



2Q 2005 EARNINGS

For Immediate Release

Contact: Chris Neff
435-645-8898
cneff@nicusa.com

NIC Earns Four Cents Per Share on a 35 Percent Increase in Net Income During the Second Quarter

OLATHE, Kan. – July 28, 2005 – NIC Inc. (Nasdaq: EGOV) today reported net income of \$2.5 million and earnings per share of four cents on total revenues of \$15.6 million for the three months ended June 30, 2005. Driven by a 47 percent increase in non-driver record exchange (non-DMV) revenues in the core portal business, NIC's net income rose 35 percent over the same period last year. Operating income was \$3.9 million in the second quarter, up 24 percent over second quarter 2004.

2Q 2005 Operating Highlights			
Three months ended June 30 (thousands)			
	<u>2005</u>	<u>2004</u>	<u>Change</u>
Portal Revenues	\$ 14,386	\$ 12,255	17%
Portal Cost of Revenues	<u>7,093</u>	<u>6,189</u>	15%
Portal Gross Profit	\$ 7,293	\$ 6,066	20%
Portal Gross Profit %	51%	49%	
Operating Income	\$ 3,931	\$ 3,174	24%
Operating Income Margin %	25%	22%	
Net income	\$ 2,470	\$ 1,826	35%

The Company posted net income of \$1.8 million and earnings per share of three cents on total revenues of \$14.3 million in second quarter 2004.

For the second quarter of 2005, portal revenues were \$14.4 million, a 17 percent increase over the prior year quarter. On a same state basis, portal revenues grew 18 percent in the second quarter. NIC's online hunting & fishing license, professional license renewal, income tax filing, and vehicle registration renewal services performed well in the second quarter, helping same state revenues from non-DMV services to increase 50 percent over the prior year quarter. During the same period last year, same state non-DMV revenues grew 37 percent.

Driven partially by the launch of the South Carolina portal on June 1, revenues from driver record exchange (DMV) services grew 13 percent during the quarter. On a same state basis, DMV revenues increased 10 percent over second quarter 2004.

“NIC’s portal operations had another strong quarter, and we expect this trend to continue,” said Jeff Fraser, Chief Executive Officer of NIC. “Our second quarter performance reflects NIC’s ability to consistently build, enhance, and market revenue-generating services that constituents expect from government.”

In the second quarter, NIC’s portals launched 57 new non-DMV revenue-generating services and another 150 applications are in the development pipeline. “We see tremendous opportunity for our core business to build incremental applications that deliver value to our government partners as well as the citizens and businesses they serve,” said Harry Herington, NIC’s Chief Operating Officer.

In line with expectations, revenues for the software and services business in the second quarter were \$1.2 million, down 41 percent from the prior year quarter.

Selling and administrative expenses for the current quarter were \$3.3 million, up from \$2.9 million in the prior year quarter. As a percentage of revenue, selling and administrative expenses were flat at 21 percent on a year-over-year basis.

NIC ended the quarter with \$42.9 million in cash and marketable securities, up \$3.0 million from March 31, 2005.

“Our success in launching new non-DMV revenue-generating services, growing same state profits, and tightly managing corporate expenses demonstrates how NIC is effectively leveraging the self-funded business model,” concluded Herington.

Second Quarter Operating Highlights

During the second quarter, the Company’s portal operations were enhanced by the June 1 launch of the self-funded eGovernment portal for the state of South Carolina (www.mySCgov.com). Following a competitive bid process, NIC has secured a new five-year agreement to manage the state of Tennessee’s self-funded portal (www.Tennessee.gov), and long-term renewals were also granted by the states of Arkansas (www.Arkansas.gov) and Kansas (www.accessKansas.org).

“We welcome South Carolina to the NIC family and thank Tennessee, Arkansas, and Kansas for their ongoing votes of confidence. Our self-funded portals continue to thrive across the country by adding unparalleled value to governments and taxpayers,” concluded Fraser.

Third Quarter 2005 Outlook

For third quarter 2005, NIC expects total revenues of \$15.0 - \$15.5 million, portal revenues of \$14.2 - \$14.5 million, and software and services revenues of \$0.8 - \$1.0 million. The Company also anticipates operating income between \$3.6 - \$3.8 million and net income of \$2.1 - \$2.3 million.

“NIC’s projections do not include any new or unsigned contracts and also reflect our exit from the standalone local portal business, which generated \$1.0 million of low-margin revenue in 2004,” said Eric Bur, NIC’s Chief Financial Officer. “In line with our performance in first quarter, 97 percent of portal revenues should be transactional throughout 2005 as we swap the occasional portal software development project for recurring revenue opportunities.”

Second Quarter Earnings Webcast Details

Webcast Information

Thursday, July 28, 2005

9:00 a.m. (EDT)

Call leaders: Harry Herington, Chief Operating Officer
Eric Bur, Chief Financial Officer

To sign in and listen: The Webcast system is available at www.nicusa.com/investor.

Some users may need to refresh their browsers to view the Webcast information. A replay of the Webcast will be available until 5:00 p.m. (EDT) on October 27, 2005, by visiting www.nicusa.com/investor. An audio replay of the call will also be available until 11:00 p.m. (EDT) on August 4 by dialing 1-800-405-2236 and using passcode 11035119.

About NIC

NIC manages more eGovernment services than any provider in the world. The company is helping governments communicate more effectively with citizens and businesses by putting essential services online. NIC provides eGovernment solutions for 2,000 state and local agencies that serve more than 55 million people in the United States. Additional company information is available 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 services by businesses and citizens; competition; and general economic conditions and the other important cautionary statements and risk factors described in NIC’s 2004 Annual Report on Form 10-K/A filed on March 16, 2005, with the Securities and Exchange Commission.

(financial tables follow)

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

	Three months ended June 30,		Six months ended June 30,	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues:				
Portal revenues	\$ 14,386	\$12,255	\$ 28,047	\$ 24,486
Software & services revenues	<u>1,231</u>	<u>2,082</u>	<u>(1,150)</u>	<u>4,271</u>
Total revenues	<u>15,617</u>	<u>14,337</u>	<u>26,897</u>	<u>28,757</u>
Operating expenses:				
Cost of portal revenues, exclusive of depreciation & amortization	7,093	6,189	13,808	12,042
Cost of software & services revenues, exclusive of depreciation & amortization	948	1,649	3,325	3,729
Selling & administrative	3,277	2,945	6,559	6,177
Depreciation & amortization	<u>368</u>	<u>380</u>	<u>720</u>	<u>769</u>
Total operating expenses	<u>11,686</u>	<u>11,163</u>	<u>24,412</u>	<u>22,717</u>
Operating income	<u>3,931</u>	<u>3,174</u>	<u>2,485</u>	<u>6,040</u>
Other income (expense):				
Interest income	155	23	236	44
Interest expense	-	(4)	-	(9)
Equity in net loss of affiliates	-	(40)	-	(109)
Other income (expense), net	-	-	(3)	-
Total other income (expense)	<u>155</u>	<u>(21)</u>	<u>233</u>	<u>(74)</u>
Income before income taxes	4,086	3,153	2,718	5,966
Income tax provision	<u>1,616</u>	<u>1,327</u>	<u>1,145</u>	<u>2,538</u>
Net income	<u>\$ 2,470</u>	<u>\$ 1,826</u>	<u>\$ 1,573</u>	<u>\$ 3,428</u>
Basic and diluted earnings per share:	<u>\$ 0.04</u>	<u>\$ 0.03</u>	<u>\$ 0.03</u>	<u>\$ 0.06</u>
Weighted average shares outstanding:				
Basic	<u>59,832</u>	<u>58,870</u>	<u>59,618</u>	<u>58,807</u>
Diluted	<u>60,794</u>	<u>60,884</u>	<u>60,736</u>	<u>60,950</u>

Key Financial Metrics:

Revenue growth - outsourced portals	17%	21%	15%	23%
Same state revenue growth - outsourced portals	18%	18%	17%	20%
Revenue growth - software & services	(41%)	(24%)	(127%)	(22%)
Gross profit percentage - outsourced portals	51%	49%	51%	51%
Gross profit percentage - software & services	23%	21%	N/A	13%
Selling & administrative costs as a percentage of revenue	21%	21%	24%	21%
Operating income margin percentage	25%	22%	9%	21%

Portal Revenue Analysis (thousands):

DMV transaction-based	\$ 8,650	\$ 7,650	\$ 17,300	\$ 15,529
Non-DMV transaction-based	5,295	3,597	9,647	6,940
Software development & portal management	<u>441</u>	<u>1,008</u>	<u>1,100</u>	<u>2,017</u>
Total	<u>\$14,386</u>	<u>\$12,255</u>	<u>\$ 28,047</u>	<u>\$ 24,486</u>

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

	June 30, <u>2005</u>	December 31, <u>2004</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 34,898	\$ 30,769
Cash and cash equivalents - restricted	-	3,000
Marketable securities	8,000	-
Trade accounts receivable	22,323	17,610
Unbilled revenues	1,133	3,400
Deferred income taxes	807	433
Prepaid expenses & other current assets	<u>1,025</u>	<u>1,312</u>
Total current assets	68,186	56,524
Property and equipment, net	2,360	2,603
Unbilled revenues	979	2,404
Deferred income taxes	30,543	31,274
Other assets	<u>204</u>	<u>266</u>
Total assets	<u>\$102,272</u>	<u>\$ 93,071</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 19,372	\$ 14,394
Accrued expenses	5,200	6,266
Application development contracts	1,458	-
Other current liabilities	<u>120</u>	<u>151</u>
Total current liabilities	26,150	20,811
Commitments and contingencies	-	-
Shareholders' equity:		
Common stock, no par, 200,000,000 shares authorized 60,030,662 and 59,301,375 shares issued and outstanding	-	-
Additional paid-in capital	203,189	200,921
Accumulated deficit	<u>(126,883)</u>	<u>(128,456)</u>
Less treasury stock	76,306	72,456
Total shareholders' equity	<u>(184)</u>	<u>(205)</u>
Total liabilities and shareholders' equity	<u>\$102,272</u>	<u>\$ 93,071</u>

NIC Inc.
CASH FLOW SUMMARY
(UNAUDITED)
Thousands

	Three months ended June 30,		Six months ended June 30,	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:				
Net income	\$ 2,470	\$ 1,826	\$ 1,573	\$ 3,428
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation & amortization	368	381	720	769
Application development contracts	(65)	(21)	1,458	(19)
Deferred income taxes	1,619	1,228	1,037	2,376
Equity in net loss of affiliates	-	40	-	109
Changes in operating assets and liabilities				
(Increase) in trade accounts receivable	(1,875)	(199)	(4,713)	(2,685)
Decrease in unbilled revenues	25	5,232	3,692	3,715
(Increase) decrease prepaid expenses & other current assets	9	(14)	293	348
Decrease in other assets	68	-	62	2
Increase (decrease) in accounts payable	(90)	(2,333)	4,978	(1,470)
Increase (decrease) in accrued expenses	(72)	(212)	(1,066)	1,314
(Decrease) in other current liabilities	(8)	(43)	(31)	(15)
Net cash provided by operating activities	<u>2,449</u>	<u>5,885</u>	<u>8,003</u>	<u>7,872</u>
Cash flows from investing activities:				
Purchases of property and equipment	(342)	(229)	(478)	(855)
Purchases of marketable securities	(16,000)	-	(23,000)	-
Maturities of marketable securities	12,000	250	15,000	250
Proceeds from sale of affiliate	-	300	-	300
Net cash provided by (used in) investing activities	<u>(4,342)</u>	<u>321</u>	<u>(8,478)</u>	<u>(305)</u>
Cash flows from financing activities:				
Cash and cash equivalents - restricted	3,000	39	3,000	77
Payments on note payable	-	(39)	-	(77)
Proceeds from employee common stock purchases	-	-	122	117
Proceeds from exercise of employee stock options	870	74	1,482	216
Net cash provided by financing activities	<u>3,870</u>	<u>74</u>	<u>4,604</u>	<u>333</u>
Net increase in cash and cash equivalents	1,977	6,280	4,129	7,900
Cash and cash equivalents, beginning of period	32,921	15,160	30,769	13,540
Cash and cash equivalents, end of period	<u>\$ 34,898</u>	<u>\$ 21,440</u>	<u>\$34,898</u>	<u>\$21,440</u>