



4Q 2005 EARNINGS

For Immediate Release

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NIC Announces Record Portal Revenues as Operating Income Rises 41 Percent in the Fourth Quarter

OLATHE, Kan. – January 26, 2006 – NIC Inc. (Nasdaq: EGOV) today reported net income of \$2.4 million and earnings per share of four cents on total revenues of \$16.4 million for the three months ended December 31, 2005. Continuing to meet strong demand for eGovernment services, NIC's core outsourced portal business contributed to a 41 percent increase in operating income over the same period last year. Operating income was \$3.9 million in the fourth quarter, compared to \$2.7 million a year ago.

4Q 2005 Operating Highlights			
Three months ended December 31			
(thousands)			
	<u>2005</u>	<u>2004</u>	<u>Change</u>
Portal Revenues	\$ 15,191	\$ 12,180	25%
Portal Cost of Revenues	<u>8,020</u>	<u>6,558</u>	22%
Portal Gross Profit	\$ 7,171	\$ 5,622	28%
Portal Gross Profit %	47%	46%	
Operating Income	\$ 3,855	\$ 2,732	41%
Operating Income Margin %	24%	20%	

The Company posted net income of \$1.7 million and earnings per share of three cents on total revenues of \$13.6 million in fourth quarter 2004.

Quarterly portal revenues of \$15.2 million were the highest in the Company's history, up 25 percent over the prior year quarter. On a same state basis, portal revenues grew 13 percent in the fourth quarter, compared to a 22 percent increase during the same period a year ago. NIC's online hunting and fishing license, limited criminal history search, tax payment, and professional license renewal services performed well in the fourth quarter, helping same state revenues from non-driver record exchange (non-DMV) applications to rise 31 percent.

Driven partially by the fourth quarter launch of the Colorado portal and a full quarter of revenues from the South Carolina portal, total DMV revenues grew 25 percent during the quarter. Same state DMV revenues rose 3 percent over fourth quarter 2004, reflecting an anticipated return to an inflation-adjusted growth rate following two consecutive years of DMV fee increases in various partner states.

“Thanks to the hard work of our employees across the country, NIC continues to deliver in-demand eGovernment services to our 18 state partners as well as the citizens and businesses they serve,” said Jeff Fraser, Chief Executive Officer of NIC. “At a time when residents expect government to provide a higher level of service at a lower cost, we are well-positioned to help our state partners meet these rising demands by building and managing new online government services.”

In the fourth quarter, NIC’s portals launched 81 new non-DMV revenue-generating services and another 150 applications are in the development pipeline. “We now have more than a thousand unique eGovernment services in operation across our portals, and NIC will continue to focus on innovation as we expand our base of revenue-generating applications in the future,” said Harry Herington, NIC’s Chief Operating Officer.

Revenues for the software and services business in the fourth quarter were \$1.2 million, down 14 percent from the prior year quarter.

Selling and administrative expenses for the fourth quarter were \$3.1 million, up from \$2.8 million in the prior year quarter. Selling and administrative expenses were 19 percent of revenue in the current quarter, down from 21 percent in the fourth quarter of 2004.

NIC ended the year with approximately \$57.4 million in cash and investments, up \$9.2 million from September 30, 2005, and a \$23.6 million increase from December 31, 2004.

Full-Year 2005 Performance

For fiscal year 2005, portal revenues rose 19 percent to \$57.9 million and non-DMV revenues grew 37 percent over 2004. On a same state basis, portal revenues grew 17 percent and non-DMV revenues rose 41 percent. Selling and administrative expenses as a percentage of revenue were 21 percent in 2005, down from 22 percent in 2004. Operating income was \$10.2 million for the year, down from \$11.8 million in 2004. The Company earned 11 cents per share in 2005 (10 cents on a fully diluted basis), compared to 12 cents per share in 2004. Results for 2005 include a \$5.0 million pretax charge recorded in the first quarter relating to NIC’s software and services engagement with the California Secretary of State. Absent this charge, the Company would have posted operating income of \$15.1 million (a 28 percent increase over 2004) and earnings per share of 16 cents in 2005 (15 cents on a fully diluted basis).

2005 Operating Highlights			
Twelve months ended December 31			
(thousands)			
	<u>2005</u>	<u>2004</u>	<u>Change</u>
Portal Revenues	\$ 57,875	\$ 48,544	19%
Portal Cost of Revenues	<u>29,448</u>	<u>24,866</u>	18%
Portal Gross Profit	\$ 28,427	\$ 23,678	20%
Portal Gross Profit %	49%	49%	
Operating Income	\$ 10,191	\$ 11,800	(14)%
Operating Income Margin %	17%	21%	

“Healthy portal growth and careful management of overhead expenses contributed to another strong year for NIC,” said Eric Bur, NIC’s Chief Financial Officer. “Several of our portals performed above expectations, which contributed to the 20 percent portal gross profit growth in 2005. Our portal gross profit percentage for 2005 remained constant at 49 percent, which reflects ongoing investments in our portal operations. We also continued to run a lean corporate office, with selling and administrative expenses rising just five percent year-over-year.”

Operating Highlights

During the fourth quarter, the Company’s portal operations were enhanced by the launch of its 18th self-funded eGovernment portal for the state of Colorado (www.Colorado.gov). Following a competitive bid process, NIC also secured a new agreement for up to five years to manage the state of Alabama’s self-funded portal (www.Alabama.gov).

“We welcome Colorado to the NIC family and thank Alabama for continuing its commitment to our successful partnership,” concluded Fraser.

First Quarter and Full-Year 2006 Outlook

For first quarter 2006, NIC expects total revenues of \$16.9 - \$17.2 million, portal revenues of \$16.1 - \$16.3 million, and software and services revenues of \$0.8 - \$0.9 million. The Company also anticipates operating income between \$3.9 - \$4.1 million (which includes approximately \$0.3 million in stock option expense) and net income of \$2.4 - \$2.6 million.

For full-year 2006, NIC expects total revenues of \$68.5 - \$69.4 million, portal revenues of \$65.9 - \$66.5 million, and software and services revenues of \$2.6 - \$2.9 million. The Company also anticipates operating income between \$14.7 - \$15.2 million (which includes approximately \$1.5 million in stock option expense) and net income of \$9.3 - \$9.6 million.

“We expect another solid year of organic growth, with same state DMV revenues rising by 3 percent and non-DMV revenues rising by 20 - 25 percent,” continued Bur. “Note that our projections do not include any new DMV fee increases or new contracts.

“Portal margins should remain just shy of 50 percent in 2006 as we continue to reinvest in the portal business,” said Bur. “Depreciation expense will be approximately \$0.5 million higher than 2005 as a result of increasing capital investment in our portals. We also expect selling and administrative expenses to range from 21-22 percent of revenue in 2006, which reflects higher investment in sales and marketing to drive future growth opportunities.

“As a result, we expect annual operating income margins of 21 - 22 percent in 2006,” concluded Bur.

Fourth Quarter Earnings Webcast Details

Thursday, January 26, 2006

9:00 a.m. (EST)

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

To sign in and listen: The Webcast system is accessible 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 April 26, 2006, by visiting www.nicusa.com/investor.

An audio replay of NIC's fourth quarter earnings call will be available until 11:00 p.m. (EST) on February 2 by dialing 1-800-405-2236 and using passcode 11050851.

NIC's earnings announcements are also available via podcast download. For more information, visit www.nicusa.com/investor.

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 60 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, and in its most recent Quarterly Report on Form 10-Q, filed on November 9, 2005, with the Securities and Exchange Commission.

(financial tables follow)

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

	Three months ended December 31,		Twelve months ended December 31,	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues:				
Portal revenues	\$ 15,191	\$12,180	\$ 57,875	\$ 48,544
Software & services revenues	<u>1,196</u>	<u>1,397</u>	<u>1,367</u>	<u>7,218</u>
Total revenues	<u>16,387</u>	<u>13,577</u>	<u>59,242</u>	<u>55,762</u>
Cost of revenues:				
Cost of portal revenues, exclusive of depreciation & amortization	8,020	6,558	29,448	24,866
Cost of software & services revenues, exclusive of depreciation & amortization	906	1,134	5,348	5,583
Selling & administrative Depreciation & amortization	<u>3,145</u> <u>461</u>	<u>2,788</u> <u>365</u>	<u>12,652</u> <u>1,603</u>	<u>12,018</u> <u>1,495</u>
Total operating expenses	<u>12,532</u>	<u>10,845</u>	<u>49,051</u>	<u>43,962</u>
Operating income	<u>3,855</u>	<u>2,732</u>	<u>10,191</u>	<u>11,800</u>
Other income (expense):				
Interest income	272	41	705	116
Interest expense	-	-	-	(11)
Equity in net loss of affiliates	-	-	-	(109)
Other income (expense), net	<u>-</u>	<u>-</u>	<u>(3)</u>	<u>14</u>
Total other income (expense)	<u>272</u>	<u>41</u>	<u>702</u>	<u>10</u>
Income before income taxes	4,127	2,773	10,893	11,810
Income tax provision	<u>1,724</u>	<u>1,045</u>	<u>4,530</u>	<u>4,705</u>
Net income	<u>\$ 2,403</u>	<u>\$ 1,728</u>	<u>\$ 6,363</u>	<u>\$ 7,105</u>
Basic earnings per share	<u>\$ 0.04</u>	<u>\$ 0.03</u>	<u>\$ 0.11</u>	<u>\$ 0.12</u>
Diluted earnings per share	<u>\$ 0.04</u>	<u>\$ 0.03</u>	<u>\$ 0.10</u>	<u>\$ 0.12</u>
Weighted average shares outstanding:				
Basic	<u>60,793</u>	<u>59,270</u>	<u>60,079</u>	<u>58,988</u>
Diluted	<u>61,660</u>	<u>60,652</u>	<u>61,094</u>	<u>60,877</u>

Key Financial Metrics:

Revenue growth - outsourced portals	25%	18%	19%	21%
Same state revenue growth - outsourced portals	13%	22%	17%	20%
Revenue growth - software & services	(14%)	(37%)	(81%)	(32%)
Gross profit percentage - outsourced portals	47%	46%	49%	49%
Gross profit percentage - software & services	N/A*	19%	N/A*	23%
Selling & administrative costs as a percentage of revenue	19%	21%	21%	22%
Operating income margin percentage	24%	20%	17%	21%

*Metric not meaningful due to the \$5.0 million charge for the California Secretary of State engagement in the first quarter of 2005.

Portal Revenue Analysis (thousands)

DMV transaction-based	\$ 9,221	\$ 7,384	\$ 35,630	\$ 30,498
Non-DMV transaction-based	5,408	4,165	20,145	14,656
Software development & portal management	<u>562</u>	<u>631</u>	<u>2,100</u>	<u>3,390</u>
Total	<u>\$15,191</u>	<u>\$12,180</u>	<u>\$ 57,875</u>	<u>\$ 48,544</u>

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

	December 31, <u>2005</u>	December 31, <u>2004</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 36,902	\$ 30,769
Cash and cash equivalents - restricted	-	3,000
Marketable securities	20,500	-
Trade accounts receivable	22,269	17,610
Unbilled revenues	2,198	3,400
Deferred income taxes	421	433
Prepaid expenses & other current assets	<u>1,632</u>	<u>1,312</u>
Total current assets	83,922	56,524
Property and equipment, net	3,327	2,603
Unbilled revenues	1,395	2,404
Deferred income taxes	28,916	31,274
Other assets	<u>285</u>	<u>266</u>
Total assets	<u>\$117,845</u>	<u>\$ 93,071</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 24,458	\$ 14,394
Accrued expenses	6,642	6,266
Application development contracts	1,261	-
Other current liabilities	<u>317</u>	<u>151</u>
Total current liabilities	<u>32,678</u>	<u>20,811</u>
Commitments and contingencies	-	-
Shareholders' equity:		
Common stock, no par, 200,000,000 shares authorized 61,073,595 and 59,301,375 shares issued and outstanding	-	-
Additional paid-in capital	207,444	200,921
Accumulated deficit	<u>(122,093)</u>	<u>(128,456)</u>
Less treasury stock	85,351	72,465
Total shareholders' equity	<u>(184)</u>	<u>(205)</u>
Total shareholders' equity	<u>85,167</u>	<u>72,260</u>
Total liabilities and shareholders' equity	<u>\$117,845</u>	<u>\$ 93,071</u>

NIC Inc.
CASH FLOW SUMMARY
(UNAUDITED)
Thousands

	Three months ended December 31,		Twelve months ended December 31,	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:				
Net income	\$ 2,403	\$ 1,728	\$ 6,363	\$ 7,105
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation & amortization	461	365	1,603	1,495
Application development contracts	(77)	-	1,261	(465)
Deferred income taxes	1,641	1,073	4,151	4,331
Equity in net loss of affiliates	-	-	-	109
Changes in operating assets and liabilities				
(Increase) decrease in trade accounts receivable	49	1,131	(4,659)	262
(Increase) decrease in unbilled revenues	(781)	(995)	2,211	2,599
(Increase) decrease prepaid expenses & other current assets	(226)	(31)	(320)	44
(Increase) decrease in other assets	(95)	26	(19)	22
Increase (decrease) in accounts payable	3,559	57	10,064	(1,951)
Increase in accrued expenses	678	189	376	1,021
Increase (decrease) in other current liabilities	<u>201</u>	<u>36</u>	<u>166</u>	<u>(7)</u>
Net cash provided by operating activities	<u>7,813</u>	<u>3,579</u>	<u>21,197</u>	<u>14,565</u>
Cash flows from investing activities:				
Purchases of property and equipment	(1,024)	(202)	(2,327)	(1,189)
Purchases of marketable securities	(4,600)	-	(35,500)	-
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>(5,624)</u>	<u>(202)</u>	<u>(22,827)</u>	<u>(639)</u>
Cash flows from financing activities:				
Cash and cash equivalents - restricted	-	-	3,000	2,363
Payments on note payable	-	-	-	(363)
Proceeds from employee common stock purchases	-	-	122	117
Proceeds from exercise of employee stock options	<u>2,414</u>	<u>135</u>	<u>4,641</u>	<u>1,186</u>
Net cash provided by financing activities	<u>2,414</u>	<u>135</u>	<u>7,763</u>	<u>3,303</u>
Net increase in cash and cash equivalents	4,603	3,512	6,133	17,229
Cash and cash equivalents, beginning of period	<u>32,299</u>	<u>27,257</u>	<u>30,769</u>	<u>13,540</u>
Cash and cash equivalents, end of period	<u>\$ 36,902</u>	<u>\$ 30,769</u>	<u>\$36,902</u>	<u>\$30,769</u>