,414)	(117,121)
Net increase (decrease) in cash and cash equivalents	$ 22,744	$ (43,012)

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

For the three months ended March 31, 2024, operating activities provided cash of $71.8 million. Operating activities that provided cash were primarily comprised of net income of $54.2 million, non-cash depreciation and amortization charges of $40.1 million, non-cash share-based compensation expense of $26.9 million and non-cash amortization of operating lease right-of-use assets of $2.5 million. Working capital, excluding cash, decreased approximately $51.8 million mainly due to the decline in deferred revenue balances, timing of prepaid renewals, timing of bonus payments, timing of payroll related tax payments, and decreases in operating lease liabilities and deferred taxes associated with stock option activity during the period. These decreases were offset by the timing of income tax payments and timing of collections of annual maintenance renewals and subscription renewal billings that are billed in the fourth quarter. In general, changes in deferred revenue are cyclical and primarily driven by the timing of our maintenance renewal billings. Our renewal dates occur throughout the year, but our largest renewal billing cycles occur in the second and fourth quarters. Subscription renewals are billed throughout the year.

Investing activities used cash of approximately $12.7 million in the three months ended March 31, 2024. We received $3.3 million in proceeds from investment grade corporate bonds, municipal bonds and asset-backed securities. Approximately $7.4 million of software development costs were capitalized. Approximately $7.3 million was invested in property and equipment, including $2.7 million related to real estate. We also paid $1.3 million primarily for working capital holdbacks related to acquisitions completed in 2023.The remaining additions were for computer equipment and furniture and fixtures in support of growth.

Financing activities used cash of $36.4 million in the three months ended March 31, 2024, which is attributable to repayment of $50.0 million of term debt, partially offset by payments received from stock option exercises, net of withheld shares for taxes upon vesting of equity awards and employee stock purchase plan activity.

In February 2019, our board of directors authorized the repurchase of 1.5 million shares of our common stock. The repurchase program, which was approved by our board of directors, was originally announced in October 2002 and was amended at various times from 2003 through 2019. As of April 24, 2024, we have authorization from our board of directors to repurchase up to 2.2 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.

As of March 31, 2024, we had $600 million in outstanding principal for the Convertible Senior Notes due 2026.

We repaid all amounts due under the Term Loans and have no outstanding borrowings under the 2021 Revolving Credit Facility with an available borrowing capacity of $500 million as of March 31, 2024. As of March 31, 2024, we had one outstanding letter of credit totaling $750,000. The letter of credit, which guarantees our performance under a client contract, renews annually and expires in the third quarter of 2026.

In the three months ended March 31, 2024, and 2023, we paid interest of $1.7 million. See Note 8, "Debt," to the condensed consolidated financial statements for discussions of the Convertible Senior Notes and the Amended 2021 Credit Agreement.

We received income tax refunds, net of taxes paid, of $680,000 and $548,000 in the three months ended March 31, 2024, and 2023, respectively. In the three months ended March 31, 2024, stock option exercise activity generated net tax benefits of $2.7 million and reduced tax payments accordingly, as compared to $703,000 in the same period in 2023.

We anticipate that 2024 capital spending will be between $48 million and $50 million, including approximately $30 million of software development. We expect the majority of the other capital spending will consist of computer equipment and software for infrastructure replacements and expansion. Capital spending and cash tax payments are expected to be funded from existing cash balances and cash flows from operations.

We lease office facilities for use in our operations, as well as transportation and other equipment. Most of our leases are non-cancelable operating lease agreements with remaining terms of one to 11 years. Some of these leases include options to extend for up to six years.

Other than the accelerated repayment of $50.0 million of the Term Loans under the amended 2021 Credit Agreement, there were no material changes to our future minimum contractual obligations since December 31, 2023, as previously disclosed in our Annual Report on Form 10-K filed with the SEC on February 21, 2024. Our estimated future obligations consist of debt, uncertain tax positions, leases, and purchase commitments as of March 31, 2024. Refer to Note 8, “Debt,” Note 12, “Income Tax,” Note 15, “Leases,” and Note 17, “Commitment and Contingencies,” to the condensed consolidated financial statements for related discussions.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of loss that may affect us due to adverse changes in financial market prices and interest rates.

During the three months ended March 31, 2024, the effective interest rate for our borrowings was 8.66%. In accordance with our amended 2021 Credit Agreement, the borrowings under the Revolving Credit Facility bear interest, at the Company's option, at a per annum rate of either (1) the Administrative Agent's prime commercial lending rate plus a margin of 0.125% to 0.75% or (2) the one-, three-, six-, or, subject to approval by all lenders, twelve-month SOFR rate plus a margin of 1.125% to 1.75%.

As of March 31, 2024, we had no outstanding borrowings under the amended 2021 Credit Agreement with available borrowing capacity under the 2021 Credit Agreement of $500.0 million and therefore are not subject to any interest risk.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act) designed to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. These include controls and procedures designed to ensure that this information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosures. Management, with the participation of the chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2024. Based on this evaluation, the chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective as of March 31, 2024.

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended March 31, 2024, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

ITEM 1. Legal Proceedings

During the first quarter of 2022, we received a notice of termination for convenience under a contractual arrangement with a state government client. Upon receipt of the termination notice, we ceased performing services under the contractual arrangement and sought payment of contractually owed fees of approximately $15 million in connection with the termination for convenience.

The client was unresponsive to our outreach for several months. On August 23, 2022, we filed a lawsuit to enforce our rights and remedies under the applicable contractual arrangement. At the client's invitation, we then engaged directly with the client on payment resolution. The engagement was not successful. On March 20, 2024, reinitiated our lawsuit. Although we believe our products and services were delivered in accordance with the terms of our contract and that we are entitled to payment in connection with the termination for convenience, at this time the matter remains unresolved. We can provide no assurances that we will not incur additional costs as we pursue our rights and remedies under the contract.

ITEM 1A. Risk Factors

In addition to the other information set forth in this report, one should carefully consider the discussion of various risks and uncertainties contained in Part I, “Item 1A. Risk Factors” in our 2023 Annual Report on Form 10-K. We believe those risk factors are the most relevant to our business and could cause our results to differ materially from the forward-looking statements made by us. Please note, however, that those are not the only risk factors facing us. Additional risks that we do not consider material, or of which we are not currently aware, may also have an adverse impact on us. Our business, financial condition and results of operations could be seriously harmed if any of these risks or uncertainties actually occurs or materializes. In that event, the market price for our common stock could decline, and our shareholders may lose all or part of their investment. During the three months ended March 31, 2024, there were no material changes in the information regarding risk factors contained in our Annual Report on Form 10-K for the year ended December 31, 2023.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

ITEM 3. Defaults Upon Senior Securities

None

ITEM 4. Mine Safety Disclosures

None

ITEM 5. Other Information

(c) Trading Plans

None

ITEM 6. Exhibits

Exhibit 31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certifications Pursuant Certifications Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 101.INS	Inline XBRL Instance Document - the Instance Document does not appear in the interactive data file because its XBRL tags, including Cover Page XBRL tags, are embedded within the Inline XBRL Document.
Exhibit 101.SCH	Inline XBRL Taxonomy Extension Schema Document.
Exhibit 101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
Exhibit 101.LAB	Inline XBRL Extension Labels Linkbase Document.
Exhibit 101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
Exhibit 101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
Exhibit 104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

*File herewith

SIGNATURES

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

TYLER TECHNOLOGIES, INC.

By: /s/ Brian K. Miller

Brian K. Miller

Executive Vice President and Chief Financial Officer

(principal financial officer and an authorized signatory)

Date: April 24, 2024