

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, 2018

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

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. (Check one):

Large accelerated filer

Non-accelerated filer

Emerging growth company

Accelerated filer

Smaller reporting company

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

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

On October 18, 2018, the registrant had 66,569,338 shares of common stock outstanding.

NIC INC.
Form 10-Q for the Quarter Ended September 30, 2018
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PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

| ASSETS | September 30, 2018 | December 31, 2017 |
|--|--------------------|-------------------|
| Current assets: | | |
| Cash | \$ 181,029 | \$ 160,777 |
| Trade accounts receivable, net | 98,900 | 103,938 |
| Prepaid expenses & other current assets | 13,861 | 12,843 |
| Total current assets | 293,790 | 277,558 |
| Property and equipment, net | 10,058 | 10,306 |
| Intangible assets, net | 12,149 | 5,214 |
| Deferred income taxes, net | — | 667 |
| Other assets | 1,916 | 1,986 |
| Total assets | \$ 317,913 | \$ 295,731 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 75,937 | \$ 88,920 |
| Accrued expenses | 23,469 | 26,501 |
| Other current liabilities | 3,713 | 3,673 |
| Total current liabilities | 103,119 | 119,094 |
| Other long-term liabilities | 8,922 | 8,395 |
| Total liabilities | 112,041 | 127,489 |
| Commitments and contingencies (Notes 2 and 3) | — | — |
| Stockholders' equity: | | |
| Common stock, \$0.0001 par, 200,000 shares authorized, 66,567 and 66,271 shares issued and outstanding | 7 | 7 |
| Additional paid-in capital | 116,341 | 111,275 |
| Retained earnings | 89,524 | 56,960 |
| Total stockholders' equity | 205,872 | 168,242 |
| Total liabilities and stockholders' equity | \$ 317,913 | \$ 295,731 |

See accompanying notes to the unaudited consolidated financial statements.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------------|------------------------------------|------------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues: | | | | |
| Portal revenues | \$ 80,884 | \$ 76,434 | \$ 248,230 | \$ 232,963 |
| Software & services revenues | 6,144 | 8,099 | 18,021 | 20,073 |
| Total revenues | <u>87,028</u> | <u>84,533</u> | <u>266,251</u> | <u>253,036</u> |
| Operating expenses: | | | | |
| Cost of portal revenues, exclusive of depreciation & amortization | 48,224 | 47,377 | 148,577 | 143,326 |
| Cost of software & services revenues, exclusive of depreciation & amortization | 2,226 | 3,169 | 6,689 | 6,803 |
| Selling & administrative | 14,690 | 12,091 | 41,844 | 36,882 |
| Depreciation & amortization | 2,441 | 1,810 | 6,651 | 5,111 |
| Total operating expenses | <u>67,581</u> | <u>64,447</u> | <u>203,761</u> | <u>192,122</u> |
| Operating income | 19,447 | 20,086 | 62,490 | 60,914 |
| Other income: | | | | |
| Interest income | 153 | — | 212 | — |
| Income before income taxes | 19,600 | 20,086 | 62,702 | 60,914 |
| Income tax provision | 3,698 | 6,066 | 14,280 | 20,140 |
| Net income | <u>\$ 15,902</u> | <u>\$ 14,020</u> | <u>\$ 48,422</u> | <u>\$ 40,774</u> |
| Basic net income per share | | | | |
| | <u>\$ 0.24</u> | <u>\$ 0.21</u> | <u>\$ 0.72</u> | <u>\$ 0.61</u> |
| Diluted net income per share | | | | |
| | <u>\$ 0.24</u> | <u>\$ 0.21</u> | <u>\$ 0.72</u> | <u>\$ 0.61</u> |
| Weighted average shares outstanding: | | | | |
| Basic | <u>66,562</u> | <u>66,267</u> | <u>66,476</u> | <u>66,188</u> |
| Diluted | <u>66,598</u> | <u>66,267</u> | <u>66,507</u> | <u>66,188</u> |

See accompanying notes to the unaudited consolidated financial statements.

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

| | Common Stock | | Additional Paid-in Capital | Retained Earnings | Total |
|---|--------------|--------|----------------------------------|----------------------|------------|
| | Shares | Amount | | | |
| Balance, January 1, 2018 | 66,271 | \$ 7 | \$ 111,275 | \$ 56,960 | \$ 168,242 |
| Net cumulative effect of adoption of accounting standard | — | — | — | 208 | 208 |
| Net income | — | — | — | 48,422 | 48,422 |
| Restricted stock vestings | 260 | — | — | — | — |
| Dividends declared | — | — | — | (16,138) | (16,138) |
| Dividend equivalents on unvested performance-based restricted stock awards | — | — | 68 | (68) | — |
| Dividend equivalents cancelled upon forfeiture of performance-based restricted stock awards | — | — | (140) | 140 | — |
| Shares surrendered and cancelled upon vesting of restricted stock to satisfy tax withholdings | (86) | — | (1,209) | — | (1,209) |
| Stock-based compensation | — | — | 4,965 | — | 4,965 |
| Issuance of common stock under employee stock purchase plan | 122 | — | 1,382 | — | 1,382 |
| Balance, September 30, 2018 | 66,567 | \$ 7 | \$ 116,341 | \$ 89,524 | \$ 205,872 |

See accompanying notes to the unaudited consolidated financial statements.

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

| | Nine Months Ended September 30, | |
|--|--|-------------------|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net income | \$ 48,422 | \$ 40,774 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for losses on accounts receivable | 350 | 447 |
| Depreciation & amortization | 6,651 | 5,111 |
| Stock-based compensation expense | 4,965 | 4,295 |
| Deferred income taxes | 1,043 | 723 |
| Loss on disposal of property and equipment | — | 44 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in trade accounts receivable, net | 4,688 | (1,492) |
| (Increase) decrease in prepaid expenses & other current assets | (1,018) | 3,253 |
| Decrease (increase) in other assets | 226 | (1,515) |
| (Decrease) in accounts payable | (12,983) | (5,907) |
| (Decrease) increase in accrued expenses | (3,032) | 1,397 |
| Increase in other current liabilities | 92 | 660 |
| Increase in other long-term liabilities | 151 | 806 |
| Net cash provided by operating activities | 49,555 | 48,596 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (4,000) | (3,319) |
| Proceeds from sale of property and equipment | — | 7 |
| Asset acquisition | (3,555) | — |
| Capitalized software development costs | (5,783) | (2,632) |
| Net cash used in investing activities | (13,338) | (5,944) |
| Cash flows from financing activities: | | |
| Cash dividends on common stock | (16,138) | (16,043) |
| Proceeds from employee common stock purchases | 1,382 | 1,330 |
| Tax withholdings related to stock-based compensation awards | (1,209) | (2,651) |
| Net cash used in financing activities | (15,965) | (17,364) |
| Net increase in cash | 20,252 | 25,288 |
| Cash, beginning of period | 160,777 | 127,009 |
| Cash, end of period | <u>\$ 181,029</u> | <u>\$ 152,297</u> |
| Other cash flow information: | | |
| Non-cash investing activities: | | |
| Capital expenditures accrued but not yet paid | \$ — | \$ 88 |
| Cash payments: | | |
| Income taxes paid, net | \$ 13,206 | \$ 18,490 |

See accompanying notes to the 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 accomplishes this currently through two channels: its primary outsourced portal businesses and its software & services businesses.

In its primary outsourced portal businesses, the Company generally designs, builds, and operates internet-based portals on an enterprise-wide basis on behalf of state and local governments desiring to provide access to government information and to complete secure government-based transactions through multiple online channels, including mobile devices. These portals consist of websites and applications the Company has built that allow consumers, such as businesses and citizens, to access government information online and complete transactions. 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 outsourced government portals. The Company's software & services businesses primarily include its subsidiaries that provide software development and digital government services, other than those services provided under state enterprise contracts, to federal agencies as well as state and local governments.

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 of 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, 2017, including the notes thereto, set forth in the Company's 2017 Annual Report on Form 10-K.

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, 2018.

Recently issued accounting pronouncements

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), a new standard related to revenue recognition. Under this standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. In addition, the standard requires expanded disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The FASB has issued several amendments to the standard, including clarification on accounting for licenses of intellectual property and identifying performance obligations.

On January 1, 2018, the Company adopted ASC 606, and all the related amendments, using the modified retrospective method for all contracts not completed as of the date of adoption. The adoption of ASC 606 represents a change in accounting principle for portal software development and services contracts that will more closely align revenue recognition with the delivery of Company's services, which under certain contracts will result in the recognition of revenue over time as opposed to at a point in

time. Upon adoption, there was not a significant cumulative adjustment to retained earnings on the Company's balance sheet for this change in accounting principle. Under the modified retrospective method, the comparative information was not restated and continues to be reported under the accounting standards in effect for those periods. The impact to revenues for the three and nine months ended September 30, 2018 was not significant as a result of applying ASC 606.

Leases

In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842), which will update the existing guidance on accounting for leases and require new qualitative and quantitative disclosures about the Company's leasing activities. The new standard requires the recognition of right-of-use ("ROU") assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. The new standard will become effective for the Company beginning with the first quarter 2019 and requires a modified retrospective transition approach. The Company plans on electing the package of transitional practical expedients upon adoption which, among other provisions, allows the Company to carry forward historical lease classification. The Company is currently evaluating the effects that the standard will have on its consolidated financial statements, which the Company anticipates could be significant, due mainly to its non-cancellable operating leases for office space. As further described in Note 7, Commitments and Contingencies, to the Company's 2017 Annual Report on Form 10-K, filed with the SEC on February 22, 2018, as of December 31, 2017, the Company had minimum lease commitments under non-cancellable operating leases totaling \$16.0 million.

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 current 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, the Company 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. The ASU will be effective for the Company beginning January 1, 2020, with early adoption permitted beginning January 1, 2019. Application of the standard will be through a cumulative-effect adjustment to retained earnings as of the effective date. The Company is currently evaluating the new standard and the estimated impact it will have on the Company's consolidated financial statements.

Revenue recognition

The Company accounts for revenue in accordance with ASC 606, which the Company adopted on January 1, 2018. In accordance with ASC 606, revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration which the Company expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements within the scope of ASC 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the Company will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, the Company assesses the goods or services promised within each contract and determines those that are performance obligations and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied. Sales and usage-based taxes, if applicable, are excluded from revenues.

Disaggregation of Revenue

The Company currently earns revenues from three main sources: (i) transaction-based fees, which consist of interactive government services (“IGS”), driver history records (“DHR”) and other transaction based revenues, (ii) portal software development & services and (iii) fixed fees for portal management services. The following table summarizes, by reportable and operating segment, our principal activities from which the Company generates revenue (in thousands):

| | Three Months Ended September 30, 2018 | | | Nine Months Ended September 30, 2018 | | |
|--|---------------------------------------|---------------------------|--------------------|--------------------------------------|---------------------------|--------------------|
| | Outsourced Portals | Other Software & Services | Consolidated Total | Outsourced Portals | Other Software & Services | Consolidated Total |
| IGS | \$ 51,085 | \$ — | \$ 51,085 | 156,463 | — | \$ 156,463 |
| DHR | 25,555 | — | 25,555 | 79,439 | — | 79,439 |
| Other | — | 6,144 | 6,144 | — | 18,021 | 18,021 |
| Total transaction-based | 76,640 | 6,144 | 82,784 | 235,902 | 18,021 | 253,923 |
| Portal software development & services | 3,006 | — | 3,006 | 8,615 | — | 8,615 |
| Portal management | 1,238 | — | 1,238 | 3,713 | — | 3,713 |
| Total revenues | \$ 80,884 | \$ 6,144 | \$ 87,028 | \$ 248,230 | \$ 18,021 | \$ 266,251 |

| | Three Months Ended September 30, 2017 | | | Nine Months Ended September 30, 2017 | | |
|--|---------------------------------------|---------------------------|--------------------|--------------------------------------|---------------------------|--------------------|
| | Outsourced Portals | Other Software & Services | Consolidated Total | Outsourced Portals | Other Software & Services | Consolidated Total |
| IGS | \$ 48,089 | \$ — | \$ 48,089 | \$ 144,194 | \$ — | \$ 144,194 |
| DHR | 25,936 | — | 25,936 | 79,787 | — | 79,787 |
| Other | — | 8,099 | 8,099 | — | 20,073 | 20,073 |
| Total transaction-based | 74,025 | 8,099 | 82,124 | 223,981 | 20,073 | 244,054 |
| Portal software development & services | 1,134 | — | 1,134 | 5,157 | — | 5,157 |
| Portal management | 1,275 | — | 1,275 | 3,825 | — | 3,825 |
| Total revenues | \$ 76,434 | \$ 8,099 | \$ 84,533 | \$ 232,963 | \$ 20,073 | \$ 253,036 |

Transaction-based revenues

The Company recognizes revenue from providing outsourced digital services to its government partners. Under these contracts, 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. The contractual promise to provide continuous access to each of these digital government services is a single stand-ready performance obligation.

Transaction-based fees earned by the Company are typically usage-based and calculated based on the number of transactions processed each day at the contractual net fee earned by the Company for each transaction. These usage-based fees are deemed to be variable consideration that meets the practical expedient within ASC 606-10-50-14(a) whereby the Company is not required to disclose the transaction price allocated to remaining performance obligations if the variable consideration is allocated entirely to a wholly unsatisfied performance obligation. Under these arrangements, the usage-based fees are fully constrained and recognized once the uncertainties associated with the constraint are resolved, which is when the related transactions occur each day.

The Company satisfies its performance obligation by providing access to applications over the contractual term, and by processing transactions as they are initiated by consumers. The performance obligation is satisfied on the day in which the Company provides the access and it is used by the consumer.

In most of its transaction-based revenue arrangements, the Company acts as an agent and recognizes revenue on a net basis. The gross transaction fees collected by the Company from consumers on behalf of its government partners are not recognized as

revenue but are accrued as accounts payable when the services are provided at the time of the transactions. The Company must remit a certain amount or a percentage of these fees to government agencies regardless of whether the Company ultimately collects the fees from the consumer. As a result, trade accounts receivable and accounts payable reflect the gross amounts outstanding at the balance sheet dates.

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

Portal software development and services revenues

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

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

Under its portal software development and services contracts, the Company typically does not have significant future performance obligations that extend beyond one year. As of September 30, 2018, the total transaction price allocated to unsatisfied performance obligations was approximately \$4.0 million.

Portal management revenues

Portal management revenues primarily consist of revenues from providing recurring fixed fee portal management services for the Company's government partner in Indiana. This contract has a single performance obligation to provide a broad scope of services to manage the digital government services for the state of Indiana. The Company satisfies its performance obligation by providing services to the state over time. The contract can be terminated without a penalty by the state with a 30-day notice, and accordingly, the period over which the Company performs services is commensurate with a month to month contract. Consideration consists of a fixed-monthly fee that is recognized monthly as the performance obligation is satisfied.

As of September 30, 2018, the Company's Indiana portal management contract had unsatisfied performance obligations for one month. The total transaction price allocated to the unsatisfied performance obligation is not significant.

Unearned Revenues

The Company records unearned revenues when cash payments are received or due in advance of the Company's satisfaction of the performance obligation(s). At each balance sheet date, the Company determines the portion of unearned revenues that will be earned within one year and records that amount in other current liabilities in the consolidated balance sheets. The remainder, if any, is recorded in other long-term liabilities. The Company does not assess whether a contract has a significant financing component if the expectation at contract inception is such that the period between payment by the customer and the transfer of the promised goods or services to the customer will be one year or less. Unearned revenues at September 30, 2018 and December 31, 2017 were approximately \$1.8 million and \$1.4 million, respectively. The change in the deferred revenue balance for the nine months ended September 30, 2018 is primarily driven by cash payments received or due in advance of satisfying our performance obligations, offset by \$3.9 million of revenues recognized that were included in the deferred revenue balance during the current year.

Intangible assets, net

The Company has finite-lived intangible assets that consists of capitalized software development costs and purchased software. In accordance with authoritative accounting guidance, intangible assets with finite lives are amortized over their estimated useful lives using the straight-line method, unless otherwise noted. The estimated economic life for finite-lived intangible assets is typically three years from the date the software is placed in production.

3. OUTSOURCED GOVERNMENT CONTRACTS

State enterprise contracts

The Company's outsourced state master 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 governments desiring to provide access to government information and to digitally complete government-based transactions. NIC typically markets the services and solicits consumers to complete government-based transactions and to enter into subscriber contracts permitting the user to access the portal 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 online transactions and data access services the Company provides and the division of revenues between the Company and the government agency. The government oversight authority must approve prices and revenue sharing agreements. The Company has limited control over the level of fees it is permitted to retain.

The Company is typically responsible for funding the up-front investments and ongoing operations and maintenance costs of digital government services, and generally owns all the intellectual property in connection with the applications developed under these contracts. After completion of a defined contract term or upon termination for cause, the government partner typically receives a perpetual, royalty-free license to use the applications and digital government services 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 its government partners on a software-as-a-service ("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 portal 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 44% of the Company's total consolidated revenues for the three and nine months ended September 30, 2018, respectively. 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 in its portal.

Under a typical state master contract, the Company is required to fully indemnify its government clients against claims that the Company's services infringe upon the intellectual property rights of others and against claims arising from the Company's performance or the performance of the Company's subcontractors under the contract. At September 30, 2018, the Company was bound by performance bond commitments totaling approximately \$5.8 million on certain outsourced portal contracts.

The following is a summary of the government contracts through which the Company currently generates significant revenue and has the ability to provide enterprise-wide outsourced digital government services to multiple government agencies:

| NIC Enterprise Contract | State | Year Services Commenced | Contract Expiration Date | Renewal Options Through |
|--------------------------------------|----------------|--------------------------------|---------------------------------|--------------------------------|
| NICUSA, IL Division | Illinois | 2017 | 6/29/2023 | 6/29/2027 |
| Louisiana Interactive, LLC | Louisiana | 2015 | 1/28/2020 | |
| Connecticut Interactive, LLC | Connecticut | 2014 | 1/9/2020 | |
| Wisconsin Interactive Network, LLC | Wisconsin | 2013 | 5/12/2021 | 5/13/2023 |
| Pennsylvania Interactive, LLC | Pennsylvania | 2012 | 11/30/2019 | 11/30/2022 |
| NICUSA, OR Division | Oregon | 2011 | 11/22/2021 | |
| NICUSA, MD Division | Maryland | 2011 | 8/10/2019 | |
| Mississippi Interactive, LLC | Mississippi | 2011 | 12/31/2019 | 12/31/2021 |
| NICUSA, NJ Division | New Jersey | 2009 | 4/30/2020 | 4/30/2022 |
| West Virginia Interactive, LLC | West Virginia | 2007 | 6/30/2021 | 6/30/2024 |
| Vermont Information Consortium, LLC | Vermont | 2006 | 6/8/2019 | |
| Colorado Interactive, LLC | Colorado | 2005 | 4/30/2019 | 4/30/2023 |
| South Carolina Interactive, LLC | South Carolina | 2005 | 7/15/2019 | 7/15/2021 |
| Kentucky Interactive, LLC | Kentucky | 2003 | 8/31/2020 | |
| Alabama Interactive, LLC | Alabama | 2002 | 3/19/2020 | 3/19/2022 |
| Rhode Island Interactive, LLC | Rhode Island | 2001 | 7/1/2019 | |
| Oklahoma Interactive, LLC | Oklahoma | 2001 | 3/31/2019 | 3/31/2020 |
| Montana Interactive, LLC | Montana | 2001 | 12/31/2019 | 12/31/2020 |
| Hawaii Information Consortium, LLC | Hawaii | 2000 | 1/3/2020 | |
| Idaho Information Consortium, LLC | Idaho | 2000 | 6/30/2019 | |
| Utah Interactive, LLC | Utah | 1999 | 6/5/2019 | |
| Maine Information Network, LLC | Maine | 1999 | 6/30/2020 | |
| Arkansas Information Consortium, LLC | Arkansas | 1997 | 6/30/2019 | |
| Indiana Interactive, LLC | Indiana | 1995 | 10/24/2021 | |
| Nebraska Interactive, LLC | Nebraska | 1995 | 3/31/2019 | 3/31/2021 |
| Kansas Information Consortium, LLC | Kansas | 1992 | 12/31/2022 | 12/31/2026 |

Outsourced federal contract

The Company’s subsidiary NIC Federal, LLC has 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. In 2018, the FMCSA extended the current contract through February 28, 2019. The contract can be terminated by the FMCSA without cause on a specified period of notice.

Expiring contracts

There are currently 10 contracts under which the Company provides state enterprise-wide outsourced digital government services that have expiration dates within the 12-month period following September 30, 2018. Collectively, revenues generated from these contracts represented approximately 34% and 33% of the Company’s total consolidated revenues for the three and nine months ended September 30, 2018, respectively. Although certain of these contracts have renewal provisions, any renewal is at the option of the Company’s government partner. As described above, if a contract is not renewed after a defined term, the government partner would be entitled to take over the portal in place, and NIC would have no future revenue from, or obligation to, such former government partner, except as otherwise provided in the contract.

As previously disclosed, Texas NICUSA, LLC (“Texas NICUSA”) was selected to provide payment processing services set forth in the Texas.gov 3.0 Procurement RFO (the “Texas RFO”), but was not selected to provide the portal operations, maintenance and

development services set forth in the Texas RFO. The legacy portal agreement between the state of Texas and Texas NICUSA expired on August 31, 2018 and the new payment processing services contract commenced on September 1, 2018. In April 2018, Texas NICUSA submitted a protest with the Texas Department of Information Resources (the "DIR") of the DIR's decision to award the contract relating to the portal operations, maintenance and development services to another vendor. In the protest, Texas NICUSA cited flaws in the procurement process and award decision. The protest was initially denied by the procurement department and appealed by Texas NICUSA to the DIR in May 2018. The appeal was denied, and Texas NICUSA's transition obligations concluded in September 2018. Our legacy Texas portal contract accounted for approximately 15% of the Company's total consolidated revenue for the three months ended September 30, 2018, and 18% of the Company's total consolidated revenue for the nine months ended September 30, 2018, and 20% for the three and nine months ended September 30, 2017.

In connection with the completion of the legacy Texas enterprise contract, the Company substantially reduced its workforce in Texas. Total one-time severance-related and transition costs, which have been recognized in cost of portal revenues in the unaudited consolidated statement of income in the outsourced portal segment, were approximately \$0.4 million and \$1.0 million in the three and nine months ended September 30, 2018, respectively.

4. ASSET ACQUISITION

During the third quarter of 2018, the Company entered into a purchase agreement to acquire certain prescription drug monitoring software technology assets of a Maryland-based, privately held company, Leap Orbit LLC ("Leap Orbit"). The purchase price consisted of cash consideration of approximately \$3.6 million and the potential of deferred consideration of approximately \$3.5 million if certain conditions under the agreement are met. The transaction was accounted for as an asset acquisition, as substantially all of the value related to the prescription drug monitoring program software technology acquired. See Note 5, Intangible Assets, Net for additional information.

5. INTANGIBLE ASSETS, NET

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

| | September 30, 2018 | | | December 31, 2017 | | |
|---------------------------|----------------------|--------------------------|----------------|----------------------|--------------------------|----------------|
| | Gross Carrying Value | Accumulated Amortization | Net Book Value | Gross Carrying Value | Accumulated Amortization | Net Book Value |
| Software development cost | \$ 19,393 | \$ (10,602) | \$ 8,791 | \$ 13,610 | \$ (8,396) | \$ 5,214 |
| Purchased software | 3,555 | (197) | 3,358 | — | — | — |
| Total | \$ 22,948 | \$ (10,799) | \$ 12,149 | \$ 13,610 | \$ (8,396) | \$ 5,214 |

During the nine months ended September 30, 2018, the Company recorded approximately \$3.6 million of intangible asset software purchases and related costs in connection with the Leap Orbit asset acquisition, as further discussed in Note 4, Asset Acquisition.

Amortization expense for intangible assets with finite lives was \$1.1 million and \$2.4 million for the three and nine months ended September 30, 2018, respectively, and \$0.6 million and \$1.4 million for the three and nine months ended September 30, 2017, respectively. Intangible asset amortization expense is currently expected to total \$1.4 million for the remainder of 2018, \$5.1 million for fiscal year 2019, \$4.0 million for fiscal year 2020 and \$1.8 million for fiscal year 2021.

6. 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 0.6 million for three and nine months ended September 30, 2017 and 0.7 million for the three and nine months ended September 30, 2018. 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, | |
|--|-------------------------------------|------------------|------------------------------------|------------------|
| | 2018 | 2017 | 2018 | 2017 |
| Numerator: | | | | |
| Net income | \$ 15,902 | \$ 14,020 | \$ 48,422 | \$ 40,774 |
| Less: Income allocated to participating securities | (172) | (129) | (525) | (381) |
| Net income available to common stockholders | <u>\$ 15,730</u> | <u>\$ 13,891</u> | <u>\$ 47,897</u> | <u>\$ 40,393</u> |
| Denominator: | | | | |
| Weighted average shares - basic | 66,562 | 66,267 | 66,476 | 66,188 |
| Performance-based restricted stock awards | 36 | — | 31 | — |
| Weighted average shares - diluted | <u>66,598</u> | <u>66,267</u> | <u>66,507</u> | <u>66,188</u> |
| Basic net income per share: | | | | |
| Net income | <u>\$ 0.24</u> | <u>\$ 0.21</u> | <u>\$ 0.72</u> | <u>\$ 0.61</u> |
| Diluted net income per share: | | | | |
| Net income | <u>\$ 0.24</u> | <u>\$ 0.21</u> | <u>\$ 0.72</u> | <u>\$ 0.61</u> |

7. STOCKHOLDERS' EQUITY

The Company's Board of Directors declared and paid the following dividends (payment in millions) during the periods presented:

| Declaration Date | Dividend per Share | Record Date | Payment Date | Payment |
|------------------|--------------------|-------------------|--------------------|---------|
| July 30, 2018 | \$0.08 | September 5, 2018 | September 19, 2019 | \$5.4 |
| May 1, 2018 | \$0.08 | June 5, 2018 | June 19, 2018 | \$5.4 |
| January 29, 2018 | \$0.08 | March 6, 2018 | March 20, 2018 | \$5.4 |
| July 31, 2017 | \$0.08 | September 6, 2017 | September 20, 2017 | \$5.3 |
| May 2, 2017 | \$0.08 | June 6, 2017 | June 20, 2017 | \$5.4 |
| January 30, 2017 | \$0.08 | March 7, 2017 | March 21, 2017 | \$5.3 |

On October 28, 2018, the Company's Board of Directors declared a regular quarterly cash dividend of \$0.08 per share, payable to stockholders of record as of December 4, 2018. The dividend, which is expected to total approximately \$5.4 million, will be paid on December 18, 2018, out of the Company's available cash.

8. INCOME TAXES

As previously disclosed, the Tax Cuts and Jobs Act (the "Tax Act") was signed into law in December 2017. The Tax Act, among other changes, reduced the statutory federal corporate income tax rate from 35.0% to 21.0%. The Company received the benefit of the reduced statutory federal corporate income tax rate starting January 1, 2018, which is partially offset by changes in certain deductions (most notably the elimination of the domestic production activities deduction). The Company has completed the assessment of the impact of the new tax legislation and no significant measurement period adjustments were recorded during the nine months ended September 30, 2018.

The following table reconciles the statutory federal tax rate and the Company's effective tax rate for the periods indicated:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|--------|------------------------------------|--------|
| | 2018 | 2017 | 2018 | 2017 |
| Statutory federal income tax rate | 21.0 % | 35.0 % | 21.0 % | 35.0 % |
| Tax deficit (benefit) from restricted stock vestings | — % | (0.1)% | 0.4 % | (0.8)% |
| Domestic production activities deductions | — % | (2.6)% | — % | (2.7)% |
| Federal and state tax credits | (4.5)% | (3.8)% | (2.5)% | (2.1)% |
| State income taxes | 3.2 % | 1.6 % | 2.6 % | 1.7 % |
| Uncertain tax positions | (2.1)% | (0.2)% | 0.4 % | 1.4 % |
| Nondeductible and other expenses | 1.3 % | 0.3 % | 0.9 % | 0.6 % |
| Effective federal and state income tax rate | 18.9 % | 30.2 % | 22.8 % | 33.1 % |

The Company's effective tax rate for the three and nine months ended September 30, 2018 reflects the release of reserves for the Company's liability for unrecognized income tax benefits due to the expiration of the statute of limitations for certain tax years and, to a lesser extent, an increase in the previously estimated research and development tax credit for the 2017 and 2018 tax years upon the filing of the Company's 2017 federal tax return during the current quarter.

The Company's effective tax rate for the three months ended September 30, 2017 reflects an increase in the previously estimated research and development tax credit for the 2016 and 2017 tax years upon the filing of the Company's 2016 federal tax return during the prior year quarter. For the nine months ended September 30, 2017, the Company's effective tax rate was also favorably impacted by benefits related to excess tax deductions for the vesting of restricted stock awards, which the Company began recognizing in the provision for income taxes in the first quarter of 2017 upon the adoption of ASU 2016-09.

9. STOCK BASED COMPENSATION

During the nine months ended September 30, 2018, 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 342,809 shares with a grant-date fair value totaling approximately \$4.8 million. Such restricted stock awards vest beginning one year from the date of grant in annual installments of 25%. In addition, during the nine months ended September 30, 2018, non-employee directors of the Company were granted service-based restricted stock awards totaling 54,584 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, 2018, the Compensation Committee of the Board of Directors of the Company granted to certain executive officers performance-based restricted stock awards pursuant to the terms of the Company's executive compensation program totaling 177,730 shares with a grant-date fair value totaling approximately \$2.4 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, 2020. 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);
- Total consolidated revenue growth (three-year compound annual growth rate); and
- Return on invested capital (three-year average).

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

At December 31, 2017, the three-year performance period related to the performance-based restricted stock awards granted to certain executive officers on February 23, 2015 ended. Based on the Company's actual financial results from 2015 through 2017, no shares or dividend equivalent shares were earned. The 91,820 shares subject to the awards were forfeited in the first quarter of 2018.

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 upon 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, | |
|--|---|-----------------|--|-----------------|
| | 2018 | 2017 | 2018 | 2017 |
| Cost of portal revenues, exclusive of depreciation & amortization | \$ 365 | \$ 319 | \$ 1,166 | \$ 976 |
| Cost of software & services revenues, exclusive of depreciation & amortization | 36 | 22 | 112 | 66 |
| Selling & administrative | 1,480 | 776 | 3,686 | 3,253 |
| Stock-based compensation expense | <u>\$ 1,881</u> | <u>\$ 1,117</u> | <u>\$ 4,964</u> | <u>\$ 4,295</u> |

10. REPORTABLE SEGMENT AND RELATED INFORMATION

The Outsourced Portals segment is the Company's only reportable segment and generally includes the Company's subsidiaries operating outsourced state and local government portals under state enterprise contracts. The Other Software & Services category primarily includes the Company's subsidiaries that provide software development and digital government services other than those services provided under state enterprise contracts, to federal agencies as well as other state and local governments. Each of the Company's businesses within the Other Software & Services category is an operating segment and has been grouped together to form the Other Software & Services category, as none of the operating segments meets 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, evaluates the performance of its segments and allocates resources to them is operating income (loss) before income taxes. Segment assets or other segment balance sheet information is not presented to the Company's chief operating decision maker. Accordingly, the Company has not presented information relating to segment assets.

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

| | <u>Outsourced Portals</u> | <u>Other Software & Services</u> | <u>Other Reconciling Items</u> | <u>Consolidated Total</u> |
|-----------------------------|-------------------------------|--|------------------------------------|-------------------------------|
| 2018 | | | | |
| Revenues | \$ 80,884 | \$ 6,144 | \$ — | \$ 87,028 |
| Costs & expenses | 48,224 | 2,226 | 14,690 | 65,140 |
| Depreciation & amortization | 683 | 22 | 1,736 | 2,441 |
| Operating income (loss) | <u>\$ 31,977</u> | <u>\$ 3,896</u> | <u>\$ (16,426)</u> | <u>\$ 19,447</u> |
| 2017 | | | | |
| Revenues | \$ 76,434 | \$ 8,099 | \$ — | \$ 84,533 |
| Costs & expenses | 47,377 | 3,169 | 12,091 | 62,637 |
| Depreciation & amortization | 670 | 25 | 1,115 | 1,810 |
| Operating income (loss) | <u>\$ 28,387</u> | <u>\$ 4,905</u> | <u>\$ (13,206)</u> | <u>\$ 20,086</u> |

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

| | <u>Outsourced Portals</u> | <u>Other Software & Services</u> | <u>Other Reconciling Items</u> | <u>Consolidated Total</u> |
|-----------------------------|-------------------------------|--|------------------------------------|-------------------------------|
| 2018 | | | | |
| Revenues | \$ 248,230 | \$ 18,021 | \$ — | \$ 266,251 |
| Costs & expenses | 148,577 | 6,689 | 41,844 | 197,110 |
| Depreciation & amortization | 2,490 | 78 | 4,083 | 6,651 |
| Operating income (loss) | <u>\$ 97,163</u> | <u>\$ 11,254</u> | <u>\$ (45,927)</u> | <u>\$ 62,490</u> |
| 2017 | | | | |
| Revenues | \$ 232,963 | \$ 20,073 | \$ — | \$ 253,036 |
| Costs & expenses | 143,326 | 6,803 | 36,882 | 187,011 |
| Depreciation & amortization | 2,023 | 72 | 3,016 | 5,111 |
| Operating income (loss) | <u>\$ 87,614</u> | <u>\$ 13,198</u> | <u>\$ (39,898)</u> | <u>\$ 60,914</u> |

The Company's contracts with the state of Texas, which consist of the legacy portal contract that expired on August 31, 2018, and the new payment processing contract that commenced on September 1, 2018, combined, accounted for approximately 18% of the Company's total consolidated revenues for the three months ended September 30, 2018 and 19% of the Company's total consolidated

revenues for the nine months ended September 30, 2018. The Company's legacy Texas portal contract accounted for approximately 20% of the Company's total consolidated revenues for the three and nine months ended September 30, 2017. The Company's portal contract with the state of Colorado accounted for approximately 10% of the Company's total consolidated revenues for the three months ended September 30, 2018. No other government partner 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

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 portal contracts and new projects under existing portal contracts, the expected length of contract terms, statements relating to the our business plans, objectives and expected operating results, statements relating to our expected effective tax rate and the potential effect of tax law changes, statements relating to possible future dividends and share repurchases, statements relating to the Texas procurement process, statements regarding the expected effects of changes in accounting standards, statements of assumptions underlying such statements, 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 2017 Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on February 22, 2018.

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; risks related to the outcome of the Texas procurement process; competition; general economic conditions; and the other factors discussed 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 2017 Annual Report on Form 10-K filed on February 22, 2018 with the SEC. Investors should read all of these discussions of risks carefully.

All forward-looking statements made in this 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 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.

WHAT WE DO – AN EXECUTIVE SUMMARY

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 currently through two channels: our primary outsourced portal businesses and our software & services businesses.

In our primary outsourced portal businesses, we generally enter into contracts primarily 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. Our portals consist of websites and applications that we build, which allow businesses and citizens to access government information through multiple online channels, including mobile, and complete secure transactions. These transactions include applying for a permit, retrieving government records, or filing a government-mandated form or report. We help increase our government partners' revenues by expanding the distribution of their information assets and increasing the number of financial transactions conducted with governments. We do this by marketing digital government services and soliciting users to complete government-based transactions and to enter into subscriber contracts that permit users to access the portal and the government information contained therein in exchange for transactional and/or subscription user fees. We are

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

On behalf of our government partners, we enter into statements of work with various agencies and divisions of the government to provide specific services and to conduct specific transactions. These statements of work preliminarily establish the pricing of the online transactions and data access services we provide and the division of revenues between us and the government agency. The government oversight authority must approve prices and revenue sharing agreements. We have limited control over the level of 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, proprietary customer management, billing, payment processing and other software applications that we have developed and standardized centrally are provided to our government partners on a SaaS basis, and thus would not be included in any royalty-free license. If our contract expires after a defined term or if our contract is terminated by our government partner for cause, the government agency would be entitled to take over the portal in place, and NIC would have no future revenue from, or obligation to, such former government partner, except as otherwise provided in the contract. We also provide certain payment processing services on a SaaS basis to a few private sector entities and to state and local agencies in states where we do not maintain an enterprise-wide outsourced portal contract, and may continue to market these services to other entities in the future. Historically, revenues from these services have not been significant, but have grown in recent years. In some cases, we enter into contracts to provide consulting, software development and portal management services to governments in exchange for an agreed-upon fee.

For information on our key contracts, refer to Note 3, Outsourced Government Contracts, in Part I, Item 1 of this 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.

As previously disclosed, Texas NICUSA was selected to provide payment processing services set forth in the Texas RFO, but was not selected to provide the portal operations, maintenance and development services set forth in the Texas RFO. The legacy portal agreement between the state of Texas and Texas NICUSA expired on August 31, 2018, and the new payment processing services contract commenced on September 1, 2018. In April 2018, Texas NICUSA submitted a protest with the Texas Department of Information Resources (the "DIR") of the DIR's decision to award the contract relating to the portal operations, maintenance and development services to another vendor. In the protest, Texas NICUSA cited flaws in the procurement process and award decision. The protest was initially denied by the procurement department in May 2018 and appealed by Texas NICUSA to the DIR in May 2018. The appeal was denied, and Texas NICUSA's transition obligations concluded in September 2018.

The contract under which our subsidiary, NICUSA Inc. ("NICUSA"), managed digital government services for the state of Tennessee expired on March 31, 2017. For the nine-month period ended September 30, 2017, revenues from the Tennessee portal contract were approximately \$1.8 million.

OVERVIEW OF BUSINESS MODELS

We classify our revenues and cost of revenues into two categories: (1) outsourced portal and (2) software & services. The outsourced portal category includes revenues and cost of revenues primarily from our subsidiaries operating state and local government portals on an outsourced basis under state enterprise contracts. The software & services category primarily includes revenues and cost of revenues from our subsidiaries that provide software development and digital government services, other than those services provided under state enterprise contracts, to federal agencies as well as state and local governments. The primary categories of operating expenses include: cost of portal revenues, cost of software & services revenues, selling & administrative and depreciation & amortization. Cost of portal revenues consists of all direct costs associated with operating government portals on an outsourced basis including employee compensation and benefits (including stock-based compensation), fees required to process credit/debit card and automated clearinghouse transactions, subcontractor labor costs, communication costs, provision for losses on accounts receivable, and all other costs associated with the provision of dedicated client service such as dedicated facilities. Cost of software & services revenues consists of all direct project costs to provide software development and services such as employee compensation and benefits (including stock-based compensation), subcontractor labor costs, and all other direct project costs including hardware, software, materials, travel and other out-of-pocket expenses. Selling & administrative expenses consist primarily of corporate-level expenses relating to human resource management, administration, information technology, security, legal, finance and

accounting, internal audit and all non-customer service related costs from the Company's software & services businesses, including compensation and benefits, information systems and office rent. Selling & administrative expenses also consist of management incentive compensation, including stock-based compensation, and corporate-level expenses for market development and public relations.

We currently earn revenues from three main sources: transaction-based fees, portal software development and services and portal management. Each of these revenue types are further described below.

- Transaction-based:
 - IGS: our portal business earns transaction-based fees from interactive government services, referred to as IGS, from sources other than digital access to motor vehicle driver history records, for transactions conducted by business users and consumer users through our portals and which are generally recurring. For a representative listing of the IGS applications we currently offer through our portals, refer to Part I, Item 1 in our 2017 Annual Report on Form 10-K, filed with the SEC on February 22, 2018.
 - DHR: our portal business earns transaction-based fees from driver history records, referred to as DHR, for providing digital access to motor vehicle driver history records from our state portals to data resellers, insurance companies, and other pre-authorized customers on behalf of our state partners, and which are generally recurring.
 - Other: our software & services business earns a significant portion of its revenues from transaction-based fee contracts, most notably is NIC Federal's contract with the FMCSA to develop and manage the PSP for motor carriers nationwide.
- Portal software development and services: these are 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 portal management revenues and are not generally recurring. As a result, these revenues are excluded from our recurring portal revenue percentage.
- Portal management: these are revenues from the performance of fixed fee portal management services for our government partner in the state of Indiana which are generally recurring.

CRITICAL ACCOUNTING POLICIES

We have updated our revenue recognition policies in conjunction with the adoption of ASC 606 as further described in Note 2 in the Notes to the Unaudited Financial Statements in Part I, Item 1 of this Form 10-Q. There have been no other 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, 2017, filed with the SEC on February 22, 2018.

RESULTS OF OPERATIONS

The following discussion summarizes the significant factors affecting operating results for the three and nine months ended September 30, 2018 and 2017. This discussion and analysis should be read in conjunction with our Unaudited Consolidated Financial Statements and the related Notes included in this Form 10-Q.

Our legacy Tennessee portal contract expired on March 31, 2017 and our legacy portal contract with the state of Texas expired on August 30, 2018. As a result, the operating results for these contracts have been removed from the same state category (portals in operation and generating comparable revenues for two full periods) for the three and nine months ended September 30, 2018. The operating results for our current Illinois contract and our Texas payment processing contract, which commenced on September 1, 2018, have also been removed from the same state category as they both did not generate revenues for two full comparable periods.

| Key Financial Metrics | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|-------------|--|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue growth - outsourced portals | 6 % | 2% | 7 % | 4% |
| Same state revenue growth - outsourced portals | 9 % | 5% | 9 % | 5% |
| Recurring portal revenue as a % of total portal revenues | 96 % | 99% | 97 % | 98% |
| Gross profit % - outsourced portals | 40 % | 38% | 40 % | 38% |
| Revenue growth - software & services | (24)% | 51% | (10)% | 27% |
| Gross profit % - software & services | 64 % | 61% | 63 % | 66% |
| Selling & administrative expenses as a % of total revenues | 17 % | 14% | 16 % | 15% |
| Operating income margin % (operating income as a % of total revenues) | 22 % | 24% | 23 % | 24% |

Portal Revenues

In the analysis below, we have categorized our portal revenues according to the underlying source of revenue (in thousands), with the corresponding percentage increase or decrease from the prior year period.

| Portal Revenue Analysis | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|--|---|------------------|-----------------|--|-------------------|-----------------|
| | 2018 | 2017 | % Change | 2018 | 2017 | % Change |
| IGS transaction-based | \$ 51,085 | \$ 48,089 | 6 % | \$ 156,463 | \$ 144,194 | 9 % |
| DHR transaction-based | 25,555 | 25,936 | (1)% | 79,439 | 79,787 | —% |
| Portal software development and services | 3,006 | 1,134 | 165 % | 8,615 | 5,157 | 67 % |
| Portal management | 1,238 | 1,275 | (3)% | 3,713 | 3,825 | (3)% |
| Total | \$ 80,884 | \$ 76,434 | 6 % | \$ 248,230 | \$ 232,963 | 7 % |

Portal revenues in the current quarter increased 6%, or approximately \$4.5 million, over the prior year quarter mainly due to an 9%, or approximately \$5.6 million, increase in same state portal revenues and a \$2.0 million increase in revenues from our Texas payment processing contract, partially offset by a \$3.2 million decrease in revenues from our legacy Texas portal contract due to the contract expiration on August 31, 2018.

Same state portal revenues grew 9% in the current quarter compared to 5% in the prior year quarter. The increase in same state portal revenues in the current quarter was primarily attributable to higher revenues from our South Carolina and Oklahoma portals, among others. Same state IGS revenues grew 11% in the current quarter compared to 10% in the prior year quarter. The growth in the current quarter was driven by several key services, including driver's license renewals in South Carolina and motor vehicle and income tax services in Oklahoma. Same state DHR revenues grew 4% in the current quarter compared to 1% in the prior year quarter. The increase in the current quarter was driven by a price increase in one of our states in addition to higher volumes across several states. Same state portal software development and services revenues increased 74% in the current quarter, due to higher project-based revenues mainly from our Indiana portal, among others.

Portal revenues in the current year-to-date period increased 7%, or approximately \$15.3 million, over the prior year-to-date period mainly due to an 9%, or approximately \$15.7 million, increase in same state portal revenues, an increase in revenues from our Texas payment processing contract of approximately \$2.0 million, and an increase in revenues from our Illinois contract of approximately \$0.6 million. These increases were partially offset by a \$1.8 million decrease in revenues from our legacy Tennessee portal contract due to the contract expiration on March 31, 2017 and a \$1.2 million decrease in revenues from our legacy Texas portal contract due to the contract expiration on August 31, 2018.

Same state portal revenues grew 9% in the current year-to-date period compared to 5% in the prior year-to-date period. The increase in same state portal revenues in the current year-to-date period was primarily attributable to higher revenues from our South Carolina and Colorado portals, among others. Same state IGS revenues grew 11% in the current year-to-date period compared to 10% in the prior year-to-date period. The growth in the current year-to-date period was driven by several key services, including driver's license renewals in South Carolina and motor vehicle and business registration filings in Colorado. Same state DHR revenues grew 3% in the current year-to-date period compared to 1% in the prior year-to-date period due mainly to a price increase in one of our states in addition to higher volumes across several states. Same state portal software development and services

revenues increased 29% in the current year-to-date period, due to higher project-based revenues mainly from our Indiana portal, among others.

Cost of Portal Revenues

In the analysis below, we have categorized our cost of portal revenues between fixed and variable costs (in thousands), with the corresponding percentage increase from the prior year period.

Fixed costs include costs such as employee compensation and benefits (including stock-based compensation), subcontractor labor costs, communication costs, provision for losses on accounts receivable, and all other costs associated with the provision of dedicated client service such as dedicated facilities.

Variable costs consist of costs that vary with our level of portal revenues and primarily include interchange fees required to process credit/debit card and automated clearinghouse transactions and, to a lesser extent, costs associated with revenue share arrangements with our state partners. A significant percentage of our IGS transaction-based revenues are generated from online applications whereby users pay for information or transactions via credit/debit cards. We typically earn a portion of the credit/debit card transaction amount, but also must pay an associated interchange fee to the bank that processes the credit/debit card transaction. We earn a lower incremental gross profit percentage on these transactions as compared to our DHR and other IGS transactions. However, we plan to continue to implement these services as they contribute favorably to our operating income.

| Cost of Portal Revenue Analysis | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|--|---|------------------|-----------------|--|-------------------|-----------------|
| | 2018 | 2017 | % Change | 2018 | 2017 | % Change |
| Fixed costs | \$ 27,121 | \$ 27,852 | (3)% | \$ 84,402 | \$ 83,780 | 1% |
| Variable costs | 21,103 | 19,525 | 8 % | 64,175 | 59,546 | 8% |
| Total | \$ 48,224 | \$ 47,377 | 2 % | \$ 148,577 | \$ 143,326 | 4% |

Cost of portal revenues in the current quarter increased 2%, or approximately \$0.8 million, over the prior year quarter due mainly to an increase in variable fees to process credit/debit card transactions, which was mainly due to higher IGS transaction volumes, as further discussed above.

Our portal gross profit percentage was 40% in the current quarter, up from 38% in the prior year quarter. The increase in portal gross profit percentage was mostly driven by higher revenues. We carefully monitor our portal 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 portal operations (which, we believe, also benefits our stockholders).

Cost of portal revenues in the current year-to-date period increased 4%, or approximately \$5.3 million, over the prior year-to-date period due mainly to an increase in variable fees to process credit/debit card transactions, which was mainly due to higher IGS transaction volumes, as further discussed above.

Our portal gross profit percentage was 40% in the current year-to-date period, up from 38% in the prior year-to-date period. The increase in portal gross profit percentage was mostly driven by higher revenues.

Software and Services Revenues

In the analysis below, we have categorized our software & services revenues by business (in thousands), with the corresponding percentage increase or decrease from the prior year period.

| Software & Services Revenue Analysis | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|-----------------|-----------------|--|------------------|-----------------|
| | 2018 | 2017 | % Change | 2018 | 2017 | % Change |
| NIC Federal | \$ 4,492 | \$ 6,671 | (33)% | \$ 12,796 | \$ 14,872 | (14)% |
| Other | 1,652 | 1,428 | 16% | 5,225 | 5,201 | —% |
| Total | \$ 6,144 | \$ 8,099 | (24)% | \$ 18,021 | \$ 20,073 | (10)% |

Software & services revenues declined 24% in the current quarter largely due to a significant one-time spike in revenues from the Senior Park Pass program with the United States National Park Service in the prior year quarter, which did not recur at the same level. Revenues from the Senior Park Pass program totaled approximately \$2.8 million in the prior year quarter. This also contributed to the 10% decrease in software & services revenues in the current year-to-date period.

Cost of Software and Services Revenues

Cost of software & services revenues in the current quarter decreased 30%, or approximately \$0.9 million, from the prior year quarter and decreased 2%, or approximately \$0.1 million, in the current year-to-date period from the prior year-to-date period. These decreases were due mainly to higher prior year costs to support the Senior Park Pass program, as described above, partially offset by higher employee compensation and benefit costs in the current year periods for our NIC Federal business related to start-up costs associated with subcontracting work for Booz Allen Hamilton on its Recreation.gov contract. Our software & services gross profit percentage in the current quarter increased to 64% compared to 61% in the prior year quarter, which was driven by the higher costs to support the Senior Park Pass program in the prior year quarter. Our software & services gross profit percentage in the current year-to-date period decreased to 63% from 66% in the prior year-to-date period largely driven by higher employee compensation and benefit costs for our NIC Federal business related to the Recreation.gov subcontract work described above.

Selling & Administrative

As a percentage of total consolidated revenues, selling & administrative expenses were 17% in the current quarter compared to 14% in the prior year quarter and 16% in the current year-to-date period compared to 15% in the prior year-to-date period. Selling & administrative expenses increased 21%, or approximately \$2.6 million, in the current quarter over the prior year quarter and increased 13%, or approximately \$5.0 million, in the current year-to-date period compared to the prior year-to-date period. The increases in both the current quarter and year-to-date periods were mainly driven by higher personnel costs to support business development and enhance company-wide information technology, including the continued development of the Company's citizen-centric Gov2Go® enterprise platform and enterprise microservices platform, and by higher incentive-based compensation.

Depreciation & Amortization

Depreciation & amortization expense in the current quarter increased approximately \$0.6 million, or 35%, compared to the prior year quarter, and approximately \$1.5 million, or 30%, in the current year-to-date period compared to the prior year-to-date period. These increases were driven primarily by the amortization of capitalized software development costs and technology investments made in prior periods and \$0.2 million of intangible asset amortization related to the Leap Orbit asset acquisition in the current quarter. See Notes 4 & 5 in the Notes to Unaudited Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q. We anticipate the intangible asset amortization related to the Leap Orbit acquisition to total approximately \$0.3 million for the remainder of 2018. In the event that we pay the additional deferred consideration of \$3.5 million, we currently anticipate amortization for this acquisition will be approximately \$2.3 million for fiscal year 2019.

Income Taxes

Our effective tax rate was approximately 18.9% for the current quarter compared to 30.2% in the prior year quarter. Our effective tax rate was 22.8% for the current year-to-date period compared to 33.1% in the prior year-to-date period. The lower effective tax rate in both the current quarter and year-to-date periods was driven mainly by a decrease in the statutory federal corporate income tax rate from 35% to 21% resulting from Tax Cut and Jobs Act (the "Tax Act"), which was signed into law in December 2017. The reduction in the statutory federal corporate income tax rate was partially offset by the elimination of certain deductions resulting from the Tax Act (most notably the domestic production activities deduction). Also contributing to the lower effective tax rate for the quarter and year-to-date periods was the release of reserves to our liability for unrecognized income tax benefits due to the expiration of the statute of limitations for certain tax years and, to a lesser extent, an increase in the previously estimated research and development tax credit for the 2017 and 2018 tax years upon the filing of our 2017 federal tax return during the current quarter. See Note 8, Income Taxes, in the Notes to Unaudited Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q for additional information.

Liquidity and Capital Resources

Operating Activities

Net cash provided by operating activities was \$49.6 million in the first nine months of 2018 compared to \$48.6 million in the first nine months of 2017. The increase was mainly the result of an increase in net income, partially offset by the timing of payments to our government partners.

Investing Activities

Net cash used in investing activities was \$13.3 million in the first nine months of 2018 compared to \$5.9 million in the first nine months of 2017. The increase in the current year-to-date period was primarily due to the Leap Orbit asset acquisition totaling approximately \$3.6 million. See Note 4, Asset Acquisition, in the Notes to Unaudited Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q for additional information. The increase in net cash used in investing activities was also driven by a \$3.2 million increase in capitalized software development costs relating mainly to our citizen-centric Gov2Go® enterprise platform, enterprise microservices platform and enterprise licensing and permitting platform.

Financing Activities

Net cash used in financing activities was \$16.0 million in the first nine months of 2018 compared to \$17.4 million in the first nine months of 2017. The decrease in the current year-to-date period was primarily due to a \$1.4 million decrease in tax withholdings related to the vesting of stock-based compensation awards.

Liquidity

We recognize revenues primarily from providing outsourced digital government services at the contractual net fee earned by the Company for each transaction. In these arrangements, the Company is 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 a majority of our accounts receivable prior to remitting amounts payable to our government partners.

We believe our working capital and current ratio are important measures of our short-term liquidity. Working capital, defined as current assets minus current liabilities, increased to \$190.7 million at September 30, 2018, from \$158.5 million at December 31, 2017. 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 2.8 and 2.3 at September 30, 2018 and December 31, 2017, respectively.

At September 30, 2018, our cash balance was \$181.0 million compared to \$160.8 million at December 31, 2017. 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 dividend payments (if any) 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 will allow 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 \$4.1 million in available capacity to issue additional letters of credit and \$9.1 million of unused borrowing capacity at September 30, 2018 under the Credit Agreement. We were in compliance with all of our covenants under the Credit Agreement at September 30, 2018.

We have issued letters of credit as collateral for office leases, and to a much lesser extent, as collateral for performance on our outsourced government portal contracts. These irrevocable letters of credit are generally in force for one year. Letters of credit may have an expiration date of up to one year beyond the expiration date of the Credit Agreement. We had unused outstanding letters of credit totaling approximately \$0.9 million at September 30, 2018, consisting of one letter of credit issued as collateral for an office lease and one letter of credit issued as collateral for performance on one of our outsourced government portal contracts. We are not currently required to cash collateralize these letters of credit. Our Credit Agreement matures on May 1, 2019.

At September 30, 2018, we were bound by performance bond commitments totaling approximately \$5.8 million on certain outsourced government portal contracts.

We currently expect our capital expenditures to range from approximately \$5.0 million to \$6.0 million in the fiscal year 2018, 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 outsourced portal 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 \$6.0 million to \$7.0 million. This estimate includes costs related to the enhancement of centralized customer management, billing and payment processing systems that support our business operations and accounting

systems in addition to our citizen-centric Gov2Go enterprise platform, enterprise microservices platform and enterprise licensing and permitting platform.

Dividends

We paid dividends totaling \$0.24 per common share (\$0.08 per quarter) during the first nine months of 2018 and 2017. The total cash dividends paid during the three and nine months ended September 30, 2018 was \$5.4 million and \$16.1 million, respectively, as compared to \$5.4 million and \$16.0 million, respectively, for the same periods in 2017.

On October 28, 2018, the Company's Board of Directors declared a regular quarterly cash dividend of \$0.08 per share, payable to stockholders of record as of December 4, 2018. The dividend, which is expected to total approximately \$5.4 million, will be paid on December 18, 2018, out of the Company's available cash.

Share Buyback Program

In March 2018, we announced that our Board of Directors had authorized a stock buyback program allowing the Company to repurchase up to \$25 million of our common stock. Share repurchases may be funded using our existing cash balance, future cash flows, or available line of credit. The number of shares purchased under the program and the timing of any purchases would be based on many factors, including the level our available cash, general business conditions, and pricing. The stock buyback program does not obligate us to acquire a specific number of shares and may be suspended, modified, or terminated at any time. Repurchases under the program may take place in the open market or in privately negotiated transactions, and may be made under a Rule 10b5-1 plan. No purchases have been made under this program.

Future Financing

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

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

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

Off-Balance Sheet Arrangements and Contractual Obligations

We had unused outstanding letters of credit totaling approximately \$0.9 million at September 30, 2018.

As of September 30, 2018, 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, 2017, filed with the SEC on February 22, 2018. While we have significant operating lease commitments for office space, except for our headquarters, those commitments are generally tied to the period of performance under related portal contracts. We have income tax uncertainties of approximately \$8.2 million at September 30, 2018. 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk. Our cash is primarily held in domestic non-interest bearing transaction bank accounts. We currently have no principal amounts of indebtedness outstanding under our line of credit.

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 2018 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

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, 2017, filed with the SEC on February 22, 2018.

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

Share Repurchases

During the third quarter of 2018, we acquired and cancelled shares of common stock surrendered by employees to pay income taxes due upon the vesting of restricted stock as follows:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (1) |
|---------------|---|-------------------------------------|---|---|
| July 17, 2018 | 929 | \$ 15.95 | N/A | N/A |
| July 19, 2018 | 1,483 | 16.30 | N/A | N/A |
| July 31, 2018 | 284 | 16.40 | N/A | N/A |
| Total | <u>2,696</u> | 16.19 | | |

(1) In March 2018, we announced that our Board of Directors had authorized a stock buyback program allowing the Company to repurchase up to \$25 million of our common stock. Share repurchases may be made in the open market or in privately negotiated transactions as permitted by securities laws and other legal requirements, and may be made under a Rule 10b5-1 plan. No purchases have been made under this program.

ITEM 6. EXHIBITS

- 10.1 [Employment agreement between the Registrant and William Van Asselt, dated July 29, 2018 \(incorporated by reference to Exhibit 10.1 to Form 10-Q \(File No. 000-26621\) filed with the SEC on August 1, 2018.](#)
- 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 September 30, 2018, formatted in XBRL (Extensible Business Reporting Language) includes (i) Consolidated Balance Sheets at September 30, 2018 (unaudited) and December 31, 2017, (ii) Consolidated Statements of Income (unaudited) for the three and nine months ended September 30, 2018 and 2017, (iii) Consolidated Statement of Changes in Stockholders' Equity (unaudited) for the nine months ended September 30, 2018, (iv) Consolidated Statements of Cash Flows (unaudited) for the nine months ended September 30, 2018 and 2017, and (v) the Notes to the Unaudited Consolidated Financial Statements (submitted electronically herewith).

* Filed herewith.

** Pursuant to Item 601(b)(32) of Regulation S-K, this Exhibit is furnished rather than filed with this 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: November 1, 2018

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

Exhibit 31.1

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: November 1, 2018

/s/ Harry Herington
Harry Herington
Chief Executive Officer

Exhibit 31.2

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: November 1, 2018

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

Exhibit 32.1

**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, 2018 (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: November 1, 2018

/s/ Harry Herington
Harry Herington
Chief Executive Officer

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