TYLER TECHNOLOGIES INC
Form DEF 14A
March 30, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.   )

Filed by the Registrant ¨ Filed by a Party other than the Registrant ¨
Check the appropriate box:

¨ Preliminary Proxy Statement

¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material under § 240.14a-12

TYLER TECHNOLOGIES INC

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

April 8, 2016

Dear Stockholder:

You are cordially invited to attend the annual meeting of stockholders of Tyler Technologies, Inc. to be held on Wednesday, May 11, 2016, at The Westin Stonebriar, 1549 Legacy Drive, Frisco, Texas 75034, commencing at 9:30 a.m., local time. Details of the business to be conducted are given in the attached Notice of Annual Meeting and Proxy Statement.

Whether or not you attend the annual meeting, it is important that your shares be represented and voted. Therefore, I urge you to sign, date, and return the enclosed proxy or vote through the Internet at your earliest convenience. If you decide to attend, you will be able to vote in person, even if you have previously submitted your proxy.

On behalf of the Board of Directors, I would like to express our appreciation for your continued interest in Tyler Technologies.

Yours very truly,

/s/ John M. Yeaman

JOHN M. YEAMAN
Chairman of the Board

TYLER TECHNOLOGIES, INC.

5101 Tennyson Parkway

Plano, Texas 75024

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held May 11, 2016

To the Stockholders of

TYLER TECHNOLOGIES, INC.:

The annual meeting of stockholders will be held at The Westin Stonebriar, 1549 Legacy Drive, Frisco, Texas 75034, on Wednesday, May 11, 2016, at 9:30 a.m., local time. At the meeting, you will be asked to:

(1) elect nine directors to serve until the next annual meeting or until their respective successors are duly elected and qualified;
(2) ratify the selection of our independent auditors for fiscal year 2016; and
(3) transact such other business as may properly come before the meeting.

Only stockholders of record on March 18, 2016 may vote at the annual meeting. A list of those stockholders will be available for examination at our corporate headquarters, 5101 Tennyson Parkway, Plano, Texas 75024, from May 2 through May 11, 2016.

Please sign and date the enclosed proxy card and return it promptly in the enclosed envelope or vote through the Internet as described on the enclosed proxy card. No postage is required if the proxy card is mailed in the United States. Your prompt response will reduce the time and expense of solicitation.

The enclosed 2015 Annual Report does not form any part of the proxy solicitation material.

By Order of the Board of Directors

/s/ H. Lynn Moore Jr.

H. Lynn Moore Jr.
Executive Vice President,
General Counsel and Secretary

Plano, Texas

April 8, 2016

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THE ANNUAL MEETING

General Information

The annual meeting will be held at The Westin Stonebriar, 1549 Legacy Drive, Frisco, Texas 75034, on Wednesday, May 11, 2016, at 9:30 a.m., local time. At the annual meeting, you will be asked to consider and vote upon the following proposals:

- Proposal One – Election of nine directors; and
- Proposal Two – Ratification of Ernst & Young LLP as our independent auditors for fiscal year 2016; and

At the 2011 annual meeting, our stockholders voted, on an advisory basis, in favor of holding future stockholder voting on executive compensation every three years. Our Board of Directors decided to follow our stockholders' recommendation. At the 2014 annual meeting, our stockholders voted, on an advisory basis, in favor of our executive compensation. An advisory vote on executive compensation will be submitted to our stockholders at the 2017 annual meeting.

Only stockholders of record on March 18, 2016 are entitled to vote at the annual meeting. On March 18, 2016, we had 36,194,214 shares of common stock issued and outstanding. Each stockholder will be entitled to one vote, in person or by proxy, for each share of common stock held in his or her name. A majority of our shares of common stock must be present, either in person or by proxy, to constitute a quorum for action at the annual meeting.

If your shares are held in "street name" (the name of a broker, bank, or other nominee), you have the right to direct your broker, bank, or nominee how to vote. If you do not provide voting instructions, under New York Stock Exchange rules, your broker, bank, or nominee may only vote your shares on "discretionary" items. Proposal Two is considered a discretionary item and may be voted in the absence of instructions. Proposal One is a "non-discretionary" item. Your broker, bank, or nominee may not vote your shares on these items in the absence of voting instructions, which will result in "broker non-votes" with respect to your shares.

Abstentions and broker non-votes are counted for purposes of determining a quorum. Abstentions are counted in tabulating the votes cast on any proposal, but are not counted as votes either for or against a proposal. Broker non-votes are not counted as votes cast for purposes of determining whether a proposal has been approved.

This proxy statement and accompanying form of proxy are first being sent to stockholders on or about April 8, 2016.

Proxy Solicitation, Revocation, and Expense

The accompanying proxy is being solicited on behalf of the Board of Directors. Your shares will be voted at the annual meeting as you direct in the enclosed proxy or through the Internet, provided that the proxy is completed, signed, and returned to us prior to the annual meeting. No proxy can vote for more than nine nominees for director. If you return a proxy but fail to indicate how you wish your shares to be voted, then your shares will be voted in favor of each of the nominees for director.

After you sign and return your proxy, you may revoke it prior to the meeting either by (i) filing a written notice of revocation at our corporate headquarters, (ii) attending the annual meeting and voting your shares in person, or (iii) delivering to us another duly executed proxy that is dated after the initial proxy.

We will bear the expense of preparing, printing, and mailing the proxy solicitation material and the proxy. In addition to use of the mail, we may solicit proxies by personal interview or telephone by our directors, officers, and employees. We may also engage the services of a proxy solicitation firm to assist us in the solicitation of proxies. We estimate that the fee of any such firm will not exceed $25,000 plus reimbursement of reasonable out-of-pocket expenses. Arrangements may also be made with brokerage houses and other custodians, nominees, and fiduciaries for the forwarding of solicitation material to record stockholders, and we may reimburse them for their reasonable out-of-pocket expenses.

PROPOSALS FOR CONSIDERATION

Proposal One – Election of Directors

At the annual meeting, you will be asked to elect a board of nine directors. The nominees for director are: Donald R. Brattain; Glenn A. Carter; Brenda A. Cline; J. Luther King Jr.; Larry D. Leinweber; John S. Marr Jr.; Daniel M. Pope; Dustin R. Womble; and John M. Yeaman. Mr. Pope is a new nominee for the Board of Directors; each of the other nominees currently serves on our Board of Directors. For more information regarding these nominees and their qualifications, see "Tyler Management." Each nominee has indicated that he or she is able and willing to serve as a director. If any of the nominees becomes unable to serve prior to the meeting, the persons named in the enclosed proxy will vote the shares covered by your executed proxy for a substitute nominee as selected by the Board of Directors.

Under our bylaws, directors must be elected by a majority of the votes cast in uncontested elections. This means that the number of votes cast "for" a director nominee must exceed the number of votes cast "against" that nominee. Abstentions and broker non-votes are not counted as votes "for" or "against" a director nominee. Any nominee who does not receive a majority of votes cast "for" his or her election would be required to tender his or her resignation promptly following the failure to receive the required vote. Within 90 days of the certification of the shareholder vote, the Nominating and Governance Committee would then be required to make a recommendation to the Board as to whether the Board should accept the resignation, and the Board would be required to decide whether to accept the resignation and to disclose its decision-making process. In a contested election, the required vote would be a plurality of votes cast.

Our Board of Directors unanimously recommends that the stockholders vote FOR each of the nominees for director.

Proposal Two – Ratification of Ernst & Young LLP as Our Independent Auditors for Fiscal Year 2016

The Audit Committee has selected Ernst & Young LLP, independent registered public accounting firm, as our independent auditors for fiscal year 2016, subject to ratification by the stockholders. The affirmative vote of a majority of the shares present or represented by proxy and voting at the annual meeting is required to ratify Ernst & Young LLP as our independent auditors for fiscal year 2016.

Ernst & Young LLP served as our independent auditors for fiscal years 2015 and 2014. A representative of Ernst & Young LLP is expected to be present at the annual meeting. That representative will have an opportunity to make a statement, if desired, and will be available to respond to appropriate questions.

Ernst & Young's fees for all professional services during each of the last two fiscal years were as follows:

	2015	2014
Audit Fees	$1,355,000	$1,100,000
Audit-Related Fees	314,000	40,000
Other	174,000	—
Tax Fees	3,000	35,000
Total	$1,846,000	$1,175,000

Audit Fees. Fees for audit services include fees associated with the annual audit, the review of our interim financial statements, and the auditor's opinions related to internal control over financial reporting required by Section 404 of the Sarbanes-Oxley Act.

Audit-Related Fees. Fees for audit-related services generally include fees for accounting consultations and Securities and Exchange Commission ("SEC") filings.

Other Fees. Other fees in 2015 included accounting consultation and due diligence services necessary to complete an acquisition.

Tax Fees. Fees for tax services include fees for tax consulting and tax compliance.

The Audit Committee approved all of the independent auditor engagements and fees presented above. Our Audit Committee Charter requires that the Audit Committee pre-approve all audit and non-audit services provided to us by our independent auditors. All such services performed in 2015 were pre-approved by the Audit Committee. For more information on these policies and procedures, see "Board of Directors and Corporate Governance Principles – Pre-Approval Policies and Procedures for Audit and Non-Audit Services."

Our Board of Directors unanimously recommends that the stockholders vote FOR the ratification of Ernst & Young LLP as our independent auditors for fiscal year 2016.

TYLER MANAGEMENT

Director Nominees and Executive Officers

Below is a brief description of our director nominees and executive officers. Each director holds office until our next annual meeting or until his or her successor is elected and qualified. Executive officers are elected annually by the Board of Directors and hold office until the next annual Board meeting or until his or her successors are elected and qualified.

John M. Yeaman, 75

Position, Principal Occupation and Business Experience:

Mr. Yeaman has served as Chairman of the Board since July 2004. From April 2002 until July 2004, Mr. Yeaman served as President and Chief Executive Officer; from March 2000 until April 2002, he served as President and Co-Chief Executive Officer; and from December 1998 until March 2000, he was President and Chief Executive Officer. Mr. Yeaman was elected to our Board of Directors in February 1999. Mr. Yeaman also serves as Chairman of the Executive Committee. From 1980 until 1998, Mr. Yeaman was associated with Electronic Data Systems Corporation ("EDS"). Mr. Yeaman began his career with Eastman Kodak Company.

Key Attributes, Experience and Skills:

President of Tyler from 1998 through 2004

Over 19 years of public company executive experience at EDS

John S. Marr Jr., 56

Position, Principal Occupation and Business Experience:

Mr. Marr has served as President and Chief Executive Officer since July 2004. Mr. Marr also serves on the Executive Committee. From July 2003 until July 2004, Mr. Marr served as Chief Operating Officer. Mr. Marr has served on our Board of Directors since May 2002. Mr. Marr also served as President of MUNIS, Inc. ("MUNIS") from 1994 until July 2004. Mr. Marr began his career in 1983 with MUNIS, a provider of a wide range of software products and related services for county and city governments, schools, and not-for-profit organizations, with a focus on integrated financial systems. We acquired MUNIS in 1999.

Key Attributes, Experience and Skills:

Chief Executive Officer of Tyler since 2004

Over 32 years of specific industry experience, including chief executive experience with MUNIS

Outside board experience as a former director of Mercy Hospital in Portland, Maine

Donald R. Brattain, 75

Position, Principal Occupation and Business Experience:

Mr. Brattain has served as a director since 2004. Mr. Brattain also is a member of the Audit Committee, the Compensation Committee and the Nominating and Governance Committee. Since 1985, Mr. Brattain has served as President of Brattain & Associates, LLC, a private investment company founded by Mr. Brattain and located in Minneapolis, Minnesota. From 1981 until 1988, Mr. Brattain purchased and operated Barefoot Grass Lawn Service Company, a company that grew from $3.2 million in sales to over $100 million in sales and was sold to ServiceMaster, Ltd. in 1998.

Key Attributes, Experience and Skills:

Private investment management experience as President of Brattain & Associates, LLC

Executive and entrepreneurial experience in growth of a small business enterprise from $3.2 million in sales to over $100 million in sales

Glenn A. Carter, 60

Position, Principal Occupation and Business Experience:

Mr. Carter has served as a director since 2014. Mr. Carter also serves as Chairman of the Nominating and Governance Committee and is a member of the Compensation Committee. In 1999, Mr. Carter founded DataProse, Inc., a provider of billing services to the public sector, primarily cities, counties, local government, utilities, and water-related entities. Mr. Carter served as Chief Executive Officer of DataProse until April 2008, when he sold it to CSG Systems International, Inc. (“CSG”). From April 2008 through March 2010, Mr. Carter served as Vice President, Market and Business Development for CSG. Mr. Carter is currently retired.

Key Attributes, Experience and Skills:

Executive and entrepreneurial experience as founder of DataProse, Inc.

Public sector experience as CEO of DataProse, Inc.

Brenda A. Cline, 55

Position, Principal Occupation and Business Experience:

Ms. Cline has served as a director since 2014. Ms. Cline also serves as Chairman of the Audit Committee and is a member of the Nominating and Governance Committee. Since 1993, Ms. Cline has served as Executive Vice President, Chief Financial Officer, Treasurer, and Secretary of the Kimbell Art Foundation, a private foundation that owns and operates the Kimbell Art Museum, Fort Worth, Texas. In such capacities, Ms. Cline oversees the foundation’s investment portfolio of over $400 million, including asset allocation, risk management, and investment performance; manages all treasury functions; and supervises all foundation and museum business operations, including budgeting, cash management, employee benefit plans, insurance, debt issuance and compliance, financial reporting, and contractual and legal matters. Ms. Cline has also served as an Independent Trustee of American Beacon Funds since 2004 and currently serves as the Chair of the Audit and Compliance Committee and formerly served as the Vice Chair of the Investment Committee. From 1993 until 2013, Ms. Cline served as a contract author for Thomson Reuters (formerly “Practitioners Publishing Company”), Fort Worth, Texas, writing and editing published financial accounting and reporting books. Since 1998, Ms. Cline has also served as a Trustee of Texas Christian University (“TCU”), Fort Worth, Texas. Ms. Cline services for TCU includes serving as the current Chair of the Investment Committee, member of the Audit Committee and Executive Committee, and former member of the Student Relations Committee. Ms. Cline also serves as a director of Range Resources Corporation (NYSE: RRC), and is a member of Range Resources Corporation’s audit committee. Ms. Cline is a certified public accountant.

Key Attributes, Experience and Skills:

Executive operational and investment management experience for the Kimbell Art Foundation

Fiduciary and executive experience as a university trustee and other senior university committees

Audit experience with a large public accounting firm

J. Luther King Jr., 76

Position, Principal Occupation and Business Experience:

Mr. King has served as a director since 2004. Mr. King also serves as Chairman of the Compensation Committee and is also a member of the Audit Committee. Mr. King is the Chief Executive Officer and President of Luther King Capital Management, a registered investment advisory firm that he founded in 1979. Mr. King also serves in leadership positions with various private and non-profit entities and foundations, including Texas Christian University (member of Board of Trustees), LKCM Funds (trustee), Hunt Forest Products, Inc., and King Ranch, Inc. Mr. King is a CFA charterholder and a Charted Investment Counselor.

Key Attributes, Experience and Skills:

Executive equity management experience as founder of Luther King Capital Management

Outside board experience as a past director of Encore Energy Partners GP, LLC and other institutions

Experience as a university trustee

Larry D. Leinweber, 74

Position, Principal Occupation and Business Experience:

Mr. Leinweber has served as a director since November 2015. Mr. Leinweber founded New World Systems Corporation ("NWS"), a leading provider of application software, hardware, training and support to local government and public safety agencies, in 1981, and served as its President and Chief Executive Officer until November 2015, when we acquired NWS. Prior to founding NWS, Mr. Leinweber served as President and Chief Executive Officer for a software and service division of Citicorp, and he also was a co-founder and President of Advanced Computer Management Corporation. Mr. Leinweber also serves as a director of Forward Air Corporation (Nasdaq: FWRD), and is a member of Forward Air's Compensation Committee and Corporate Governance and Nominating Committee.

Key Attributes, Experience and Skills:

Over 35 years of executive and operational management experience in the software and technology industry for local government

Outside board experience as a director of Forward Air Corporation

Daniel M. Pope, 53

Position, Principal Occupation and Business Experience:

Mr. Pope is a nominee for director. Mr. Pope has served as Chief Development Officer of Covenant Health System in Lubbock, Texas since October 2014. From 1994 through 2014, Mr. Pope served as the Chief Executive Officer of Benchmark Business Solutions, an office technology business he founded in 1994. Prior to founding Benchmark, Mr. Pope served in various sales and leadership roles for Xerox Corporation. Mr. Pope also served on the Covenant Health System Board of Trustees from 2007 through 2011, including Chairman of the Board from 2010 through 2011, and as a member of the Finance and Conflicts Committee and the Compensation Committee. Mr. Pope has served on the Lubbock Independent School District Board of Directors since 2007, currently serving as President. Mr. Pope also serves on the Rawls College of Business Advisory Council at Texas Tech University.

Key Attributes, Experience and Skills:

Over 20 years of senior-level executive experience

Public sector executive experience as President of the Lubbock Independent School District Board of Directors

Dustin R. Womble, 56

Position, Principal Occupation and Business Experience:

Mr. Womble has served as a director since 2005. Mr. Womble has been Executive Vice President in charge of corporate-wide product strategy since July 2006. Mr. Womble also serves on the Executive Committee. From July 2003 to June 2006, Mr. Womble was Executive Vice President in charge of corporate-wide product strategy and President of our Local Government Division. In 1982, Mr. Womble founded INCODE, Inc. ("INCODE"), a provider of a wide range of software products and related services principally for county and city governments. We acquired INCODE (now our Local Government Division) in 1998, and Mr. Womble served as President of INCODE from 1998 to July 2003.

Key Attributes, Experience and Skills:

Senior-level executive experience at Tyler since 2003

Over 34 years of specific industry experience as founder of INCODE

Brian K. Miller, 57

Position, Principal Occupation and Business Experience:

Brian Miller has been Executive Vice President - Chief Financial Officer and Treasurer since February 2008. From May 2005 until February 2008, Mr. Miller served as Senior Vice President – Chief Financial Officer and Treasurer. He previously served as Vice President – Finance and Treasurer from May 1999 to April 2005 and was Vice President - Chief Accounting Officer and Treasurer from December 1997 to April 1999. From June 1986 through December 1997, Mr. Miller held various senior financial management positions at Metro Airlines, Inc. (“Metro”), a publicly-held regional airline holding company operating as American Eagle. Mr. Miller was Chief Financial Officer of Metro from May 1991 to December 1997 and also held the office of President of Metro from January 1993 to December 1997. Mr. Miller is a certified public accountant.

H. Lynn Moore Jr., 48

Position, Principal Occupation and Business Experience:

Mr. Moore has been General Counsel since September 1998, Secretary since October 2000, and Executive Vice President since February 2008. He previously served as Vice President from October 2000 until February 2008. From August 1992 to August 1998, Mr. Moore was associated with the law firm of Hughes & Luce, L.L.P. in Dallas, Texas where he represented numerous publicly-held and privately-owned entities in various corporate and securities, finance, litigation, and other legal related matters. Mr. Moore is a member of the State Bar of Texas.

Board Diversity and Director Nominee Qualifications

Our Corporate Governance Guidelines include the criteria our Board of Directors believes are important in the selection of director nominees, which includes the following qualifications:

- sound personal and professional integrity;
- an inquiring and independent mind;
- practical wisdom and mature judgment;
- broad training and experience at the policy-making level of business, finance and accounting, government, education, or technology;
- expertise that is useful to the company and complementary to the background and experience of other Board members, so that an optimal balance of Board members can be achieved and maintained;
- willingness to devote the required time to carrying out the duties and responsibilities of board membership;
- commitment to serve on the Board for several years to develop knowledge about our business;
- willingness to represent the best interests of all stockholders and objectively appraise management performance; and
- involvement only in activities or interests that do not conflict with the director's responsibilities to the company or our stockholders.

In identifying nominees for director, the Board of Directors focuses on ensuring that it reflects a diversity of experiences and backgrounds that will complement our business and enhance the function of the Board. The Board prefers a mix of background and experience among its members. The Board has not adopted a formal policy with respect to its consideration of diversity and does not follow any ratio or formula to determine the appropriate mix; rather, it uses its judgment to identify nominees whose backgrounds, attributes, and experiences, taken as a whole, will contribute to the high standards of board service. Following the 2016 annual meeting, our Board of Directors will be composed of nine individuals, consisting of six independent directors and three employee directors. We believe the mix of outside experience from our independent directors coupled with the specific industry experience of our employee directors provides an appropriate diversity of experience to effectively manage our business. In addition, each independent director has extensive chief executive officer or other executive leadership position experience with businesses of varying size in various industries. A substantial majority of our directors have valuable experience in building and sustaining a successful business enterprise.

The Nominating and Governance Committee believes that the above-mentioned attributes and business experience provide us with the perspectives and judgment necessary to guide our strategies and monitor their execution.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE PRINCIPLES

General Information

Our Board of Directors is responsible for supervision of the company's overall affairs. To assist it in carrying out its duties, the Board has delegated certain authority to several committees. See "Board of Directors and Corporate Governance Principles – Committees and Meetings of the Board of Directors." Following the 2016 annual meeting, the Board will consist of nine directors, including six independent directors.

Corporate Governance Guidelines

Our Board of Directors has adopted a number of corporate governance guidelines, including the following:

- Independence Standards, which determine the independence of our non-employee directors. These standards are consistent with the independence standards set forth in Rule 303A.02 of the New York Stock Exchange Listed Company Manual.
- Corporate Governance Guidelines, which include, among other things:
- annual submission of independent auditors to stockholders for approval;
- formation of a Nominating and Governance Committee comprised solely of independent directors;
- prohibition of stock option repricing;
- formalization of the ability of independent directors to retain outside advisors;
- performance of periodic formal Board evaluation; and
- limitation on the number of additional public company boards on which a director may serve to a maximum of four.

A copy of our Corporate Governance Guidelines may be found on our website, www.tylertech.com.

- An Audit Committee Charter, which requires, among other things, that the committee be comprised solely of independent directors (as defined by the New York Stock Exchange), at least one of whom will qualify as an "audit committee financial expert" as set forth in Item 401(h) of the SEC's Regulation S K. A copy of our Audit Committee Charter may be found on our website, www.tylertech.com.
- A Compensation Committee Charter, which requires, among other things, that the committee be comprised solely of independent directors and sets forth the guidelines for determining executive compensation. A copy of our Compensation Committee Charter may be found on our website, www.tylertech.com.
- A Nominating and Governance Committee Charter, which requires, among other things, that the committee be comprised of at least three independent directors who are responsible for recommending candidates for election to the Board of Directors. A copy of our Nominating and Governance Committee Charter may be found on our website, www.tylertech.com.

Code of Business Conduct and Ethics

Our Board of Directors has adopted a Code of Business Conduct and Ethics that applies to all of our directors, executive officers (including, without limitation, the chief executive officer, chief financial officer, principal accounting officer, and controller), and employees. The purpose of the Code of Business Conduct and Ethics is to promote:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- full, fair, accurate, timely, and understandable disclosure in our public communications and reports filed with the SEC;
- compliance with applicable governmental laws, rules, and regulations;
-

prompt internal reporting of violations of the policy to the appropriate persons designated therein, including anonymous "whistleblower" provisions; and

- accountability for adherence to the policy.

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A copy of our Code of Business Conduct and Ethics may be found on our website, www.tylertech.com, or will be furnished, without charge, upon written request at our principal executive offices. We will promptly post on our website any future amendments or waivers related to our Code of Business Conduct and Ethics.

Board Independence

Our Board of Directors has determined, after considering all of the relevant facts and circumstances, that each of the non-employee directors standing for election (Mr. Brattain, Mr. Carter, Ms. Cline, Mr. King, Mr. Leinweber, and Mr. Pope) has no material relationship with us (either directly or as a partner, stockholder, or officer of an organization that has a relationship with us) and is "independent" within the meaning of the New York Stock Exchange director independence standards currently in effect. As a result, if each of the nominees for director is elected at the annual meeting, our Board of Directors will be comprised of a majority of "independent" directors as required by the New York Stock Exchange. Furthermore, our Board of Directors has determined that each of the members of the Audit Committee, Compensation Committee, and Nominating and Governance Committee has no material relationship with us (either directly or as a partner, stockholder, or officer of an organization that has a relationship with us).

Committees and Meetings of the Board of Directors

Our Board of Directors has the following four standing committees: Audit Committee; Compensation Committee; Nominating and Governance Committee; and Executive Committee. Each committee (other than the Executive Committee) has a written charter, which may be found at our website, www.tylertech.com. Each Board member participated in at least 75% of all Board and committee meetings held during the portion of 2015 that he or she served as a director and/or committee member.

During 2015, our Board of Directors held seven meetings. In addition, our Board of Directors has established a policy under which our non-management members will meet at regularly scheduled (and in any event at least twice per fiscal year) executive sessions without management present and with Mr. Brattain presiding over such meetings.

The table below provides current membership and 2015 meeting information for each of the committees:

Name	Audit	Compensation	Nominating and Governance	Executive
Donald R. Brattain	X	X	X	
Glenn A. Carter		X	Chair	
Brenda A Cline	Chair		X	
J. Luther King Jr.	X	Chair		
Larry D. Leinweber				
John S. Marr Jr.				X
Dustin R. Womble				X
John M. Yeaman				Chair
Total Meetings in 2015	Five	Two	One	Periodically

Below is a description of each committee. Each committee has authority to engage legal counsel or other advisors or consultants as it deems appropriate to carry out its responsibilities.

Audit Committee. The Audit Committee assists the Board of Directors in its oversight of the quality and integrity of our accounting, auditing, and reporting practices. The Audit Committee's role includes:

- considering the independence of our independent auditors before we engage them;
- reviewing with the independent auditors the fee, scope, and timing of the audit;
- reviewing the completed audit with the independent auditors regarding any significant accounting adjustments, recommendations for improving internal controls, appropriateness of accounting policies, appropriateness of accounting and disclosure decisions with respect to significant unusual transactions or material obligations, and significant findings during the audit;
- performing periodic formal committee evaluations;
- reviewing our financial statements and related regulatory filings with management and the independent auditors; and
- meeting periodically with management and/or internal audit to discuss internal accounting and financial controls.

The Audit Committee is responsible for the appointment, compensation, retention, and oversight of the independent auditor engaged to prepare or issue audit reports on our financial statements and internal control over financial reporting. The Audit Committee relies on the expertise and knowledge of management and the independent auditor in carrying out its oversight responsibilities. The Board of Directors has determined that each Audit Committee member is a non-management director who satisfies the New York Stock Exchange director independence standards and has sufficient knowledge in financial and auditing matters to serve on the Audit Committee. In addition, the Board of Directors has determined that Mr. Brattain, Ms. Cline, and Mr. King are “audit committee financial experts” as defined by SEC rules.

Compensation Committee. The Compensation Committee has responsibility for defining and articulating our overall compensation philosophy and administering and approving all elements of compensation for elected corporate officers, including base salary, annual cash incentive compensation, and long-term equity incentive compensation. The Compensation Committee reports to stockholders as required by the SEC. See “Compensation Discussion and Analysis – Compensation Committee Report.” Members of the Compensation Committee are non-management directors who, in the opinion of the Board of Directors, satisfy our Independence Standards. For more information about the work of the Compensation Committee, see “Compensation Discussion and Analysis.”

Nominating and Governance Committee. The Nominating and Governance Committee’s duties include:

- identifying and recommending candidates for election to our Board of Directors;
- identifying and recommending candidates to fill vacancies occurring between annual stockholder meetings;
- reviewing the composition of Board committees;
- periodically reviewing the appropriate skills and characteristics required of Board members in the context of the current make-up of our Board of Directors; and
- monitoring adherence to our “Corporate Governance Guidelines.”

Executive Committee. The Executive Committee has the authority to act for the entire Board of Directors, but may not commit to an expenditure in excess of $5,000,000 without full Board approval.

Board Leadership Structure

The roles of Chairman of the Board and Chief Executive Officer are separate with Mr. Yeaman serving as Chairman of the Board and Mr. Marr serving as President and Chief Executive Officer. We believe it is beneficial to separate the roles of Chief Executive Officer and Chairman of the Board to facilitate their differing roles in the leadership of the company. The role of the Chairman is to set the agenda for, and preside over, Board meetings, as well as provide advice and assistance to the Chief Executive Officer. In contrast, the Chief Executive Officer is responsible for handling the company’s day-to-day management direction, serving as a leader to the management team, and formulating overall corporate strategy. Mr. Yeaman, as our Chairman and former Chief Executive Officer, brings over 17 years of experience within our industry as well as extensive outside expertise, while Mr. Marr, as a director and our Chief Executive Officer, brings over 32 years of company-specific experience and expertise. We believe that this structure allows for a balanced corporate vision and an ability to effectively execute our strategy. The Board of Directors has concluded at this time that it is not necessary to establish a lead director.

The Board’s Role in Risk Oversight

Senior management is responsible for assessing and managing our various exposures to risk on a day-to-day basis, including the creation of appropriate risk management policies and programs. The Board of Directors is responsible for overseeing management in the execution of its responsibilities and for assessing our overall approach to risk management. The Board of Directors exercises these responsibilities periodically as part of its meetings and also through its committees, each of which examines various components of enterprise risk as part of its responsibilities. The Audit Committee oversees management of financial risks, as well as our policies with respect to risk assessment and risk management. The Compensation Committee is responsible for overseeing the management of risks relating to our executive compensation plans and arrangements. The Nominating and Governance Committee manages risks associated with Board independence and potential conflicts of interest. In addition, an overall review of risk is inherent in the Board's consideration of our long-term strategies and in the transactions and other matters presented to the Board, including capital expenditures, acquisitions and divestitures, and financial matters. The Board of Directors' role in risk oversight is consistent with our leadership structure, with the Chief Executive Officer and other members of senior management having responsibility for assessing and managing our risk exposure, and the Board and its committees providing oversight in connection with these efforts.

Audit Committee Financial Expert

Our Board of Directors determined that each member of the Audit Committee (Mr. Brattain, Ms. Cline, and Mr. King) possesses the attributes necessary to qualify as an “audit committee financial expert” as set forth in Item 401(h) of the SEC’s Regulation S-K.

Pre-Approval Policies and Procedures for Audit and Non-Audit Services

The Audit Committee Charter requires that the Audit Committee pre-approve all of the audit and non-audit services performed by our independent auditors. The purpose of these pre-approval procedures is to ensure that the provision of services by our independent auditors does not impair their independence. Each year, the Audit Committee receives fee estimates from our independent auditors for each category of services to be performed by the independent auditors during the upcoming fiscal reporting year. These categories of services include Audit Services, Audit-Related Services, Tax Services, and All Other Services. Upon review of the types of services to be performed and the estimated fees related thereto, the Audit Committee will determine which services and fees should be pre-approved for a period of twelve months. The Audit Committee may periodically review the list of pre-approved services based on subsequent determinations. Unless a type of service to be provided by the independent auditor has received general pre-approval, it will require specific pre-approval by the Audit Committee (or delegated member of the Audit Committee) prior to the performance of such service. Any proposed services exceeding the pre-approved cost levels will also require specific pre-approval by the Audit Committee (or delegated member of the Audit Committee).

Director Nominating Process

The Nominating and Governance Committee is responsible for reviewing and interviewing qualified candidates to serve on our Board of Directors and to select both “independent” as well as management nominees for director to be elected by our stockholders at each annual meeting. The Nominating and Governance Committee is comprised solely of independent directors and operates under a Charter for the Nominating and Governance Committee. Our Corporate Governance Guidelines include the criteria our Board of Directors believes are important in the selection of director nominees. For more information about director nominee criteria and qualifications, see “Tyler Management – Board Diversity and Director Nominee Qualifications.”

The Nominating and Governance Committee may, in the exercise of its discretion, actively solicit nominee candidates; however, nominee recommendations submitted by other directors or stockholders will also be considered as described below.

The Nominating and Governance Committee will consider qualified nominees recommended by stockholders who may submit recommendations to the committee in care of our Corporate Secretary at our corporate headquarters, 5101 Tennyson Parkway, Plano, Texas 75024. To be considered by the Nominating and Governance Committee, stockholder nominations must be submitted in accordance with our bylaws and must be accompanied by a description of the qualifications of the proposed candidate and a written statement from the proposed candidate that he or she is willing to be nominated and desires to serve, if elected. Nominees for director who are recommended by our stockholders will be evaluated in the same manner as any other nominee for director.

Nominations by stockholders may also be made at an annual meeting of stockholders in the manner provided in our bylaws. Our bylaws require that a stockholder entitled to vote for the election of directors may make nominations of persons for election to our Board at a meeting of stockholders by complying with required notice procedures. Nominations must be received at our corporate headquarters not less than 75 days or more than 85 days before any annual meeting of stockholders. If, however, notice or prior public disclosure of an annual meeting is given or made less than 75 days before the date of the annual meeting, the notice must be received no later than the 10^{th} day following the date of mailing of the notice of annual meeting or the date of public disclosure of the date of the annual meeting, whichever is earlier. The notice must specify the following:

- as to each person the stockholder proposes to nominate for election or re-election as a director:

- the name, age, business address, and residence address of the person;

- the principal occupation or employment of the person;

- the class and number of shares of our capital stock that are beneficially owned by the person;

- a description of all direct and indirect compensation and other material monetary agreements, arrangements, or understandings during the previous three years, and any other material relationships, between the stockholder and the proposed nominee; and
- any other information relating to the person that is required to be disclosed in solicitations for proxies for election of directors under Regulation 14A of the Exchange Act; and

- as to the stockholder giving notice:
- the name and record address of the stockholder and any other stockholder known to be supporting the nominee;
- the class and number of shares of our capital stock that are beneficially owned by the stockholder making the nomination and by any other supporting stockholders; and
- any proxy, contract, arrangement, understanding, or relationship pursuant to which the stockholder has a right to vote any company shares.

We may require that the proposed nominee furnish us with other information as we may reasonably request to assist us in determining the eligibility of the proposed nominee to serve as a director. At any meeting of stockholders, the presiding officer may disregard the purported nomination of any person not made in compliance with these procedures.

Communications with Our Board of Directors

Any stockholder or interested party who wishes to communicate with our Board of Directors or any specific directors, including non-management directors, may write to:

Board of Directors

Tyler Technologies, Inc.

5101 Tennyson Parkway

Plano, Texas 75024

Depending on the subject matter, management will:

- forward the communication to the director or directors to whom it is addressed (for example, if the communication received relates to our "whistleblower policy" found on our website, www.tylertech.com, including questions, concerns, or complaints regarding accounting, internal accounting controls, and auditing matters, it will be forwarded by management to the Chairman of the Audit Committee for review);
- attempt to handle the inquiry directly (for example, if the communication is a request for information about us or our operations or it is a stock-related matter that does not appear to require direct attention by our Board of Directors); or
- not forward the communication if it is primarily commercial in nature or if it relates to an improper or irrelevant topic.

At each meeting of our Board of Directors, our Chairman will present a summary of all communications received since the last meeting of the Board of Directors that were not forwarded and will make those communications available to any director on request.

Director Attendance at Annual Meetings

Directors are not required to attend our annual meetings of stockholders. However, our Board of Directors typically holds a meeting immediately following the annual meeting of stockholders. Therefore, in most cases, all of our director nominees will be present at the annual meeting. All of our director nominees were present at the 2015 annual meeting of stockholders.

SECURITIES OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information concerning the beneficial ownership of our common stock as of March 18, 2016 by (i) each beneficial owner of more than 5% of our common stock, (ii) each director and nominee, (iii) each "Named Executive Officer" (as defined in the SEC's Regulation S-K), and (iv) all of our executive officers and directors as a group.

Security Ownership of Directors and Management

Name and Address of Beneficial Owner (1)	Direct (2)		Options Exercisable Within 60 Days (3)	Other (4)		Total	Percent of Class (5)	
BlackRock, Inc. 40 East 52nd Street New York, NY 10022	2,936,263	(6)	—	—		2,936,263	8.1	%
The Vanguard Group 100 Vanguard Blvd. Malvern, PA 19355	2,223,970	(7)	—	—		2,223,970	6.1	%
Brown Capital Management, LLC 1201 N. Calvert Street Baltimore, MD 21202	1,863,242	(8)	—	—		1,863,242	5.1	%
Neuberger Berman Group LLC 605 Third Avenue New York, NY 10158	1,684,512	(9)	—	—		1,684,512	4.7	%
Directors and Nominees								
Donald R. Brattain	12,720		19,133	—		31,853	*	
Glenn A. Carter	500		8,332	—		8,832	*	
Brenda A. Cline	—		8,332	—		8,332	*	
J. Luther King, Jr.	63,852		35,833	189,329	(10)	289,014	*	
Larry D. Leinweber	1,486,437		—	447,252	(11)	1,933,689	5.3	%
John M. Yeaman	317,255		151,195	7,300	(12)	475,750	1.3	%
Daniel M. Pope	—		—	—		—	*	
Named Executive Officers								
John S. Marr Jr.	243,910		430,212	127,527	(13)	801,649	2.2	%
Dustin R. Womble	215,878		341,890	—		557,768	1.5	%
Brian K. Miller	60,979		100,360	7,300	(14)	168,639	*	
H. Lynn Moore Jr.	56,591		178,538	—		235,129	*	
All directors, nominees and executive officers as a group (11 persons)	2,458,122		1,273,825	778,708		4,510,655	12.0	%

*Less than one percent of our outstanding common stock

(1) Unless otherwise noted, the address of each beneficial owner is our corporate headquarters: 5101 Tennyson Parkway, Plano, Texas 75024.
(2) "Direct" represents shares as to which each named individual has sole voting or dispositive power.
(3) "Options Exercisable within 60 Days" reflects the number of shares that could be purchased by exercise of options at March 18, 2016 or within 60 days thereafter.
(4) "Other" represents the number of shares of common stock as to which the named entity or individual share voting and dispositive power with another entity or individual(s).
(5) Based on 36,194,214 shares of our common stock issued and outstanding at March 18, 2016. Each stockholder's percentage is calculated by dividing (a) the number of shares beneficially owned by (b) the sum of (i) 36,194,214 plus (ii) the number of shares such owner has the right to acquire within 60 days.
(6) Based on information reported by BlackRock, Inc. on Amendment No. 6 to Schedule 13G that was filed with the SEC on January 27, 2016. BlackRock, Inc. is deemed to have beneficial ownership of all of these shares, which includes sole voting power for 2,864,626 shares and sole investment power for all 2,936,263 shares.
(7) Based on information reported by The Vanguard Group on Amendment No. 3 to Schedule 13G that was filed with the SEC on February 10, 2016. The Vanguard Group is deemed to have beneficial ownership of these shares, which includes sole voting

power of 73,353 shares, sole investment power of 2,150,717 shares, shared voting power of 1,800 shares, and shared investment power of 73,253 shares.

(8) Based on information reported by Brown Capital Management, LLC on Amendment No. 9 to Schedule 13G that was filed with the SEC on February 16, 2016. Brown Capital Management, LLC is deemed to have beneficial ownership of these shares, which includes sole voting power of 1,040,876 shares and sole investment power for all 1,863,242 shares.

(9) Based on information reported by Neuberger Berman Group LLC on Schedule 13G that was filed with the SEC on February 9, 2016. Neuberger Berman Group LLC is deemed to have beneficial ownership of these shares, which includes shared voting and dispositive power for all 1,684,512 shares.

(10) Represents shares of common stock held by clients of Luther King Capital Management, an investment advisory firm controlled by Mr. King in which he is deemed to have voting and investment power. Mr. King expressly disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein.

(11) Represents shares indirectly owned by Mr. Leinweber's wife as trustee for various trusts for the benefit of Mr. Leinweber's children and in which Mr. Leinweber is deemed to have shared voting and investment power. Mr. Leinweber expressly disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein.

(12) Common stock owned by a foundation in which Mr. Yeaman is deemed to have shared voting power.

(13) Includes: (a) 99,527 shares of common stock held in a partnership in which Mr. Marr is the general partner and has sole voting and investment power (the partnership is owned 99% by a trust in which Mr. Marr's disclaims beneficial ownership and 1% by the general partner); and (b) 28,000 shares held in a trust in which Mr. Marr has shared voting power.

(14) Common stock owned by a foundation in which Mr. Miller is deemed to have shared voting power.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act requires that our directors, executive officers, and 10% or more stockholders file with the SEC and New York Stock Exchange initial reports of ownership and reports of changes in ownership of our common stock. These persons are required to furnish us with copies of all Section 16(a) reports they file with the SEC. To our knowledge, based solely upon (i) our review of the copies of the forms we received during 2015 and (ii) written representations from our directors and executive officers, we believe that all of our directors, officers, and 10% or more stockholders complied with all Section 16(a) filing requirements during 2015, except Mr. Brattain conducted a transaction on November 17, 2015 that was reported on a Form 4 filed with the SEC on December 10, 2015, and Mr. Womble conducted transactions on October 26-28, 2015 that were reported on a Form 4 filed with the SEC on November 6, 2015.

COMPENSATION DISCUSSION AND ANALYSIS

In this Compensation Discussion and Analysis, we describe our compensation objectives, policies, and practices generally, detail the specific fiscal year 2015 total compensation for our Chief Executive Officer, Chief Financial Officer, and the two other executive officers who were the most highly compensated in fiscal year 2015 (collectively, the "Named Executive Officers"), and summarize the approved compensation of the Named Executive Officers for fiscal year 2016.

Compensation Philosophy and Objectives

Our Compensation Committee is responsible for reviewing and approving the design and administration of the executive compensation program. Our Compensation Committee believes that an effective compensation program should reward achievement of specific corporate goals and align our executives' interests with those of our stockholders by rewarding performance that meets or exceeds established goals. Our compensation philosophy is designed to attract, motivate, and retain the key executives who drive our success and industry leadership and to motivate those executives to deliver stockholder value by achieving the following overall objectives:

- Compensation should align the interests of our executives with our stockholders – compensation should link the interests of management with those of stockholders by making a substantial portion of executive compensation depend upon our long-term financial and stock performance;
- Compensation should be competitive – compensation levels should be sufficiently competitive to attract and retain superior executives by providing them with the opportunity to earn total compensation packages that are competitive in the industry;
- Compensation should be based on company performance – compensation should reward corporate performance through annual cash incentives;
- Compensation should reflect responsibility and accountability – compensation should be based on the level of skill, knowledge, effort, and responsibility needed to perform the job successfully; and
- Compensation should not incentivize excessive risk taking – the mix of compensation elements should be appropriately balanced between fixed pay, short-term annual incentive cash compensation, and long-term incentive equity compensation to minimize incentive for excessive risk taking.

To achieve these objectives, the Compensation Committee has designed a compensation program for our Named Executive Officers that balances the three primary elements of our executive compensation: annual base pay; annual incentive cash compensation; and long-term incentive equity compensation (stock options). The Compensation Committee believes that this structure encourages our executives to think and act in both the near-term and long-term interests of our stockholders, without promoting excessive risk taking.

Regarding base pay and annual cash incentive compensation, the same compensation philosophy applied by the Compensation Committee to our Named Executive Officers is also utilized by management and applied throughout the entire employee base so that all employees' incentive compensation is tied to similar goals, the difference being the amount of base pay compensation and percentage incentive compensation award in relation to base pay. Regarding long-term incentive compensation in the form of stock options, management also applies the same compensation philosophy as applied by the Compensation Committee to our Named Executive Officers to senior divisional management. We believe that the application of this consistent philosophy regarding compensation further strengthens the alignment of employees' interests with those of the stockholders.

2015 Executive Summary Overview

Our results in 2015 reflected continued improvement in both general market conditions and our competitive position. Total revenues increased 20% from $493 million in 2014 to $591 million in 2015. Our results included a 19% increase in recurring revenues from subscriptions and maintenance, and our recurring revenues accounted for approximately 61% of our total revenues in 2015. GAAP earnings per share increased 7% from $1.66 in 2014 to $1.77 in 2015. Adjusted earnings per share, which is a non-GAAP measure, increased 22% from $2.09 in 2014 to $2.54 in 2015. For a description of our adjustments to earnings per share for 2015, see “Compensation Discussion and Analysis – 2015 Named Executive Officer Compensation.” On November 16, 2015, we acquired all of the common stock of New World Systems Corporation (“New World”) for $360 million in cash and approximately 2.1 million shares of stock. New World has more than 2,000 public sector customers and more than 470 employees.

Compensation Program Actions

Our compensation program for our Named Executive Officers has three components:

- Compensation Program Design – actions related to the overall design and governance of our executive compensation program;
- Company Performance Review for Prior Fiscal Year – actions approving actual incentive cash compensation awards for the just-completed fiscal year; and
- Setting Compensation for Current Fiscal Year – actions that set future base pay and incentive compensation targets for the upcoming fiscal year.

Compensation Program Design. Each year, our Chief Executive Officer, in conjunction with the Human Resources Department, reviews the market competitiveness of our executive compensation relative to technology and broad industry peers, which is described in detail below. If the review shows that our executive compensation is not competitive, our Chief Executive Officer will recommend changes to the Compensation Committee. He may also recommend changes to the executive compensation program based on changes in the business environment in which we operate. The Compensation Committee periodically reviews the overall objectives of our executive compensation program and the elements of the program, including the mix of cash and stock-based compensation and the mix of short-term and long-term compensation, to determine whether they are appropriate, properly coordinated, and achieve their intended purposes.

Peer Group and Surveys. In September 2010, we joined the Radford Global Technology Survey (the "Radford Survey"). Nearly 2,000 technology and life science companies use the Radford Survey to benchmark their compensation practices for all levels within their organizations. Management utilizes the Radford Survey to determine the reasonableness of compensation for various levels of employees, including executives. The Compensation Committee considered comparative market data from a broad set of technology companies in the Radford Survey.

In order to provide the Compensation Committee with more detailed and specific information about executive compensation levels and practices, we established a peer group of 20 public companies of similar size in the software industry (the "Peer Group") in February 2010 to assist in determining appropriate compensation levels for the Named Executive Officers. The Peer Group companies provide perspective and reflect the external market's valuation of key executive compensation. External information is considered with internal factors such as an executive's position, experience, and responsibilities. The Peer Group is reviewed annually and adjusted as required by changes in the market.

In February 2016, we reviewed the Peer Group utilized in 2015, which revealed that two of the companies, Advent Software, Inc. and DealerTrack Holdings, Inc., had been acquired and, therefore, can no longer be considered as part of the Peer Group. Additionally, another company, Epiq Systems, Inc., no longer met the characteristics described below for a peer company. Accordingly, we identified two additional companies of similar size in the software industry as replacements. The nineteen companies in the Peer Group used to assist in setting 2016 compensation were:

Aspen Technology, Inc.	Qlik Technologies, Inc.
Athenahealth, Inc.	RealPage, Inc.
Blackbaud, Inc.	Service Now, Inc.
Guideware Software, Inc.	SolarWinds, Inc.
Jack Henry & Associates, Inc.	Solera Holdings, Inc.
J2Global, Inc.	Splunk, Inc.*
Manhattan Associates, Inc.	SS&C Technologies Holdings, Inc.

Microstrategy, Inc.	Tableau Software, Inc.*
Netscout Systems, Inc.	Ultimate Software Group, Inc.
Netsuite, Inc.	

*Indicates new peer company

In determining the appropriateness of the Peer Group, the Compensation Committee compared our performance against the following six key metrics of the Peer Group: revenues; market capitalization; net income; total assets; one-year stockholder return; and three-year stockholder return. The Compensation Committee determined that based on these metrics the Peer Group was appropriate for comparative purposes. The Compensation Committee continues to utilize the Radford Survey in addition to the Peer Group. The Compensation Committee uses market survey data like the Peer Group and Radford Survey not as a benchmark per se, but rather as a reasonableness check. This flexibility is important in designing compensation arrangements to attract and retain new executives in the highly competitive and rapidly changing market in which we compete.

Positioning of Pay. The Compensation Committee determines target total compensation for our Named Executive Officers after considering the Chief Executive Officer's recommendations and a variety of data sources, including analysis of the Peer Group and Radford Survey. We do not apply a formula that ties our total compensation levels to specific market percentiles.

Mix of Pay Elements. As described above, our philosophy is to provide a significant portion of total compensation linked to performance that we believe will create long-term stockholder value. To achieve these objectives, the executive compensation program relies on the following three elements of total compensation:

Element	Form of Compensation	Purpose	Metric
Base salary	Cash	Provide competitive, fixed compensation to attract and retain exceptional executive talent	Salaries are set each year based on the executive's position, responsibilities, experience, and retention risk. Base salary is a fixed component and is not dependent on achieving goals
Incentive cash compensation under the annual bonus plan	Cash	Create a strong financial incentive for achieving or exceeding annual financial performance goals	Achieving adjusted earnings per share goals, which are recommended by the CEO and approved by the Compensation Committee
Equity-based compensation	Stock options	Create a strong financial incentive for creating stockholder value, encourage a significant company equity stake, and provide a direct incentive for future performance	Discretionary, but set each year based on the executive's position, experience, responsibilities, and retention risk

Our executive compensation program is designed to provide an incentive and reward for the achievement of both short-term and long-term objectives. We believe that sustained achievement of measurable financial objectives leads to increased stockholder value. To achieve these objectives we use a mix of short-term compensation (base salaries and annual cash bonuses) and long-term incentives (stock options) to provide a total compensation structure that is designed to reward sustained strong performance while providing cash compensation that remains competitive for our industry. In setting the mix between the different elements of compensation, we do not target specific allocations, but generally weigh the incentive compensation elements (both cash and equity) more heavily. For more information, see "Compensation Discussion and Analysis – 2015 Named Executive Officer Compensation – Compensation Mix."

Base salary is intended to provide competitive, fixed compensation to attract and retain exceptional executive talent. Annual incentives are intended to reward the achievement of short-term objectives, with a view to long-term stockholder value. Our 2016 incentive compensation plan is based on annual earnings per share performance metrics (as adjusted to exclude write-downs of acquisition-related deferred revenue and acquired leases, share-based compensation expense, employer portion of payroll taxes on employee stock transactions, acquisition-related costs, and expenses associated with amortization of intangibles arising from business combinations) and is structured with graduated benefits for overachievement and consequences for underachievement of objectives. Over the past several years, our stock price has increased significantly, which has led to significantly higher share-based compensation expense under the Black-Scholes valuation methodology, even as the aggregate amount of equity grants to management and key personnel has remained relatively constant. Therefore, for incentive compensation purposes, we believe that adjusting the earnings per share metric to exclude write-downs of acquisition-related deferred revenue and acquired leases, share-based compensation expense, employer portion of payroll taxes on employee stock transactions, acquisition-related costs, and expenses associated with amortization of intangibles arising from business combinations removes certain uncontrollable variables and provides a more accurate picture of our financial performance. While our annual incentive compensation plan is based on a given year's adjusted earnings per share, the initial establishment of the criteria for full achievement of the target bonus from year to year is based on a longer term view of appropriate growth. In other words, performance that meets our internal plan in a given year may not necessarily correspond with our executives earning 100% of the target bonus, if the internal plan does not meet the goal of overall year-over-year growth. For more information on the calculation of 2016 incentive compensation, see "Compensation Discussion and Analysis – 2016 Named Executive Officer Compensation – 2016 Compensation Committee / Board of Director Actions."

Equity incentives, comprised of stock options, are intended to reward sustained achievement of long-term objectives through time-based vesting periods. Stock options granted to our executive officers have a ten-year life. Beginning in 2016, options will vest ratably over a three-year period for employees (including Named Executive Officers) who are at least fifty years of age and have tenure with the company of at least fifteen years; otherwise, options will vest ratably over a five-year period. Our allocations reflect our philosophy that a significant portion of our executive officers' compensation should be performance-based and therefore at risk depending on the company's performance. Through the use of stock options, a significant portion of potential compensation is tied directly to stock price appreciation, further aligning the interest of our executive officers with those of our stockholders. We have considered other forms of equity compensation, such as restricted stock, but believe that stock options are the best form of equity-based compensation as stock options only reward executives if the value of the stock increases. Restricted stock can provide additional compensation even if the stock value is stagnant. All stock option awards are granted in semi-annual tranches (on or about June 1 and December 1). Stock option awards are made at the market price at the time of the award.

Our philosophy with regard to granting stock options is to:

- strive to ensure that the overall number and value of stock option awards is reasonable; and
- focus stock option awards on a relatively small number of key employees determined to have a direct impact on our ability to achieve our long-term goals, with the largest stock option grants awarded to our top performers and individuals with the greatest responsibilities and the potential to drive long-term share price appreciation.

Assessment of Risk. Our compensation program is designed not to incentivize excessive risk taking by allocating an appropriate balance between the three compensation elements. The base salary component of compensation is a fixed amount and is therefore not subject to or influenced by risk taking. Our annual cash incentive compensation is principally focused on short-term performance with consideration given to long-term stockholder value (earnings per share, as may be adjusted to exclude write-downs of acquisition-related deferred revenue and acquired leases, share-based compensation expense, employer portion of payroll taxes on employee stock transactions, acquisition-related costs, and expenses associated with the amortization of acquisition intangibles arising from business combinations). Our long-term incentive compensation is based on long-term stock price growth through the grant of stock options. Our annual cash incentive compensation plans are graduated scale plans rather than based on "all or nothing" performance, which reduces the incentive for short-term excessive risk taking. Moreover, our stock option grants occur in fixed amounts on a semi-annual basis (on or about June 1 and December 1), which eliminates the ability of executive officers to time the grant of options around short-term, market events. Further, options granted to Named Executive Officers vest over a three-year or five-year period beginning on the first anniversary of the grant date (as described above), which further emphasizes the long-term nature of this compensation component and reduces the incentive for risk taking. Finally, the Board of Directors adopted the Executive Compensation Recovery Policy effective January 1, 2010, which provides that the independent directors can direct the company to recover all or a portion of any bonus or incentive compensation paid to an executive if, in the opinion of the independent directors, an executive engages in fraud or intentional misconduct that causes a material restatement of our financial statements. See "Compensation Discussion and Analysis – 2016 Named Executive Officer Compensation – 2016 Compensation Committee / Board of Director Actions."

Consideration of Say-on-Pay Vote Results. At the 2014 annual meeting, we provided our stockholders with the opportunity to vote, on an advisory basis, to approve our executive compensation. Although the vote was advisory and non-binding, the Compensation Committee considers the outcome of the advisory vote as part of the compensation program design process. Approximately 71% of the votes cast by our stockholders on the executive compensation proposal approved the compensation of our Named Executive Officers.

Also, at the 2011 annual meeting, our stockholders voted, on an advisory basis, in favor of holding future stockholder voting on executive compensation every three years. Accordingly, an advisory vote on executive compensation is currently scheduled to be submitted to our stockholders at the 2017 annual meeting.

Company Performance Review Process for Prior Fiscal Year. Each year, the Compensation Committee approves the incentive compensation for the prior fiscal year based on the achievement of defined incentive compensation plans that were approved by the Compensation Committee at the beginning of the year. Annual bonuses are reviewed by the Compensation Committee and generally paid shortly thereafter. While the payment of annual incentive compensation is based solely on the achievement of pre-defined and pre-approved metrics, the Compensation Committee, using its judgment, may exercise discretion in granting additional bonus amounts and stock option awards as it deems appropriate. These adjustments may be based on subjective factors such as the Compensation Committee’s assessment of external factors, including general economic and market conditions, unforeseen “one-time” events affecting financial performance or driving stockholder value, the executive’s assumption of additional responsibilities, the degree of difficulty of a particular assignment, and the executive’s experience, tenure, and future prospects with Tyler.

Setting Compensation for Current Fiscal Year. Each year, the Compensation Committee approves base salary, annual incentive compensation adjusted earnings per share plans, and the amount of stock options to be granted to the Named Executive Officers as part of our semiannual option grants. In so doing, the Committee reviews recommendations by the Chief Executive Officer and analyzes the Peer Group and Radford Survey, internal business plans, and general economic conditions. For more information on the establishment of 2015 Named Executive Officer compensation, see "Compensation Discussion and Analysis – 2015 Named Executive Officer Compensation."

2015 Named Executive Officer Compensation

In February 2015, the Compensation Committee approved the total 2015 compensation packages for each of the Named Executive Officers, including the Chief Executive Officer. The total compensation packages included base salary, an annual cash incentive compensation plan, and proposed stock option grants. The Compensation Committee reaffirmed the appropriateness and amount of stock option grants prior to the June 1 and December 1 awards. In February 2016, the Compensation Committee conducted a Company performance review to determine the attainment of adjusted earnings per share targets relating to the payment of cash incentive bonus under the previously approved incentive compensation plan for 2015. The Compensation Committee determined that it was appropriate to exclude certain effects of the New World acquisition (including write-downs of acquisition-related deferred revenue and acquired leases and acquisition-related costs) in determining incentive compensation for 2015.

Role of the Chief Executive Officer. In February 2015, our Chief Executive Officer, John S. Marr Jr., attended the Compensation Committee meeting at the request of the Chairman of the Compensation Committee. Mr. Marr was asked to discuss senior management's philosophy regarding executive compensation and short- and long-term objectives for the purpose of assisting the Compensation Committee in establishing 2015 total compensation for the Named Executive Officers. In addition, Mr. Marr was asked to present the results of the analysis of the Peer Group and Radford Survey, as well as the financial outlook for 2015. Mr. Marr noted that the Named Executive Officers' 2014 total cash compensation was below the median and mean as represented by the Peer Group. Mr. Marr made recommendations regarding 2015 base salary increases, annual bonus performance targets with corresponding minimum and maximum bonus payout potentials, and long-term incentives (stock option awards) for each Named Executive Officer, including himself. Mr. Marr noted that our stock price has increased significantly over recent years, which has led to significantly higher share-based compensation expense under the Black-Scholes valuation methodology, even as the aggregate amount of equity grants to management and key personnel has remained relatively constant. Therefore, Mr. Marr recommended adjusting the earnings per share calculation, for annual cash incentive compensation purposes only, to exclude the effects of share-based compensation expense, employer portion of payroll taxes on employee stock transactions, and expenses associated with the amortization of acquisition intangibles arising from business combinations, with graduated benefits for overachievement and consequences for underachievement of objectives, as doing so would remove certain uncontrollable variables and provides a more accurate picture of our financial performance. Mr. Marr also discussed the significant amount of share repurchases over the prior several years and recommended that equity grants to Named Executive Officers be reduced by approximately 4.3%. Mr. Marr was excused from the meeting after his presentation and did not participate in the Compensation Committee's discussion of executive compensation for 2015. The Compensation Committee has the authority to accept, reject, or modify the Chief Executive Officer's recommendations.

Analysis of Compensation Elements. The principal elements of our executive compensation program in 2015 were (1) base salary, (2) annual cash bonus, and (3) stock options, each of which is described in more detail below:

Base Salary. Base salary represents the single, fixed component of the three principal elements of our executive compensation program and is intended to provide a baseline minimum amount of annual compensation for our executives. In February 2015, the Compensation Committee approved a 4.9% increase for each of the Named Executive Officer's annual base salary as set forth below:

Name	Increase	2014 Salary	2015 Salary
John S. Marr Jr.	4.9%	$488,000	$512,000
Dustin R. Womble	4.9%	$410,000	$430,000
Brian K. Miller	4.9%	$308,000	$323,000
H. Lynn Moore Jr.	4.9%	$308,000	$323,000

The Chief Executive Officer recommended the 4.9% increase in base salary to the Compensation Committee. His recommendations were based on two factors. First, he referenced nationwide market survey information from the Peer Group and Radford Survey. This information included comparisons to similar-sized companies in the technology and life sciences industries with annual revenues between $500 million and $1 billion. The survey indicated that the base salary and total annual compensation for our Named Executive Officers was below the average base salary reflected in the Peer Group and Radford Survey. Second, and most important, he believed that it was appropriate to reward executive management for the company’s strong performance in 2014.

The Compensation Committee reviewed the nationwide market survey information in a summary report and considered the company's growth in both revenue and earnings per share, as well as the Chief Executive Officer's recommendations, in independently determining the 2015 salary adjustments. As noted above, the Compensation Committee does not adhere to strict formulas or rely to any significant extent on market survey data to determine total compensation or the mix of compensation elements. Market survey data is not used as a benchmark per se, but rather is referred to by the Compensation Committee as a reasonableness check.

Annual Cash Bonus. A significant portion of each executive's annual compensation is in the form of a cash bonus. We believe that some meaningful portion of the executive's compensation should be contingent upon the successful achievement of our corporate objectives. In February 2015, the Compensation Committee approved the 2015 Incentive Compensation Plan recommended by the Chief Executive Officer, which was based on the achievement of fully diluted adjusted earnings per share goals established in connection with our annual operating plan and consistent with our long-term growth strategy (as may be adjusted to exclude the effects of share-based compensation expense, employer portion of payroll taxes on employee stock transactions, and expenses associated with the amortization of acquisition intangibles arising from business combinations, and did not include any individual performance goals). In 2016, the Compensation Committee determined that it was appropriate to additionally exclude certain effects of the New World acquisition (including write-downs of acquisition-related deferred revenue and acquired leases and acquisition-related costs) in calculating incentive compensation for 2015. The Board of Directors also reviews the annual operating plan. The 2015 Incentive Compensation Plan for the Named Executive Officers was similar to other corporate employees' incentive compensation plans and tied to similar goals, the main difference being the size of the target incentive award in relation to base salary. We believe that the percentage of compensation that is based on our performance should increase with an employee's level within the company up to and including executive management. Target incentives are determined based on experience, level of responsibility, and retention risk. The 2015 Incentive Compensation Plan provided the opportunity for the executive officers as well as our corporate employees to earn incentive compensation at the following levels:

- 175% of target based on achieving 119% of adjusted earnings per share goal
- 170% of target based on achieving 118% of adjusted earnings per share goal
- 165% of target based on achieving 116% of adjusted earnings per share goal
- 160% of target based on achieving 115% of adjusted earnings per share goal
- 155% of target based on achieving 114% of adjusted earnings per share goal
- 150% of target based on achieving 113% of adjusted earnings per share goal
- 145% of target based on achieving 111% of adjusted earnings per share goal
- 140% of target based on achieving 110% of adjusted earnings per share goal
- 135% of target based on achieving 109% of adjusted earnings per share goal
- 130% of target based on achieving 108% of adjusted earnings per share goal
- 125% of target based on achieving 106% of adjusted earnings per share goal
- 120% of target based on achieving 105% of adjusted earnings per share goal
- 115% of target based on achieving 104% of adjusted earnings per share goal
- 110% of target based on achieving 103% of adjusted earnings per share goal
- 105% of target based on achieving 101% of adjusted earnings per share goal
- 100% of target based on achieving 100% of adjusted earnings per share goal
- 95% of target based on achieving 99% of adjusted earnings per share goal
- 90% of target based on achieving 98% of adjusted earnings per share goal
- 85% of target based on achieving 96% of adjusted earnings per share goal
- 80% of target based on achieving 95% of adjusted earnings per share goal
- 75% of target based on achieving 94% of adjusted earnings per share goal
- 70% of target based on achieving 93% of adjusted earnings per share goal
- 65% of target based on achieving 91% of adjusted earnings per share goal

- 60% of target based on achieving 90% of adjusted earnings per share goal
- 55% of target based on achieving 89% of adjusted earnings per share goal
- 50% of target based on achieving 88% of adjusted earnings per share goal
- 45% of target based on achieving 86% of adjusted earnings per share goal
- 40% of target based on achieving 85% of adjusted earnings per share goal
- 0% of target based on achieving less than 85% of adjusted earnings per share goal

For 2015, adjusted earnings per share included adjustments to 2015 pre-tax income for (i) $3.2 million of write-downs of acquisition-related deferred revenue and acquired leases, (ii) $21.7 million of share-based compensation expense and employer portion of payroll taxes on employee stock transactions, (iii) $10.3 million of amortization of intangibles arising from business combinations, and (iv) $5.9 million of acquisition-related costs. In order to earn 100% of the target bonus for 2015, we had to achieve the adjusted earnings per share goal of $2.40 to $2.429, which was generally in a range consistent with our long-term growth objectives. In order to achieve the threshold bonus of 40% of target, we had to achieve 85% of the adjusted earnings per share goal, a range of $2.04 to $2.069. The operating plan is developed from the "bottom-up" and considers a wide range of factors that impact our results, including the general economic environment, our market, competitive landscape, initiatives and investments, and various other risks and opportunities. As of the beginning of the plan year, achievement of the plan was generally considered to be challenging but reasonably possible when all such factors were considered.

In February 2015, the Compensation Committee approved target 2015 incentive awards at 100% of base salary for Mr. Marr and Mr. Womble, and 75% of base salary for Mr. Miller and Mr. Moore. The differences are primarily based on the executives' levels of responsibility and retention risk. In February 2016, the Compensation Committee conducted a final review of the Company's financial performance after the fiscal year's financial results were reviewed and approved by the Audit Committee for the purposes of determining the actual attainment of adjusted earnings per share targets and payment of cash incentive bonuses under the 2015 incentive compensation plan for the Named Executive Officers. During this review, the Compensation Committee determined that it was appropriate to exclude certain effects of the New World acquisition (including the write-downs of acquisition-related deferred revenue and acquired leases and acquisition-related costs) in determining incentive compensation for 2015. For 2015, we achieved earnings per share of $1.77 and adjusted earnings per share of $2.54. Therefore, in February 2016, the Compensation Committee approved an annual cash bonus of 120% of the target incentive award, which was consistent with the 2015 Incentive Compensation Plan approved by the Compensation Committee in February 2015, as further adjusted in February 2016 and described above. The Compensation Committee did not grant any additional bonus compensation to any of the Named Executive Officers for 2015.

Stock Options. The third component of our Named Executive Officers' 2015 compensation is stock options. As discussed above, stock options promote long-term performance and serve as a means of attracting, motivating, and retaining executive officers. Stock options also provide a vital link between the long-term results achieved for our stockholders and the rewards provided to executive officers and other key employees. Option holders only realize value on stock options if our stock price increases and only if they remain employed with us beyond the date their options vest. When our stock price does not grow, our executives realize little or no value from this component of their compensation. We believe this is appropriate because our stockholders also would not have benefited significantly from owning our stock.

In February 2015, our Chief Executive Officer recommended stock option grants for our Named Executive Officers. He discussed the significant amount of share repurchases over the prior several years and recommended that equity grants for the Named Executive Officers be reduced by approximately 5%. He further recommended these grants be made in two equal tranches on June 1 and December 1, 2015, which was consistent with our semi-annual grant policy. The term and vesting period for stock option grants was consistent with stock option grants made to all our employees.

In February 2015, the Compensation Committee preliminarily approved the size of option grants to our Named Executive Officers. In so doing, the Compensation Committee considered many factors, including the fact that our Named Executive Officers' total cash compensation is below the average as reflected in the Peer Group and Radford Survey, the recommendation of our Chief Executive Officer, our potential future financial performance, each Named Executive Officer's experience and level of responsibility, and our retention risk for each Named Executive Officer. The Compensation Committee does not have a set formula to determine which of these factors is more or less important, and the specific factors used and their weighting may vary among individual executives. The Compensation Committee also periodically reviews Institutional Shareholder Services, Inc. guidelines as to the appropriate level of stock option awards granted for companies of similar characteristics. Prior to June 1, 2015, the Compensation Committee approved the actual grants of stock options to each Named Executive Officer as set forth below:

Name	June 1, 2015	December 1, 2015
John S. Marr Jr.	25,000	25,000
Dustin R. Womble	20,000	20,000
Brian K. Miller	16,750	16,750
H. Lynn Moore Jr.	16,750	16,750

Stock option awards are made annually to approximately 5–7% of all employees. The Named Executive Officers were awarded approximately 21% of the total annual recurring stock options granted to employees in 2015 as part of our annual recurring stock option grant program. In 2015, the percentage of total stock option awards for our annually recurring grants to Named Executive Officers was as follows:

Name	Percentage of total annually recurring stock option awards
John S. Marr Jr.	7%
Dustin R. Womble	5%
Brian K. Miller	4%
H. Lynn Moore Jr.	4%

Compensation Mix. The mix of the three key elements of 2015 Named Executive Officer compensation is designed with the objective of putting a substantial portion of executive pay at risk. While base salaries are intended to be fixed and certain, the other two elements only have value if adjusted earnings per share goals are met and if the value of our common stock increases. We believe that having a larger measure of key pay elements at risk motivates and challenges our Named Executive Officers to achieve positive returns for our stockholders. For 2015, the proportion of pay at risk for our Named Executive Officers was as follows:

		Compensation at Risk	
Name	Base Salary	Bonus	Stock Options
John S. Marr Jr.	15%	18%	67%
Dustin R. Womble	15%	19%	66%
Brian K. Miller	15%	13%	72%
H. Lynn Moore Jr.	15%	13%	72%

The table above depicts the relative mix of pay elements for 2015, consisting of base salary earned, annual bonus cash incentive earned, and the aggregate grant date fair value of annual recurring stock option grants made to the executive officers. For more detail, see "Executive Compensation – Summary Compensation Table."

Additional Considerations. In addition to the general philosophies and specific considerations discussed above, the Compensation Committee discussed in detail the following in determining total compensation for the Named Executive Officers in 2015:

- our 2015 anticipated and actual financial performance;
- terms of employment agreements; and
- the previously approved annual incentive compensation plan for each Named Executive Officer.

With respect to our Chief Executive Officer’s 2015 total compensation package, the Compensation Committee also considered the following:

- management’s goal of year-over-year earnings per share growth;
- management’s focus on strengthening our balance sheet;
- management’s strategic mission to increase profitability through sustained internal growth, including growth in recurring revenues;
- management’s directive to develop and deploy premier technology through continued investment;
- Mr. Marr’s contribution to the achievement of each of these strategic initiatives; and
- reference to levels of compensation of other chief executive officers of similarly sized, publicly held companies in similar industries.

After considering all of the factors outlined in this Compensation Discussion and Analysis, the Compensation Committee considered the overall compensation paid to our Named Executive Officers for 2015 to be appropriate and reasonable.

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2016 Named Executive Officer Compensation

In February 2016, the Compensation Committee met and approved the total compensation packages for each of the Named Executive Officers for 2016, including our Chief Executive Officer. The 2016 total compensation packages will include the same components as 2015.

Role of the Chief Executive Officer. In February 2016, our Chief Executive Officer, John S. Marr Jr., attended the Compensation Committee meeting at the request of the Chairman of the Compensation Committee. Mr. Marr was asked to discuss senior management's philosophy regarding executive compensation and short- and long-term objectives for the purpose of assisting the Compensation Committee in establishing 2016 total compensation for the Named Executive Officers. In addition, Mr. Marr was asked to present the results of the analysis of the Peer Group and Radford Survey, as well as the financial outlook for 2016. Mr. Marr noted that the Named Executive Officers' 2015 total cash compensation was below the median and mean as represented by the Peer Group. Mr. Marr made recommendations regarding 2016 base salary increases, annual bonus performance targets with corresponding minimum and maximum bonus payout potentials, and long-term incentives (stock option awards) for each Named Executive Officer, including himself. Mr. Marr noted that our stock price has increased significantly over recent years, which has led to significantly higher share-based compensation expense under the Black-Scholes valuation methodology, even as the aggregate amount of equity grants to management and key personnel has remained relatively constant. Therefore, Mr. Marr recommended adjusting the earnings per share calculation, for annual cash incentive compensation purposes only, to exclude write-downs of acquisition-related deferred revenue and acquired leases, share-based compensation expense, employer portion of payroll taxes on employee stock transactions, acquisition-related costs, and expenses associated with amortization of intangibles arising from business combinations, with graduated benefits for overachievement and consequences for underachievement of objectives, as doing so would remove certain uncontrollable variables and provides a more accurate picture of our financial performance. Mr. Marr was excused from the meeting after his presentation and did not participate in the Compensation Committee's discussion of executive compensation for 2016. The Compensation Committee has the authority to accept, reject, or modify the Chief Executive Officer's recommendations.

2016 Compensation Committee / Board of Director Actions. In February 2016, the Compensation Committee approved the following 2016 total compensation for the Named Executive Officers and other measures:

Base Salary. For 2016, the Compensation Committee approved a 5.1% increase for Mr. Marr and 5.0% for Mr. Miller and Mr. Moore. Mr. Womble, who will retire as a Tyler employee in May 2016 but will remain on the Board of Directors, did not receive a base salary increase. This was based on the Company's strong performance in 2015 and the fact that the Peer Group and the Radford Survey data indicated that annual base compensation was below the median and the mean for each of the Named Executive Officers.

Annual Cash Bonus. For 2016, the Compensation Committee elected to leave target bonus awards unchanged at 100% of base salary for Mr. Marr and Mr. Womble, and 75% of base salary for Mr. Miller and Mr. Moore. The Compensation Committee further approved the 2016 Incentive Compensation Plan for the Named Executive Officers at graduated scale levels similar to the 2015 Incentive Compensation Plan. To earn 100% of the target bonus under the 2016 Incentive Compensation Plan, the Company must achieve the earnings per share goal of $3.20 to $3.239, as adjusted to exclude write-downs of acquisition-related deferred revenue and acquired leases, share-based compensation expense, employer portion of payroll taxes on employee stock transactions, acquisition-related costs, and expenses associated with amortization of intangibles arising from business combinations. The target bonus is based on our operating plan, which was reviewed by the Compensation Committee. In order to achieve the threshold bonus of 40% of target, the Company must achieve 85% of the adjusted earnings per share goal, or a range of $2.72 to $2.759. The Compensation Committee also approved a prorated incentive award based on projected performance for Mr. Womble's contribution in 2016.

Stock Options. For 2016, the Compensation Committee preliminarily approved stock option grants to Messrs. Marr, Miller, and Moore in the same amount as the 2015 stock option grants, which will be issued on or about June 1 and December 1, 2016, subject to final approval by the Compensation Committee. The Compensation Committee also approved a one-time grant of 55,000 stock options for Mr. Womble in connection with his transition to a non-employee director, which were issued on February 22, 2016.

Options will vest ratably over a three-year period beginning on the first anniversary of the grant date for each Named Executive Officer who is at least fifty years of age and has a tenure with the company of at least fifteen years (Messrs. Marr, Miller, and Womble), and over a five-year period beginning on the first anniversary of the grant date for Mr. Moore. The Compensation Committee believes these vesting schedules emphasize the long-term nature of this compensation component, thereby further aligning the interests of the Named Executive Officers with those of the stockholders.

Executive Compensation Recovery Policy

Accountability is a company fundamental value. To reinforce this value through our executive compensation program, the Board of Directors adopted an Executive Compensation Recovery Policy in February 2010. The policy applies to our Named Executive Officers, division presidents, senior financial management, and other key financial employees, and is included in the compensation plans for each such individual. Under this policy, if, in the opinion of the independent directors of the Board, an executive engages in fraud or intentional misconduct that causes a material restatement of our financial statements, then the independent directors shall have the discretion to use their best efforts to remedy the misconduct and prevent its recurrence. Based upon the facts and circumstances surrounding the restatement, the independent directors may direct us to recover all or a portion of any bonus or incentive compensation paid, adjust the future compensation of the executive, and dismiss, or take legal action against, the executive, in each case as the independent directors determine is in our best interests. The remedies that may be sought by the independent directors are subject to a number of conditions, including, that: (1) the bonus or incentive compensation to be recouped was calculated based upon the financial results that were restated; (2) the executive in question engaged in fraud or intentional misconduct; and (3) the bonus or incentive compensation calculated under the restated financial results is less than the amount actually paid or awarded.

Other Compensation Topics

Benefits. Our Named Executive Officers are eligible for the same benefits made available to other full-time employees generally, including our 401(k) Savings Plan, Employee Stock Purchase Plan, health and dental care plans, life insurance plans, disability plans, and other welfare benefit programs.

Severance and Change in Control Agreements. Our Named Executive Officers have employment contracts that provide for a severance payment equal to each executive’s base salary and target bonus and a non-compete payment equal to his base salary and target bonus upon the executive’s termination of employment without cause, or upon the executives’ termination of employment upon a change in control. In addition, all unvested options previously granted to each Named Executive Officer would immediately become vested and exercisable upon a change in control. For more information, see “Compensation Discussion and Analysis – Employment Contracts.”

Tax Consequences of Certain Forms of Compensation. The following is a summary of principal federal income tax consequences of certain transactions under our compensation plan. It does not describe all federal tax consequences of our compensation plan, nor does it describe state and local tax consequences.

Incentive Options. No taxable income is generally realized by the optionee upon the grant or exercise of an incentive option. If shares issued to an optionee pursuant to the exercise of an incentive option are sold or transferred after two years from the date of grant and after one year from the date of exercise, then upon sale of such shares, any amount realized in excess of the incentive option price will be taxed to the optionee as a long-term capital gain, any loss sustained will be a long-term capital loss, and we will not be entitled to any deduction for federal income tax purposes. The exercise of an incentive option will give rise to an item of tax preference that may result in alternative minimum tax liability for the optionee.

If shares acquired upon the exercise of an incentive option are disposed of prior to the expiration of the two-year and one-year holding periods described above, generally the optionee will realize ordinary income in the year of disposition in an amount equal to the excess, if any, of the fair market value of the shares at exercise over the option price and we will be entitled to deduct such amount. Special rules will apply where all or a portion of the exercise price of the stock option is paid by tendering shares.

Non-Qualified Options. We also grant to executives non-qualified stock options that do not qualify for the tax treatment described above. No income is realized by the optionee at the time the option is granted. Generally, at exercise, ordinary income is realized by the optionee in an amount equal to the difference between the option price and the fair market value of the shares on the date of exercise, and we receive a tax deduction for the same amount. At disposition, appreciation or depreciation after the date of exercise is treated as either short-term or long-term capital gain or loss depending on how long the shares have been held. Special rules apply where all or a portion of the exercise price of the non-qualified option is paid by tendering shares. Upon exercise, the optionee will also be subject to Social Security taxes on the excess of the fair market value over the exercise price of the option.

Employment Contracts

In February 2013, we entered into five-year employment agreements with John S. Marr Jr., Dustin R. Womble, Brian K. Miller, and H. Lynn Moore Jr. Under the terms of the agreements, Messrs. Marr, Womble, Miller, and Moore will receive minimum base salaries of $469,000, $394,000, $296,000, and $296,000, respectively. They also participate in performance bonus or incentive compensation plans made available to our comparable-level employees and receive all employee benefits and perquisites normally offered to our executive employees. Each agreement provides for a severance payment equal to each executive's base salary and target bonus and a non-compete payment equal to his base salary and target bonus upon the executive's termination of employment without cause, or upon the executives' termination of employment upon a change in control. A change in control is defined as our merger or consolidation into an unaffiliated entity, our dissolution or liquidation, the sale of all or substantially all of our assets, the acquisition by any person, entity or group of more than 50% of our voting stock, or a change in the majority of our Board of Directors that was not approved by the then existing directors. In addition to the severance payment and the non-compete payment, each agreement also provides that we will continue to provide medical benefits for twelve months after the date of termination. In the event of a change in control, all unvested options previously granted to Messrs. Marr, Womble, Miller, and Moore would immediately become vested and exercisable.

In addition, the employment agreements provided that Messrs. Marr, Womble, Miller, and Moore be granted options to purchase 320,000, 200,000, 120,000, and 120,000 shares of our common stock, respectively. The options were granted at an exercise price equal to the closing market price of our common stock as reported by the New York Stock Exchange as of the effective date of the grant (February 11, 2013). The options vest in equal installments on the first, second, third, fourth, and fifth anniversary of the grant date and are subject to terms and conditions of the Option Plan and our standard option agreement.

We developed a standard severance package for our Named Executive Officers because we believe it is necessary to attract and retain qualified executive officers and to minimize the distraction caused by a potential transaction and reduce the risk that an executive officer departs before an acquisition is consummated. We believe that a pre-existing plan allows our executive officers to focus on continuing normal business operations and on the success of a potential business combination, rather than on seeking alternative employment. We further believe that our employment agreements ensure stability and will enable our executive officers to maintain a balanced perspective in making overall business decisions during a potentially uncertain period. The Compensation Committee applied its best judgment in developing the severance package after considering each executive's overall compensation package, the rapidly changing environment for technology-based companies, the average time required to obtain employment for equivalent job duties, and the amount of payment made to executives in the event of termination without cause or upon a change in control.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board of Directors, and the Board of Directors has approved, that the Compensation Discussion and Analysis be included in this proxy statement.

This report is submitted by the Compensation Committee.

J. Luther King Jr., Chairman

Donald R. Brattain

Glenn A. Carter

Compensation Committee Interlocks and Insider Participation

In 2015, the Compensation Committee consisted of J. Luther King Jr. (Chair), Donald R. Brattain, and Glenn A. Carter. No member of the Compensation Committee was an officer or employee of the company. None of our executive officers served on the compensation committee or equivalent of any other entity.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth certain information regarding the compensation paid to our Named Executive Officers for all of the services they rendered to us during 2015, 2014, and 2013:

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($) (1)	Non-Equity Incentive Plan Compensation ($) (2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($) (3)	Total ($)
John S. Marr Jr.	2015	$ 512,000			$ 2,308,573	$ 614,400		$ 10,944	$ 3,445,917