

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an 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 is a shell company (as defined in Rule 12b-2 of the Act). Yes No

On October 23, 2020, the registrant had 67,030,645 shares of common stock outstanding.

NIC INC.
Form 10-Q for the Quarter Ended September 30, 2020
Table of Contents

	Page	
PART I - FINANCIAL INFORMATION		
Item 1.	Financial Statements (unaudited)	3
	Consolidated Balance Sheets	3
	Consolidated Statements of Income	4
	Consolidated Statements of Changes in Stockholders' Equity	5
	Consolidated Statements of Cash Flows	7
	Notes to Unaudited Consolidated Financial Statements	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	28
Item 4.	Controls and Procedures	28
PART II - OTHER INFORMATION		
Item 1.	Legal Proceedings	29
Item 1A.	Risk Factors	29
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	30
Item 5.	Other Information	31
Item 6.	Exhibits	33
	Signatures	34

PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

ASSETS	September 30, 2020	December 31, 2019
Current assets:		
Cash	\$ 235,348	\$ 214,380
Trade accounts receivable, net	139,044	85,399
Prepaid expenses & other current assets	18,649	12,944
Total current assets	393,041	312,723
Property and equipment, net	10,107	10,091
Right of use lease assets, net	11,293	10,778
Intangible assets, net	21,426	22,398
Goodwill	5,965	5,965
Other assets	1,608	404
Total assets	\$ 443,440	\$ 362,359
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 79,698	\$ 63,685
Accrued expenses	53,525	25,940
Lease liabilities	4,110	3,776
Other current liabilities	11,998	7,191
Total current liabilities	149,331	100,592
Deferred income taxes, net	2,295	2,463
Lease liabilities	7,618	7,373
Other long-term liabilities	4,854	6,003
Total liabilities	164,098	116,431
Commitments and contingencies (Notes 2, 3 and 6)	—	—
Stockholders' equity:		
Common stock, \$0.0001 par, 200,000 shares authorized, 67,026 and 66,968 shares issued and outstanding	7	7
Additional paid-in capital	127,358	123,208
Retained earnings	151,977	122,713
Total stockholders' equity	279,342	245,928
Total liabilities and stockholders' equity	\$ 443,440	\$ 362,359

See accompanying notes to unaudited consolidated financial statements.

NIC INC.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
thousands except per share amounts

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues:				
State enterprise revenues	\$ 91,475	\$ 73,257	\$ 243,690	\$ 217,981
Software & services revenues	43,115	17,128	75,608	49,151
Total revenues	<u>134,590</u>	<u>90,385</u>	<u>319,298</u>	<u>267,132</u>
Operating expenses:				
State enterprise cost of revenues, exclusive of depreciation & amortization	53,807	43,821	145,954	130,881
Software & services cost of revenues, exclusive of depreciation & amortization	31,290	10,173	52,359	30,094
Selling & administrative	8,817	8,153	25,196	26,473
Enterprise technology & product support	7,342	6,743	21,797	19,933
Depreciation & amortization	3,528	3,524	10,483	9,075
Total operating expenses	<u>104,784</u>	<u>72,414</u>	<u>255,789</u>	<u>216,456</u>
Operating income	29,806	17,971	63,509	50,676
Other income:				
Interest income	—	729	389	1,910
Income before income taxes	29,806	18,700	63,898	52,586
Income tax provision	4,715	4,190	13,148	12,113
Net income	<u>\$ 25,091</u>	<u>\$ 14,510</u>	<u>\$ 50,750</u>	<u>\$ 40,473</u>
Basic net income per share	<u>\$ 0.37</u>	<u>\$ 0.21</u>	<u>\$ 0.75</u>	<u>\$ 0.60</u>
Diluted net income per share	<u>\$ 0.37</u>	<u>\$ 0.21</u>	<u>\$ 0.75</u>	<u>\$ 0.60</u>
Weighted average shares outstanding:				
Basic	<u>67,025</u>	<u>66,960</u>	<u>67,004</u>	<u>66,858</u>
Diluted	<u>67,025</u>	<u>66,960</u>	<u>67,004</u>	<u>66,858</u>

See accompanying notes to unaudited consolidated financial statements.

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

Nine Months Ended September 30, 2020

	Common Stock		Additional Paid-in Capital	Retained Earnings	Total
	Shares	Amount			
Balance, January 1, 2020	66,968	\$ 7	\$ 123,208	\$ 122,713	\$ 245,928
Net cumulative effect of adoption of accounting standard (Note 2)	—	—	—	339	339
Net income	—	—	—	11,863	11,863
Dividends declared	—	—	—	(6,105)	(6,105)
Dividend equivalents on unvested performance-based restricted stock awards	—	—	35	(35)	—
Dividend equivalents canceled upon forfeiture of performance-based restricted stock awards	—	—	(84)	84	—
Restricted stock vestings	228	—	—	—	—
Shares surrendered and canceled upon vesting of restricted stock to satisfy tax withholdings	(91)	—	(1,865)	—	(1,865)
Repurchase of shares	(241)	—	(439)	(3,505)	(3,944)
Stock-based compensation	—	—	1,319	—	1,319
Issuance of common stock under employee stock purchase plan	104	—	1,509	—	1,509
Balance, March 31, 2020	66,968	7	123,683	125,354	249,044
Net income	—	—	—	13,796	13,796
Dividends declared	—	—	—	(6,097)	(6,097)
Dividend equivalents on unvested performance-based restricted stock awards	—	—	35	(35)	—
Restricted stock vestings	53	—	—	—	—
Shares surrendered and canceled upon vesting of restricted stock to satisfy tax withholdings	(2)	—	(53)	—	(53)
Stock-based compensation	—	—	1,739	—	1,739
Balance, June 30, 2020	67,019	7	125,404	133,018	258,429
Net income	—	—	—	25,091	25,091
Dividends declared	—	—	—	(6,097)	(6,097)
Dividend equivalents on unvested performance-based restricted stock awards	—	—	35	(35)	—
Restricted stock vestings	11	—	—	—	—
Shares surrendered and canceled upon vesting of restricted stock to satisfy tax withholdings	(4)	—	(79)	—	(79)
Stock-based compensation	—	—	1,998	—	1,998
Balance, September 30, 2020	67,026	\$ 7	\$ 127,358	\$ 151,977	\$ 279,342

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

	Nine Months Ended September 30, 2019				
	Common Stock		Additional Paid-in Capital	Retained Earnings	Total
	Shares	Amount			
Balance, January 1, 2019	66,569	\$ 7	\$ 117,763	\$ 93,919	\$ 211,689
Net income	—	—	—	11,502	11,502
Dividends declared	—	—	—	(5,402)	(5,402)
Dividend equivalents on unvested performance-based restricted stock awards	—	—	27	(27)	—
Dividend equivalents canceled upon forfeiture of performance-based restricted stock awards	—	—	(122)	122	—
Restricted stock vestings	364	—	—	—	—
Shares surrendered and canceled upon vesting of restricted stock to satisfy tax withholdings	(153)	—	(2,609)	—	(2,609)
Stock-based compensation	—	—	2,272	—	2,272
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, March 31, 2019	66,911	7	118,774	100,114	218,895
Net income	—	—	—	14,460	14,460
Dividends declared	—	—	—	(5,416)	(5,416)
Dividend equivalents on unvested performance-based restricted stock awards	—	—	27	(27)	—
Restricted stock vestings	47	—	—	—	—
Shares surrendered and canceled upon vesting of restricted stock to satisfy tax withholdings	(2)	—	(28)	—	(28)
Stock-based compensation	—	—	1,431	—	1,431
Balance, June 30, 2019	66,956	7	120,204	109,131	229,342
Net income	—	—	—	14,510	14,510
Dividends declared	—	—	—	(5,416)	(5,416)
Dividend equivalents on unvested performance-based restricted stock awards	—	—	27	(27)	—
Restricted stock vestings	8	—	—	—	—
Shares surrendered and canceled upon vesting of restricted stock to satisfy tax withholdings	(3)	—	(49)	—	(49)
Stock-based compensation	—	—	1,524	—	1,524
Balance, September 30, 2019	66,961	\$ 7	\$ 121,706	\$ 118,198	\$ 239,911

See accompanying notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
	2020	2019
Cash flows from operating activities:		
Net income	\$ 50,750	\$ 40,473
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	10,483	9,075
Stock-based compensation expense	5,056	5,227
Deferred income taxes	(285)	1,464
Provision for losses on accounts receivable	1,135	409
Changes in operating assets and liabilities:		
Trade accounts receivable, net	(54,324)	(25,135)
Prepaid expenses & other current assets	(5,705)	761
Other assets	2,212	3,333
Accounts payable	16,013	24,700
Accrued expenses	27,585	1,554
Other current liabilities	3,977	2,052
Other long-term liabilities	(3,671)	(5,211)
Net cash provided by operating activities	<u>53,226</u>	<u>58,702</u>
Cash flows from investing activities:		
Capital expenditures	(2,956)	(3,483)
Capitalized software development costs	(6,572)	(6,679)
Business combination	—	(10,000)
Asset acquisition	—	(3,486)
Net cash used in investing activities	<u>(9,528)</u>	<u>(23,648)</u>
Cash flows from financing activities:		
Cash dividends on common stock	(18,299)	(16,234)
Proceeds from employee common stock purchases	1,509	1,443
Shares surrendered upon vesting of restricted stock to satisfy tax withholdings	(1,996)	(2,686)
Repurchase of shares	(3,944)	—
Net cash used in financing activities	<u>(22,730)</u>	<u>(17,477)</u>
Net increase in cash	20,968	17,577
Cash, beginning of period	214,380	191,700
Cash, end of period	<u>\$ 235,348</u>	<u>\$ 209,277</u>
Other cash flow information:		
Non-cash activities:		
Contingent consideration - business combination	\$ —	\$ 960
Cash payments:		
Income taxes paid, net	\$ 12,867	\$ 12,283

See accompanying notes to unaudited consolidated financial statements.

NIC INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. THE COMPANY

NIC Inc., together with its subsidiaries (the "Company" or "NIC") is a leading provider of digital government services that help governments use technology to provide a higher level of service to businesses and citizens and increase efficiencies. The Company primarily accomplishes this through two channels: its state enterprise businesses and its software & services businesses.

In the Company's state enterprise businesses, it generally designs, builds, and operates 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 digital channels. These digital government services consist of websites and applications the Company has built that allow consumers, such as businesses and citizens, to access government information, complete transactions and make electronic 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 payment processing services, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the U.S. ("U.S. GAAP"). The consolidated financial statements include all the Company's direct and indirect wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

Pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"), certain information and note disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. In the opinion of management, the unaudited consolidated financial statements contain all adjustments (consisting of normal and recurring adjustments) necessary to fairly present the consolidated financial position and the results of operations, changes in stockholders' equity and cash flows of the Company as of the dates and for the interim periods presented. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2019, including the notes thereto, set forth in the Company's 2019 Annual Report on Form 10-K.

Certain amounts in the consolidated statements of income for the three and nine months ended September 30, 2019 were reclassified to conform to the current year presentation. In 2020, the Company began classifying its Texas payment processing contract in the software & services category. The Company reclassified \$7.8 million and \$23.2 million of revenues for the three and nine months ended September 30, 2019, respectively, and \$6.6 million and \$20.5 million of cost of revenues for the three and nine months ended September 30, 2019, respectively, from this contract from the state enterprise category to the software & services category. The reclassification had no impact on net income or cash flows for the periods ended September 30, 2019.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the unaudited consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2020.

Recently issued accounting pronouncements

Credit Losses

In June 2016, the FASB issued 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.

Revenue recognition

The Company accounts for revenue in accordance with Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers*. 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.

Disaggregation of Revenue

The Company currently earns revenues from three main sources: (i) transaction-based fees, which consist of interactive government services ("IGS"), driver history records ("DHR") and other transaction-based revenues, (ii) development services and (iii) fixed-fee services.

The following table summarizes, by reportable and operating segment, the principal activities from which the Company generates revenue for the three months ended September 30 (in thousands):

2020	State Enterprise	Payments	All Other	Consolidated Total
IGS	\$ 58,192	\$ —	\$ —	\$ 58,192
DHR	21,716	—	—	21,716
Other	—	11,266	5,784	17,050
Total transaction-based	79,908	11,266	5,784	96,958
Development services	10,329	—	—	10,329
Fixed-fee services	1,238	—	26,065	27,303
Total revenues	\$ 91,475	\$ 11,266	\$ 31,849	\$ 134,590

2019	State Enterprise	Payments	All Other	Consolidated Total
IGS	\$ 46,480	\$ —	\$ —	\$ 46,480
DHR	23,076	—	—	23,076
Other	—	9,736	5,890	15,626
Total transaction-based	69,556	9,736	5,890	85,182
Development services	2,463	—	—	2,463
Fixed-fee services	1,238	—	1,502	2,740
Total revenues	\$ 73,257	\$ 9,736	\$ 7,392	\$ 90,385

The following table summarizes, by reportable and operating segment, the principal activities from which the Company generates revenue for the nine months ended September 30 (in thousands):

2020	State Enterprise	Payments	All Other	Consolidated Total
IGS	\$ 156,436	\$ —	\$ —	\$ 156,436
DHR	65,172	—	—	65,172
Other	—	30,996	16,087	47,083
Total transaction-based	221,608	30,996	16,087	268,691
Development services	18,369	—	—	18,369
Fixed-fee services	3,713	—	28,525	32,238
Total revenues	\$ 243,690	\$ 30,996	\$ 44,612	\$ 319,298

2019	State Enterprise	Payments	All Other	Consolidated Total
IGS	\$ 136,826	\$ —	\$ —	\$ 136,826
DHR	70,158	—	—	70,158
Other	—	28,973	17,420	46,393
Total transaction-based	206,984	28,973	17,420	253,377
Development services	7,284	—	—	7,284
Fixed-fee services	3,713	—	2,758	6,471
Total revenues	\$ 217,981	\$ 28,973	\$ 20,178	\$ 267,132

Transaction-based Revenues

Under the majority of contracts with its government partners, the Company agrees to provide continuous access to digital government services that allow consumers to complete secure transactions, such as applying for a permit, retrieving government records, or filing a government-mandated form or report, in exchange for transaction-based fees. The Company satisfies its performance obligation by providing access to applications over the contractual term and by processing transactions as they are initiated by consumers. The performance obligation is satisfied when the Company provides the access and it is used by the consumer.

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. These contracts are generally not longer than one year in duration. For services provided under development contracts, the performance obligation is either satisfied over time or at a point in time upon customer acceptance. 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.

Under its development services contracts, the Company typically does not have significant future performance obligations that extend beyond one year. As of September 30, 2020, the total transaction price allocated to unsatisfied performance obligations was approximately \$6.5 million.

Fixed-fee Services Revenues

Fixed-fee services revenues primarily consist of state enterprise revenues from providing recurring fixed fee digital government services to the Company's government partner in Indiana, contracts for the Company's new TourHealth services for rapid and secure COVID-19 testing with Next Marketing and Impact Health, which commenced in August 2020 and other contracts for software-as-a-service ("SaaS") subscription-based services in the Company's software & services businesses. As of September 30, 2020, the Company's Indiana contract had unsatisfied performance obligations for one month. The total transaction price allocated to the unsatisfied performance obligation is not significant. TourHealth services contracts are a fixed-

fee single performance obligation to provide continuous access to COVID-19 testing services. As of September 30, 2020, the unsatisfied performance obligations related to these contracts was \$12.8 million which is expected to be recognized during the fourth quarter of 2020.

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. As of September 30, 2020, the unsatisfied performance obligations related to these contracts was \$ 18.6 million, which will be recognized over the term of such contracts, generally one - five years.

Unearned Revenues

Unearned revenues at September 30, 2020 and December 31, 2019 were approximately \$8.9 million and \$3.8 million, respectively. The change in the deferred revenue balance for the nine months ended September 30, 2020 was primarily driven by \$27.6 million of cash payments received or due in advance of satisfying the Company's performance obligations, offset by \$22.5 million of revenues recognized that were previously included in deferred revenue.

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 September 30, 2020 and December 31, 2019 was approximately \$1.9 million and \$1.2 million, respectively.

3. 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 generally to design, build, and operate digital government services on an enterprise-wide basis on behalf of government entities desiring to provide access to government information and to digitally complete government-based transactions and payments. NIC typically markets the services and solicits 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 development 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 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. In addition, 15 contracts under which the Company provides enterprise-wide digital government services, as well as the Company's contract with the Federal Motor Carrier Safety Administration ("FMCSA"), can be terminated by the other party without cause on a specified period of notice. Collectively, revenues generated from these contracts represented approximately 45% and 52% of the Company's total consolidated revenues for the three and nine months ended September 30, 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.

Under a typical state enterprise contract, the Company is required to fully indemnify its government partners 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 contracts

The Company's software & service contracts generally consist of 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. 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 partners for which the Company is responsible for a new rapid and secure COVID-19 testing solution with Next Marketing and Impact Health referred to as TourHealth, featuring digital engagement, assessment and scheduling, as well as in-person clinical testing and logistics.

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 September 30, 2020. Collectively, revenues generated from these contracts represented approximately 28% and 33% of the Company's total consolidated revenues for the three and nine months ended September 30, 2020. Although six of these state enterprise contracts have renewal provisions, any renewal is at the option of the Company's government partner. As described above, if a state enterprise 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.

Performance Bond Commitments

At September 30, 2020, the Company was bound by performance bond commitments totaling approximately \$25.2 million on certain government contracts and other business relationships.

4. EARNINGS PER SHARE

Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of earnings per share pursuant to the two-class method for all periods presented. 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. The Company's service-based restricted stock awards contain non-forfeitable rights to dividends and are participating securities. Accordingly, service-based restricted stock awards were included in the calculation of earnings per share using the two-class method for all periods presented. Unvested service-based restricted shares totaled 0.7 million for both the three and nine months ended September 30, 2020 and 2019. 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.

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Numerator:				
Net income	\$ 25,091	\$ 14,510	\$ 50,750	\$ 40,473
Less: Income allocated to participating securities	(266)	(156)	(544)	(443)
Net income available to common stockholders	<u>\$ 24,825</u>	<u>\$ 14,354</u>	<u>\$ 50,206</u>	<u>\$ 40,030</u>
Denominator:				
Weighted average shares - basic	67,025	66,960	67,004	66,858
Performance-based restricted stock awards	—	—	—	—
Weighted average shares - diluted	<u>67,025</u>	<u>66,960</u>	<u>67,004</u>	<u>66,858</u>
Basic net income per share:	<u>\$ 0.37</u>	<u>\$ 0.21</u>	<u>\$ 0.75</u>	<u>\$ 0.60</u>
Diluted net income per share:	<u>\$ 0.37</u>	<u>\$ 0.21</u>	<u>\$ 0.75</u>	<u>\$ 0.60</u>

5. STOCKHOLDERS' EQUITY

The Company's Board of Directors declared and paid the following dividends during the three and nine months ended September 30, 2020 and 2019 (payment amount in millions):

Declaration Date	Dividend per Share	Record Date	Payment Date	Payment Amount
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
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 October 26, 2020, the Company's Board of Directors declared a regular quarterly cash dividend of \$0.09 per share, payable to stockholders of record as of December 4, 2020. The dividend, which is expected to total approximately \$6.1 million, will be paid on December 18, 2020, out of the Company's available cash.

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.

6. INCOME TAXES

The Company's effective tax rate was 15.8% and 20.6% for the three and nine months ended September 30, 2020, respectively, compared to 22.4% and 23.0% for the three and nine months ended September 30, 2019, respectively. The Company's effective tax rate for the three and nine months ended September 30, 2020 was lower than the federal statutory rate of 21% primarily due to the favorable impact of the release of reserves for unrecognized income tax benefits resulting from expiration of the statutes of limitations for certain tax years and other favorable tax adjustments recognized upon filing of the Company's 2019 tax return. The Company's effective tax rate for the three and nine months ended September 30, 2019 was higher than the federal statutory rate primarily due to the effect of state income taxes partially offset by the favorable impact of the release of reserves for unrecognized income tax benefits resulting from expiration of the statutes of limitations for certain tax years. For the nine months ended September 30, 2019, the effective tax rate was also impacted by approximately \$2.6 million of executive severance costs incurred in the first quarter of 2019, as previously disclosed, a significant portion of which was not deductible for income tax purposes.

7. STOCK BASED COMPENSATION

During the nine months ended September 30, 2020, the Compensation Committee of the Board of Directors of the Company granted to certain management-level employees and executive officers, service-based restricted stock awards totaling 280,789 shares with a grant-date fair value totaling approximately \$5.8 million. Such restricted stock awards vest beginning one year from the date of grant in annual installments of 25%. During the nine months ended September 30, 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, during the nine months ended September 30, 2020, non-employee directors of the Company were granted service-based restricted stock awards totaling 34,607 shares with a grant-date fair value of approximately \$0.8 million. Such restricted stock awards vest one year from the date of grant. Restricted stock is valued at the date of grant, based on the closing market price of the Company's common stock, and expensed using the straight-line method over the requisite service period (generally the vesting period of the award). The Company records forfeitures when they occur.

During the nine months ended September 30, 2020, the Compensation Committee of the Board of Directors of the Company granted performance-based restricted stock awards to certain executive officers 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. This 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 on 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 on 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 the shares are paid 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 on the actual number of underlying shares earned during the performance period.

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 in the first quarter of 2020.

Stock-based compensation cost for performance-based restricted stock awards is measured at the grant date based on the fair value of shares expected to be earned at the end of the performance period and is recognized as expense over the performance period based on the probable number of shares expected to vest.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
State enterprise cost of revenues, exclusive of depreciation & amortization	\$ 409	\$ 370	\$ 1,167	\$ 1,127
Software & services cost of revenues, exclusive of depreciation & amortization	46	19	115	75
Selling & administrative	1,329	951	3,185	3,523
Enterprise technology & product support	214	184	589	502
Total stock-based compensation expense	\$ 1,998	\$ 1,524	\$ 5,056	\$ 5,227

8. REPORTABLE SEGMENT AND RELATED INFORMATION

Beginning in the first quarter of 2020, the Company determined that it has two reportable segments: 1) State Enterprise and 2) Payments. Prior to the first quarter of 2020, the Company had one reportable segment: State Enterprise. The change from one to two reportable segments was based on quantitative and qualitative considerations, and was a result of recent changes in the Company's reporting structure to reclassify the current Texas payment processing contract from the state enterprise category to the software & services category. The revised reportable segments reflect the way the Company evaluates its business performance and manages its operations. All prior year amounts have been restated to conform to the current year presentation.

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 to state and local government agencies in states where the Company does not maintain an enterprise-wide contract and to a few private sector entities. 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, NIC Licensing Solutions regulatory licensing business and new TourHealth rapid COVID-19 testing solution with Next Marketing and Impact Health, which commenced in August 2020. Each of the Company's businesses within the All Other category is an operating segment and has been grouped together to form the All Other category, as none of the operating segments meet the quantitative threshold of a separately reportable segment. There have been no significant intersegment transactions for the periods reported. The summary of significant accounting policies applies to all operating segments.

The measure of profitability by which management, including the Company's Chief Operating Decision Maker ("CODM"), evaluates the performance of its operating 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 three months ended September 30 (in thousands):

	State Enterprise	Payments	All Other	Other Reconciling Items	Consolidated Total
2020					
Revenues	\$ 91,475	\$ 11,266	\$ 31,849	\$ —	\$ 134,590
Costs & expenses	53,807	8,788	22,502	16,159	101,256
Depreciation & amortization	653	1	1,150	1,724	3,528
Operating income (loss)	<u>\$ 37,015</u>	<u>\$ 2,477</u>	<u>\$ 8,197</u>	<u>\$ (17,883)</u>	<u>\$ 29,806</u>
2019					
Revenues	\$ 73,257	\$ 9,736	\$ 7,392	\$ —	\$ 90,385
Costs & expenses	43,821	7,271	2,902	14,896	68,890
Depreciation & amortization	721	—	359	2,444	3,524
Operating income (loss)	<u>\$ 28,715</u>	<u>\$ 2,465</u>	<u>\$ 4,131</u>	<u>\$ (17,340)</u>	<u>\$ 17,971</u>

The table below reflects summarized financial information for the Company's reportable segments for the nine months ended September 30 (in thousands):

	<u>State Enterprise</u>	<u>Payments</u>	<u>All Other</u>	<u>Other Reconciling Items</u>	<u>Consolidated Total</u>
2020					
Revenues	\$ 243,690	\$ 30,996	\$ 44,612	\$ —	\$ 319,298
Costs & expenses	145,954	24,331	28,028	46,993	245,306
Depreciation & amortization	2,035	4	3,335	5,109	10,483
Operating income (loss)	<u>\$ 95,701</u>	<u>\$ 6,661</u>	<u>\$ 13,249</u>	<u>\$ (52,102)</u>	<u>\$ 63,509</u>
2019					
Revenues	\$ 217,981	\$ 28,973	\$ 20,178	\$ —	\$ 267,132
Costs & expenses	130,881	22,508	7,586	46,406	207,381
Depreciation & amortization	2,005	2	576	6,492	9,075
Operating income (loss)	<u>\$ 85,095</u>	<u>\$ 6,463</u>	<u>\$ 12,016</u>	<u>\$ (52,898)</u>	<u>\$ 50,676</u>

The Company's new TourHealth software & services contract with the state of Florida accounted for approximately 18% of the Company's total consolidated revenues for the three months ended September 30, 2020. The Company's state enterprise contract with the state of Colorado accounted for approximately 10% of the Company's total consolidated revenues for the three and nine months ended September 30, 2019. No other customer accounted for more than 10% of the Company's total consolidated revenues for any period presented.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section should be read in conjunction with our Unaudited Consolidated Financial Statements and the related Notes included in this Quarterly Report on Form 10-Q.

CAUTION ABOUT FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report on Form 10-Q 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 of 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 Quarterly Report on Form 10-Q and in our 2019 Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on February 20, 2020.

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 effects the COVID-19 pandemic may have on continued demand for and profitability of the Company's services, including our COVID-19 testing solution, as well as on our government agency partners, workforce and citizen consumers, as discussed under "RISK FACTORS" in Part II, Item 1A of this Quarterly Report on Form 10-Q, and the other factors under "RISK FACTORS" in Part I, Item 1A and "Cautions About Forward Looking Statements" in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of NIC's 2019 Annual Report on Form 10-K filed on February 20, 2020 with the SEC. Investors should read all of these discussions of risks carefully.

All forward-looking statements made in this Quarterly Report on Form 10-Q speak only as of the date of this report. Except as may be required by applicable law, we will not update the information in this Quarterly Report on Form 10-Q 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 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 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 billions of dollars of secure transactions and payments annually. We are typically responsible for funding 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 fees collected from digital government transactions. Our government partners benefit because they reduce their financial and technological risks, increase their

operational efficiencies, avoid costs, 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 preliminarily establish the pricing of the services we provide (i.e. data access, transaction processing and payment processing services) 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 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 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 software-as-a-service (“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. In our state enterprise business, we also enter into contracts to provide software development and management services to governments in exchange for agreed-upon fees.

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 transaction processing contracts, SaaS contracts and, to a lesser degree, software development contracts.

In fiscal year 2019, businesses and citizens completed over \$22 billion in secure transactions and payments through the digital services we operate on behalf of our government partners in our state enterprise and software & services businesses.

For additional information on our government contracts, refer to Note 3, Government Contracts, in Part I, Item 1 of this Quarterly Report on Form 10-Q. The loss of a contract due to the expiration, termination or failure to renew the contract, if not replaced, could significantly reduce our revenues and profitability. In addition, 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 our contracts.

SEGMENT INFORMATION

Beginning in the first quarter of 2020, the Company determined that it has two reportable segments: 1) State Enterprise and 2) Payments. Previously, we had one reportable segment, State Enterprise. The change from one to two reportable segments 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. The revised segments reflect the way the Company evaluates its business performance and manages its 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 provide certain payment processing-related, transaction-based services to state and local agencies in states where we do not maintain an enterprise-wide contract and to a few private sector 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 8, Reportable Segment and Related Information, in the Notes to Unaudited Consolidated Financial Statements.

REVENUES

In our consolidated statements of income, 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 that 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 services revenues are generally recurring while development services revenues are generally non-recurring. 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 business users and 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 our 2019 Annual Report on Form 10-K, filed with the SEC on February 20, 2020.
DHR: fees from 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.
- **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 payment processing services, 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 and government-related entities. Our Software & Services revenues are mainly transaction-based and classified as payments, TourHealth, federal 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 Department of Transportation's Federal Motor Carrier Safety Administration ("FMCSA") to manage the Pre-Employment Screening Program ("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:** primarily fixed-fee revenues from contracts pertaining to our new TourHealth solution, which utilizes our technology to provide rapid, on-site, turnkey services for COVID-19 testing. Our TourHealth offering began to generate revenues in August 2020. TourHealth has not contracted for services beyond 2020, but it is possible services will continue into 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: This consists of all direct costs associated with providing digital government services for both the state enterprise and software & services businesses and excludes depreciation and amortization. We categorize costs 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, travel, 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 digital 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 payment 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 and cash flow growth.

Selling & Administrative: This category consists primarily of corporate-level expenses (including all forms of compensation and benefits) relating to market development and sales, human resource management, marketing, 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 and security teams that support our centrally-hosted data center infrastructure and centrally-developed payment processing solutions, government agency vertical products, including outdoor recreation, healthcare and regulatory licensing, and other 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 assets purchased as part of acquisitions.

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 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 quarter 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, on-site, turnkey solution for COVID-19 testing. In the third quarter of 2020, TourHealth provided testing services for the state of Florida, the Alabama Department of Corrections and the University of Mississippi, which positively impacted our financial results for the quarter. In addition, we have agreements in place to provide services, if selected among other vendors, in South Carolina, Nevada and Utah.

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, 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 II, Item 1A of this report for additional discussion of the risks associated with the COVID-19 pandemic and those "Risk Factors" described in Part I, Item 1A in our Annual Report on Form 10-K filed on February 20, 2020 with the SEC for those risks related to a prolonged economic slowdown, among other risk factors.

RESULTS OF OPERATIONS

The discussion below focuses on our consolidated results of operations for the three and nine months ended September 30, 2020, compared to the three and nine months ended September 30, 2019.

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 comparative prior year period:

(dollar amounts in thousands)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020	2019	Change	% Change	2020	2019	Change	% Change
State enterprise revenues	\$ 91,475	\$ 73,257	\$ 18,218	25%	\$ 243,690	\$ 217,981	\$ 25,709	12%
Software & services revenues	43,115	17,128	25,987	152%	75,608	49,151	26,457	54%
Total	<u>\$ 134,590</u>	<u>\$ 90,385</u>	<u>\$ 44,205</u>	49%	<u>\$ 319,298</u>	<u>\$ 267,132</u>	<u>\$ 52,166</u>	20%
Recurring revenues as % of total revenues	74%	97%			86%	97%		

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 comparative prior year period:

(dollar amounts in thousands)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020	2019	Change	% Change	2020	2019	Change	% Change
IGS transaction-based	\$ 58,192	\$ 46,480	\$ 11,712	25%	\$ 156,436	\$ 136,826	\$ 19,610	14%
DHR transaction-based	21,716	23,076	(1,360)	(6)%	65,172	70,158	(4,986)	(7)%
Development services	10,329	2,463	7,866	319%	18,369	7,284	11,085	152%
Fixed-fee services	1,238	1,238	—	—%	3,713	3,713	—	—%
Total	\$ 91,475	\$ 73,257	\$ 18,218	25%	\$ 243,690	\$ 217,981	\$ 25,709	12%

The following table summarizes key financial metrics for state enterprise revenues. For the three and nine months ended September 30, 2020, the results of the Illinois contract were excluded from the same-state category because it did not generate comparable revenues for two full comparable periods.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Same-state IGS revenue growth	25 %	17 %	14 %	16 %
Same-state DHR revenue growth (decline)	(6)%	2 %	(7)%	3 %
Same-state revenue growth - other services*	225 %	9 %	106 %	3 %
Same-state revenue growth - total	25 %	12 %	12 %	11 %

* Represents the combined growth of development services and fixed-fee services revenues.

State enterprise revenues for the three months ended September 30, 2020 increased 25% from the comparable prior year period driven by a 25% increase in same-state revenues, including a 25% increase in same-state IGS revenues and a significant increase in development services revenues primarily related to pandemic unemployment services provided to the Commonwealth of Virginia, which contributed revenues of \$7.6 million for the quarter. These increases were partially offset by a 6% decline in same-state DHR revenues.

The 25% increase in same-state revenues for the three months ended September 30, 2020 was mainly due to higher revenues in Virginia, New Jersey, Wisconsin, Colorado and South Carolina, among other states. Same-state IGS revenues increased 25% for the three months ended September 30, 2020 due, in part, to higher DMV-related revenues across several states, including the new motor vehicle titling and registration service in Wisconsin, which launched in the fourth quarter of 2019, higher revenues from tax-related services, and to strong demand for hunting and fishing licensing services in several states, among other services. In addition, the pandemic and the need to socially distance pushed more businesses and citizens online to interact with government digitally, instead of in line in government offices, which increased the usage of many digital services we manage on behalf of our government partners. Same-state IGS revenues increased 33% in July, as pandemic-related extensions of deadlines granted by our government partners for certain required filings and renewals expired, 22% in August and 21% in September. Same-state DHR revenues declined 6% for the three months ended September 30, 2020 due to lower volumes across several states, which was most significant in July and August, as a result of the impact of COVID-19 on the auto insurance industry and associated data resellers, resulting in lower volumes from these entities, who are the primary customers of state motor vehicle driving records. Same-state DHR revenues declined 7%, 9% and 1% in the months of July, August and September of 2020, respectively. Same-state revenue growth for other services increased 225% for the three months ended September 30, 2020 primarily due to pandemic unemployment services provided to the Commonwealth of Virginia.

State enterprise revenues for the nine months ended September 30, 2020 increased 12% from the comparable prior year period driven by a 12% increase in same-state revenues, including a 14% increase in same-state IGS revenues and a significant increase in development services revenues primarily related to pandemic unemployment services provided to the Commonwealth of Virginia, which contributed revenues of \$11.1 million for the nine months ended September 30, 2020. These increases were partially offset by a 7% decline in same-state DHR revenues.

The 12% increase in same-state revenues for the nine months ended September 30, 2020 was mainly due to higher revenues in Virginia, Wisconsin, New Jersey and Arkansas, among other states. Same-state IGS revenues increased 14% for the nine months ended September 30, 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 government digitally, instead of in line in government offices, which increased the usage of many digital services we manage on behalf of our government partners. Same-state DHR revenues declined 7% for the nine months ended September 30, 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, as discussed above. Same-state revenue growth for other services increased 106% for the nine months ended September 30, 2020 primarily due to pandemic unemployment services provided to the Commonwealth of Virginia.

Software & Services Revenues

In the table below, we have categorized our software & services revenues by key business categories, with the corresponding percentage change from the comparative prior year period:

(dollar amounts in thousands)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020	2019	Change	% Change	2020	2019	Change	% Change
Payments	\$ 11,266	\$ 9,736	\$ 1,530	16%	\$ 30,996	\$ 28,973	\$ 2,023	7%
Federal	5,784	5,890	(106)	(2)%	16,087	17,420	(1,333)	(8)%
TourHealth	24,810	—	24,810	N/A	24,810	—	24,810	N/A
Other	1,255	1,502	(247)	(16)%	3,715	2,758	957	35%
Total	\$ 43,115	\$ 17,128	\$ 25,987	152%	\$ 75,608	\$ 49,151	\$ 26,457	54%

Software & services revenues for the three months ended September 30, 2020 increased 152%, or approximately \$26.0 million, from the comparable prior year period. The increase was primarily driven by revenues from our new TourHealth solution, which commenced in August 2020, and provided COVID-19 testing services to the state of Florida, the Alabama Department of Corrections and the University of Mississippi during the third quarter. The increase in software & services revenues was also driven by higher volumes from our subcontracting relationship with Booz Allen Hamilton on its Recreation.gov contract as many federal parks reopened after stay-at-home orders instituted in the early months of the pandemic were lifted starting in June 2020. On a year over year basis, our revenues related to the Recreation.gov subcontract were up 90% in July 2020, 94% in August 2020 and 100% in September 2020. We also saw a 16% increase in our payments business, primarily related to our Texas payments contract. These increases were partially offset by a decrease in volumes from our contract with the FMCSA for the federal PSP service due to decreased demand from the trucking industry resulting from the COVID-19 pandemic. PSP revenues declined 15% in the third quarter of 2020. On a monthly basis, PSP revenues declined 18%, 15% and 10% in the months of July, August and September of 2020, respectively.

Software & services revenues for the nine months ended September 30, 2020 increased 54%, or approximately \$26.5 million, over the comparable prior year period and was primarily driven by an increase in revenues from TourHealth, as described above along with higher volumes in our payments business. This increase was partially offset by a decrease in volumes from our contract with the FMCSA due to decreased demand from the trucking industry for the PSP service resulting from the COVID-19 pandemic.

State Enterprise Cost of Revenues and Gross Profit Margin

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 comparative prior year period:

(dollar amounts in thousands)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020	2019	Change	% Change	2020	2019	Change	% Change
Fixed costs	\$ 30,219	\$ 24,604	\$ 5,615	23%	\$ 83,434	\$ 73,786	\$ 9,648	13%
Variable costs	23,588	19,217	4,371	23%	62,520	57,095	5,425	10%
Total	\$ 53,807	\$ 43,821	\$ 9,986	23%	\$ 145,954	\$ 130,881	\$ 15,073	12%

The increase in fixed costs for the three and nine months ended September 30, 2020 was primarily attributable to higher costs in Virginia for call center subcontractors required for pandemic unemployment services. The increase in variable costs for the three and nine months ended September 30, 2020 was primarily attributable to an increase in credit card interchange fees associated with higher IGS payment processing revenues in several states, most notably in New Jersey, South Carolina and Colorado.

State enterprise gross profit percentage was 41% for the three months ended September 30, 2020 and 40% for the nine months ended September 30, 2020 compared to 40% for the three and nine months ended September 30, 2019. We carefully monitor our state enterprise gross profit percentage to strike a balance between generating a solid return for our stockholders and delivering value to our government partners through ongoing investment in our state enterprise businesses (which we believe also benefits our stockholders).

Software & Services Cost of Revenues and Gross Profit Margin

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 comparative prior year period:

(dollar amounts in thousands)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020	2019	Change	% Change	2020	2019	Change	% Change
Fixed costs	\$ 23,222	\$ 3,384	\$ 19,838	586%	\$ 29,775	\$ 9,447	\$ 20,328	215%
Variable costs	8,068	6,789	1,279	19%	22,584	20,647	1,937	9%
Total	\$ 31,290	\$ 10,173	\$ 21,117	208%	\$ 52,359	\$ 30,094	\$ 22,265	74%

Software & services cost of revenues for the three and nine months ended September 30, 2020 increased 208% and 74% over the comparable prior year periods, respectively. These increases were largely driven by higher fixed costs to support TourHealth operations in Florida, Alabama and Mississippi and higher variable costs attributable to credit card interchange fees associated with higher payment processing revenues in Texas.

Our software & services gross profit percentage was 27% and 31% for the three and nine months ended September 30, 2020, respectively, compared to 41% and 39%, for the three and nine months ended September 30, 2019, respectively. The decreases in the gross margin percentages in the current year were largely driven by lower gross margins from TourHealth compared to our other software & services businesses.

Selling & Administrative

Selling & administrative expenses for the three months ended September 30, 2020 were \$8.8 million, up approximately 8%, or \$0.7 million, from the comparable prior year period, as increases in performance-based compensation expense were partially offset by lower travel expenses and other cost containment efforts at the corporate level driven by the COVID-19 pandemic.

Selling & administrative expenses for the nine months ended September 30, 2020 were \$25.2 million, a decrease of 5%, or \$1.3 million from the comparable prior year period. The decrease in the current year was driven in part by executive severance costs in the prior year 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, in addition to lower travel expenses and other cost containment efforts at the corporate level driven by the COVID-19 pandemic.

Enterprise Technology & Product Support

Enterprise technology & product support expenses for the three months ended September 30, 2020 were \$7.3 million, an increase of \$0.6 million, or 9% over the same period in the prior year. Enterprise technology & product support expenses for the nine months ended September 30, 2020 were \$21.8 million, an increase of \$1.9 million, or 9%, over the same period in the prior year. These increases for the three and nine months ended September 30, 2020 was primarily driven by higher personnel costs to support enterprise product and vertical platform development and enhance Company-wide information technology.

Depreciation & Amortization

(dollar amounts in thousands)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020	2019	Change	% Change	2020	2019	Change	% Change
Depreciation	\$ 965	\$ 1,101	\$ (136)	(12)%	\$ 2,939	\$ 3,240	\$ (301)	(9)%
Amortization	2,563	2,423	140	6%	7,544	5,835	1,709	29%
Depreciation & amortization	<u>\$ 3,528</u>	<u>\$ 3,524</u>	<u>\$ 4</u>	<u>—%</u>	<u>\$ 10,483</u>	<u>\$ 9,075</u>	<u>\$ 1,408</u>	<u>16%</u>

Depreciation & amortization expenses were flat for the three months ended September 30, 2020 compared to the same period in the prior year and increased \$1.4 million, or 16%, for the nine months ended September 30, 2020 compared to the same period in the prior year. The increase for the nine months ended September 30, 2020 was driven primarily by intangible asset amortization related to the Compla business acquisition in May 2019, as well as amortization of capitalized software development costs related to enterprise product and vertical platform investments made in prior periods.

Interest Income

Interest income declined in both the three and nine months ended September 30, 2020 compared to the comparable prior year periods due to a decrease in interest rates on our investable cash 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. As a result, we currently do not expect to generate any interest income on our investable cash for the remainder of the year.

Income Taxes

Our effective tax rate was 15.8% and 20.6% for the three and nine months ended September 30, 2020, respectively, compared to 22.4% and 23.0% for three and nine months ended September 30, 2019, respectively. The lower effective tax rate in the current year periods was primarily driven by the release of tax reserves resulting from statute of limitations expirations and other favorable tax adjustments recognized upon filing our 2019 tax return. See Note 6, Income Taxes, in the Notes to Unaudited Consolidated Financial Statements.

Liquidity and Capital Resources

Operating Activities

Cash flows provided by operating activities were \$53.2 million for the first nine months of 2020 compared to \$58.7 million for the first nine months of 2019. The decrease was the result of fluctuations in working capital associated with the timing of payments to and receipts from our government partners and end-user consumers, including our new TourHealth rapid COVID-19 testing solution, which commenced in August 2020.

Investing Activities

Cash flows used in investing activities decreased to \$9.5 million for the first nine months of 2020 from \$23.6 million for the first nine months of 2019, reflecting cash outlays for the Complia and Leap Orbit acquisitions in the prior year totaling approximately \$13.5 million.

Financing Activities

Cash flows used in financing activities were \$22.7 million for the first nine months of 2020 compared to \$17.5 million for the first nine months of 2019. The increase in the first nine months of 2020 was primarily due to the repurchase of our shares in the first quarter of 2020 totaling \$3.9 million and to a \$2.1 million increase in our dividend payments.

Liquidity

We recognize revenues primarily from providing outsourced digital government services at the contractual net fee earned for each transaction. In these arrangements, we are acting as an agent and the gross transaction fees collected by us from consumers on behalf of our government partners are not recognized as revenue but are accrued as accounts payable when the services are provided at the time of the transactions. We must remit a certain amount or percentage of these fees to government agencies regardless of whether we ultimately collect the fees from the consumer. 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, was \$243.7 million at September 30, 2020 compared to \$212.1 million at December 31, 2019. The increase in our working capital was primarily due to cash generated from operations in the period. Our current ratio, defined as current assets divided by current liabilities, was 2.6 and 3.1 at September 30, 2020 and December 31, 2019, respectively.

At September 30, 2020, our cash balance was \$235.3 million compared to \$214.4 million at December 31, 2019. We believe that our currently available liquid resources and cash generated from operations will be sufficient to meet our operating requirements, capital expenditure requirements and potential dividend payments for at least the next 12 months without the need for additional capital. We have a \$10.0 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 \$5.0 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 September 30, 2020 under the Credit Agreement. We were in compliance with all of our covenants under the Credit Agreement at September 30, 2020.

At September 30, 2020, we were bound by performance bond commitments totaling approximately \$25.2 million on certain government contracts and other business relationships.

We currently expect our capital expenditures to range from approximately \$3.0 million to \$4.0 million in fiscal year 2020, 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 businesses including equipment upgrades and enhancements, and in our centralized hosting environment to support and enhance corporate-wide information technology and security infrastructure, including Web servers, software licenses, and office equipment. We currently expect our capitalized internal-use software development costs to range from approximately \$9.0 million to \$10.0 million in fiscal year 2020. This estimate includes costs related to the enhancement of centralized payment processing, customer management and billing

solutions that support our business operations and accounting systems in addition to our citizen-centric Gov2Go enterprise platform, enterprise microservices and internal development platforms, enterprise licensing and permitting platform and outdoor recreation platform.

Dividends

We paid dividends of \$0.27 per common share (\$0.09 per quarter) during the first nine months of 2020 and \$0.24 per common share (\$0.08 per quarter) during the first nine months of 2019. The total cash dividends paid during the first nine months of 2020 and 2019 were \$18.3 million and \$16.2 million, respectively.

On October 26, 2020, our Board of Directors declared a regular quarterly cash dividend of \$0.09 per share, payable to stockholders of record as of December 4, 2020. The dividend, which is expected to total approximately \$6.1 million, will be paid on December 18, 2020, out of our available cash.

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 shortfalls in revenues or higher 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

We had unused outstanding letters of credit totaling approximately \$0.2 million at September 30, 2020.

As of September 30, 2020, there have been no material changes outside the ordinary course of business from the disclosures relating to contractual obligations contained under "Off-Balance Sheet Arrangements and Contractual Obligations" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in our Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on February 20, 2020. While we have significant operating lease commitments for office space, those commitments are generally tied to the period of performance under related contracts, except for our headquarters. We have income tax uncertainties of approximately \$4.2 million at September 30, 2020. These obligations are classified as non-current 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. However, the ultimate timing of resolution is uncertain.

CRITICAL ACCOUNTING POLICIES

There have been no material changes in our critical accounting policies from the information provided under “Critical Accounting Policies” in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included in our Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on February 20, 2020.

ITEM 3. 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.

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 cash balances as of September 30, 2020, a 100 basis point 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 4. CONTROLS AND PROCEDURES

a) EVALUATION 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 Securities Exchange Act of 1934, as amended (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 Quarterly Report on Form 10-Q. 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.

b) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting that occurred during the third quarter of 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are involved in litigation arising from the operation of our business that is considered routine and incidental to our business. We do not believe the results of such litigation will have a material adverse effect on our business, results of operations, financial condition or cash flow.

ITEM 1A. RISK FACTORS

Except as otherwise described below, there were no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019.

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 gross 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 partner and citizen consumer expectations and needs, among other things. Some of our competitors and potential competitors in the COVID-19-related services space 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 delay or cancel purchasing decisions or projects in light of uncertainties arising from the COVID-19 outbreak.

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.

If one of our key employees or executive officers were to contract an infectious disease that impacted 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.

To the extent a widespread infectious disease outbreak such as COVID-19 impacts the economic conditions in the United States, our partners could have less funding for digital government services, which may reduce the revenues we recognize for those services.

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 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 health-care providers, in addition to other third parties such as clinical investigators, 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 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 these third parties do not successfully carry out their contractual duties, meet expected deadlines or conduct COVID-19 testing in accordance with regulatory requirements and terms stated in our agreements, our efforts to successfully provide and expand COVID-19 testing services may be delayed or unsuccessful.

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 contract provider partner commences work. As a result, delays can occur, which could materially impact our ability to meet 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.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Share Repurchases

During the third 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 (in thousands) (1)
July 1 - July 31, 2020	3,639	\$ 21.79	-	\$ 21,062
Total	3,639	21.74	—	

(1) In March 2018, our Board of Directors 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.

ITEM 5. OTHER INFORMATION

Employment Agreements

On October 27, 2020, the Company entered into an employment agreement with Brian Anderson, the Company's Chief Technology Officer. Under the employment agreement, Mr. Anderson is entitled to a minimum annual base salary of \$334,750. The form of employment agreement is substantially similar to the Company's existing employment agreements with other senior executive officers and entitles Mr. Anderson to (i) participate, at a level commensurate with his position, in the Company's annual performance-based cash bonus plan and long-term incentive plan, (ii) paid vacation, (iii) a death and disability insurance program devised for the executive officers and (iv) other benefits that are available generally to Company employees. Mr. Anderson is sometimes referred to as the "executive" in the summary below.

The employment agreement has a three-year term, and unless notice is provided at least six months prior to the end of the respective term, automatically renews for additional three-year terms. The Company may terminate the employment of the executive at any time, with or without cause. The executive may voluntarily terminate his employment for "good reason" or at any time and for any reason.

If the Company terminates the executive without cause or if the executive resigns for "good reason" (defined as (a) any material reduction in the executive's compensation, (b) requiring the executive to relocate more than 60 miles from the Company's current location, or (c) any material breach of the employment agreement by the Company), the executive is entitled to receive, in addition to accrued and unpaid compensation and benefits through the termination date, (i) a lump sum severance payment equal to the sum of (A) two times the executive's base salary, (B) two times the executive's largest annual cash incentive bonus during the preceding three annual incentive periods, and (C) the amount of any award for such year of termination as if the target performance for such plan year had been achieved (subject to certain limitations relating to Section 162(m) of the Internal Revenue Code); (ii) with respect to equity incentives, (A) for time-based or service-based equity awards, accelerated exercisability, vesting or the lapse of restrictions, as the case may be, for such awards, and (B) for performance-based equity awards, payments or vesting as if the target performance had been achieved (subject to certain limitations relating to Section 162(m) of the Internal Revenue Code); and (iii) a lump sum payment equal to 150% of the Company's portion of annual costs associated with the medical and health benefits coverage of the executive, and if applicable, the executive's family.

If the Company terminates the executive for "cause" (defined as the executive's conviction of a felony or the willful and deliberate failure of the executive to perform his customary duties (other than any failure resulting from incapacity due to physical or mental illness, death or disability)), or the executive voluntarily terminates his employment without good reason, the executive will receive only (a) accrued and unpaid salary through the termination date, (b) earned but unpaid annual bonus for a previously completed fiscal year, (c) reimbursement of reimbursable expenses, (d) COBRA continuation coverage benefits and other employee benefits through the termination date, and (e) such other compensation, if any, which the Company's Board of Directors may elect to pay or grant. Any notice to the executive from the Company intending to terminate the executive's employment for cause must include the facts and circumstances that are the basis for the termination.

As described further below, the executive may be entitled to certain severance pay if a "change in control" of the Company occurs, and within either the six-month period ending on the change of control date or the 18-month period beginning on the change of control date, the executive's employment is terminated without cause or the executive terminates employment for good reason. In such event, the executive will receive, in addition to accrued and unpaid compensation and benefits through the termination date, (a) a lump sum severance payment equal to the sum of (i) two times the executive's base salary, (ii) two times the executive's largest annual cash incentive bonus during the preceding three annual incentive periods, and (iii) the amount of any award for such year of termination as if the target performance for such plan year had been achieved; (b) with respect to equity incentives, (i) for time-based or service-based equity awards, accelerated exercisability, vesting or the lapse of restrictions, as the case may be, for such awards, and (ii) for performance-based equity awards, accelerated exercise, vesting or lapse of restrictions, as the case may be, for such awards, as if target performance for such award had been achieved; and (c) a lump sum payment equal to 150% of the Company's portion of annual costs associated with the medical and health benefits coverage of the executive, and if applicable, the executive's family. The employment agreement provides for reductions in the amounts payable to the extent the present value of such amounts would more likely than not be non-deductible under Section 280G of the Internal Revenue Code.

Under the employment agreement, a change in control will be deemed to have occurred if (a) any person (other than a trustee or a fiduciary holding securities under the Company's employee benefit plan) becomes the beneficial owner (as that term is defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of 30% or more of the Company's Common Stock, (b) a merger or consolidation of the Company is consummated with another company, other than a merger or consolidation in which the stockholders of the Company own 50% or more of the voting stock of the surviving corporation, (c) "continuing directors" (defined to include current Board members and future directors approved by a majority of continuing directors) no longer constitute at least a majority of the Company's board, (d) the sale of all or substantially all of the assets of the Company or (e) the liquidation or dissolution of the Company.

In the event of the executive's death, the executive's designated beneficiaries shall be entitled to the proceeds of the executive's life insurance proceeds from the executive's Company-provided life insurance policy, which is a 20-year term policy for two times the executive's base salary. If the Company terminates the executive's employment due to disability (as defined in the Company's disability policies), the executive is entitled to receive salary and certain benefits for a period of one year, reduced by disability payments under the Company's disability policy or under the Social Security disability program. If the executive is disabled for 365 days or longer, he is eligible for a \$1 million lump sum payment from the insurance carrier.

Under the employment agreement, the executive is required to enter into proprietary information and inventions agreement and a non-competition agreement. In addition, the parties acknowledge the indemnification agreement entered into between the Company and the executive, and the employment agreement states that the executive shall be an officer covered by the indemnification agreement, and requires that such indemnification agreement be maintained throughout the period of the employment agreement.

The foregoing description of Mr. Anderson's employment agreement is a summary of, and does not purport to be a complete description of, the employment agreement, a copy of which is filed as Exhibit 10.1 to this Quarterly Report on Form 10-Q.

In addition, on October 27, 2020, the Company entered into an employment agreement with Doug Rogers, the Company's Senior Vice President of Business Development. Under the employment agreement, Mr. Rogers is entitled to a minimum annual base salary of \$290,000, as well as incentive compensation and benefits of the type the Company from time to time generally makes available to employees at the same level and pursuant to the terms and conditions of such plans and/or policies. Mr. Rogers is sometimes referred to as the "executive" in the summary below.

The employment agreement has a three-year term, and unless notice is provided at least sixty (60) days prior to the end of the respective term, automatically renews for additional three-year terms. The Company may terminate the employment of the executive at any time, with or without cause. The executive may voluntarily terminate his employment for "good reason" or at any time and for any reason.

If the Company terminates the executive without cause or if the executive resigns for "good reason" (defined as (a) any material reduction in the executive's compensation, (b) requiring the executive to relocate more than 60 miles from the Company's current location, or (c) any material breach of the employment agreement by the Company), the executive is entitled to receive, in addition to accrued and unpaid compensation and benefits through the termination date, a lump sum severance payment equal to six (6) months' salary.

The executive may be entitled to certain severance pay if a change in control of the Company occurs, and within either the six-month period ending on the change of control date or the 18-month period beginning on the change of control date, the executive's employment is terminated without cause or the executive terminates employment for good reason. In such event, the executive will receive, in addition to accrued and unpaid compensation and benefits through the termination date, (a) a lump sum severance payment equal to six (6) months' salary and with respect to time-based or service-based equity awards, accelerated exercisability, vesting or the lapse of restrictions, as the case may be, for such awards.

The foregoing description of Mr. Rogers' employment agreement is a summary of, and does not purport to be a complete description of, the employment agreement, a copy of which is filed as Exhibit 10.2 to this Quarterly Report on Form 10-Q.

ITEM 6. EXHIBITS

- 10.1* [Employment agreement between the Registrant and Brian Anderson, dated October 27, 2020](#)
 - 10.2* [Employment agreement between the Registrant and Doug Rogers, dated October 27, 2020](#)
 - 10.3* [Employment agreement between the Registrant and Elizabeth M. Proudfit, dated October 27, 2020](#)
 - 10.4* [Employment agreement between the Registrant and Elizabeth A. Thomas, dated October 27, 2020](#)
 - 31.1* [Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
 - 31.2* [Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
 - 32.1** [Section 906 Certifications of Chief Executive Officer and Chief Financial Officer](#)
- 101 The following financial information from NIC's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, formatted in iXBRL (Inline Xtensible Business Reporting Language) includes (i) Consolidated Balance Sheets at September 30, 2020 (unaudited) and December 31, 2019, (ii) Consolidated Statements of Income (unaudited) for the three and nine months ended September 30, 2020 and 2019, (iii) Consolidated Statement of Changes in Stockholders' Equity (unaudited) for the nine months ended September 30, 2020 and 2019, (iv) Consolidated Statements of Cash Flows (unaudited) for the nine months ended September 30, 2020 and 2019, and (v) the Notes to Unaudited Consolidated Financial Statements (submitted electronically herewith).
- 104 The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, formatted in iXBRL (included as Exhibit 101).

* Filed herewith.

** Pursuant to Item 601(b)(32) of Regulation S-K, this Exhibit is furnished rather than filed with this Quarterly Report on Form 10-Q.

SIGNATURES

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

NIC INC.

Dated: October 28, 2020

/s/ Stephen M. Kovzan
Stephen M. Kovzan
Chief Financial Officer

NIC INC.
KEY EMPLOYEE AGREEMENT
for
BRIAN ANDERSON

THIS EMPLOYMENT AGREEMENT (“Agreement”) is entered into as of the 27th day of October, 2020 (the “Effective Date”), by and between **Brian Anderson** (“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, 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 Technology Officer, 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 his 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 and the Board, or as the Chief Executive Officer, with the concurrence of a majority of the Board of Directors, directs. Executive will devote his best efforts and substantially all of his 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 his ability to perform his 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 Thirty Four Thousand Seven Hundred and Fifty Dollars (\$334,750) 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 his 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 fifty percent (50%) of his 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 his 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 his employment based upon the per day value of his 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 his 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 his 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 his 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 his 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 his customary duties, in a manner consistent with the manner reasonably prescribed by the Board (other than any failure resulting from his 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 his 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 his 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 his 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 his 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 his election within twenty (20) business days of his 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, his designated beneficiaries, or if none, his 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"), his 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 his 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 his respective successors, assigns, heirs, executors and administrators, except that Executive may not assign any of his duties hereunder and they may not assign any of his 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 his or its rights hereunder, Executive shall be reimbursed by Company for his 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 him 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/ Brian Anderson

Name: Brian Anderson

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/ Brian Anderson

Brian Anderson

Address:

Date: October 27, 2020

ACCEPTED AND AGREED TO:

NIC INC.

By: /s/ Harry H. Herington

Name: Harry H. Herington

Title: Chief Executive Officer

Date: October 27, 2020

EXHIBIT A

PREVIOUS INVENTIONS

TO: NIC Inc.
FROM: Brian Anderson
DATE: October 27, 2020
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 _ (the “Company”), a wholly-owned subsidiary of NIC Inc., 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.

NICUSA, INC.

Non-Competition Agreement

In consideration of the employment/promotion of Brian Anderson, currently residing at ,(“Employee”), by NICUSA, 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 his or his 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.

For Non-Management Level Employees: Because Employee is not considered to be a management level or management-trainee, such aid or services to a Conflicting Organization is prohibited anywhere in Kansas or its adjoining states.

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 his 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.

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 October, 2020.

Employee: /s/ Brian Anderson
Brian Anderson
Position: Chief Technology Officer

Accepted for Employer:
Signed: /s/ Harry H. Herington
Name: Harry H. Herington
Title: Chief Executive Officer

Attachment I to Employment Agreement

Name: Brian Anderson

Position: Chief Technology Officer

Additional benefits provided to Executive as part of Key Employee Agreement dated October 27, 2020.

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:

Date: October 27, 2020

NIC EMPLOYMENT AGREEMENT FOR DOUG ROGERS

THIS EMPLOYMENT AGREEMENT (this "Agreement") is made this the 27th day of October, 2020, by and between Doug Rogers ("Executive") and NIC Inc., a Delaware corporation (the "Company").

RECITALS

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 on the terms and conditions in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and obligations contained herein, and intending to be legally bound, the parties agree as follows:

TERMS

1. Employment Term. Subject to the terms and conditions set forth herein, the Company agrees to continue to employ Executive, and Executive hereby accepts continued employment with the Company, as Senior Vice President of Strategic Initiatives of the Company (the "Position"), for a three (3)- year term (the "Employment Term"), commencing on October 20, 2020 (the "Commencement Date").

The Employment Term will automatically extend for successive three (3)-year periods (each a "Renewal Term" and each such Renewal Term together with the Employment Term shall be referenced collectively as the "Term") at the end of the Employment Term and any Renewal Term unless either the Company or Executive notifies the other in writing (a "Non-Renewal Notice") of a decision not to renew the Employment Term or the Renewal Term at least sixty (60) days prior to the end of the Employment Term or the Renewal Term, as applicable. Executive and the Company agree that Executive's employment with the Company constitutes "at-will" employment. Executive and the Company acknowledge this employment relationship may be terminated at any time, upon written notice to the other party, with or without good cause or for any or no cause, at the option either of the Company or Executive. However, as described in this Agreement, Executive may be entitled to severance benefits depending upon the circumstances of Executive's termination of employment.

2. Duties. During the Term, Executive shall serve the Company faithfully and to the best of Executive's ability, shall devote Executive's full attention, skill and efforts to the performance of the duties of the Position. Executive will render such business and professional services in the performance of Executive's duties, consistent with Executive's position within the Company, subject to the Company's discretion, and as assigned by the Chief Executive Officer. During the Term, Executive will devote Executive's full business efforts and time to the

Company and will use good faith efforts to discharge Executive's obligations under this Agreement to the best of Executive's ability.

3. Other Business Activities. For the duration of the Term, Executive agrees not to actively engage in any other employment, occupation, or consulting activity for any direct or indirect remuneration without the prior approval of the Chief Executive Officer; provided, however, that Executive may serve in any capacity with any civic, educational, or charitable organization, provided such services do not create a conflict of interest with, or otherwise interfere in any way with, Executive's obligations to the Company. Executive will not engage in other business activities or pursuits which are contrary to Executive's responsibilities and obligations pursuant to this Agreement.

4. Compensation.

a. Base Salary. As of the Commencement Date, the Company will pay Executive an annual salary of Two Hundred and Ninety Thousand Dollars (\$290,000) as compensation for services (such annual salary, as is then effective, to be referred to herein as "Base Salary"). The Base Salary will be paid periodically in accordance with the Company's normal payroll practices and be subject to the usual, required withholdings. Executive's salary will be reviewed annually by the Company and adjustments may be made at the discretion of the Company.

b. Incentive Compensation. Executive shall be entitled to the same incentive compensation which the Company from time to time generally makes available to employees at the same level pursuant to the terms and conditions of the Company's incentive compensation plans and/or policies.

5. Benefits. Executive shall be entitled to those employee benefits which the Company from time to time generally makes available to employees ("Benefits") at the same level pursuant to the terms and conditions of the Company's benefit plans and/or policies.

6. Reimbursement of Business Expenses. Subject to such conditions as the Company may from time to time determine, including without limitation a requirement that Executive supply documentation to substantiate business expenses, Executive shall be reimbursed for ordinary and reasonable documented expenses incurred by Executive in the performance of Executive's duties under this Agreement. Any expense reimbursement made under this Section 6 will be subject to the terms of the Company's policies and procedures concerning business-expense reimbursements that are in place at the time that an expense is incurred.

7. Confidentiality. Executive recognizes and acknowledges that the Confidential Information (as hereinafter defined) is a valuable, special and unique asset of the Company. As a result, Executive shall not, without the prior written consent of the Company, for any reason, either directly or indirectly divulge to any third party or use for Executive's own benefit or for any purpose other than the exclusive benefit of the Company any confidential, proprietary, business or technical information or trade secrets of the Company or of any subsidiary or affiliate of the Company ("Confidential Information") revealed, obtained or developed in the course of

Executive's employment with the Company. Executive understands and acknowledges that Executive's obligations under this Agreement with regard to any particular Confidential Information shall commence immediately upon the Executive first having access to such Confidential Information and shall continue during and after Executive's employment until such time as such Confidential Information has become public knowledge other than as a result of the Employee's breach of this Agreement or breach by those acting in concert with the Employee or on the Employee's behalf. Such Confidential Information shall include, but shall not be limited to, intangible personal property, any information relating to methods of production, manufacture, service, research, specifications, computer codes, business, marketing and sales techniques and concepts, other data and materials used in performing the Executive's duties (other than Executive's personal contact list), costs, business studies, finances, marketing data, plans and efforts, the terms of contracts and agreements with clients, contractors and suppliers, litigation strategy and other Confidential Information relating to litigation, the Company's relationship with actual and prospective customers, contractors and suppliers and the needs and requirements of, and the Company's course of dealing with, any such actual or prospective customers, contractors and suppliers, personnel information, and any other materials that have not been made available to the industry; provided, that nothing herein contained shall restrict Executive's ability to make such disclosures during the course of Executive's employment as may be necessary or appropriate to the effective and efficient discharge of the duties required by or appropriate for Executive's Position or as such disclosures may be required by law; and further provided, that nothing herein contained shall restrict Executive from divulging or using for Executive's own benefit or for any other purpose any Confidential Information that is readily available to the general public so long as such information did not become available to the general public as a direct or indirect result of Executive's breach of this Section 7.

Notwithstanding any provision in this Agreement to the contrary, in the event Executive is required by judicial or administrative process to disclose any Confidential Information, Executive may disclose that portion of the Confidential Information that Executive's legal counsel advises is required to be disclosed; provided that, unless prohibited by applicable law, Executive shall notify the Company promptly and in advance of any such proposed disclosure, and Executive shall support the efforts of the Company to limit the scope of the disclosure or to obtain a protective order for such Confidential Information. In addition, and notwithstanding any provision in this Agreement to the contrary, under 18 U.S.C. §1833(b), "An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that (A) is made (i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. An individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual (A) files any document containing the trade secret under seal; and (B) does not disclose the trade secret, except pursuant to court order." Nothing in this Agreement or any Company policy is intended to conflict with this statutory protection, and no Company director, officer, or member of management has the authority to impose any rule to the contrary.

8 . Termination. Executive's employment with the Company is at-will and may be terminated at any time by either party for any lawful reason; provided, however, that Executive will be entitled to certain payments if he/she meets certain conditions set forth in this Section 8.

a. A termination "Without Cause" shall be a termination of the Executive's employment by the Company for any reason other than Just Cause.

b. As used in this Agreement, "Just Cause" means: (1) performance by Executive of any criminal conduct (whether or not finally determined to be so by a court of competent jurisdiction), or (2) Executive's misconduct or negligence in the performance of Executive's duties, or (3) Executive's refusal to carry out instructions in keeping with Executive's position at the Company, or (4) any breach of this Agreement by Executive, or (5) any violation or breach by Executive of the Company's employment policies, or (6) any dishonest act by Executive. The exercise of the right of the Company to terminate Executive's employment for Just Cause shall not abrogate or diminish any rights of, or remedies available to, the Company in respect of the action giving rise to such termination.

c. As used in this Agreement, "Good Reason" means Executive's termination of his 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, 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: (i) any material reduction by the Company in Executive's compensation, incentive awards or standard Company benefits (except for across-the-board reductions generally applicable to all senior executives of the Company), (ii) 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 (iii) without limiting the generality or effect of any of the foregoing, any material breach of this Agreement by the Company.

d. If the Executive's employment is terminated by the Company Without Cause or by the Executive with Good Reason, the Executive shall be entitled to the following, upon satisfying the Release Condition, subject to the terms of Section 9 and in lieu of any other severance entitlement or eligibility under this Agreement or any other contract or plan:

Severance Payment. Upon meeting the terms and conditions set forth in this Section, Executive shall receive an amount equal to six (6) months' salary (the "Payment"). To the extent a Payment is owed to the Executive, the Company shall pay to the Executive any Payment in installments via the Company's regular payroll practices following the Executive's termination.

The term "Release Condition" shall mean Executive's timely execution and non-revocation of a full, general release of claims, whose terms the Company shall determine and provide within two (2) weeks following the termination of Executive's employment with the Company. In the event that the 21-day period for execution and non-revocation spans two tax years, payment shall be made or begin, as applicable, in the second tax year. Any installments

that would have been made after termination of employment and prior to meeting the Release Condition will be made in one lump sum catch-up payment to Executive at the time payment is otherwise required to begin hereunder. For the avoidance of doubt, the Company shall have no obligation to present Executive with a general release to be signed following a termination for Just Cause or Executive's resignation without Good Reason. If the payment window spans two calendar years, the payment will be made in the second year.

e. If Executive's employment with the Company is terminated by the Company for Just Cause or by the Executive without Good Reason, then, (i) all payments of compensation by the Company to Executive hereunder will terminate immediately, and (ii) except for those statutorily mandated obligations of Company, all perquisites and benefits will immediately cease.

f. If a change of control of the Company occurs, and within either the six-month period ending on the change of control date or the 18-month period beginning on the change of control date, Executive's employment is terminated without Just Cause or Executive resigns for Good Reason, the Company shall make the Payment and, notwithstanding any contrary provisions of any 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), 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.

g. In addition to any amounts or benefits provided upon termination of employment hereunder and except as otherwise provided herein, the Executive shall be entitled to any payments or benefits explicitly provided under the terms of any plan, policy or program of the Company or as otherwise required by applicable law.

h. For the avoidance of doubt, Executive's receipt of severance payments or benefits under any subsection of Section 8 shall be in lieu of any severance payments or benefits available under any other subsection of Section 8, and in no event will Executive be entitled to duplicative or cumulative severance payments or benefits.

9. Conditions to Receipt of Severance.

a. Nondisparagement. Notwithstanding any other provision of this Agreement to the contrary, as a condition of receiving any severance payment under this Agreement, Executive shall refrain from making disparaging remarks, innuendos, gestures, insinuations, actions, or other verbal, nonverbal, written, electronic or other similar such expression concerning the Company.

b. Other Requirements. Notwithstanding any other provision of this Agreement to the contrary, as a condition of receiving any continued payments and/or benefits under Section 8(d), Executive must comply with the terms of Sections 7 and 9 of this Agreement.

In the event Executive breaches Executive's obligations under the terms of Sections 7 or 9 of this Agreement, any obligation on behalf of the Company to make such payments or provide such benefits, except as otherwise required under law, will cease.

10. Survival of Provisions. The provisions of this Agreement set forth in Sections 7, 8, 9, and 18 hereof shall survive the termination of Executive's employment hereunder.

11. Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the Company's successors and assigns. This Agreement will be binding upon and inure to the benefit of (a) the heirs, executors, and legal representatives of Executive upon Executive's death, and (b) any successor of the Company, including without limitation any successor through merger or other similar transaction. For this purpose, "successor" means any person, Company, corporation, or other business entity which at any time, whether by purchase, merger, or otherwise, directly or indirectly acquires all or substantially all of the assets or business of the Company. None of the rights of Executive to receive any form of compensation payable pursuant to this Agreement may be assigned or transferred except by will or the laws of descent and distribution. Any other attempted assignment, transfer, conveyance, or other disposition of Executive's right to compensation or other benefits will be null and void.

12. Notice. Any notice or communication required or permitted under this Agreement shall be made in writing and sent by certified or registered mail, return receipt requested, addressed as follows:

If to Executive:

Doug Rogers

If to the Company:

NIC Inc.
25501 West Valley Parkway
Suite 300
Olathe, KS 66061
Attention: William A. Van Asselt, General Counsel

or to such other address as either party may from time to time duly specify by notice given to the other party in the manner specified above.

13. Entire Agreement; Amendments. This Agreement contains the entire agreement and understanding of the parties hereto relating to the subject matter hereof, and supersedes all prior and contemporaneous discussions, agreements and understandings of every nature between the parties hereto relating to the employment of Executive with the Company; provided,

however, nothing in this Agreement shall affect the enforceability of any restrictive covenant, confidentiality or invention-assignment agreement that Executive has previously entered with the Company ("Prior Agreements"). To the extent there are conflicts among any of the restrictive covenant, confidentiality or invention-assignment terms of this Agreement and any similar terms found within any Prior Agreements, such terms that provide the Company with the greatest level of enforceable protection shall be given effect. This Agreement may not be changed or modified, except by an Agreement in writing signed by each of the parties hereto.

14. Waiver. The waiver of the breach of any term or provision of this Agreement shall not operate as or be construed to be a waiver of any other or subsequent breach of this Agreement.

15. Governing Law. This Agreement shall be construed and enforced in accordance with the laws of the State of Kansas without giving effect to the choice of law principles of such state.

16. 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 validity of any other provision of this Agreement, and such provision(s) shall be deemed modified to the extent necessary to make it enforceable.

17. Section Headings. The section headings in this Agreement are for convenience only, and form no part of this Agreement and shall not affect its interpretation.

18. Specific Enforcement: Extension of Period. Executive acknowledges that the restrictions contained in Section 7 hereof are reasonable and necessary to protect the legitimate interests of the Company and its affiliates, and that the Company would not have entered into this Agreement in the absence of such restrictions. Executive also acknowledges that any breach by Executive of Section 7 hereof will cause continuing and irreparable injury to the Company for which monetary damages would not be an adequate remedy. The Executive shall not, in any action or proceeding to enforce any of the provisions of this Agreement, assert the claim or defense that an adequate remedy at law exists. Notwithstanding the terms of any other provision of this Agreement or any other prior agreement to the contrary, if Executive breaches or threatens to breach any of the provisions of Section 7 of this Agreement, the Company shall have the right to seek and obtain injunctive or other relief in any court without the necessity of posting a bond or other form of security, and this Agreement shall not in any way limit remedies of law or in equity otherwise available to the Company. If an action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to recover, in addition to any other relief, reasonable attorneys' fees, costs and disbursements.

19. 409A. The parties intend that any amounts payable hereunder comply with or are exempt from Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A"). For purposes of Section 409A, each of the payments that may be made under this Agreement shall be deemed to be a separate payment for purposes of Section 409A. This Agreement shall be administered, interpreted and construed in a manner that does not result in the acceleration of

taxation or the imposition of additional taxes, penalties or interest under Section 409A. The Company and Executive agree to negotiate in good faith to make amendments to the Agreement, as the parties mutually agree are necessary or desirable to avoid the acceleration of taxation or the imposition of taxes, penalties or interest under Section 409A. With respect to the time of payments of any amounts under the Agreement that are “deferred compensation” subject to Section 409A, references in the Agreement to “termination of employment” (and substantially similar phrases) shall mean “separation from service” within the meaning of Section 409A. For the avoidance of doubt, it is intended that any expense reimbursement made or in-kind benefit provided to Executive hereunder shall be exempt from Section 409A. Notwithstanding the foregoing, if any expense reimbursement made or in-kind benefit provided hereunder shall be determined to be “deferred compensation” within the meaning of Section 409A, then (i) the amount of the expense reimbursement during one taxable year shall not affect the amount of the expense reimbursement during any other taxable year, (ii) the expense reimbursement shall be made on or before the last day of Executive’s taxable year following the year in which the applicable expense was incurred and (iii) the right to, expense reimbursement and in-kind benefits hereunder shall not be subject to liquidation or exchange for another benefit. Notwithstanding any other provision in this Agreement, if Executive is a “specified employee,” as defined in Section 409A, as of the date of termination, then to the extent any amount payable under this Agreement (i) constitutes the payment of “deferred compensation,” within the meaning of Section 409A, (ii) is payable upon Executive’s separation from service, within the meaning of Section 409A, and (iii) would be payable prior to the six-month anniversary of Executive’s separation from service, payment of such amount shall be delayed until and paid without interest upon the earlier to occur of (a) the date that is one day after the six-month anniversary of the date of such separation from service, or (b) the date of Executive’s death.

20. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which together shall be deemed to be one and the same instrument.

[Signatures appear on the following page.]

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

Executive:

/s/ Doug Rogers _____
Doug Rogers

NIC Inc.:

/s/ Harry H. Herington _____
Name: Harry H. Herington
Title: Chief Executive Officer

NIC EMPLOYMENT AGREEMENT FOR ELIZABETH M. PROUDFIT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is made this the 27th day of October, 2020, by and between Elizabeth M. Proudfit ("Executive") and NIC Inc., a Delaware corporation (the "Company").

RECITALS

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 on the terms and conditions in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and obligations contained herein, and intending to be legally bound, the parties agree as follows:

TERMS

1. Employment Term. Subject to the terms and conditions set forth herein, the Company agrees to continue to employ Executive, and Executive hereby accepts continued employment with the Company, as Vice President of Marketing and Communications of the Company (the "Position"), for a three (3)-year term (the "Employment Term"), commencing on October 27, 2020 (the "Commencement Date").

The Employment Term will automatically extend for successive three (3)-year periods (each a "Renewal Term" and each such Renewal Term together with the Employment Term shall be referenced collectively as the "Term") at the end of the Employment Term and any Renewal Term unless either the Company or Executive notifies the other in writing (a "Non-Renewal Notice") of a decision not to renew the Employment Term or the Renewal Term at least sixty (60) days prior to the end of the Employment Term or the Renewal Term, as applicable. Executive and the Company agree that Executive's employment with the Company constitutes "at-will" employment. Executive and the Company acknowledge this employment relationship may be terminated at any time, upon written notice to the other party, with or without good cause or for any or no cause, at the option either of the Company or Executive. However, as described in this Agreement, Executive may be entitled to severance benefits depending upon the circumstances of Executive's termination of employment.

2. Duties. During the Term, Executive shall serve the Company faithfully and to the best of Executive's ability, shall devote Executive's full attention, skill and efforts to the performance of the duties of the Position. Executive will render such business and professional services in the performance of Executive's duties, consistent with Executive's position within the Company, subject to the Company's discretion, and as assigned by the Chief Executive Officer. During the Term, Executive will devote Executive's full business efforts and time to the

Company and will use good faith efforts to discharge Executive's obligations under this Agreement to the best of Executive's ability.

3. Other Business Activities. For the duration of the Term, Executive agrees not to actively engage in any other employment, occupation, or consulting activity for any direct or indirect remuneration without the prior approval of the Chief Executive Officer; provided, however, that Executive may serve in any capacity with any civic, educational, or charitable organization, provided such services do not create a conflict of interest with, or otherwise interfere in any way with, Executive's obligations to the Company. Executive will not engage in other business activities or pursuits which are contrary to Executive's responsibilities and obligations pursuant to this Agreement.

4. Compensation.

a. Base Salary. As of the Commencement Date, the Company will pay Executive an annual salary of Two Hundred and Ninety Thousand Dollars (\$290,000) as compensation for services (such annual salary, as is then effective, to be referred to herein as "Base Salary"). The Base Salary will be paid periodically in accordance with the Company's normal payroll practices and be subject to the usual, required withholdings. Executive's salary will be reviewed annually by the Company, and adjustments may be made at the discretion of the Company.

b. Incentive Compensation. Executive shall be entitled to the same incentive compensation which the Company from time to time generally makes available to employees at the same level pursuant to the terms and conditions of the Company's incentive compensation plans and/or policies.

5. Benefits. Executive shall be entitled to those employee benefits which the Company from time to time generally makes available to employees ("Benefits") at the same level pursuant to the terms and conditions of the Company's benefit plans and/or policies.

6. Reimbursement of Business Expenses. Subject to such conditions as the Company may from time to time determine, including without limitation a requirement that Executive supply documentation to substantiate business expenses, Executive shall be reimbursed for ordinary and reasonable documented expenses incurred by Executive in the performance of Executive's duties under this Agreement. Any expense reimbursement made under this Section 6 will be subject to the terms of the Company's policies and procedures concerning business-expense reimbursements that are in place at the time that an expense is incurred.

7. Confidentiality. Executive recognizes and acknowledges that the Confidential Information (as hereinafter defined) is a valuable, special and unique asset of the Company. As a result, Executive shall not, without the prior written consent of the Company, for any reason, either directly or indirectly divulge to any third party or use for Executive's own benefit or for any purpose other than the exclusive benefit of the Company any confidential, proprietary, business or technical information or trade secrets of the Company or of any subsidiary or affiliate of the Company ("Confidential Information") revealed, obtained or developed in the course of

Executive's employment with the Company. Executive understands and acknowledges that Executive's obligations under this Agreement with regard to any particular Confidential Information shall commence immediately upon the Executive first having access to such Confidential Information and shall continue during and after Executive's employment until such time as such Confidential Information has become public knowledge other than as a result of the Employee's breach of this Agreement or breach by those acting in concert with the Employee or on the Employee's behalf. Such Confidential Information shall include, but shall not be limited to, intangible personal property, any information relating to methods of production, manufacture, service, research, specifications, computer codes, business, marketing and sales techniques and concepts, other data and materials used in performing the Executive's duties (other than Executive's personal contact list), costs, business studies, finances, marketing data, plans and efforts, the terms of contracts and agreements with clients, contractors and suppliers, litigation strategy and other Confidential Information relating to litigation, the Company's relationship with actual and prospective customers, contractors and suppliers and the needs and requirements of, and the Company's course of dealing with, any such actual or prospective customers, contractors and suppliers, personnel information, and any other materials that have not been made available to the industry; provided, that nothing herein contained shall restrict Executive's ability to make such disclosures during the course of Executive's employment as may be necessary or appropriate to the effective and efficient discharge of the duties required by or appropriate for Executive's Position or as such disclosures may be required by law; and further provided, that nothing herein contained shall restrict Executive from divulging or using for Executive's own benefit or for any other purpose any Confidential Information that is readily available to the general public so long as such information did not become available to the general public as a direct or indirect result of Executive's breach of this Section 7.

Notwithstanding any provision in this Agreement to the contrary, in the event Executive is required by judicial or administrative process to disclose any Confidential Information, Executive may disclose that portion of the Confidential Information that Executive's legal counsel advises is required to be disclosed; provided that, unless prohibited by applicable law, Executive shall notify the Company promptly and in advance of any such proposed disclosure, and Executive shall support the efforts of the Company to limit the scope of the disclosure or to obtain a protective order for such Confidential Information. In addition, and notwithstanding any provision in this Agreement to the contrary, under 18 U.S.C. §1833(b), "An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that (A) is made (i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. An individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual (A) files any document containing the trade secret under seal; and (B) does not disclose the trade secret, except pursuant to court order." Nothing in this Agreement or any Company policy is intended to conflict with this statutory protection, and no Company director, officer, or member of management has the authority to impose any rule to the contrary.

8 . Termination. Executive's employment with the Company is at-will and may be terminated at any time by either party for any lawful reason; provided, however, that Executive will be entitled to certain payments if he/she meets certain conditions set forth in this Section 8.

a. A termination "Without Cause" shall be a termination of the Executive's employment by the Company for any reason other than Just Cause.

b. As used in this Agreement, "Just Cause" means: (1) performance by Executive of any criminal conduct (whether or not finally determined to be so by a court of competent jurisdiction), or (2) Executive's misconduct or negligence in the performance of Executive's duties, or (3) Executive's refusal to carry out instructions in keeping with Executive's position at the Company, or (4) any breach of this Agreement by Executive, or (5) any violation or breach by Executive of the Company's employment policies, or (6) any dishonest act by Executive. The exercise of the right of the Company to terminate Executive's employment for Just Cause shall not abrogate or diminish any rights of, or remedies available to, the Company in respect of the action giving rise to such termination.

c. As used in this Agreement, "Good Reason" means Executive's termination of his 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, 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: (i) any material reduction by the Company in Executive's compensation, incentive awards or standard Company benefits (except for across-the-board reductions generally applicable to all senior executives of the Company), (ii) 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 (iii) without limiting the generality or effect of any of the foregoing, any material breach of this Agreement by the Company.

d. If the Executive's employment is terminated by the Company Without Cause or by the Executive with Good Reason, the Executive shall be entitled to the following, upon satisfying the Release Condition, subject to the terms of Section 9 and in lieu of any other severance entitlement or eligibility under this Agreement or any other contract or plan:

Severance Payment. Upon meeting the terms and conditions set forth in this Section, Executive shall receive an amount equal to six (6) months' salary (the "Payment"). To the extent a Payment is owed to the Executive, the Company shall pay to the Executive any Payment in installments via the Company's regular payroll practices following the Executive's termination.

The term "Release Condition" shall mean Executive's timely execution and non-revocation of a full, general release of claims, whose terms the Company shall determine and provide within two (2) weeks following the termination of Executive's employment with the Company. In the event that the 21-day period for execution and non-revocation spans two tax years, payment shall be made or begin, as applicable, in the second tax year. Any installments

that would have been made after termination of employment and prior to meeting the Release Condition will be made in one lump sum catch-up payment to Executive at the time payment is otherwise required to begin hereunder. For the avoidance of doubt, the Company shall have no obligation to present Executive with a general release to be signed following a termination for Just Cause or Executive's resignation without Good Reason. If the payment window spans two calendar years, the payment will be made in the second year.

e. If Executive's employment with the Company is terminated by the Company for Just Cause or by the Executive without Good Reason, then, (i) all payments of compensation by the Company to Executive hereunder will terminate immediately, and (ii) except for those statutorily mandated obligations of Company, all perquisites and benefits will immediately cease.

f. If a change of control of the Company occurs, and within either the six-month period ending on the change of control date or the 18-month period beginning on the change of control date, Executive's employment is terminated without Just Cause or Executive resigns for Good Reason, the Company shall make the Payment and, notwithstanding any contrary provisions of any 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), 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.

g. In addition to any amounts or benefits provided upon termination of employment hereunder and except as otherwise provided herein, the Executive shall be entitled to any payments or benefits explicitly provided under the terms of any plan, policy or program of the Company or as otherwise required by applicable law.

h. For the avoidance of doubt, Executive's receipt of severance payments or benefits under any subsection of Section 8 shall be in lieu of any severance payments or benefits available under any other subsection of Section 8, and in no event will Executive be entitled to duplicative or cumulative severance payments or benefits.

9. Conditions to Receipt of Severance.

a. Nondisparagement. Notwithstanding any other provision of this Agreement to the contrary, as a condition of receiving any severance payment under this Agreement, Executive shall refrain from making disparaging remarks, innuendos, gestures, insinuations, actions, or other verbal, nonverbal, written, electronic or other similar such expression concerning the Company.

b. Other Requirements. Notwithstanding any other provision of this Agreement to the contrary, as a condition of receiving any continued payments and/or benefits under Section 8(d), Executive must comply with the terms of Sections 7 and 9 of this Agreement.

In the event Executive breaches Executive's obligations under the terms of Sections 7 or 9 of this Agreement, any obligation on behalf of the Company to make such payments or provide such benefits, except as otherwise required under law, will cease.

10. Survival of Provisions. The provisions of this Agreement set forth in Sections 7, 8, 9, and 18 hereof shall survive the termination of Executive's employment hereunder.

11. Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the Company's successors and assigns. This Agreement will be binding upon and inure to the benefit of (a) the heirs, executors, and legal representatives of Executive upon Executive's death, and (b) any successor of the Company, including without limitation any successor through merger or other similar transaction. For this purpose, "successor" means any person, Company, corporation, or other business entity which at any time, whether by purchase, merger, or otherwise, directly or indirectly acquires all or substantially all of the assets or business of the Company. None of the rights of Executive to receive any form of compensation payable pursuant to this Agreement may be assigned or transferred except by will or the laws of descent and distribution. Any other attempted assignment, transfer, conveyance, or other disposition of Executive's right to compensation or other benefits will be null and void.

12. Notice. Any notice or communication required or permitted under this Agreement shall be made in writing and sent by certified or registered mail, return receipt requested, addressed as follows:

If to Executive:

Elizabeth M. Proudfit

If to the Company:

NIC Inc.
25501 West Valley Parkway
Suite 300
Olathe, KS 66061
Attention: William A. Van Asselt, General Counsel

or to such other address as either party may from time to time duly specify by notice given to the other party in the manner specified above.

13. Entire Agreement; Amendments. This Agreement contains the entire agreement and understanding of the parties hereto relating to the subject matter hereof, and supersedes all prior and contemporaneous discussions, agreements and understandings of every nature between the parties hereto relating to the employment of Executive with the Company; provided,

however, nothing in this Agreement shall affect the enforceability of any restrictive covenant, confidentiality or invention-assignment agreement that Executive has previously entered with the Company ("Prior Agreements"). To the extent there are conflicts among any of the restrictive covenant, confidentiality or invention-assignment terms of this Agreement and any similar terms found within any Prior Agreements, such terms that provide the Company with the greatest level of enforceable protection shall be given effect. This Agreement may not be changed or modified, except by an Agreement in writing signed by each of the parties hereto.

14. Waiver. The waiver of the breach of any term or provision of this Agreement shall not operate as or be construed to be a waiver of any other or subsequent breach of this Agreement.

15. Governing Law. This Agreement shall be construed and enforced in accordance with the laws of the State of Kansas without giving effect to the choice of law principles of such state.

16. 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 validity of any other provision of this Agreement, and such provision(s) shall be deemed modified to the extent necessary to make it enforceable.

17. Section Headings. The section headings in this Agreement are for convenience only, and form no part of this Agreement and shall not affect its interpretation.

18. Specific Enforcement: Extension of Period. Executive acknowledges that the restrictions contained in Section 7 hereof are reasonable and necessary to protect the legitimate interests of the Company and its affiliates, and that the Company would not have entered into this Agreement in the absence of such restrictions. Executive also acknowledges that any breach by Executive of Section 7 hereof will cause continuing and irreparable injury to the Company for which monetary damages would not be an adequate remedy. The Executive shall not, in any action or proceeding to enforce any of the provisions of this Agreement, assert the claim or defense that an adequate remedy at law exists. Notwithstanding the terms of any other provision of this Agreement or any other prior agreement to the contrary, if Executive breaches or threatens to breach any of the provisions of Section 7 of this Agreement, the Company shall have the right to seek and obtain injunctive or other relief in any court without the necessity of posting a bond or other form of security, and this Agreement shall not in any way limit remedies of law or in equity otherwise available to the Company. If an action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to recover, in addition to any other relief, reasonable attorneys' fees, costs and disbursements.

19. 409A. The parties intend that any amounts payable hereunder comply with or are exempt from Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A"). For purposes of Section 409A, each of the payments that may be made under this Agreement shall be deemed to be a separate payment for purposes of Section 409A. This Agreement shall be administered, interpreted and construed in a manner that does not result in the acceleration of

taxation or the imposition of additional taxes, penalties or interest under Section 409A. The Company and Executive agree to negotiate in good faith to make amendments to the Agreement, as the parties mutually agree are necessary or desirable to avoid the acceleration of taxation or the imposition of taxes, penalties or interest under Section 409A. With respect to the time of payments of any amounts under the Agreement that are “deferred compensation” subject to Section 409A, references in the Agreement to “termination of employment” (and substantially similar phrases) shall mean “separation from service” within the meaning of Section 409A. For the avoidance of doubt, it is intended that any expense reimbursement made or in-kind benefit provided to Executive hereunder shall be exempt from Section 409A. Notwithstanding the foregoing, if any expense reimbursement made or in-kind benefit provided hereunder shall be determined to be “deferred compensation” within the meaning of Section 409A, then (i) the amount of the expense reimbursement during one taxable year shall not affect the amount of the expense reimbursement during any other taxable year, (ii) the expense reimbursement shall be made on or before the last day of Executive’s taxable year following the year in which the applicable expense was incurred and (iii) the right to, expense reimbursement and in-kind benefits hereunder shall not be subject to liquidation or exchange for another benefit. Notwithstanding any other provision in this Agreement, if Executive is a “specified employee,” as defined in Section 409A, as of the date of termination, then to the extent any amount payable under this Agreement (i) constitutes the payment of “deferred compensation,” within the meaning of Section 409A, (ii) is payable upon Executive’s separation from service, within the meaning of Section 409A, and (iii) would be payable prior to the six-month anniversary of Executive’s separation from service, payment of such amount shall be delayed until and paid without interest upon the earlier to occur of (a) the date that is one day after the six-month anniversary of the date of such separation from service, or (b) the date of Executive’s death.

20. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which together shall be deemed to be one and the same instrument.

[Signatures appear on the following page.]

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

Executive:

/s/ Elizabeth M. Proudfit
Elizabeth M. Proudfit

NIC Inc.:

/s/ Harry H. Herington
Name: Harry H. Herington
Title: Chief Executive Officer

NIC EMPLOYMENT AGREEMENT FOR ELIZABETH A. THOMAS

THIS EMPLOYMENT AGREEMENT (this "Agreement") is made this the 27th day of October, 2020, by and between Elizabeth A. Thomas ("Executive") and NIC Inc., a Delaware corporation (the "Company").

RECITALS

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 on the terms and conditions in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and obligations contained herein, and intending to be legally bound, the parties agree as follows:

TERMS

1. Employment Term. Subject to the terms and conditions set forth herein, the Company agrees to continue to employ Executive, and Executive hereby accepts continued employment with the Company, as Chief of Staff of the Company (the "Position"), for a three (3)-year term (the "Employment Term"), commencing on October 27, 2020 (the "Commencement Date").

The Employment Term will automatically extend for successive three (3)-year periods (each a "Renewal Term" and each such Renewal Term together with the Employment Term shall be referenced collectively as the "Term") at the end of the Employment Term and any Renewal Term unless either the Company or Executive notifies the other in writing (a "Non-Renewal Notice") of a decision not to renew the Employment Term or the Renewal Term at least sixty (60) days prior to the end of the Employment Term or the Renewal Term, as applicable. Executive and the Company agree that Executive's employment with the Company constitutes "at-will" employment. Executive and the Company acknowledge this employment relationship may be terminated at any time, upon written notice to the other party, with or without good cause or for any or no cause, at the option either of the Company or Executive. However, as described in this Agreement, Executive may be entitled to severance benefits depending upon the circumstances of Executive's termination of employment.

2. Duties. During the Term, Executive shall serve the Company faithfully and to the best of Executive's ability, shall devote Executive's full attention, skill and efforts to the performance of the duties of the Position. Executive will render such business and professional services in the performance of Executive's duties, consistent with Executive's position within the Company, subject to the Company's discretion, and as assigned by the Chief Executive Officer. During the Term, Executive will devote Executive's full business efforts and time to the

Company and will use good faith efforts to discharge Executive's obligations under this Agreement to the best of Executive's ability.

3. Other Business Activities. For the duration of the Term, Executive agrees not to actively engage in any other employment, occupation, or consulting activity for any direct or indirect remuneration without the prior approval of the Chief Executive Officer; provided, however, that Executive may serve in any capacity with any civic, educational, or charitable organization, provided such services do not create a conflict of interest with, or otherwise interfere in any way with, Executive's obligations to the Company. Executive will not engage in other business activities or pursuits which are contrary to Executive's responsibilities and obligations pursuant to this Agreement.

4. Compensation.

a. Base Salary. As of the Commencement Date, the Company will pay Executive an annual salary of Two Hundred Eighty Three Thousand, Two Hundred and Fifty Nine Dollars (\$283,259) as compensation for services (such annual salary, as is then effective, to be referred to herein as "Base Salary"). The Base Salary will be paid periodically in accordance with the Company's normal payroll practices and be subject to the usual, required withholdings. Executive's salary will be reviewed annually by the Company, and adjustments may be made at the discretion of the Company.

b. Incentive Compensation. Executive shall be entitled to the same incentive compensation which the Company from time to time generally makes available to employees at the same level pursuant to the terms and conditions of the Company's incentive compensation plans and/or policies.

5. Benefits. Executive shall be entitled to those employee benefits which the Company from time to time generally makes available to employees ("Benefits") at the same level pursuant to the terms and conditions of the Company's benefit plans and/or policies.

6. Reimbursement of Business Expenses. Subject to such conditions as the Company may from time to time determine, including without limitation a requirement that Executive supply documentation to substantiate business expenses, Executive shall be reimbursed for ordinary and reasonable documented expenses incurred by Executive in the performance of Executive's duties under this Agreement. Any expense reimbursement made under this Section 6 will be subject to the terms of the Company's policies and procedures concerning business-expense reimbursements that are in place at the time that an expense is incurred.

7. Confidentiality. Executive recognizes and acknowledges that the Confidential Information (as hereinafter defined) is a valuable, special and unique asset of the Company. As a result, Executive shall not, without the prior written consent of the Company, for any reason, either directly or indirectly divulge to any third party or use for Executive's own benefit or for any purpose other than the exclusive benefit of the Company any confidential, proprietary, business or technical information or trade secrets of the Company or of any subsidiary or affiliate

of the Company (“Confidential Information”) revealed, obtained or developed in the course of Executive’s employment with the Company. Executive understands and acknowledges that Executive’s obligations under this Agreement with regard to any particular Confidential Information shall commence immediately upon the Executive first having access to such Confidential Information and shall continue during and after Executive’s employment until such time as such Confidential Information has become public knowledge other than as a result of the Employee’s breach of this Agreement or breach by those acting in concert with the Employee or on the Employee’s behalf. Such Confidential Information shall include, but shall not be limited to, intangible personal property, any information relating to methods of production, manufacture, service, research, specifications, computer codes, business, marketing and sales techniques and concepts, other data and materials used in performing the Executive’s duties (other than Executive’s personal contact list), costs, business studies, finances, marketing data, plans and efforts, the terms of contracts and agreements with clients, contractors and suppliers, litigation strategy and other Confidential Information relating to litigation, the Company’s relationship with actual and prospective customers, contractors and suppliers and the needs and requirements of, and the Company’s course of dealing with, any such actual or prospective customers, contractors and suppliers, personnel information, and any other materials that have not been made available to the industry; provided, that nothing herein contained shall restrict Executive’s ability to make such disclosures during the course of Executive’s employment as may be necessary or appropriate to the effective and efficient discharge of the duties required by or appropriate for Executive’s Position or as such disclosures may be required by law; and further provided, that nothing herein contained shall restrict Executive from divulging or using for Executive’s own benefit or for any other purpose any Confidential Information that is readily available to the general public so long as such information did not become available to the general public as a direct or indirect result of Executive’s breach of this Section 7.

Notwithstanding any provision in this Agreement to the contrary, in the event Executive is required by judicial or administrative process to disclose any Confidential Information, Executive may disclose that portion of the Confidential Information that Executive’s legal counsel advises is required to be disclosed; provided that, unless prohibited by applicable law, Executive shall notify the Company promptly and in advance of any such proposed disclosure, and Executive shall support the efforts of the Company to limit the scope of the disclosure or to obtain a protective order for such Confidential Information. In addition, and notwithstanding any provision in this Agreement to the contrary, under 18 U.S.C. §1833(b), “An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that (A) is made (i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. An individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual (A) files any document containing the trade secret under seal; and (B) does not disclose the trade secret, except pursuant to court order.” Nothing in this Agreement or any Company policy is intended to conflict with this statutory protection, and no

Company director, officer, or member of management has the authority to impose any rule to the contrary.

8 . Termination. Executive's employment with the Company is at-will and may be terminated at any time by either party for any lawful reason; provided, however, that Executive will be entitled to certain payments if he/she meets certain conditions set forth in this Section 8.

a. A termination "Without Cause" shall be a termination of the Executive's employment by the Company for any reason other than Just Cause.

b. As used in this Agreement, "Just Cause" means: (1) performance by Executive of any criminal conduct (whether or not finally determined to be so by a court of competent jurisdiction), or (2) Executive's misconduct or negligence in the performance of Executive's duties, or (3) Executive's refusal to carry out instructions in keeping with Executive's position at the Company, or (4) any breach of this Agreement by Executive, or (5) any violation or breach by Executive of the Company's employment policies, or (6) any dishonest act by Executive. The exercise of the right of the Company to terminate Executive's employment for Just Cause shall not abrogate or diminish any rights of, or remedies available to, the Company in respect of the action giving rise to such termination.

c. As used in this Agreement, "Good Reason" means Executive's termination of his 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, 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: (i) any material reduction by the Company in Executive's compensation, incentive awards or standard Company benefits (except for across-the-board reductions generally applicable to all senior executives of the Company), (ii) 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 (iii) without limiting the generality or effect of any of the foregoing, any material breach of this Agreement by the Company.

d. If the Executive's employment is terminated by the Company Without Cause or by the Executive with Good Reason, the Executive shall be entitled to the following, upon satisfying the Release Condition, subject to the terms of Section 9 and in lieu of any other severance entitlement or eligibility under this Agreement or any other contract or plan:

Severance Payment. Upon meeting the terms and conditions set forth in this Section, Executive shall receive an amount equal to six (6) months' salary (the "Payment"). To the extent a Payment is owed to the Executive, the Company shall pay to the Executive any Payment in installments via the Company's regular payroll practices following the Executive's termination.

The term "Release Condition" shall mean Executive's timely execution and non-revocation of a full, general release of claims, whose terms the Company shall determine and

provide within two (2) weeks following the termination of Executive's employment with the Company. In the event that the 21-day period for execution and non-revocation spans two tax years, payment shall be made or begin, as applicable, in the second tax year. Any installments that would have been made after termination of employment and prior to meeting the Release Condition will be made in one lump sum catch-up payment to Executive at the time payment is otherwise required to begin hereunder. For the avoidance of doubt, the Company shall have no obligation to present Executive with a general release to be signed following a termination for Just Cause or Executive's resignation without Good Reason. If the payment window spans two calendar years, the payment will be made in the second year.

e. If Executive's employment with the Company is terminated by the Company for Just Cause or by the Executive without Good Reason, then, (i) all payments of compensation by the Company to Executive hereunder will terminate immediately, and (ii) except for those statutorily mandated obligations of Company, all perquisites and benefits will immediately cease.

f. If a change of control of the Company occurs, and within either the six-month period ending on the change of control date or the 18-month period beginning on the change of control date, Executive's employment is terminated without Just Cause or Executive resigns for Good Reason, the Company shall make the Payment and, notwithstanding any contrary provisions of any 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), 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.

g. In addition to any amounts or benefits provided upon termination of employment hereunder and except as otherwise provided herein, the Executive shall be entitled to any payments or benefits explicitly provided under the terms of any plan, policy or program of the Company or as otherwise required by applicable law.

h. For the avoidance of doubt, Executive's receipt of severance payments or benefits under any subsection of Section 8 shall be in lieu of any severance payments or benefits available under any other subsection of Section 8, and in no event will Executive be entitled to duplicative or cumulative severance payments or benefits.

9. Conditions to Receipt of Severance.

a. Nondisparagement. Notwithstanding any other provision of this Agreement to the contrary, as a condition of receiving any severance payment under this Agreement, Executive shall refrain from making disparaging remarks, innuendos, gestures, insinuations, actions, or other verbal, nonverbal, written, electronic or other similar such expression concerning the Company.

b. Other Requirements. Notwithstanding any other provision of this Agreement to the contrary, as a condition of receiving any continued payments and/or benefits under Section 8(d), Executive must comply with the terms of Sections 7 and 9 of this Agreement. In the event Executive breaches Executive's obligations under the terms of Sections 7 or 9 of this Agreement, any obligation on behalf of the Company to make such payments or provide such benefits, except as otherwise required under law, will cease.

10. Survival of Provisions. The provisions of this Agreement set forth in Sections 7, 8, 9, and 18 hereof shall survive the termination of Executive's employment hereunder.

11. Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the Company's successors and assigns. This Agreement will be binding upon and inure to the benefit of (a) the heirs, executors, and legal representatives of Executive upon Executive's death, and (b) any successor of the Company, including without limitation any successor through merger or other similar transaction. For this purpose, "successor" means any person, Company, corporation, or other business entity which at any time, whether by purchase, merger, or otherwise, directly or indirectly acquires all or substantially all of the assets or business of the Company. None of the rights of Executive to receive any form of compensation payable pursuant to this Agreement may be assigned or transferred except by will or the laws of descent and distribution. Any other attempted assignment, transfer, conveyance, or other disposition of Executive's right to compensation or other benefits will be null and void.

12. Notice. Any notice or communication required or permitted under this Agreement shall be made in writing and sent by certified or registered mail, return receipt requested, addressed as follows:

If to Executive:

Elizabeth A. Thomas

If to the Company:

NIC Inc.
25501 West Valley Parkway
Suite 300
Olathe, KS 66061
Attention: William A. Van Asselt, General Counsel

or to such other address as either party may from time to time duly specify by notice given to the other party in the manner specified above.

13. Entire Agreement; Amendments. This Agreement contains the entire agreement and understanding of the parties hereto relating to the subject matter hereof, and supersedes all prior and contemporaneous discussions, agreements and understandings of every nature between the parties hereto relating to the employment of Executive with the Company; provided, however, nothing in this Agreement shall affect the enforceability of any restrictive covenant, confidentiality or invention-assignment agreement that Executive has previously entered with the Company (“Prior Agreements”). To the extent there are conflicts among any of the restrictive covenant, confidentiality or invention-assignment terms of this Agreement and any similar terms found within any Prior Agreements, such terms that provide the Company with the greatest level of enforceable protection shall be given effect. This Agreement may not be changed or modified, except by an Agreement in writing signed by each of the parties hereto.

14. Waiver. The waiver of the breach of any term or provision of this Agreement shall not operate as or be construed to be a waiver of any other or subsequent breach of this Agreement.

15. Governing Law. This Agreement shall be construed and enforced in accordance with the laws of the State of Kansas without giving effect to the choice of law principles of such state.

16. 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 validity of any other provision of this Agreement, and such provision(s) shall be deemed modified to the extent necessary to make it enforceable.

17. Section Headings. The section headings in this Agreement are for convenience only, and form no part of this Agreement and shall not affect its interpretation.

18. Specific Enforcement: Extension of Period. Executive acknowledges that the restrictions contained in Section 7 hereof are reasonable and necessary to protect the legitimate interests of the Company and its affiliates, and that the Company would not have entered into this Agreement in the absence of such restrictions. Executive also acknowledges that any breach by Executive of Section 7 hereof will cause continuing and irreparable injury to the Company for which monetary damages would not be an adequate remedy. The Executive shall not, in any action or proceeding to enforce any of the provisions of this Agreement, assert the claim or defense that an adequate remedy at law exists. Notwithstanding the terms of any other provision of this Agreement or any other prior agreement to the contrary, if Executive breaches or threatens to breach any of the provisions of Section 7 of this Agreement, the Company shall have the right to seek and obtain injunctive or other relief in any court without the necessity of posting a bond or other form of security, and this Agreement shall not in any way limit remedies of law or in equity otherwise available to the Company. If an action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to recover, in addition to any other relief, reasonable attorneys’ fees, costs and disbursements.

19. 409A. The parties intend that any amounts payable hereunder comply with or are exempt from Section 409A of the Internal Revenue Code of 1986, as amended (“Section 409A”). For purposes of Section 409A, each of the payments that may be made under this Agreement shall be deemed to be a separate payment for purposes of Section 409A. This Agreement shall be administered, interpreted and construed in a manner that does not result in the acceleration of taxation or the imposition of additional taxes, penalties or interest under Section 409A. The Company and Executive agree to negotiate in good faith to make amendments to the Agreement, as the parties mutually agree are necessary or desirable to avoid the acceleration of taxation or the imposition of taxes, penalties or interest under Section 409A. With respect to the time of payments of any amounts under the Agreement that are “deferred compensation” subject to Section 409A, references in the Agreement to “termination of employment” (and substantially similar phrases) shall mean “separation from service” within the meaning of Section 409A. For the avoidance of doubt, it is intended that any expense reimbursement made or in-kind benefit provided to Executive hereunder shall be exempt from Section 409A. Notwithstanding the foregoing, if any expense reimbursement made or in-kind benefit provided hereunder shall be determined to be “deferred compensation” within the meaning of Section 409A, then (i) the amount of the expense reimbursement during one taxable year shall not affect the amount of the expense reimbursement during any other taxable year, (ii) the expense reimbursement shall be made on or before the last day of Executive’s taxable year following the year in which the applicable expense was incurred and (iii) the right to, expense reimbursement and in-kind benefits hereunder shall not be subject to liquidation or exchange for another benefit. Notwithstanding any other provision in this Agreement, if Executive is a “specified employee,” as defined in Section 409A, as of the date of termination, then to the extent any amount payable under this Agreement (i) constitutes the payment of “deferred compensation,” within the meaning of Section 409A, (ii) is payable upon Executive’s separation from service, within the meaning of Section 409A, and (iii) would be payable prior to the six-month anniversary of Executive’s separation from service, payment of such amount shall be delayed until and paid without interest upon the earlier to occur of (a) the date that is one day after the six-month anniversary of the date of such separation from service, or (b) the date of Executive’s death.

20. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which together shall be deemed to be one and the same instrument.

[Signatures appear on the following page.]

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

Executive:

/s/ Elizabeth A. Thomas
Elizabeth A. Thomas

NIC Inc.:

/s/ Harry H. Herington
Name: Harry H. Herington
Title: Chief Executive Officer

CERTIFICATION

I, Harry Herington, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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: October 28, 2020

/s/ Harry Herington
Harry Herington
Chief Executive Officer

CERTIFICATION

I, Stephen M. Kovzan, certify that

1. I have reviewed this Quarterly Report on Form 10-Q 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: October 28, 2020

/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 Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 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: October 28, 2020

/s/ Harry Herington
Harry Herington
Chief Executive Officer

/s/ Stephen M. Kovzan
Stephen M. Kovzan
Chief Financial Officer