



NEWS RELEASE

For Immediate Release

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NIC Announces Second Quarter Financial Results

**Core portal operations post 49% revenue gain and 47% gross margins;
Company to focus on core portal business**

OVERLAND PARK, Kan. – August 1, 2002 – NIC Inc. (Nasdaq: EGOV) today announced financial results for the second quarter ended June 30, 2002. Revenues increased by 40% over second quarter 2001 to \$13.1 million. EBITDA from continuing operations was a loss of \$3.2 million for the quarter. Loss from continuing operations for the quarter was \$5.8 million, or \$0.10 per share. Including discontinued operations, net loss for the quarter was \$7.4 million, or \$0.13 per share. Following a comprehensive business review conducted during the quarter, the Company has decided to focus on its core portal business, has exited the eProcurement space, and is evaluating its transportation filing software business.

“With its recurring revenue and profitability, portal management is a great business for NIC,” said Jeff Fraser, Chief Executive Officer of NIC. “Our core operations once again performed above expectations this quarter by delivering 49% revenue growth and gross margins of 47%. Compared to the same quarter last year, gross profit rose by 203% and EBITDA grew by 351% in the portals. By every measurement, NIC’s portal system is delivering strong results.”

<u>Operating Highlights</u>						
Three months ended (thousands)						
	Portals			Software & Services		
	<u>2002</u>	<u>2001</u>	<u>Change</u>	<u>2002</u>	<u>2001</u>	<u>Change</u>
Revenues	\$ 9,150	\$ 6,144	49%	\$ 3,928	\$ 3,211	22%
Cost of Revenues	<u>4,838</u>	<u>4,719</u>	3%	<u>7,674</u>	<u>2,711</u>	183%
Gross Profit	\$ 4,312	\$ 1,425	203%	\$ (3,746)	\$ 500	-849%
Gross Profit %	47%	23%	24%	-95%	16%	-111%
EBITDA	\$ 3,539	\$ 784	351%	\$ (4,301)	\$ (1,138)	-278%

“We have the leading market share in the industry and now support government partners in 17 states and eight local jurisdictions,” continued Fraser. “Because of NIC’s successful track record in managing these long-term eGovernment engagements, we have decided to focus on our core portal operations, our California contract, and perhaps a small number of profitable but low-risk software contracts. We are committed to generating unparalleled value for our government partners and solid returns for our shareholders. By concentrating on the above, we can accelerate our return to profitability.”

Mr. Fraser noted that NIC has four primary operating objectives for the second half of the year:

- ? Expand the portal business with new and existing customers;
- ? Execute flawlessly within portal operations;
- ? Complete the rationalization of the software business; and
- ? Finish all legacy projects by the end of the year.

“We are already on track to meet these objectives,” said Fraser.

“Looking beyond the charges associated with our software and services division, the fundamentals of NIC’s business are quite strong,” said Eric Bur, NIC’s Chief Financial Officer. “Portal revenues grew by 49% over the second quarter of 2001, while the corresponding cost of portal revenues only increased by 3% during the same period. This clearly illustrates the leverage we derive by combining healthy organic growth and careful cost management in the portal business.

“The portal system posted 26% same state growth this quarter, which was driven by the deployment of 51 new revenue-generating applications,” continued Bur. “NIC’s portals also have more than 90 new revenue-generating online services in development, which we will benefit from in future quarters. We have also been successfully managing our selling and administrative expenses, which were 29% of revenues versus 50% a year ago.

“We expect these performance trends to continue and remain on track to report GAAP profitability in the fourth quarter of this year,” concluded Bur.

Second Quarter Operating Highlights

The Company’s operations were enhanced by new engagements and long-term contract renewals, including:

- A two-year application service provider agreement with the state of Vermont to build and host online services and to redesign its government portal; and
- Two-year contract renewals for NIC’s self-funding enterprise portal operations in Maine and Hawaii.

“NIC works closely with government to deploy eGovernment services at no cost upfront, and we share the revenues with our partners as we manage the systems over a period of several years.” said Fraser. “NIC has the

only proven self-funding business model that pays for government technology without taxpayer dollars, and this gives us a distinct competitive advantage. In particular, the National Governors Association recently reported that 45 states have reported revenue shortfalls in excess of \$50 billion this year. Governments continue to recognize that the self-funded solution is the best way to deliver eGovernment services, and we expect NIC to benefit as a result.”

The following operational milestones also occurred in the second quarter:

- eWashtenaw (www.eWashtenaw.org), the official government portal for Washtenaw County, Michigan, was launched; and
- Several NIC partner states were recognized in three significant eGovernment competitions, including:
 - o Kansas, Virginia, and Indiana received first-place rankings in the 2002 Digital State Survey, the country’s most comprehensive survey of eGovernment. Kansas (www.accessKansas.org) was ranked #1 in delivering social services and law enforcement & court services over the Internet. Virginia (www.myVirginia.org) also tied for first place in the social services category and earned the top spot for electronic commerce and online business regulation, while Indiana (www.IN.gov) was first in the eGovernment management & administration category.
 - o Virginia and Indiana were singled out for outstanding eGovernment services in the 2002 E-Gov Pioneer Awards, an international digital government competition. Virginia was recognized for its Live Help online customer service application, and Indiana received an award for its limited criminal history search system; and
 - o Kansas and Rhode Island received awards in the 2002 MIT Digital Government survey. Kansas was recognized for its online Job Link system for the Kansas Department of Human Resources (www.kansasjoblink.com) as well as for the Uniform Commercial Code filing program it built for the Kansas Secretary of State (www.kssos.org). Rhode Island was recognized for the enterprise payment engine it designed for the state’s official government portal (www.RI.gov).

Financial Highlights

For the quarter ended June 30, 2002, total revenues from continuing operations were \$13.1 million, a 40% increase over second quarter of 2001. Portal revenues were \$9.2 million, a 49% increase over last year’s second quarter. This increase was driven by same state revenue growth, which rose 26% over the second quarter of 2002, as well as by incremental revenues from recently installed portal platforms in Oklahoma, Montana, and Rhode Island.

Portal gross margins increased to 47% in the second quarter of 2002, compared to 23% in the prior year. This increase reflects leverage from same state revenue growth, which allows the Company to deliver

additional services through a relatively fixed cost base. The Company also cited a rise in the use of existing services as well as economies of scale from its network of 25 portal installations.

Software and services revenues were \$3.9 million, a 22% increase over second quarter 2001. The increase was driven primarily by revenue from the Company's corporate filing system installation for the California Secretary of State. Quarterly gross profit for software and services was negatively affected by a pre-tax \$4.3 million charge for the previously announced cost overruns on legacy business filing contracts in Arkansas, Minnesota, and Oklahoma.

In the second quarter, the Company formally exited the eProcurement portion of the software and services business. NIC has classified the results of operations of its NIC Commerce subsidiary as discontinued operations, and information reported for all periods reflects the new classification.

EBITDA (earnings before interest, taxes, depreciation, amortization, equity in net loss of affiliates, impairment loss, stock compensation, and discontinued operations) from continuing operations for the quarter ended June 30, 2002 was a loss of \$3.2 million, compared to a loss of \$2.8 million in the prior year. EBITDA in the current year quarter excludes a pretax impairment charge of \$4.3 million related primarily to the adjustment in carrying value of certain long-lived assets, consisting of goodwill related to the Company's IDT business, which the Company is currently evaluating (\$1.3 million), and intangible assets relating to the Company's contract with AOL (\$2.1 million).

The \$4.3 million charge included \$0.9 million related to cash carriage fee payments to AOL that the Company determined would not be recovered by expected future cash flows from its AOL business.

For the quarter ending June 30, 2002, loss from continuing operations was \$5.8 million, or \$0.10 per share, compared to \$8.7 million, or \$0.15 per share in the prior year quarter. Including discontinued operations, net loss was \$7.4 million, or \$0.13 per share in the current quarter, compared to \$9.8 million, or \$0.17 per share in the prior year quarter.

Second Quarter Earnings Call and Webcast Details

Webcast

Thursday, August 1, 2002

5:00 p.m. EDT

Call leaders: Jeff Fraser, Chairman and Chief Executive Officer
Eric Bur, Chief Financial Officer

To sign in and listen: The Webcast system can be accessed at www.nicusa.com.

Some users may need to refresh their browsers to view the Webcast. A replay of the Webcast will be available until September 2 by visiting www.nicusa.com. A replay of the call will also be available until August 8 by dialing 1-800-405-2236 and using passcode 433931.

About NIC

NIC delivers more Web-enabled government solutions than any other provider in the world. The Company is helping to transform the relationships between government and the communities it serves by providing convenient online government services that make life easier for businesses and citizens. Through partnerships at all levels of government, NIC manages transactions for over 1,000 state & local agencies that serve more than 49 million people in the United States. Recent news releases and other information are on NIC's Web site at www.nicusa.com.

The statements in this release regarding continued implementation of NIC's business model and its development of new products and services are forward-looking statements. 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, the success of the Company in signing contracts with new states and government agencies, including continued favorable government legislation; NIC's ability to develop new services; existing states and agencies adopting those new services; acceptance of eGovernment solutions by businesses and citizens; competition; and general economic conditions and the other important cautionary statements and risk factors described in NIC's Annual Report on Form 10-K filed on March 25, 2002, with the Securities and Exchange Commission, and in NIC's most recent Quarterly Report on Form 10-Q filed with the SEC.

(financial tables follow)

NIC INC.
FINANCIAL SUMMARY
(UNAUDITED)
Thousands except for per share amounts

	Three months ended June 30,		Six months ended June 30,	
	2002	2001	2002	2001
Revenues:				
Portal revenues	\$ 9,150	\$ 6,144	\$ 17,736	\$ 11,576
Software and services revenues	<u>3,928</u>	<u>3,211</u>	<u>7,542</u>	<u>5,351</u>
Total revenues	<u>13,078</u>	<u>9,355</u>	<u>25,278</u>	<u>16,927</u>
Operating expenses:				
Cost of portal revenues	4,838	4,719	9,896	9,061
Cost of software and services revenues	7,674	2,711	10,012	4,549
Selling and administrative	3,781	4,716	7,576	9,594
Impairment loss	4,316	-	4,316	-
Stock compensation	996	404	1,307	790
Depreciation and amortization	<u>938</u>	<u>8,156</u>	<u>1,866</u>	<u>16,272</u>
Total operating expenses	<u>22,543</u>	<u>20,706</u>	<u>34,973</u>	<u>40,266</u>
Operating loss	<u>(9,465)</u>	<u>(11,351)</u>	<u>(9,695)</u>	<u>(23,339)</u>
Other income (expense):				
Interest income	55	260	96	722
Interest expense	(21)	(4)	(33)	(10)
Equity in net loss of affiliates	(458)	(676)	(682)	(1,496)
Other income (expense), net	<u>(36)</u>	<u>(124)</u>	<u>(36)</u>	<u>(116)</u>
Total other income (expense)	<u>(460)</u>	<u>(544)</u>	<u>(655)</u>	<u>(900)</u>
Loss from continuing operations before income taxes and minority interest	(9,925)	(11,895)	(10,350)	(24,239)
Income tax benefit	<u>(4,090)</u>	<u>(3,223)</u>	<u>(4,101)</u>	<u>(6,387)</u>
Loss from continuing operations before minority interest	(5,835)	(8,672)	(6,249)	(17,852)
Minority interest	<u>-</u>	<u>10</u>	<u>-</u>	<u>(12)</u>
Loss from continuing operations	(5,835)	(8,682)	(6,249)	(17,840)
Discontinued operations:				
Loss from discontinued operations (less applicable income benefit of \$974, \$684, \$1,302, and \$1,457)	<u>(1,562)</u>	<u>(1,074)</u>	<u>(2,028)</u>	<u>(2,050)</u>
Net loss	<u>\$ (7,397)</u>	<u>\$ (9,756)</u>	<u>\$ (8,277)</u>	<u>\$ (19,890)</u>
Net loss per share - basic and diluted				
Loss per share - continuing operations	<u>\$ (0.10)</u>	<u>\$ (0.15)</u>	<u>\$ (0.11)</u>	<u>\$ (0.31)</u>
Loss per share - discontinued operations	<u>\$ (0.03)</u>	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>	<u>\$ (0.04)</u>
Net loss per share	<u>\$ (0.13)</u>	<u>\$ (0.17)</u>	<u>\$ (0.15)</u>	<u>\$ (0.35)</u>
Weighted average shares outstanding	<u>56,493</u>	<u>56,067</u>	<u>55,426</u>	<u>56,054</u>
Other Financial Data:				
EBITDA (1)	<u>\$ (3,215)</u>	<u>\$ (2,791)</u>	<u>\$ (2,206)</u>	<u>\$ (6,277)</u>
Reconciliation of EBITDA to net loss:				
EBITDA	\$ (3,215)	\$ (2,791)	\$ (2,206)	\$ (6,277)
Impairment loss	(4,316)	-	(4,316)	-
Stock compensation	(996)	(404)	(1,307)	(790)
Depreciation and amortization	(938)	(8,156)	(1,866)	(16,272)
Interest income	55	260	96	722
Interest expense	(21)	(4)	(33)	(10)
Equity in net loss of affiliates	(458)	(676)	(682)	(1,496)
Other income (expense), net	(36)	(124)	(36)	(116)
Income tax benefit	4,090	3,223	4,101	6,387
Minority interest	-	(10)	-	12
Loss from discontinued operations	<u>(1,562)</u>	<u>(1,074)</u>	<u>(2,028)</u>	<u>(2,050)</u>
Net loss	<u>\$ (7,397)</u>	<u>\$ (9,756)</u>	<u>\$ (8,277)</u>	<u>\$ (19,890)</u>

- (1) Represents net loss before interest, income taxes, depreciation and amortization, loss from discontinued operations and other noncash items presented in the table above. We report EBITDA because we believe that EBITDA provides investors with additional information for estimating our value and evaluating our ability to generate cash flow from operations. EBITDA is a commonly used financial measure and should not be construed as an alternative to operating income (loss) as determined in accordance with generally accepted accounting principles (GAAP). EBITDA as determined by the Company may not be comparable to EBITDA as reported by other companies. In addition, EBITDA is not intended to represent operating cash flow as determined in accordance with GAAP.

	Three months ended June 30,		Six months ended June 30,	
	2002	2001	2002	2001
Key Financial Metrics:				
Revenue growth - outsourced portals	48.9%	39.2%	53.2%	29.4%
Revenue growth - software and services	22.3%	64.5%	40.9%	142.6%
Gross margin - outsourced portals	47.1%	23.2%	44.2%	21.7%
Gross margin - software and services	-95.4%	15.6%	-32.7%	15.0%
Selling and administrative costs as a percentage of revenue	28.9%	50.4%	30.0%	56.7%

NIC INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
Thousands except for share amounts

	June 30, 2002	December 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,532	\$ 17,235
Marketable securities	7,624	4,066
Trade accounts receivable	14,194	12,194
Deferred income taxes	2,045	-
Prepaid expenses	442	1,156
Other current assets	<u>1,922</u>	<u>2,808</u>
Total current assets	34,759	37,459
Property and equipment, net	3,748	6,386
Deferred income taxes	35,166	31,757
Other assets	156	270
Investments in affiliates	1,201	1,501
Goodwill, net	-	1,255
Intangible assets, net	<u>295</u>	<u>3,185</u>
Total assets	<u>\$ 75,325</u>	<u>\$ 81,813</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 10,317	\$ 11,232
Accrued expenses	4,724	5,676
Income taxes payable	-	21
Capital lease obligations - current portion	9	14
Note payable - current portion	332	348
Application development contracts	5,258	3,962
Other current liabilities	<u>1,010</u>	<u>476</u>
Total current liabilities	21,650	21,729
Capital lease obligation - long-term portion	-	1
Note payable - long-term portion	<u>387</u>	<u>524</u>
Total liabilities	<u>22,037</u>	<u>22,254</u>
Commitments and contingencies	-	-
Shareholders' equity:		
Common stock, no par, 200,000,000 shares authorized 56,529,351 and 56,260,197 shares issued and outstanding	-	-
Additional paid-in capital	195,844	195,159
Accumulated deficit	(142,556)	(134,279)
Accumulated other comprehensive income	<u>-</u>	<u>1</u>
	53,288	60,881
Less notes and stock subscriptions receivable	-	(15)
Less deferred compensation expense	<u>-</u>	<u>(1,307)</u>
Total shareholders' equity	<u>53,288</u>	<u>59,559</u>
Total liabilities and shareholders' equity	<u>\$ 75,325</u>	<u>\$ 81,813</u>

NIC INC.
CASH FLOW SUMMARY
For the three months ended June 30, 2002
(UNAUDITED)
Thousands

EBITDA from continuing operations	\$ (3,215)
EBITDA from discontinued operations	(954)
Decrease in trade accounts receivable	1,097
Decrease in accounts payable & accrued expenses	(4,082)
Application development contracts	(1,302)
Reserve for application development contracts	4,300
Decrease in billings in excess of costs	(1,704)
Net change in other working capital items	(308)
Capital expenditures	(224)
Net investing and financing activities	<u>119</u>
Net decrease in cash and marketable securities	(6,273)
Cash and marketable securities, beginning of quarter	<u>22,429</u>
Cash and marketable securities, end of quarter	<u>\$ 16,156</u>
Unrestricted cash (1)	\$ 8,532

(1) As of June 30, 2002, all of the Company's marketable securities (\$7,624) have been pledged as collateral to secure letters of credit, performance bonds, a line of credit in conjunction with the Company's corporate credit agreement, and its bank note payable.

NOTE: This cash flow summary presents the major components of the net change in the Company's cash and marketable securities for the quarter ended June 30, 2002. We believe this information provides investors with a summarized tool for analyzing our cash flows.

The major differences between this summary and a statement of cash flows presented in accordance with GAAP are as follows: (1) this summary reconciles EBITDA (as defined above), not net loss, to the ending balance of cash and marketable securities; (2) this summary does not classify cash receipts and cash disbursements as specifically resulting from operating, investing, or financing activities; (3) this summary presents information for the current quarter only and does not present comparative information for the prior year period; and (4) this summary reconciles to the Company's combined cash and marketable securities balance, not to cash and cash equivalents. This cash flow summary should not be construed as an alternative to a consolidated statement of cash flows presented in accordance with GAAP.