

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 000-26621



NIC INC. (Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

52-2077581
(I.R.S. Employer
Identification No.)

25501 West Valley Parkway, Suite 300, Olathe, Kansas 66061
(Address of principal executive offices, including Zip Code)

Registrant's telephone number, including area code: **(877) 234-3468**

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, \$0.0001 par value per share	EGOV	The Nasdaq Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes
No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report

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

As of June 30, 2020, the aggregate market value of voting stock held by non-affiliates of the registrant was approximately \$3.5 billion based on the closing price as reported by the Nasdaq Stock Market.

On February 24, 2021, the registrant had 67,192,898 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement to be issued in connection with its Annual Meeting of Stockholders to be held in 2021 are incorporated by reference into Part III of this Form 10-K.

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PART I

CAUTIONS ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). See the “Cautions About Forward-Looking Statements” section in Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations of this report for more information regarding these statements.

AVAILABLE INFORMATION

Our website address is <http://www.egov.com>. We make available, free of charge, on the Investor Relations section of our website (<http://ir.egov.com>) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to these reports (if any), as soon as reasonably practicable after these reports are electronically filed with or furnished to the Securities and Exchange Commission (the “SEC”). We also make available through our website other reports filed with the SEC under the Exchange Act including our proxy statements and reports filed by officers and directors under Section 16(a) of the Exchange Act. We do not intend for information contained on our website to be part of this Annual Report on Form 10-K.

The SEC maintains a website (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information that we file electronically with the SEC.

FREQUENTLY USED TERMS

In this Annual Report on Form 10-K, we use the terms “NIC,” “the Company,” “we,” “our,” and “us” to refer to NIC Inc. and its subsidiaries, unless the context otherwise requires. All references to years, unless otherwise noted, refer to our fiscal year, which ends on December 31. We use the term “enterprise-wide” to refer to our state enterprise businesses that provide state-wide services to multiple government agencies. We also use the term “partner” to refer to our government clients, with whom we have contractual relationships to provide digital government services.

INDUSTRY AND MARKET DATA

Industry and market data and survey and study results disclosed in this Form 10-K were obtained from industry, university, public interest, government and general publications. We have not independently verified the industry and market data or survey or study results obtained from these publications. Actual future industry and market conditions and results may differ materially from the conditions and results forecasted or reported in these publications.

ITEM 1. BUSINESS

Business Overview

NIC is a leading provider of digital government services and payment solutions that help governments use technology to provide a higher level of service to businesses and citizens and to increase efficiencies for all. We accomplish this through two channels: our state enterprise businesses and our software & services businesses.

In our state enterprise businesses, we generally enter into contracts with state and local governments to design, build, and operate digital government services on an enterprise-wide basis on their behalf. The digital government services that we build allow businesses and citizens to access government information digitally via a variety of connected devices and complete secure payments and transactions, such as applying for permits, retrieving government records, or filing government-mandated forms or reports. Under our unique state enterprise business model, we generate revenues from transaction fees collected for the digital government services we operate on behalf of our government partners. Our government partners benefit by reducing their financial and technological risks, increasing their operational efficiencies, avoiding costs and gaining a centralized, customer focused digital presence, while businesses and citizens receive a

faster, more convenient, and more cost-effective means to interact with government. We are typically responsible for funding the up-front investments and ongoing operations and maintenance costs of the digital government services.

We typically enter into multi-year contracts with our government partners and manage operations for each contractual relationship through separate local subsidiaries that operate as decentralized businesses with a high degree of autonomy. Our business plan is to increase our revenues by increasing digital adoption of existing services, delivering new services to a growing number of government entities within our existing contractual relationships, and by signing long-term contracts with new government partners.

In our software & services businesses, we provide certain stand-alone software-as-a-service (“SaaS”) solutions relating to payment processing, healthcare and licensing, software development, COVID-19 testing solutions and other digital government services, other than those provided on an enterprise-wide basis, to federal, state and local governments.

Segment Information

As of December 31, 2020, our three reportable segments were: 1) State Enterprise; 2) Payments; and 3) TourHealth. In 2019, we had only one reportable segment, State Enterprise. During the first quarter of 2020, the Company made a change from one to two reportable segments, State Enterprise and Payments, which was based on quantitative and qualitative considerations, and was a result of recent changes in our reporting structure to reclassify the Texas payment processing contract from the state enterprise category to the software & services category. In August 2020, we launched TourHealth, a rapid and secure COVID-19 testing solution. Based on quantitative considerations and evaluation of our reporting structure, we determined TourHealth to be a third reportable segment beginning in the fourth quarter of 2020. The revised reportable segments reflect the way we evaluate our business performance and manage our operations. All prior year amounts have been restated to conform to the current year presentation.

Our State Enterprise reportable segment generally includes our subsidiaries that provide digital government services and payment processing on an enterprise-wide basis for state and local governments. Our Payments reportable segment includes our subsidiaries that operate in our software & services business and provide certain payment processing-related, transaction-based services mainly to state and local agencies in states where we do not maintain an enterprise-wide contract. Our TourHealth reportable segment includes our subsidiary that provides COVID-19 testing to government and government-related entities. The All Other category primarily includes our subsidiaries that provide software development and digital government services, other than those provided on an enterprise-wide basis, to federal agencies, as well as state and local governments and government-related entities.

For financial information about our reportable segments, please refer to Note 13, Reportable Segments and Related Information, to the Consolidated Financial Statements.

Industry Background

The market for business-to-government and citizen-to-government transactions

Government regulation of commercial and consumer activities requires billions of transactions and exchanges of large volumes of information between government agencies and the businesses they regulate and the citizens they serve. These transactions and exchanges include, but are not limited to, motor vehicle driver history record retrieval, motor vehicle registrations, tax returns, permit applications and requests for government-gathered information. Government agencies typically defray the cost of processing these transactions and of storing, retrieving and distributing information through a combination of general tax revenues, service fees and charges for direct access to public records.

The limits of traditional government transaction methods

Traditionally, government agencies have transacted, and many continue to transact, with businesses and citizens using processes that are inconvenient and labor-intensive, require extensive paperwork, and use outmoded technology and security procedures and scarce staff resources. Transactions and information requests are often made in person or by mail, which increases the potential for the compromise of sensitive personal information or errors that require revisions and follow-ups, particularly if the transactions and information requested are processed manually. Even newer methods

rely on multiple systems and potentially incompatible data formats and require significant expertise and expenditures to introduce and maintain. As a result, businesses and citizens often have no choice but to face costly delays to complete essential tasks. These delays include waiting in line at a government agency, for answers by telephone, for responses by mail, or for payments by check. In addition, government agencies may not use modern secure methods of online payment, leaving businesses and citizens unable to pay certain fees online or at the counter using credit/debit cards or electronic checks or cash, or government agencies may require advance payments rather than payments from monthly billing. Businesses and citizens encounter further inconvenience and delay because they can usually work with government agencies only during normal business hours. Even when online alternatives are available, they often require a cumbersome process of multiple contacts with different government agencies or offer a limited number of payment methods. Increases in the level of economic activity and in the population have exacerbated these problems and increased the demand for these services.

Challenges to the implementation of digital government services

Despite the potential benefits of digital government services, barriers to creating successful digital services may preclude governments from implementing them. Some of these barriers are similar to those the private sector encounters, including:

- the high cost of implementing and maintaining secure infrastructure and new technology in a budget-constrained environment;
- the need to quickly assess the requirements of potential customers and cost-effectively design and implement digital government services that are tailored to meet these requirements;
- the intense competition for qualified technical personnel; and
- the need for updated internet and mobile-friendly payment methods that are secure and compliant with Payment Card Industry Data Security Standards (“PCI DSS”).

Governments also face some unique challenges that exacerbate the difficulty of advancing digital services, including:

- lengthy and potentially politically-charged appropriations processes that make it difficult for governments to acquire resources, develop digital services quickly and sustain funding over time;
- a diverse and substantially autonomous group of government agencies that have adopted varying and fragmented approaches to providing information and transactions online;
- a lack of marketing expertise to design services that meet the needs of businesses and citizens, to increase the awareness of the availability of the services and to drive adoption of the online service delivery channel;
- security and privacy concerns that are amplified by the confidential nature of the information and transactions available from and conducted with governments and the view that government information is part of the public trust;
- changes in administration and turnover in government personnel among influencers and key decision makers; and
- compliance requirements associated with accepting credit/debit card and electronic check payments.

We believe many private sector service providers generally do not address the unique requirements of digital government services. In our experience, many service providers do not fully understand and are not well-equipped to deal with the unique political, regulatory and security environments of governments. These providers frequently take a time-and-materials, project-based pricing approach or provide “off-the-shelf” solutions, often designed for other commercial industries that may not adequately address the needs of government.

What We Provide to Governments

We provide digital government services and payment solutions designed to meet the needs of governments, businesses and citizens. The key elements of our service delivery are:

Customer-focused, one-stop government

Using our marketing, security and technical expertise and our government experience, we generally design, build, and operate digital government services and payment solutions for our government partners that are designed to meet their needs as well as those of the businesses and citizens they serve. Our enterprise-wide solutions are designed to create a single point of digital presence that allows businesses and citizens to reach every government agency in a specific jurisdiction at any time and any place regardless of device. We strive to employ a common look and feel for all government agencies associated with each state's digital solutions and make them useful, appealing and easy to use. We also develop services that allow businesses and citizens to complete processes that have traditionally required separate offline interactions with several different government agencies or older generation electronic access. These services permit businesses and citizens to conduct transactions with government agencies and to obtain information 24 hours per day and seven days per week using the latest technology and payment methods. We also help our government partners generate awareness and educate businesses and citizens about the availability and potential benefits of digital government services and payment solutions.

Compelling and flexible financial models for governments

With our business model, we allow governments to implement digital government services and payment solutions at minimal cost and risk. We take on the responsibility and cost of designing, building and operating digital government services, with minimal use of government resources. We employ our technological resources and accumulated expertise to help governments avoid the risks of selecting and investing in new and often untested technologies that may be implemented by unproven third-party providers. We implement our services rapidly, efficiently and accurately, using our well-tested and reliable infrastructure and processes. Once we establish the applications associated with our state enterprise business, we typically manage transaction flows, data exchange and payment processing, market our services to citizens and businesses, and fund ongoing costs from the fees received from end users, who access the government information and conduct transactions. We also provide specific fee-based applications, SaaS solutions and other digital solutions to governments who wish to fund services using a variety of other funding models other than the transaction-based funding model.

Focused partnership with governments

We form partnerships with governments by developing an in-depth understanding of their interests and then aligning our interests with theirs. By tying our revenues to the development of successful services, we demonstrate to government agencies and constituents that we are focused on their needs. Moreover, we have pioneered and encourage our partners to adopt a model for governance that often involves oversight boards to bring together interested government agencies, business and consumer groups and other vested interest constituencies in a single forum. In some instances, we work with a master contract partner or single agency with authority to deploy enterprise services. We work within this forum to maintain constant contact with government agencies and constituents and enlist their participation in the development of digital government services. We attempt to understand and facilitate the resolution of potential disputes among these participants to maximize the benefits of our services. We also design our services to observe relevant privacy and security regulations, so that they meet the same high standards of integrity, confidentiality and public service as government agencies strive to observe in their own actions.

Government Contracts

State enterprise contracts

Our state master contracts typically authorize our subsidiaries to design, build and operate a wide range of digital government services and payment solutions that facilitate interactions between government agencies and businesses or citizens. These are typically multi-year contracts that permit any state agency to engage our local subsidiary to develop and provide digital services by executing a statement of work, subject to the approval and oversight of our master contract partner or an oversight authority established by the master contract or applicable law. In most cases, our subsidiaries are also able to use these contracts to provide services for county and city governments within the state. Under the transaction-funded business model most commonly contemplated in these master contracts, our subsidiaries earn revenue through transaction fees paid by end users in exchange for convenient and secure access to the services that we provide. These fees support the operation and maintenance of the services, as well as compensate our subsidiaries for the up-front investment and ongoing costs incurred to develop and maintain the services, all costs that would otherwise be incurred by the state. Our subsidiaries also utilize a portion of the revenue from these fees to develop additional digital government services that cannot be supported through transaction-based funding, either because the service would not have sufficient use, or the type of service is not compatible with charging a fee.

We typically own the intellectual property in connection with the services we develop under our state enterprise-wide contracts. After completion of a defined contract term, our government partner typically receives a perpetual, royalty-free license to use the applications and digital government services we built only in its own state. However, certain proprietary customer management, billing, and payment processing software applications that we have developed and standardized centrally, are provided to the vast majority of our government partners on a SaaS basis, and thus would not be included in any royalty-free license. If our contract expires after a defined term or if our contract is terminated by our government partner for cause, the government partner would be entitled to take over the services in place, and NIC would have no future revenue from, or obligation to, such former government partner, except as otherwise provided in the contract. In our state enterprise business we also provide services to certain states where we do not maintain an enterprise-wide digital government services contract. Also, in some cases, we enter into contracts to provide application development and management services to governments in exchange for an agreed-upon fee.

We enter into statements of work with various agencies and divisions of our government partners for digital access to data and to conduct other citizen-to-government and business-to-government transactions. These statements of work preliminarily establish the pricing of the digital transactions and data access services we provide and the statutory amounts we must remit to the agency. These terms are then submitted to the oversight board or governing agency for approval. Generally, our contracts provide that the amount of any fees we retain is set by governments to provide us with a reasonable return or profit. We have limited control over the level of fees we are permitted to retain. Any changes made to the amount or percentage of fees retained by us, or to the amounts charged for the services offered, could materially affect the profitability of the respective contract. We have the general ability to control certain of our expenses in the event of a reduction in the amount or percentage of fees we retain; however, there may be a lag in the time it takes to do so should we determine it is necessary.

Any renewal of these contracts beyond the initial term by the government is optional and a government may terminate its contract prior to the expiration date if we breach a material contractual obligation and fail to cure such breach within a specified period or upon the occurrence of other events or circumstances specified in the contract.

Software & services contracts

Generally, our software & services contracts consist of SaaS solutions, including payment processing services, software development, COVID-19 testing solutions and other digital government services. We have contracts with certain Federal agencies, including a contract with the Federal Motor Carrier Safety Administration (“FMCSA”) to develop and manage the FMCSA’s Pre-Employment Screening Program (“PSP”) for motor carriers nationwide, using the Company’s transaction-based business model. The loss of the contract as a result of the expiration, termination or failure to renew the contract, if not replaced, could significantly reduce our revenues and profitability. Any changes made to the amount or percentage of fees retained by us, or to the amounts charged for the services offered, could materially affect the profitability of this contract. The Company also has contracts with certain government and government-related entities to

provide rapid and secure COVID-19 testing through its TourHealth solution, featuring digital engagement, assessment and scheduling, as well as in-person clinical testing and logistics.

Termination without cause contracts

We have 14 state enterprise contracts and three software & services contracts under which the Company provides digital government services that can be terminated by the other party without cause on a specified period of notice. Collectively, revenues generated from these contracts represented approximately 48% of our total consolidated revenues for the year ended December 31, 2020. If any of these contracts is terminated without cause, the terms of the respective contract may require the government to pay us a fee to continue to use the digital applications.

Expiring contracts

We currently have 11 contracts under which we provide enterprise-wide digital government services, as well as our contract with the FMCSA, that have expiration dates within the 12-month period following December 31, 2020. Although five of these contracts have renewal provisions, any renewal is at the option of our government partners, who may choose to not renew the contract, to re-open bidding for the services, to take over the services in place and provide services internally, or to allow individual government agencies to retain the services of their own providers. Collectively, revenues generated from these contracts represented approximately 28% of our total consolidated revenues for the year ended December 31, 2020. As described above, if a contract expires after a defined term, the government partner would be entitled to take over the services in place and NIC would have no future revenue from, or obligation to, such former government partner, except as otherwise provided in the contract. In addition, TourHealth's contracts for COVID-19 testing services only extend into the first quarter of 2021.

The contract under which the Company managed enterprise-wide digital government services for the state of Texas expired on August 31, 2018. The expired Texas contract accounted for approximately 14% of our total consolidated revenues for 2018. Revenues from this legacy contract were approximately \$49.0 million for 2018.

New contract developments

During the fourth quarter of 2020, we were awarded a five-year contract with the state of Florida to provide payment processing services, which includes an option for the state to extend the contract for one five-year period. Under this transaction-funded contract, we have the ability to provide payment processing services to all state agencies and local governments in the state of Florida.

During the fourth quarter of 2020, we were awarded a five-year contract with the state of Iowa to provide enterprise-wide digital government services, which includes an option for the state to extend the contract for up to an additional five years.

During the second half 2020, we were awarded contracts with the states of Florida, South Carolina and Kansas, the Alabama Department of Corrections and the University of Mississippi to provide our TourHealth rapid and secure COVID-19 testing solution.

Sources of Revenues

We currently earn revenues from three main sources: transaction-based fees, development services and fixed-fee services. Transaction-based revenues and fixed-fee revenues are generally recurring while development revenues are generally non-recurring. Each of these revenue types is further described below.

- **Transaction-based:**

- IGS: our state enterprise businesses earn fees from a wide variety of interactive government services, referred to as IGS, from sources other than digital access to motor vehicle driver history records, for transactions conducted by businesses and end-user consumers.

- **DHR:** our state enterprise businesses earn fees from driver history records, referred to as DHR, for providing digital access to motor vehicle driver history records from our partner states to authorized data resellers, insurance companies, and other pre-authorized customers on behalf of our state partners.
- **Other:** our software & services businesses earn a significant portion of their revenues from transaction-based fees, which are generally recurring, most notably via our payment processing contracts with state and local governments that are not part of an enterprise-wide state contract, our contract with the FMCSA to develop and manage the PSP for motor carriers nationwide, our contract to provide digital services for Recreation.gov, and certain TourHealth contracts to provide COVID-19 testing on a per test basis.
- **Development services:** we earn revenues from the performance of software development projects and other time and materials services for our government partners. While we actively market these services, they do not have the same degree of predictability as our transaction-based or fixed-fee services.
- **Fixed-fee services:** we earn fixed-fee revenues from the management of digital government services for our government partner in the state of Indiana, certain TourHealth contracts for COVID-19 testing, and other contracts for SaaS subscription-based services.

The following table reflects the underlying sources of revenues as a percentage of total consolidated revenues for the years ended December 31:

<u>Percentage of Revenues:</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Transaction-based	82 %	95 %	95 %
Development services	7 %	3 %	3 %
Fixed-fee services	11 %	2 %	2 %

The following table identifies each type of service, consumer and state partner that accounted for 10% or more of our total consolidated revenues in any of the past three years:

<u>Type of Service</u>	<u>Percentage of Total Revenues</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Motor Vehicle Driver History Record Retrieval	19 %	26 %	29 %
Motor Vehicle Registrations	11 %	11 %	14 %
TourHealth COVID-19 Services	13 %	N/A	N/A
<u>Consumer</u>			
LexisNexis Risk Solutions	11 %	15 %	19 %
<u>State Partner</u>			
Colorado ⁽¹⁾	N/A	10 %	N/A
Texas ⁽²⁾	N/A	N/A	17 %

⁽¹⁾ The Colorado contract expires on April 30, 2022.

⁽²⁾ Texas consists of the legacy state enterprise contract through August 31, 2018 and the payments contract, which commenced on September 1, 2018.

Our government partners enter into contracts with authorized data resellers, including various contracts with LexisNexis Risk Solutions, which are generally self-renewing until canceled by one side or the other, and generally may be terminated at any time after a 30-day notice. These contracts may be terminated immediately at the option of any party upon a material breach of the contract by the other party. Furthermore, these contracts are immediately terminable if the state statute allowing for the public release of these records is repealed.

Service Offerings

We work with our federal, state and local government partners to develop, manage, and enhance comprehensive digital government services and payment solutions for their constituents. Our solutions are designed to provide citizen-centric, user-friendly, convenient, secure multi-channel access, including mobile access, to in-demand government information and services, and include numerous fee-based transaction services that we have developed. These fee-based services allow businesses and citizens to access constantly changing government information and to file necessary government documents. The types of services and the fees charged vary according to the unique preferences of that jurisdiction. To reduce the frustration businesses and citizens often encounter when dealing with multiple government agencies, we handle cross-agency communications whenever feasible and shield businesses and citizens from the complexity of older, mainframe-based systems that agencies commonly use, creating an intuitive and efficient interaction with governments. We also provide industry-compliant payment processing solutions that accommodate credit/debit cards and electronic checks, as applicable. Some of the higher volume and in-demand digital government services we offer in different jurisdictions include:

Product or Service	Description	Primary Users
Business Registrations and Renewals	Allows business owners to search for and reserve a business name, submit and pay for the business registration, and renew the business registration on an annual basis.	Businesses
Court Services	Allows authorized users to search court record databases, make payments for court fines, and in some cases digitally file court documents.	Legal professionals, citizens
Driver's License Renewal	Permits citizens to renew and pay for their driver's license online.	Citizens
Health Professional License Services	Allows users to search databases on several health professions to verify license status.	Hospitals, clinics, health insurers, citizens
Hunting and Fishing Licenses	Permits citizens to obtain and pay for outdoor recreation licenses over the internet via a computer or mobile device or from point-of-purchase retail kiosks.	Citizens
Income and Property Tax Payments	Allows users to file and pay for a variety of state and local income and property taxes.	Businesses and citizens
Limited Criminal History Searches	For those legally authorized, provides users with the ability to obtain a limited criminal history report on a specified individual.	Schools, governments, human resource professionals, nonprofits working with children or handicapped adults
Motor Vehicle Driver History Record Retrieval	For those legally authorized businesses, this service offers controlled instant look-up of driving history records. Includes commercial licenses.	Data resellers, insurance companies
Motor Vehicle Inspections	Allows licensed state inspection stations to file certified motor vehicle and emissions testing inspections online.	Businesses
Payment Processing	Permits use of the internet for secure industry-compliant credit/debit card processing, electronic check processing, and cash, including at the point of sale.	Businesses and citizens

Prescription Drug Monitoring	Tracks the prescribing and dispensing of controlled substances. Consolidates disparate information representing treatment options, education, enforcement and regulatory requirements, and prescriber patterns and volumes.	Hospitals, clinics, doctors, law enforcement, governments
Professional License Renewal	Permits professionals to renew and pay for their licenses online.	Attorneys, doctors, nurses, architects, and other licensed professionals
Secretary of State Business Searches	Allows users to access filings of corporations, partnerships, and other entities, including charter documents.	Attorneys, lenders
Temporary Vehicle Tags	Records temporary vehicle tag registration of a newly purchased car in real time with the state and issues a customized temporary plate for display on the vehicle.	Automobile dealerships, citizens, law enforcement
Uniform Commercial Code (UCC) Searches and Filings	Permits searches of the UCC database to verify financial liens and permits filings of secured financial documents.	Attorneys, lenders
Vehicle Title, Lien & Registration	Provides controlled interactive title, registration, and lien database access. Permits citizens to renew and pay for their vehicle registrations online.	Insurance companies, lenders, citizens
Vital Records	Provides authorized access to birth, death, marriage, domestic partnership and civil union certificates.	Citizens

In addition to these and other services, we also provide customer service and support. Our customer service representatives serve as a liaison between our government partners and businesses and citizens.

Sales and Marketing

We have two primary sales and marketing goals:

- to develop new sources of revenues through new government relationships; and
- to retain and grow our revenue streams from existing government relationships.

We have well-established sales and marketing processes for achieving these goals, which are managed by our national sales and marketing divisions and a dedicated marketing function within most of our subsidiaries.

Developing new sources of revenue

We focus our new government sales and marketing efforts on increasing the number of federal, state and local government agencies that desire to make government more accessible and efficient for all by delivering information and/or completing transactions in new and innovative ways. We meet regularly with information technology, business and policy officials at all levels of government to educate them on the services we offer to drive digital government innovation and transformation for their jurisdictions.

We have a dedicated and experienced sales team focused on our top sales priorities at the federal and state level, including enterprise, digital government opportunities using our proven transaction-based funding model, as well as alternative funding models, and agency-level digital government services under a variety of flexible funding models.

We are regular speakers at conferences across the country devoted to using innovation to facilitate the relationship between governments and the citizens and businesses they serve. In addition to cultivating relationships with federal,

state, and local government officials, we also develop supportive and educational relationships with professional and business organizations that may benefit from digital government improvements and new digital services we can deploy. Finally, we focus our corporate marketing efforts on key government decision makers using advertising, white paper development, media relations and social media.

Once a government decides to implement digital services, it typically starts a selection process that operates under special procurement rules that apply to government purchasing. These rules typically require open bidding by possible service providers against a list of requirements established by the government under existing procedures or procedures specifically created for the service provider selection process. We respond to requests for bids with a proposal that details our philosophy, experience and specific plans for implementing our services and business models. Once our proposal is selected, we enter into negotiations for a contract.

Growing existing markets

In our existing federal, state and local government relationships, our marketing efforts focus on:

- expanding the number of government agencies and localities that provide digital government services;
- identifying new government services that can be usefully and cost-effectively delivered digitally; and
- increasing the number of users who conduct business digitally with governments.

Although each government's unique political and economic environment drives different marketing and development priorities, we have found many of our core applications to be relevant across multiple jurisdictions. Most of our subsidiaries have a dedicated director of marketing and additional staff who coordinate with our national marketing division and meet regularly with government, business and consumer representatives to discuss potential new services and promote existing services. We also promote the use of our extensive library of unique digital government services and payment solutions to existing and new customers through speaking engagements and targeted advertising to organizations for professionals, including lawyers, bankers and insurance agents who have a need for regular digital interaction with government. We identify services that have been developed and implemented successfully for one government and replicate them in other jurisdictions.

Technology and Operations

For more than 25 years, we have made substantial investments in the development of internet-based and mobile services and operations specifically designed to allow businesses and citizens to transact with and receive information from governments online. The scope of our technological expertise includes network engineering as it applies to the interconnection of government systems to the internet, internet security, web-to-legacy system integration, web-to-mainframe integration, web-to-mobile integration, cloud integration, database design, website administration, web page development and payment processing. Within this scope, we have developed and implemented a comprehensive framework for governments, and a broad array of stand-alone configurable platforms and products along with services using a combination of our own proprietary technologies and commercially available, licensed technologies. We believe that our technological expertise, coupled with our in-depth understanding of governmental processes and systems, has made us adept at rapidly creating tailored digital government services that keep our partners on the forefront of technology.

Each of our government partners has unique priorities and needs in the development of its digital government services and payment solutions. More than half of our employees work in the internet services, application development and technology operations areas, and most are focused on a single government partner's technology needs. Our employees develop an understanding of a specific government's services priorities, technical profiles and information technology personnel and management. At the same time, our development directors are trained by experienced technical staff from our other operations, and there is frequent communication and collaboration, which ensures that our government partners can make use of the most advanced digital government services we have developed throughout our organization.

The majority of our state enterprise infrastructure and applications are hosted in a private cloud environment at a central data facility operated by a third-party, with backup at a similar facility in another location. Some of our state enterprise

infrastructure and applications are physically hosted in each jurisdiction in which we operate on servers that we own or lease, or in a third-party cloud environment. We also provide links to sites that are maintained by government agencies or organizations that we do not manage. Our objective is to provide uninterrupted digital service 24 hours per day and seven days a week, and our operations maintain extensive backup, security and disaster recovery procedures.

History has proven that our systems and applications are scalable and can easily be replicated from one government entity to another. We focus on sustaining low-overhead operations, with all major investments driven by the objective of deploying the highest value-added technology and applications to each operation.

Finally, we have designed our digital government services and payment solutions to be compatible with virtually any existing system and to be rapidly deployable. To enable speed and efficiency of deployment, we license commercially available technology whenever possible and focus on the integration and configuration of these “off-the-shelf” hardware and software components when necessary. While we expect that commercially licensed technology will continue to be available at reasonable costs, there can be no assurance that the licenses for such third-party technologies will not be terminated or that we will be able to license third-party technology and applications for future services. While we do not believe that any one individual technology or application we license is material to our business, changes in or the loss of third-party licenses could lead to a material increase in the costs of licensing or to our products becoming inoperable or their performance being materially reduced, with the result that we may need to incur additional development or procurement costs to help ensure continued performance of our services.

We regard our intellectual property as important to our success. We rely on a combination of nondisclosure and other contractual arrangements with governments, our employees, subcontractors and other third parties, copyrights and privacy and trade secret laws to protect and limit the distribution of the proprietary software applications, documentation and processes we have developed in connection with the digital government services we offer.

Competition

Historically, we have not faced significant or consistent competition from companies vying to provide transaction-funded enterprise-wide digital services to governments; however, we face intense competition from companies providing point solutions and platforms to individual government agencies. We believe that the principal factors upon which our businesses compete are:

- our unique understanding of government needs;
- the quality and fit of our digital government services and payment solutions;
- the comprehensiveness of our services in the areas of technology, marketing, security, privacy, policy and regulation;
- speed and responsiveness to the needs of businesses and citizens;
- a proven transaction-based business model that is cost-effective as well as flexible funding models to fit many different government needs; and
- our enterprise-wide approach to serve all agencies, as well as the ability to deliver stand-alone SaaS solutions in the area of payment processing, healthcare, outdoors, and licensing.

We believe we compete favorably with respect to the above-listed factors. An alternative for our enterprise-wide services is a government-designed and managed service that integrates multiple vendors’ technologies, products and services. Companies that have expertise in marketing and providing technology services to government entities compete with us by further developing their services and increasing their focus on agency-specific segments of their business.

Additionally, in some geographic areas, we may face agency-level competition from firms with established reputations and political relationships with potential government partners. Examples of companies that may compete and/or currently compete with us at the enterprise and agency levels are the following:

- traditional large systems integrators and consulting firms, including Deloitte, Accenture, IBM, CGI and Unisys;
- platform providers, including AWS, Microsoft and Salesforce;
- digital transaction payment processors, including First Payment Systems, Paymentus and FIS;
- software application developers and business, professional and occupational license providers, including Accela, FAST Enterprises and GCR; and
- other niche providers, such as Aspira, Sovereign Sportsman Solutions and Brandt Information Services in outdoors and Appriss in healthcare.

Seasonality

The use of some of our digital government services and payment solutions is seasonal, particularly the accessing of motor vehicle driver history records, resulting in lower revenues from this service in the fourth quarter of each calendar year, due to the lower number of business days in this quarter and a lower volume of transactions during the holiday periods.

Human Capital Management and Employee Relations

As of December 31, 2020, we had approximately 1,025 full-time employees, of which approximately 410 were working in corporate operations and approximately 615 were in our state enterprise and software & services businesses. Our future success will depend, in part, on our ability to continue to attract, retain and motivate highly qualified technical and management personnel. We also employ independent contractors to support our application development, marketing, sales and administrative departments. Our employees are not covered by any collective bargaining agreement, and we have never experienced a work stoppage. We believe that our relations with our employees are good.

To facilitate talent attraction and retention, we strive to make NIC a diverse, inclusive and safe workplace, with opportunities for our employees to grow and develop in their careers, supported by competitive compensation, benefits and health and wellness programs, and by programs that build connections between our employees and their communities.

ITEM 1A. RISK FACTORS

Our operations are subject to numerous risks and uncertainties, including those described below. If any of these risks occur, our business, financial condition, and results of operations could be materially adversely affected. In that case, the value of our common stock could decline substantially.

Risks Relating to Our Business

Because we have a limited number of government contracts, the termination or non-renewal of certain of these contracts may harm our business.

Our enterprise-wide contracts typically have multi-year terms with provisions for renewals for various periods at the option of the government. In addition, we have a limited number of other contracts with government agencies through which we provide digital government services.

A government typically has the option to terminate its contract prior to the expiration date if we breach a material contractual obligation and fail to cure such breach within a specified period or upon the occurrence of other events or circumstances specified in our contracts.

We currently have 14 state enterprise contracts and three software & services contracts under which we provide digital government services that can be terminated by the other party without cause upon a specified period of notice. Collectively, revenues generated from these contracts represented approximately 48% of our total consolidated revenues

for the year ended December 31, 2020. If any of these contracts are terminated without cause, the terms of the respective contract may require the government to pay us a fee to continue to use our applications.

In addition, we currently have 11 contracts under which we provide enterprise-wide digital government services, as well as our contract with the FMCSA, that have expiration dates within the 12-month period following December 31, 2020. Although certain of these contracts have renewal provisions, any renewal is at the option of our government partners, who may choose to not renew the contract, to re-open bidding for the services, to take over the services in place and provide services internally, or to allow individual government agencies to retain the services of their own providers. Collectively, revenues generated from these contracts represented approximately 28% of our total consolidated revenues for the year ended December 31, 2020. If a contract expires after a defined term, the government partner would be entitled to take over the services in place, and NIC would have no future revenue from, or obligation to, such former government partner, except as otherwise provided in the contract.

The loss of a contract with one or more government partners, as a result of the expiration, termination, or failure to renew the contract, if not replaced, could significantly reduce our revenues and profitability. If these revenue shortfalls were to occur, our business, results of operations, cash flows, and financial condition would be harmed. We cannot be certain if, when, or to what extent, governments might fail to renew or terminate any or all of their contracts with us.

The COVID-19 pandemic has had and will continue to have significant impacts on our business.

The COVID-19 pandemic and related public health measures continue to rapidly evolve, creating disruption and uncertainty. The extent of the impact of the COVID-19 pandemic on our business and financial results will continue to depend on numerous evolving factors that we are not able to accurately predict, including the duration, scope and severity of the virus, the extent and effectiveness of containment actions, whether the virus recurs seasonally, and the impact of these and other factors on our employees, government partners, citizen consumers and vendors, as well as economic conditions during and after the pandemic, governmental actions that have been taken, or may be taken in the future, in response to the pandemic, and changes in citizen consumer behavior in response to the pandemic, some of which may continue in the future.

The markets for our COVID-19-related services, including rapid-testing solutions and pandemic unemployment services, are characterized by intense competition, evolving distribution models and disruptive technology developments, among other things, which create downward pressure on pricing and profit margins and could adversely affect our contract renewal rates, as well as our ability to attract new customers. Our revenues from COVID-19-related services will depend on the duration and scope of the pandemic, as well as our continued ability to enhance and integrate our existing services, introduce new services in a timely and cost-effective manner and meet changing government and citizen consumer expectations and needs, among other things. Some of our competitors and potential competitors for COVID-19-related services enjoy competitive advantages such as greater financial, sales, marketing and other resources, as well as broader brand awareness. As a result of these advantages, potential and current government partners and other clients might select the services of our competitors, causing a loss of our current market share.

In response to COVID-19 concerns, we have imposed strict travel restrictions, temporarily closed all our offices and shifted to remote operations to ensure social distancing and the health and safety of our employees which may have negative impacts on our business development efforts. Most of our government partners and potential government partners have implemented similar measures, which may limit our ability to provide or sell our services to them. Our government partners may also have less funding for services, delay or cancel purchasing decisions or projects in light of uncertainties arising from the COVID-19 outbreak, which may reduce our revenues.

If one of our key employees or executive officers were to contract an infectious disease that impacts the ability to work for an extended period, even with an adequate succession plan, it could harm our business until that employee or executive officer recovers or until a permanent replacement is found. Hiring and training new employees may require substantial resources and management attention, particularly in a remote workforce environment. Further, because we are self-insured for healthcare, the medical costs associated with treating our employees that contract an infectious disease such as COVID-19 could be significant.

COVID-19 has negatively affected economic conditions in the United States and resulted in the Federal Reserve lowering interest rates to near zero, which has reduced the interest income we earn on our investable cash and increased the amount of fees we pay for commercial banking services. Any reduction in the earnings credit rate set by our commercial banking partners, which a bank calculates on non-interest bearing customer deposits and uses to offset service charges, could further increase fees we pay for commercial banking services.

We have partnered with third parties to offer and conduct COVID-19 testing on behalf of governmental agencies or other entities, and those third parties may not perform satisfactorily, including failing to meet deadlines for the completion of such testing, which may prevent or delay our ability to seek or obtain additional COVID-19 testing services or otherwise harm our business. If we are not able to maintain these third-party relationships or if these arrangements are terminated, we may have to alter our COVID-19 testing development and commercialization plans.

We have partnered with and rely on third-party healthcare providers to offer and conduct COVID-19 testing on behalf of governmental agencies or other entities. We do not plan to independently conduct COVID-19 testing. These third parties play a significant role in COVID-19 testing at the service sites. These third-party arrangements might terminate for a variety of reasons, including a failure to perform by the third parties. If we need to enter into alternative arrangements, our COVID-19 testing solution services may be delayed or terminated and hinder our ability to expand such services.

Our reliance on these third parties for conducting the health care aspects of COVID-19 testing reduces our control over these activities but does not relieve us of our responsibilities. For example, we remain responsible for ensuring that our COVID-19 testing is conducted in accordance with the regulatory requirements and the terms of our agreements. Failure to do so can result in fines, adverse publicity and civil and criminal sanctions.

If any of our relationships with these third parties terminate, we may not be able to enter into arrangements with alternative third parties or do so on commercially reasonable terms. Switching or adding additional third-party providers may involve additional cost and require management time and focus. In addition, there is a natural transition period when a new provider commences work. As a result, delays can occur, which could materially impact our ability to continue providing and expanding our COVID-19 testing solution. The COVID-19 pandemic and government measures taken in response have also had a significant impact on many testing service providers. Although we plan to carefully manage our relationships with our third-party providers, we may nonetheless encounter challenges or delays in the future, which could have a material and adverse impact on our COVID-19 testing business and prospects.

If we are unable to meet the unique challenges involved in contracting with governments and government agencies, our business may be harmed.

Our revenues are generated principally from contracts with state governments and government agencies within a state, and to a lesser extent with federal government agencies, to provide digital government services on behalf of those government entities to complete transactions, process payments and distribute public information digitally. We face many risks uniquely associated with government contracting, including:

- regulations that govern the fees we collect for many of our services, limiting our control over the level of transaction-based fees we are permitted to retain;
- the potential need for governments to draft and adopt specific legislation before they can circulate a request for proposal (“RFP”) to which we can respond or before they can otherwise award a contract or provide a new digital service, and the risk that enabling legislation previously adopted to establish our contract or to otherwise benefit us could be challenged, reinterpreted, repealed or modified;
- unexpected changes in legislation that increase our costs or result in a temporary or permanent suspension of our services;
- the potential need for changes to legislation authorizing government’s contracting with third parties to receive or distribute public information;

- long and complex sales cycles that vary significantly according to each government entity's policies and procedures;
- political resistance to the concept of government agencies contracting with third parties to receive or distribute public information, which has been offered traditionally only by the government agencies and often without charge;
- changes in government administrations that could impact existing RFPs, rebids, renewals or extensions; and
- government budget deficits and appropriation approval processes and periods, either of which could cause governments to curtail spending on services, including time and materials-based fees for application development or fixed-fee services, which constituted approximately 7% and 11% of total consolidated revenues, respectively, for the year ended December 31, 2020.

Each of these risks is outside of our control and could result in harm to our business, results of operations, cash flows, and financial condition.

Because many of our contracts grant our government partners fully paid, perpetual licenses to use and modify certain applications and digital government services we develop, upon a termination by them for cause or the natural expiration of our state enterprise contracts, many of our government partners could elect to take over the operation and maintenance of our applications themselves or hire a competitor to operate and maintain such applications. Any such decision to do so could adversely affect our revenues and profits.

After termination for cause or the natural expiration of our contracts, it is possible that governments and their contractors may operate services themselves using the perpetual use license we typically are contractually obligated to provide to them. This license generally permits the government to use and modify the applications and digital government services we have developed for them on a perpetual, royalty-free basis (excluding certain proprietary applications that we provide on a SaaS basis). This perpetual use license could make it easier and more cost effective for our government partners to elect not to enter into a new contract with us after the expiration of one of our contracts. Any such election could adversely affect our revenues and profits. Additionally, anyone using our applications and digital government services may inadvertently allow our intellectual property or other information to fall into the hands of third parties, including our competitors. If a contract is terminated prior to the natural expiration of the term without cause, the terms of the respective contract typically require the government to pay a fee to us to continue to use our applications in its state.

Our ability to grow revenues may be limited by the number of governments and government agencies that choose to provide digital government services using our business model and by the finite number of governments with which we may contract for our digital government services.

Our revenues are generated principally from contracts with state governments and government agencies within a state to provide digital government services on behalf of those government entities, and to complete transactions, process payments and distribute public information digitally. The growth in our revenues largely depends on government entities adopting our business model. We cannot ensure that government entities will choose to provide digital government services or continue to provide digital government services at current levels, or that they will provide such services with private assistance or by adopting our model. Generally, under our enterprise-wide transaction-based business model, we initially generate a high proportion of our revenues from the transaction-based services we provide on behalf of a limited number of government agencies within a state, while other agencies consider participating in the enterprise-wide contract. If any of our partner agencies within a state are dissatisfied with even one of the many services we provide, it may negatively affect our ability to convince additional agencies to partner with us or retain our enterprise agreement. The failure to secure contracts with certain government agencies, particularly those agencies that control motor vehicle driver history records, could result in revenue levels insufficient to support our operations on a self-sustained, profitable basis.

In addition, because there is a finite number of states remaining with which we can contract for our services, future increases in our revenues may depend, in part, on our ability to expand our business model to include multi-state cooperative organizations, local governments and federal agencies and to broaden our service offerings to diversify our

revenue streams across our lines of business. We cannot ensure that we will succeed in expanding into new markets or broadening our service offerings, or that our services will be adaptable to those new markets.

We earn a significant percentage of our revenues and related accounts receivable from a limited number of services and customers. Any reduction in demand for those services or negative trends in the businesses of those customers could adversely affect our results of operations and financial condition.

We earn a high proportion of our revenues and related accounts receivable from a limited number of services and customers. A significant portion of our revenues is derived from data resellers' use of our services to access motor vehicle driver history records for the automobile insurance industry. Transaction-based fees charged for access to motor vehicle driver history records in various states accounted for approximately 19% of our total consolidated revenues for the year ended December 31, 2020. One of these data resellers, LexisNexis Risk Solutions, accounted for approximately 11% of our total consolidated revenues during this period. While fees charged for access to motor vehicle driver history records are currently expected to continue to account for a significant portion of our consolidated revenues for the foreseeable future, regulatory changes or the development or increased use of alternative information sources, such as credit scoring, could materially reduce our revenues from this service. Our contracts with data resellers generally may be terminated at any time after a 30-day notice and may be terminated immediately at the option of any party in certain circumstances. Furthermore, our credit risk may increase in the event any data resellers experience liquidity or solvency issues. We generally do not require collateral to secure accounts receivable.

A reduction in revenues from currently popular services or an inability to collect a major portion of our accounts receivable would harm our business, results of operations, cash flows, and financial condition, and our liquidity may be adversely affected.

If our competitors become more successful in developing and selling products or platforms for government-related services, including certain vertical and point solutions we offer, then our business could be adversely affected.

Companies that have expertise in marketing and providing online services to government entities compete with us by further developing their services and increasing their focus on this area of their businesses. To the extent we can continue to expand our services in existing states and our contracts become more profitable, the competition in our markets may increase. Many of our potential competitors are national or international in scope and have greater resources than we do. These resources could enable our potential competitors to offer lower prices or take other measures to gain market share. Additionally, in some geographic areas, we may face competition from firms with established reputations and political relationships with potential government partners. If we do not compete effectively or if we experience any pricing pressures, reduced profit margins or loss of market share, our business, results of operations, cash flows, and financial condition may be adversely affected.

Our business will be adversely affected if we are unable to hire, integrate, train, or retain the qualified personnel needed to operate our business.

Our future success will depend, in part, on the efforts of our executive officers and other key employees, most of whom have extensive experience with us and in our industry. The loss of any of our executives or key employees, even with an adequate succession plan, could harm our business. In addition, we may need to hire personnel for new operations in jurisdictions in which we may obtain contracts. We may not be able to retain our current key employees or attract, integrate, or retain other qualified employees in the future. If we do not succeed in attracting new personnel, particularly in the competitive market for information technology professionals, or succeed in integrating, retaining, and motivating our current personnel, our business could be harmed. In addition, new employees generally require substantial training in the presentation, policies, and positioning of our services. This training will require substantial resources and management attention.

Increases in credit/debit card association and automated clearing house fees may result in lower transaction volumes and/or a reduction in our earnings.

From time to time, credit/debit card and electronic check processors increase the fees (interchange and assessment fees) that they charge companies such as us. We could attempt to pass these increases along to citizens and businesses, but this might result in the loss of those customers or lower transaction volumes. If we are not able to pass along such increased fees to citizens and businesses in the future, we may have to absorb all or a portion of such increases thereby increasing our operating costs and reducing our earnings and profit margins.

We depend on third parties, including subcontractors and prime contractors with whom we engage or collaborate for certain projects, deliverables, and/or financial transaction processes. If these parties fail to satisfy their obligations to us or we are unable to maintain these relationships, our operating results and business prospects could be adversely affected.

To satisfy our obligations under contracts, we often engage third parties, including subcontractors, to fulfill certain requirements. We also use third parties to ensure that our services and solutions integrate with the software, systems, or infrastructure requirements of other vendors and service providers. Our ability to serve our clients and deliver our solutions in a timely manner depends on our ability to retain and maintain relationships with subcontractors, vendors, and service providers and the ability of these third parties to meet their obligations in a timely manner, as well as on our effective oversight of their performance. If any third-party fails to perform on a timely basis the agreed-upon services, our ability to fulfill our obligations may be jeopardized. Third-party performance deficiencies could result in the termination of our contract for default. A termination for default could expose us to liability for damages and have an adverse effect on our business prospects, results of operations, cash flows and financial condition and our ability to compete for future contracts and orders.

In addition, we may act as subcontractor to a third-party prime contractor to secure new projects. Subcontracting arrangements where we are not the prime contractor pose unique risks to us because we may not have control over the customer relationship, and our ability to generate revenue under such subcontracts may depend on the prime contractor, its performance and relationship with the customer, and its relationship with us. We could suffer losses in the event a prime contract under which we serve as a subcontractor is terminated, whether for non-performance by the prime contractor or otherwise. Upon a termination of the prime contract, our subcontract would similarly terminate, and the resulting contract loss could have an adverse effect on our business prospects, results of operations, cash flows, and financial condition and our ability to compete for future contracts and orders.

We may be unable to integrate new technologies and industry standards effectively, which may adversely affect our business and results of operations.

Our future success will depend on our ability to enhance and improve the responsiveness, functionality, and features of our services in accordance with industry standards and to address the increasingly sophisticated technological needs of our customers on a cost-effective and timely basis. Our ability to remain competitive will depend, in part, on our ability to:

- enhance and improve the responsiveness, functionality and other features of the government services we offer;
- continue to develop our technical expertise;
- develop and introduce new services, applications and technology to meet changing customer needs and preferences; and
- influence and respond to emerging industry standards and other technological changes in a timely and cost-effective manner.

We cannot ensure that we will be successful in responding to the above technological and industry challenges in a timely and cost-effective manner. If we are unable to integrate new technologies and industry standards effectively, our business could be harmed.

Our intellectual property rights are valuable and any inability to protect them could harm our company.

We regard our intellectual property as important to our success. We rely on a combination of nondisclosure and other contractual arrangements and policies with governments, our employees, prime contractors, subcontractors, vendors and other third parties, copyrights and privacy and trade secret laws to protect and limit the distribution of the proprietary applications, documentation and processes we have developed in connection with the services we offer. Despite our precautions, third parties may succeed in misappropriating our intellectual property or independently developing similar intellectual property. If we fail to adequately protect our intellectual property rights and proprietary information, if we utilize open source software in a manner that places proprietary source code in the public domain, or if we become involved in litigation relating to our intellectual property rights and proprietary technology, our business could be harmed. Any actions we take may not be adequate to protect our proprietary rights, and other companies may develop technologies that are similar or superior to our proprietary technology.

Any failure to meet our responsibilities or obligations under a contract, regardless of whether there is a claim for which we are liable, may result in damages.

Performance deficiencies by us or our third-party vendors, including subcontractors, could result in a default under one or more of our contracts, which could expose us to liability and have an adverse effect on our business prospects, on our financial condition, and on our ability to compete for future contracts. If we fail to meet our contractual obligations, if our performance or our third-party vendors' performance gives rise to claims, if our government partners are otherwise held liable for claims related to the services provided under our contracts, or if our government partners seek to hold us liable for claims or damages for which we have agreed to be responsible for under our contracts, we could be subject to legal liability, monetary damages and loss of customer relationships. Additionally, in many of our contracts, our government partners do not indemnify us from losses related to their performance or non-performance.

Our business will suffer if we lose the right to provide access to the content filed or distributed through our digital government services or if we are held liable for the content that we pass to users from government entities.

We do not own or create the content filed or distributed through the digital government services we operate. We depend on the governments with which we contract to supply information and data feeds to us on a timely basis to allow businesses and citizens to complete transactions and obtain government information. We cannot ensure that these data sources will continue to be available in the future. Government entities could terminate their contracts to provide data. Changes in regulations could mean that governments no longer collect some types of data or that the data is protected by more stringent privacy rules preventing uses now made of it. Moreover, our data sources are not always subject to exclusive agreements, so that data included in our services also may be included in those of our potential competitors. In addition, we depend upon the accuracy and reliability of government computer systems and data collection for the content distributed through the services we operate. The loss, unavailability, or inaccuracy of our data sources in the future, or the loss of our exclusive right to distribute some of the data sources, could harm our business, results of operations, cash flows, and financial condition.

Because we aggregate and digitally distribute private and sensitive public information, we may face potential liability for defamation, libel, negligence, invasion of privacy and other claims based on the nature and content of the material that is published on or distributed through the digital government services we operate. Most of the agreements through which we obtain consent to disseminate this information do not contain indemnity provisions in our favor. These types of claims have been brought, sometimes successfully, against online services in the past. We cannot ensure that our insurance will be adequate to reimburse us for all liability that may be imposed. Any liability that is not covered by our insurance, or is in excess of our insurance coverage, could severely harm our business operations and financial condition.

We may need more working capital to fund operations and expand our business, and any failure to obtain such needed working capital would adversely affect our business.

Although we believe that our current financial resources and future cash generated from operations will be sufficient to meet our present working capital and capital expenditure requirements and potential dividend payments for at least the next 12 months, we may need to raise additional capital before this period ends to further:

- fund operations, if unforeseen costs or revenue shortfalls arise;
- support our expansion into other states and federal government agencies beyond what is contemplated if unforeseen opportunities arise;
- expand our product and service offerings beyond what is contemplated if unforeseen opportunities arise;
- fund acquisitions;
- respond to unforeseen competitive pressures; and
- acquire technologies beyond what is contemplated.

Our future liquidity and capital requirements will depend upon numerous factors, including the success of our existing and new service offerings and potentially competing technological and market developments. However, any projections of future cash flows are subject to substantial uncertainty. If current cash, lines of credit and cash generated from operations are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity securities, issue debt securities, or draw on the unused portion of our line of credit. If we need to obtain new debt or equity financing in the future, the terms and availability of such financing may be impacted by economic and financial market conditions, as well as our financial condition and results of operations at the time we seek additional financing. The sale of additional equity securities could result in dilution to our stockholders. From time to time, we expect to evaluate the acquisition of or investment in businesses and technologies that complement our various digital government businesses. Acquisitions or investments might affect our liquidity requirements or cause us to sell additional equity securities or issue debt securities. There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all. If adequate funds were not available on acceptable terms, our ability to develop or enhance our applications and services, take advantage of future opportunities, or respond to competitive pressures would be significantly limited. This limitation could harm our business, results of operations, cash flows and financial condition.

Our quarterly results of operations may be volatile and difficult to predict. If our quarterly results of operations, future growth, profitability or dividend levels fail to meet the expectations of public market analysts or investors, the market price of our common stock may decrease significantly.

Our future revenues and results of operations may vary significantly from quarter to quarter due to several factors, many of which are outside of our control, and any of which may harm our business. These factors include:

- the commencement, completion or termination of contracts during any quarter;
- the introduction of new services by us or our competitors;
- technical difficulties or system downtime affecting the operation of our services;
- the amount and timing of operating costs and capital expenditures relating to the expansion of our business operations and infrastructure;
- unexpected changes in federal, state and local legislation that increase our costs and/or result in a temporary or permanent decrease in our revenues;
- the seasonal use of some of our services, particularly the accessing of motor vehicle driver history records;
- changes in economic conditions;
- the result of negative cash flows due to capital investments; and
- significant charges related to acquisitions.

Due to the factors noted above and the other factors described in these Risk Factors, our financial performance in a quarter may be lower than we anticipate, and if we are unable to reduce spending in that quarter, our results of operations for that quarter may be harmed. One should not rely on quarter-to-quarter comparisons of our results of operations as an

indication of future performance. It is possible that in some future periods our results of operations may be below the expectations of public market analysts and investors. If this occurs, the price of our common stock may decline. In addition, if we fail to meet expectations related to future growth, profitability, dividends or other market expectations, the price of our common stock may decline.

Our payment of dividends in the future is subject to several risks and uncertainties, and any failure to pay dividends in the future or any reduction in the amount of future dividend payments may adversely affect our stockholders.

Although our Board of Directors has approved a dividend policy pursuant to which it plans to make, subject to subsequent declaration, regular quarterly cash dividends, the payment of future dividends is subject to several risks and uncertainties, and we may not pay quarterly dividends in the same amounts or at all in the future. Our Board of Directors evaluates our dividend practice quarterly and may elect to increase, decrease or not pay a dividend at any time. Our ability to pay dividends could be affected by future business performance, liquidity, capital needs, alternative investment opportunities and debt covenants associated with our line of credit. Any future determination as to the payment of dividends will be made at the discretion of our Board of Directors and will depend on our operating results, financial condition, capital requirements, general business conditions and such other factors as our Board of Directors deems relevant. Any future decisions to reduce or discontinue paying cash dividends to our stockholders could cause the trading price for our common stock to decline and could adversely affect our stockholders.

We may be subject to intellectual property infringement claims, which are costly to defend and could limit our ability to use certain technologies in the future.

We may become subject to claims alleging infringement of third-party intellectual property rights. Our state enterprise contracts require us to indemnify our government partners for infringing software we build or use. Any claims could subject us to costly litigation and may require us to pay damages and develop non-infringing intellectual property or acquire licenses to the intellectual property that is the subject of the alleged infringement. Licenses for such intellectual property may not be available on acceptable terms or at all. Litigation regarding intellectual property rights is common in the internet and software industries. We expect third-party infringement claims involving internet technologies and software products and services to continue to increase. If an infringement claim is filed against us, we may be prevented from using certain technologies and may incur significant costs resolving the claim. We cannot ensure that our applications and services do not infringe on the intellectual property rights of third parties. In addition, we have agreed, and expect that we may agree in the future, to indemnify certain of our partners against claims that our services infringe upon the intellectual property rights of others. We could incur substantial costs in defending ourselves and our partners against infringement claims.

We depend on technology licensed to us by third parties, and the loss of access to, or improper management of the licensing of this technology could delay implementation of our services or force us to pay higher license fees or fines.

We license numerous third-party technologies and applications that we incorporate into our existing service offerings, and on which, in the aggregate, we are substantially dependent. There can be no assurance that the licenses for such third-party technologies will not be terminated or that we will be able to license third-party technology and applications for future services. While we do not believe that one individual technology or application we license is material to our business, changes in or the loss of third-party licenses could lead to a material increase in the costs of licensing, or to our products becoming inoperable or their performance being materially reduced. The result could be that we may need to incur additional development or procurement costs to continue the performance of our services, and either the cost of such undertakings or the failure to successfully complete such undertakings could have a material adverse effect on our business, results of operations, cash flows and financial condition. Additionally, because of the decentralized nature of our operations, licensing of third-party technology can be complex and difficult to track and continually monitor. Our inability to do so could result in fines, an increase in licensing fees, or the temporary inability to utilize the third-party technology until licensing issues are resolved.

We are subject to independent audits as requested by our government customers. Deficiencies in our performance under a government contract could result in contract termination, reputational damage, or financial penalties.

Each government entity with which we contract may have the authority to require an independent audit of our performance and financial management of contracted operations in each respective state. The scope of audits could include inspections of income statements, balance sheets, fee structures, collections practices, service levels, security practices, and our compliance with contract provisions and applicable laws, regulations and standards. The expansion of our operations into new markets and services may further expose us to requirements and potential liabilities under additional statutes and rules that have previously not been relevant to our business. We cannot ensure that a future audit will not find any material performance deficiencies that would result in an adjustment to our revenues and result in financial penalties. Moreover, any consequent negative publicity could harm our reputation among other governments with which we would like to contract. These factors could harm our business, results of operations, cash flows and financial condition.

Risks Relating to Technology and Cybersecurity

Security breaches or unauthorized access to payment information (including credit/debit card data) personal information (including personal health information) or any other sensitive data subject to state and federal laws that we or our service providers store, process, use or transmit for our business may harm our reputation, cause service disruptions and adversely affect our business and results of operations.

A significant challenge to electronic commerce is the secure transmission of payment information and/or personal information over information technology networks and systems which process, transmit and store electronic information, and manage or support a variety of business processes. The collection, maintenance, use, disclosure and disposal of payment information and personal information by our businesses are regulated at state and federal levels, and cybersecurity legislation, executive orders and reporting requirements continue to evolve and become more complex. Because we either directly or indirectly through service providers (i) provide the electronic transmission of sensitive and personal information released from and filed with various government entities and (ii) perform online payment and electronic check processing services, we face the risk of a security breach. These security breaches could take place through system attacks, hacking events, acts of vandalism or theft, malware, viruses, human errors, catastrophes or other unforeseen events that could lead to significant disruptions or compromises of information technology networks and systems or the unauthorized release or use of payment information or personal information. Additionally, vulnerabilities in the security of our own internal systems or those of our service providers could compromise the confidentiality of, or result in unauthorized access to, personal information of our employees.

We rely on encryption and authentication technology purchased or licensed from third parties to provide the security and authentication tools to effectively secure transmission of confidential information, including user credit/debit card information and banking data. Advances in computer capabilities, new discoveries in the field of cryptography, threats that evolve ahead of tools designed to counter them, or other developments may result in the breach or compromise of technology used by us to protect transaction data. Data breaches can also occur as a result of non-technical issues, such as so-called "social engineering."

Despite the various security measures we have in place to protect payment and personal information from unauthorized disclosure and to comply with applicable laws and regulations, our information technology networks and systems and those of our third-party vendors and service providers cannot be made completely secure against security incidents. Even the most well protected information, networks, systems and facilities remain vulnerable to security breaches or disruptions, because (i) the techniques used in such attempts are constantly evolving and generally are not recognized until launched against a target, and in some cases are designed not to be detected and, in fact, may not be detected for an extended period and (ii) the security methodologies, protocols, systems and procedures used for protection are implemented by humans at each level, and human errors may occur. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, or if such measures are implemented, and even if appropriate training is conducted in support of such measures, human errors may still occur. It is impossible for us to entirely mitigate this risk. A party, whether internal or external, who is able to circumvent our security measures, or those of our service providers, could misappropriate information, including, but not limited to payment information and personal information, or cause interruptions or direct damage to our partners or their users.

In addition, COVID-19 remote work-from-home restrictions make us more dependent on certain technologies that allow us to operate our business remotely and collaborate without face-to-face meetings both internally and with our

customers. To the extent we may experience significant technological disruptions in our work-from-home capabilities, we would anticipate a negative impact on our business operations. Further, to the extent supply chains are disrupted, it may become more difficult to provide necessary technology to our employees working from remote locations.

In addition, the increase in certain of our employees working remotely has amplified certain risks to our business, including increased demand on our information technology resources and systems, increased phishing, business email compromise and other cybersecurity attacks, including increased introduction of malware, as cybercriminals try to exploit the uncertainty surrounding the COVID-19 pandemic, and an increase in the number of points of potential attack, such as laptops and mobile devices (both of which are now being used in increased numbers) to be secured, and any failure to effectively manage these risks, including to timely identify and appropriately respond to any cyberattacks or other disruption to our technology infrastructure, may adversely affect our business.

Under payment card rules and our contracts with our credit card processors, if there is a breach of payment card information that we store, process, or transmit, we could be subject to fines. We could also be liable to partners for costs of investigation, notification, remediation and credit monitoring and for any damages to users under applicable laws or our partner contracts.

In addition, any noncompliance with privacy laws or a security breach involving the misappropriation, loss or other unauthorized access, use or disclosure of payment information or personal information, or other significant disruption involving our information technology networks and systems, or those of our service providers (whether or not caused by a breach of our contractual obligations or our negligence), may lead to substantial costs and other consequences, which may include negative publicity, impair our ability to conduct our business, subject us to private litigation and government investigations and enforcement actions and cause us to incur potentially significant liability, damages or remediation costs, increased cybersecurity protection costs, lost revenues, increased insurance premiums and damage to our stock price and long-term stockholder value. It may also cause the governments with whom we contract to lose confidence in us, any of which may cause the termination or modification of our government contracts and impair our ability to win future contracts. Actual or anticipated attacks and risks affecting our own, our service providers' or our government partners' environment may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, to train employees, and to engage third-party security experts and consultants. If we fail to reasonably maintain the security of confidential information, we may also suffer significant reputational and financial losses and our results of operations, cash flows, financial condition and liquidity may be adversely affected.

We could suffer significant losses and liability if our or our service providers' operations, systems or platforms are disrupted or fail to perform properly or effectively.

The continued efficiency and proper functionality of our or our service providers' technical systems, platforms and operational infrastructure is integral to our performance. As we grow, we continue to purchase equipment and upgrade our technology and network infrastructure to handle increased traffic on the digital government services we operate. We may experience occasional system interruptions and delays that make digital government services unavailable or slow to respond and prevent businesses and citizens from accessing information to which we provide access and services we operate. Any such interruptions or delays in the future could cause users to stop using the services we operate and could cause our government partners to penalize us financially or terminate agreements with us. Our operations, systems and platforms, or those of our service providers, may also be disrupted or fail due to catastrophic events such as natural disasters, telecommunications failures, power outages, cyber-attacks, terrorist attacks, acts of war or other catastrophic events. If any of these circumstances occurred, our business could be harmed.

The majority of our technology infrastructure and applications are hosted at leased data centers operated by a third-party on servers we own, with a near real-time backup at a similar facility in a different geographic region of the country. Some of our technology infrastructure and applications are physically hosted in each jurisdiction in which we operate on servers that we own or lease, or in a third-party provided cloud environment. Data center servers are virtually segmented by government partner while housing more than one government partner's services. An outage in one of the servers hosted outside one of the data centers could affect that government partner's services. An outage at both of our leased data centers, or at one data center and to the connection to our backup facility, could affect more than one government partner's services. Any of these system failures could harm our business, results of operations, cash flows and financial

condition. Our insurance policies may not adequately compensate us for any losses that may occur due to any failures of or interruptions in our systems.

Risks Relating to Legal and Regulatory Matters

We may become subject to liability under rules and standards for processing electronic direct debit payments from bank accounts and credit card payments.

We are required to comply with the Payment Card Industry's Data Security Standards ("PCI DSS") and the rules and standards promulgated by the National Automated Clearing House Association ("NACHA") because we provide online payment and electronic check processing services. We may become potentially liable if we fail to handle transactions in accordance with these rules, or for failing to return funds within the prescribed time frame to the bank account of the person or entity disputing our authorization to debit those funds, before the dispute regarding our authorization is resolved. Our agreements with governmental agencies at the federal, state and local levels transfer this obligation for rapid funds return during dispute resolution to the government agencies affected, but in the event that such return does not happen, we may be potentially liable notwithstanding the government's failure, and we may not be able to obtain reimbursement from the government involved or from the individual user or entity that initiated the debit without authorization. If this were to happen, our business, results of operations, cash flows and financial condition may be adversely affected. Our credit card and electronic check processing is also subject to the applicable rules of the card association or clearinghouse and applicable law. Additionally, in certain jurisdictions we are or may become subject to laws governing money transmitters and anti-money laundering for certain services we offer. If our interpretations, or those of our government partners, of any laws, rules, regulations, or standards are determined to be incorrect, we could be exposed to significant financial liability, substantial fines and penalties, cease and desist orders, and other sanctions that could restrict or eliminate our ability to provide certain of our services in one or more states or accept certain types of transactions in one or more states, or could force us to make costly changes to our business practices. If we were unable to accept payment cards or process checks electronically, our business would be negatively impacted.

We may become liable for violations of certain privacy laws as adopted federally or in each state.

We act as an outsourced manager on behalf of states, for electronic access to records pertaining to motor vehicles and motor vehicle operators (driver history records) by users and certain permitted resellers. These records are the largest group of records for which we process electronic access for state agencies and are processed in most of our state enterprise businesses. These records contain "personal information" and "sensitive personal information" as defined by the federal Driver Privacy Protection Act, and state versions of that Act adopted in every state (collectively, the "DPPA"). The DPPA regulates categories and circumstances under which "personal information" and "sensitive personal information" may be disclosed to requesters. Each state has procedures for complying with the DPPA, and such procedures may vary from state to state. We closely follow each state's compliance procedures for general access. If we fail to follow such procedures, or we grant access to users not in compliance with such procedures, or if such procedures are deemed inadequate in some way, our business, results of operations, cash flows and financial condition may be adversely affected. The DPPA permits statutory damages to be awarded to the subjects of such records, even without proof of actual damage, for certain infringements or violations of the DPPA. We may be potentially liable for such damages in such instances, and we may have no recourse against the state.

Some of our business services involve the collection, transmission and use of an individual's protected health information or other sensitive personal information, which may be subject to the Health Insurance Portability and Accountability Act ("HIPAA") or other state privacy and security laws and regulations. In some cases, we also use aggregated and de-identified data as defined by HIPAA for analytical purposes, particularly related to improving the quality of services we provide. At the federal level, HIPAA imposes extensive privacy and security requirements governing the transmission, use and disclosure of health information. These increasingly complex laws, regulations and industry requirements are subject to change and compliance with them may result in significant expenses associated with increased operational and compliance costs, particularly as we continue to offer new services in this field. To the extent that either we or our vendors with whom we share information are found to be out of compliance with such applicable laws and regulations or experience a data security breach, we could be subject to litigation, regulatory risks, reputational harm and damages, fines or penalties. Failure to comply with federal or state statutes or regulations may also result in criminal penalties or civil sanctions.

Our PSP service for the FMCSA requires that PSP record data be disclosed in compliance with the Fair Credit Reporting Act (“FCRA”) and the Safe, Accountable, Efficient Transportation Equity Act: A Legacy for Users (“SAFETEA-LU”). We may also have other online services that are or become subject to the FCRA and/or SAFETEA-LU. If we fail to follow such procedures, or we grant access to users not in compliance with such procedures, or if such procedures are deemed inadequate in some way, we may become subject to monetary fines, penalties or damages, and our business, results of operations, cash flows, and financial condition may be adversely affected. The FCRA and SAFETEA-LU permit statutory damages to be awarded to the subjects of such records, even without proof of actual damage, for certain infringements or violations. In addition, any failure to comply with the FCRA, SAFETEA-LU or other federal laws may result in reputational damage.

Risks Relating to Conditions in Financial Markets and the Economy

A prolonged economic slowdown could harm our operations.

A prolonged economic slowdown or recession could materially impact our operations to the extent it results in reduced demand for internet-based access to digital government services. In addition, it may hinder our efforts to obtain new business by distracting the attention of governments or impairing the ability of governments to hear or act upon our value proposition due to reduced personnel or turnover. These same factors may also jeopardize our renewal or rebid opportunities on existing contracts. If current market and economic conditions deteriorate, we may experience adverse impacts on our business, results of operations, cash flows and financial condition.

Our cash could be adversely affected if any of the financial institutions in which we hold our cash fails or becomes subject to other adverse conditions in the financial or credit markets.

Our cash primarily includes cash on hand in the form of bank deposits. We maintain our cash with major financial institutions. Deposits with these financial institutions exceed the Federal Deposit Insurance Corporation (“FDIC”) insurance limits. At December 31, 2020, the amount of cash covered by FDIC deposit insurance was \$9.7 million, and \$226.8 million of cash was above the FDIC deposit insurance limits. These balances and our liquidity could be affected if one or more of the financial institutions with which we deposit funds fails or becomes subject to other adverse conditions in the financial or credit markets. To date, we have experienced no loss or lack of adequate access to our cash; however, we can provide no assurance that access to our liquidity will not be impacted or that we will not lose deposited funds in excess of FDIC insurance limits as a result of the failure or insolvency of any these financial institutions or adverse conditions in the financial and credit markets.

Recent and potential future acquisitions involve inherent risks that may materially adversely affect our business and results of operations.

To expand our operations and grow our market and client base, we may seek and complete strategic acquisitions and other business combinations in the future. Acquisitions have inherent risks which may have a material adverse effect on our business and results of operations. In particular,

- The pursuit of acquisitions and execution of integration plans may divert the attention of our management from other key responsibilities;
- We may fail to successfully integrate the business and financial operations, business culture, services, intellectual property, solutions or personnel of an acquired business;
- We may assume unanticipated liabilities and contingencies;
- We may substantially reduce our cash position, become significantly leveraged because of incurring debt or issue additional equity to finance one or more acquisitions; and
- Our earnings per share may be diluted because of acquisitions.

If we fail to identify suitable potential acquisition candidates, fail to successfully integrate acquired businesses or to fail to implement our business strategies with respect to these acquisitions, we may not be able to achieve projected results or support the amount of consideration paid for such acquired businesses, and our business and results of operations may be materially adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal administrative office occupies a total of approximately 51,000 square feet of leased space at 25501 West Valley Parkway, Suite 300, Olathe, Kansas 66061. All our subsidiaries also lease their facilities. We do not own any real property.

ITEM 3. LEGAL PROCEEDINGS

Litigation

We are involved from time to time in legal proceedings and litigation arising in the ordinary course of business. However, we are not currently a party to any material legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock trades on the Nasdaq Stock Market under the symbol "EGOV".

As of February 24, 2021, there were approximately 210 holders of record of shares of our common stock.

Dividends and Share Repurchases

Refer to Note 10, Stockholders' Equity, to Consolidated Financial Statements in Item 8 of this Form 10-K for further discussion regarding dividends.

During the fourth quarter of 2020, we acquired and canceled shares of common stock surrendered by employees to pay income taxes due upon the vesting of restricted stock as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (1)
October 1 - October 31, 2020	1,855	\$ 21.37	—	21,062
Total	1,855	\$ 21.37	—	

(1) In March 2018, we announced that our Board of Directors had authorized a stock buyback program allowing the Company to repurchase up to \$25 million of our common stock. Share repurchases may be made in the open market or in privately negotiated transactions as permitted by securities laws and other legal requirements and may be made under a Rule 10b5-1 plan.

Performance Graph

The performance graph below compares the annual change in our cumulative total stockholder return on our common stock during a period commencing on December 31, 2015, and ending on December 31, 2020 (as measured by dividing (i) the sum of (A) the cumulative amount of dividends for the measurement period, assuming dividend reinvestment and (B) the difference between our share price at the end and the beginning of the measurement period; by (ii) the share price at the beginning of the measurement period) with the cumulative total return of each of: (a) the Nasdaq Composite (U.S.) Index, and (b) the Russell 2000 Index assuming a \$100 investment on December 31, 2015. The stock price performance on the graph below is not necessarily indicative of our future stock price performance.

Comparison of Cumulative Total Return Among NIC, Inc., Nasdaq Composite (U.S.) Index and Russell 2000 Index

Total Return to Stockholders Assumes \$100 Investment on 12/31/2015



Total Return Analysis	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020
NIC Inc.	\$ 100.00	\$ 128.21	\$ 90.64	\$ 69.72	\$ 127.01	\$ 149.13
Nasdaq Composite	\$ 100.00	\$ 107.50	\$ 137.86	\$ 132.51	\$ 179.19	\$ 257.38
Russell 2000	\$ 100.00	\$ 119.48	\$ 135.18	\$ 118.72	\$ 146.89	\$ 173.86

The performance graph and related text are being furnished to and not filed with the SEC, and will not be deemed to be "soliciting material" or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate such information by reference into such a filing.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data set forth below should be read in conjunction with the Consolidated Financial Statements and related Notes, and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included in this Form 10-K (amounts in thousands in the tables below, except per share data).

	Year Ended December 31,				
	2020	2019	2018	2017	2016
Consolidated Statement of Income Data:					
Total revenues	\$ 460,454	\$ 354,205	\$ 344,900	\$ 336,508	\$ 317,915
Operating income before income taxes	87,433	62,419	75,060	78,337	77,858
Net income	68,594	50,430	58,269	51,614	55,833
Net income per share - basic	1.01	0.75	0.87	0.77	0.84
Net income per share - diluted	1.01	0.75	0.87	0.77	0.84
Dividends declared per share	0.36	0.32	0.32	0.32	0.65

	December 31,				
	2020	2019	2018	2017	2016
Consolidated Balance Sheet Data:					
Total assets	\$ 464,349	\$ 362,359	\$ 310,526	\$ 295,731	\$ 240,862
Long-term debt (includes current portion of notes payable/capital lease obligations)	—	—	—	—	—
Total stockholders' equity	293,149	245,928	211,689	168,242	133,903

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section should be read in conjunction with the Consolidated Financial Statements and related Notes included in this Form 10-K.

CAUTIONS ABOUT FORWARD-LOOKING STATEMENTS

Statements in this Annual Report on Form 10-K regarding NIC Inc. and its subsidiaries (referred to herein as "the Company", "NIC", "we", "our" or "us") and its business, which are not current or historical facts, are "forward-looking statements" that involve risks and uncertainties. Forward-looking statements include, but are not limited to, statements of plans and objectives, statements of future economic performance or financial projections, statements regarding the planned implementation of new contracts and new projects under existing contracts, the expected length of contract terms, statements relating to our business plans, objectives and expected operating results, statements relating to our expected effective tax rate, statements relating to possible future dividends and share repurchases, statements regarding the expected effects of changes in accounting standards, statements of assumptions underlying such statements, statements related to the ongoing effects the COVID-19 pandemic is expected to have on our business and financial results, including statements related to the duration, profitability and unsatisfied performance obligations of our COVID-19 testing solution, and statements of our intentions, hopes, beliefs, expectations, or predictions of the future. For example, statements like we "expect," we "believe," we "plan," we "intend," or we "anticipate" are forward-looking statements. Investors should be aware that our actual operating results and financial performance may differ materially from our expressed expectations because of risks and uncertainties about the future including those risks discussed in this 2020 Annual Report on Form 10-K.

There are a number of important factors that could cause actual results to differ materially from those suggested or indicated by such forward-looking statements. These include, among others, our success in renewing existing contracts and in signing contracts with new states and with federal and state government agencies; our ability to successfully increase the adoption and use of digital government services; the possibility of security breaches or disruptions through cyber-attacks or other events and any resulting liability; our ability to implement new contracts and any related technology enhancements in a timely and cost effective manner; the possibility of reductions in fees or revenues as a result of budget deficits, government shutdowns, or changes in government policy; continued favorable government legislation; acceptance of digital government services by businesses and citizens; our ability to identify and acquire suitable acquisition candidates and to successfully integrate any acquired businesses; competition; general economic conditions; and the ongoing effects the COVID-19 pandemic is expected to have on our business and financial results, including statements relating to the duration, profitability and unsatisfied performance obligations of strategic initiatives developed in response to COVID-19, as well as on our government agency partners, workforce and citizen consumers, as discussed under "CAUTIONS ABOUT FORWARD LOOKING STATEMENTS" in Part I and "RISK FACTORS" in Part I, Item 1A of this 2020 Annual Report on Form 10-K. Investors should read all of these discussions of risks carefully.

All forward-looking statements made in this Annual Report on Form 10-K speak only as of the date of this report. Except as may be required by law, we will not update the information in this 2020 Annual Report on Form 10-K if any forward-looking statement later turns out to be inaccurate. Investors are cautioned not to put undue reliance on any forward-looking statement.

OVERVIEW OF OUR BUSINESS MODEL

We are a leading provider of digital government services and payment solutions that help governments use technology to provide a higher level of service to businesses and citizens and increase efficiencies. We accomplish this through two channels: our state enterprise businesses and our software & services businesses.

In our state enterprise businesses, we generally enter into contracts with state and local governments to design, build, and operate digital government services and payment solutions on an enterprise-wide basis on their behalf. We typically enter into multi-year contracts and manage operations for each government partner through separate local subsidiaries that operate as decentralized businesses with a high degree of autonomy. The digital services that we build allow businesses and citizens to access government information through multiple channels and complete secure transactions and

payments. We are typically responsible for funding the up-front development and ongoing operations and maintenance costs of the digital government services. Our unique business model allows us to generate revenues by sharing in the transaction fees collected from digital government services and payment transactions. Our government partners benefit because they reduce their financial and technological risks, increase their operational efficiencies, and gain a centralized, customer-focused presence on the internet, while businesses and citizens gain a faster, more convenient, and more cost-effective means to interact with governments.

On behalf of our government partners, we enter into statements of work with various agencies and divisions of the government to provide specific services and to conduct specific transactions. These statements of work establish preliminary pricing of the online transactions and data access services we provide and the division of revenues between us and the government agency. The government oversight authority must approve prices and revenue sharing agreements. We have limited control over the level of transaction fees we are permitted to retain. Any changes made to the amount or percentage of transaction fees retained by us, or to the amounts charged for the services offered, could materially affect the profitability of the respective contract. We typically own all the intellectual property related to the applications developed under these contracts. After completion of a defined contract term or upon termination for cause, the government partner typically receives a perpetual, royalty-free license to use the applications and digital government services we built only in its own state. However, certain enterprise applications and proprietary customer management, billing, payment processing or other applications that we have developed and standardized centrally are provided to our government partners on a SaaS basis, and thus would not be included in any royalty-free license. If our contract expires after a defined term or if our contract is terminated by our government partner for cause, the government agency would be entitled to take over the owned or licensed applications in place, and NIC would have no future revenue from, or obligation to, such former government partner, except as otherwise provided in the contract.

Most of our state enterprise revenues are generated from transaction-based services for interactive government services ("IGS") and driver history records ("DHR"), which represented approximately 63% and 26% of state enterprise revenues in 2020, respectively. These transaction-based revenues are highly correlated to state population but are also affected by pricing policies established by government entities for public records, the number and growth of commercial enterprises, and the government entity's development of policy and information technology infrastructure supporting digital government. In 2020, transaction-based revenues consisted of approximately 65% business-to-government transactions and 35% citizen-to-government transactions.

The highest volume service we offer in the state enterprise business is digital access to DHRs. This service accounted for approximately 19%, 26% and 29% of our total consolidated revenues in 2020, 2019 and 2018, respectively. We currently believe that while this service will continue to be an important source of revenue, its contribution as a percentage of total consolidated revenues will decline modestly over time as other sources grow. In addition, in several of our states we offer interactive government services for online motor vehicle registration and licensing. This service accounted for approximately 11%, 11% and 14% of our total consolidated revenues in 2020, 2019 and 2018, respectively.

A primary source of revenue is derived from data resellers, such as LexisNexis Risk Solutions, which have entered into contracts with our government partners to request DHR records from the various states with which we have contracts. Under the terms of these contracts, our government partners have us provide data resellers with access to retrieve driver history records. For each state, the fee per record is the same for all entities that access DHR records. We generally earn a fixed-fee based on the number of requests processed for the government partner. LexisNexis Risk Solutions, which resells these records to the auto insurance industry, accounted for approximately 11%, 15% and 19% of our total consolidated revenues in 2020, 2019 and 2018, respectively. Data reseller contracts are generally self-renewing until canceled by one side or the other, and generally may be terminated at any time after a 30-day notice. Furthermore, these contracts are immediately terminable if the state statute allowing for the public release of these records is repealed.

We charge for digital access to government services based on usage and, depending upon government policies, also on a fixed or sliding scale bulk basis. Our fees are set by negotiation with the government agencies that control the records or services and are typically approved by a government sanctioned oversight authority. Generally, our contracts outline the total fee to be paid by the end-user consumer, as well as our share of the fee. We have limited control over the level of fees we are permitted to retain. We recognize revenues from transactions (primarily information access fees and filing fees) as we provide access to applications and process transactions initiated by end-user consumers. We bill certain end-user consumers, including high-volume DHR data resellers to the auto insurance industry, monthly. We typically receive

most payments within 25 days of billing and remit payment to governments within 30 to 45 days of the transaction. The gross fees that we collect on behalf of government agencies for data access are accrued as accounts receivable and accounts payable at the time revenue from the access of public information is recognized. We typically must remit a certain amount or percentage of these fees to government agencies regardless of whether we ultimately collect the fees. The pricing of transactions varies by the type of transaction and by state.

Our state enterprise businesses also provide non-recurring application development services for our government partners on either a time and materials or fixed-fee basis and generally recognize revenues over time as services are provided. Development services revenues represented approximately 10% of state enterprise revenues in 2020. Fixed-fee services for our government partner in the state of Indiana represented approximately 1% of state enterprise revenues in 2020.

In our software & services businesses, we provide certain payment processing services, software development and digital government services, other than those provided on an enterprise-wide basis, to federal agencies, as well as state and local governments. Generally, our software & services contracts include SaaS contracts, payment processing contracts and, to a lesser degree, software development contracts. In August 2020, we began offering new rapid and secure COVID-19 testing solution TourHealth, featuring digital engagement, assessment and scheduling, as well as in-person clinical testing and logistics. This service accounted for approximately 13% of our total consolidated revenues in 2020.

Our objective is to strengthen our position as the leading provider of digital government services. Key strategies to achieve this objective include:

- Renew all current contracts: First and foremost, we strive to renew all currently profitable government contracts. We currently have 11 contracts under which we provide enterprise-wide digital government services, as well as our contract with the FMCSA, that have expiration dates within the 12-month period following December 31, 2020. For additional information on our current government contracts, please refer to Note 3, Outsourced Government Contracts, of this Annual Report on Form 10-K.
- Win new contracts: A key objective of ours is to win new contracts with federal, state and local government agencies. We continue to invest heavily in business development and marketing efforts, including a combination of strategic advertising and public relations initiatives. We have responded to several procurement opportunities and realized significant benefits from our investments, including contracts with new government partners in recent years. Our goal is to continue expanding our number of government partners by leveraging our strong relationships with current government partners and our reputation for providing proven digital government services. Our expansion efforts include developing relationships and sponsors throughout an individual government entity, pursuing strategic technology alliances, making presentations at conferences of government executives with responsibility for information technology policy and developing contacts with organizations that act as forums for discussions between these executives.
- Increase transactional revenues from our existing businesses: Part of our strategy is to increase transactional revenues from our existing contracts by building new applications and services, taking successful applications and services and implementing them in other states and increasing the adoption of existing applications and services within each state where we operate. We intend to accomplish this with new service offerings, increased operational focus and expanded marketing initiatives. In addition, we will work closely with the governance authority for each of our government partners to evaluate the pricing of new and existing services to encourage higher usage and increase revenue streams. We plan to continue our development of new secure online transactional services that enable government agencies to interact more effectively and efficiently with businesses, citizens and other government agencies through multiple online channels, including mobile. We will continue to work with government agencies, professional associations and other organizations to better understand the current and future needs of end-user consumers. We will continue to work with our government partners to create awareness of the online alternatives to traditional government interactions through initiatives such as informational brochures and inclusion of website information on government communication materials. In addition, we will continue to update our partners and end-user consumers to highlight new government service information. We plan to work with professional associations to directly and indirectly communicate to their members the potential convenience, ease of use and other benefits of the services we offer on behalf of our government partners.

- Continue to grow profitability: In addition to driving revenue growth for new and existing contracts, part of our strategy is to increase profitability by driving cost efficiency efforts throughout our Company that fosters entrepreneurial decision-making and innovation and accentuates the potential financial leverage of our business model.

REVENUES

We classify our revenues into two primary categories: (1) state enterprise and (2) software & services. Each of these categories are described below:

State Enterprise Revenues: We earn revenues from our subsidiaries operating enterprise-wide state contracts to provide digital government services to multiple government agencies. We categorize our state enterprise revenues into three main sources: transaction-based fees, development services and fixed-fee services. Transaction-based revenues and fixed-fee revenues are generally recurring while development revenues are generally non-recurring. An important financial metric that we use to gauge our success in increasing revenues in our existing state enterprise businesses is same state revenue growth. We define same state revenues as revenues from states under contract and generating comparable revenues for two full comparable periods. Our long-term goal is to grow same state revenues at our historical average of more than 8% per year. Each revenue source is further described below:

- **Transaction-based:**
 - **IGS:** fees from a wide variety of interactive government services, other than digital access to motor vehicle driver history records, for transactions conducted by businesses and end-user consumers. For a representative listing of the IGS applications we currently offer through our state enterprise businesses in conjunction with our government partners, refer to Part I, Item 1 in this Annual Report on Form 10-K. As IGS revenues continue to become a larger component of overall state enterprise revenues, our growth in same state IGS revenues becomes more important to our overall growth.
 - **DHR:** fees from driver history records for providing data resellers, insurance companies, and other pre-authorized customers digital access to state motor vehicle driver history records on behalf of our state partners. Absent price increases, same state DHR revenue growth has historically ranged from flat to 4% per year.
- **Development Services:** revenues from the performance of software development projects and other time and materials services for our government partners. While we actively market these services, they do not have the same degree of predictability as our transaction-based or fixed-fee services.
- **Fixed-Fee Services:** our state enterprise business in Indiana earns fixed-fees from the performance of digital government services for numerous government agencies.

Software & Services Revenues: We earn revenues from our businesses that provide software development and digital government services, other than those services provided under state enterprise contracts, to federal agencies as well as state and local governments. Our Software & Services revenues are primarily transaction-based and classified as Payments, Federal, TourHealth and Other. Each of these revenue types is further described below:

- **Payments:** primarily transaction-based fees from contracts with state and local governments for payment processing-related, transaction-based services that are not part of an enterprise-wide state contract. The majority of revenues from these sources are generally recurring.
- **Federal:** primarily transaction-based, fees from contracts with certain Federal agencies in the United States, including the FMCSA, to manage the PSP and transaction-based revenues we earn as a subcontractor to Booz Allen Hamilton on its Recreation.gov contract. The majority of our Federal revenues are generally recurring under the respective contracts.
- **TourHealth:** a combination of fixed-fee and per test-based fees from contracts pertaining to our new TourHealth solution, which utilizes our citizen-engagement technology platform, Gov2Go®, to provide rapid and secure COVID-19 testing. TourHealth commenced operations and began to generate revenues in August

2020 and has contracted for testing services with certain government entities extending into the first quarter of 2021. It is possible services will continue beyond the first quarter of 2021 depending on the severity and duration of the pandemic and the testing needs of states, correctional facilities and higher education institutions across the US.

- **Other:** primarily implementation and SaaS subscription revenues from our RxGov prescription drug monitoring business and our recently acquired NIC Licensing Solutions regulatory licensing business. The majority of revenues from these sources are recurring.

OPERATING EXPENSES

The primary categories of operating expenses include: cost of revenues, selling & administrative, enterprise technology & product support, and depreciation & amortization. Each of these categories are described below:

Cost of Revenues: Consists of all direct costs associated with providing digital government services and payment solutions for both our state enterprise and software & services businesses and excludes depreciation & amortization. We categorize cost of revenues between fixed and variable costs:

- **Fixed costs:** include costs such as employee compensation and benefits (including stock-based compensation), subcontractor labor and other costs, telecommunications costs, provision for losses on accounts receivable, and all other costs associated with the provision of dedicated client service such as dedicated office facilities.
- **Variable costs:** fluctuate with the level of revenues and primarily include interchange fees required to process credit/debit card transactions, bank fees to process automated clearinghouse transactions and, to a much lesser extent, costs associated with revenue share arrangements with certain state partners. A significant percentage of our transaction-based revenues are generated from online applications whereby users pay for information or transactions via credit/debit cards. We typically earn a portion of the credit/debit card transaction amount, but also must pay an associated interchange fee to the financial institution that processes the credit/debit card transaction. We earn a lower incremental gross profit percentage on these transactions as compared to our DHR and other IGS transactions. However, we plan to continue to implement these services because they are needed by our government partners and they contribute favorably to our operating income growth.

Selling & Administrative: This category consists primarily of corporate-level expenses (including all forms of compensation and benefits) relating to market development and sales, marketing, human resource management, corporate communications and public relations, administration, legal, finance and accounting, internal audit and other non-customer service-related costs.

Enterprise Technology & Product Support: This category consists primarily of corporate-level expenses (including all forms of compensation and benefits) for our information technology, product development and security teams that support our centrally hosted data center infrastructure and centrally developed SaaS payment processing solutions, government agency SaaS products, including outdoor recreation, healthcare and regulatory licensing, and other SaaS platform solutions, including our citizen-centric Gov2Go® enterprise platform and enterprise microservices and internal development platforms.

Depreciation & Amortization: This category consists of depreciation of fixed assets and amortization of both internally developed software and intangible assets purchased as part of acquisitions.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Certain estimates and assumptions involved in the application of generally accepted accounting principles have a material impact on our reported financial condition and operating performance and on the comparability of such reported information over different reporting periods. A critical accounting policy is one which is both important and material to the portrayal of our financial condition and results of operations and requires management's most difficult, subjective or complex judgments, often because of the need to make estimates and assumptions about the effect of matters that are inherently uncertain. There are other items within our financial statements that require management to make estimates and assumptions, but are not deemed critical, that may affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by management's application of accounting policies. Those significant accounting policies and recent accounting pronouncements not yet adopted are described in Note 2, Summary of Significant Accounting Policies, to the Consolidated Financial Statements.

NOVEL CORONAVIRUS DISEASE 19 ("COVID-19")

We are monitoring the ongoing COVID-19 pandemic and have been actively working with our government partners to assist them with the impact. As the outbreak progressed in the United States in 2020 and the vast majority of states issued stay-at-home orders, starting mostly in the latter part of March and continuing through April and most of May, we saw a decrease in volumes for certain services we operate on behalf of our government partners, including driver history record services and interactive government services, the federal Pre-Employment Screening Program we operate on behalf of the Department of Transportation Federal Motor Carrier Safety Administration, and the federal Recreation.gov outdoor recreation service we operate as a subcontractor in conjunction with Booz Allen Hamilton, among other services. We also saw a shift from certain in-person, over-the-counter transactions conducted in brick-and-mortar government offices, many of which were temporarily closed, to those we manage digitally online for our government agency partners. In addition, we saw several government agency partners extend deadlines 60 to 90 days for certain required filings and renewals. These actions negatively impacted the volume of transaction we processed and the amount of revenues we recognized for many services in March and throughout the second quarter of 2020. However, we saw an improvement in volumes for many services starting in late May and continuing throughout the third and fourth quarters of 2020 as stay-at-home orders were lifted, federal parks reopened and extensions for certain required filings and renewals expired. In addition, we recently launched a new service offering, TourHealth, which utilizes our technology to provide a rapid and secure solution for COVID-19 testing. In the second half of 2020, TourHealth provided testing services for the states of Florida, South Carolina and Kansas as well as the Alabama Department of Corrections and the University of Mississippi, which positively impacted our financial results for the year.

We currently anticipate the COVID-19 pandemic may have a prolonged negative impact on broader economic conditions in the United States, which may impact our results of operations in the future. While we have not incurred any significant disruptions to our business activities or services resulting from the pandemic, we have temporarily restricted all business travel, closed all Company offices and shifted to remote operations for an indefinite period to ensure social distancing and the health and safety of our employees. We believe we are currently operating efficiently and continue to effectively manage the overall impact of the pandemic on our business with a remote workforce. We are actively monitoring the situation and are assessing further possible implications to our business and we will continue to take aggressive actions to mitigate potential adverse consequences, such as operational contingency planning and testing, key personnel succession planning, enhanced employee and government partner communication protocols, travel restrictions and cost containment efforts to buffer potential future revenue declines. See "RISK FACTORS" in Part I, Item 1A of this 2020 Annual Report on Form 10-K for additional discussion regarding the risks associated with the COVID-19 pandemic and those risks related to a prolonged economic slowdown, among other risk factors.

RESULTS OF OPERATIONS

In this section, we are providing more detailed information about our operating results and changes in financial position over the past three years. This section should be read in conjunction with the Consolidated Financial Statements and related Notes included in this Form 10-K.

Total Revenues

In the table below, we have categorized our revenue by the two main categories included in the consolidated statements of income, with the corresponding percentage change from the prior year period:

(dollar amounts in thousands)	2020	2019	2018	2020 vs 2019		2019 vs 2018	
				\$ Change	%	\$ Change	%
State enterprise revenues	\$ 331,720	\$ 290,281	\$ 312,492	\$ 41,439	14 %	\$ (22,211)	(7)%
Software & services revenues	128,734	63,924	32,408	64,810	101 %	31,516	97 %
Total	460,454	354,205	344,900	106,249	30 %	9,305	3 %
Recurring revenues as a % of total revenues	80%	97%	96%				

State enterprise revenues

In the table below, we have categorized our state enterprise revenues according to the underlying source of revenue, with the corresponding percentage change from the prior year period:

(dollar amounts in thousands)	2020	2019	2018	2020 vs 2019		2019 vs 2018	
				\$ Change	%	\$ Change	%
IGS transaction-based	\$ 209,903	\$ 183,987	\$ 195,155	\$ 25,916	14 %	\$ (11,168)	(6)%
DHR transaction-based	85,337	91,059	100,241	(5,722)	(6)%	(9,182)	(9)%
Development services	31,530	10,285	12,146	21,245	207 %	(1,861)	(15)%
Fixed-fee services	4,950	4,950	4,950	—	— %	—	— %
Total	\$ 331,720	\$ 290,281	\$ 312,492	\$ 41,439	14 %	\$ (22,211)	(7)%

The following table summarizes key same-state revenue metrics for our state enterprise revenues. The results of the Illinois contract were excluded from the same-state category for all periods presented. For both 2019 and 2018, results of the legacy Texas contract were excluded from the same-state category because they did not generate comparable revenues for two full comparable periods.

	2020	2019	2018
Same-state IGS revenue growth	14 %	16 %	11 %
Same-state DHR revenue growth (decline)	(6)%	3 %	3 %
Same-state revenue growth - other services*	136 %	1 %	15 %
Same-state revenue growth - total	14 %	10 %	9 %

* Represents the combined revenue growth from development services and fixed-fee services.

State enterprise revenues for 2020 increased 14% from 2019 driven by same state growth. The 14% increase in same-state revenues for 2020 was mainly due to higher revenues in Virginia, New Jersey and Wisconsin, among other states. Same-state IGS revenues increased 14% in 2020 due, in part, to higher DMV-related revenues across several states,

including the new motor vehicle titling and registration service in Wisconsin, strong demand for hunting and fishing licensing services in several states and an increase in payment processing revenues in New Jersey, among other services. In addition, the pandemic and the need to socially distance pushed more businesses and citizens online to interact with governments digitally, instead of in government offices, which increased the usage of many digital services we manage on behalf of our government partners. Same-state DHR revenues declined 6% in 2020 due to lower revenues across several states as a result of the impact of COVID-19 on the auto insurance industry and associated data resellers. Same-state revenue growth for other services increased 136% in 2020 primarily due to pandemic unemployment services provided in the Commonwealth of Virginia, which totaled \$19.6 million for the year.

State enterprise revenues for 2019 declined 7% from 2018, mainly due to a \$49.0 million decrease in revenues from the legacy Texas contract, which expired on August 31, 2018, partially offset by a 10%, or \$27.3 million, increase in same state revenues. The 10% increase in same-state revenues for 2019 was mainly due to higher revenues in New Jersey, Indiana and Colorado, among other states. Same-state IGS revenues increased 16% in 2019 driven in part by higher payment processing volumes in New Jersey and Indiana and higher revenues from motor vehicle renewals in Colorado, among other services. Same-state DHR revenues grew 3% in 2019, mainly due to higher volumes across several states.

Software & services revenues

In the analysis below, we have categorized our software & services revenues among Payments, Federal, TourHealth and Other, with the corresponding percentage change from the prior year period.

(dollar amounts in thousands)	2020	2019	2018	2020 vs 2019		2019 vs 2018	
				\$ Change	%	\$ Change	%
Payments	\$ 41,092	\$ 37,976	\$ 10,936	\$ 3,116	8%	\$ 27,040	247%
Federal	20,799	22,019	19,813	(1,220)	(6)%	2,206	11%
TourHealth	61,634	—	—	61,634	N/A	—	N/A
Other	5,209	3,929	1,659	1,280	33%	2,270	137%
Total	\$ 128,734	\$ 63,924	\$ 32,408	\$ 64,810	101%	\$ 31,516	97%

Software & services revenues in 2020 increased \$64.8 million, or 101%, over 2019, primarily driven by \$61.6 million in revenues from our TourHealth COVID-19 testing solution, which commenced in August 2020, and provided testing services to the states of Florida, South Carolina and Kansas as well as the Alabama Department of Corrections and the University of Mississippi. The increase in software & services revenues was also driven by higher volumes in our Payments business, primarily in the state of Texas. Federal revenues decreased 6% in 2020 driven mainly by a 13% decline in revenues from our contract with the FMCSA to operate the PSP resulting from the COVID-19 pandemic, partially offset by a 45% increase in revenues from Recreation.gov as many federal parks reopened and experienced an influx of visitors after stay-at-home orders instituted in the early months of the pandemic were lifted starting in June 2020.

Software & services revenues in 2019 increased \$31.5 million, or 97%, over 2018, primarily driven by our new Texas payments business, which commenced on September 1, 2018. The increase was also driven by Recreation.gov, which launched on October 1, 2018, and higher volumes from the PSP service. Other software & services revenues increased mainly due to our acquired RxGov prescription drug monitoring solution (acquired in 2018) and licensing solutions business (acquired in 2019).

State Enterprise Cost of Revenues

In the table below, we have categorized our state enterprise cost of revenues between fixed and variable costs, with the corresponding percentage change from the prior year period:

(dollar amounts in thousands)	2020	2019	2018	2020 vs 2019		2019 vs 2018	
				\$ Change	%	\$ Change	%
Fixed costs	\$ 115,802	\$ 98,754	\$ 108,229	\$ 17,048	17 %	\$ (9,475)	(9)%
Variable costs	84,099	76,736	79,092	7,363	10 %	(2,356)	(3)%
Total	\$ 199,901	\$ 175,490	\$ 187,321	\$ 24,411	14 %	\$ (11,831)	(6)%

Cost of state enterprise revenues in 2020 increased \$24.4 million, or 14%, over 2019 due mainly to a 15% or approximately \$24.9 million, increase in same state costs. The increase in same state costs in 2020 was primarily attributable to an increase in fixed costs in Virginia for call center subcontractors to support pandemic unemployment services totaling \$14.6 million. Variable costs to process credit/debit card transactions also increased, due mainly to higher IGS transaction volumes in several states, as further discussed above.

Cost of state enterprise revenues in 2019 decreased \$11.8 million, or 6%, from 2018 due mainly to a year-over-year decrease in costs from the legacy Texas contract totaling \$31.0 million. This decrease was partially offset by a 12% or approximately \$18.4 million, increase in same state costs.

Our state enterprise gross profit percentage was 40% in all periods presented. We carefully monitor our state enterprise gross profit percentage to strike the balance between generating a solid return for our stockholders and delivering value to our government partners through ongoing investment in our state enterprise operations (which we believe also benefits our stockholders).

Software and Services Cost of Revenues

In the table below, we have categorized our software & services cost of revenues between fixed and variable costs, with the corresponding percentage change from the prior year period:

(dollar amounts in thousands)	2020	2019	2018	2020 vs 2019		2019 vs 2018	
				\$ Change	%	\$ Change	%
Fixed costs	\$ 64,587	\$ 13,169	\$ 8,161	\$ 51,418	390 %	\$ 5,008	61 %
Variable costs	30,246	28,467	8,550	1,779	6 %	19,917	233 %
Total	\$ 94,833	\$ 41,636	\$ 16,711	\$ 53,197	128 %	\$ 24,925	149 %

Cost of software & services revenues in 2020 increased 128% or approximately \$53.2 million, over 2019, driven primarily by higher fixed costs for subcontractors to support our TourHealth COVID-19 testing solution totaling \$51.6 million. The increase in variable costs is attributable to credit/debit card interchange fees associated with higher payment processing volumes in Texas.

Our software & services gross profit percentage was 26% in 2020, compared to 35% in 2019. The lower gross profit percentage in 2020 was primarily driven by lower gross profit margins from our TourHealth COVID-19 testing solution.

Cost of software & services revenues in 2019 increased 149% or approximately \$24.9 million, over 2018, driven primarily by higher variable costs to support our Texas payment operations, which commenced on September 1, 2018. The increase in fixed costs was primarily attributable to higher costs to support our recently acquired RxGov and NIC Licensing Solutions businesses.

Our software & services gross profit percentage was 35% in 2019 compared to 48% in 2018. The lower gross profit percentage in 2019 was primarily driven by lower gross profit margins for our Texas payments business.

Selling & Administrative

Selling & administrative expenses for 2020 were \$34.6 million, a 2% decrease from 2019, primarily driven by executive severance costs in 2019 totaling \$2.6 million, which consisted of a one-time cash payment of \$1.5 million and \$1.1 million of stock-based compensation expense associated with the accelerated vesting of certain restricted stock awards, as previously disclosed, and was partially offset by an increase in incentive-based compensation due to strong consolidated financial results in 2020. As a percentage of total consolidated revenues, selling & administrative expenses were 8% in 2020 compared to 10% in 2019.

Selling & administrative expenses for 2019 were \$35.2 million, a 7% increase over 2018. As a percentage of total consolidated revenues, selling & administrative expenses increased to 10% in 2019 compared to 9% in 2018, primarily driven by executive severance costs in 2019, as described above.

Enterprise Technology & Product Support

Enterprise technology & product support expenses were \$29.5 million, a 10% increase over 2019, primarily driven by higher personnel costs to support SaaS product development and enhance company-wide information technology. As a percentage of total consolidated revenues, enterprise technology & product support expenses were 6% in 2020 compared to 8% in 2019.

Enterprise technology & product support expenses for 2019 were \$26.9 million, a 12% increase over 2018. As a percentage of total consolidated revenues, enterprise technology & product support expenses were 8% in 2019 compared to 7% in 2018, primarily driven by higher personnel costs to support SaaS product development and enhance company-wide information technology.

Depreciation & Amortization

(dollar amounts in thousands)	2020	2019	2018	2020 vs 2019		2019 vs 2018	
				\$ Change	%	\$ Change	%
Depreciation expense	\$ 4,103	\$ 4,336	\$ 5,372	\$ (233)	(5)%	\$ (1,036)	(19)%
Amortization expense	10,142	8,274	3,745	1,868	23 %	4,529	121 %
Total	<u>\$ 14,245</u>	<u>\$ 12,610</u>	<u>\$ 9,117</u>	<u>\$ 1,635</u>	13 %	<u>\$ 3,493</u>	38 %

Depreciation & amortization expense in 2020 increased 13%, or approximately \$1.6 million, over 2019, driven primarily by intangible asset amortization related to the Complia, LLC business acquisition in May 2019 (renamed NIC Licensing Solutions), as well as amortization of capitalized software development costs related to SaaS enterprise product and vertical platform investments.

Depreciation & amortization expense in 2019 increased 38%, or approximately \$3.5 million, over 2018, driven primarily by approximately \$3.0 million of intangible asset amortization related to the Leap Orbit technology acquisition (renamed RxGov) and the Complia, LLC acquisition, compared to approximately \$0.5 million of intangible asset amortization related to the Leap Orbit acquisition in 2018. The increase in amortization expense in 2019 was also driven by an increase in capitalized software development costs related to SaaS enterprise product and vertical platform investments. This increase was partially offset by lower depreciation related to the legacy Texas contract.

Interest Income

Interest income declined in 2020 compared to 2019 due to a decrease in interest earned on our investable cash balances following the Federal Reserve's emergency cuts to the federal funds rate to essentially zero in March 2020 in response to the COVID-19 pandemic.

Interest income was \$2.5 million in 2019, up from \$0.6 million in 2018, driven by an increase in interest rates on our investable cash balances during the period.

Income Taxes

In 2020, 2019 and 2018, our effective tax rate was approximately 21.9%, 22.3% and 23.0%, respectively. The lower effective tax rate in 2020 was primarily due to lower non-deductible expenses and a lower blended state income tax rate, which was impacted by our operations in the state of Florida for TourHealth COVID-19 testing services allowing us to utilize certain of our net operating loss carryforwards. The lower tax rate in 2019 is primarily attributable to the release of reserves for unrecognized income tax benefits resulting from the expiration of statutes of limitations for certain tax years and from the completion of an IRS examination of our 2016 federal income tax return, which resulted in no changes to our previously filed return. For additional information, see Note 11, Income Taxes, in the Notes to the Consolidated Financial Statements in Item 8 of this Form 10-K.

Liquidity and Capital Resources

Operating activities

Cash flows provided by operating activities were \$62.8 million, \$72.1 million and \$69.8 million in 2020, 2019 and 2018, respectively. The changes in net cash provided by operating activities were the result of fluctuations in working capital associated with the timing of payments to and receipts from our government partners, subcontractors and end-user consumers. In 2020, these fluctuations included TourHealth COVID-19 testing services, which commenced in August 2020 and, to a lesser extent, pandemic unemployment services provided to the Commonwealth of Virginia.

Investing activities

Investing activities in 2020, 2019 and 2018 were \$11.8 million, \$26.4 million and \$17.5 million, respectively. The change reflects the cash paid for the Complia and Leap Orbit acquisitions in 2019, totaling \$13.5 million. For additional information see Note 5, Acquisitions, in the Notes to Consolidated Financial Statements in Item 8 of this Form 10-K.

Furthermore, in 2020, 2019 and 2018, we capitalized \$8.5 million, \$8.7 million and \$8.6 million, respectively, of software development costs primarily related to ongoing investments in enterprise SaaS platform solutions and in the enhancement of our centrally managed applications for customer management, billing and payment processing that support our business operations and accounting systems. Investing activities in 2020, 2019 and 2018 also consisted of \$3.4 million, \$4.3 million and \$5.4 million, respectively, of capital expenditures, which were for fixed asset additions in our state enterprise businesses and in our centralized operations to support and enhance corporate-wide information technology and security infrastructure, including Web servers, purchased software and office equipment.

Financing activities

Net cash used in financing activities in 2020, 2019 and 2018 primarily reflects cash dividends paid to stockholders totaling \$24.4 million, \$21.6 million and \$21.5 million, respectively. The increase in 2020 was primarily due to the repurchase of shares in the first quarter of 2020 totaling \$3.9 million and to a \$2.8 million increase in dividend payments.

Liquidity

We recognize revenues primarily from providing outsourced digital government services net of the transaction fees due to the government when the services are provided. We recognize accounts receivable at the time these services are

provided and accrue the related fees that we must remit to the government as accounts payable at such time. As a result, trade accounts receivable and accounts payable reflect the gross amounts outstanding at the balance sheet dates. We typically collect most of our accounts receivable prior to remitting amounts payable to our government partners.

We believe our working capital and current ratio are important measures of our short-term liquidity. Working capital, defined as current assets minus current liabilities, increased to \$257.6 million at December 31, 2020, from \$212.1 million at December 31, 2019. The increase was primarily due to cash generated from operating activities and an increase in accounts receivable from our government partners and end-user consumers driven by higher revenues in 2020, including TourHealth COVID-19 testing services and Virginia pandemic unemployment services, offset by an increase in accounts payable to our government partners and an increase in accrued expenses for amounts owed to subcontractors. Our current ratio, defined as current assets divided by current liabilities, was 2.6 at December 31, 2020 compared to 3.1 at December 31, 2019.

As of December 31, 2020, our unrestricted cash balance was \$236.5 million compared to \$214.4 million at December 31, 2019. We believe that our currently available liquid resources and cash generated from operations in the future will be sufficient to meet our operating requirements, capital expenditure requirements and dividend payments for at least the next 12 months without the need for additional capital. We have a \$10 million unsecured revolving credit facility (the "Credit Agreement") with a bank that is available to finance working capital, issue letters of credit and finance general corporate purposes. The Credit Agreement also includes an accordion feature that allows us to increase the available capacity under the Credit Agreement to \$50 million, subject to securing additional commitments from the bank. We can obtain letters of credit in an aggregate amount of \$5 million, which reduces the maximum amount available for borrowing under the Credit Agreement. In total, we had \$4.8 million in available capacity to issue additional letters of credit and \$9.8 million of unused borrowing capacity at December 31, 2020 under the Credit Agreement. We were in compliance with all of the financial covenants under the Credit Agreement at December 31, 2020. For further discussion, see Note 8, Debt Obligations and Collateral Requirements, in the Notes to Consolidated Financial Statements in Item 8 of this Form 10-K.

At December 31, 2020, we were bound by performance bond commitments totaling approximately \$38.2 million on certain state enterprise contracts and other business relationships. We have never had any defaults resulting in draws on performance bonds.

We currently expect our capital expenditures to range from \$4.0 million to \$5.0 million in fiscal year 2021, which we intend to fund from our cash flows from operations and existing cash reserves. This estimate includes capital expenditures for normal fixed asset additions in our state enterprise and software & services businesses including equipment upgrades and enhancements, and in our centralized operations to support and enhance corporate-wide information technology and security infrastructure, including Web servers, purchased software, and office equipment. We currently expect our capitalized internal-use software development costs to range from \$9.0 million to \$10.0 million. This estimate includes costs related to ongoing investments in enterprise SaaS platform solutions and the enhancement of centrally managed applications for customer management, billing and payment processing that support our business operations and accounting systems.

Acquisitions

On May 1, 2019, we completed the stock acquisition of Complia, a regulatory licensing platform business. Under the terms of the purchase agreement, the selling shareholders received purchase consideration of \$10.0 million in cash and are eligible to receive additional consideration of up to \$5.0 million. See Note 5, Acquisition, in the Notes to Consolidated Financial Statements in Item 8 of this Form 10-K.

Dividends

We paid dividends of \$0.36 per common share (\$0.09 per quarter) in 2020 and \$0.32 per common share (\$0.08 per quarter) in each of 2019 and 2018. The total cash paid for dividends in 2020, 2019 and 2018 was \$24.4 million, \$21.6 million and \$21.5 million, respectively.

On February 1, 2021, our Board of Directors declared a regular quarterly cash dividend of \$0.09 per share, payable to stockholders of record as of March 3, 2021. The dividend will be paid on March 17, 2021 out of our available cash. Our ability to pay dividends could be affected by future business performance, liquidity, capital needs, alternative investment opportunities and debt covenants associated with our line of credit. We do not believe any of our previously paid or declared dividends will have a significant effect on our future liquidity needs.

Share Repurchase

In March 2018, the Company's Board of Directors authorized a stock repurchase program allowing us to repurchase up to \$25 million of common stock. During March 2020, we purchased an aggregate of 241,180 shares under the repurchase program at a weighted average purchase price of \$16.33 for a total value of \$3.9 million. The remaining \$21.1 million of value authorized under the repurchase program remains available for share repurchases.

Future Financing

We may need to raise additional capital within the next 12 months to further:

- fund operations if unforeseen costs arise;
- support our expansion into other federal, state and local government agencies beyond what is contemplated if unforeseen opportunities arise;
- expand our product and service offerings beyond what is contemplated if unforeseen opportunities arise;
- fund acquisitions;
- respond to unforeseen competitive pressures; and
- acquire technologies beyond what is contemplated.

Any projections of future earnings and cash flows are subject to substantial uncertainty. If our cash generated from operations and the unused portion of our line of credit are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity securities or issue debt securities. If we need to obtain new debt or equity financing in the future, the terms and availability of such financing may be impacted by economic and financial market conditions, as well as our financial condition and results of operations at the time we seek additional financing. The sale of additional equity securities could result in dilution to our stockholders. There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all.

Off-balance sheet arrangements and contractual obligations

The following table sets forth our future contractual obligations and commercial commitments as of December 31, 2020 (in thousands):

Contractual Obligations	Total	Payments Due by Period			
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating lease obligations	\$ 12,437	\$ 4,692	\$ 5,711	\$ 2,034	\$ —
Income tax uncertainties	4,358	—	4,358	—	—
Total contractual cash obligations	\$ 16,795	\$ 4,692	\$ 10,069	\$ 2,034	\$ —

While we have significant operating lease commitments for office space, except for our headquarters, those commitments are generally tied to the period of performance under related government contracts.

We have income tax uncertainties of approximately \$4.4 million at December 31, 2020. These obligations are classified as noncurrent on our consolidated balance sheet, as resolution is expected to take more than a year. We estimate that these matters could be resolved in one to three years as reflected in the table above. However, the ultimate timing of

resolution is uncertain. For additional information see Note 11, Income Taxes, in the Notes to Consolidated Financial Statements in Item 8 of this Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our results of operations are exposed to financial market risks due primarily to changes in interest rates and earnings credit rates on our cash accounts with commercial banks. COVID-19 has negatively affected the economic conditions in the United States and resulted in the Federal Reserve lowering interest rates to near zero, which has reduced the interest income we earn on our investable cash and increased the amount of fees we pay for commercial banking services. Any reduction in the earnings credit rate set by our commercial banking partners, which a bank calculates on non-interest bearing customer deposits and uses to offset service charges, could further increase fees we pay for commercial banking services.

We currently have no principal amounts of indebtedness outstanding under our line of credit, the terms of which are discussed in Note 8 to Consolidated Financial Statements in Item 8 of this Form 10-K.

Changes in interest rates affect the interest income and earnings credit rates we earn on our cash accounts with banks, and therefore impact our cash flows and results of operations. Based on our investable cash balances as of December 31, 2020, a one percent change in interest rates would not have a significant impact on our cash flows or results of operations.

We do not use derivative financial instruments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of NIC Inc.

Opinion on Internal Control Over Financial Reporting

We have audited NIC Inc.'s internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, NIC Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2020 and 2019, the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and our report dated February 25, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Kansas City, Missouri
February 25, 2021

Report of Independent Registered Public Accounting Firm

The Stockholders and the Board of Directors of NIC Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of NIC Inc. (the Company) as of December 31, 2020 and 2019, the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 25, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Report of Independent Registered Public Accounting Firm

Description of the Matter

Revenue Processed By Highly Automated Proprietary Applications

As more fully described in Note 2 to the consolidated financial statements, approximately 78 percent of the Company's revenues for the year ended December 31, 2020 are derived from its transaction-based services where the Company agrees to provide continuous access to digital government services that allow consumers to complete secure transactions in exchange for transaction-based fees. The Company satisfies its performance obligation by providing customers access to applications over the contractual term and by processing transactions as they are initiated by consumers. The Company's transaction-based services are comprised of a significant volume of low-dollar transactions processed by proprietary applications that were primarily developed by the Company. The processing of transactions, including the recording of them, is highly automated and based on contractual terms with the Company's customers.

Given the highly automated applications utilized to process and record transaction-based revenue, auditing those transactions required a significant extent of effort and increased involvement of professionals with expertise in information technology ("IT") necessary for us to identify, test, and evaluate the Company's significant applications and automated controls utilized to process transaction-based revenue.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design, and tested the operating effectiveness of the Company's accounting for transaction-based revenue. This included involvement of audit professionals with significant experience in the use of information technology (IT) to support business operations and related controls. With the involvement of our IT professionals, we identified the relevant applications used to calculate and record transaction-based revenue, and tested the IT general controls over those applications, including testing of user access controls, change management controls, and IT operations controls as well as certain automated application controls.

Our audit procedures related to the Company's transaction-based revenue also included, among other procedures, performing data analytical procedures to evaluate the completeness and accuracy of recorded revenue and testing disaggregated reconciliations of revenue from the significant applications to the Company's general ledger.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2015
Kansas City, Missouri
February 25, 2021

NIC INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except par value amount)

ASSETS	December 31,	
	2020	2019
Current assets:		
Cash	\$ 236,513	\$ 214,380
Trade accounts receivable, net	155,484	85,399
Prepaid expenses & other current assets	23,638	12,944
Total current assets	415,635	312,723
Property and equipment, net	9,341	10,091
Right of use lease assets, net	10,809	10,778
Intangible assets, net	20,737	22,398
Goodwill	5,965	5,965
Other assets	1,862	404
Total assets	\$ 464,349	\$ 362,359
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 82,364	\$ 63,685
Accrued expenses	61,064	25,940
Lease liabilities	4,078	3,776
Other current liabilities	10,491	7,191
Total current liabilities	157,997	100,592
Deferred income taxes, net	1,097	2,463
Lease liabilities	7,172	7,373
Other long-term liabilities	4,934	6,003
Total liabilities	171,200	116,431
Commitments and contingencies	—	—
Stockholders' equity:		
Common stock, 0.0001 par, 200,000 shares authorized, 67,031 and 66,968 shares issued and outstanding	7	7
Additional paid-in capital	129,456	123,208
Retained earnings	163,686	122,713
Total stockholders' equity	293,149	245,928
Total liabilities and stockholders' equity	\$ 464,349	\$ 362,359

The accompanying notes are an integral part of these consolidated financial statements.

NIC INC.
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amount)

	Year Ended December 31,		
	2020	2019	2018
Revenues:			
State enterprise revenues	\$ 331,720	\$ 290,281	\$ 312,492
Software & services revenues	128,734	63,924	32,408
Total revenues	<u>460,454</u>	<u>354,205</u>	<u>344,900</u>
Operating expenses:			
State enterprise cost of revenues, exclusive of depreciation & amortization	199,901	175,490	187,321
Software & services cost of revenues, exclusive of depreciation & amortization	94,833	41,636	16,711
Selling & administrative	34,551	35,200	32,747
Enterprise technology & product support	29,491	26,850	23,944
Depreciation & amortization	14,245	12,610	9,117
Total operating expenses	<u>373,021</u>	<u>291,786</u>	<u>269,840</u>
Operating income	87,433	62,419	75,060
Other income:			
Interest income	389	2,514	616
Income before income taxes	87,822	64,933	75,676
Income tax provision	19,228	14,503	17,407
Net income	<u>\$ 68,594</u>	<u>\$ 50,430</u>	<u>\$ 58,269</u>
Basic net income per share			
	<u>\$ 1.01</u>	<u>\$ 0.75</u>	<u>\$ 0.87</u>
Diluted net income per share			
	<u>\$ 1.01</u>	<u>\$ 0.75</u>	<u>\$ 0.87</u>
Weighted average shares outstanding:			
Basic	<u>67,010</u>	<u>66,884</u>	<u>66,499</u>
Diluted	<u>67,117</u>	<u>66,884</u>	<u>66,560</u>

The accompanying notes are an integral part of these consolidated financial statements.

NIC INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Total
	Shares	Amount			
Balance, January 1, 2018	66,271	\$ 7	\$ 111,275	\$ 56,960	\$ 168,242
Cumulative effect of adoption of accounting standard (Note 2)	—	—	—	208	208
Net income	—	—	—	58,269	58,269
Dividends declared	—	—	—	(21,521)	(21,521)
Dividend equivalents on unvested performance-based restricted stock awards	—	—	137	(137)	—
Dividend equivalents canceled upon forfeiture of performance-based restricted stock awards	—	—	(140)	140	—
Restricted stock vestings	263	—	—	—	—
Shares surrendered and canceled upon vesting of restricted stock to satisfy tax withholdings	(87)	—	(1,229)	—	(1,229)
Stock-based compensation	—	—	6,338	—	6,338
Issuance of common stock under employee stock purchase plan	122	—	1,382	—	1,382
Balance, December 31, 2018	66,569	7	117,763	93,919	211,689
Net income	—	—	—	50,430	50,430
Dividends declared	—	—	—	(21,649)	(21,649)
Dividend equivalents on unvested performance-based restricted stock awards	—	—	109	(109)	—
Dividend equivalents canceled upon forfeiture of performance-based restricted stock awards	—	—	(122)	122	—
Restricted stock vestings	427	—	—	—	—
Shares surrendered and canceled upon vesting of restricted stock to satisfy tax withholdings	(159)	—	(2,754)	—	(2,754)
Stock-based compensation	—	—	6,769	—	6,769
Shares issuable in lieu of dividend payments on performance-based restricted stock awards	3	—	—	—	—
Issuance of common stock under employee stock purchase plan	128	—	1,443	—	1,443
Balance, December 31, 2019	66,968	7	123,208	122,713	245,928
Cumulative effect of adoption of accounting standard (Note 2)	—	—	—	339	339
Net income	—	—	—	68,594	68,594
Dividends declared	—	—	—	(24,398)	(24,398)
Dividend equivalents on unvested performance-based restricted stock awards	—	—	141	(141)	—
Dividend equivalents canceled upon forfeiture of performance-based restricted stock awards	—	—	(84)	84	—
Restricted stock vestings	299	—	—	—	—
Shares surrendered and canceled upon vesting of restricted stock to satisfy tax withholdings	(99)	—	(2,037)	—	(2,037)
Repurchase of shares	(241)	—	(439)	(3,505)	(3,944)
Stock-based compensation	—	—	7,158	—	7,158
Issuance of common stock under employee stock purchase plan	104	—	1,509	—	1,509
Balance, December 31, 2020	67,031	7	129,456	163,686	293,149

The accompanying notes are an integral part of these consolidated financial statements.

NIC INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2020	2019	2018
Cash flows from operating activities:			
Net income	\$ 68,594	\$ 50,430	\$ 58,269
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation & amortization	14,245	12,610	9,117
Stock-based compensation expense	7,158	6,769	6,338
Deferred income taxes	(1,483)	1,682	1,448
Provision for losses on accounts receivable	1,505	782	852
Loss on disposal of property and equipment	—	89	88
Changes in operating assets and liabilities:			
Trade accounts receivable, net	(71,134)	(4,826)	22,182
Prepaid expenses & other current assets	(10,694)	789	(887)
Other assets	2,940	4,430	1,810
Accounts payable	18,679	3,593	(28,828)
Accrued expenses	35,124	1,788	(2,351)
Other current liabilities	2,084	1,132	1,262
Other long-term liabilities	(4,181)	(7,218)	536
Net cash provided by operating activities	<u>62,837</u>	<u>72,050</u>	<u>69,836</u>
Cash flows from investing activities:			
Purchases of property and equipment	(3,354)	(4,253)	(5,410)
Capitalized software development costs	(8,481)	(8,671)	(8,580)
Business combination	—	(10,000)	—
Asset acquisition	—	(3,486)	(3,555)
Net cash used in investing activities	<u>(11,835)</u>	<u>(26,410)</u>	<u>(17,545)</u>
Cash flows from financing activities:			
Cash dividends on common stock	(24,398)	(21,649)	(21,521)
Proceeds from employee common stock purchases	1,509	1,443	1,382
Shares surrendered upon vesting of restricted stock to satisfy tax withholdings	(2,036)	(2,754)	(1,229)
Repurchase of shares	(3,944)	—	—
Net cash used in financing activities	<u>(28,869)</u>	<u>(22,960)</u>	<u>(21,368)</u>
Net increase in cash	22,133	22,680	30,923
Cash, beginning of period	214,380	191,700	160,777
Cash, end of period	<u>\$ 236,513</u>	<u>\$ 214,380</u>	<u>\$ 191,700</u>
Supplemental cash flow information:			
Non-cash activities:			
Contingent consideration - business combination	\$ —	\$ 960	\$ —
Cash payments:			
Income taxes paid, net of refunds	\$ 19,649	\$ 16,035	\$ 13,707

The accompanying notes are an integral part of these consolidated financial statements.

NIC INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE COMPANY

NIC Inc. (the “Company” or “NIC”) is a leading provider of digital government services and payment solutions that help governments use technology to provide a higher level of service to businesses and citizens and increase efficiencies. The Company accomplishes this currently through two channels: its state enterprise businesses and its software & services businesses.

In the Company's state enterprise businesses, it generally provides services to design, build, and operate digital government services on an enterprise-wide basis on behalf of state and local governments desiring to provide access to government information and to complete secure government-based transactions through multiple online channels. These digital government services consist of websites and applications the Company has built that allow end-user consumers, such as businesses and citizens, to access government information online, complete transactions, such as applying for a permit, retrieving government records, filing a government-mandated form or report and making digital payments. The Company typically manages operations for each contractual relationship through separate local subsidiaries that operate as decentralized businesses with a high degree of autonomy. The Company is typically responsible for funding the up-front investments and ongoing operations and maintenance costs of the digital government services.

The Company's software & services businesses primarily include its subsidiaries that provide certain standalone SaaS solutions relating to payment processing, healthcare and licensing, COVID-19 testing solutions, software development and other digital government services, other than those services provided under state enterprise contracts, to federal, state and local governments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Company classifies its revenues and cost of revenues into two categories: (1) state enterprise and (2) software & services. The state enterprise category generally includes revenues and cost of revenues from the Company's subsidiaries operating enterprise-wide digital government services on behalf of state and local governments. The software & services category primarily includes revenues and cost of revenues from the Company's subsidiaries that provide digital government services, other than those services provided on an enterprise-wide basis, to federal, state and local governments. The primary categories of operating expenses include: state enterprise cost of revenues, software & services cost of revenues, selling & administrative, enterprise technology & product support and depreciation & amortization. State enterprise cost of revenues consists of all direct costs associated with operating digital government services including employee compensation and benefits (including stock-based compensation), payment processing fees required to process credit/debit card and automated clearinghouse transactions, subcontractor labor costs, telecommunications, provision for losses on accounts receivable, and all other costs associated with the provision of dedicated client service such as dedicated facilities. Software & services cost of revenues consists of all direct project costs to provide services such as employee compensation and benefits (including stock-based compensation), payment processing fees required to process credit/debit card and automated clearinghouse transactions, subcontractor labor costs, and all other direct project costs including hardware, software, materials, travel and other out-of-pocket expenses. Selling & administrative expenses consist primarily of corporate-level expenses relating to market development and sales, marketing, human resource management, corporate communications and public relations, administration, legal, finance and accounting, internal audit and all non-customer service-related costs. Enterprise technology & product support consist primarily of corporate-level expenses relating to information technology, product and security teams that support the centrally hosted infrastructure and platforms and SaaS payment processing and vertical platform solutions.

Certain amounts in the consolidated statements of income for December 31, 2019 and 2018 were reclassified to conform to the current year presentation. In 2020, the Company began classifying the current Texas payment processing contract in the software & services category. The Company reclassified \$30.4 million and \$8.1 million of revenues and \$28.2 million and \$7.7 million of cost of revenues from this contract from the state enterprise category to the software & services category for the years ended December 31, 2019 and 2018, respectively. The reclassification had no impact on net income or cash flows for the years ended December 31, 2019 and 2018.

Basis of consolidation

The consolidated financial statements include all the Company's direct and indirect wholly owned subsidiaries. All intercompany balances and transactions have been eliminated.

Segment reporting

The Company reports segment information in accordance with authoritative accounting guidance for segment disclosures based upon the "management" approach, which designates the internal organization that is used by management for making operating decisions and assessing performance as the source of the Company's segments. In 2019, the Company had only one reportable segment, State Enterprise. During the first quarter of 2020, the Company made a change from one to two reportable segments, State Enterprise and Payments, which was based on quantitative and qualitative considerations, and was a result of recent changes in the Company's reporting structure to reclassify the Texas payment processing contract from the state enterprise category to the software & services category. In August 2020, the Company launched TourHealth services for rapid and secure COVID-19 testing, which during the fourth quarter of 2020, based on quantitative considerations, was included as a third reportable segment. Currently, the Company operates with three reportable segments: State Enterprise, Payments and TourHealth. All prior year amounts have been restated to conform to the current year presentation. See Note 13, Reportable Segments and Related Information, for additional information regarding the Company's segment reporting.

Cash and cash equivalents

Cash and cash equivalents primarily include cash on hand in the form of bank deposits. For purposes of the consolidated balance sheets and consolidated statements of cash flows, the Company considers all non-restricted highly liquid instruments purchased with an original maturity of one month or less to be cash equivalents.

Trade accounts receivable

The Company records trade accounts receivable at net realizable value. This value includes an appropriate allowance for estimated uncollectible accounts. The Company calculates this allowance based on its history of write-offs, and its relationship with, and the expected future economic status of, its customers. Trade accounts receivable are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. The Company's allowance for doubtful accounts at December 31, 2020 and 2019 was approximately \$2.2 million and \$1.2 million, respectively.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over estimated useful lives of 8 years for furniture and fixtures, 3-10 years for equipment, 3-5 years for purchased software, and the lesser of the term of the lease or 5 years for leasehold improvements. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in results of operations for the period. The cost of maintenance and repairs is charged to expense as incurred. Significant betterments are capitalized.

The Company periodically evaluates the carrying value of property and equipment to be held and used when events and circumstances indicate the carrying value may not be fully recoverable. The carrying value of property and equipment is considered impaired when the anticipated undiscounted cash flow from the asset group is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the asset. Fair value is determined primarily using the anticipated cash flow discounted at a rate commensurate with the risk involved. Losses on assets to be disposed of are determined in a similar manner, except that fair values are reduced for the cost to dispose. The Company did not record any impairment losses on property and equipment during the periods presented.

Software development costs and intangible assets, net

The Company has finite-lived intangible assets that consist of capitalized software development costs and acquired software. Intangible assets with finite lives are amortized over their estimated useful lives using the straight-line method, unless another method of amortization is more appropriate. Such costs are included in depreciation & amortization in the consolidated statements of income. The estimated economic life for finite-lived intangible assets is typically 3 to 5 years from the date the software is placed in production.

Intangible assets are recorded at cost, less accumulated amortization and are evaluated for recoverability of possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of these assets is measured by a comparison of the carrying amounts of the asset group to the future undiscounted cash flows the assets are expected to generate. If such review indicated that the carrying amount of an intangible asset group was not recoverable, an impairment loss would be recognized for the amount by which the carrying value of the intangible asset group exceeds its estimated fair value. The Company has not recorded any impairment losses on intangible assets during the periods presented.

The majority of the costs incurred by the Company to obtain a contract, which consist primarily of salaries of business development employees working to obtain the contract, are fixed in nature, occur regardless of whether a contract is obtained and are expensed as incurred. The Company expenses as incurred all employee costs to start up, operate and maintain digital government services on an enterprise-wide basis as costs of performance under the contracts because, after the completion of a defined contract term, the government entity with which the Company contracts typically receives a perpetual, royalty-free license to the applications the Company developed, excluding applications provided on a SaaS basis. Such costs are included in state enterprise cost of revenues in the consolidated statements of income. Other costs to fulfill a contract, such as the procurement of property and equipment and certain software development costs, are accounted for under other authoritative guidance.

Goodwill and intangible assets

In accordance with ASC 350, *Intangibles - Goodwill and Other*, the Company evaluates the carrying value of goodwill, at least annually or more frequently whenever events or changes in circumstances indicate that the fair value of the reporting unit may be less than its carrying amount. Impairment tests are performed annually during the fourth quarter and are performed at the reporting unit level. As of December 31, 2020, the Company did not identify any impairment of goodwill.

Accrued expenses

As of each balance sheet date, the Company estimates expenses which have been incurred but not yet paid or for which invoices have not yet been received. Significant components of accrued expenses consist primarily of payment processing fees, subcontractor costs, employee compensation and benefits (including incentive compensation, bonuses, vacation, health insurance and employer 401(k) contributions) and third-party professional service fees.

Revenue recognition

The Company accounts for revenue in accordance with ASC 606 *Revenue from Contracts with Customers*. In accordance with ASC 606, revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration which the Company expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements within the scope of ASC 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the Company will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, the Company assesses the goods or services promised within each contract and determines those that are performance obligations and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied. Sales and usage-based taxes, if applicable, are excluded from revenues.

Disaggregation of Revenue

The Company currently earns revenues from three main sources: (i) transaction-based fees, which consist of IGS, DHR and other transaction-based revenues, (ii) development services and (iii) fixed-fee services. The following table summarizes, by reportable segment, the principal activities from which the Company generates revenue (in thousands):

	Reportable Segments				Consolidated Total
	State Enterprise	Payments	TourHealth	All Other	
December 31, 2020					
IGS	\$ 209,903	\$ —	\$ —	\$ —	\$ 209,903
DHR	85,337	—	—	—	85,337
Other	—	41,092	22,415	20,799	84,306
Total transaction-based	295,240	41,092	22,415	20,799	379,546
Development services	31,530	—	—	—	31,530
Fixed-fee services	4,950	—	39,219	5,209	49,378
Total revenues	\$ 331,720	\$ 41,092	\$ 61,634	\$ 26,008	\$ 460,454
December 31, 2019					
IGS	\$ 183,987	\$ —	\$ —	\$ —	\$ 183,987
DHR	91,059	—	—	—	91,059
Other	—	37,976	—	22,019	59,995
Total transaction-based	275,046	37,976	—	22,019	335,041
Development services	10,285	—	—	—	10,285
Fixed-fee services	4,950	—	—	3,929	8,879
Total revenues	\$ 290,281	\$ 37,976	\$ —	\$ 25,948	\$ 354,205
December 31, 2018					
IGS	\$ 195,155	\$ —	\$ —	\$ —	\$ 195,155
DHR	100,241	—	—	—	100,241
Other	—	10,936	—	19,813	30,749
Total transaction-based	295,396	10,936	—	19,813	326,145
Development services	12,146	—	—	—	12,146
Fixed-fee services	4,950	—	—	1,659	6,609
Total revenues	\$ 312,492	\$ 10,936	\$ —	\$ 21,472	\$ 344,900

Transaction-based Revenues

The Company recognizes revenue from providing outsourced digital services to its government partners primarily utilizing the Company's internally developed proprietary applications. Under these contracts, the Company agrees to provide continuous access to digital government services that allow end-user consumers to complete secure transactions, such as applying for a permit, retrieving government records, or filing a government-mandated form or report. The contractual promise to provide continuous access to each of these digital government services is a single stand-ready performance obligation. The processing of transactions is highly automated based on contractual terms with the Company's government partners.

Transaction-based fees earned by the Company are typically usage-based and calculated based on the number of transactions processed each day at the contractual net fee earned by the Company for each transaction. These usage-based fees are deemed to be variable consideration that meets the practical expedient within ASC 606 whereby the

Company is not required to disclose the transaction price allocated to remaining performance obligations if the variable consideration is allocated entirely to a wholly unsatisfied performance obligation. Under these arrangements, the usage-based fees are fully constrained and recognized once the uncertainties associated with the constraint are resolved, which is when the related transactions occur each day.

The Company satisfies its performance obligation by providing access to digital solutions over the contractual term and by processing transactions as they are initiated by end-user consumers. The performance obligation is satisfied when the Company provides the access and it is used by the end-user consumer.

In most of its transaction-based revenue arrangements, the Company acts as an agent and recognizes revenue on a net basis. The gross transaction fees collected by the Company from end-user consumers on behalf of its government partners are not recognized as revenue but are accrued as accounts payable when the services are provided at the time of the transactions. The Company must remit a certain amount or a percentage of these fees to government agencies regardless of whether the Company ultimately collects the fees from the consumer. As a result, trade accounts receivable and accounts payable reflect the gross amounts outstanding at the balance sheet dates.

Under certain contracts, the Company's government partners may receive consideration for a portion of the transaction fee remitted to the Company. In circumstances where the Company receives a discernible benefit equal to or greater than the fair value of the consideration in the arrangement, the consideration paid to the government partner is recorded on a gross basis within costs of revenues. Otherwise, the consideration paid to the government partner is accounted for on a net basis as a reduction in the transaction-based fee recorded within revenue.

Development Services Revenues

The Company earns development services revenues primarily under contracts to provide software development and other time and materials services to its government partners. The Company identifies each performance obligation in its software development and services contracts at contract inception, which are generally combined into a single promise. The contract pricing is either at stated billing rates per hour or a fixed amount. These contracts are generally short-term in nature and not longer than one year in duration.

For services provided under development contracts that result in the transfer of control over time, the underlying deliverable is owned and controlled by the customer and does not create an asset with an alternative use to the Company. The Company recognizes revenue on rate per hour contracts based on the amount billable to the customer, as the Company has the right to invoice the customer in an amount that directly corresponds with the value to the customer of the Company's performance to date. For fixed-fee contracts, the Company utilizes the input method and recognizes revenue based on the labor expended to date relative to the total labor expected to satisfy the contract performance obligation. This input measure of progress is used because it best depicts the transfer of assets to the customer, which occurs as the Company incurs costs to deliver the promise in the contracts. Certain development contracts include substantive customer acceptance provisions. In contracts that include substantive customer acceptance provisions, the Company recognizes revenue at a point in time upon customer acceptance.

Under its development contracts, the Company typically does not have significant future performance obligations that extend beyond one year. As of December 31, 2020, the total transaction price allocated to unsatisfied performance obligations was approximately \$7.2 million.

Fixed-fee Services Revenues

Fixed-fee services revenues primarily consist of revenues from providing recurring fixed-fee services for the Company's government partner in Indiana and other contracts for SaaS subscription-based services in the Company's software & services businesses. The Indiana contract has a single performance obligation to provide a broad scope of services to manage the digital government services for the state of Indiana. The Company satisfies its performance obligation by providing services to the state over time. The contract can be terminated without a penalty by the state with a 30-day notice, and accordingly, the period over which the Company performs services is commensurate with a month to month contract. Consideration consists of a fixed-monthly fee that is recognized monthly as the performance obligation is satisfied. As of December 31, 2020, the Company's Indiana state enterprise contract had unsatisfied performance

obligations for one month. The total transaction price allocated to the unsatisfied performance obligation is not significant.

The SaaS subscription-based service contracts in the Company's software & services businesses are a fixed-fee single performance obligation to provide government partners continuous access to digital services. The Company satisfies its performance obligation by providing access to digital services over the contractual term. The Company recognizes revenue for the fixed subscription fees ratably over the non-cancelable term of the contract, commencing on the date the customer has access to the solution. As of December 31, 2020, the unsatisfied performance obligations related to these subscription obligations was \$17.3 million, which will be recognized over the term of such contracts, generally 1 - 5 years.

TourHealth Services Revenues

In August 2020, the Company began providing a rapid and secure COVID-19 testing solution referred to as TourHealth, featuring digital engagement, assessment and scheduling, as well as in-person clinical testing and logistics. TourHealth service contracts are either a transaction-based (per test) or fixed-fee single performance obligation to provide continuous access to COVID-19 testing services over a specified period of time. The Company satisfies its performance obligation by providing services to the government partners over time.

For TourHealth transaction-based fee contracts, the fees earned by the Company are typically usage-based and calculated based on the number of tests processed each day at the contractual fee earned by the Company for each test. These usage-based fees are deemed to be variable consideration that meets the practical expedient within ASC 606, which are fully constrained and recognized once the uncertainties associated with the constraint are resolved, which is when the related testing service occurs each day. For TourHealth fixed-fee contracts, consideration consists of a fee that is recognized monthly as the performance obligation is satisfied. As of December 31, 2020, the unsatisfied performance obligations related to these fixed-fee contracts was \$2.0 million which is expected to be recognized during the first quarter of 2021.

Unearned and Unbilled Revenues

The Company records unearned revenues when cash payments are received or due in advance of the Company's satisfaction of the performance obligation(s). At each balance sheet date, the Company determines the portion of unearned revenues that will be earned within one year and records that amount in other current liabilities in the consolidated balance sheets. The remainder, if any, is recorded in other long-term liabilities. The Company does not assess whether a contract has a significant financing component if the expectation at contract inception is such that the period between payment by the customer and the transfer of the promised goods or services to the customer will be one year or less. Unearned revenues at December 31, 2020 and 2019 were approximately \$6.7 million and \$3.8 million, respectively. The change in the deferred revenue balance for the year primarily reflects \$31.4 million of cash payments received or due in advance of satisfying performance obligations, offset by \$28.5 million of revenues recognized that were previously included in deferred revenue.

Unbilled revenues is recorded when revenue is recognized in advance of the amounts invoiced to the customer and is recorded in other current assets in the consolidated balance sheets. Unbilled revenues at December 31, 2020 and 2019 were approximately \$13.2 million and \$3.4 million, respectively. The change in the unbilled revenue balance for the year primarily reflects additions to the unbilled revenue balance of \$41.1 million and \$31.3 million of amounts billed during the period.

Contract Costs

Costs incurred to obtain customer contracts, such as sales commissions, are deferred and recorded within other current assets and other assets when such costs are determined to be incremental to obtaining a contract, would not have been incurred otherwise and the Company expects to recover those costs. For the years ended December 31, 2020 and 2019, the incremental costs incurred to obtain contracts with customers were insignificant.

Costs incurred to fulfill customer contracts, are deferred and recorded within other current assets and other assets when such costs relate directly to a contract, generate or enhance resources of the Company that will be used in satisfying performance obligations in the future and the Company expects to recover those costs. Contract fulfillment costs may include software implementation costs and setup costs for certain SaaS solutions. These costs are recognized as assets and amortized over the expected term of the contract to which the implementation relates, which is the period over which services are expected to be provided to the customer. For the years ended December 31, 2020 and 2019, the costs incurred to fulfill contracts with customers were insignificant.

Leases

All of the Company's lease arrangements are considered operating leases and are included in right of use lease assets and lease liabilities on the consolidated balance sheet. Leases with an initial term of 12 months or less are not recorded in the consolidated balance sheet and are expensed on a straight-line basis over the term of the lease.

On the commencement date of a lease, the Company recognizes a lease liability and corresponding right of use lease asset based on the present value of lease payments over the lease term. Lease agreements generally do not provide an implicit rate and therefore the Company's incremental borrowing rate at the commencement date is used to determine the present value of lease payments. Accretion of the discount on the lease liability is calculated under the effective interest method and included in operating lease cost. The right of use asset also includes any initial direct costs and prepaid lease payments and excludes any lease incentives received by the lessor. The right of use asset is amortized over the lease term and is included in operating lease cost. The result is a single operating lease cost recognized on a straight-line basis over the term of the lease.

Certain of the Company's leases have both lease and non-lease components. The Company has elected the practical expedient to account for these components as a single lease component for all leases.

Stock-based compensation

The Company measures stock-based compensation cost for service-based restricted stock awards at the grant date based on the fair value of the award and recognizes expense on a straight-line basis over the employee's requisite service period for the entire award (generally the vesting period of the grant). The Company measures stock-based compensation cost for performance-based restricted stock awards at the date of grant, based on the fair value of shares expected to be earned at the end of the performance period and recognizes expense ratably over the performance period based upon the probable number of shares expected to vest. See Note 12, Stock-based Compensation and Employee Benefit Plans, for additional information.

Income taxes

The Company, along with its wholly owned subsidiaries, files a consolidated federal income tax return. Deferred income taxes are recognized for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end based on enacted laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amounts expected to be realized.

The Company does not recognize a tax benefit for uncertain tax positions unless management's assessment concludes that it is "more likely than not" that the position is sustainable based on its technical merits. If the recognition threshold is met, the Company recognizes a tax benefit based upon the largest amount of the tax benefit that is more likely than not probable, determined by cumulative probability, of being realized upon settlement with the taxing authority. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense in the consolidated statements of income.

Earnings per share

The Company applies the two-class method of computing earnings per share as the Company's service-based restricted stock awards are entitled to non-forfeitable dividends and are therefore considered to be participating securities. The two-

class method is an earnings allocation formula that treats a participating security as having rights to undistributed earnings that would otherwise have been available to common stockholders. Basic earnings per share is calculated by first allocating earnings between common stockholders and participating securities. Earnings attributable to common stockholders are divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by giving effect to dilutive potential common shares outstanding during the period. The dilutive effect of shares related to the Company's employee stock purchase plan is determined based on the treasury stock method. The dilutive effect of service-based restricted stock awards is based on the more dilutive of the treasury stock method or the two-class method assuming a reallocation of undistributed earnings to common stockholders after considering the dilutive effect of potential common shares other than the participating unvested restricted stock awards. The dilutive effect of performance-based restricted stock awards is based on the treasury stock method.

Business combinations

The Company accounts for the acquisition of a business in accordance with ASC 805, *Business Combinations*, which requires the identifiable assets acquired, the liabilities assumed and any noncontrolling interests in an acquired business to be recorded at their fair values as of the date of acquisition. The excess of the fair value of purchase consideration over the fair values of identifiable assets and liabilities is recorded as goodwill. Fair value measurements require extensive use of estimates and assumptions, particularly with respect to intangible assets, which are based on all available information at the date of acquisition, including estimates of future cash flows to be generated by the acquired assets, useful lives and discount rates. The use of different valuation techniques and assumptions could change the amounts and useful lives assigned to the assets and liabilities acquired and related amortization expense. During the measurement period, which is not to exceed one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

Comprehensive income

The Company has no components of other comprehensive income or loss and, accordingly, the Company's comprehensive income is the same as its net income for all periods presented.

Concentration of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. The Company performs ongoing credit evaluations of its customers and generally requires no collateral to secure accounts receivable. At December 31, 2020, there were no customers that accounted for 10% or more of the Company's total accounts receivable. At December 31, 2019, LexisNexis Risk Solutions accounted for approximately 14% of the Company's total accounts receivable.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently issued accounting pronouncements

Credit Losses

In June 2016, the FASB issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments-Credit Losses* (Topic 326), to replace the incurred loss impairment methodology in U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For trade and other receivables, companies will be required to use a forward-looking expected loss model rather than the incurred loss model for recognizing credit losses which reflects losses that are probable. On January 1, 2020, the Company adopted the standard and all the related amendments, using a modified retrospective

approach. The adoption of the standard resulted in a cumulative-effect adjustment to retained earnings of approximately \$0.3 million. The adoption of the standard did not have a significant impact on the Company's consolidated earnings or cash flows.

3. OUTSOURCED GOVERNMENT CONTRACTS

State enterprise contracts

The Company's state enterprise contracts generally have an initial multi-year term with provisions for renewals for various periods at the option of the government. The Company's primary business obligation under these contracts is to design, build, and operate digital government services on an enterprise-wide basis on behalf of governments desiring to provide access to government information and to digitally complete government-based transactions and payments. NIC typically markets the services and solicits end-user consumers to complete government-based transactions and to enter into subscriber contracts permitting the user to access digital applications and the government information contained therein in exchange for transactional and/or subscription user fees. The Company enters into statements of work with various agencies and divisions of the government to provide specific services and to conduct specific transactions. These statements of work preliminarily establish the pricing of the digital transactions and data access services the Company provides and the division of revenues between the Company and the government agency. The government oversight authority must approve prices and revenue sharing agreements. The Company has limited control over the level of fees it is permitted to retain.

The Company is typically responsible for funding the up-front investments and ongoing operations and maintenance costs of digital government services and generally owns all the intellectual property in connection with the applications developed under these contracts. After completion of a defined contract term or upon termination for cause, the government partner typically receives a perpetual, royalty-free license to use the applications built by the Company only in its own state. However, certain enterprise applications, proprietary customer management, billing, payment processing and other software applications that the Company has developed and standardized centrally as platforms are provided to government partners on a SaaS basis, and thus would not be included in any royalty-free license. If the Company's contract expires after a defined term or if its contract is terminated by a government partner for cause, the government agency would be entitled to take over the applications in place, and NIC would have no future revenue from, or obligation to, such former government partner, except as otherwise provided in the contract.

Any renewal of these contracts beyond the initial term by the government is optional and a government may terminate its contract prior to the expiration date if the Company breaches a material contractual obligation and fails to cure such breach within a specified period or upon the occurrence of other events or circumstances specified in the contract.

Under a typical state master contract, the Company is required to fully indemnify its government clients against claims that the Company's services infringe upon the intellectual property rights of others and against claims arising from the Company's performance or the performance of the Company's subcontractors under the contract.

Software & services contract

The Company's software & services contracts generally consist of SaaS solutions relating to payment processing, healthcare and licensing, software development, COVID-19 testing solutions and other digital government services, other than those provided on an enterprise-wide basis, to federal, state and local governments. The Company has contracts with certain Federal agencies, including a contract with the FMCSA to develop and manage the FMCSA's Pre-Employment Screening Program ("PSP") for motor carriers nationwide using a transaction-based business model. The Company also has contracts with certain government and government-related entities for TourHealth rapid and secure COVID-19 testing services which launched in August 2020.

Termination without cause contracts

There are 14 state enterprise contracts and three software & services contracts under which the Company provides digital government services that can be terminated by the other party without cause on a specified period of notice. Collectively, revenues generated from these contracts represented approximately 48% of the Company's total consolidated revenues for the year ended December 31, 2020. If any of these contracts is terminated without cause, the terms of the respective contract may require the government to pay the Company a fee to continue to use the Company's applications.

Expiring contracts

There are currently 11 state enterprise contracts, as well as the Company's contract with the FMCSA, that have expiration dates within the 12-month period following December 31, 2020. Collectively, revenues generated from these contracts represented approximately 28% of the Company's total consolidated revenues for the year ended December 31, 2020. Although five of these contracts have renewal provisions, any renewal is at the option of the Company's government partners. As described above, if a contract is not renewed after a defined term, the government partner would be entitled to take over the applications in place, and NIC would have no future revenue from, or obligation to, such former government partner, except as otherwise provided in the contract. In addition, TourHealth's contracts for COVID-19 testing services currently only extend into the first quarter of 2021.

The contract under which the Company managed enterprise-wide digital government services for the state of Texas expired on August 31, 2018. The contract accounted for approximately 14% of the Company's total consolidated revenues for the year ended December 31, 2018. For the year ended December 31, 2018, revenues from the contract were approximately \$49.0 million.

In connection with the completion of the legacy Texas contract, the Company substantially reduced its workforce in Texas. Total one-time severance-related and transition costs, which have been recognized in state enterprise cost of revenues in the consolidated statement of income in the state enterprise segment, were approximately \$1.0 million in 2018.

Contract developments

During the fourth quarter of 2020, the Company was awarded a five-year contract with the state of Florida to provide payment processing services, which includes an option for the state to extend the contract for one five-year period. Under this transaction-funded contract, the Company has the ability to provide payment processing services to all state agencies and local governments in the state of Florida.

During the fourth quarter of 2020, the Company was awarded a five-year contract with the state of Iowa to provide enterprise-wide digital government services, which includes an option for the state to extend the contract up to an additional five years.

As previously discussed, during the second half 2020, the Company was awarded contracts with the state of Florida, South Carolina and Kansas, the Alabama Department of Corrections and the University of Mississippi, to provide TourHealth rapid and secure COVID-19 testing services.

Performance bond commitments

At December 31, 2020, the Company was bound by performance bond commitments totaling approximately \$38.2 million on certain government contracts and other business relationships.

4. EARNINGS PER SHARE

The Company calculates earnings per share under the two-class method, as unvested service-based restricted stock awards contain non-forfeitable rights to dividends, and thus are considered securities that participate in the earnings of the Company. The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	December 31,		
	2020	2019	2018
Numerator:			
Net income	\$ 68,594	\$ 50,430	\$ 58,269
Less: Income allocated to participating securities	(736)	(546)	(629)
Net income available to common stockholders	<u>\$ 67,858</u>	<u>\$ 49,884</u>	<u>\$ 57,640</u>
Denominator:			
Weighted average shares - basic	67,010	66,884	66,499
Performance-based restricted stock awards	107	—	61
Weighted average shares - diluted	<u>67,117</u>	<u>66,884</u>	<u>66,560</u>
Basic net income per share:	<u>\$ 1.01</u>	<u>\$ 0.75</u>	<u>\$ 0.87</u>
Diluted net income per share:	<u>\$ 1.01</u>	<u>\$ 0.75</u>	<u>\$ 0.87</u>

5. ACQUISITIONS

Complia, LLC

On May 1, 2019, the Company completed the stock acquisition of Complia, LLC ("Complia"), a regulatory licensing platform business, which the Company rebranded as NIC Licensing Solutions. The Company acquired all outstanding equity of Complia for initial consideration of \$10.0 million in cash. The sellers are eligible to earn additional cash consideration up to \$5.0 million, on new contracts that utilize the licensing platform through April 2022. The Company has recorded a liability of \$.0 million for the fair value of this contingent consideration at the date of acquisition as part of the consideration transferred. The fair value of the contingent consideration was determined using a scenario-based model, which includes inputs such as projected earnings-based measures, probability of achievement and a discount rate, that are not observable in the market. At each reporting period, the contingent consideration liability is recorded at fair value with any changes reflected in earnings. The total purchase consideration for this acquisition was \$11.0 million.

This transaction was accounted for as a business combination, and the purchase price was allocated to the assets acquired and liabilities assumed, including identifiable intangible assets, based on their respective fair values at the date of acquisition. The consolidated financial statements include the results of Complia's operations from the date of acquisition. Pro-forma results of operations, assuming this acquisition was made at the beginning of the earliest period presented, have not been presented because the effect of this acquisition was not material to the Company's results.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date (in thousands).

	As of May 1, 2019
Current assets	\$ 451
Software	4,200
Customer relationships	425
Non-compete agreements	250
Trade name	35
Goodwill	5,965
Other assets	11
Total assets acquired	11,337
Accrued expenses and other liabilities	(377)
Net assets acquired	\$ 10,960

The goodwill was included within the software & services category, which is further described in Note 13, and represents future economic benefits that the Company expects to achieve as a result of the acquisition. The acquired capitalized software has an estimated amortization period of five years, the acquired customer relationships have an estimated amortization period of seven years and the non-compete and trade names each have an estimated amortization period of three years. The goodwill and intangible assets associated with this acquisition are deductible for tax purposes.

Leap Orbit LLC

In 2018, the Company entered into a purchase agreement to acquire certain prescription drug monitoring software technology assets of a Maryland-based, privately held company, Leap Orbit LLC ("Leap Orbit"). The purchase price consisted of initial cash consideration of approximately \$3.6 million and potential additional consideration of approximately \$3.5 million if certain conditions under the agreement were met. The transaction was accounted for as an asset acquisition, as substantially all the value related to the prescription drug monitoring software technology acquired. The Company paid the additional consideration of \$3.5 million in 2019, which was included in the cost of the acquired assets in the consolidated balance sheet. The acquired software has an estimated amortization period of three years. The Company rebranded its prescription drug monitoring platform as RxGov.

6. INTANGIBLE ASSETS, NET

Intangible assets, net consisted of the following (in thousands):

	December 31, 2020			December 31, 2019		
	Gross Carrying Value	Accumulated Amortization	Net Book Value	Gross Carrying Value	Accumulated Amortization	Net Book Value
Software development cost	\$ 39,342	\$ (23,417)	\$ 15,925	\$ 30,861	\$ (16,951)	\$ 13,910
Acquired software	11,241	(6,880)	4,361	11,241	(3,359)	7,882
Customer relationships	425	(101)	324	425	(40)	385
Non-compete agreements	250	(139)	111	250	(56)	194
Trade name	35	(19)	16	35	(8)	27
Total	\$ 51,293	\$ (30,556)	\$ 20,737	\$ 42,812	\$ (20,414)	\$ 22,398

During 2019, the Company recorded approximately \$8.4 million of intangible assets in connection with the Complia and Leap Orbit acquisitions, as further discussed in Note 5, Acquisitions.

Amortization expense for intangible assets with finite lives was \$0.1 million, \$8.3 million and \$3.7 million for the years ended December 31, 2020, 2019 and 2018, respectively. The total estimated intangible asset amortization expense in future years is as follows (in thousands):

Fiscal Year

2021	\$	10,293
2022		6,168
2023		3,854
2024		341
2025		61
Thereafter		20
	<u>\$</u>	<u>20,737</u>

7. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following at December 31 (in thousands):

	2020	2019
Equipment	\$ 23,808	\$ 24,936
Purchased software	8,566	8,769
Furniture and fixtures	6,016	5,922
Leasehold improvements	2,071	2,181
	<u>40,461</u>	<u>41,808</u>
Less accumulated depreciation	(31,120)	(31,717)
Property and equipment, net	<u>\$ 9,341</u>	<u>\$ 10,091</u>

Depreciation expense for the years ended December 31, 2020, 2019 and 2018 was \$4.1 million, \$4.3 million and \$5.4 million, respectively.

8. DEBT OBLIGATIONS AND COLLATERAL REQUIREMENTS

The Company has a revolving credit facility with Bank of America, N.A. Under the Amended and Restated Credit Agreement ("Credit Agreement"), the credit facility provides \$10 million of unsecured financings available to finance working capital, issue letters of credit and finance general corporate purposes. The Credit Agreement also includes an accordion feature that allows the Company to increase the available capacity under the Credit Agreement to \$50 million, subject to securing additional commitments from the bank. The Company can obtain letters of credit in an aggregate amount of \$5 million, which reduces the maximum amount available for borrowing under the Credit Agreement.

On May 1, 2019, the Company entered into Amendment No. 4 to Amended and Restated Credit Agreement (the "Amendment"), which amended the Credit Agreement, dated as of August 6, 2014, as previously amended, between the Company and the bank. The Amendment extended the maturity date of the Credit Agreement to May 1, 2021, and increased the purchase price of a permitted acquisition, as well as the aggregate purchase price of all such permitted acquisitions during the term of the Credit Agreement. Additionally, the Amendment removed the previous two-tier structure on interest rates and provided that the interest rate on any amounts borrowed by the Company under the Credit Agreement will be at (i) an annual rate adjusted daily and benchmarked to one-month LIBOR, plus a margin of 1.15% per annum, or (ii) an annual rate benchmarked to LIBOR with a term equivalent to such borrowing, plus a margin of 1.15% per annum.

The other material terms of the Credit Agreement remain unchanged, including customary representations and warranties, affirmative and negative covenants and events of default. The Credit Agreement requires the Company to maintain compliance with the following financial covenants (in each case, as defined in the Credit Agreement):

- Consolidated tangible net worth of at least \$36 million (plus the amount of net proceeds from equity issued, or debt converted to equity, in each case after the date of the Credit Agreement); and

- Consolidated maximum leverage ratio of 1.50:1 (the ratio of total funded debt to EBITDA, as defined in the Credit Agreement).

The Company was in compliance with each of these covenants at December 31, 2020. The Company has issued a letter of credit as collateral for performance on one of its state enterprise contracts. Irrevocable letters of credit are generally in force for one year. In total, the Company and its subsidiaries had unused outstanding letters of credit of approximately \$0.2 million at December 31, 2020. The Company was not required to cash collateralize these letters of credit at December 31, 2020. The Company had \$9.8 million in available capacity to issue additional letters of credit and \$9.8 million of unused borrowing capacity at December 31, 2020 under the Credit Agreement. Letters of credit may have an expiration date of up to one year beyond the expiration date of the Credit Agreement.

At December 31, 2020, the Company has a \$1.0 million line of credit with a bank in conjunction with a corporate credit card agreement.

9. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases office space and certain equipment under noncancelable operating leases. Leases have terms which range from one year to nine years, some of which include options to renew the lease. The exercise of a lease renewal option is at the Company's sole discretion and is included in the lease term when it is reasonably certain the Company will exercise the option based on economic factors. The weighted average remaining lease term for operating leases as of December 31, 2020 was 3.2 years.

Operating lease costs for the years ended December 31, 2020, 2019 and 2018 was approximately \$6.0 million, \$5.8 million and \$5.3 million, respectively. Operating lease costs include short-term and variable lease costs, which are not significant. The aggregate future lease payments for operating leases as of December 31, 2020 are as follows (in thousands):

Fiscal Year	2020
2021	\$ 4,692
2022	3,638
2023	2,073
2024	1,345
2025	689
Total minimum lease payments	12,437
Less: interest	(1,187)
Total lease liabilities	\$ 11,250

Other information related to operating leases is as follows (in thousands):

	2020
Weighted-average discount rate	2.4 %
Supplement cash flow information	
Cash paid for amounts included in the measurement of lease liabilities	\$ 4,328
Right of use assets obtained in exchange for new lease liabilities	\$ 4,429

Litigation

From time to time, the Company is involved in legal proceedings and litigation arising in the ordinary course of business. However, the Company is not currently a party to any material legal proceedings.

10. STOCKHOLDERS' EQUITY

Dividend policy

The Company's Board of Directors approved a dividend policy pursuant to which it plans to make, subject to subsequent declaration, regular quarterly cash dividends. For each dividend paid, a dividend equivalent is paid simultaneously on unvested shares of service-based restricted stock. All dividends on unvested shares of service-based restricted stock have been paid out of the Company's available cash. In addition, holders of performance-based restricted stock accrue dividend equivalents for each dividend declared that could be earned and become payable in the form of additional shares of common stock at the end of the respective performance period to the extent that the underlying shares of performance-based restricted stock were earned.

Dividends

The Company's Board of Directors declared and paid the following dividends during the years ended December 31, 2020 and 2019 (payment amount in millions):

Declaration Date	Dividend per Share	Record Date	Payment Date	Amount
October 26, 2020	\$0.09	December 4, 2020	December 18, 2020	\$6.1
July 27, 2020	0.09	September 8, 2020	September 22, 2020	6.1
April 23, 2020	0.09	June 11, 2020	June 25, 2020	6.1
January 27, 2020	0.09	March 4, 2020	March 18, 2020	6.1
October 28, 2019	0.08	December 4, 2019	December 18, 2019	5.4
July 29, 2019	0.08	September 6, 2019	September 20, 2019	5.4
May 7, 2019	0.08	June 11, 2019	June 25, 2019	5.4
January 28, 2019	0.08	March 5, 2019	March 19, 2019	5.4

On February 1, 2021, the Company's Board of Directors declared a regular quarterly cash dividend of \$0.09 per share, payable to stockholders of record as of March 3, 2021. The dividend, which is expected to total approximately \$6.1 million, will be paid on March 17, 2021.

Share Repurchase

In March 2018, the Company's Board of Directors authorized a stock repurchase program allowing the Company to repurchase up to \$5 million of common stock. During March 2020, the Company repurchased and retired 241,180 shares at a weighted average purchase price of \$16.33 for a total value of \$3.9 million under the repurchase program. The Company has made no other repurchases under its share repurchase program.

11. INCOME TAXES

The provision for income taxes consists of the following (in thousands):

	Year Ended December 31,		
	2020	2019	2018
Current income taxes:			
Federal	\$ 17,150	\$ 10,343	\$ 13,704
State	3,561	2,478	2,255
Total	20,711	12,821	15,959
Deferred income taxes:			
Federal	(946)	1,182	1,466
State	(537)	500	(18)
Total	(1,483)	1,682	1,448
Total income tax provision	\$ 19,228	\$ 14,503	\$ 17,407

The tax effects of the temporary differences that gave rise to significant components of the Company's deferred tax assets and liabilities were as follows at December 31 (in thousands):

	2020	2019
Deferred tax assets:		
Stock-based compensation	\$ 1,330	\$ 983
Federal benefit of state uncertain tax positions	563	746
Accrued vacation	618	521
Deferred rent	112	95
Deferred payroll tax	947	—
State net operating loss carryforwards	53	228
Allowance for doubtful accounts	552	311
Right of use lease liability	2,851	2,840
Other	873	465
Gross deferred tax assets	7,899	6,189
Less: Valuation allowance	(4)	(335)
Total deferred tax assets	7,895	5,854
Deferred tax liabilities:		
Property and equipment	(1,830)	(2,027)
Capitalized software development costs	(4,423)	(3,544)
Right of use lease asset	(2,739)	(2,746)
Total deferred tax liabilities	(8,992)	(8,317)
Net deferred tax liability	\$ (1,097)	\$ (2,463)

Deferred income taxes on the balance sheet result from temporary differences between the amount of assets and liabilities recognized for financial reporting and tax purposes. In assessing the realizability of deferred tax assets, management determines if it is probable the Company will have sufficient taxable income in certain state jurisdictions to fully utilize available tax credits and other components. Deferred tax assets are offset by a valuation allowance to the extent it is more likely than not that they are not expected to be realized. In 2020, the Company identified certain state net operating loss (“NOL”) carryforwards that it had previously identified as unable to use and concluded that it would be able to realize the full amount of these NOL carryforwards. As a result, the Company reduced its deferred tax asset valuation allowance by \$0.3 million.

The following table reconciles the statutory federal income tax rate and the effective income tax rate indicated by the consolidated statements of income:

	Year Ended December 31,		
	2020	2019	2018
Statutory federal income tax rate	21.0 %	21.0 %	21.0 %
State income taxes	3.5 %	5.0 %	2.3 %
Federal and state tax credits	(2.1)%	(0.8)%	(2.3)%
Tax deficit (benefit) from restricted stock vestings	(0.3)%	(0.1)%	0.3 %
Uncertain tax positions (release)	(0.6)%	(5.2)%	0.8 %
Nondeductible expenses	0.7 %	2.2 %	0.8 %
Other, net	(0.3)%	0.2 %	0.1 %
Effective federal and state income tax rate	<u>21.9 %</u>	<u>22.3 %</u>	<u>23.0 %</u>

The Company’s effective tax rate in 2020 was higher than the statutory federal income tax rate due to the effect of state income taxes and nondeductible expenses, partially offset by favorable benefits related to return to the federal research and development credit and other tax adjustments recognized upon filing the Company’s 2019 tax return.

The Company’s effective tax rate in 2019 was higher than the statutory federal income tax rate due to the effect of state income taxes and nondeductible expenses, partially offset by the favorable impact of the release of reserves for unrecognized income tax benefits resulting from the expiration of the statutes of limitations for certain tax years and from the completion of an IRS tax examination of the Company’s 2016 consolidated U.S. federal income tax return, which resulted in no changes to the Company’s previously filed return. The effective tax rate was also impacted by approximately \$2.6 million of executive severance costs, a significant portion of which was not deductible for income tax purposes.

The Company’s effective tax rate in 2018 was higher than the statutory federal income tax rate due to the effect of state income taxes, uncertain tax positions, and nondeductible expenses, partially offset by favorable benefits related to the federal research and development credit.

The Company recognized \$0.4 million in excess tax benefits and \$0.1 million and \$0.3 million in tax deficits from restricted stock vestings within income tax expense for the years ended December 31, 2020, 2019 and 2018, respectively.

The following table provides a reconciliation of the beginning and ending amount of the consolidated liability for unrecognized income tax benefits (included in other long-term liabilities in the consolidated balance sheets) for the years ended December 31, 2020, 2019 and 2018 (in thousands):

	2020	2019	2018
Balance at January 1	\$ 5,048	\$ 8,651	\$ 8,020
Additions for tax positions of prior years	247	208	459
Additions for tax positions of current years	368	393	1,248
Expiration of the statute of limitations	(1,202)	(3,182)	(1,024)
Reductions for tax positions of prior years	(103)	(217)	(52)
Settlements	—	(805)	—
Balance at December 31	<u>\$ 4,358</u>	<u>\$ 5,048</u>	<u>\$ 8,651</u>

At December 31, 2020 and 2019, there were approximately \$3.8 million and \$4.3 million, respectively, of unrecognized tax benefits that if recognized would affect the Company's annual effective tax rate. It is reasonably possible that events will occur during the next 12 months that would cause the total amount of unrecognized tax benefits to increase or decrease. However, the Company does not expect such increases or decreases to be material to its financial condition or results of operations.

The Company, along with its wholly owned subsidiaries, files a consolidated U.S. federal income tax return and separate income tax returns in many states throughout the U.S. The Company remains subject to U.S. federal examination for the tax years ended on or after December 31, 2017. State income tax returns are generally subject to examination for a period of three to five years after filing of the respective return.

The Company recognizes accrued interest and penalties associated with uncertain tax positions as part of income tax expense in the consolidated statements of income. Accrued interest and penalty amounts were not significant at December 31, 2020, 2019 and 2018.

12. STOCK-BASED COMPENSATION AND EMPLOYEE BENEFIT PLANS

The following table presents stock-based compensation expense included in the Company's consolidated statements of income (in thousands):

	Year Ended December 31,		
	2020	2019	2018
State enterprise cost of revenues, exclusive of depreciation & amortization	\$ 1,585	\$ 1,499	\$ 1,516
Software & services cost of revenues, exclusive of depreciation & amortization	162	101	151
Selling & administrative	4,599	4,495	3,994
Enterprise technology & product support	812	674	677
Stock-based compensation expense before income taxes	<u>\$ 7,158</u>	<u>\$ 6,769</u>	<u>\$ 6,338</u>

Stock option and restricted stock plans

The Company has a stock compensation plan (the "NIC Plan") to provide for the granting of restricted stock awards, incentive stock options or non-qualified stock options to encourage certain employees of the Company and its subsidiaries and directors of the Company to participate in the ownership of the Company and to provide additional incentive for such employees and directors to promote the success of its business through sharing in the future growth of such business. The Company did not grant any stock options in 2020, 2019, or 2018 and has no stock options currently outstanding.

As approved by the Company's Board of Directors and stockholders, the Company is authorized to grant 15,825,223 common shares under the NIC Plan. At December 31, 2020, a total of 2,776,440 shares were available for future grants under the NIC Plan.

Restricted stock

During 2020, the Compensation Committee of the Board of Directors of the Company (the "Committee") granted to certain management-level employees and executive officers, service-based restricted stock awards totaling 297,410 shares with a grant-date fair value totaling approximately \$6.3 million. Such restricted stock awards vest beginning one year from the date of grant in annual installments of 25%. During 2020, certain management-level employees were granted service-based restricted stock awards totaling 9,256 shares with a grant-date fair value totaling approximately \$0.2 million, which vest over two years in 50% installments. In addition, non-employee directors of the Company were granted service-based restricted stock awards totaling 34,607 shares with a grant-date fair value totaling approximately \$0.7 million. Such restricted stock awards vest one year from the date of grant.

During the first quarter of 2020, the Committee also granted to certain executive officers performance-based restricted stock awards pursuant to the terms of the Company's executive compensation program totaling 137,052 shares with a grant-date fair value totaling approximately \$2.8 million, which represents the maximum number of shares the executive officers can earn at the end of a three-year performance period ending December 31, 2022.

The actual number of shares earned will be based on the Company's performance related to the following performance criteria over the performance period:

- Operating income growth (three-year compound annual growth rate); and
- Total consolidated revenue growth (three-year compound annual growth rate).

At the end of the three-year period, the executive officers are eligible to receive up to a specified number of shares based upon the Company's performance relative to these performance criteria over the performance period. In addition, the executive officers will accrue dividend equivalents for any cash dividends declared during the performance period, payable in the form of additional shares of Company common stock, based upon the maximum number of shares to be earned by the executive officers for each performance-based restricted stock award. Such hypothetical cash dividend payment shall be divided by the fair value of the Company's common stock on the dividend payment date to determine the maximum number of notional shares to be awarded. At the end of the three-year performance period and on the date some or all of the shares vest under the agreement, a pro rata number of notional dividend shares will be converted into an equivalent number of dividend shares paid and granted to the executive officers based upon the actual number of underlying shares earned during the performance period.

At December 31, 2020, the three-year performance period related to the performance-based restricted stock awards granted to certain executive officers on February 22, 2018 ended. Based on the Company's actual financial results from 2018 through 2020, 33,715 of the shares and 1,905 dividend shares were earned. The remaining 106,379 shares subject to the awards will be forfeited in the first quarter of 2021.

At December 31, 2019, the three-year performance period related to the performance-based restricted stock awards granted to certain executive officers on February 22, 2017 ended. Based on the Company's actual financial results from 2017 through 2019, no shares or dividend equivalent shares were earned, and the 87,241 shares subject to the awards were forfeited.

At December 31, 2018, the three-year performance period related to the performance-based restricted stock awards granted to certain executive officers on February 22, 2016 ended. Based on the Company's actual financial results from 2016 through 2018, 64,846 of the shares and 4,226 dividend shares were earned. The remaining 73,345 shares subject to the awards were forfeited.

During 2019, the Company's former Chief Operating Officer departed the Company. Pursuant to the terms of his employment agreement, the Company provided severance and other related benefits. The Company incurred a total one-time cost of \$2.6 million, which consisted of a one-time cash payment of \$1.5 million and \$1.1 million of stock-based

compensation expense associated with the accelerated vesting of certain restricted stock awards. Included in stock-based compensation expense was the acceleration of 4,507 service-based restricted stock awards and 37,463 performance-based restricted stock awards.

A summary of service-based restricted stock activity for the year ended December 31, 2020 is presented below:

	Service-based Restricted Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2020	712,162	\$ 16.81
Granted	341,273	\$ 21.12
Vested	(298,479)	\$ 17.20
Canceled	(23,830)	\$ 17.53
Outstanding at December 31, 2020	<u>731,126</u>	<u>\$ 18.64</u>
Expected to vest at December 31, 2020	<u>731,126</u>	<u>\$ 18.64</u>

The fair value of service-based restricted stock vested during the years ended December 31, 2020, 2019 and 2018 was approximately \$1.1 million, \$5.5 million and \$5.1 million, respectively. The weighted average grant date fair value per share of service-based restricted stock granted during the years ended December 31, 2020, 2019 and 2018 was \$21.12, \$16.96 and \$14.15, respectively.

A summary of performance-based restricted stock activity for the year ended December 31, 2020 is presented below:

	Performance- based Restricted Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2020	338,470	\$ 17.01
Granted	137,052	\$ 20.55
Vested	—	\$ 22.00
Canceled	(87,241)	\$ 22.00
Outstanding at December 31, 2020	<u>388,281</u>	<u>\$ 17.14</u>
Expected to vest at December 31, 2020	<u>149,801</u>	<u>\$ 18.48</u>

During the years with performance periods ended December 31, 2020 and 2018, no shares of performance-based restricted stock awards vested. The fair value of performance-based restricted stock vested with the performance period ended December 31, 2019 was approximately \$1.8 million. The weighted average grant date fair value per share of performance-based restricted stock granted during the years ended December 31, 2020, 2019 and 2018 was \$20.55, \$17.27 and \$13.70, respectively.

At December 31, 2020, the total intrinsic value of unvested restricted stock awards expected to vest was approximately \$2.8 million. At December 31, 2020, the Company had approximately \$10.7 million of total unrecognized compensation cost related to unvested restricted stock awards. The Company expects to recognize this cost over a weighted average period of approximately two years from December 31, 2020.

Employee stock purchase plan

In 1999, the Company's Board of Directors approved an employee stock purchase plan ("ESPP") intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code. A total of 2,321,688 shares of NIC common stock have been reserved for issuance under this plan. Terms of the plan permit eligible employees to purchase NIC common stock through payroll deductions up to the lesser of 15% of each employee's compensation or \$25,000. Amounts deducted and accumulated by the participant are used to purchase shares of NIC's common stock at 85% of the

lower of the fair value of the common stock at the beginning or the end of the offering period, as defined in the plan. At December 31, 2020, a total of 787,353 shares were available for future grants under the ESPP.

The current offering period under this plan commenced on April 1, 2020. The closing fair market value of NIC common stock on the first day of the current offering period was \$21.27 per share. In the offering period commencing on April 1, 2019 and ending on March 31, 2020, 103,628 shares were purchased at a price of \$14.56 per share, resulting in total cash proceeds to the Company of approximately \$1.5 million. In the offering period commencing on April 1, 2018 and ending on March 31, 2019, 127,600 shares were purchased at a price of \$11.31 per share, resulting in total cash proceeds to the Company of approximately \$1.4 million. In the offering period commencing on April 1, 2017 and ending on March 31, 2018, 122,152 shares were purchased at a price of \$11.31 per share, resulting in total cash proceeds to the Company of approximately \$1.4 million.

The fair values of the offerings were estimated on the dates of grant using the Black-Scholes model using the assumptions in the following table.

	Offering Ending March 31, 2021	Offering Ending March 31, 2020	Offering Ending March 31, 2019
Risk-free interest rate	0.16 %	2.41 %	2.08 %
Expected dividend yield	1.90 %	1.93 %	2.06 %
Expected life	1.0 year	1.0 year	1.0 year
Expected stock price volatility	41.09 %	29.94 %	35.51 %
Weighted average fair value of ESPP rights	\$ 6.37	\$ 4.49	\$ 3.75

The Black-Scholes option-pricing model was not developed for use in valuing ESPP rights but was developed for use in estimating the fair value of traded stock options that have no vesting restrictions and are fully transferable. In addition, it requires the use of subjective assumptions including expectations of future dividends and stock price volatility. Such assumptions are only used for making the required fair value estimate and should not be considered as indicators of future dividend policy or stock price appreciation or should not be used to predict the value ultimately realized by employees who receive equity awards. Because changes in the subjective assumptions can materially affect the fair value estimate and because employee stock options have characteristics significantly different from those of traded options, the use of the Black-Scholes option-pricing model may not provide a reliable estimate of the fair value of ESPP rights.

Defined contribution 401(k) profit sharing plan

The Company and its subsidiaries sponsor a defined contribution 401(k) profit sharing plan. In accordance with the plan, all full-time employees are eligible immediately upon employment and non full-time employees are eligible upon reaching 1,000 hours of service in the relevant period. A discretionary match by the Company of an employee's contribution of up to 5% of base salary and a discretionary contribution may be made to the plan as determined by the Board of Directors. Expense related to Company matching contributions totaled approximately \$3.3 million, \$2.9 million and \$2.7 million for the years ended December 31, 2020, 2019 and 2018, respectively.

13. REPORTABLE SEGMENTS AND RELATED INFORMATION

The Company currently operates in three reportable segments: State Enterprise, Payments and TourHealth. The State Enterprise reportable segment generally includes the Company's subsidiaries operating digital government services on an enterprise-wide basis for state and local governments. The Payments reportable segment includes the Company's subsidiaries in the software & services category that provide certain payment processing-related, transaction-based services mainly to state and local government agencies in states where the Company does not maintain an enterprise-wide contract. The TourHealth reportable segment includes the Company's TourHealth rapid and secure COVID-19 testing solution, which commenced in August 2020. The All Other category primarily includes the Company's subsidiaries in the software & services category that provide software development and digital government services, other than those provided on an enterprise-wide basis, to federal agencies, including the Company's contract with the FMCSA to operate the Federal PSP and the Company's subcontract for the Recreation.gov outdoor recreation service, as well as to other state and local governments and government-related entities, including the Company's RxGov prescription drug monitoring business and NIC Licensing Solutions regulatory licensing business. Each of the Company's businesses within the All Other category is an operating segment and have been grouped together to form the All Other category, as none of the operating segments meets the quantitative threshold of a separately reportable segment. These services are not directly identifiable with the Company's reportable operating segments. In addition, the Company accounts for non-operating activity and the costs of providing corporate and other administrative services in the Other Reconciling Items category. There have been no significant intersegment transactions for the periods reported. The summary of significant accounting policies applies to all operating segments.

The Company's Chief Executive Officer has been identified as the chief operating decision maker ("CODM"). The measure of profitability by which management, including the CODM, evaluates the performance of its segments and allocates resources to them is operating income (loss). Segment assets or other segment balance sheet information is not presented to the Company's CODM. Accordingly, the Company has not presented information relating to segment assets.

The table below reflects summarized financial information for the Company's reportable segments for the years ended December 31 (in thousands):

	State Enterprise	Payments	TourHealth	All Other	Other Reconciling Items	Consolidated Total
2020						
Revenues	\$ 331,720	\$ 41,092	\$ 61,634	\$ 26,008	\$ —	\$ 460,454
Costs & expenses	199,901	32,314	51,606	10,913	64,042	358,776
Depreciation & amortization	2,682	6	—	4,516	7,041	14,245
Operating income (loss)	\$ 129,137	\$ 8,772	\$ 10,028	\$ 10,579	\$ (71,083)	\$ 87,433
2019						
Revenues	\$ 290,281	\$ 37,976	\$ —	\$ 25,948	\$ —	\$ 354,205
Costs & expenses	175,490	30,922	—	10,714	62,050	279,176
Depreciation & amortization	2,723	3	—	1,619	8,265	12,610
Operating income (loss)	\$ 112,068	\$ 7,051	\$ —	\$ 13,615	\$ (70,315)	\$ 62,419
2018						
Revenues	\$ 312,492	\$ 10,936	\$ —	\$ 21,472	\$ —	\$ 344,900
Costs & expenses	187,321	8,536	—	8,175	56,691	260,723
Depreciation & amortization	2,985	—	—	100	6,032	9,117
Operating income (loss)	\$ 122,186	\$ 2,400	\$ —	\$ 13,197	\$ (62,723)	\$ 75,060

The following table identifies each type of service, end-user consumer and state government that accounted for 10% or more of the Company's total consolidated revenues for the years ended December 31:

<u>Type of Service</u>	Percentage of Total Revenues		
	2020	2019	2018
Motor Vehicle Driver History Record Retrieval	19 %	26 %	29 %
Motor Vehicle Registrations	11 %	11 %	14 %
TourHealth COVID-19 Services	13 %	N/A	N/A
<u>Consumer</u>			
LexisNexis Risk Solutions <i>(provides motor vehicle driver history records to the insurance industry)</i>	11 %	15 %	19 %
<u>State Partner</u>			
Colorado	N/A	10 %	N/A
Texas <i>(2018 consists of the legacy and payment processing contracts)</i>	N/A	N/A	17 %

14. UNAUDITED QUARTERLY OPERATING RESULTS

The unaudited quarterly information below is subject to seasonal fluctuations resulting in lower revenues in the fourth quarter of each calendar year due to the lower number of business days in the quarter and a lower volume of business-to-government and citizen-to-government transactions during the holiday periods.

(in thousands, except per share amount)	For the Year Ended December 31, 2020			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues:				
State enterprise revenues	\$ 74,411	\$ 77,804	\$ 91,475	\$ 88,030
Software & services revenues	16,708	15,785	43,115	53,126
Total revenues	91,119	93,589	134,590	141,156
Operating expenses:				
State enterprise cost of revenues, exclusive of depreciation & amortization	46,271	45,876	53,807	53,947
Software & services cost of revenues, exclusive of depreciation & amortization	10,724	10,344	31,290	42,475
Selling & administrative	8,064	8,316	8,817	9,354
Enterprise technology & product support	7,254	7,201	7,342	7,694
Depreciation & amortization	3,482	3,473	3,528	3,762
Total operating expenses	75,795	75,210	104,784	117,232
Operating income	15,324	18,379	29,806	23,924
Other income:				
Interest income	389	—	—	—
Income before income taxes	15,713	18,379	29,806	23,924
Income tax provision	3,850	4,583	4,715	6,080
Net income	\$ 11,863	\$ 13,796	\$ 25,091	\$ 17,844
Basic net income per share				
Basic net income per share	\$ 0.18	\$ 0.20	\$ 0.37	\$ 0.26
Diluted net income per share				
Diluted net income per share	\$ 0.18	\$ 0.20	\$ 0.37	\$ 0.26
Weighted average shares outstanding:				
Basic	66,987	66,999	67,025	67,030
Diluted	66,987	66,999	67,025	67,166

(in thousands, except per share amount)	For the Year Ended December 31, 2019			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues:				
State enterprise revenues	\$ 69,853	\$ 74,871	\$ 73,257	\$ 72,300
Software & services revenues	15,327	16,695	17,128	14,774
Total revenues	<u>85,180</u>	<u>91,566</u>	<u>90,385</u>	<u>87,074</u>
Operating expenses:				
State enterprise cost of revenues, exclusive of depreciation & amortization	41,978	45,081	43,821	44,610
Software & services cost of revenues, exclusive of depreciation & amortization	9,397	10,525	10,173	11,541
Selling & administrative	9,964	8,356	8,153	8,727
Enterprise technology & product support	6,445	6,745	6,743	6,917
Depreciation & amortization	2,421	3,130	3,524	3,535
Total operating expenses	<u>70,205</u>	<u>73,837</u>	<u>72,414</u>	<u>75,330</u>
Operating income	14,975	17,729	17,971	11,744
Other income:				
Interest income	604	577	729	604
Income before income taxes	15,579	18,306	18,700	12,348
Income tax provision	4,077	3,846	4,190	2,390
Net income	<u>\$ 11,502</u>	<u>\$ 14,460</u>	<u>\$ 14,510</u>	<u>\$ 9,958</u>
Basic net income per share	<u>\$ 0.17</u>	<u>\$ 0.21</u>	<u>\$ 0.21</u>	<u>\$ 0.15</u>
Diluted net income per share	<u>\$ 0.17</u>	<u>\$ 0.21</u>	<u>\$ 0.21</u>	<u>\$ 0.15</u>
Weighted average shares outstanding:				
Basic	<u>66,670</u>	<u>66,940</u>	<u>66,960</u>	<u>66,967</u>
Diluted	<u>66,670</u>	<u>66,940</u>	<u>66,960</u>	<u>66,967</u>

15. SUBSEQUENT EVENT

Merger Agreement

On February 9, 2021, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Tyler Technologies, Inc., a Delaware corporation (“Tyler Technologies”), and Topos Acquisition, Inc., a Delaware corporation and a wholly-owned subsidiary of Tyler Technologies (“Merger Sub”). The Merger Agreement provides that, upon the terms and subject to the conditions set forth in the Merger Agreement, Merger Sub will merge with the Company (the “Merger” and, collectively with the other transactions contemplated by the Merger Agreement, the “Transactions”), with the Company continuing as the surviving corporation and as a wholly-owned subsidiary of Tyler Technologies.

Consideration to the Company's Stockholders

At the effective time of the Merger (“Effective Time”), each share of common stock of the Company (the “Common Stock”), issued and outstanding immediately prior to the Effective Time (other than shares of Common Stock (i) owned by Tyler Technologies, Merger Sub or any of their respective subsidiaries, (ii) owned by the Company or any of its subsidiaries, including shares held as treasury stock, (iii) for which appraisal rights have been demanded properly in

accordance with Section 262 of the General Corporation Law of the State of Delaware or (iv) that are subject to Assumed RSAs (as defined below)), shall be converted into the right to receive \$34.00 per share in cash, without interest (the “Merger Consideration”).

Treatment of NIC Equity Awards and NIC Employee Stock Purchase Plan

Immediately prior to the Effective Time, each outstanding restricted stock award granted under the Company’s equity compensation plan (each, a “NIC Restricted Stock Award”) that is fully vested and not subject to any restrictions (or that, pursuant to its terms as in effect on the date of the Merger Agreement or the terms of the Merger Agreement, will accelerate in full and no longer be subject to any further vesting as a result of or in connection with the consummation of the Transactions), will be released to the holder of such NIC Restricted Stock Award, to the extent not previously released, and converted into the right to receive, with respect to each share of Common Stock subject to such NIC Restricted Stock Award (as determined in accordance with the applicable award agreement), the Merger Consideration, less all applicable withholding and other authorized deductions.

At the Effective Time, each NIC Restricted Stock Award that is outstanding immediately prior to the Effective Time and that vests solely based on the achievement of performance goals will automatically vest in full and be cancelled and converted into the right to receive, with respect to each share of Common Stock subject to such NIC Restricted Stock Award (as determined in accordance with the applicable award agreement), the Merger Consideration, less all applicable withholding and other authorized deductions.

At the Effective Time, each outstanding NIC Restricted Stock Award that vests solely based on the passage of time (other than NIC Restricted Stock Awards that are converted into the right to receive the Merger Consideration pursuant to the Merger Agreement) (each, an “Assumed RSA”), will be assumed by Tyler Technologies and converted automatically into a Tyler Technologies restricted stock award on the same terms and conditions (including any terms and conditions relating to accelerated vesting upon a termination of employment in connection with or following the Effective Time) as applicable to such Assumed RSA immediately prior to the Effective Time, except that the number of shares of Tyler Technologies common stock subject to such Assumed RSA will equal the product obtained by multiplying the total number of shares of Common Stock subject to the Assumed RSA immediately prior to the Effective Time (as determined in accordance with the applicable award agreement) by the Restricted Stock Conversion Ratio, rounded up to the nearest whole share. Each Assumed RSA shall otherwise be subject to Tyler Technologies’ equity compensation plan. For purposes of the Merger Agreement, the “Restricted Stock Conversion Ratio” means the quotient, rounded (with simple rounding) to the fourth decimal place, obtained by dividing (i) the Merger Consideration by (ii) the volume weighted average closing sale price of one share of Tyler Technologies common stock as reported on the New York Stock Exchange for the 10 consecutive trading days ending on the trading day immediately preceding the date on which the Closing occurs (as adjusted as appropriate to reflect any stock splits, stock dividends, combinations, reorganizations, reclassifications, or similar events).

Pursuant to the Merger Agreement, the Company will take all actions necessary with respect to the Company’s employee stock purchase plan (the “ESPP”), to provide that, among other things, participation in the ESPP after the date of the Merger Agreement will be limited to the Company’s employees who participate in the offering period currently in progress as of the date of the Merger Agreement, no new offering periods under the ESPP will commence after the date of the Merger Agreement and, subject to the consummation of the Merger, the ESPP will terminate as of immediately prior to the Effective Time.

Board Approval

The Company’s Board of Directors (the “Board”) has unanimously (i) determined that the terms of the Merger Agreement and the Transactions, including the Merger, are fair to, and in the best interests of, the Company and its stockholders, (ii) approved the execution and delivery by the Company of the Merger Agreement, the performance by the Company of its covenants and agreements contained in the Merger Agreement and the consummation of the Merger and other Transactions upon the terms and subject to the conditions set forth in the Merger Agreement, (iii) recommended that the stockholders of the Company adopt the Merger Agreement, and (iv) directed that the adoption of the Merger Agreement be submitted to a vote of the Company’s stockholders.

Conditions to Closing

The consummation of the Merger (the “Closing”) is subject to certain conditions, including (i) the affirmative vote of the holders of a majority of the outstanding shares of Common Stock to adopt the Merger Agreement (the “Stockholder Approval”), (ii) the expiration or termination of any waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder, and (iii) the absence of any order or law enjoining or otherwise prohibiting the Merger. Each of Tyler Technologies’ and the Company’s obligation to consummate the Merger is also subject to additional customary conditions, including (x) the accuracy of the representations and warranties of the other party, subject to specified materiality qualifications, and (y) performance and compliance in all material respects by the other party with its obligations, covenants and agreements under the Merger Agreement. Consummation of the Merger is not subject to a financing condition.

Representations, Warranties and Covenants

The Merger Agreement contains customary representations, warranties and covenants made by each of the Company, Tyler Technologies and Merger Sub, including, among others, covenants by the Company regarding the conduct of its business during the pendency of the Transactions, public disclosures and other matters. Tyler Technologies has agreed to customary covenants related to treatment of employees and their compensation and benefits after Closing, including commitments to honor compensatory arrangements in connection with the Transactions. The Company is required, among other things, not to solicit alternative business combination transactions and, subject to certain exceptions, not to engage in discussions or negotiations regarding an alternative business combination transaction. The Company is required to convene a meeting of its stockholders to vote on the adoption of the Merger Agreement.

The Company and Tyler Technologies are required to (i) use their respective reasonable best efforts to take all actions to consummate the Transactions, including taking all actions necessary to obtain antitrust approval, subject to certain limitations, and (ii) cooperate in connection with their efforts to obtain antitrust approval.

Termination Rights

Both Tyler Technologies and the Company may terminate the Merger Agreement under certain specified circumstances, including (a) if the Merger is not consummated by June 30, 2021, subject to one three month extension in order to obtain required regulatory approvals, (b) if the approval of the the Company’s stockholders is not obtained, or (c) if the Company’s Board of Directors makes an adverse recommendation change with respect to the proposed transaction or to enter into a superior acquisition proposal.

In certain circumstances in connection with the termination of the Merger Agreement, including if the Company’s Board of Directors changes or withdraws its recommendation of the Merger to its stockholders or terminates the Merger Agreement to enter into an agreement with respect to a “superior proposal,” the Company will be required to pay Tyler Technologies a termination fee equal to \$55.0 million in cash.

The Merger Agreement and the above description have been included to provide investors and security holders with information regarding the terms of the agreement. They are not intended to provide any other factual information about Tyler Technologies, the Company or their respective subsidiaries or affiliates or stockholders.

The representations, warranties, and covenants of the Company contained in the Merger Agreement were made solely for the benefit of Tyler Technologies and Merger Sub.

The assertions embodied in those representations and warranties were made solely for purposes of allocating risk among the Company, Tyler Technologies and Merger Sub rather than establishing matters of fact and may be subject to important qualifications and limitations agreed to by the Company, Tyler Technologies, and Merger Sub in connection with the negotiated terms. Moreover, some of those representations and warranties may not be accurate or complete as of any specified date, may be subject to a contractual standard of materiality different from those generally applicable to the Company’s filings with the U.S. Securities and Exchange Commission (the “SEC”) or may have been used for purposes of allocating risk among the Company, Tyler Technologies, and Merger Sub rather than establishing matters as facts.

Investors should not rely on the representations, warranties, and covenants or any description thereof as characterizations of the actual state of facts of the Company or any of its subsidiaries or affiliates.

If the Merger is consummated, the Company's Common Stock will be delisted from Nasdaq and deregistered under the Securities Exchange Act of 1934.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures – The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act) that are designed to ensure that material information required to be disclosed in its filings under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of such date.

Management's Report on Internal Control Over Financial Reporting – Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control – Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2020.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Ernst & Young LLP, Independent Registered Public Accounting Firm, has audited the Company's consolidated financial statements and has issued an attestation report on the effectiveness of the Company's internal control over financial reporting, which is included in Item 8.

Changes in Internal Control over Financial Reporting – As of the end of the period covered by this report, our management, including our principal executive officer and principal financial officer, concluded that there have been no changes in our internal control over financial reporting that occurred during our fourth fiscal quarter of 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information under “Election of Directors,” “Executive Officers,” and “Structure and Practices of the Board of Directors – Corporate Governance Principles and Best Practices and Code of Business Conduct and Ethics, – Committees of the Board, – Nomination of Directors and – Involvement in Certain Legal Proceedings” set forth in the Company’s definitive proxy statement related to its 2021 annual meeting of stockholders (the “Proxy Statement”), which will be filed with the SEC not later than 120 days after the end of the Company’s fiscal year pursuant to Regulation 14A, is incorporated herein by reference.

The Company has adopted a Code of Business Conduct and Ethics, which applies to all employees, directors and officers, including the Chief Executive Officer and the Chief Financial Officer. The Code of Business Conduct and Ethics is available on the Company’s website at <http://ir.egov.com/corporate-governance/governance-documents>. The Company intends to disclose any changes in or waivers from its Code of Business Conduct and Ethics by posting such information on its website or by filing a Form 8-K with the SEC, as required.

ITEM 11. EXECUTIVE COMPENSATION

The information under “Executive Compensation,” “Report of the Compensation Committee,” “Compensation Discussion and Analysis,” “Compensation Tables,” “Compensation Committee Interlocks and Insider Participation,” “Employment Agreements and Severance Payments,” and “Structure and Practices of the Board of Directors – Committees of the Board” and “Director Compensation” set forth in the Proxy Statement, which will be filed with the SEC not later than 120 days after the end of the Company’s fiscal year pursuant to Regulation 14A, is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information under “Security Ownership of Certain Beneficial Owners and Management” set forth in the Proxy Statement, which will be filed with the SEC not later than 120 days after the end of the Company’s fiscal year pursuant to Regulation 14A, is incorporated herein by reference.

Equity Compensation Plan Information

The following table provides information regarding securities to be issued upon the exercise of outstanding options, warrants and rights and securities available for issuance under the Company’s equity compensation plans as of December 31, 2020:

<u>Plan Category</u>	<u>A</u>	<u>B</u>	<u>C</u>
	Number of securities to be issued upon exercise of outstanding options, warrants and rights outstanding as of December 31, 2020	Weighted average exercise price of outstanding options, warrants and rights shown in Column A	Number of securities available for future issuance as of December 31, 2020
Equity compensation plans approved by stockholders:			
Restricted stock awards	—	\$ —	2,776,440 (1)
Employee stock purchase plan	— (2)	— (2)	787,353
Equity compensation plans not approved by stockholders	—	—	—
Total	—	\$ —	3,563,793

(1) The amount shown excludes 1,119,407 shares subject to outstanding unvested restricted stock awards.

(2) March 31, 2020 was the purchase date of common stock for the most recently completed offering period under the Company’s employee stock purchase plan. Therefore, as of such date, no purchase rights were outstanding. The purchase price for the offering period ended March 31, 2020, was \$14.56 per share, and the total number of shares purchased was 103,628.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information under “Certain Relationships and Related Transactions”, “Election of Directors,” and “Structure and Practices of the Board of Directors – Independence” set forth in the Proxy Statement, which will be filed with the SEC not later than 120 days after the end of the Company’s fiscal year pursuant to Regulation 14A, is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information under “Ratification of Appointment of Independent Registered Public Accounting Firm” set forth in the Proxy Statement, which will be filed with the SEC not later than 120 days after the end of the Company’s fiscal year pursuant to Regulation 14A, is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

- (a) The following documents are filed as part of this report:
- (1) Financial Statements.

The Consolidated Financial Statements and related Notes, together with the report of Ernst & Young LLP, appear in Part II, Item 8, Consolidated Financial Statements and Supplementary Data of this Form 10-K.

- (1) Financial Statement Schedules. All schedules are omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or notes thereto.
- (2) Exhibits. Pursuant to the rules and regulations of the Securities and Exchange Commission, we have filed or incorporated by reference the documents referenced below as exhibits to this Annual Report on Form 10-K. The documents include agreements to which the Company is a party or has a beneficial interest. The agreements have been filed to provide investors with information regarding their respective terms. The agreements are not intended to provide any other factual information about the Company or its business or operations. In particular, the assertions embodied in any representations, warranties and covenants contained in the agreements may be subject to qualifications with respect to knowledge and materiality different from those applicable to investors and may be qualified by information in confidential disclosure schedules not included with the exhibits. These disclosure schedules may contain information that modifies, qualifies and creates exceptions to the representations, warranties and covenants set forth in the agreements. Moreover, certain representations, warranties and covenants in the agreements may have been used for the purpose of allocating risk between the parties, rather than establishing matters as facts. In addition, information concerning the subject matter of the representations, warranties and covenants may have changed after the date of the respective agreement, which subsequent information may or may not be fully reflected in the Company’s public disclosures. Accordingly, investors should not rely on the representations, warranties and covenants in the agreements as characterizations of the actual state of facts about the Company or its business or operations on the date hereof.

Exhibit Index

<u>Exhibit Number</u>	<u>Description</u>
2.1	Agreement and Plan of Merger, dated as of February 9, 2021, by and among NIC Inc., Tyler Technologies, Inc. and Topos Acquisition, Inc. (incorporated by reference to Exhibit 2.1 to Form 8-K (File No. 000-26621) filed with the SEC on February 10, 2021)
3.1	Certificate of Incorporation of NIC Inc., a Delaware corporation (incorporated by reference from Exhibit 3.2 to the Form 8-K (File No. 000-26621) filed with the SEC on May 11, 2009)
3.2	Bylaws of NIC Inc., a Delaware corporation (incorporated by reference from Exhibit 3.3 to the Form 8-K (File No. 000-26621) filed with the SEC on May 11, 2009)
4.1	Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934
4.2	Specimen Stock Certificate of the Registrant (incorporated by reference from Exhibit 4.3 to Amendment No. 1 to the Registration Statement on Form S-1, File No. 333-77939, filed with the SEC on June 18, 1999)
10.1	Registrant's Amended and Restated Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 to the Form 10-K (File No. 000-26621) filed with the SEC on February 22, 2017) **
10.2	Employment agreement between the Registrant and Harry Herington, dated February 5, 2013 (incorporated by reference to Exhibit 10.3 to Form 10-K (File No. 000-26621) filed with the SEC on February 28, 2013) **
10.3	Employment agreement between the Registrant and Stephen M. Kovzan, dated February 5, 2013 (incorporated by reference to Exhibit 10.5 to Form 10-K (File No. 000-26621) filed with the SEC on February 28, 2013) **
10.4	Employment agreement between the Registrant and Jayne Friedland Holland, dated May 5, 2015 (incorporated by reference to Exhibit 10.7 to Form 10-K (File No. 000-26621) filed with the SEC on February 23, 2016) **
10.5	Employment agreement between the Registrant and William Van Asselt, dated July 29, 2018 (incorporated by reference to Exhibit 10.1 to Form 10-Q (File No. 000-26621) filed with the SEC on August 1, 2018) **
10.6	Employment agreement between the Registrant and Brian Anderson, dated October 27, 2020 (incorporated by reference to Exhibit 10.1 to Form 10-Q (File No. 000-26621) filed with the SEC on October 28, 2020) **
10.7	Amended and Restated Employment agreement between the Registrant and Doug Rogers, dated January 20, 2021 (incorporated by reference to Exhibit 10.1 to Form 8-K (File No. 000-26621) filed with the SEC on January 26, 2021) **
10.8	Amended and Restated Employment agreement between the Registrant and Elizabeth Proudfit, dated January 20, 2021 **
10.9	Amended and Restated Employment agreement between the Registrant and Elizabeth A. Thomas, dated January 20, 2021 **
10.10	Form of NIC Inc. First Amendment to Key Employee Agreement, dated July 27, 2015 (incorporated by reference to Exhibit 10.1 to the Form 8-K (File No. 000-26621) filed with the SEC on July 28, 2015) **
10.11	NIC Inc. 2014 Amended and Restated Stock Compensation Plan (incorporated by reference to Exhibit 10.1 to Form 10-Q (File No. 000-26621) filed with the SEC on November 3, 2016) **
10.12	Form of Restricted Stock Agreement for NIC Inc. 2014 Amended and Restated Stock Compensation Plan (incorporated by reference to Exhibit 10.2 to Form 10-Q (File No. 000-26621) filed with the SEC on November 3, 2016) **
10.13	Form of Stock Option Agreement for NIC Inc. 2014 Amended and Restated Stock Compensation Plan (incorporated by reference to Exhibit 10.4 to Form 10-Q (File No. 000-26621) filed with the SEC on November 3, 2016) **
10.14	NIC Inc. Compensation Program For Certain Executive Officers (incorporated by reference to the Form 8-K (File No. 000-26621) filed with the SEC on March 6, 2008) **
10.15	NIC Inc. Management Annual Incentive Plan for Senior Executives (incorporated by reference to Exhibit 10.5 to Form 10-Q (File No. 000-26621) filed with the SEC on November 3, 2016) **
10.16	Form of Performance-Based Restricted Stock Agreement under the NIC Inc. 2014 Amended and Restated Stock Compensation Plan (incorporated by reference to Exhibit 10.3 to Form 10-Q (File No. 000-26621) filed with the SEC on November 3, 2016) **
10.17	Form of Indemnification Agreement between the registrant and each of its executive officers and directors (incorporated by reference to Exhibit 10.1 to the Form 8-K (File No. 000-26621) filed with the SEC on May 11, 2009) **
10.18	NIC Inc. Executive Incentive Plan (incorporated by reference to Exhibit 10.1 to the Form 8-K (File No. 000-26621) filed with the SEC on May 2, 2012) **
10.19	NIC Inc. Executive Incentive Plan (incorporated by reference to Exhibit 10.1 to the Form 8-K (File No. 000-26621) filed with the SEC on May 4, 2017) **
10.20	Amended and Restated Credit Agreement Dated as of August 6, 2014 between NIC Inc., as Borrower, and Bank of America, N.A., as Lender and L/C Issuer (incorporated by reference to Exhibit 10.2 to the Form 10-Q (File No. 000-26621) filed with the SEC on August 7, 2014)

10.21	<u>Amendment No. 1 to Amended and Restated Credit Agreement, dated July 9, 2015 between NIC Inc., as Borrower, and Bank of America, N.A., as Lender and L/C Issuer (incorporated by reference to Exhibit 10.1 to the Form 8-K (File No. 000-26621) filed with the SEC on July 9, 2015)</u>
10.22	<u>Amendment No. 2 to Amended and Restated Credit Agreement, dated December 14, 2015 between NIC Inc., as Borrower, and Bank of America, N.A., as Lender and L/C Issuer (incorporated by reference to Exhibit 10.1 to the Form 8-K (File No. 000-26621) filed with the SEC on December 15, 2015)</u>
10.23	<u>Amendment No. 3 to Amended and Restated Credit Agreement, dated April 28, 2017 between NIC Inc., as Borrower, and Bank of America, N.A., as Lender and L/C Issuer (incorporated by reference to Exhibit 10.1 to the Form 10-Q (File No. 000-26621) filed with the SEC on May 2, 2017)</u>
10.24	<u>Amendment No. 4 to Amended and Restated Credit Agreement, dated May 1, 2019 between NIC Inc., as Borrower, and Bank of America, N.A., as Lender and L/C Issuer (incorporated by reference to Exhibit 10.1 to the Form 10-Q (File No. 000-26621) filed with the SEC on May 7, 2019)</u>
10.25	<u>NIC Inc. 2006 Amended and Restated Stock Option and Incentive Plan, as amended (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-8 (File No. 333-136016) filed with the SEC on July 25, 2006) **</u>
10.26	<u>Form of Restricted Stock Agreement for NIC Inc. 2006 Amended and Restated Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.1 to the Form 10-Q (File No. 000-26621) filed with the SEC on November 7, 2007) **</u>
10.27	<u>Form of Stock Option Agreement for NIC Inc. 2006 Amended and Restated Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.2 to the Form 10-Q (File No. 000-26621) filed with the SEC on November 7, 2007) **</u>
10.28	<u>Form of Performance-Based Restricted Stock Agreement under the NIC Inc. 2006 Amended and Restated Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.17 to the Form 10-K (File No. 000-26621) filed with the SEC on February 28, 2013) **</u>
21.1	<u>Subsidiaries of the Registrant</u>
23.1	<u>Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm</u>
24.1	<u>Power of Attorney</u>
31.1	<u>Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2	<u>Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1	<u>Section 906 Certifications of Chief Executive Officer and Chief Financial Officer</u>
101	The following financial information from NIC Inc.'s Annual Report on Form 10-K for the year ended December 31, 2020, formatted in iXBRL (Inline Xtensible Business Reporting Language) includes (i) Consolidated Balance Sheets at December 31, 2020 and December 31, 2019, (ii) Consolidated Statements of Income for the years ended December 31, 2020, 2019, and 2018 (iii) Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2020, 2019, and 2018 (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2020, 2019, and 2018, and (v) the Notes to Consolidated Financial Statements (submitted electronically herewith).
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

** Management contracts and compensatory plans and arrangements required to be filed as Exhibits pursuant to Item 15(b) of this report.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 25, 2021

NIC INC.

By: /s/ Harry Herington
Harry Herington, Chairman of the Board and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Harry Herington</u> Harry Herington	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	February 25, 2021
<u>/s/ Stephen M. Kovzan</u> Stephen M. Kovzan	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 25, 2021
Art N. Burtscher*	Lead Independent Director	
Venmal (Raji) Arasu*	Director	
C. Brad Henry*	Director	
Sylvester (Sly) James, Jr.*	Director	
Alexander C. Kemper*	Director	
William M. Lyons*	Director	
Anthony Scott*	Director	
Jayaprakash Vijayan*	Director	
Pete Wilson*	Director	

/s/ Harry Herington
Harry Herington
Attorney-in-fact
February 25, 2021

*By

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934**

The following summary describes the Common Stock, \$0.0001 par value per share, of NIC Inc. (the "Company," "we," "our," "us," and "our"), which are the only securities of the Company registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended.

The following description of our Common Stock is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to our Certificate of Incorporation (the "Articles of Incorporation") and our Bylaws (the "Bylaws"), each of which are incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.1 is a part. We encourage you to read our Articles of Incorporation, our Bylaws and the applicable provisions of Delaware General Corporation Law ("DGCL"), for additional information.

Authorized Capital Shares

Our authorized capital shares consist of Two Hundred Million (200,000,000) shares of Common Stock. The outstanding shares of our Common Stock are fully paid and nonassessable. We may issue Preferred Stock from time to time in one or more series, without stockholder approval, when authorized by our Board of Directors. As of the date of the Annual Report on Form 10-K of which this Exhibit 4.1 is a part, no shares of Preferred Stock are outstanding.

Voting Rights

Voting power for the election of directors and for all other purposes is vested exclusively in the holders of the Common Stock, except as may otherwise be provided with respect to any class or series of Preferred Stock outstanding at any time. Holders of Common Stock are entitled to one vote per share on all matters voted on by the stockholders, including the election of directors; provided, however, that, except as otherwise required by law, holders of Common Stock shall not be entitled to vote on any amendment to the Certificate of Incorporation (including any Certificate of Designations relating to any series of Preferred Stock) that relates solely to the terms of one or more outstanding classes or series of Preferred Stock if the holders of such affected classes or series are entitled, either separately or together as a class with the holders of one or more other such classes or series, to vote thereon pursuant to the Certificate of Incorporation (including any Certificate of Designations relating to any series of Preferred Stock). Our Common Stock does not have cumulative voting rights.

Dividend Rights

Subject to the rights of holders of outstanding shares of Preferred Stock, if any, the holders of Common Stock are entitled to receive dividends, if any, as may be declared from time to time by the Board of Directors in its discretion out of funds legally available for the payment of dividends.

Liquidation Rights

Subject to any preferential rights of outstanding shares of Preferred Stock, holders of Common Stock will share ratably in all assets legally available for distribution to our stockholders in the event of dissolution.

Other Rights and Preferences

Our Common Stock has no sinking fund or redemption provisions or preemptive, conversion or exchange rights.

Limitations on Ability of Stockholders to Call Special Meeting or Act by Written Consent

The Bylaws provide that a special meeting of stockholders may be called only by the Board of Directors, or at the request in writing of the holders owning greater than 50% of capital stock of the Company issued and outstanding and entitled to vote at the meeting. Holders of Common Stock may not act by unanimous written consent.

Advance Notice of Stockholder Proposals and Nominations

The Bylaws provide for advance notice procedures for all stockholder proposals and nominees for directors to be brought before meetings of the Company's stockholders. A stockholder must give notice no later than the 90th day nor earlier than the 120th days before the one-year anniversary of the date on which the Company held its annual meeting of

stockholders the previous year. The notice must contain the information required by the Bylaws, and the stockholder(s) and nominee(s) must comply with the other information requirements outlined in the Bylaws.

Delaware Law Provisions

Certain provisions of the DGCL could make it more difficult to consummate an acquisition of control of us by means of a tender offer, a proxy fight, open market purchases or otherwise in a transaction not approved by our Board of Directors. These provisions may reduce our vulnerability to an unsolicited proposal for the restructuring or sale of all or substantially all of our assets or an unsolicited takeover attempt which is unfair to our stockholders.

Listing

The Common Stock is traded on The Nasdaq Stock Market LLC under the trading symbol "EGOV."

NIC INC.
RESTATED AND AMENDED KEY EMPLOYEE AGREEMENT
for
ELIZABETH PROUDFIT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (“Agreement”) is entered into as of the 20th day of January, 2021 (the “Effective Date”), by and between **Elizabeth Proudfit** (“Executive”) and **NIC Inc.**, a Delaware corporation (the “Company”). This Agreement amends and restates all prior agreements between Executive and the Company with respect to the subject matter hereof.

WHEREAS, Executive is currently employed by the Company under the terms of that certain Employment Agreement, dated October 27, 2020 (the “Original Agreement”);

WHEREAS, Company and Executive desire to amend and restate the Original Agreement in its entirety;

WHEREAS, the Company desires to continue to employ Executive to provide personal services to the Company and to the Company’s subsidiaries, and wishes to continue to provide Executive with certain compensation and benefits in return for Executive’s services; and

WHEREAS, Executive desires to continue to be employed by the Company and provide personal services to the Company and to the Company’s subsidiaries in return for certain compensation and benefits;

NOW, THEREFORE, the parties hereto agree as follows:

1. EMPLOYMENT BY THE COMPANY

1.1 Acceptance. Effective as of the Effective Date, the Company agrees to continue to employ Executive in the position of Senior Vice President of Marketing and Communications, and Executive agrees to continue to be employed upon the terms and conditions set forth in this Agreement for the period beginning on the Effective Date and ending as provided in Section 4 (the “Employment Period”).

1.2 Duties. During the Employment Period, Executive will serve in an executive capacity and shall perform such duties as are customarily associated with her then current title, consistent with the Bylaws of the Company and as reasonably required by the Company’s Board of Directors (the “Board”). During the Employment Period, Executive will report to the Chief Executive Officer. Executive will devote her best efforts and substantially all of her business time and attention (except for vacation periods and reasonable periods of illness or other reason

for leave permitted by the Company's general employment policies and for volunteer services to charitable organizations that do not materially detract from her ability to perform her duties to the Company) to the business of the Company.

1.3 Employment Policies. The employment relationship between the parties shall also be governed by the general employment policies and practices of the Company, including those relating to protection of confidential information and assignment of inventions, except that when the terms of this Agreement differ from or are in conflict with the Company's general employment policies or practices, this Agreement shall control.

2. COMPENSATION

2.1 Base Salary. The Company agrees to pay Executive a base salary during Executive's employment in equal installments (prorated for portions of a pay period) on the Company's regular pay days and the Company will withhold from such compensation all applicable federal and state income, social security and disability and other taxes as required by applicable laws. Executive's initial salary as of the date hereof shall be at the rate of Three Hundred and Five Thousand and no/100 Dollars (\$305,000) per year (the "Base Salary"). Executive's Base Salary will be subject to review by the Board, or an authorized committee of the Board, from time to time and may be increased (but not decreased, except for across-the-board reductions that may be generally applicable to all of the Company's senior executives) in the Board's sole discretion.

2.2 Incentive Compensation. Executive shall be entitled to participate, at a level commensurate with her position, in an annual performance-based cash bonus plan of the Company (the "Annual Cash Incentive Bonus"), any long-term incentive plan (which may include grants of stock options, restricted stock or other equity-based awards under the Company's equity plan as determined by the Board in its sole discretion) and in such additional incentive bonus opportunities, if any, as may be determined by the Board, with recommendations made by the Compensation Committee of the Board, subject to the terms and conditions of any underlying bonus plans, equity plans or equity agreements:

(a) Executive's minimum Annual Cash Incentive Bonus target will be Thirty Five percent (35%) of her base salary.

(b) The minimum service-based component of Executive's annual long-term, equity-based incentive grant will be targeted at Fifty percent (50%) of her base salary.

2.3 Standard Company Benefits. Executive shall be entitled to participate in, and to receive all rights and benefits under the terms and conditions of, the standard Company benefits

and compensation practices which may be in effect from time to time and provided by the Company to its employees generally.

2.4 Vacation. In addition to such holidays, sick leave, personal leave and other paid leave as are allowed under the Company's policies applicable to senior executives generally, Executive shall be entitled to one hundred sixty (160) hours per year (calculated at the rate of forty (40) hours worked per week) of vacation per calendar year and subject to the terms and conditions of the Company's vacation policy applicable to senior executives; plus ten working days per year of personal time, accruing at the rate of six point seven (6.7) hours per month (calculated at the rate of forty (40) hours worked per week) provided that Executive's unused vacation will not exceed one hundred sixty (160) hours per year. If the Executive has not taken all of the available vacation time in a year, the unused time can be carried over to the next year, provided, however, that no additional accrual of time will occur when the unused total equals one hundred sixty (160) hours. Personal time does not carry over from year to year. The value of any unused and accumulated vacation time will be paid to the Executive upon any termination of her employment based upon the per day value of her then base salary divided by 250. The duration of such vacations and the time or times when they shall be taken will be determined by Executive in consultation with the Company.

2.5 Expenses. The Company shall pay or reimburse Executive for reasonable and necessary business expenses incurred by Executive in connection with her duties on behalf of the Company in accordance with the Company's expense reimbursement policy, as may be amended from time to time, or any successor policy, plan, program or arrangement thereto, and any other of its expense policies applicable to senior executives of the Company, following submission by Executive of reimbursement expense forms in accordance with such expense policies. Any reimbursement or provision of in-kind benefits for expenses incurred or benefits received during the Executive's employment pursuant to the terms of this Section 2.5 shall be made pursuant to the Company's standard policies and time lines, but not later than December 31st of the year following the year in which Executive incurs the expense; provided, however, that in no event will the amount of expenses so reimbursed, or in-kind benefits provided, by the Company in one year affect the amount of expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year. Each provision of reimbursement of expenses or in-kind benefit pursuant to this Section 2.5 shall be considered a separate payment and not one of a series of payments for purposes of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code").

2.6 Executive Death and Disability Benefits. Executive shall be entitled to participate in and receive all rights and benefits under the terms and conditions of an executive life and disability policy or policies, with limits, features, benefits and coverages substantially similar to those reflected in Attachment I to this Agreement.

2.7 Indemnification. The Company and Executive have entered into a separate Indemnification Agreement in the form signed by the Company with its other officers and directors. The Company agrees that Executive shall be a director or officer of the Company, and that Company shall maintain such Indemnification Agreement with Executive, throughout the Employment Period.

3. PROPRIETARY INFORMATION OBLIGATIONS.

3.1 Agreement. Executive agrees to execute and abide by the Proprietary Information and Inventions Agreement attached hereto as Exhibit A.

4. EMPLOYMENT PERIOD.

4.1 Except as hereinafter provided, the Employment Period shall commence as of the Effective Date and shall terminate upon the earlier of (a) the third (3rd) anniversary of the Effective Date (the "Initial Termination Date"), or (b) the date on which this Agreement is terminated in accordance with Section 4.2 of this Agreement; provided, however, that unless terminated in accordance with Section 4.2, this Agreement shall be automatically renewed for an additional Employment Period of three years on the Initial Termination Date and any subsequent three-year Employment Period's termination date, unless either Executive or the Company, as directed by its Board, elects, by written notice to the other party not less than six (6) months prior to the Initial Termination Date or any subsequent three-year Employment Period's termination date, (a) to terminate this Agreement, or (b) to negotiate new terms of employment. If negotiations regarding any revised employment agreement extend beyond a specific termination date while the parties are actively negotiating, the Agreement shall continue in full force and effect during such period of negotiation; provided, however, that if the parties, acting in good faith, are unable to negotiate new terms of employment, either party may terminate this Agreement by providing not less than thirty (30) days' prior written notice to the other party.

4.2 The Employment Period shall end upon the first to occur of any of the following events:

- (a) Executive's death or termination of employment due to disability;
- (b) a termination by the Company for Cause;
- (c) a termination by the Company without Cause;
- (d) a Termination for Good Reason; or

(e) a voluntary termination, which shall occur in the event of Executive's termination of her employment with the Company for any reason, other than a Termination for Good Reason, by at least thirty (30) days prior written notice to the Company of such termination.

5. POST- EMPLOYMENT PAYMENT.

5.1 General. At the end of Executive's employment for any reason, Executive shall cease to have any rights to salary, future equity awards, expense reimbursements or other benefits, except (a) as may be provided in Sections 2.4, 5.2 and 5.5, and (b) that Executive shall be entitled to receive:

(a) payment of any Base Salary which has accrued but is unpaid through the date of termination;

(b) any earned but unpaid annual bonus for a previously completed fiscal year (or other applicable previously completed bonus period), which shall be paid in accordance with the payment terms and conditions of the applicable plan or program;

(c) reimbursement of any reimbursable expenses which have been incurred but are unpaid as of the date of termination; provided, however, that Executive must submit any claims for reimbursable expenses within sixty days following the date of her termination and such reimbursement shall be paid to Executive in accordance with Section 2.5;

(d) any continuation coverage benefits to which Executive is entitled under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), provided that Executive completes all necessary election forms and complies with all terms and regulations pertaining to COBRA;

(e) any other amounts and benefits the Executive is entitled to receive under any Company employee benefit plan or program in accordance with the terms and provisions of such plan or program, except to the extent such amounts and benefits are determined pursuant to this Agreement rather than such plan or program pursuant to Sections 5.2 and 5.5; and

(f) such other compensation, if any, which the Board of Directors, in its sole discretion, may elect to pay or grant.

5.2 Termination Without Cause or for Good Reason.

(a) The Company shall have the right to terminate Executive's employment with the Company at any time without Cause (as defined in Section 5.3(b)) upon sixty (60) days prior written notice. In such event and subject to Section 5.2(c) and Section 8.11, the Company shall

make all of the payments and provide all of the benefits as set forth in Section 5.5(a)(i)-(iv), payable at the time(s) provided for in Section 5.5(b).

(b) Executive may terminate her employment at any time for Good Reason. Subject to Section 5.2(c) and Section 8.11, upon any termination for Good Reason (as defined in Section 5.5.(c)(ii)), the Executive shall be entitled to receive the payments and benefits as set forth in Section 5.5(a)(i)-(iv), payable at the time(s) provided for in Section 5.5(b).

(c) Except where Executive's employment is terminated without Cause or due to termination for Good Reason within the Change of Control Period (as defined in Section 5.5), any amount or portion of an incentive award bonus or equity or equity-based award that is intended to qualify as "performance-based compensation" under Section 162(m) of the Code (except stock options and stock appreciation rights) shall only become payable or vest based on the actual level of performance (disregarding any requirements for Executive's continued employment). Such compensation shall be paid, vested or issued, as the case may be, in accordance with Section 162(m) of the Code within 30 days following the Compensation Committee of the Board's determination of the achievement level of the applicable performance goals for the year of the Executive's termination of employment, or later if required by applicable law, including Section 7.2.

5.3 Termination for Cause.

(a) The Company shall have the right to terminate Executive's employment with the Company at any time for Cause. Written notification of termination, including in reasonable detail the facts and circumstances claimed to provide the basis for the Cause, shall be provided to Executive at the time of termination.

(b) "Cause" for termination shall mean Executive's conviction of a felony or the willful and deliberate failure of Executive to perform her customary duties, in a manner consistent with the manner reasonably prescribed by the Board (other than any failure resulting from her incapacity due to physical or mental illness, disability or death). For purposes of this section only, if the Company experiences a Change of Control, the term "Board" shall include the board of directors (or similar governing body) of any successor to the Company.

(c) In the event the Company intends to terminate Executive for Cause and the Cause is curable, the Company shall give Executive notice in writing specifying in reasonable detail any facts and circumstances claimed to provide a basis for Executive's termination for Cause, and Executive shall be given sixty (60) days from date of notification to effect reasonable cure of the specific cause(s) set forth in the notification.

(d) In the event Executive's employment is terminated at any time for Cause, the Company shall provide Executive within thirty (30) days of Executive's termination of employment all benefits specified in Section 5.1; provided, however, Executive shall not be entitled to receive any additional severance pay, pay in lieu of notice or any other such compensation, including any severance benefits provided under a Company's severance benefit plan as described above in Section 5.1(e), if any, in effect on Executive's termination date.

5.4 Voluntary Termination without Good Reason. Executive may voluntarily terminate her employment in writing with the Company at any time without Good Reason (as defined in section 5.5(c)(ii)) after which no further compensation will be paid to Executive, except that the Company shall provide Executive within thirty (30) days of Executive's termination those amounts and benefits specified in Section 5.1; provided, however, Executive shall not be entitled to receive any additional severance pay, pay in lieu of notice or any other such compensation, including any severance benefits provided under a Company's severance benefit plan as described above in Section 5.1(e), if any, in effect on the termination date.

5.5 Termination In Connection With a Change of Control.

(a) If a "Change of Control" of the Company (as defined in Section 5.5(c)) occurs, and within either the six-month period ending on the Change of Control or the 18-month period beginning on the Change of Control (the "Change of Control Period"), Executive's employment is terminated without Cause or there is a Termination for Good Reason, the Company shall, subject to the provisions of Section 5.5(d) and Section 8.11 below, and in accordance with Section 5.5(b):

(i) provide the benefits specified in Section 5.1;

(ii) pay Executive a lump sum severance payment equal to the sum of (A) two (2) times Executive's Base Salary in effect on the date of Executive's termination, (B) two (2) times the largest of the Annual Cash Incentive Bonuses paid by the Company to Executive during the immediately preceding three annual incentive periods, and (C) the amount of any award for the year of such termination as if target performance for such plan year had been achieved;

(iii) notwithstanding any contrary provisions of any stock option agreement, restricted stock agreement or other equity or equity-based award agreement held by Executive at the time of Executive's termination (and provided that any change of control provisions in such agreements, whether entered into before or after the date of this Agreement, shall be of no force and effect), (A) for any equity or equity-based award that is subject to time-based or service-based exercise, vesting or payment conditions,

accelerate the exercisability, vesting, and lapse of restrictions, as the case may be, for such equity or equity-based awards, and (B) for any equity or equity-based award that is subject to performance-based exercise, vesting or payment conditions, accelerate the exercisability, vesting, and lapse of restrictions, as the case may be, for such equity or equity-based awards as if target performance for such award had been achieved; and

(iv) pay Executive a lump sum payment equal to one hundred fifty percent (150%) of Company's portion of the annual costs (determined based on such costs as of the Executive's termination date) associated with (A) providing Executive with medical and health benefits coverage under the Company's group health plans, and (B) providing Executive's eligible family members who are also receiving medical and health benefits coverage under the Company's group health plan on the date of Executive's termination of employment.

(b) That portion of any severance benefits described in this Section 5.5 which satisfies the "separation pay plan," or any other exemption from Section 409A of the Code ("Section 409A), as described in U.S. Department of Treasury Regulation Section 1.409A-1(b)(9), shall be paid no later than thirty (30) days after the end of the revocation period described in Section 8.11 of this Agreement. That portion, if any, of the severance benefits described in this Section 5.5 that is subject to Section 409A shall be paid on the sixtieth (60th) day following the effective date of Executive's termination of employment, except that, if Executive is subject to Section 7.2 due to Executive's status as a "specified employee" under Section 409A, such portion shall be paid on the first day of the seventh month following Executive's termination of employment.

(c) For purposes of this Section 5.5 and as referenced elsewhere in this document:

(i) A "Change of Control" of the Company shall be deemed to have occurred if:

(1) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Act")), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company, becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of capital stock of the Company representing thirty (30) percent or more of the total voting power represented by the Company's then outstanding capital stock;

(2) the consummation of a merger or consolidation of the Company with any other company, other than a merger or consolidation in which the shareholders, at the date of announcement, of the Company would own 50% or more of the voting stock of the surviving corporation;

(3) Continuing Directors (as defined below) no longer constitute at least a majority of the Board or a similar body of any successor to Company. For purposes of this Agreement, "Continuing Director" means any individual who either (i) is a member of Company's Board of Directors on the Effective Date, or (ii) becomes a member of Company's Board of Directors after the Effective Date and whose election or nomination for election was approved by a vote of at least a majority of the then Continuing Directors (either by a specific vote or by approval of the proxy statement of Company in which such person is named as nominee for director, without objection to such nomination);

(4) the sale of all or substantially all of the assets of the Company; or

(5) the liquidation or dissolution of the Company.

(ii) Termination for Good Reason means Executive's termination of her employment as a result of the occurrence of any of the following without Executive's written consent, unless within thirty (30) days following the Company's receipt of Executive's written notice of termination of employment for Good Reason, in accordance with Section 8.1, specifying in reasonable detail any facts and circumstances claimed to provide a basis for Executive's termination for Good Reason, the Company cures any such occurrence:

(1) any material reduction by the Company in Executive's Base Salary, Annual Cash Incentive Bonus opportunity, long-term incentive opportunity, or standard Company benefits (except for across-the-board reductions generally applicable to all senior executives of the Company);

(2) a relocation of Executive's principal office to a location that is in excess of sixty (60) miles from its location as of the date of this Agreement; or

(3) without limiting the generality or effect of any of the foregoing, any material breach of this Agreement by the Company.

Any occurrence of Good Reason shall be deemed to be waived by Executive unless both (x) Executive provides the Company written notice of termination of employment for Good Reason within ninety (90) days after the date Executive becomes aware of the event giving rise to Good Reason, and (y) Executive terminates her employment before February 10 of the year following the taxable year of Executive during which the Company's thirty (30) day cure period expired.

(d) Anything in this Agreement to the contrary notwithstanding, prior to the payment of any compensation or benefits payable under paragraph (a) of this Section 5.5 hereof, the certified public accountants of the Company immediately prior to a Change of Control (the "Certified Public Accountants") shall determine as promptly as practical and in any event within twenty (20) business days following the Change in Control whether any payment or distribution by the Company to or for the benefit of Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement, any other agreements or otherwise) (a "Payment") would more likely than not be nondeductible by the Company for Federal income tax purposes because of Section 280G of the Code ("Section 280G") and if it is, then the aggregate present value of amounts payable or distributable to or for the benefit of the Executive pursuant to this Agreement (such payments or distributions pursuant to this Agreement referred to as "Contract Payments") shall be reduced (but not below zero) to the Reduced Amount. For purposes of this Section, the "Reduced Amount" shall be an amount expressed as a present value which maximizes the aggregate present value of Contract Payments without causing any Contract Payment to be nondeductible by the Company under Section 280G.

If under this paragraph (d) the certified Public Accountants determine that any payment would more likely than not be nondeductible by the Company because of Section 280G, the Company shall promptly give Executive notice to that effect and a copy of the detailed calculation thereof and of the Reduced Amount, and Executive may then elect (subject to the restrictions set forth below), in her sole discretion, which and how much of the Contract Payments or any other payments shall be eliminated or reduced (as long as after such election the aggregate present value of the Contract Payments or any other payments equals the Reduced Amount), and shall advise the Company in writing of her election within twenty (20) business days of her receipt of notice. If no such election is made by Executive within such 20-day period, the Company may elect which and how much of the Contract Payments or any other payments shall be eliminated or reduced (as long as after such election the aggregate present value of the Contract Payments equals the Reduced Amount) and shall notify Executive promptly of such election. Notwithstanding anything to the contrary, any Contract Payments or other payments that are subject to Section 409A (a "409A Payment") shall not be eliminated or reduced unless and until all other Contract Payments and other payments have been eliminated or reduced and

any 409A Payment that is to be reduced or eliminated shall be reduced or eliminated in order of due date from earliest to latest. For purposes of this paragraph, present value shall be determined in accordance with Section 280G(d)(4) of the Code. All determinations made by the Certified Public Accountants shall be binding upon the Company and Executive and the payment to Executive shall be made within twenty (20) days of the later of the Change of Control or the Executive's termination of employment. The Company may suspend for a period of up to thirty (30) days the Payment and any other payments or benefits due to Executive until the Certified Public Accountants finish the determination and Executive (or the Company, as the case may be) elects how to reduce the Contract Payments or any other payments, if necessary; provided, however, under no circumstance shall Executive or the Company be permitted to delay or accelerate any payment in a manner that would result in an impermissible deferral or acceleration under Section 409A. As promptly as practicable following such determination and the elections hereunder, the Company shall pay to or distribute to or for the benefit of Executive such amounts as are then due to Executive under this Agreement.

5.6 Termination in the Event of Death or Disability.

(a) If Executive dies, her designated beneficiaries, or if none, her estate, shall be entitled to the proceeds from Executive's life insurance coverage described in Section 2.6 and all benefits specified in Section 5.1.

(b) If Executive becomes disabled (as defined in the disability policy or policies described in Section 2.6), the Company may terminate Executive's employment. In such event, Executive would receive (i) all benefits specified in Section 5.1 and (ii) for a period of one year following the date Executive becomes disabled ("Disability Period"), her Base Salary at the rate in effect at the beginning of the period reduced by any payments made to Executive during the Disability Period under the disability benefit plans of the Company described in Section 2.6 or under the Social Security disability insurance program, as well as other payments and benefits set forth in Section 2.3 that may be provided to Executive under the terms of the plans, programs and practices covered by Section 2.3.

6. NON-INTERFERENCE; NON-COMPETITION.

6.1 Agreement. Executive agrees to execute and abide by the Noncompetition Agreement attached hereto as Exhibit B.

7. SECTION 409A.

7.1 Compliance with Section 409A. It is the intent of the parties that the provisions of this Agreement comply with Section 409A and the Treasury regulations and guidance issued thereunder and that this Agreement be interpreted and operated consistent with such

requirements of Section 409A in order to avoid the application of additional taxes, interest or penalties due to Section 409A (“409A Penalties”). To the extent that a payment, or the settlement or deferral thereof, is subject to Section 409A, except as Executive and Company otherwise determines in writing, the payment shall be paid, settled or deferred in a manner that will meet the requirements of Section 409A, such that the payment, settlement or deferral shall not be subject to the 409A Penalties. Any reimbursement will be interpreted and administered to comply with Treasury Regulation Section 1.409A-3(i)(1)(iv).

7.2 Delay for Specified Employee. To the extent that (a) Company’s common stock is publicly traded on an “established securities market” as defined in Treasury Regulations § 1.8971(m), and (b) Executive would otherwise be entitled to any payment or benefit under this Agreement or any plan or arrangement of Company or its affiliates, that constitutes “deferred compensation” subject to Section 409A and that if paid during the six months beginning on the date of Executive’s termination of employment would be subject the 409A Penalties because Executive is a “specified employee” (within the meaning of Section 409A and as determined from time to time by Company), the payment will be paid to Executive on the earliest of the six-month anniversary of the termination of employment, a change in ownership or effective control of Company (within the meaning of Section 409A) or Executive’s death.

7.3 Full Section 409A Compliance. Notwithstanding any provision of this Agreement, (a) this Agreement shall not be amended in any manner that would cause (i) the imposition of any 409A Penalty, (ii) this Agreement or any amounts or benefits payable hereunder to fail to comply with the requirements of Section 409A, to the extent applicable, or (iii) any amounts or benefits payable hereunder that are not subject to Section 409A to become subject thereto (unless they also are in compliance therewith), and the provisions of any purported amendment that may reasonably be expected to result in such non-compliance shall be of no force or effect with respect to this Agreement and (b) if any provision of this Agreement would, in the reasonable, good faith judgment of Company, result or likely result in the imposition on Executive or any other person of any adverse consequences under Section 409A, Company may reform this Agreement, or any provision thereof, without Executive’s consent, in the manner that Company reasonably and in good faith determines to be necessary or advisable to avoid the imposition of such adverse consequence; provided, however, that any such reformation shall, to the maximum extent Company reasonably and in good faith determines to be possible, retain the economic and tax benefits to Executive hereunder, while not materially increasing the cost to Company of providing such benefits to Executive. Company shall promptly notify Executive in writing of any such reformation and provide a detailed explanation of the reason for the reformation. For the avoidance of doubt, the phrase “termination of employment” and similar phrases shall mean and be interpreted in the same manner as, a “separation from service” from the Company within the meaning of Section 409A of the Code.

8. GENERAL PROVISION.

8.1 Notices. Any notices provided hereunder must be in writing and shall be deemed effective upon the earlier of personal delivery (including personal delivery by facsimile) or the third day after mailing by first class mail, to the Company at its primary office location and to Executive at the address listed on the Company payroll.

8.2 Severability. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provisions had never been contained herein.

8.3 Waiver. If either party should waive any breach of any provisions of this Agreement, they or it shall not thereby be deemed to have waived any preceding or succeeding breach of the same or any other provision of this Agreement.

8.4 Complete Agreement. This Agreement and its Exhibits, constitute the entire agreement between Executive and the Company and it is the complete, final, and exclusive embodiment of her agreement with regard to the material terms of executive employment, compensation, and duration. It is entered into without reliance on any promise or representation other than those expressly contained herein, and it cannot be modified or amended except in a writing signed by Executive and an officer of the Company.

8.5 Counterparts. This Agreement may be executed in separate counterparts, any one of which need not contain signatures of more than one party, but all of which taken together will constitute one and the same Agreement.

8.6 Headings. The headings of the sections hereof are inserted for convenience only and shall not be deemed to constitute a part hereof nor to affect the meaning thereof.

8.7 Successors and Assigns. This Agreement is intended to bind and inure to the benefit of and be enforceable by Executive and the Company, and her respective successors, assigns, heirs, executors and administrators, except that Executive may not assign any of her duties hereunder and they may not assign any of her rights hereunder without the written consent of the Company, which shall not be withheld unreasonably.

8.8 Attorneys' Fees. If either party hereto brings any action to enforce her or its rights hereunder, Executive shall be reimbursed by Company for her reasonable attorneys' fees and

costs incurred in connection with such action, unless all of Executive's positions in such action are determined by the court to be frivolous.

8.9 Choice of Law. All questions concerning the construction, validity and interpretation of this Agreement will be governed by the law of the State of Kansas.

8.10 No Duty to Mitigate. Executive shall have no duty to attempt to mitigate the level of benefits payable by the Company to her hereunder and the Company shall not be entitled to set off against the amounts payable hereunder any amounts received by the Executive from any other source, including any subsequent employer.

8.11 Release. Payment of the amounts provided for in Section 5.5(a)(i)-(iv) shall be subject to the parties' signing (and not revoking by the end of any applicable revocation period) a general release of claims in a form reasonably acceptable to the parties, within twenty-one (21) days or forty-five (45) days, whichever period is required under applicable law, which shall contain a mutual non-disparagement clause, and which shall exempt from release the matters set forth in Section 8.12 and any continuing obligations under this Agreement pursuant to Sections 3.1 and/or 6.1.

8.12 Claw-Back. If, pursuant to Section 10D of the Securities Exchange Act of 1934, as amended (the "Act"), the Company would not be eligible for continued listing, if applicable, under Section 10D(a) of the Act if it did not adopt policies consistent with Section 10D(b) of the Act, then, in accordance with those policies that are so required, any incentive-based compensation payable to Executive under this Agreement or otherwise shall be subject to claw-back in the circumstances, to the extent, and in the manner, required by Section 10D(b)(2) of the Act, as interpreted by rules of the Securities Exchange Commission, including but not limited to circumstances involving fraud or significant misrepresentation by the Executive that caused harm to the Company.

IN WITNESS WHEREOF, the parties have executed this Agreement on the day and year first above written.

EXECUTIVE

/s/ Elizabeth Proudfit

Name: Elizabeth Proudfit

NIC INC.

By: /s/ Harry H. Herington

Name: Harry H. Herington

Title: Chief Executive Officer

NIC INC.
EMPLOYEE PROPRIETARY INFORMATION
AND INVENTIONS AGREEMENT

In consideration of my employment or continued employment by NIC Inc., a Delaware corporation (the “**Company**”), and the compensation now and hereafter paid to me, I hereby agree as follows:

1. NONDISCLOSURE.

1.1 **Recognition of Company’s Rights; Nondisclosure.** At all times during my employment and thereafter, I will hold in strictest confidence and will not disclose, use, lecture upon or publish any of the Company’s Proprietary Information (defined below), except as such disclosure, use or publication may be required in connection with my work for the Company, or unless an officer of the Company expressly authorizes such in writing. I will obtain Company’s written approval before publishing or submitting for publication any material (written, verbal, or otherwise) that relates to my work at Company and/or incorporates any Proprietary Information. I hereby assign to the Company any rights I may have or acquire in such Proprietary Information and recognize that all Proprietary Information shall be the sole property of the Company and its assigns.

1.2 **Proprietary Information.** The term “Proprietary Information” shall mean any and all confidential and/or proprietary knowledge, data or information of the Company. By way of illustration but not limitation, “Proprietary Information” includes (a) trade secrets, inventions, ideas, processes, formulas, source and object codes, data, programs, other works of authorship, know-how, improvements, discoveries, developments, designs and techniques (hereinafter collectively referred to as “Inventions”); and (b) information regarding plans for research, development, new products, marketing and selling, business plans, budgets and unpublished financial statements, licenses, prices and costs, suppliers and customers; and (c) information regarding the skills and compensation of other employees of the Company. Notwithstanding the foregoing, it is understood that (i) the Company’s Proprietary Information hereunder shall not include information to the extent that it is or becomes generally known in the trade or industry other than as a result of a breach of this Agreement, and (ii) I shall be free to use my own skill, knowledge and experience to whatever extent and in whichever way I wish, provided that I do so without the use or disclosure of Proprietary Information.

1.3 **Third Party Information.** I understand, in addition, that the Company has received and in the future will receive from third parties confidential or proprietary information (“Third Party Information”) subject to a duty on the Company’s part to maintain the confidentiality of such information and to use it only for certain limited purposes. During the term of my employment and thereafter, I will hold Third Party Information in the strictest confidence and will not disclose to anyone (other than Company personnel who need to know such information in connection with their work for the Company) or use, except in connection with my work for the Company, Third Party Information unless expressly authorized by an officer of the Company in writing.

1.4 **No Improper Use of Information of Prior Employers and Others.** During my employment by the Company I will not improperly use or disclose any confidential information or trade secrets, if any, of any former employer or any other person to whom I have an obligation of confidentiality, and I will not bring onto the premises of the Company any unpublished documents or any property belonging to any former employer or any other person to whom I have an obligation of confidentiality unless consented to in writing by that former employer or person. I will use in the performance of my duties only information which is generally known and used by persons with training and experience comparable to my own, which is common knowledge in the industry or otherwise legally in the public domain, or which is otherwise provided or developed by the Company.

2. ASSIGNMENT OF INVENTIONS.

2.1 **Proprietary Rights.** The term “Proprietary Rights” shall mean all trade secret, patent, trademark, copyright, and other intellectual property rights throughout the world.

2.2 **Prior Inventions.** Inventions, if any, patented or unpatented, which I made prior to the commencement of my employment with the Company are excluded from the scope of this Agreement. To preclude any possible uncertainty, I have set forth on Exhibit A (Previous Inventions) attached hereto a complete list of all Inventions that I have, alone or jointly with others, conceived, developed or reduced to practice or caused to be conceived, developed or reduced to practice prior to the commencement of my employment with the Company, that I consider to be my property or the property of third parties and that I wish to have excluded from the scope of this Agreement (collectively referred to as “Prior Inventions”). If disclosure of any such Prior Invention would cause me to violate any prior confidentiality agreement, I understand that I am not to list such Prior Inventions in Exhibit A but am only to disclose a cursory name for each such invention, a listing of the party(ies) to whom it belongs and the fact that full disclosure as to such inventions has not been made for that reason. A space is provided on Exhibit A for such purpose. If no such disclosure is attached, I represent that there are no Prior Inventions. If, in the course of my employment with the Company, I incorporate a Prior Invention into a

Company product, process or machine, the Company is hereby granted and shall have a nonexclusive, royalty-free, irrevocable, perpetual, worldwide license (with rights to sublicense through multiple tiers of sublicensees) to make, have made, modify, use and sell such Prior Invention, Notwithstanding the foregoing, I agree that I will not incorporate, or permit to be incorporated, Prior Inventions in any Company Inventions without the Company's prior written consent.

2.3 Assignment of Inventions. Subject to Sections 2.4, and 2.6, I hereby assign and agree to assign in the future (when any such Inventions or Proprietary Rights are first conceived or first fixed in a tangible medium, as applicable) to the Company all my right, title and interest in and to any and all Inventions (and all Proprietary Rights with respect thereto) whether or not patentable or registrable under copyright or similar statutes, made, conceived, fixed in a tangible medium or learned by me, either alone or jointly with others, during the period of my employment with the Company. Inventions assigned to the Company, or to a third party as directed by the Company pursuant to this Section 2, are hereinafter referred to as "Company Inventions."

2.4 Nonassignable Inventions. This Agreement will not be deemed to require assignment of and "Company Inventions" shall not be discerned to include any invention which was developed entirely on my own time without using the Company's equipment, supplies, facilities, or trade secrets and is neither related to the Company's actual or anticipated business, research or development, nor resulted from work performed by me for the Company.

2.5 Obligation to Keep Company Informed. During the period of my employment and for six (6) months after termination of my employment with the Company, I will promptly disclose to the Company fully and in writing all Inventions authored, conceived or fixed in a tangible medium by me, either alone or jointly with others. In addition, I will promptly disclose to the Company all patent applications filed by me or on my behalf within a year after termination of employment. At the time of each such disclosure, I will advise the Company in writing of any Inventions that I believe fully qualify for protection "as non-Company Inventions" and I will at that time provide to the Company in writing all evidence necessary to substantiate that belief. The Company will keep in confidence and will not use for any purpose or disclose to third parties without my consent any confidential information disclosed in writing to the Company pursuant to this Agreement relating to Inventions that are not Company Inventions. I will preserve the confidentiality of any Invention which is a Company Invention.

2.6 Government or Third Party. I also agree to assign all my right, title and interest in and to any particular Company Invention to a third party, including without limitation the United States, as directed by the Company.

2.7 **Works for Hire.** I acknowledge that all original works of authorship which are made by me (solely or jointly with others) within the scope of my employment and which are protectable by copyright are “works made for hire,” pursuant to United States Copyright Act (17 U.S.C., Section 101) the copyright in which is owned by the Company. If, for any reason, such original works are not deemed “works made for hire” under such statute, I hereby assign and agree to assign all of my right, title, and interest in the works to the Company and agree to execute such further documents as are reasonably required to perfect and record this assignment.

2.8 **Enforcement of Proprietary Rights.** I will assist the Company in every proper way to obtain, and from time to time enforce, United States and foreign Proprietary Rights relating to Company Inventions in any and all countries. To that end I will execute, verify and deliver such documents and perform such other acts (including appearances as a witness) as the Company may reasonably request for use in applying for, obtaining, perfecting, evidencing, sustaining and enforcing such Proprietary Rights and the assignment thereof. In addition, I will execute, verify and deliver assignments of such “Company Inventions” to the Company or its designee. My obligation to assist the Company with respect to Proprietary Rights relating to such Company Inventions in any and all countries shall continue beyond the termination of my employment, but the Company shall compensate me at a reasonable rate after my termination for the time actually spent by me at the Company’s request on such assistance.

In the event the Company is unable for any reason, after reasonable effort, to secure my signature on any document needed in connection with the actions specified in the preceding paragraph, I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents as my agent and attorney in fact, which appointment is coupled with an interest, to act for and in my behalf to execute, verify and file any such documents and to do all other lawfully permitted acts to further the purposes of the preceding paragraph with the same legal force and effect as if executed by me. I hereby waive and quitclaim to the Company any and all claims, of any nature whatsoever, which I now or may hereafter have for infringement of any Proprietary Rights or Company Inventions assigned hereunder to the Company.

3. **RECORDS.** I agree to keep and maintain adequate and current records (in the form of notes, sketches, drawings and in any other form that may be required by the Company) of all Proprietary Information developed by me and all Inventions made by me during the period of my employment at the Company, which records shall be available to and remain the sole property of the Company at all times.

4. **ADDITIONAL ACTIVITIES.** I agree that for the period of my employment by the Company and for three (3) years after the date of termination of my employment by the Company I will not induce any employee of the Company to leave the employ of the Company.

5. **NO CONFLICTING OBLIGATION.** I represent that my performance of all the terms of this Agreement and as an employee of the Company does not and will not breach any agreement to keep in confidence information acquired by me in confidence or in trust prior to my employment by the Company. I have not entered into, and I agree I will not enter into, any agreement either written or oral in conflict herewith.

6. **RETURN OF COMPANY DOCUMENTS.** When I leave the employ of the Company, I will deliver to the Company any and all original drawings, notes, memoranda, specifications, devices, formulas, files, emails and documents, and any other material containing or disclosing any Company Inventions, Third Party Information or Proprietary Information of the Company, whether in paper, electronic or other intangible form. I further agree that any property situated on the Company's premises and owned by the Company, including disks and other storage media, filing cabinets or other work areas, is subject to inspection by Company personnel at any time with or without notice. Prior to leaving, I will cooperate with the Company in completing and signing the Company's termination statement. I further agree not to retain any Proprietary Information of the Company on any electronic or online storage media including, but not limited to, USB drives, magnetic or optical discs, online storage services, online email services, or any personal computer under my control, subsequent to my termination.

7. **LEGAL AND EQUITABLE REMEDIES.** Because my services are personal and unique and because I may have access to and become acquainted with the Proprietary Information of the Company, the Company shall have the right to enforce this Agreement and any of its provisions by injunction, specific performance or other equitable relief, without bond and without prejudice to any other rights and remedies that the Company may have for a breach of this Agreement.

8. **NOTICES.** Any notices required or permitted hereunder shall be given to the appropriate party at the address specified below or at such other address as the party shall specify in writing. Such notice shall be deemed given upon personal delivery to the appropriate address or if sent by certified or registered mail, three (3) days after the date of mailing.

9. **NOTIFICATION OF NEW EMPLOYER.** In the event that I leave the employ of the Company, I hereby consent to the notification of my new employer of my rights and obligations under this Agreement.

10. **GENERAL PROVISIONS.**

10.1 **Governing Law.** Consent to Personal Jurisdiction. This Agreement will be governed by and construed according to the laws of the State of Kansas, as such laws are applied to agreements entered into and to be performed entirely within Kansas between Kansas residents.

I hereby expressly consent to the personal jurisdiction of the state and federal courts located in Johnson County, Kansas for any lawsuit filed there against me by Company arising from or related to this Agreement.

10.2 **Severability.** In case any one or more of the provisions contained in this Agreement shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect the other provisions of this Agreement, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein so long as the central purpose and intent of the Agreement can still be achieved. If moreover, any one or more of the provisions contained in this Agreement shall for any reason be held to be excessively broad as to duration, geographical scope, activity or subject, it shall be construed by limiting and reducing it, so as to be enforceable to the extent compatible with the applicable law as it shall then appear.

10.3 **Successors and Assigns.** This Agreement will be binding upon my heirs, executors, administrators and other legal representatives and will be for the benefit of the Company, its successors, and its assigns.

10.4 **Survival.** The provisions of this Agreement shall survive the termination of my employment and the assignment of this Agreement by the Company to any successor in interest or other assignee.

10.5 **Employment.** I agree and understand that nothing in this Agreement shall confer any right with respect to continuation of employment by the Company, nor shall it interfere in any way with my right or the Company's right to terminate my employment at any time, with or without cause.

10.6 **Waiver.** No waiver by the Company of any breach of this Agreement shall be a waiver of any preceding or succeeding breach. No waiver by the Company of any right under this Agreement shall be construed as a waiver of my other right. The Company shall not be required to give notice to enforce strict adherence to all terms of this Agreement.

10.7 **Entire Agreement.** The obligations pursuant to Sections 1 and 2 of this Agreement shall apply to any time during which I was previously employed, or am in the future employed, by the Company as a consultant if no other agreement governs nondisclosure and assignment of inventions during such period. This Agreement is the final, complete and exclusive agreement of the parties with respect to the subject matter hereof and supersedes and merges all prior discussions between us. If I have an existing Employee Proprietary Information and Inventions Agreement in place with the Company, then this Agreement supersedes and replaces that agreement effective as of the date this agreement is signed below, otherwise, this

Agreement shall be effective as of the first day of my employment with the Company. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, will be effective unless in writing and signed by the party to be charged. Any subsequent change or changes in my duties, salary or compensation will not affect the validity or scope of this Agreement.

[Remainder of Page Intentionally Blank]

I HAVE READ THIS AGREEMENT CAREFULLY AND UNDERSTAND ITS TERMS. I HAVE COMPLETELY FILLED OUT EXHIBIT A TO THIS AGREEMENT.

/s/ Elizabeth Proudfit

Elizabeth Proudfit

Address:

Date: January 20, 2021

ACCEPTED AND AGREED TO:

NIC INC.

By: /s/ Harry H. Herington

Name: Harry H. Herington
Title: Chief Executive Officer

Date: January 20, 2021

EXHIBIT A

PREVIOUS INVENTIONS

TO: NIC Inc.
FROM: Elizabeth Proudfit
DATE: January 20, 2021
SUBJECT: Previous Inventions

1. Except as listed in Section 2 below, the following is a complete list of all inventions or improvements relevant to the subject matter of my employment by NIC Inc. (the “Company”), that have been made or conceived or first reduced to practice by me alone or jointly with others prior to my engagement by the Company:

No inventions or improvements.

See below:

Additional sheets attached.

2. Due to a prior confidentiality agreement, I cannot complete the disclosure under Section 1 above with respect to inventions or improvements generally listed below, the proprietary rights and duty of confidentiality with respect to which I owe to the following party(ies):

	Invention or Improvement	Party(ies)	Relationship
1.	_____	_____	_____
2.	_____	_____	_____
3.	_____	_____	_____

Additional sheets attached.

NIC INC.

Non-Competition Agreement

In consideration of the employment/promotion of Elizabeth Proudfit, currently residing at (“Employee”), by NIC Inc. (“Employer”) and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by Employee, Employer and Employee hereby agree to the terms outlined in this Agreement.

Recitals

A. Employer is in the business generally of designing, building, and furnishing to government clients and private entities, egovernment applications and services online, including but not limited to Software As A Service, stand-alone online applications, system management and hosting, e-payment processing, database management, and enterprise wide management of such services and payment streams.

B. The parties recognize that, in the course of employment with Employer, Employee will learn Employer’s techniques, procedures, and development, management, and marketing strategies and will be exposed to the Employer’s clients and prospects, all of which Employer has a legitimate business interest in protecting. Employee is expected to work diligently and to develop good will with clients and prospects and other of Employer’s employees for the benefit of the Employer. Employee agrees that it would be unfair and improper to disclose or use Employer’s Confidential Information, training, or relationships to solicit Employer’s clients, prospects, or employees either during the Employee’s employment with Employer or for a limited period thereafter.

C. The parties desire to enter into this Agreement in order to induce the Employer to share or continue to share its information and resources with Employee during the course of employment and to insure that the Employer’s business will not be harmed during or after Employee’s employment.

D. Employee acknowledges and agrees that the promises in this Agreement are of material importance to Employer and the promises are a material inducement for Employer to employ and continue to employ the Employee.

Agreement

1. Definitions

As used herein:

- (a) “Confidential Information” means any oral or written information disclosed to Employee or known by Employee as a consequence of or through Employee’s employment by Employer which relates to Employer’s business, products, processes, or services, including, but not limited to, information relating to research, development, Inventions, computer program designs, programming techniques, flow charts, source code, object code, products under development, manufacturing, purchasing, accounting, engineering, marketing, selling, customer lists, customer requirements, and any documentation thereof. It will be presumed that information supplied to Employee from outside sources while in the course of her or her work for Employer is Confidential Information unless and until it is designated otherwise.
- (b) “Inventions” means discoveries, concepts, and ideas, whether patentable or not, including, but not limited to, apparatuses, processes, methods, compositions of matter, techniques, and formulae, as well as improvements or know-how related to any of those, in connection with and relating to any activities of Employer.
- (c) “Work Product” means all documents, reports, memoranda, drawings, specifications, computer programs, works of authorship fixed in a tangible medium of expression, flow charts and computer source code and object code regardless of the medium in which it is fixed, notes, correspondence, records, notebooks, and other tangible or intangible property and any and all plans, discoveries, creations, compositions, innovations, processes, technical data, patents and patent applications, know-how, trade secrets, trademarks, copyrights and copyright registration applications, and other materials and designs (whether tangible or intangible) developed or conceived by the Employee or provided by the Employer or any of its related entities, affiliates, or business units to the Employee during the course of the Employee’s performance of service for Employer.
- (d) “Conflicting Organization” means any competitor of Employer, including any organization which is engaged in the development, marketing, or selling of a Conflicting Product. An “affiliate” of Employer is an entity that is owned by, or under common control with, Employer, including direct and indirect parent entities. An affiliate of Employer is not considered a Conflicting Organization.

(e) "Conflicting Product" means any product, process, or service of any person or organization other than Employer which competes with a product, process, or service of Employer upon or with which Employee works or about which Employee acquires Confidential Information.

2. Services to Conflicting Organizations

For as long as Employee is employed by Employer and for a period of two (2) years after termination of Employee's employment by Employer, whether or not said termination is voluntary or involuntary and whether or not said termination is initiated by Employee or Employer, Employee will not own, in whole or in part, aid, or render services to, directly or indirectly, (collectively, "aid") any Conflicting Organization; provided, however, that, upon termination of Employee's employment by Employer, Employee shall have the right to aid a Conflicting Organization whose business is diversified and which, as to that part of its business Employee aids, considered as a discrete business unit, is not a Conflicting Organization if, prior to aiding or rendering services, Employee furnishes separate written assurances satisfactory to Employer (in its sole discretion) from such Conflicting Organization and from Employee that Employee will not aid or render services directly or indirectly in connection with any Conflicting Product. For purposes of this provision, ownership means either: 1) owning more than 5% of the total outstanding shares of stock in a Conflicting Organization; or 2) having a controlling interest in a Conflicting Organization. The preceding restriction applies to the Employee in the following territory:

For Management Level Employees: Because Employer is a subsidiary of NICUSA, Inc., which uses subsidiaries such as Employer to operate e-government portals across the entire United States of America, such as the one that Employer operates for Kansas; and because Employee's position with Employer is considered to be management level or management-trainee; and because a condition of being employed at management level or as a management trainee is that the Employee be willing to relocate to another subsidiary in another state to lead or assist in leading the operations of a new or existing portal such as Employer operates for Kansas, such aid or services to a Conflicting Organization is prohibited anywhere in the United States of America.

3. Confidentiality

(a) During employment with the Employer, and from and after termination of employment, Employee will hold in confidence the Confidential Information and will not use it or disclose it to any person or entity except with the specific prior written consent of the Employer or except as otherwise expressly permitted by this Agreement.

(b) Any trade secrets of the Employer or the business and affairs of the Employer will be entitled to all of the protections and benefits under the Kansas Trade Secrets Act and any other applicable law. If any information that the Employer deems to be a trade secret is found by a court of competent jurisdiction not to be a trade secret for purposes of this Agreement, such information will, nevertheless, be considered Confidential Information for purposes of this Agreement. Employee hereby waives any requirement that the Employer submit proof of the economic value of any trade secret or post a bond or other security.

(c) None of the foregoing obligations and restrictions apply to any part of the Confidential Information that Employee demonstrates (i) was or became generally available to the public other than as a result of an improper disclosure by Employee or by another individual or entity; or (ii) was available to Employee on a non-confidential basis prior to its disclosure to Employee by the Employer. If Employee is requested or becomes legally compelled by any means or is required by a regulatory body to make any disclosure that is prohibited or otherwise constrained by this Agreement, Employee will provide the Employer with prompt notice of such request so that it may seek an appropriate protective order or other appropriate remedy.

4. Non-Solicitation of Employees

Employee shall not, during the period of Employee's employment with the Employer and for a period of two (2) years after termination of Employee's employment with the Employer, whether or not said termination is voluntary or involuntary, and whether or not said termination is initiated by Employee or Employer, either on his or her own account or for any person, partnership, corporation, or other entity (a) solicit, contact, or endeavor to cause any employee of the Employer to leave his or her employment, (b) induce or attempt to induce any such employee to breach her or his employment agreement with the Employer, (c) otherwise interfere with the Employer's relationships with its employees, or (d) hire, employ, or supervise any of the Employer's employees.

5. Non-Solicitation of Clients or Prospects

Employee shall not, during the period of Employee's employment with the Employer and for a period of two (2) years after termination of Employee's employment with the Employer, whether or not said termination is voluntary or involuntary, and whether or not said termination is initiated by Employee or Employer, solicit, induce, or attempt to induce, any past or current client of Employer, or any prospective client of Employer with whom Employee had contact as a result of Employee's employment by Employer, (a) to cease doing business in whole or in part with or through the Employer, or (b) to do business with any Conflicting Organization.

6. Work Product and Inventions

- (a) Employer shall own, without restrictions or limits of any kind, all right, title, and interest in and to any and all Work Product and Inventions.
- (b) Employee acknowledges and agrees that the Employee shall not acquire any right whatsoever in any Work Product or Inventions and that any and all Work Product or Inventions, and any other property of Employer shall be returned or provided to the Employer at any time upon the Employer's demand, and, at the latest, upon termination of Employee's employment for any reason.
- (c) Employee acknowledges and confirms that it is the Employee's intention that any and all rights, including any copyright or other intellectual property rights, in any Work Product or Inventions created by the Employee for the Employer shall solely and exclusively vest in the Employer, and that any such Work Product or Inventions shall be considered within the scope of the Employee's employment. The parties agree that the Employer is entitled, as author, to the copyright in any copyrightable Work Product and any Inventions and any other rights therein including the right to seek or not seek statutory registration of any copyright and the right to make such changes therein and uses thereof as the Employer in its sole discretion determines. If, for any reason, any such Work Product is not considered a work made for hire under the copyright laws, then the Employee hereby grants and assigns to the Employer all of the Employee's right, title, and interest in and to such Work Product.
- (d) Employee agrees to execute such assignments, releases, transfer documents, and other instruments as the Employer may reasonably require in order to vest in the Employer complete and absolute title to the Work Product and any Inventions, including all intellectual property rights therein and thereto. For this limited purpose, the Employee hereby appoints the Employer as its attorney in fact to execute and deliver to the Employer, on behalf of the Employee, any and all such documents or instruments. This appointment shall be deemed to be a power coupled with an interest and shall be irrevocable. The Employee agrees to cooperate fully with the Employer in any and all acts or actions deemed appropriate by the Employer in order to perfect, retain, enforce, and maintain sole and exclusive title in and to the Work Product and any Inventions and all intellectual property rights therein and thereto.
- (e) This Agreement does not apply to an Invention for which no equipment, supplies, facility, or trade secret information of the Employer was used and which was developed entirely on the Employee's own time, unless (a) the Invention relates (i) directly to the business of the Employer, or (ii) actual or demonstrably anticipated research or

development or (b) the Invention results from any work performed by the Employee for the Employer.

7. Tolling of Period of Restriction

In the event of a breach of any of the covenants included above, then the post-employment time periods during which such prohibitions apply shall not be reduced by any period of time during which Employee is in violation or breach of any such covenant, including any period of time required to obtain injunctive relief from a court requiring Employee to cease and desist such breach.

8. Enforcement

Employee acknowledges that the legal remedy available to Employer for any breach of covenants in this Agreement on the part of Employee may be inadequate, and therefore, in the event of any threatened or actual breach of any term of this Agreement and in addition to any other right or remedy which Employer may have, Employer shall be entitled to specific enforcement of this Agreement through injunctive or other equitable relief in a court with appropriate jurisdiction, without the necessity of posting a bond.

9. Attorneys' Fees and Costs

The Employee shall reimburse the Employer for all costs and expenses, including reasonable attorneys' fees, expert fees, and costs incurred by the Employer in connection with enforcing any provision of this Agreement.

10. Obligations Survive Termination of Employment

Termination of Employee's employment, whether voluntary or involuntary, shall not impair or relieve Employee of any obligations under this Agreement. Employee acknowledges that his/her employment is at will and that nothing in this Agreement shall be considered a contract of employment or in any way alter Employee's at-will status in any manner or respect.

11. Non-Waiver

No failure on the part of either party to require the performance by the other party of any term of this Agreement shall be taken or held to be a waiver of such term or in any way affecting such party's right to enforce such term, and no waiver on the part of either party of any term in this Agreement shall be taken or held to be a waiver of any other term hereof or the breach thereof.

12. Binding Effect

This Agreement may be assigned by Employer without the prior written consent of Employee.

13. Severability

Should any term of this Agreement be found invalid or unenforceable, it shall not affect the validity or enforceability of any other term of this Agreement. If necessary for enforcement of any of the covenants in the Agreement by a court with appropriate jurisdiction, Employee and Employer agree the court is authorized to reduce or modify the covenant as necessary for the maximum enforcement permitted by law.

14. Term of Employment

This Agreement involves no obligations on the part of Employer to employ Employee or upon Employee to accept employment for any definite period of time.

15. Merger

This Agreement supersedes all prior conversations, correspondence, representations, warranties, agreements, and other communications regarding the subject matter hereof. The Recitals are considered a part of this Agreement.

16. Applicable Law

(a) This Agreement shall be in all respects interpreted and construed in accordance with and be governed by the laws of the state of Kansas.

(b) The parties agree that any action at law or in equity relating to this Agreement shall be brought in the federal or state courts within the city of Olathe, KS and the parties consent to and hereby waive any objections to jurisdiction and venue at that location.

Employee hereby acknowledges receipt of a copy of this Agreement.

IN WITNESS to Employee's agreement to all of the above, Employee has executed this Agreement as of the 20 day of January, 2021.

Employee: /s/ Elizabeth Proudfit

Elizabeth Proudfit

Position: VP of Marketing and Communications

Accepted for Employer:

Signed: /s/ Harry H. Herington

Name: Harry H. Herington

Title: Chief Executive Officer

Attachment I to Employment Agreement

Name: Elizabeth Proudfit

Position: VP of Marketing and Communications

Additional benefits provided to Executive as part of Key Employee Agreement dated January 20, 2021.

Life Insurance

20 year term policy

2x annual salary benefit.

Life-insurance policy premiums will be paid by the Company.

Long Term Disability Coverage

Standard Monthly Benefit \$10,000 (guaranteed for life)

Rider No. 1 \$ 5,000 (guaranteed for life)

Rider No. 2 \$ 2,669 (guaranteed for 3 years, then must reapply)

Total Monthly Benefit \$17,669

In the event the participant is disabled for more than 365 days, Lloyds of London will issue a one-time lump sum payment of \$1,000,000.

Long-term disability policy premiums (for both standard coverage and riders) will be paid by the Company.

Signature of Participant: /s/ Elizabeth Proudfit

Date: January 20, 2021

NIC INC.
RESTATED AND AMENDED KEY EMPLOYEE AGREEMENT
for
ELIZABETH A. THOMAS

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (“Agreement”) is entered into as of the 20th day of January, 2021 (the “Effective Date”), by and between **Elizabeth A. Thomas** (“Executive”) and **NIC Inc.**, a Delaware corporation (the “Company”). This Agreement amends and restates all prior agreements between Executive and the Company with respect to the subject matter hereof.

WHEREAS, Executive is currently employed by the Company under the terms of that certain Employment Agreement, dated October 27, 2020 (the “Original Agreement”);

WHEREAS, Company and Executive desire to amend and restate the Original Agreement in its entirety;

WHEREAS, the Company desires to continue to employ Executive to provide personal services to the Company and to the Company’s subsidiaries, and wishes to continue to provide Executive with certain compensation and benefits in return for Executive’s services; and

WHEREAS, Executive desires to continue to be employed by the Company and provide personal services to the Company and to the Company’s subsidiaries in return for certain compensation and benefits;

NOW, THEREFORE, the parties hereto agree as follows:

1. EMPLOYMENT BY THE COMPANY

1.1 Acceptance. Effective as of the Effective Date, the Company agrees to continue to employ Executive in the position of Chief of Staff, and Executive agrees to continue to be employed upon the terms and conditions set forth in this Agreement for the period beginning on the Effective Date and ending as provided in Section 4 (the “Employment Period”).

1.2 Duties. During the Employment Period, Executive will serve in an executive capacity and shall perform such duties as are customarily associated with her then current title, consistent with the Bylaws of the Company and as reasonably required by the Company’s Board of Directors (the “Board”). During the Employment Period, Executive will report to the Chief Executive Officer. Executive will devote her best efforts and substantially all of her business time and attention (except for vacation periods and reasonable periods of illness or other reason for leave permitted by the Company’s general employment policies and for volunteer services to

charitable organizations that do not materially detract from her ability to perform her duties to the Company) to the business of the Company.

1.3 Employment Policies. The employment relationship between the parties shall also be governed by the general employment policies and practices of the Company, including those relating to protection of confidential information and assignment of inventions, except that when the terms of this Agreement differ from or are in conflict with the Company's general employment policies or practices, this Agreement shall control.

2. COMPENSATION

2.1 Base Salary. The Company agrees to pay Executive a base salary during Executive's employment in equal installments (prorated for portions of a pay period) on the Company's regular pay days and the Company will withhold from such compensation all applicable federal and state income, social security and disability and other taxes as required by applicable laws. Executive's initial salary as of the date hereof shall be at the rate of Three Hundred and Five Thousand and no/100 Dollars (\$305,000) per year (the "Base Salary"). Executive's Base Salary will be subject to review by the Board, or an authorized committee of the Board, from time to time and may be increased (but not decreased, except for across-the-board reductions that may be generally applicable to all of the Company's senior executives) in the Board's sole discretion.

2.2 Incentive Compensation. Executive shall be entitled to participate, at a level commensurate with her position, in an annual performance-based cash bonus plan of the Company (the "Annual Cash Incentive Bonus"), any long-term incentive plan (which may include grants of stock options, restricted stock or other equity-based awards under the Company's equity plan as determined by the Board in its sole discretion) and in such additional incentive bonus opportunities, if any, as may be determined by the Board, with recommendations made by the Compensation Committee of the Board, subject to the terms and conditions of any underlying bonus plans, equity plans or equity agreements:

(a) Executive's minimum Annual Cash Incentive Bonus target will be Thirty Five percent (35%) of her base salary.

(b) The minimum service-based component of Executive's annual long-term, equity-based incentive grant will be targeted at Fifty percent (50%) of her base salary.

2.3 Standard Company Benefits. Executive shall be entitled to participate in, and to receive all rights and benefits under the terms and conditions of, the standard Company benefits and compensation practices which may be in effect from time to time and provided by the Company to its employees generally.

2.4 Vacation. In addition to such holidays, sick leave, personal leave and other paid leave as are allowed under the Company's policies applicable to senior executives generally, Executive shall be entitled to one hundred sixty (160) hours per year (calculated at the rate of forty (40) hours worked per week) of vacation per calendar year and subject to the terms and conditions of the Company's vacation policy applicable to senior executives; plus ten working days per year of personal time, accruing at the rate of six point seven (6.7) hours per month (calculated at the rate of forty (40) hours worked per week) provided that Executive's unused vacation will not exceed one hundred sixty (160) hours per year. If the Executive has not taken all of the available vacation time in a year, the unused time can be carried over to the next year, provided, however, that no additional accrual of time will occur when the unused total equals one hundred sixty (160) hours. Personal time does not carry over from year to year. The value of any unused and accumulated vacation time will be paid to the Executive upon any termination of her employment based upon the per day value of her then base salary divided by 250. The duration of such vacations and the time or times when they shall be taken will be determined by Executive in consultation with the Company.

2.5 Expenses. The Company shall pay or reimburse Executive for reasonable and necessary business expenses incurred by Executive in connection with her duties on behalf of the Company in accordance with the Company's expense reimbursement policy, as may be amended from time to time, or any successor policy, plan, program or arrangement thereto, and any other of its expense policies applicable to senior executives of the Company, following submission by Executive of reimbursement expense forms in accordance with such expense policies. Any reimbursement or provision of in-kind benefits for expenses incurred or benefits received during the Executive's employment pursuant to the terms of this Section 2.5 shall be made pursuant to the Company's standard policies and time lines, but not later than December 31st of the year following the year in which Executive incurs the expense; provided, however, that in no event will the amount of expenses so reimbursed, or in-kind benefits provided, by the Company in one year affect the amount of expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year. Each provision of reimbursement of expenses or in-kind benefit pursuant to this Section 2.5 shall be considered a separate payment and not one of a series of payments for purposes of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code").

2.6 Executive Death and Disability Benefits. Executive shall be entitled to participate in and receive all rights and benefits under the terms and conditions of an executive life and disability policy or policies, with limits, features, benefits and coverages substantially similar to those reflected in Attachment I to this Agreement.

2.7 Indemnification. The Company and Executive have entered into a separate Indemnification Agreement in the form signed by the Company with its other officers and

directors. The Company agrees that Executive shall be a director or officer of the Company, and that Company shall maintain such Indemnification Agreement with Executive, throughout the Employment Period.

3. PROPRIETARY INFORMATION OBLIGATIONS.

3.1 Agreement. Executive agrees to execute and abide by the Proprietary Information and Inventions Agreement attached hereto as Exhibit A.

4. EMPLOYMENT PERIOD.

4.1 Except as hereinafter provided, the Employment Period shall commence as of the Effective Date and shall terminate upon the earlier of (a) the third (3rd) anniversary of the Effective Date (the "Initial Termination Date"), or (b) the date on which this Agreement is terminated in accordance with Section 4.2 of this Agreement; provided, however, that unless terminated in accordance with Section 4.2, this Agreement shall be automatically renewed for an additional Employment Period of three years on the Initial Termination Date and any subsequent three-year Employment Period's termination date, unless either Executive or the Company, as directed by its Board, elects, by written notice to the other party not less than six (6) months prior to the Initial Termination Date or any subsequent three-year Employment Period's termination date, (a) to terminate this Agreement, or (b) to negotiate new terms of employment. If negotiations regarding any revised employment agreement extend beyond a specific termination date while the parties are actively negotiating, the Agreement shall continue in full force and effect during such period of negotiation; provided, however, that if the parties, acting in good faith, are unable to negotiate new terms of employment, either party may terminate this Agreement by providing not less than thirty (30) days' prior written notice to the other party.

4.2 The Employment Period shall end upon the first to occur of any of the following events:

(a) Executive's death or termination of employment due to disability;

(b) a termination by the Company for Cause;

(c) a termination by the Company without Cause;

(d) a Termination for Good Reason; or

(e) a voluntary termination, which shall occur in the event of Executive's termination of her employment with the Company for any reason, other than a Termination for Good Reason, by at least thirty (30) days prior written notice to the Company of such termination.

5. POST- EMPLOYMENT PAYMENT.

5.1 General. At the end of Executive's employment for any reason, Executive shall cease to have any rights to salary, future equity awards, expense reimbursements or other benefits, except (a) as may be provided in Sections 2.4, 5.2 and 5.5, and (b) that Executive shall be entitled to receive:

(a) payment of any Base Salary which has accrued but is unpaid through the date of termination;

(b) any earned but unpaid annual bonus for a previously completed fiscal year (or other applicable previously completed bonus period), which shall be paid in accordance with the payment terms and conditions of the applicable plan or program;

(c) reimbursement of any reimbursable expenses which have been incurred but are unpaid as of the date of termination; provided, however, that Executive must submit any claims for reimbursable expenses within sixty days following the date of her termination and such reimbursement shall be paid to Executive in accordance with Section 2.5;

(d) any continuation coverage benefits to which Executive is entitled under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), provided that Executive completes all necessary election forms and complies with all terms and regulations pertaining to COBRA;

(e) any other amounts and benefits the Executive is entitled to receive under any Company employee benefit plan or program in accordance with the terms and provisions of such plan or program, except to the extent such amounts and benefits are determined pursuant to this Agreement rather than such plan or program pursuant to Sections 5.2 and 5.5; and

(f) such other compensation, if any, which the Board of Directors, in its sole discretion, may elect to pay or grant.

5.2 Termination Without Cause or for Good Reason.

(a) The Company shall have the right to terminate Executive's employment with the Company at any time without Cause (as defined in Section 5.3(b)) upon sixty (60) days prior written notice. In such event and subject to Section 5.2(c) and Section 8.11, the Company shall make all of the payments and provide all of the benefits as set forth in Section 5.5(a)(i)-(iv), payable at the time(s) provided for in Section 5.5(b).

(b) Executive may terminate her employment at any time for Good Reason. Subject to Section 5.2(c) and Section 8.11, upon any termination for Good Reason (as defined in Section

5.5.(c)(ii)), the Executive shall be entitled to receive the payments and benefits as set forth in Section 5.5(a)(i)-(iv), payable at the time(s) provided for in Section 5.5(b).

(c) Except where Executive's employment is terminated without Cause or due to termination for Good Reason within the Change of Control Period (as defined in Section 5.5), any amount or portion of an incentive award bonus or equity or equity-based award that is intended to qualify as "performance-based compensation" under Section 162(m) of the Code (except stock options and stock appreciation rights) shall only become payable or vest based on the actual level of performance (disregarding any requirements for Executive's continued employment). Such compensation shall be paid, vested or issued, as the case may be, in accordance with Section 162(m) of the Code within 30 days following the Compensation Committee of the Board's determination of the achievement level of the applicable performance goals for the year of the Executive's termination of employment, or later if required by applicable law, including Section 7.2.

5.3 Termination for Cause.

(a) The Company shall have the right to terminate Executive's employment with the Company at any time for Cause. Written notification of termination, including in reasonable detail the facts and circumstances claimed to provide the basis for the Cause, shall be provided to Executive at the time of termination.

(b) "Cause" for termination shall mean Executive's conviction of a felony or the willful and deliberate failure of Executive to perform her customary duties, in a manner consistent with the manner reasonably prescribed by the Board (other than any failure resulting from her incapacity due to physical or mental illness, disability or death). For purposes of this section only, if the Company experiences a Change of Control, the term "Board" shall include the board of directors (or similar governing body) of any successor to the Company.

(c) In the event the Company intends to terminate Executive for Cause and the Cause is curable, the Company shall give Executive notice in writing specifying in reasonable detail any facts and circumstances claimed to provide a basis for Executive's termination for Cause, and Executive shall be given sixty (60) days from date of notification to effect reasonable cure of the specific cause(s) set forth in the notification.

(d) In the event Executive's employment is terminated at any time for Cause, the Company shall provide Executive within thirty (30) days of Executive's termination of employment all benefits specified in Section 5.1; provided, however, Executive shall not be entitled to receive any additional severance pay, pay in lieu of notice or any other such

compensation, including any severance benefits provided under a Company's severance benefit plan as described above in Section 5.1(e), if any, in effect on Executive's termination date.

5.4 Voluntary Termination without Good Reason. Executive may voluntarily terminate her employment in writing with the Company at any time without Good Reason (as defined in section 5.5(c)(ii)) after which no further compensation will be paid to Executive, except that the Company shall provide Executive within thirty (30) days of Executive's termination those amounts and benefits specified in Section 5.1; provided, however, Executive shall not be entitled to receive any additional severance pay, pay in lieu of notice or any other such compensation, including any severance benefits provided under a Company's severance benefit plan as described above in Section 5.1(e), if any, in effect on the termination date.

5.5 Termination In Connection With a Change of Control.

(a) If a "Change of Control" of the Company (as defined in Section 5.5(c)) occurs, and within either the six-month period ending on the Change of Control or the 18-month period beginning on the Change of Control (the "Change of Control Period"), Executive's employment is terminated without Cause or there is a Termination for Good Reason, the Company shall, subject to the provisions of Section 5.5(d) and Section 8.11 below, and in accordance with Section 5.5(b):

(i) provide the benefits specified in Section 5.1;

(ii) pay Executive a lump sum severance payment equal to the sum of (A) two (2) times Executive's Base Salary in effect on the date of Executive's termination, (B) two (2) times the largest of the Annual Cash Incentive Bonuses paid by the Company to Executive during the immediately preceding three annual incentive periods, and (C) the amount of any award for the year of such termination as if target performance for such plan year had been achieved;

(iii) notwithstanding any contrary provisions of any stock option agreement, restricted stock agreement or other equity or equity-based award agreement held by Executive at the time of Executive's termination (and provided that any change of control provisions in such agreements, whether entered into before or after the date of this Agreement, shall be of no force and effect), (A) for any equity or equity-based award that is subject to time-based or service-based exercise, vesting or payment conditions, accelerate the exercisability, vesting, and lapse of restrictions, as the case may be, for such equity or equity-based awards, and (B) for any equity or equity-based award that is subject to performance-based exercise, vesting or payment conditions, accelerate the

exercisability, vesting, and lapse of restrictions, as the case may be, for such equity or equity-based awards as if target performance for such award had been achieved; and

(iv) pay Executive a lump sum payment equal to one hundred fifty percent (150%) of Company's portion of the annual costs (determined based on such costs as of the Executive's termination date) associated with (A) providing Executive with medical and health benefits coverage under the Company's group health plans, and (B) providing Executive's eligible family members who are also receiving medical and health benefits coverage under the Company's group health plan on the date of Executive's termination of employment.

(b) That portion of any severance benefits described in this Section 5.5 which satisfies the "separation pay plan," or any other exemption from Section 409A of the Code ("Section 409A), as described in U.S. Department of Treasury Regulation Section 1.409A-1(b)(9), shall be paid no later than thirty (30) days after the end of the revocation period described in Section 8.11 of this Agreement. That portion, if any, of the severance benefits described in this Section 5.5 that is subject to Section 409A shall be paid on the sixtieth (60th) day following the effective date of Executive's termination of employment, except that, if Executive is subject to Section 7.2 due to Executive's status as a "specified employee" under Section 409A, such portion shall be paid on the first day of the seventh month following Executive's termination of employment.

(c) For purposes of this Section 5.5 and as referenced elsewhere in this document:

(i) A "Change of Control" of the Company shall be deemed to have occurred if:

(1) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Act")), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company, becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of capital stock of the Company representing thirty (30) percent or more of the total voting power represented by the Company's then outstanding capital stock;

(2) the consummation of a merger or consolidation of the Company with any other company, other than a merger or consolidation in which the shareholders, at the date of announcement, of the Company would own 50% or more of the voting stock of the surviving corporation;

(3) Continuing Directors (as defined below) no longer constitute at least a majority of the Board or a similar body of any successor to Company. For purposes of this Agreement, "Continuing Director" means any individual who either (i) is a member of Company's Board of Directors on the Effective Date, or (ii) becomes a member of Company's Board of Directors after the Effective Date and whose election or nomination for election was approved by a vote of at least a majority of the then Continuing Directors (either by a specific vote or by approval of the proxy statement of Company in which such person is named as nominee for director, without objection to such nomination);

(4) the sale of all or substantially all of the assets of the Company; or

(5) the liquidation or dissolution of the Company.

(ii) Termination for Good Reason means Executive's termination of her employment as a result of the occurrence of any of the following without Executive's written consent, unless within thirty (30) days following the Company's receipt of Executive's written notice of termination of employment for Good Reason, in accordance with Section 8.1, specifying in reasonable detail any facts and circumstances claimed to provide a basis for Executive's termination for Good Reason, the Company cures any such occurrence:

(1) any material reduction by the Company in Executive's Base Salary, Annual Cash Incentive Bonus opportunity, long-term incentive opportunity, or standard Company benefits (except for across-the-board reductions generally applicable to all senior executives of the Company);

(2) a relocation of Executive's principal office to a location that is in excess of sixty (60) miles from its location as of the date of this Agreement; or

(3) without limiting the generality or effect of any of the foregoing, any material breach of this Agreement by the Company.

Any occurrence of Good Reason shall be deemed to be waived by Executive unless both (x) Executive provides the Company written notice of termination of employment for Good Reason within ninety (90) days after the date Executive becomes aware of the event giving rise to Good Reason, and (y) Executive

terminates her employment before February 10 of the year following the taxable year of Executive during which the Company's thirty (30) day cure period expired.

(d) Anything in this Agreement to the contrary notwithstanding, prior to the payment of any compensation or benefits payable under paragraph (a) of this Section 5.5 hereof, the certified public accountants of the Company immediately prior to a Change of Control (the "Certified Public Accountants") shall determine as promptly as practical and in any event within twenty (20) business days following the Change in Control whether any payment or distribution by the Company to or for the benefit of Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement, any other agreements or otherwise) (a "Payment") would more likely than not be nondeductible by the Company for Federal income tax purposes because of Section 280G of the Code ("Section 280G") and if it is, then the aggregate present value of amounts payable or distributable to or for the benefit of the Executive pursuant to this Agreement (such payments or distributions pursuant to this Agreement referred to as "Contract Payments") shall be reduced (but not below zero) to the Reduced Amount. For purposes of this Section, the "Reduced Amount" shall be an amount expressed as a present value which maximizes the aggregate present value of Contract Payments without causing any Contract Payment to be nondeductible by the Company under Section 280G.

If under this paragraph (d) the certified Public Accountants determine that any payment would more likely than not be nondeductible by the Company because of Section 280G, the Company shall promptly give Executive notice to that effect and a copy of the detailed calculation thereof and of the Reduced Amount, and Executive may then elect (subject to the restrictions set forth below), in her sole discretion, which and how much of the Contract Payments or any other payments shall be eliminated or reduced (as long as after such election the aggregate present value of the Contract Payments or any other payments equals the Reduced Amount), and shall advise the Company in writing of her election within twenty (20) business days of her receipt of notice. If no such election is made by Executive within such 20-day period, the Company may elect which and how much of the Contract Payments or any other payments shall be eliminated or reduced (as long as after such election the aggregate present value of the Contract Payments equals the Reduced Amount) and shall notify Executive promptly of such election. Notwithstanding anything to the contrary, any Contract Payments or other payments that are subject to Section 409A (a "409A Payment") shall not be eliminated or reduced unless and until all other Contract Payments and other payments have been eliminated or reduced and any 409A Payment that is to be reduced or eliminated shall be reduced or eliminated in order of due date from earliest to latest. For purposes of this paragraph, present value shall be determined in accordance with Section 280G(d)(4) of the Code. All determinations made by the Certified Public Accountants shall be binding upon the Company and Executive and the payment to

Executive shall be made within twenty (20) days of the later of the Change of Control or the Executive's termination of employment. The Company may suspend for a period of up to thirty (30) days the Payment and any other payments or benefits due to Executive until the Certified Public Accountants finish the determination and Executive (or the Company, as the case may be) elects how to reduce the Contract Payments or any other payments, if necessary; provided, however, under no circumstance shall Executive or the Company be permitted to delay or accelerate any payment in a manner that would result in an impermissible deferral or acceleration under Section 409A. As promptly as practicable following such determination and the elections hereunder, the Company shall pay to or distribute to or for the benefit of Executive such amounts as are then due to Executive under this Agreement.

5.6 Termination in the Event of Death or Disability.

(a) If Executive dies, her designated beneficiaries, or if none, her estate, shall be entitled to the proceeds from Executive's life insurance coverage described in Section 2.6 and all benefits specified in Section 5.1.

(b) If Executive becomes disabled (as defined in the disability policy or policies described in Section 2.6), the Company may terminate Executive's employment. In such event, Executive would receive (i) all benefits specified in Section 5.1 and (ii) for a period of one year following the date Executive becomes disabled ("Disability Period"), her Base Salary at the rate in effect at the beginning of the period reduced by any payments made to Executive during the Disability Period under the disability benefit plans of the Company described in Section 2.6 or under the Social Security disability insurance program, as well as other payments and benefits set forth in Section 2.3 that may be provided to Executive under the terms of the plans, programs and practices covered by Section 2.3.

6. NON-INTERFERENCE; NON-COMPETITION.

6.1 Agreement. Executive agrees to execute and abide by the Noncompetition Agreement attached hereto as Exhibit B.

7. SECTION 409A.

7.1 Compliance with Section 409A. It is the intent of the parties that the provisions of this Agreement comply with Section 409A and the Treasury regulations and guidance issued thereunder and that this Agreement be interpreted and operated consistent with such requirements of Section 409A in order to avoid the application of additional taxes, interest or penalties due to Section 409A ("409A Penalties"). To the extent that a payment, or the settlement or deferral thereof, is subject to Section 409A, except as Executive and Company otherwise determines in writing, the payment shall be paid, settled or deferred in a manner that will meet

the requirements of Section 409A, such that the payment, settlement or deferral shall not be subject to the 409A Penalties. Any reimbursement will be interpreted and administered to comply with Treasury Regulation Section 1.409A-3(i)(1)(iv).

7.2 Delay for Specified Employee. To the extent that (a) Company's common stock is publicly traded on an "established securities market" as defined in Treasury Regulations § 1.8971(m), and (b) Executive would otherwise be entitled to any payment or benefit under this Agreement or any plan or arrangement of Company or its affiliates, that constitutes "deferred compensation" subject to Section 409A and that if paid during the six months beginning on the date of Executive's termination of employment would be subject the 409A Penalties because Executive is a "specified employee" (within the meaning of Section 409A and as determined from time to time by Company), the payment will be paid to Executive on the earliest of the six-month anniversary of the termination of employment, a change in ownership or effective control of Company (within the meaning of Section 409A) or Executive's death.

7.3 Full Section 409A Compliance. Notwithstanding any provision of this Agreement, (a) this Agreement shall not be amended in any manner that would cause (i) the imposition of any 409A Penalty, (ii) this Agreement or any amounts or benefits payable hereunder to fail to comply with the requirements of Section 409A, to the extent applicable, or (iii) any amounts or benefits payable hereunder that are not subject to Section 409A to become subject thereto (unless they also are in compliance therewith), and the provisions of any purported amendment that may reasonably be expected to result in such non-compliance shall be of no force or effect with respect to this Agreement and (b) if any provision of this Agreement would, in the reasonable, good faith judgment of Company, result or likely result in the imposition on Executive or any other person of any adverse consequences under Section 409A, Company may reform this Agreement, or any provision thereof, without Executive's consent, in the manner that Company reasonably and in good faith determines to be necessary or advisable to avoid the imposition of such adverse consequence; provided, however, that any such reformation shall, to the maximum extent Company reasonably and in good faith determines to be possible, retain the economic and tax benefits to Executive hereunder, while not materially increasing the cost to Company of providing such benefits to Executive. Company shall promptly notify Executive in writing of any such reformation and provide a detailed explanation of the reason for the reformation. For the avoidance of doubt, the phrase "termination of employment" and similar phrases shall mean and be interpreted in the same manner as, a "separation from service" from the Company within the meaning of Section 409A of the Code.

8. GENERAL PROVISION.

8.1 Notices. Any notices provided hereunder must be in writing and shall be deemed effective upon the earlier of personal delivery (including personal delivery by facsimile) or the

third day after mailing by first class mail, to the Company at its primary office location and to Executive at the address listed on the Company payroll.

8.2 Severability. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provisions had never been contained herein.

8.3 Waiver. If either party should waive any breach of any provisions of this Agreement, they or it shall not thereby be deemed to have waived any preceding or succeeding breach of the same or any other provision of this Agreement.

8.4 Complete Agreement. This Agreement and its Exhibits, constitute the entire agreement between Executive and the Company and it is the complete, final, and exclusive embodiment of her agreement with regard to the material terms of executive employment, compensation, and duration. It is entered into without reliance on any promise or representation other than those expressly contained herein, and it cannot be modified or amended except in a writing signed by Executive and an officer of the Company.

8.5 Counterparts. This Agreement may be executed in separate counterparts, any one of which need not contain signatures of more than one party, but all of which taken together will constitute one and the same Agreement.

8.6 Headings. The headings of the sections hereof are inserted for convenience only and shall not be deemed to constitute a part hereof nor to affect the meaning thereof.

8.7 Successors and Assigns. This Agreement is intended to bind and inure to the benefit of and be enforceable by Executive and the Company, and her respective successors, assigns, heirs, executors and administrators, except that Executive may not assign any of her duties hereunder and they may not assign any of her rights hereunder without the written consent of the Company, which shall not be withheld unreasonably.

8.8 Attorneys' Fees. If either party hereto brings any action to enforce her or its rights hereunder, Executive shall be reimbursed by Company for her reasonable attorneys' fees and costs incurred in connection with such action, unless all of Executive's positions in such action are determined by the court to be frivolous.

8.9 Choice of Law. All questions concerning the construction, validity and interpretation of this Agreement will be governed by the law of the State of Kansas.

8.10 No Duty to Mitigate. Executive shall have no duty to attempt to mitigate the level of benefits payable by the Company to her hereunder and the Company shall not be entitled to set off against the amounts payable hereunder any amounts received by the Executive from any other source, including any subsequent employer.

8.11 Release. Payment of the amounts provided for in Section 5.5(a)(i)-(iv) shall be subject to the parties' signing (and not revoking by the end of any applicable revocation period) a general release of claims in a form reasonably acceptable to the parties, within twenty-one (21) days or forty-five (45) days, whichever period is required under applicable law, which shall contain a mutual non-disparagement clause, and which shall exempt from release the matters set forth in Section 8.12 and any continuing obligations under this Agreement pursuant to Sections 3.1 and/or 6.1.

8.12 Claw-Back. If, pursuant to Section 10D of the Securities Exchange Act of 1934, as amended (the "Act"), the Company would not be eligible for continued listing, if applicable, under Section 10D(a) of the Act if it did not adopt policies consistent with Section 10D(b) of the Act, then, in accordance with those policies that are so required, any incentive-based compensation payable to Executive under this Agreement or otherwise shall be subject to claw-back in the circumstances, to the extent, and in the manner, required by Section 10D(b)(2) of the Act, as interpreted by rules of the Securities Exchange Commission, including but not limited to circumstances involving fraud or significant misrepresentation by the Executive that caused harm to the Company.

IN WITNESS WHEREOF, the parties have executed this Agreement on the day and year first above written.

EXECUTIVE

/s/ Elizabeth A. Thomas

Name: Elizabeth A. Thomas

NIC INC.

By: /s/ Harry H. Herington

Name: Harry H. Herington

Title: Chief Executive Officer

NIC INC.
EMPLOYEE PROPRIETARY INFORMATION
AND INVENTIONS AGREEMENT

In consideration of my employment or continued employment by NIC, Inc., a Delaware corporation (the “**Company**”), and the compensation now and hereafter paid to me, I hereby agree as follows:

1. NONDISCLOSURE.

1.1 **Recognition of Company’s Rights; Nondisclosure.** At all times during my employment and thereafter, I will hold in strictest confidence and will not disclose, use, lecture upon or publish any of the Company’s Proprietary Information (defined below), except as such disclosure, use or publication may be required in connection with my work for the Company, or unless an officer of the Company expressly authorizes such in writing. I will obtain Company’s written approval before publishing or submitting for publication any material (written, verbal, or otherwise) that relates to my work at Company and/or incorporates any Proprietary Information. I hereby assign to the Company any rights I may have or acquire in such Proprietary Information and recognize that all Proprietary Information shall be the sole property of the Company and its assigns.

1.2 **Proprietary Information.** The term “Proprietary Information” shall mean any and all confidential and/or proprietary knowledge, data or information of the Company. By way of illustration but not limitation, “Proprietary Information” includes (a) trade secrets, inventions, ideas, processes, formulas, source and object codes, data, programs, other works of authorship, know-how, improvements, discoveries, developments, designs and techniques (hereinafter collectively referred to as “Inventions”); and (b) information regarding plans for research, development, new products, marketing and selling, business plans, budgets and unpublished financial statements, licenses, prices and costs, suppliers and customers; and (c) information regarding the skills and compensation of other employees of the Company. Notwithstanding the foregoing, it is understood that (i) the Company’s Proprietary Information hereunder shall not include information to the extent that it is or becomes generally known in the trade or industry other than as a result of a breach of this Agreement, and (ii) I shall be free to use my own skill, knowledge and experience to whatever extent and in whichever way I wish, provided that I do so without the use or disclosure of Proprietary Information.

1.3 **Third Party Information.** I understand, in addition, that the Company has received and in the future will receive from third parties confidential or proprietary information (“Third Party Information”) subject to a duty on the Company’s part to maintain the confidentiality of such information and to use it only for certain limited purposes. During the term of my employment and thereafter, I will hold Third Party Information in the strictest confidence and will not disclose to anyone (other than Company personnel who need to know such information in connection with their work for the Company) or use, except in connection with my work for the Company, Third Party Information unless expressly authorized by an officer of the Company in writing.

1.4 **No Improper Use of Information of Prior Employers and Others.** During my employment by the Company I will not improperly use or disclose any confidential information or trade secrets, if any, of any former employer or any other person to whom I have an obligation of confidentiality, and I will not bring onto the premises of the Company any unpublished documents or any property belonging to any former employer or any other person to whom I have an obligation of confidentiality unless consented to in writing by that former employer or person. I will use in the performance of my duties only information which is generally known and used by persons with training and experience comparable to my own, which is common knowledge in the industry or otherwise legally in the public domain, or which is otherwise provided or developed by the Company.

2. ASSIGNMENT OF INVENTIONS.

2.1 **Proprietary Rights.** The term “Proprietary Rights” shall mean all trade secret, patent, trademark, copyright, and other intellectual property rights throughout the world.

2.2 **Prior Inventions.** Inventions, if any, patented or unpatented, which I made prior to the commencement of my employment with the Company are excluded from the scope of this Agreement. To preclude any possible uncertainty, I have set forth on Exhibit A (Previous Inventions) attached hereto a complete list of all Inventions that I have, alone or jointly with others, conceived, developed or reduced to practice or caused to be conceived, developed or reduced to practice prior to the commencement of my employment with the Company, that I consider to be my property or the property of third parties and that I wish to have excluded from the scope of this Agreement (collectively referred to as “Prior Inventions”). If disclosure of any such Prior Invention would cause me to violate any prior confidentiality agreement, I understand that I am not to list such Prior Inventions in Exhibit A but am only to disclose a cursory name for each such invention, a listing of the party(ies) to whom it belongs and the fact that full disclosure as to such inventions has not been made for that reason. A space is provided on Exhibit A for such purpose. If no such disclosure is attached, I represent that there are no Prior Inventions. If, in the course of my employment with the Company, I incorporate a Prior Invention into a

Company product, process or machine, the Company is hereby granted and shall have a nonexclusive, royalty-free, irrevocable, perpetual, worldwide license (with rights to sublicense through multiple tiers of sublicensees) to make, have made, modify, use and sell such Prior Invention, Notwithstanding the foregoing, I agree that I will not incorporate, or permit to be incorporated, Prior Inventions in any Company Inventions without the Company's prior written consent.

2.3 Assignment of Inventions. Subject to Sections 2.4, and 2.6, I hereby assign and agree to assign in the future (when any such Inventions or Proprietary Rights are first conceived or first fixed in a tangible medium, as applicable) to the Company all my right, title and interest in and to any and all Inventions (and all Proprietary Rights with respect thereto) whether or not patentable or registrable under copyright or similar statutes, made, conceived, fixed in a tangible medium or learned by me, either alone or jointly with others, during the period of my employment with the Company. Inventions assigned to the Company, or to a third party as directed by the Company pursuant to this Section 2, are hereinafter referred to as "Company Inventions."

2.4 Nonassignable Inventions. This Agreement will not be deemed to require assignment of and "Company Inventions" shall not be discerned to include any invention which was developed entirely on my own time without using the Company's equipment, supplies, facilities, or trade secrets and is neither related to the Company's actual or anticipated business, research or development, nor resulted from work performed by me for the Company.

2.5 Obligation to Keep Company Informed. During the period of my employment and for six (6) months after termination of my employment with the Company, I will promptly disclose to the Company fully and in writing all Inventions authored, conceived or fixed in a tangible medium by me, either alone or jointly with others. In addition, I will promptly disclose to the Company all patent applications filed by me or on my behalf within a year after termination of employment. At the time of each such disclosure, I will advise the Company in writing of any Inventions that I believe fully qualify for protection "as non-Company Inventions" and I will at that time provide to the Company in writing all evidence necessary to substantiate that belief. The Company will keep in confidence and will not use for any purpose or disclose to third parties without my consent any confidential information disclosed in writing to the Company pursuant to this Agreement relating to Inventions that are not Company Inventions. I will preserve the confidentiality of any Invention which is a Company Invention.

2.6 Government or Third Party. I also agree to assign all my right, title and interest in and to any particular Company Invention to a third party, including without limitation the United States, as directed by the Company.

2.7 **Works for Hire.** I acknowledge that all original works of authorship which are made by me (solely or jointly with others) within the scope of my employment and which are protectable by copyright are “works made for hire,” pursuant to United States Copyright Act (17 U.S.C., Section 101) the copyright in which is owned by the Company. If, for any reason, such original works are not deemed “works made for hire” under such statute, I hereby assign and agree to assign all of my right, title, and interest in the works to the Company and agree to execute such further documents as are reasonably required to perfect and record this assignment.

2.8 **Enforcement of Proprietary Rights.** I will assist the Company in every proper way to obtain, and from time to time enforce, United States and foreign Proprietary Rights relating to Company Inventions in any and all countries. To that end I will execute, verify and deliver such documents and perform such other acts (including appearances as a witness) as the Company may reasonably request for use in applying for, obtaining, perfecting, evidencing, sustaining and enforcing such Proprietary Rights and the assignment thereof. In addition, I will execute, verify and deliver assignments of such “Company Inventions” to the Company or its designee. My obligation to assist the Company with respect to Proprietary Rights relating to such Company Inventions in any and all countries shall continue beyond the termination of my employment, but the Company shall compensate me at a reasonable rate after my termination for the time actually spent by me at the Company’s request on such assistance.

In the event the Company is unable for any reason, after reasonable effort, to secure my signature on any document needed in connection with the actions specified in the preceding paragraph, I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents as my agent and attorney in fact, which appointment is coupled with an interest, to act for and in my behalf to execute, verify and file any such documents and to do all other lawfully permitted acts to further the purposes of the preceding paragraph with the same legal force and effect as if executed by me. I hereby waive and quitclaim to the Company any and all claims, of any nature whatsoever, which I now or may hereafter have for infringement of any Proprietary Rights or Company Inventions assigned hereunder to the Company.

3. **RECORDS.** I agree to keep and maintain adequate and current records (in the form of notes, sketches, drawings and in any other form that may be required by the Company) of all Proprietary Information developed by me and all Inventions made by me during the period of my employment at the Company, which records shall be available to and remain the sole property of the Company at all times.

4. **ADDITIONAL ACTIVITIES.** I agree that for the period of my employment by the Company and for three (3) years after the date of termination of my employment by the Company I will not induce any employee of the Company to leave the employ of the Company.

5. **NO CONFLICTING OBLIGATION.** I represent that my performance of all the terms of this Agreement and as an employee of the Company does not and will not breach any agreement to keep in confidence information acquired by me in confidence or in trust prior to my employment by the Company. I have not entered into, and I agree I will not enter into, any agreement either written or oral in conflict herewith.

6. **RETURN OF COMPANY DOCUMENTS.** When I leave the employ of the Company, I will deliver to the Company any and all original drawings, notes, memoranda, specifications, devices, formulas, files, emails and documents, and any other material containing or disclosing any Company Inventions, Third Party Information or Proprietary Information of the Company, whether in paper, electronic or other intangible form. I further agree that any property situated on the Company's premises and owned by the Company, including disks and other storage media, filing cabinets or other work areas, is subject to inspection by Company personnel at any time with or without notice. Prior to leaving, I will cooperate with the Company in completing and signing the Company's termination statement. I further agree not to retain any Proprietary Information of the Company on any electronic or online storage media including, but not limited to, USB drives, magnetic or optical discs, online storage services, online email services, or any personal computer under my control, subsequent to my termination.

7. **LEGAL AND EQUITABLE REMEDIES.** Because my services are personal and unique and because I may have access to and become acquainted with the Proprietary Information of the Company, the Company shall have the right to enforce this Agreement and any of its provisions by injunction, specific performance or other equitable relief, without bond and without prejudice to any other rights and remedies that the Company may have for a breach of this Agreement.

8. **NOTICES.** Any notices required or permitted hereunder shall be given to the appropriate party at the address specified below or at such other address as the party shall specify in writing. Such notice shall be deemed given upon personal delivery to the appropriate address or if sent by certified or registered mail, three (3) days after the date of mailing.

9. **NOTIFICATION OF NEW EMPLOYER.** In the event that I leave the employ of the Company, I hereby consent to the notification of my new employer of my rights and obligations under this Agreement.

10. **GENERAL PROVISIONS.**

10.1 **Governing Law.** Consent to Personal Jurisdiction. This Agreement will be governed by and construed according to the laws of the State of Kansas, as such laws are applied to agreements entered into and to be performed entirely within Kansas between Kansas residents.

I hereby expressly consent to the personal jurisdiction of the state and federal courts located in Johnson County, Kansas for any lawsuit filed there against me by Company arising from or related to this Agreement.

10.2 **Severability.** In case any one or more of the provisions contained in this Agreement shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect the other provisions of this Agreement, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein so long as the central purpose and intent of the Agreement can still be achieved. If moreover, any one or more of the provisions contained in this Agreement shall for any reason be held to be excessively broad as to duration, geographical scope, activity or subject, it shall be construed by limiting and reducing it, so as to be enforceable to the extent compatible with the applicable law as it shall then appear.

10.3 **Successors and Assigns.** This Agreement will be binding upon my heirs, executors, administrators and other legal representatives and will be for the benefit of the Company, its successors, and its assigns.

10.4 **Survival.** The provisions of this Agreement shall survive the termination of my employment and the assignment of this Agreement by the Company to any successor in interest or other assignee.

10.5 **Employment.** I agree and understand that nothing in this Agreement shall confer any right with respect to continuation of employment by the Company, nor shall it interfere in any way with my right or the Company's right to terminate my employment at any time, with or without cause.

10.6 **Waiver.** No waiver by the Company of any breach of this Agreement shall be a waiver of any preceding or succeeding breach. No waiver by the Company of any right under this Agreement shall be construed as a waiver of my other right. The Company shall not be required to give notice to enforce strict adherence to all terms of this Agreement.

10.7 **Entire Agreement.** The obligations pursuant to Sections 1 and 2 of this Agreement shall apply to any time during which I was previously employed, or am in the future employed, by the Company as a consultant if no other agreement governs nondisclosure and assignment of inventions during such period. This Agreement is the final, complete and exclusive agreement of the parties with respect to the subject matter hereof and supersedes and merges all prior discussions between us. If I have an existing Employee Proprietary Information and Inventions Agreement in place with the Company, then this Agreement supersedes and replaces that agreement effective as of the date this agreement is signed below, otherwise, this

Agreement shall be effective as of the first day of my employment with the Company. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, will be effective unless in writing and signed by the party to be charged. Any subsequent change or changes in my duties, salary or compensation will not affect the validity or scope of this Agreement.

[Remainder of Page Intentionally Blank]

I HAVE READ THIS AGREEMENT CAREFULLY AND UNDERSTAND ITS TERMS. I HAVE COMPLETELY FILLED OUT EXHIBIT A TO THIS AGREEMENT.

/s/ Elizabeth A. Thomas

Elizabeth A. Thomas

Address:

Date: January 20, 2021

ACCEPTED AND AGREED TO:

NIC INC.

By: /s/ Harry H. Herington

Name: Harry H. Herington

Title: Chief Executive Officer

Date: January 20, 2021

EXHIBIT A
PREVIOUS INVENTIONS

TO: NIC Inc.
FROM: Elizabeth A. Thomas
DATE: January 20, 2021
SUBJECT: Previous Inventions

1. Except as listed in Section 2 below, the following is a complete list of all inventions or improvements relevant to the subject matter of my employment by NIC Inc. (the “Company”), that have been made or conceived or first reduced to practice by me alone or jointly with others prior to my engagement by the Company:

No inventions or improvements.

See below:

Additional sheets attached.

2. Due to a prior confidentiality agreement, I cannot complete the disclosure under Section 1 above with respect to inventions or improvements generally listed below, the proprietary rights and duty of confidentiality with respect to which I owe to the following party(ies):

	Invention or Improvement	Party(ies)	Relationship
1.	_____	_____	_____
2.	_____	_____	_____
3.	_____	_____	_____

Additional sheets attached.

NIC INC.

Non-Competition Agreement

In consideration of the employment/promotion of Elizabeth A. Thomas, currently residing at (“Employee”), by NIC Inc. (“Employer”) and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by Employee, Employer and Employee hereby agree to the terms outlined in this Agreement.

Recitals

A. Employer is in the business generally of designing, building, and furnishing to government clients and private entities, egovernment applications and services online, including but not limited to Software As A Service, stand-alone online applications, system management and hosting, e-payment processing, database management, and enterprise wide management of such services and payment streams.

B. The parties recognize that, in the course of employment with Employer, Employee will learn Employer’s techniques, procedures, and development, management, and marketing strategies and will be exposed to the Employer’s clients and prospects, all of which Employer has a legitimate business interest in protecting. Employee is expected to work diligently and to develop good will with clients and prospects and other of Employer’s employees for the benefit of the Employer. Employee agrees that it would be unfair and improper to disclose or use Employer’s Confidential Information, training, or relationships to solicit Employer’s clients, prospects, or employees either during the Employee’s employment with Employer or for a limited period thereafter.

C. The parties desire to enter into this Agreement in order to induce the Employer to share or continue to share its information and resources with Employee during the course of employment and to insure that the Employer’s business will not be harmed during or after Employee’s employment.

D. Employee acknowledges and agrees that the promises in this Agreement are of material importance to Employer and the promises are a material inducement for Employer to employ and continue to employ the Employee.

Agreement

1. Definitions

As used herein:

- (a) “Confidential Information” means any oral or written information disclosed to Employee or known by Employee as a consequence of or through Employee’s employment by Employer which relates to Employer’s business, products, processes, or services, including, but not limited to, information relating to research, development, Inventions, computer program designs, programming techniques, flow charts, source code, object code, products under development, manufacturing, purchasing, accounting, engineering, marketing, selling, customer lists, customer requirements, and any documentation thereof. It will be presumed that information supplied to Employee from outside sources while in the course of her or her work for Employer is Confidential Information unless and until it is designated otherwise.
- (b) “Inventions” means discoveries, concepts, and ideas, whether patentable or not, including, but not limited to, apparatuses, processes, methods, compositions of matter, techniques, and formulae, as well as improvements or know-how related to any of those, in connection with and relating to any activities of Employer.
- (c) “Work Product” means all documents, reports, memoranda, drawings, specifications, computer programs, works of authorship fixed in a tangible medium of expression, flow charts and computer source code and object code regardless of the medium in which it is fixed, notes, correspondence, records, notebooks, and other tangible or intangible property and any and all plans, discoveries, creations, compositions, innovations, processes, technical data, patents and patent applications, know-how, trade secrets, trademarks, copyrights and copyright registration applications, and other materials and designs (whether tangible or intangible) developed or conceived by the Employee or provided by the Employer or any of its related entities, affiliates, or business units to the Employee during the course of the Employee’s performance of service for Employer.
- (d) “Conflicting Organization” means any competitor of Employer, including any organization which is engaged in the development, marketing, or selling of a Conflicting Product. An “affiliate” of Employer is an entity that is owned by, or under common control with, Employer, including direct and indirect parent entities. An affiliate of Employer is not considered a Conflicting Organization.

(e) "Conflicting Product" means any product, process, or service of any person or organization other than Employer which competes with a product, process, or service of Employer upon or with which Employee works or about which Employee acquires Confidential Information.

2. Services to Conflicting Organizations

For as long as Employee is employed by Employer and for a period of two (2) years after termination of Employee's employment by Employer, whether or not said termination is voluntary or involuntary and whether or not said termination is initiated by Employee or Employer, Employee will not own, in whole or in part, aid, or render services to, directly or indirectly, (collectively, "aid") any Conflicting Organization; provided, however, that, upon termination of Employee's employment by Employer, Employee shall have the right to aid a Conflicting Organization whose business is diversified and which, as to that part of its business Employee aids, considered as a discrete business unit, is not a Conflicting Organization if, prior to aiding or rendering services, Employee furnishes separate written assurances satisfactory to Employer (in its sole discretion) from such Conflicting Organization and from Employee that Employee will not aid or render services directly or indirectly in connection with any Conflicting Product. For purposes of this provision, ownership means either: 1) owning more than 5% of the total outstanding shares of stock in a Conflicting Organization; or 2) having a controlling interest in a Conflicting Organization. The preceding restriction applies to the Employee in the following territory:

For Management Level Employees: Because Employer is a subsidiary of NICUSA, Inc., which uses subsidiaries such as Employer to operate e-government portals across the entire United States of America, such as the one that Employer operates for Kansas; and because Employee's position with Employer is considered to be management level or management-trainee; and because a condition of being employed at management level or as a management trainee is that the Employee be willing to relocate to another subsidiary in another state to lead or assist in leading the operations of a new or existing portal such as Employer operates for Kansas, such aid or services to a Conflicting Organization is prohibited anywhere in the United States of America.

3. Confidentiality

(a) During employment with the Employer, and from and after termination of employment, Employee will hold in confidence the Confidential Information and will not use it or disclose it to any person or entity except with the specific prior written consent of the Employer or except as otherwise expressly permitted by this Agreement.

(b) Any trade secrets of the Employer or the business and affairs of the Employer will be entitled to all of the protections and benefits under the Kansas Trade Secrets Act and any other applicable law. If any information that the Employer deems to be a trade secret is found by a court of competent jurisdiction not to be a trade secret for purposes of this Agreement, such information will, nevertheless, be considered Confidential Information for purposes of this Agreement. Employee hereby waives any requirement that the Employer submit proof of the economic value of any trade secret or post a bond or other security.

(c) None of the foregoing obligations and restrictions apply to any part of the Confidential Information that Employee demonstrates (i) was or became generally available to the public other than as a result of an improper disclosure by Employee or by another individual or entity; or (ii) was available to Employee on a non-confidential basis prior to its disclosure to Employee by the Employer. If Employee is requested or becomes legally compelled by any means or is required by a regulatory body to make any disclosure that is prohibited or otherwise constrained by this Agreement, Employee will provide the Employer with prompt notice of such request so that it may seek an appropriate protective order or other appropriate remedy.

4. Non-Solicitation of Employees

Employee shall not, during the period of Employee's employment with the Employer and for a period of two (2) years after termination of Employee's employment with the Employer, whether or not said termination is voluntary or involuntary, and whether or not said termination is initiated by Employee or Employer, either on his or her own account or for any person, partnership, corporation, or other entity (a) solicit, contact, or endeavor to cause any employee of the Employer to leave his or her employment, (b) induce or attempt to induce any such employee to breach her or his employment agreement with the Employer, (c) otherwise interfere with the Employer's relationships with its employees, or (d) hire, employ, or supervise any of the Employer's employees.

5. Non-Solicitation of Clients or Prospects

Employee shall not, during the period of Employee's employment with the Employer and for a period of two (2) years after termination of Employee's employment with the Employer, whether or not said termination is voluntary or involuntary, and whether or not said termination is initiated by Employee or Employer, solicit, induce, or attempt to induce, any past or current client of Employer, or any prospective client of Employer with whom Employee had contact as a result of Employee's employment by Employer, (a) to cease doing business in whole or in part with or through the Employer, or (b) to do business with any Conflicting Organization.

6. Work Product and Inventions

- (a) Employer shall own, without restrictions or limits of any kind, all right, title, and interest in and to any and all Work Product and Inventions.
- (b) Employee acknowledges and agrees that the Employee shall not acquire any right whatsoever in any Work Product or Inventions and that any and all Work Product or Inventions, and any other property of Employer shall be returned or provided to the Employer at any time upon the Employer's demand, and, at the latest, upon termination of Employee's employment for any reason.
- (c) Employee acknowledges and confirms that it is the Employee's intention that any and all rights, including any copyright or other intellectual property rights, in any Work Product or Inventions created by the Employee for the Employer shall solely and exclusively vest in the Employer, and that any such Work Product or Inventions shall be considered within the scope of the Employee's employment. The parties agree that the Employer is entitled, as author, to the copyright in any copyrightable Work Product and any Inventions and any other rights therein including the right to seek or not seek statutory registration of any copyright and the right to make such changes therein and uses thereof as the Employer in its sole discretion determines. If, for any reason, any such Work Product is not considered a work made for hire under the copyright laws, then the Employee hereby grants and assigns to the Employer all of the Employee's right, title, and interest in and to such Work Product.
- (d) Employee agrees to execute such assignments, releases, transfer documents, and other instruments as the Employer may reasonably require in order to vest in the Employer complete and absolute title to the Work Product and any Inventions, including all intellectual property rights therein and thereto. For this limited purpose, the Employee hereby appoints the Employer as its attorney in fact to execute and deliver to the Employer, on behalf of the Employee, any and all such documents or instruments. This appointment shall be deemed to be a power coupled with an interest and shall be irrevocable. The Employee agrees to cooperate fully with the Employer in any and all acts or actions deemed appropriate by the Employer in order to perfect, retain, enforce, and maintain sole and exclusive title in and to the Work Product and any Inventions and all intellectual property rights therein and thereto.
- (e) This Agreement does not apply to an Invention for which no equipment, supplies, facility, or trade secret information of the Employer was used and which was developed entirely on the Employee's own time, unless (a) the Invention relates (i) directly to the business of the Employer, or (ii) actual or demonstrably anticipated research or

development or (b) the Invention results from any work performed by the Employee for the Employer.

7. Tolling of Period of Restriction

In the event of a breach of any of the covenants included above, then the post-employment time periods during which such prohibitions apply shall not be reduced by any period of time during which Employee is in violation or breach of any such covenant, including any period of time required to obtain injunctive relief from a court requiring Employee to cease and desist such breach.

8. Enforcement

Employee acknowledges that the legal remedy available to Employer for any breach of covenants in this Agreement on the part of Employee may be inadequate, and therefore, in the event of any threatened or actual breach of any term of this Agreement and in addition to any other right or remedy which Employer may have, Employer shall be entitled to specific enforcement of this Agreement through injunctive or other equitable relief in a court with appropriate jurisdiction, without the necessity of posting a bond.

9. Attorneys' Fees and Costs

The Employee shall reimburse the Employer for all costs and expenses, including reasonable attorneys' fees, expert fees, and costs incurred by the Employer in connection with enforcing any provision of this Agreement.

10. Obligations Survive Termination of Employment

Termination of Employee's employment, whether voluntary or involuntary, shall not impair or relieve Employee of any obligations under this Agreement. Employee acknowledges that his/her employment is at will and that nothing in this Agreement shall be considered a contract of employment or in any way alter Employee's at-will status in any manner or respect.

11. Non-Waiver

No failure on the part of either party to require the performance by the other party of any term of this Agreement shall be taken or held to be a waiver of such term or in any way affecting such party's right to enforce such term, and no waiver on the part of either party of any term in this Agreement shall be taken or held to be a waiver of any other term hereof or the breach thereof.

12. Binding Effect

This Agreement may be assigned by Employer without the prior written consent of Employee.

13. Severability

Should any term of this Agreement be found invalid or unenforceable, it shall not affect the validity or enforceability of any other term of this Agreement. If necessary for enforcement of any of the covenants in the Agreement by a court with appropriate jurisdiction, Employee and Employer agree the court is authorized to reduce or modify the covenant as necessary for the maximum enforcement permitted by law.

14. Term of Employment

This Agreement involves no obligations on the part of Employer to employ Employee or upon Employee to accept employment for any definite period of time.

15. Merger

This Agreement supersedes all prior conversations, correspondence, representations, warranties, agreements, and other communications regarding the subject matter hereof. The Recitals are considered a part of this Agreement.

16. Applicable Law

(a) This Agreement shall be in all respects interpreted and construed in accordance with and be governed by the laws of the state of Kansas.

(b) The parties agree that any action at law or in equity relating to this Agreement shall be brought in the federal or state courts within the city of Olathe, KS and the parties consent to and hereby waive any objections to jurisdiction and venue at that location.

Employee hereby acknowledges receipt of a copy of this Agreement.

IN WITNESS to Employee's agreement to all of the above, Employee has executed this Agreement as of the 20th day of January, 2021.

Employee: /s/ Elizabeth A. Thomas

Elizabeth A. Thomas

Position: Chief of Staff

Accepted for Employer:

Signed: /s/ Harry H. Herington

Name: Harry H. Herington

Title: Chief Executive Officer

Attachment I to Employment Agreement

Name: Elizabeth A. Thomas

Position: Chief of Staff

Additional benefits provided to Executive as part of Key Employee Agreement dated January 20, 2021.

Life Insurance

20 year term policy

2x annual salary benefit.

Life-insurance policy premiums will be paid by the Company.

Long Term Disability Coverage

Standard Monthly Benefit \$10,000 (guaranteed for life)

Rider No. 1 \$ 5,000 (guaranteed for life)

Rider No. 2 \$ 2,669 (guaranteed for 3 years, then must reapply)

Total Monthly Benefit \$17,669

In the event the participant is disabled for more than 365 days, Lloyds of London will issue a one-time lump sum payment of \$1,000,000.

Long-term disability policy premiums (for both standard coverage and riders) will be paid by the Company.

Signature of Participant: /s/ Elizabeth A. Thomas

Date: January 20, 2021

SUBSIDIARIES OF THE REGISTRANT¹

<u>NAME OF SUBSIDIARY</u>	<u>JURISDICTION OF INCORPORATION</u>
1. NICUSA, Inc.*	Kansas, U.S.
2. Kansas Information Consortium, LLC**	Kansas, U.S.
3. Indiana Interactive, LLC**	Indiana, U.S.
4. Arkansas Information Consortium, LLC**	Arkansas, U.S.
5. Nebraska Interactive, LLC**	Nebraska, U.S.
6. Virginia Interactive, LLC**	Virginia, U.S.
7. Iowa Interactive, LLC**	Iowa, U.S.
8. Montana Interactive, LLC**	Montana, U.S.
9. Maine Information Network, LLC**	Maine, U.S.
10. Utah Interactive, LLC**	Utah, U.S.
11. Hawaii Information Consortium, LLC**	Hawaii, U.S.
12. Idaho Information Consortium, LLC**	Idaho, U.S.
13. Illinois Interactive, LLC**	Illinois, U.S.
14. NIC Federal, LLC**	Kansas, U.S.
15. National Online Registries, LLC**	Colorado, U.S.
16. Alabama Interactive, LLC**	Alabama, U.S.
17. Kentucky Interactive, LLC**	Kentucky, U.S.
18. NIC Solutions, LLC**	Colorado, U.S.
19. South Carolina Interactive, LLC**	South Carolina, U.S.
20. Colorado Interactive, LLC**	Colorado, U.S.
21. Local Government Online Indiana, LLC**	Indiana, U.S.
22. Vermont Information Consortium, LLC**	Vermont, U.S.
23. Oklahoma Interactive, LLC**	Oklahoma, U.S.
24. Rhode Island Interactive, LLC**	Rhode Island, U.S.
25. NIC Services, LLC*	Colorado, U.S.
26. West Virginia Interactive, LLC**	West Virginia, U.S.
27. Texas NICUSA, LLC**	Texas, U.S.
28. New Mexico Interactive, LLC**	New Mexico, U.S.
29. New Jersey Interactive, LLC**	New Jersey, U.S.
30. Mississippi Interactive, LLC**	Mississippi, U.S.
31. Maryland Interactive, LLC**	Maryland, U.S.
32. Michigan Interactive, LLC**	Michigan, U.S.
33. Oregon Information Consortium, LLC**	Oregon, U.S.
34. Software Exchange, LLC*	Kansas, U.S.
35. Pennsylvania Interactive, LLC**	Pennsylvania, U.S.
36. Wisconsin Interactive Network, LLC**	Wisconsin, U.S.
37. Connecticut Interactive, LLC**	Connecticut, U.S.
38. Louisiana Interactive, LLC**	Louisiana, U.S.
39. NIC Licensing Solutions, LLC**	Colorado, U.S.
40. NIC Iowa, LLC**	Iowa, U.S.
41. NIC Healthcare Solutions, LLC**	Kansas, U.S.

*Wholly owned subsidiary of NIC Inc.

**Wholly owned subsidiary of NICUSA, Inc.

¹ This list may omit the names of certain subsidiaries that, as of December 31, 2020, would not be deemed “significant subsidiaries” as defined in Rule 1-02(w) of Regulation S-X if considered in the aggregate.

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8 No. 333-83171) pertaining to the NIC Inc. Employee Stock Purchase Plan,
- (2) Registration Statement (Form S-8 No. 333-196412, 333-159548 and 333-136016) pertaining to the NIC Inc. 2014 Amended and Restated Stock Compensation Plan (f/k/a the NIC Inc. 2006 Amended and Restated Stock Option and Incentive Plan),

of our reports dated February 25, 2021, with respect to the consolidated financial statements of NIC Inc., and the effectiveness of internal control over financial reporting of NIC Inc., included in this Annual Report (Form 10-K) of NIC Inc. for the year ended December 31, 2020.

/s/ Ernst & Young LLP

Kansas City, Missouri
February 25, 2021

POWER OF ATTORNEY

Each person whose signature appears below, hereby constitutes and appoints Harry H. Herington and Stephen M. Kovzan, and each of them with full power to act without the other, with full power of substitution, as the true and lawful attorneys-in-fact and agents for the undersigned and in the undersigned's name, place and stead, to sign in the name and on behalf of the undersigned the Annual Report on Form 10-K of NIC Inc. for its fiscal year ended December 31, 2020, in the form approved by the undersigned, and any and all amendments thereto, and to file the same, with all exhibits thereto, and any and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents and each of them full power and authority to do and perform each and every act and thing required and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that such attorneys-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Art N. Burtscher</u> Art N. Burtscher	Director	February 1, 2021
<u>/s/ Venmal (Raji) Arasu</u> Venmal (Raji) Arasu	Director	February 1, 2021
<u>/s/ C. Brad Henry</u> C. Brad Henry	Director	February 1, 2021
<u>/s/ Sylvester James, Jr.</u> Sylvester James, Jr.	Director	February 1, 2021
<u>/s/ Alexander C. Kemper</u> Alexander C. Kemper	Director	February 1, 2021
<u>/s/ William M. Lyons</u> William M. Lyons	Director	February 1, 2021
<u>/s/ Anthony Scott</u> Anthony Scott	Director	February 1, 2021
<u>/s/ Jayaprakash Vijayan</u> Jayaprakash Vijayan	Director	February 1, 2021
<u>/s/ Pete Wilson</u> Pete Wilson	Director	February 1, 2021

CERTIFICATION

I, Harry Herington, certify that:

1. I have reviewed this Annual Report on Form 10-K of NIC Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2021

/s/ Harry Herington
Harry Herington
Chief Executive Officer

CERTIFICATION

I, Stephen M. Kovzan, certify that:

1. I have reviewed this Annual Report on Form 10-K of NIC Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2021

/s/ Stephen M. Kovzan
Stephen M. Kovzan
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned Chief Executive Officer and Chief Financial Officer of NIC Inc. (the "Company") each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Annual Report on Form 10-K of the Company for the year ended December 31, 2020 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 25, 2021

/s/ Harry Herington
Harry Herington
Chief Executive Officer

/s/ Stephen M. Kovzan
Stephen M. Kovzan
Chief Financial Officer