



# NEWS RELEASE

*For Immediate Release*

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## NIC Returns to Profitability in the Third Quarter

**Company reports first profitable quarter since going public in 1999 with net income of \$0.2 million**

**Portal revenues increase 15% to \$8.9 million, driven by 16% same-state growth**

**Gross margin for outsourced portals at 43%, up from 30% in third quarter 2001**

**Relevance of NIC's self-funding model increases as government deficits grow**

**Rationalization of software businesses progressing on schedule**

OVERLAND PARK, Kan. – October 31, 2002 – NIC Inc. (Nasdaq: EGOV) today announced financial results for the third quarter ended September 30, 2002. Driven by a 15% increase in portal revenues, total revenues increased by 10% over third quarter 2001 to \$11.7 million. Net income for the quarter was \$212,000, compared with a net loss of \$38.7 million in the same quarter last year.

“I am pleased to report that NIC is once again a profitable company,” said Jeff Fraser, Chief Executive Officer of NIC. “Our results this quarter demonstrate that the strategic decisions we made in the second quarter have put the company back on track. In our core outsourced portal business, a strong recurring revenue base has combined with increased operating discipline to deliver 43% gross margins, compared to 30% in third quarter 2001. Meanwhile, the remaining legacy business filing projects are on schedule for completion by the end of the year and are within the reserves we recorded.”

<b>Operating Highlights</b>						
Three months ended September 30 (thousands)						
	<b>Portals</b>			<b>Software &amp; Services</b>		
	<u>2002</u>	<u>2001</u>	<u>Change</u>	<u>2002</u>	<u>2001</u>	<u>Change</u>
Revenues	\$ 8,898	\$ 7,747	15%	\$ 2,805	\$ 2,886	-3%
Cost of Revenues	<u>5,100</u>	<u>5,404</u>	-6%	<u>2,125</u>	<u>5,843</u>	-64%
Gross Profit	\$ <b>3,798</b>	\$ <b>2,343</b>	62%	\$ <b>680</b>	\$ <b>(2,957)</b>	123%
Gross Profit %	<b>43%</b>	<b>30%</b>	13%	<b>24%</b>	<b>-102%</b>	126%

“Despite ongoing budget deficits at the state and local government levels, our level of business development activity has increased significantly,” continued Fraser. “The marketplace has become increasingly receptive to

NIC's core self-funding business model because we help government leaders provide a new service delivery channel to citizens at no cost to taxpayers. Quite simply, NIC has the most compelling eGovernment message because we offer a fiscally responsible solution that generates efficiencies and provides political wins for governments. Since the restructuring of our sales efforts in May, we have increased the scope of our business development efforts by meeting with prospects in more than a dozen states."

During the third quarter, the fundamentals of NIC's operations continued to improve. Revenues in the core portal business increased by 15% over third quarter 2001, while the corresponding cost of portal revenues actually decreased by 6% during the same time period. "Portal management is a business that requires flawless execution, and our team is clearly the best in the industry," said Harry Herington, NIC's Chief Operating Officer. "We keep gaining leverage by finding new ways to market our partners' eGovernment services to a larger audience of Internet users while carefully controlling our costs.

"We are also managing our legacy business filing installations in the software and services business with a focus on meeting our commitments while containing costs," continued Herington. "Our obligation in Minnesota has been concluded, and the engagements in Arkansas and Oklahoma are operating within reserves and are on schedule for installation by year end."

### **Third Quarter Operating Highlights**

The following operational milestones occurred in the second quarter:

- Idaho renewed its self-funding enterprise portal contract for another two years.
- Official portals for the state of Vermont ([www.Vermont.gov](http://www.Vermont.gov)) and Corpus Christi, Texas ([www.ccTexas.com](http://www.ccTexas.com)) were launched.
- NIC partner states took top honors in two major government competitions.
  - o Tennessee's Web site ([www.TennesseeAnytime.org](http://www.TennesseeAnytime.org)) was ranked best in the nation overall in the third annual eGovernment survey by the Taubman Center for Public Policy at Brown University. The Utah portal ([www.Utah.gov](http://www.Utah.gov)) was ranked 10<sup>th</sup> overall, and Arkansas ([www.accessArkansas.org](http://www.accessArkansas.org)) earned the top spot in the interactive eGovernment services category; and
  - o NIC's partners won both the state and local government categories in the Center for Digital Government's 2002 Best of the Web competition. Virginia ([www.myVirginia.org](http://www.myVirginia.org)) was ranked the best state Web site in the country and Tampa ([www.TampaGov.net](http://www.TampaGov.net)) won the top honor for local government portals. Seven NIC partners were also ranked among the top state and local governments:
    - ~~///~~ Maine ([www.Maine.gov](http://www.Maine.gov)) – second place
    - ~~///~~ Indianapolis/Marion County ([www.CivicNet.net](http://www.CivicNet.net)) – third place
    - ~~///~~ Indiana ([www.IN.gov](http://www.IN.gov)) – fourth place
    - ~~///~~ Idaho ([www.accessIdaho.org](http://www.accessIdaho.org)) – finalist

~~///~~ Nebraska ([www.Nebraska.gov](http://www.Nebraska.gov)) – finalist

~~///~~ Tennessee – finalist

~~///~~ Nebraska county initiative ([www.Nebraska.gov/nebraskamap.html](http://www.Nebraska.gov/nebraskamap.html)) – honorable mention

“NIC builds eGovernment services that get results, and we’re honored to be partners with so many progressive governments,” concluded Fraser. “At the same time, we are certainly not resting on our laurels. NIC launched 59 revenue-generating applications in the third quarter and has more than 80 new transactional services in development that will drive future organic growth.”

### **Third Quarter Financial Highlights**

NIC is focused on maximizing earnings per share as the most appropriate measure of how the Company increases value for our shareholders. “NIC measures operating success by portal gross margins and same-state revenue growth, and we have been making good progress on both counts,” said Eric Bur, Chief Financial Officer of NIC. “In addition, we kept a tight rein on general and administrative expenses and made excellent progress improving our overall liquidity position. We are very pleased with the growth we have achieved this quarter, particularly against the backdrop of large state budget deficits.”

For the quarter ended September 30, 2002, total revenues from continuing operations were \$11.7 million, a 10% increase over third quarter 2001. Portal revenues were \$8.9 million, a 15% increase over last year’s third quarter. This increase was driven primarily by 16% same-state revenue growth and revenues from more than 50 newly launched eGovernment applications.

Portal gross margins increased to 43% in the third quarter of 2002, compared to 30% 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. “NIC operates 26 separate portal installations, and the economies of scale are working in our favor,” Bur continued. “Each quarter, more constituents across the country are discovering that conducting business electronically with government can save time and money, and this migration to online services will benefit our partners, investors, and NIC.”

Software and services revenues were \$2.8 million, a 3% decrease from third quarter 2001. This decrease was primarily attributable to IDT, the Company’s transportation filings business. As previously announced, NIC expects to close down the majority of IDT’s operations by the end of the year.

In the second quarter of 2002, NIC exited the eProcurement portion of its software and services business. The Company has classified the results of its NIC Commerce subsidiary as discontinued operations, and information reported for all periods reflects this classification.

For the quarter ending September 30, 2002, income from continuing operations was \$220,000, or \$0.00 per share, compared to a loss of \$38.1 million, or \$0.68 per share, in the prior year quarter. Including discontinued operations, net income was \$212,000, or \$0.00 per share, in the current quarter, compared to a net loss \$38.7 million, or \$0.69 per share, in the prior year quarter.

“Quarter after quarter, NIC continues to keep costs in check,” said Bur. “Selling and administrative costs were 28% of total revenues in the current quarter, compared to 29% last quarter and 44% in third quarter of 2001. We attribute this to careful management of NIC’s corporate-level expenses as well as the positive effects of the recent restructuring in our software and services businesses.”

NIC ended the quarter with \$15.5 million in cash and cash equivalents, down approximately \$600,000 from June 30, 2002. The Company’s portal business generated \$4.2 million in cash, which was offset primarily by spending on legacy business filing contracts and general corporate expenses. NIC also received \$1.0 million from the proceeds of exercised stock options during the quarter.

### **Company Guidance**

NIC expects the following results for the fourth quarter of 2002:

- ? Portal revenues are expected to be between \$8.0 and \$8.1 million.
- ? Software and services revenues are expected to be between \$2.6 and \$2.7 million.
- ? Net income is expected to be between \$100,000 and \$300,000.

The Company also expects the following results for 2003:

- ? Portal revenues are expected to be between \$37.5 and \$39.5 million.
- ? Total revenues are expected to be between \$44.0 and \$48.0 million.
- ? Net income is expected to be between \$2.1 and \$2.6 million, or \$0.04 per share.

“Our revenue forecasts do not include any new business wins and only reflect revenue and organic growth from existing contracts,” Bur concluded.

NIC's business outlook as of today will be available on the Company's investor relations Web site throughout the current quarter. NIC does not expect to update its outlook again until the next quarterly earnings announcement on January 30, 2003. However, NIC may update its quarterly or annual business outlook or any portion thereof at any time for any reason.

### **Third Quarter Earnings Call and Webcast Details**

#### ***Conference Call***

Thursday, October 31, 2002

9:00 a.m. ET

Call bridge: 1-800-218-8862

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

A replay of the call will be available until 5:00 p.m. ET on November 14 by dialing 1-800-405-2236 and using passcode 433932.

**Webcast**

Thursday, October 31, 2002

9:00 a.m. ET

To sign in and listen: The Webcast system can be accessed at [www.nicusa.com](http://www.nicusa.com).

Some users may need to refresh their browsers to view the Webcast. A replay of the Webcast will be available until December 15 by visiting [www.nicusa.com](http://www.nicusa.com).

**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 1,400 state & local agencies that serve more than 67 million people in the United States. Recent news releases are posted on NIC's Web site at [www.nicusa.com](http://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 September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
Revenues:				
Portal revenues	\$ 8,898	\$ 7,747	\$ 26,634	\$ 19,323
Software and services revenues	2,805	2,886	10,347	8,237
Total revenues	<u>11,703</u>	<u>10,633</u>	<u>36,981</u>	<u>27,560</u>
Operating expenses:				
Cost of portal revenues	5,100	5,404	14,996	14,465
Cost of software and services revenues	2,125	5,843	12,137	10,392
Selling and administrative	3,255	4,629	10,831	14,223
Impairment loss	-	36,997	4,316	36,997
Stock compensation	-	386	1,307	1,176
Depreciation and amortization	567	8,160	2,433	24,432
Total operating expenses	<u>11,047</u>	<u>61,419</u>	<u>46,020</u>	<u>101,685</u>
Operating income (loss)	<u>656</u>	<u>(50,786)</u>	<u>(9,039)</u>	<u>(74,125)</u>
Other income (expense):				
Interest income	38	165	134	887
Interest expense	(20)	(12)	(53)	(22)
Equity in net loss of affiliates	(286)	(541)	(968)	(2,037)
Other income (expense), net	-	42	(36)	(74)
Total other income (expense)	<u>(268)</u>	<u>(346)</u>	<u>(923)</u>	<u>(1,246)</u>
Income (loss) from continuing operations before income taxes and minority interest	388	(51,132)	(9,962)	(75,371)
Income tax provision (benefit)	168	(12,543)	(3,933)	(18,930)
Income (loss) from continuing operations before minority interest	220	(38,589)	(6,029)	(56,441)
Minority interest	-	(464)	-	(476)
Income (loss) from continuing operations	220	(38,125)	(6,029)	(55,965)
Discontinued operations:				
Loss from discontinued operations (less applicable income tax benefit of \$5, \$383, \$1,307, and \$1,840)	<u>(8)</u>	<u>(577)</u>	<u>(2,036)</u>	<u>(2,627)</u>
Net income (loss)	<u>\$ 212</u>	<u>\$ (38,702)</u>	<u>\$ (8,065)</u>	<u>\$ (58,592)</u>
Basic and diluted earnings (loss) per share				
Earnings (loss) per share - continuing operations	<u>\$ 0.00</u>	<u>\$ (0.68)</u>	<u>\$ (0.11)</u>	<u>\$ (1.00)</u>
Loss per share - discontinued operations	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.03)</u>	<u>\$ (0.05)</u>
Net earnings (loss) per share	<u>\$ 0.00</u>	<u>\$ (0.69)</u>	<u>\$ (0.14)</u>	<u>\$ (1.05)</u>
Weighted average shares outstanding				
Basic	<u>56,811</u>	<u>56,090</u>	<u>56,556</u>	<u>56,066</u>
Diluted	<u>57,006</u>	<u>56,090</u>	<u>56,556</u>	<u>56,066</u>

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2002	2001	2002	2001

**Key Financial Metrics:**

Revenue growth - outsourced portals	14.9%	72.6%	37.8%	43.8%
Revenue growth - software and services	-2.8%	91.5%	25.6%	121.8%
Gross margin - outsourced portals	42.7%	30.2%	43.7%	25.1%
Gross margin - software and services	24.2%	-102.5%	-17.3%	-26.2%
Selling and administrative costs as a percentage of revenue	27.8%	43.5%	29.3%	51.6%

**Other Financial Data:**

EBITDA (1)	<u>\$ 1,223</u>	<u>\$ (5,243)</u>	<u>\$ (983)</u>	<u>\$ (11,520)</u>
Reconciliation of EBITDA to net loss:				
EBITDA	\$ 1,223	\$ (5,243)	\$ (983)	\$ (11,520)
Impairment loss	-	(36,997)	(4,316)	(36,997)
Stock compensation	-	(386)	(1,307)	(1,176)
Depreciation and amortization	(567)	(8,160)	(2,433)	(24,432)
Interest income	38	165	134	887
Interest expense	(20)	(12)	(53)	(22)
Equity in net loss of affiliates	(286)	(541)	(968)	(2,037)
Other income (expense), net	-	42	(36)	(74)
Income tax benefit	(168)	12,543	3,933	18,930
Minority interest	-	464	-	476
Loss from discontinued operations	<u>(8)</u>	<u>(577)</u>	<u>(2,036)</u>	<u>(2,627)</u>
Net income (loss)	<u>\$ 212</u>	<u>\$ (38,702)</u>	<u>\$ (8,065)</u>	<u>\$ (58,592)</u>

- (1) Represents net income (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.

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

	September 30, 2002	December 31, 2001
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 8,375	\$ 17,235
Marketable securities	7,162	4,066
Trade accounts receivable	14,637	12,194
Deferred income taxes	1,208	-
Prepaid expenses	649	1,156
Other current assets	<u>2,560</u>	<u>2,808</u>
Total current assets	34,591	37,459
Property and equipment, net	3,560	6,386
Deferred income taxes	35,860	31,757
Other assets	178	270
Investments in affiliates	1,105	1,501
Goodwill, net	-	1,255
Intangible assets, net	<u>256</u>	<u>3,185</u>
Total assets	<u>\$ 75,550</u>	<u>\$ 81,813</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 11,259	\$ 11,232
Accrued expenses	4,996	5,676
Income taxes payable	-	21
Capital lease obligations - current portion	7	14
Note payable - current portion	332	348
Application development contracts	3,104	3,962
Other current liabilities	<u>1,020</u>	<u>476</u>
Total current liabilities	20,718	21,729
Capital lease obligation - long-term portion	-	1
Note payable - long-term portion	303	524
Total liabilities	<u>21,021</u>	<u>22,254</u>
Commitments and contingencies	-	-
Shareholders' equity:		
Common stock, no par, 200,000,000 shares authorized 57,347,336 and 56,260,197 shares issued and outstanding	-	-
Additional paid-in capital	196,873	195,159
Accumulated deficit	(142,344)	(134,279)
Accumulated other comprehensive income	<u>-</u>	<u>1</u>
Total shareholders' equity	54,529	60,881
Less notes and stock subscriptions receivable	-	(15)
Less deferred compensation expense	<u>-</u>	<u>(1,307)</u>
Total shareholders' equity	<u>54,529</u>	<u>59,559</u>
Total liabilities and shareholders' equity	<u>\$ 75,550</u>	<u>\$ 81,813</u>

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

EBITDA from continuing operations	\$ 1,223
EBITDA from discontinued operations	(12)
Increase in trade accounts receivable	(443)
Increase in accounts payable & accrued expenses	1,214
Application development contracts	(2,154)
Increase in billings in excess of costs	(634)
Net change in other working capital items	(345)
Capital expenditures	(341)
Net investing and financing activities	<u>873</u>
Net decrease in cash and marketable securities	(619)
Cash and marketable securities, beginning of quarter	<u>16,156</u>
Cash and marketable securities, end of quarter	<u><b>\$ 15,537</b></u>
Unrestricted cash (1)	<b>\$ 8,375</b>

(1) As of September 30, 2002, all of the Company's marketable securities have been pledged as collateral to secure letters of credit, performance bonds, a line of credit in conjunction with the Company's corporate credit card 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 September 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 income (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.