



3Q 2005 EARNINGS

For Immediate Release

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NIC Earns Four Cents Per Share on a 27 Percent Increase in Operating Income in the Third Quarter

OLATHE, Kan. – October 27, 2005 – NIC Inc. (Nasdaq: EGOV) today reported net income of \$2.4 million and earnings per share of four cents on total revenues of \$16.0 million for the three months ended September 30, 2005. In the prior year quarter, the Company posted net income of \$1.9 million and earnings per share of three cents on total revenues of \$13.4 million. Driven by a 46 percent increase in same state non-driver record exchange (non-DMV) revenues in the core portal business, operating income was \$3.9 million in the third quarter, up 27 percent over third quarter 2004.

3Q 2005 Operating Highlights

Three months ended September 30
(thousands)

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Portal Revenues	\$ 14,637	\$ 11,878	23%
Portal Cost of Revenues	<u>7,620</u>	<u>6,266</u>	22%
Portal Gross Profit	\$ 7,017	\$ 5,612	25%
Portal Gross Profit %	48%	47%	
Operating Income	\$ 3,851	\$ 3,028	27%
Operating Income Margin %	24%	23%	

Portal revenues were \$14.6 million, a 23 percent increase over the prior year quarter. On a same state basis, portal revenues grew 20 percent in the third quarter, up from 17 percent in third quarter 2004. NIC's professional license renewal, tax filing, vehicle tag renewal, and limited criminal history search services performed well in the third quarter, helping same state revenues from non-DMV services to increase 46 percent over the prior year quarter. During the same period last year, same state non-DMV revenues grew 37 percent.

Revenues from driver record exchange (DMV) services grew 20 percent in third quarter and were driven by the launch of the South Carolina portal earlier in the year. On a same state basis, DMV revenues increased 12 percent over third quarter 2004.

“In the third quarter, NIC’s portal business once again demonstrated that our self-funded business model remains strong and continues to deliver value to both shareholders and our government partners,” said Jeff Fraser, Chief Executive Officer of NIC.

The portal business launched 72 new non-DMV revenue-generating services in the third quarter.

“Revenue diversification is a key component of our long-term growth strategy, and we currently have more than 140 non-DMV fee-based services in the development pipeline,” said Harry Herington, NIC’s Chief Operating Officer.

Revenues for the software and services business in the third quarter were \$1.3 million, down 15 percent from the prior year quarter. Software and services results in the prior year quarter were positively affected by a \$0.4 million reduction in loss reserves related to legacy business filing contracts in Arkansas and Oklahoma.

In the California Secretary of State engagement, the Company has been advised that it will not be required to deliver the business entity phase of the project and is currently in discussions regarding the effects of reducing the project scope. “Our goals are to have a satisfied customer in the Secretary of State’s office and to minimize NIC’s financial exposure, and we are currently on track to meet both objectives,” said Eric Bur, NIC’s Chief Financial Officer.

Selling and administrative expenses for the current quarter were \$2.9 million, down from \$3.1 million in the prior year quarter. Selling and administrative expenses were 18 percent of revenue in the third quarter, down from 23 percent in third quarter 2004.

NIC ended the quarter with \$48.2 million in cash and marketable securities, up \$5.3 million from June 30, 2005. The Company’s cash and marketable securities have risen \$17.9 million since September 30, 2004.

Operating Highlights

In October, NIC completed agreements with all of the necessary parties in the state of Colorado (www.Colorado.gov) to manage its 18th self-funded state portal. For the second consecutive year, an NIC state partner was ranked first in the nation in Brown University’s 2005 eGovernment Survey. Utah (www.Utah.gov) earned the top spot, Maine (www.Maine.gov) finished second, and Tennessee (www.Tennessee.gov) was ranked sixth.

Five NIC partners were also top 10 finalists in the Center for Digital Government’s 2005 Best of the Web competition. Tennessee was ranked second, Indiana (www.IN.gov) placed third, and Virginia finished in fifth place. Alabama (www.Alabama.gov) and Nebraska (www.Nebraska.gov) were also ranked in the top 10.

“We thank Colorado for their vote of confidence and look forward to a long and productive partnership, and we congratulate all of our award-winning state partners,” concluded Herington.

Fourth Quarter 2005 Outlook

For fourth quarter 2005, NIC expects total revenues of \$14.4 - \$14.9 million, portal revenues of \$13.6 - \$13.9 million, and software and services revenues of \$0.8 - \$1.0 million. The Company also anticipates operating income between \$2.8 - \$3.0 million and net income of \$1.7 - \$1.9 million.

For full year 2005, NIC expects total revenues of \$54.4 – \$56.0 million, portal revenues of \$54.4 - \$55.7 million, and software and services revenues of \$0.3 million or less. The Company also anticipates operating income between \$9.3 - \$9.8 million and net income of \$5.6 - \$5.9 million.

“NIC’s projections do not include any new or unsigned contracts and also reflect our exit from the standalone local portal business earlier this year, which generated \$1.0 million of low-margin revenue in 2004. In line with our year-to-date performance, 97 percent of portal revenues should be transactional in 2005 as we swap the occasional portal software development project for recurring revenue opportunities,” concluded Bur. Fourth quarter 2005 guidance also reflects normal seasonality, which has historically resulted in a 5-10 percent decrease in portal DMV revenues.

Third Quarter Webcast Details

Thursday, October 27, 2005

9:00 a.m. (EDT)

Call leaders: Jeff Fraser, Chief Executive Officer
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. (EST) on January 26, 2006, by visiting www.nicusa.com/investor.

An audio replay of NIC’s third quarter earnings call will also be available until 11:00 p.m. (EST) on November 3 by dialing 1-800-405-2236 and using passcode 11041476.

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 September 30,		Nine months ended September 30,	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues:				
Portal revenues	\$ 14,637	\$11,878	\$ 42,684	\$ 36,363
Software & services revenues	<u>1,321</u>	<u>1,549</u>	<u>171</u>	<u>5,821</u>
Total revenues	<u>15,958</u>	<u>13,427</u>	<u>42,855</u>	<u>42,184</u>
Operating expenses:				
Cost of portal revenues, exclusive of depreciation & amortization	7,620	6,266	21,428	18,308
Cost of software & services revenues, exclusive of depreciation & amortization	1,117	720	4,442	4,449
Selling & administrative	2,948	3,052	9,507	9,229
Depreciation & amortization	<u>422</u>	<u>361</u>	<u>1,141</u>	<u>1,130</u>
Total operating expenses	<u>12,107</u>	<u>10,399</u>	<u>36,518</u>	<u>33,116</u>
Operating income	<u>3,851</u>	<u>3,028</u>	<u>6,337</u>	<u>9,068</u>
Other income (expense):				
Interest income	197	31	432	75
Interest expense	-	(2)	-	(11)
Equity in net loss of affiliates	-	-	-	(109)
Other income (expense), net	<u>-</u>	<u>14</u>	<u>(3)</u>	<u>14</u>
Total other income (expense)	<u>197</u>	<u>43</u>	<u>429</u>	<u>(31)</u>
Income before income taxes	4,048	3,071	6,766	9,037
Income tax provision	<u>1,661</u>	<u>1,122</u>	<u>2,806</u>	<u>3,660</u>
Net income	<u>\$ 2,387</u>	<u>\$ 1,949</u>	<u>\$ 3,960</u>	<u>\$ 5,377</u>
Basic and diluted earnings per share:	<u>\$ 0.04</u>	<u>\$ 0.03</u>	<u>\$ 0.07</u>	<u>\$ 0.09</u>
Weighted average shares outstanding:				
Basic	<u>60,271</u>	<u>59,065</u>	<u>59,838</u>	<u>58,894</u>
Diluted	<u>61,226</u>	<u>60,952</u>	<u>60,902</u>	<u>60,952</u>

Key Financial Metrics:

Revenue growth - outsourced portals	23%	19%	17%	22%
Same state revenue growth - outsourced portals	20%	17%	18%	19%
Revenue growth - software & services	(15%)	(47%)	(97%)	(31%)
Gross profit percentage - outsourced portals	48%	47%	50%	50%
Gross profit percentage - software & services	15%	54%	N/A	24%
Selling & administrative costs as a percentage of revenue	18%	23%	22%	22%
Operating income margin percentage	24%	23%	15%	21%

Portal Revenue Analysis (thousands):

DMV transaction-based	\$ 9,109	\$ 7,586	\$ 26,408	\$ 23,114
Non-DMV transaction-based	5,089	3,551	14,737	10,491
Software development & portal management	<u>439</u>	<u>741</u>	<u>1,539</u>	<u>2,758</u>
Total	<u>\$14,637</u>	<u>\$11,878</u>	<u>\$ 42,684</u>	<u>\$ 36,363</u>

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

	September 30, <u>2005</u>	December 31, <u>2004</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 32,299	\$ 30,769
Cash and cash equivalents - restricted	-	3,000
Marketable securities	15,900	-
Trade accounts receivable	22,318	17,610
Unbilled revenues	1,347	3,400
Deferred income taxes	952	433
Prepaid expenses & other current assets	<u>1,410</u>	<u>1,312</u>
Total current assets	74,226	56,524
Property and equipment, net	2,764	2,603
Unbilled revenues	1,465	2,404
Deferred income taxes	29,315	31,274
Other assets	<u>190</u>	<u>266</u>
Total assets	<u>\$107,960</u>	<u>\$ 93,071</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 20,899	\$ 14,394
Accrued expenses	5,964	6,266
Application development contracts	1,338	-
Other current liabilities	<u>116</u>	<u>151</u>
Total current liabilities	<u>28,317</u>	<u>20,811</u>
Commitments and contingencies	-	-
Shareholders' equity:		
Common stock, no par, 200,000,000 shares authorized 60,367,112 and 59,301,375 shares issued and outstanding	-	-
Additional paid-in capital	204,323	200,921
Accumulated deficit	<u>(124,496)</u>	<u>(128,456)</u>
	79,827	72,465
Less treasury stock	<u>(184)</u>	<u>(205)</u>
Total shareholders' equity	<u>79,643</u>	<u>72,260</u>
Total liabilities and shareholders' equity	<u>\$107,960</u>	<u>\$ 93,071</u>

NIC Inc.
CASH FLOW SUMMARY
(UNAUDITED)
Thousands

	Three months ended September 30,		Nine months ended September 30,	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:				
Net income	\$ 2,387	\$ 1,949	\$ 3,960	\$ 5,377
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation & amortization	422	361	1,141	1,130
Application development contracts	(120)	(446)	1,338	(465)
Deferred income taxes	1,473	882	2,510	3,258
Equity in net loss of affiliates	-	-	-	109
Changes in operating assets and liabilities				
(Increase) decrease in trade accounts receivable	5	1,815	(4,708)	(870)
(Increase) decrease in unbilled revenues	(700)	(121)	2,992	3,594
(Increase) decrease prepaid expenses & other current assets	(386)	(285)	(92)	63
Decrease in other assets	14	7	76	9
Increase (decrease) in accounts payable	1,527	(538)	6,505	(2,008)
Increase (decrease) in accrued expenses	764	(482)	(302)	832
(Decrease) in other current liabilities	<u>(4)</u>	<u>(28)</u>	<u>(35)</u>	<u>(43)</u>
Net cash provided by operating activities	<u>5,382</u>	<u>3,114</u>	<u>13,385</u>	<u>10,986</u>
Cash flows from investing activities:				
Purchases of property and equipment	(826)	(132)	(1,304)	(987)
Purchases of marketable securities	(7,900)	-	(30,900)	-
Maturities of marketable securities	-	-	15,000	250
Proceeds from sale of affiliate	<u>-</u>	<u>-</u>	<u>-</u>	<u>300</u>
Net cash used in investing activities	<u>(8,726)</u>	<u>(132)</u>	<u>(17,204)</u>	<u>(437)</u>
Cash flows from financing activities:				
Cash and cash equivalents - restricted	-	2,286	3,000	2,363
Payments on note payable	-	(286)	-	(363)
Proceeds from employee common stock purchases	-	-	122	117
Proceeds from exercise of employee stock options	<u>745</u>	<u>835</u>	<u>2,227</u>	<u>1,051</u>
Net cash provided by financing activities	<u>745</u>	<u>2,835</u>	<u>5,349</u>	<u>3,168</u>
Net increase (decrease) in cash and cash equivalents	(2,599)	5,817	1,530	13,717
Cash and cash equivalents, beginning of period	<u>34,898</u>	<u>21,440</u>	<u>30,769</u>	<u>13,540</u>
Cash and cash equivalents, end of period	<u>\$ 32,299</u>	<u>\$ 27,257</u>	<u>\$32,299</u>	<u>\$27,257</u>