



# 4Q 2006 EARNINGS

*For Immediate Release*

Contact: Chris Neff  
435-645-8898  
[cneff@nicusa.com](mailto:cneff@nicusa.com)

## **NIC Grows Portal Revenue 19 Percent in the Fourth Quarter and Declares a Special Cash Dividend of \$0.75 Per Share**

OLATHE, Kan. – January 31, 2007 – NIC Inc. (NASDAQ: EGOV) today announced net income of \$2.1 million and earnings per share of three cents on total revenues of \$18.8 million for the three months ended December 31, 2006. Operating income was \$2.7 million for the quarter. The Company reported net income of \$2.4 million and earnings per share of four cents on total revenues of \$16.4 million in fourth quarter 2005. On January 29, 2007, the NIC Board of Directors also declared a special dividend of \$0.75 per share payable on February 20, 2007, to shareholders of record on February 12, 2007.

The dividend payout will total \$46.2 million based on the current number of shares outstanding. “We believe this special dividend is an efficient way to distribute to all of our shareholders a substantial portion of NIC’s excess cash,” said Jeff Fraser, Chief Executive Officer of NIC. “The strength of our balance sheet and confidence in the future prospects of NIC prompted the Board of Directors to declare this special cash dividend. We are very pleased to be able to return cash to shareholders.”

The Company has made a preliminary determination that the dividend will result in a partial return of capital to shareholders, with the balance being taxable to shareholders as a qualified dividend. The exact amount of the return of capital is dependent on the earnings of the Company through the end of its 2007 fiscal year. Once a final determination is made, the Company will make appropriate notification to shareholders after the close of the year. Shareholders are encouraged to consult with their tax specialists regarding the circumstances of their particular tax situations.

### **Fourth Quarter 2006 Performance**

Quarterly portal revenues were a record \$18.0 million, up 19 percent over fourth quarter 2005. On a same state basis, portal revenues grew 17 percent in the fourth quarter, compared to a 13 percent increase during the same period a year ago. NIC’s online vehicle tag renewal, hunting and fishing license, and professional license renewal services performed well in the fourth quarter, helping same state transaction-

based revenues from non-driver record exchange (non-DMV) applications to rise 38 percent. Total DMV revenues grew 8 percent on a same state basis in the fourth quarter.

In the fourth quarter, NIC's portals launched 72 new non-DMV revenue-generating services and another 148 applications are in the development pipeline. "NIC will continue to focus on innovation in 2007 as we expand our base of more than 1,000 revenue-generating services," said NIC President Harry Herington.

Selling and administrative expenses rose to \$4.4 million in the current quarter compared to \$3.1 million in the fourth quarter of 2005. As a percentage of portal revenue, selling and administrative expenses were 25 percent in the current quarter compared to 21 percent in the fourth quarter of 2005.

NIC ended the year with approximately \$81.8 million in cash and investments, up \$7.1 million from September 30, 2006.

### **Full-Year 2006 Performance**

For fiscal year 2006, portal revenues rose 21 percent to \$70.0 million. On a same state basis, portal revenues grew 10 percent and transactional non-DMV revenues rose 27 percent. Selling and administrative expenses as a percentage of portal revenue were unchanged year-over-year at 22 percent. Operating income was \$16.1 million for the year, up from \$10.2 million in 2005. The Company earned 17 cents per share in 2006, compared to 11 cents per share in 2005 (10 cents on a fully diluted basis). 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 and earnings per share of 16 cents in 2005 (15 cents on a fully diluted basis)

### **Investing in Growth**

NIC continued its investment in growth in the fourth quarter, which led to an increase in selling and administrative expenses to \$4.4 million, up from \$3.1 million in the same quarter last year.

"The next several years will be critical for adding new state portals, and the most effective way to do that is to increase our presence in the states that have the highest likelihood of success," continued Fraser. "We will also continue to enhance our operations to do an even better job of cross-selling our most promising non-DMV services across the country."

The Company estimates the cost of these initiatives will be \$4 - \$6 million in 2007, with associated revenue unlikely prior to 2008.

## **Operating Highlights**

During the fourth quarter, Vermont ([www.Vermont.gov](http://www.Vermont.gov)) signed a new self-funded portal management agreement with NIC for a contract term of up to six years. The Company now manages official government Web portals for 19 states. NIC also signed a one-year portal management contract renewal with Hawaii ([www.eHawaii.gov](http://www.eHawaii.gov)).

“We are honored that the leadership in Vermont has put its trust in NIC and thank our partners in Hawaii for their vote of confidence,” concluded Fraser.

## **Full-Year 2007 Outlook**

For full-year 2007, NIC expects total revenues of \$80.0 - \$81.5 million, portal revenues of \$77.0 - \$78.0 million, and software and services revenues of \$3.0 - \$3.5 million. The Company also anticipates operating income between \$11.8 - \$12.2 million and net income of \$7.5 - \$8.0 million.

“While our overall 2007 results will be tempered by investments in growth, we expect our portal business to have another solid year,” said Eric Bur, Chief Financial Officer of NIC. “Note that our projections do not include any new portal contracts.

“Portal margins should range from 45 – 47 percent in 2007 as we continue to reinvest in the portal business,” continued Bur. “We also expect selling and administrative expenses to range from 28 - 29 percent of portal revenue in 2007, which reflects higher investment in sales, marketing, and operations to drive future growth opportunities.”

## **Fourth Quarter Earnings Webcast Details**

Wednesday, January 31, 2007

4:30 p.m. (EST)

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

To sign in and listen: The Webcast system is available at [www.nicusa.com/investor](http://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 11:00 p.m. (EDT) on April 30, 2007, by visiting [www.nicusa.com/investor](http://www.nicusa.com/investor).

An audio replay of NIC’s fourth quarter earnings call will be available until 4:00 p.m. (EST) on February 6 by dialing 1-800-405-2236 and using passcode 11065543.

NIC’s earnings announcements are also available via podcast download. For more information, visit [www.nicusa.com/investor](http://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 2,200 state and local agencies that serve more than 60 million people in the United States. Additional company information is available 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 services by businesses and citizens; competition; and general economic conditions and the other important cautionary statements and risk factors described in NIC's 2005 Annual Report on Form 10-K filed on March 16, 2006, 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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues:				
Portal revenues	\$ 18,012	\$15,191	\$ 70,009	\$ 57,875
Software & services revenues	820	1,196	1,367	1,367
Total revenues	<u>18,832</u>	<u>16,387</u>	<u>71,376</u>	<u>59,242</u>
Cost of revenues:				
Cost of portal revenues, exclusive of depreciation & amortization	10,564	8,020	37,249	29,448
Cost of software & services revenues, exclusive of depreciation & amortization	594	906	596	5,348
Selling & administrative	4,438	3,145	15,342	12,652
Depreciation & amortization	509	461	2,041	1,603
Total operating expenses	<u>16,105</u>	<u>12,532</u>	<u>55,228</u>	<u>49,051</u>
Operating income	<u>2,727</u>	<u>3,855</u>	<u>16,148</u>	<u>10,191</u>
Other income (expense):				
Interest income	858	272	2,401	705
Equity in net loss of affiliates	-	-	(97)	-
Other income (expense), net	14	-	(35)	(3)
Total other income (expense)	<u>872</u>	<u>272</u>	<u>2,269</u>	<u>702</u>
Income before income taxes	3,599	4,127	18,417	10,893
Income tax provision	1,482	1,724	7,678	4,530
Net income	<u>\$ 2,117</u>	<u>\$ 2,403</u>	<u>\$10,739</u>	<u>\$ 6,363</u>
Basic earnings per share	<u>\$ 0.03</u>	<u>\$ 0.04</u>	<u>\$ 0.17</u>	<u>\$ 0.11</u>
Diluted earnings per share	<u>\$ 0.03</u>	<u>\$ 0.04</u>	<u>\$ 0.17</u>	<u>\$ 0.10</u>
Weighted average shares outstanding:				
Basic	<u>61,572</u>	<u>60,793</u>	<u>61,409</u>	<u>60,079</u>
Diluted	<u>61,803</u>	<u>61,660</u>	<u>61,763</u>	<u>61,094</u>

**Key Financial Metrics:**

Revenue growth - outsourced portals	19%	25%	21%	19%
Same state revenue growth - outsourced portals	17%	13%	10%	17%
Gross profit percentage - outsourced portals	41%	47%	47%	49%
Selling & administrative costs as a percentage of portal revenue	25%	21%	22%	22%
Recurring portal revenue percentage	92%	96%	95%	96%

**Portal Revenue Analysis (thousands)**

DMV	\$ 9,389	\$ 9,221	\$ 41,247	\$ 35,630
Non-DMV	<u>8,623</u>	<u>5,970</u>	<u>28,762</u>	<u>22,245</u>
<b>Total</b>	<u>\$18,012</u>	<u>\$15,191</u>	<u>\$ 70,009</u>	<u>\$ 57,875</u>

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

	December 31, <u>2006</u>	December 31, <u>2005</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 36,745	\$ 36,902
Marketable securities	45,008	20,500
Trade accounts receivable	28,729	22,269
Unbilled revenues	1,069	2,198
Deferred income taxes	711	421
Prepaid expenses & other current assets	<u>1,645</u>	<u>1,632</u>
Total current assets	113,907	83,922
Property and equipment, net	3,790	3,327
Unbilled revenues	-	1,395
Deferred income taxes	22,013	28,916
Other assets	<u>424</u>	<u>285</u>
Total assets	<b><u>\$140,134</u></b>	<b><u>\$117,845</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 34,202	\$ 24,458
Accrued expenses	5,911	6,642
Application development contracts	513	1,261
Other current liabilities	<u>255</u>	<u>317</u>
Total current liabilities	40,881	32,678
Commitments and contingencies	-	-
Shareholders' equity:		
Common stock, no par, 200,000,000 shares authorized 61,573,900 and 61,073,505 shares issued and outstanding	-	-
Additional paid-in capital	210,210	207,444
Accumulated deficit	<u>(110,789)</u>	<u>(122,093)</u>
Less treasury stock	99,421	85,351
Total shareholders' equity	<u>(168)</u>	<u>(184)</u>
Total shareholders' equity	99,253	85,167
Total liabilities and shareholders' equity	<b><u>\$140,134</u></b>	<b><u>\$117,845</u></b>

NIC Inc.  
CASH FLOW SUMMARY  
(UNAUDITED)  
Thousands

	Three months ended December 31,		Twelve months ended December 31,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:				
Net income	\$ 2,117	\$ 2,403	\$10,739	\$ 6,363
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation & amortization	509	461	2,041	1,603
Stock-based compensation expense	502	-	1,331	-
Loss on asset disposals	(14)	-	35	-
Accretion of discount on marketable securities	(8)	-	(8)	-
Application development contracts	(44)	(77)	(748)	1,261
Deferred income taxes	1,575	1,641	7,179	4,151
Equity in net loss of affiliates	-	-	97	-
Changes in operating assets and liabilities				
(Increase) decrease in trade accounts receivable	(544)	49	(6,487)	(4,659)
(Increase) decrease in unbilled revenues	(663)	(781)	2,524	2,211
(Increase) decrease in prepaid expenses & other current assets	(246)	(226)	45	(320)
(Increase) decrease in other assets	10	(26)	19	50
Increase in accounts payable	4,191	3,559	9,744	10,064
Increase (decrease) in accrued expenses	539	678	(731)	376
Increase (decrease) in other current liabilities	(95)	201	(62)	166
Net cash provided by operating activities	<u>7,829</u>	<u>7,882</u>	<u>25,718</u>	<u>21,266</u>
Cash flows from investing activities:				
Purchases of property and equipment	(666)	(1,024)	(2,585)	(2,327)
Capitalized internal use of software development costs	(89)	(69)	(239)	(69)
Purchases of marketable securities	(3,000)	(4,600)	(24,500)	(35,500)
Maturities of marketable securities	-	-	-	15,000
Cash and cash equivalents - restricted	-	-	-	3,000
Net cash used in investing activities	<u>(3,755)</u>	<u>(5,693)</u>	<u>(27,324)</u>	<u>(19,896)</u>
Cash flows from financing activities:				
Proceeds from sale of treasury stock	-	-	65	-
Proceeds from employee common stock purchases	-	-	157	122
Proceeds from exercise of employee stock options	10	2,414	1,227	4,641
Net cash provided by financing activities	<u>10</u>	<u>2,414</u>	<u>1,449</u>	<u>4,763</u>
Net increase (decrease) in cash and cash equivalents	4,084	4,603	(157)	6,133
Cash and cash equivalents, beginning of period	<u>32,661</u>	<u>32,299</u>	<u>36,902</u>	<u>30,769</u>
Cash and cash equivalents, end of period	<u>\$ 36,745</u>	<u>\$ 36,902</u>	<u>\$36,745</u>	<u>\$36,902</u>