

NIC INC

FORM 10-Q (Quarterly Report)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

Commission file number 000-26621



NIC INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

52-2077581

(I.R.S. Employer
Identification No.)

25501 West Valley Parkway, Suite 300, Olathe, Kansas 66061

(Address of principal executive offices, including Zip Code)

Registrant's telephone number, including area code: **(877) 234-3468**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of October 19, 2016, the number of shares outstanding of the registrant's common stock, \$0.0001 par value per share, was 65,979,813.

PART I - FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

NIC INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
thousands except par value amount

ASSETS	<u>September 30, 2016</u>	<u>December 31, 2015</u>
Current assets:		
Cash	\$ 151,430	\$ 98,388
Cash restricted for payment of dividend	-	36,456
Trade accounts receivable, net	82,022	80,362
Prepaid expenses & other current assets	14,450	12,584
Total current assets	<u>247,902</u>	<u>227,790</u>
Property and equipment, net	9,063	9,333
Intangible assets, net	3,139	2,267
Deferred income taxes, net	1,804	1,421
Other assets	457	426
Total assets	<u>\$ 262,365</u>	<u>\$ 241,237</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 71,325	\$ 61,133
Accrued expenses	20,623	20,986
Dividend payable	-	36,456
Other current liabilities	2,752	2,597
Total current liabilities	<u>94,700</u>	<u>121,172</u>
Other long-term liabilities (Note 4)	5,823	4,259
Total liabilities	<u>100,523</u>	<u>125,431</u>
Commitments and contingencies (Notes 1 and 2)	-	-
Stockholders' equity:		
Common stock, \$0.0001 par, 200,000 shares authorized, 65,979 and 65,637 shares issued and outstanding	7	7
Additional paid-in capital	104,748	100,929
Retained earnings	57,087	14,870
Total stockholders' equity	<u>161,842</u>	<u>115,806</u>
Total liabilities and stockholders' equity	<u>\$ 262,365</u>	<u>\$ 241,237</u>

The accompanying Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.

NIC INC.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
thousands except per share amounts

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Revenues:				
Portal revenues	\$ 74,997	\$ 70,123	\$ 223,707	\$ 207,067
Software & services revenues	5,376	4,924	15,866	14,151
Total revenues	<u>80,373</u>	<u>75,047</u>	<u>239,573</u>	<u>221,218</u>
Operating expenses:				
Cost of portal revenues, exclusive of depreciation & amortization	45,140	41,058	134,878	125,367
Cost of software & services revenues, exclusive of depreciation & amortization	1,495	1,365	4,353	3,976
Selling & administrative	11,676	10,577	34,183	31,933
Depreciation & amortization	1,674	2,116	5,074	6,712
Total operating expenses	<u>59,985</u>	<u>55,116</u>	<u>178,488</u>	<u>167,988</u>
Operating income before income taxes	20,388	19,931	61,085	53,230
Income tax provision (Note 4)	4,153	7,181	18,895	20,236
Net income	<u>\$ 16,235</u>	<u>\$ 12,750</u>	<u>\$ 42,190</u>	<u>\$ 32,994</u>
Basic net income per share (Note 1)	<u>\$ 0.24</u>	<u>\$ 0.19</u>	<u>\$ 0.63</u>	<u>\$ 0.50</u>
Diluted net income per share (Note 1)	<u>\$ 0.24</u>	<u>\$ 0.19</u>	<u>\$ 0.63</u>	<u>\$ 0.50</u>
Weighted average shares outstanding:				
Basic	<u>65,978</u>	<u>65,618</u>	<u>65,890</u>	<u>65,532</u>
Diluted	<u>66,005</u>	<u>65,637</u>	<u>65,915</u>	<u>65,549</u>

The accompanying Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.

NIC INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)
thousands

	Common Stock			Additional Paid-in Capital	Retained Earnings	Total
	Shares	Amount				
Balance, January 1, 2016	65,637	\$ 7	\$	100,929	\$ 14,870	\$ 115,806
Net income	-	-	-	-	42,190	42,190
Restricted stock vestings	385	-	-	135	-	135
Dividend equivalents cancelled upon forfeiture of performance-based restricted stock awards	-	-	-	-	27	27
Shares surrendered and cancelled upon vesting of restricted stock to satisfy tax withholdings	(118)	-	-	(2,105)	-	(2,105)
Stock-based compensation	-	-	-	4,402	-	4,402
Tax deductions relating to stock-based compensation	-	-	-	435	-	435
Shares issuable in lieu of dividend payments on unvested performance-based restricted stock awards	-	-	-	(162)	-	(162)
Issuance of common stock under employee stock purchase plan	75	-	-	1,114	-	1,114
Balance, September 30, 2016	<u>65,979</u>	<u>\$ 7</u>	<u>\$</u>	<u>104,748</u>	<u>\$ 57,087</u>	<u>\$ 161,842</u>

The accompanying Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.

NIC INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
thousands

	Nine months ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 42,190	\$ 32,994
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	5,074	6,712
Stock-based compensation expense	4,402	5,385
Deferred income taxes	(2,702)	(3,708)
Loss on disposal of property and equipment	7	26
Changes in operating assets and liabilities:		
(Increase) in trade accounts receivable, net	(1,660)	(21,153)
Decrease in prepaid expenses & other current assets	453	3,673
(Increase) decrease in other assets	(31)	13
Increase in accounts payable	10,192	13,833
(Decrease) in accrued expenses	(2,468)	(847)
Increase (decrease) in other current liabilities	155	(432)
Increase in other long-term liabilities	1,564	475
Net cash provided by operating activities	<u>57,176</u>	<u>36,971</u>
Cash flows from investing activities:		
Purchases of property and equipment	(3,927)	(3,257)
Proceeds from sale of property and equipment	6	3
Capitalized internal use software development costs	(1,762)	(624)
Net cash used in investing activities	<u>(5,683)</u>	<u>(3,878)</u>
Cash flows from financing activities:		
Proceeds from employee common stock purchases	1,114	1,131
Tax deductions related to stock-based compensation	435	236
Net cash provided by financing activities	<u>1,549</u>	<u>1,367</u>
Net increase in cash	53,042	34,460
Cash, beginning of period	98,388	87,983
Cash, end of period	<u>\$ 151,430</u>	<u>\$ 122,443</u>
Other cash flow information:		
Non-cash investing activities:		
Capital expenditures accrued but not yet paid	\$ -	\$ 86
Cash payments:		
Income taxes paid	\$ 17,268	\$ 19,509
Cash dividends on common stock previously restricted for payment of dividend	\$ 36,456	\$ -

The accompanying Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.

NIC INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The Unaudited Consolidated Financial Statements of NIC Inc. and its subsidiaries (“NIC” or “the Company”) included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In management’s opinion, the Unaudited Consolidated Financial Statements reflect all adjustments (which include only normal recurring adjustments, except as disclosed) necessary to present fairly the consolidated financial position, results of operations and cash flows of the Company and its subsidiaries as of the dates and for the interim periods presented. These Unaudited Consolidated Financial Statements and Notes should be read in conjunction with the Audited Consolidated Financial Statements and related Notes and Management’s Discussion and Analysis of Financial Condition and Results of Operations included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 23, 2016, and Part I, Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations included in this Form 10-Q. The consolidated balance sheet data included herein as of December 31, 2015 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the Unaudited Consolidated Financial Statements and accompanying Notes. Actual results could differ from those estimates. The results of operations for the three- and nine-month periods ended September 30, 2016 are not necessarily indicative of the results to be expected for the full year ending December 31, 2016.

1. THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

NIC is a leading provider of digital government services that help governments use technology to reduce internal costs, increase efficiencies and provide a higher level of service to businesses and citizens. The Company accomplishes this currently through two channels: its primary outsourced portal businesses and its software & services businesses.

In its primary outsourced portal businesses, the Company generally designs, builds, and operates Internet-based portals on an enterprise-wide basis on behalf of state and local governments desiring to provide access to government information and to complete secure government-based transactions through multiple online channels, including mobile devices. These portals consist of websites and applications the Company has built that allow businesses and citizens to access government information online and complete transactions, such as applying for a permit, retrieving government records, or filing a government-mandated form or report. Operating under multiple-year contracts (see Note 2), NIC markets the services and solicits users to complete government-based transactions and to enter into subscriber contracts permitting users to access the portal and the government information contained therein in exchange for transactional and/or subscription user fees. The Company typically manages operations for each contractual relationship through separate local subsidiaries that operate as decentralized businesses with a high degree of autonomy. NIC’s business model allows the Company to generate revenues by sharing in the fees the Company collects from online transactions. The Company’s government partners benefit by reducing their financial and technological risks, increasing their operational efficiencies, and gaining a centralized, customer-focused presence on the Internet, while businesses and citizens receive a faster, more convenient, and more cost-effective means to interact with governments. The Company is typically responsible for funding the up-front investments and ongoing operations and maintenance costs of the outsourced government portals.

The Company’s software & services businesses primarily include its subsidiaries that provide software development and digital government services, other than outsourced portal services, to state and local governments as well as federal agencies (see Note 2).

Basis of presentation

The Company classifies its revenues and cost of revenues into two categories: (1) portal and (2) software & services. The portal category generally includes revenues and cost of revenues from the Company’s subsidiaries operating outsourced portals on behalf of state and local governments. The software & services category primarily includes revenues and cost of revenues from the Company’s subsidiaries that provide software development and digital government services, other than outsourced portal services, to state and local governments as well as federal agencies. The primary categories of operating expenses include: cost of portal revenues, cost of software & services revenues, selling & administrative and depreciation & amortization. Cost of portal revenues consists of all direct costs associated with operating government portals on an outsourced basis including employee compensation and benefits (including stock-based compensation), fees required to process credit/debit card and automated clearinghouse transactions, subcontractor labor costs, telecommunications, provision for losses on accounts receivable, gains and losses on disposal of assets and all other costs associated with the provision of dedicated client service such as dedicated facilities. Cost of software & services revenues consists of all direct project costs to provide software development and digital government services such as employee compensation and benefits (including stock-based compensation), subcontractor labor costs, gains and losses on disposal of assets and all other direct project costs including hardware, software, materials, travel and other out-of-pocket expenses. Selling & administrative expenses consist primarily of corporate-level expenses relating to human resource management, administration, information technology, security, legal, finance and accounting, internal audit and all non-customer service related costs from the Company’s software & services businesses, including compensation and benefits, information systems and office rent. Selling & administrative expenses also consist of management incentive compensation, including stock-based compensation, and corporate-level expenses for market development, public relations and gains and losses on disposal of assets.

Earnings per share

Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of earnings per share pursuant to the two-class method for all periods presented. The two-class method is an earnings allocation formula that treats a participating security as having rights to undistributed earnings that would otherwise have been available to common stockholders. The Company's service-based restricted stock awards contain non-forfeitable rights to dividends and are participating securities. Accordingly, service-based restricted stock awards were included in the calculation of earnings per share using the two-class method for all periods presented. Unvested service-based restricted shares totaled approximately 0.6 million and 0.7 million, respectively, at September 30, 2016 and 2015. Basic earnings per share is calculated by first allocating earnings between common stockholders and participating securities. Earnings attributable to common stockholders are divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by giving effect to dilutive potential common shares outstanding during the period. The dilutive effect of shares related to the Company's employee stock purchase plan is determined based on the treasury stock method. The dilutive effect of service-based restricted stock awards is based on the more dilutive of the treasury stock method or the two-class method assuming a reallocation of undistributed earnings to common stockholders after considering the dilutive effect of potential common shares other than the participating unvested restricted stock awards. The dilutive effect of performance-based restricted stock awards is based on the treasury stock method.

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Numerator:				
Net income	\$ 16,235	\$ 12,750	\$ 42,190	\$ 32,994
Less: Income allocated to participating securities	(141)	(117)	(376)	(307)
Net income available to common stockholders	<u>\$ 16,094</u>	<u>\$ 12,633</u>	<u>\$ 41,814</u>	<u>\$ 32,687</u>
Denominator:				
Weighted average shares - basic	65,978	65,618	65,890	65,532
Performance-based restricted stock awards	27	19	25	17
Weighted average shares - diluted	<u>66,005</u>	<u>65,637</u>	<u>65,915</u>	<u>65,549</u>
Basic net income per share:				
Net income	<u>\$ 0.24</u>	<u>\$ 0.19</u>	<u>\$ 0.63</u>	<u>\$ 0.50</u>
Diluted net income per share:				
Net income	<u>\$ 0.24</u>	<u>\$ 0.19</u>	<u>\$ 0.63</u>	<u>\$ 0.50</u>

Concentration of credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and accounts receivable. The Company limits its exposure to credit loss by depositing its cash with high credit quality financial institutions and monitoring the financial stability of those institutions. The Federal Deposit Insurance Corporation ("FDIC") provides deposit insurance coverage up to \$250,000 per depositor for deposit accounts at each FDIC-insured depository institution. At September 30, 2016, the amount of cash covered by FDIC deposit insurance was approximately \$8.4 million, and approximately \$143.0 million of cash was above the FDIC deposit insurance limit. The Company performs ongoing credit evaluations of its customers and generally requires no collateral to secure accounts receivable.

Recent accounting pronouncements

In March 2016, the Financial Accounting Standards Board (“FASB”) issued new authoritative literature, Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of accounting for employee share-based payment transactions, including accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The standard is effective for the annual reporting period beginning January 1, 2017, including interim periods within that reporting period. Early application is permitted. The Company currently intends to adopt the new standard in the first quarter of 2017 and does not believe it will have a significant impact on the Company’s financial statements.

In February 2016, the FASB issued new authoritative literature, Leases, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The standard requires a dual approach for lessee accounting under which a lessee will account for leases as finance leases or operating leases. Both finance and operating leases will result in a lessee recognizing a right-of-use (“ROU”) asset and a corresponding lease liability. For finance leases, a lessee will recognize interest expense and amortization expense for the ROU asset, and for operating leases, the lessee will recognize total rent expense on a straight-line basis. The standard is effective for the annual reporting period beginning January 1, 2019, including interim periods within that reporting period. Early application is permitted. A modified retrospective approach is required for all leases existing or entered into after the beginning of the earliest comparative period in the consolidated financial statements. The Company is currently evaluating the new guidance and the estimated impact it will have on the Company’s financial statements.

In May 2014, the FASB issued new authoritative literature, Revenue from Contracts with Customers, as part of a joint effort by the FASB and the International Accounting Standards Board to enhance financial reporting by creating common revenue recognition guidance and thereby improve the consistency of requirements, comparability of practices and usefulness of disclosures. The new standard will supersede much of the existing authoritative literature for revenue recognition. The standard and related amendments will be effective for the Company for its annual reporting period beginning January 1, 2018, including interim periods within that reporting period. Entities are allowed to transition to the new standard by either recasting prior periods presented or recognizing the cumulative effect of the change in accounting principle in beginning stockholders’ equity. The Company is currently evaluating the new guidance, including which transition approach will be applied and the estimated impact it will have on the Company’s consolidated financial statements.

2. OUTSOURCED GOVERNMENT CONTRACTS

Outsourced portal contracts

The Company’s outsourced government portal contracts generally have an initial multi-year term with provisions for renewals for various periods at the option of the government. The Company’s primary business obligation under these contracts is generally to design, build, and operate Internet-based portals on an enterprise-wide basis on behalf of governments desiring to provide access to government information and to complete government-based transactions online. NIC typically markets the services and solicits users to complete government-based transactions and to enter into subscriber contracts permitting the user to access the portal and the government information contained therein in exchange for transactional and/or subscription user fees. The Company enters into separate agreements with various agencies and divisions of the government to provide specific services and to conduct specific transactions. These agreements preliminarily establish the pricing of the online transactions and data access services the Company provides and the division of revenues between the Company and the government agency. The government oversight authority must approve prices and revenue sharing agreements. The Company has limited control over the level of fees it is permitted to retain. Any changes made to the amount or percentage of fees retained by NIC, or to the amounts charged for the services offered, could materially affect the profitability of the respective contract.

The Company is typically responsible for funding the up-front investments and ongoing operations and maintenance costs of the government portals, and generally owns all of the intellectual property in connection with the applications developed under these contracts. After completion of a defined contract term, the government partner typically receives a perpetual, royalty-free license to use the software only in its own portal. However, certain customer management, billing and payment processing software applications that the Company has developed and standardized centrally and that are utilized by the Company’s portal businesses, are being provided to a number of government partners on a software-as-a-service (“SaaS”) basis, and thus would not be included in any royalty-free license. If the Company’s contract is not renewed after a defined term or if its contract is terminated by a government partner for cause, the government agency would be entitled to take over the portal in place, and NIC would have no future revenue from, or obligation to, such former government partner, except as otherwise provided in the contract.

Any renewal of these contracts beyond the initial term by the government is optional and a government may terminate its contract prior to the expiration date if the Company breaches a material contractual obligation and fails to cure such breach within a specified period or upon the occurrence of other events or circumstances specified in the contract. In addition, 18 contracts under which the Company provides outsourced portal services, software development and digital government services can be terminated by the other party without cause on a specified period of notice. Collectively, revenues generated from these contracts represented approximately 64% and 65%, respectively, of the Company’s total consolidated revenues for the three- and nine-month periods ended September 30, 2016. In the event that any of these contracts is terminated without cause, the terms of the respective contract may require the government to pay the Company a fee in order to continue to use the Company’s software in its portal. See the discussion below under “Expiring Contracts” regarding the expiration of the Company’s contracts with the states of Tennessee, Iowa and Delaware.

Under a typical portal contract, the Company is required to fully indemnify its government clients against claims that the Company's services infringe upon the intellectual property rights of others and against claims arising from the Company's performance or the performance of the Company's subcontractors under the contract. At September 30, 2016, the Company was bound by performance bond commitments totaling approximately \$6.3 million on certain outsourced portal contracts. The Company has never had any defaults resulting in draws on performance bonds.

The following is a summary of the portals in each state through which the Company provides enterprise-wide outsourced portal services to multiple government agencies:

<u>NIC Portal Entity</u>	<u>Portal Website (State)</u>	<u>Year Services Commenced</u>	<u>Contract Expiration Date (Renewal Options Through)</u>
Louisiana Interactive, LLC	www.louisiana.gov (Louisiana)	2015	1/28/2020
Connecticut Interactive, LLC	www.ct.gov (Connecticut)	2014	1/9/2017 (1/9/2020)
Wisconsin Interactive Network, LLC	www.wisconsin.gov (Wisconsin)	2013	5/13/2018 (5/13/2023)
Pennsylvania Interactive, LLC	www.pa.gov (Pennsylvania)	2012	11/30/2017 (11/30/2022)
NICUSA, OR Division	www.oregon.gov (Oregon)	2011	11/22/2021
NICUSA, MD Division	www.maryland.gov (Maryland)	2011	8/10/2018 (8/10/2019)
Mississippi Interactive, LLC	www.ms.gov (Mississippi)	2011	12/31/2017 (12/31/2021)
New Jersey Interactive, LLC	www.nj.gov (New Jersey)	2009	5/1/2020 (5/1/2022)
Texas NICUSA, LLC	www.Texas.gov (Texas)	2009	8/31/2018
West Virginia Interactive, LLC	www.WV.gov (West Virginia)	2007	6/30/2021 (6/30/2024)
Vermont Information Consortium, LLC	www.Vermont.gov (Vermont)	2006	6/8/2019
Colorado Interactive, LLC	www.Colorado.gov (Colorado)	2005	4/30/2019 (4/30/2023)
South Carolina Interactive, LLC	www.SC.gov (South Carolina)	2005	7/15/2019 (7/15/2021)
Kentucky Interactive, LLC	www.Kentucky.gov (Kentucky)	2003	8/31/2018
Alabama Interactive, LLC	www.Alabama.gov (Alabama)	2002	3/1/2017
Rhode Island Interactive, LLC	www.RI.gov (Rhode Island)	2001	7/1/2017 (7/1/2019)
Oklahoma Interactive, LLC	www.OK.gov (Oklahoma)	2001	3/31/2017 (3/31/2020)
Montana Interactive, LLC	www.MT.gov (Montana)	2001	12/31/2017 (12/31/2020)
NICUSA, TN Division	www.TN.gov (Tennessee)	2000	3/31/2017
Hawaii Information Consortium, LLC	www.eHawaii.gov (Hawaii)	2000	1/3/2019 (3-year renewal options)
Idaho Information Consortium, LLC	www.Idaho.gov (Idaho)	2000	6/30/2017
Utah Interactive, LLC	www.Utah.gov (Utah)	1999	6/5/2019
Maine Information Network, LLC	www.Maine.gov (Maine)	1999	7/1/2018
Arkansas Information Consortium, LLC	www.Arkansas.gov (Arkansas)	1997	6/30/2018
Indiana Interactive, LLC	www.IN.gov (Indiana)	1995	7/31/2017 (7/31/2018)
Nebraska Interactive, LLC	www.Nebraska.gov (Nebraska)	1995	4/1/2019 (4/1/2021)
Kansas Information Consortium, LLC	www.Kansas.gov (Kansas)	1992	12/31/2022 (annual 1-year renewal options)

During the first quarter of 2016, the Company executed a one-year contract extension with the state of Alabama.

During the second quarter of 2016, the Company executed one-year contract extensions with the states of Kansas and Oklahoma. The Company also executed a three-year contract extension with the state of Vermont. As previously disclosed, during the third quarter of 2014, the Company's subsidiary, Louisiana Interactive, LLC signed a master contract with the state of Louisiana Division of Administration, Office of Technology Services ("Louisiana Division") to provide certain digital government services for a pilot period commencing during the first quarter of 2015. During the second quarter of 2016, the pilot period was completed successfully and the Louisiana Division exercised its option pursuant to the master contract to receive enterprise-wide digital government services from Louisiana Interactive, LLC as the state of Louisiana's official government portal provider commencing July 1, 2016.

During the third quarter of 2016, the Company signed a new five-year contract with the state of West Virginia, which includes three one-year renewal options. The Company also executed a one-year contract extension with the state of Indiana, which includes one one-year renewal option. In addition, the Company signed a new two-year contract with the commonwealth of Kentucky and executed a one-year contract extension with the state of Maryland.

Other outsourced state contracts

The Company's subsidiary, New Mexico Interactive, LLC, has a contract to manage digital government services for the New Mexico Motor Vehicle Division and its parent, the New Mexico Taxation and Revenue Department. During the second quarter of 2016, the Company executed a one-year contract extension. The current contract runs through June 30, 2017 and includes one one-year renewal option.

During the third quarter of 2016, the Company's subsidiary, Virginia Interactive, LLC ("VI") extended its contract with Stafford County of the Commonwealth of Virginia through October 1, 2017. VI's contract includes an agreement with the Office of the Executive Secretary of the Supreme Court of Virginia to provide digital government services through August 31, 2017. The agreement includes six one-year renewal options.

Outsourced federal contracts

The Company's subsidiary NIC Federal, LLC ("NIC Federal") has a contract with the Federal Motor Carrier Safety Administration ("FMCSA") to develop and manage the FMCSA's Pre-Employment Screening Program ("PSP") for motor carriers nationwide, using the Company's transaction-based business model. During the third quarter of 2016, the FMCSA exercised the first of its two one-year renewal options, extending the current contract through August 31, 2017, with one remaining one-year renewal option.

Any renewal of the contract with the FMCSA beyond the current term is at the option of the FMCSA and the contract can be terminated by the FMCSA without cause on a specified period of notice. The loss of the contract as a result of the expiration, termination or failure to renew the contract, if not replaced, could significantly reduce the Company's revenues and profitability. In addition, the Company has limited control over the level of fees it is permitted to retain under the contract with the FMCSA. Any changes made to the amount or percentage of fees retained by the Company, or to the amounts charged for the services offered, could materially affect the profitability of this contract.

Expiring contracts

As of September 30, 2016, there were 10 contracts under which the Company provides outsourced portal services, software development and digital government services that have expiration dates within the 12-month period following September 30, 2016. Collectively, revenues generated from these contracts represented approximately 23% and 24%, respectively, of the Company's total consolidated revenues for the three- and nine-month periods ended September 30, 2016. As described above, if a contract is not renewed after a defined term, the government partner would be entitled to take over the portal in place, and NIC would have no future revenue from, or obligation to, such former government partner, except as otherwise provided in the contract.

The contract under which the Company's subsidiary, NICUSA Inc. ("NICUSA"), manages the state of Tennessee's official government portal expires on March 31, 2017. The state recently informed NICUSA it will let its contract with NICUSA expire and intends to transition services in-house. As a result, NICUSA has begun providing transition services as required by the contract, and may do so for a period of time following contract expiration to the extent requested by agencies of the state. For the three- and nine-month periods ended September 30, 2016, revenues from the Tennessee portal contract were approximately \$1.7 million and \$5.9 million, respectively, compared to \$2.2 million and \$7.2 million, respectively, for the three- and nine-month periods ended September 30, 2015.

The contract under which the Company's subsidiary, Iowa Interactive, LLC ("II"), managed the state of Iowa's official government portal expired on June 30, 2016. II currently expects to continue to provide transition services as required by the contract through November 30, 2016. Revenues from the Iowa portal contract for the three- and nine-month periods ended September 30, 2016, were approximately \$0.5 million and \$1.4 million, respectively, and were approximately \$0.4 million and \$1.4 million, respectively, for the three- and nine-month periods ended September 30, 2015.

The Company does not believe that the expiration of its contracts with the states of Tennessee and Iowa will have a material impact on the Company's consolidated results of operations, cash flows or financial condition.

As previously disclosed, the contract under which the Company's subsidiary, Delaware Interactive, LLC ("DI"), managed the state of Delaware's official government portal expired on March 31, 2015. The expiration of the Company's contract with the state of Delaware did not have a material impact on the Company's consolidated results of operations, cash flows or financial condition. Revenues from the Delaware portal contract for the nine-month period ended September 30, 2015, were approximately \$0.6 million.

3. STOCK BASED COMPENSATION

During the three- and nine-month periods ended September 30, 2016, the Compensation Committee of the Board of Directors of the Company (the "Committee") granted to certain management-level employees and executive officers, service-based restricted stock awards totaling 4,072 shares and 271,298 shares, respectively, with a grant-date fair value totaling approximately \$0.1 million and \$4.8 million, respectively. Such restricted stock awards vest beginning one year from the date of grant in annual installments of 25%. In addition, during the second quarter of 2016, non-employee directors of the Company were granted service-based restricted stock awards totaling 37,400 shares with a grant-date fair value totaling approximately \$0.7 million. Such restricted stock awards vest one year from the date of grant. Restricted stock is valued at the date of grant, based on the closing market price of the Company's common stock, and expensed using the straight-line method over the requisite service period (generally the vesting period of the award). The Company estimates and excludes compensation cost related to awards not expected to vest based upon estimated forfeitures, which is updated as vesting or forfeitures occur.

During the first quarter of 2016, the Committee also granted to certain executive officers performance-based restricted stock awards pursuant to the terms of the Company's executive compensation program totaling 138,191 shares with a grant-date fair value totaling approximately \$2.4 million, which represents the maximum number of shares the executive officers can earn at the end of a three-year performance period ending December 31, 2018.

The actual number of shares earned will be based on the Company's performance related to the following performance criteria over the performance period:

- Operating income growth (three-year compound annual growth rate);
- Total consolidated revenue growth (three-year compound annual growth rate); and
- Return on invested capital (three-year average).

At the end of the three-year period, the executive officers are eligible to receive up to a specified number of shares based upon the Company's performance relative to these performance criteria over the performance period. In addition, the executive officers will accrue dividend equivalents for any cash dividends declared during the performance period, payable in the form of shares of Company common stock, based upon the maximum number of shares to be earned by the executive officers for each performance-based restricted stock award. Such hypothetical cash dividend payment shall be divided by the fair value of the Company's common stock on the dividend payment date to determine the maximum number of notional shares to be awarded. At the end of the three-year performance period and on the date some or all of the shares are paid under the agreement, a pro rata number of notional dividend shares will be converted into an equivalent number of dividend shares paid and granted to the executive officers based upon the actual number of underlying shares earned during the performance period.

At December 31, 2015, the three-year performance period related to the performance-based restricted stock awards granted to certain executive officers on February 5, 2013 ended. Based on the Company's actual financial results from 2013 through 2015, 96,732 of the shares subject to the awards and 6,990 dividend shares were earned and vested on February 5, 2016.

Stock-based compensation cost for performance-based restricted stock awards is measured at the grant date based on the fair value of shares expected to be earned at the end of the performance period, and is recognized as expense over the performance period based upon the probable number of shares expected to vest. The Company estimates and excludes compensation cost related to awards not expected to vest based upon estimated forfeitures, which is updated as vesting or forfeitures occur.

The following table presents stock-based compensation expense included in the Company's unaudited consolidated statements of income (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Cost of portal revenues, exclusive of depreciation & amortization	\$ 320	\$ 317	\$ 1,102	\$ 1,086
Cost of software & services revenues, exclusive of depreciation & amortization	15	32	47	54
Selling & administrative	1,062	1,240	3,253	4,245
Stock-based compensation expense before income taxes	1,397	1,589	4,402	5,385
Income tax benefit	(285)	(573)	(1,362)	(2,047)
Net stock-based compensation expense	\$ 1,112	\$ 1,016	\$ 3,040	\$ 3,338

4. INCOME TAXES

The Company's effective tax rate was approximately 20% and 31%, respectively, for the three- and nine-month periods ended September 30, 2016 compared to approximately 36% and 38%, respectively, for the corresponding prior year periods. The Company's effective tax rate in the current year periods was lower mainly due to favorable benefits related to the domestic production activities deduction, the federal research and development credit, an adjustment to certain deferred tax liabilities related to a previous acquisition of a business and other adjustments related to the filing of the Company's 2015 federal tax return during the third quarter of 2016.

During the third quarter of 2016, the Company completed its study of qualifying activities for the domestic production activities deduction and began recognizing tax benefits for the deduction. In the current quarter, the Company recognized tax benefits, included in its income tax provision, of approximately \$1.4 million for the 2015 tax year and approximately \$1.0 million for the first nine months of the 2016 tax year related to the estimated domestic production activities deduction.

In the prior year periods, legislation extending the federal research and development credit beyond December 31, 2014 had not been enacted. On December 18, 2015, the Protecting Americans from Tax Hikes Act was signed into law, which included a provision making the federal research and development credit permanent.

The Company's reserve for unrecognized income tax benefits, including interest and penalties, included in other long-term liabilities in the unaudited consolidated balance sheet at September 30, 2016 and the consolidated balance sheet at December 31, 2015 were approximately \$5.2 million and \$3.7 million, respectively. The increase was mainly due to a reserve for unrecognized income tax benefits related to the domestic production activities deduction that the Company began recognizing in the current quarter.

5. REPORTABLE SEGMENT AND RELATED INFORMATION

The Outsourced Portals segment is the Company's only reportable segment and generally includes the Company's subsidiaries operating outsourced state and local government portals. The Other Software & Services category primarily includes the Company's subsidiaries that provide software development and digital government services, other than outsourced portal services, to state and local governments as well as federal agencies. Each of the Company's businesses within the Other Software & Services category is an operating segment and has been grouped together to form the Other Software & Services category, as none of the operating segments meets the quantitative threshold of a separately reportable segment. Beginning in the fourth quarter of 2015, certain corporate divisions that support the Company's portal businesses, which were previously reported in the Outsourced Portals segment, are now reported with all other corporate divisions as unallocated corporate-level expenses and reported in the reconciliation of the segment totals to the related consolidated totals as "Other Reconciling Items." The new presentation is consistent with the manner by which information is presently used internally by the Company's chief operating decision maker to evaluate performance and make resource allocation decisions. The prior periods presented have been recast to conform to the current segment reporting. These changes had no impact on total consolidated revenues, total operating expenses or total operating income before income taxes. There have been no significant intersegment transactions for the periods reported. The summary of significant accounting policies applies to all reportable and operating segments.

The measure of profitability by which management, including the Company's chief operating decision maker, evaluates the performance of its segments and allocates resources to them is operating income (loss) before income taxes. Segment assets or other segment balance sheet information is not presented to the Company's chief operating decision maker. Accordingly, the Company has not presented information relating to segment assets.

The table below reflects summarized financial information for the Company's reportable and operating segments for the three-month period ended September 30 (in thousands):

	Outsourced Portals	Other Software & Services	Other Reconciling Items	Consolidated Total
2016				
Revenues	\$ 74,997	\$ 5,376	\$ -	\$ 80,373
Costs & expenses	45,140	1,495	11,676	58,311
Depreciation & amortization	792	23	859	1,674
Operating income (loss) before income taxes	<u>\$ 29,065</u>	<u>\$ 3,858</u>	<u>\$ (12,535)</u>	<u>\$ 20,388</u>
2015				
Revenues	\$ 70,123	\$ 4,924	\$ -	\$ 75,047
Costs & expenses	41,058	1,365	10,577	53,000
Depreciation & amortization	1,174	15	927	2,116
Operating income (loss) before income taxes	<u>\$ 27,891</u>	<u>\$ 3,544</u>	<u>\$ (11,504)</u>	<u>\$ 19,931</u>

The table below reflects summarized financial information for the Company's reportable and operating segments for the nine-month period ended September 30 (in thousands):

	Outsourced Portals	Other Software & Services	Other Reconciling Items	Consolidated Total
2016				
Revenues	\$ 223,707	\$ 15,866	\$ -	\$ 239,573
Costs & expenses	134,878	4,353	34,183	173,414
Depreciation & amortization	2,498	55	2,521	5,074
Operating income (loss) before income taxes	<u>\$ 86,331</u>	<u>\$ 11,458</u>	<u>\$ (36,704)</u>	<u>\$ 61,085</u>
2015				
Revenues	\$ 207,067	\$ 14,151	\$ -	\$ 221,218
Costs & expenses	125,367	3,976	31,933	161,276
Depreciation & amortization	3,754	33	2,925	6,712
Operating income (loss) before income taxes	<u>\$ 77,946</u>	<u>\$ 10,142</u>	<u>\$ (34,858)</u>	<u>\$ 53,230</u>

For the three- and nine-month periods ended September 30, 2016, the Company's Texas portal contract accounted for approximately 21% and 20%, respectively, of the Company's total consolidated revenues and 21% in each of the corresponding prior year periods. No other state portal contract accounted for more than 10% of the Company's total consolidated revenues.

6. SUBSEQUENT EVENT

Special Cash Dividend

On November 1, 2016, the Company's Board of Directors declared a special cash dividend of \$0.65 per share, payable to stockholders of record as of November 16, 2016. The dividend, which is expected to total approximately \$43.3 million based on the current number of shares outstanding, will be paid on December 9, 2016, out of the Company's available cash.

Dividend Policy

On November 1, 2016, the Company's Board of Directors approved a dividend policy pursuant to which it plans to make, subject to subsequent declaration, regular quarterly cash dividends of \$0.08 per share, beginning with the first declaration and payment in the first quarter of 2017. While the Company's Board of Directors currently intends to authorize the payment of regular quarterly cash dividends on the Company's common stock, the Board monitors and evaluates the Company's dividend practice quarterly and may elect to increase, decrease or not pay a dividend at any time. The Company's ability to pay dividends could be affected by future business performance, liquidity, capital needs, alternative investment opportunities and debt covenants associated with its line of credit.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTION ABOUT FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report on Form 10-Q regarding NIC Inc. and its subsidiaries ("the Company", "NIC", "we" or "us") and its business, which are not current or historical facts, are "forward-looking statements" that involve risks and uncertainties. Forward-looking statements include, but are not limited to, statements of plans and objectives, statements of future economic performance or financial projections, statements regarding the planned implementation of new portal contracts and new projects under existing portal contracts, statements of assumptions underlying such statements, and statements of our intentions, hopes, beliefs, expectations, or predictions of the future. For example, statements like we "expect," we "believe," we "plan," we "intend," or we "anticipate" are forward-looking statements. Investors should be aware that our actual operating results and financial performance may differ materially from our expressed expectations because of risks and uncertainties about the future including those risks discussed in this Quarterly Report on Form 10-Q and in our 2015 Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on February 23, 2016.

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, our success in renewing existing contracts and in signing contracts with new states, federal and state government agencies; our ability to successfully increase the adoption and use of digital government services; the possibility of security breaches or disruptions through cyber attacks or other events and any resulting liability; our ability to implement new contracts and any related technology enhancements in a timely and cost-effective manner; the possibility of reductions in fees or revenues as a result of budget deficits, government shutdowns, or changes in government policy; continued favorable government legislation; acceptance of digital government services by businesses and citizens; competition; general economic conditions; and the other factors discussed under "CAUTIONS ABOUT FORWARD LOOKING STATEMENTS" in Part I and "RISK FACTORS" in Part I, Item 1A of NIC's 2015 Annual Report on Form 10-K filed on February 23, 2016 with the SEC. Investors should read all of these discussions of risks carefully.

All forward-looking statements made in this Form 10-Q speak only as of the date of this report. Except as may be required by applicable law, we do not undertake to update the information in this Form 10-Q if any forward-looking statement later turns out to be inaccurate. Investors are cautioned not to put undue reliance on any forward-looking statement.

WHAT WE DO – AN EXECUTIVE SUMMARY

We are a leading provider of digital government services that help governments use technology to reduce internal costs, increase efficiencies, and provide a higher level of service to businesses and citizens. We accomplish this currently through two channels: our primary outsourced portal businesses and our software & services businesses.

In our primary outsourced portal business, we generally enter into contracts primarily with state and local governments to design, build, and operate Internet-based enterprise-wide portals on their behalf. We typically enter into multi-year contracts and manage operations for each government partner through separate local subsidiaries that operate as decentralized businesses with a high degree of autonomy. Our portals consist of websites and applications that we build, which allow businesses and citizens to access government information through multiple online channels, including mobile, and complete secure transactions, including applying for a permit, retrieving government records, or filing a government-mandated form or report. We help increase our government partners' revenues by expanding the distribution of their information assets and increasing the number of financial transactions conducted with governments. We do this by marketing portal services and soliciting users to complete government-based transactions and to enter into subscriber contracts that permit users to access the portal and the government information contained therein in exchange for transactional and/or subscription user fees. We are typically responsible for funding the up-front investments and ongoing operations and maintenance costs of the government portals. Our unique business model allows us to generate revenues by sharing in the fees collected from online transactions. Our partners benefit because they reduce their financial and technological risks, increase their operational efficiencies, and gain a centralized, customer-focused presence on the Internet, while businesses and citizens gain a faster, more convenient, and more cost-effective means to interact with governments.

On behalf of our government partners, we enter into separate agreements with various agencies and divisions of the government to provide specific services and to conduct specific transactions. These agreements preliminarily establish the pricing of the online transactions and data access services we provide and the division of revenues between us and the government agency. The government oversight authority must approve prices and revenue sharing agreements. We have limited control over the level of fees we are permitted to retain. Any changes made to the amount or percentage of fees retained by us, or to the amounts charged for the services offered, could materially affect the profitability of the respective contract. We typically own all the intellectual property in connection with the applications developed under these contracts. After completion of a defined contract term, the government partner typically receives a perpetual, royalty-free license to use the software only in its own portal. However, certain customer management, billing and payment processing software applications that we have developed and standardized centrally and that are utilized by our portal businesses, are being provided to a number of our government partners on a software-as-a-service ("SaaS") basis, and thus would not be included in any royalty-free license. If our contract is not renewed after a defined term or if our contract is terminated by our government partner for cause, the government agency would be entitled to take over the portal in place, and NIC would have no future revenue from, or obligation to, such former government partner, except as otherwise provided in the contract. We also provide certain payment processing services on a SaaS basis to a few private sector entities and to state and local agencies in states where we do not maintain an enterprise-wide outsourced portal contract, and may continue to market these services to other entities in the future. Historically, revenues from these services have not been significant, but have grown substantially in recent years. In some cases, we enter into contracts to provide consulting, application development and portal management services to governments in exchange for an agreed-upon fee.

Any renewal of these contracts beyond the initial term by the government is optional, and a government may terminate its contract prior to the expiration date if we breach a material contractual obligation and fail to cure such breach within a specified period or upon the occurrence of other events or circumstances specified in the contract. In addition, 18 contracts under which we provide outsourced portal services, software development and digital government services can be terminated by the other party without cause on a specified period of notice. Collectively, revenues generated from these contracts represented approximately 64% and 65%, respectively, of our total consolidated revenues for the current quarter and year-to-date periods. In the event that any of these contracts is terminated without cause, the terms of the respective contract may require the government to pay us a fee in order to continue to use our software in its portal. See the discussion below regarding the expiration of our contracts with the states of Tennessee, Iowa and Delaware.

Our subsidiary, NIC Federal, LLC (“NIC Federal”) has a contract with the Federal Motor Carrier Safety Administration (“FMCSA”) to develop and manage the FMCSA’s Pre-Employment Screening Program (“PSP”) for motor carriers nationwide, using our transaction-based business model. During the third quarter of 2016, the FMCSA exercised the first of its two one-year renewal options, extending the current contract through August 31, 2017, with one remaining one-year renewal option.

Any renewal of the contract with the FMCSA beyond the current term is at the option of the FMCSA and the contract can be terminated by the FMCSA without cause on a specified period of notice. The loss of the contract as a result of the expiration, termination or failure to renew the contract, if not replaced, could significantly reduce our revenues and profitability. In addition, we have limited control over the level of fees we are permitted to retain under the contract with the FMCSA. Any changes made to the amount or percentage of fees retained by us, or to the amounts charged for the services offered, could materially affect the profitability of this contract.

As of September 30, 2016, there were 10 contracts under which we provide outsourced portal services, software development and digital government services that have expiration dates within the 12-month period following September 30, 2016. Collectively, revenues generated from these contracts represented 23% and 24%, respectively, of our total consolidated revenues for the current quarter and year-to-date periods. As described above, if a contract is not renewed after a defined term, the government partner would be entitled to take over the portal in place, and we would have no future revenue from, or obligation to, such former government partner, except as otherwise provided in the contract.

The contract under which our subsidiary, NICUSA Inc. (“NICUSA”), manages the state of Tennessee’s official government portal expires on March 31, 2017. The state recently informed us that it will let its contract with us expire and intends to transition services in-house. As a result, NICUSA has begun providing transition services as required by the contract, and may do so for a period of time following contract expiration to the extent requested by agencies of the state. Revenues from the Tennessee portal contract for the current quarter and year-to-date periods ended September 30, 2016, were approximately \$1.7 million and \$5.9 million, respectively, and were approximately \$2.2 million and \$7.2 million, respectively, for the corresponding prior year periods ended September 30, 2015.

The contract under which our subsidiary, Iowa Interactive, LLC (“II”), managed the state of Iowa’s official government portal expired on June 30, 2016. II currently expects to continue to provide transition services as required by the contract through November 30, 2016. Revenues from the Iowa portal contract for the current quarter and year-to-date periods ended September 30, 2016, were approximately \$0.5 million and \$1.4 million, respectively, and were approximately \$0.4 million and \$1.4 million, respectively, for the corresponding prior year periods ended September 30, 2015.

We do not believe that the expiration of our contracts with the states of Tennessee and Iowa will have a material impact on our consolidated results of operations, cash flows or financial condition.

As previously disclosed, the contract under which our subsidiary, Delaware Interactive, LLC (“DI”), managed the state of Delaware’s official government portal expired on March 31, 2015. The expiration of our contract with the state of Delaware did not have a material impact on our consolidated results of operations, cash flows or financial condition. Revenues from the Delaware portal contract for the prior year-to-date period ended September 30, 2015, were approximately \$0.6 million.

OVERVIEW OF BUSINESS MODELS AND REVENUE RECOGNITION

We classify our revenues and cost of revenues into two categories: (1) portal and (2) software & services. The portal category includes revenues and cost of revenues primarily from our subsidiaries operating state and local government portals on an outsourced basis. The software & services category primarily includes revenues and cost of revenues from our subsidiaries that provide software development and digital government services, other than outsourced portal services, to state and local governments as well as federal agencies. We currently earn revenues from three main sources: transaction-based fees, time and materials-based fees for application development and fixed fees for portal management services. Each of these revenue types and the corresponding business models are further described below.

Our outsourced portal businesses

We categorize our portal revenues according to the underlying source of revenue. A brief description of each category follows:

- **IGS transaction-based** : transaction fees from interactive government services, referred to as IGS, are fees from sources other than digital access to motor vehicle driver history records, for transactions conducted by business users and consumer users through our portals and are generally recurring. For a representative listing of the IGS applications we currently offer through our portals, refer to Part I, Item 1 in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 23, 2016.
- **DHR transaction-based** : transaction fees from driver history records, referred to as DHR, are fees for providing digital access to motor vehicle driver history records from our state portals to data resellers, insurance companies, and other pre-authorized customers on behalf of our state partners, and are generally recurring.
- **Portal software development and services** : these are revenues from the performance of application development projects and other time and materials services for our government partners. While we actively market these services, they do not have the same degree of predictability as our transaction-based or portal management revenues and are not generally recurring. As a result, these revenues are excluded from our recurring portal revenue percentage.
- **Portal management** : these are revenues from the performance of fixed fee portal management services for our current government partner in the state of Indiana and former government partner in the state of Delaware and are generally recurring. Our Delaware portal contract expired on March 31, 2015.

Our software & services businesses

NIC Federal currently earns a significant portion of its revenues from its contract with the FMCSA to develop and manage the PSP for motor carriers nationwide, using our transaction-based business model. NIC Federal recognizes revenues from this contract (primarily transaction-based information access fees) when the services are provided at the time of the transactions. NIC Federal also earns a portion of its revenues from fixed fee and time and materials application development and outsourced maintenance contracts with other government agencies and recognizes revenues as services are provided.

CRITICAL ACCOUNTING POLICIES

There have been no material changes in our critical accounting policies from the information provided under “Critical Accounting Policies” in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 23, 2016.

RESULTS OF OPERATIONS

The following discussion summarizes the significant factors affecting operating results for the three- and nine-month periods ended September 30, 2016 and 2015. This discussion and analysis should be read in conjunction with our Unaudited Consolidated Financial Statements and the related Notes included in this Form 10-Q.

Due to the expiration of our contract with the state of Delaware on March 31, 2015, the operating results from our Delaware portal have been removed from the same state category. Furthermore, the operating results for our new Louisiana portal have been excluded from the same state category because it had not generated revenues for two full comparable periods.

Key Financial Metrics	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Revenue growth - outsourced portals	7%	7%	8%	7%
Same state revenue growth - outsourced portals	5%	8%	7%	8%
Recurring portal revenue as a % of total portal revenues	97%	96%	96%	96%
Gross profit % - outsourced portals	40%	41%	40%	39%
Revenue growth - software & services	9%	17%	12%	13%
Gross profit % - software & services	72%	72%	73%	72%
Selling & administrative expenses as a % of total revenues	15%	14%	14%	14%
Operating income margin % (operating income as a % of total revenues)	25%	27%	25%	24%

PORTAL REVENUES. In the analysis below, we have categorized our portal revenues according to the underlying source of revenue (in thousands), with the corresponding percentage increase or decrease from the prior year period.

Portal Revenue Analysis	Three months ended September 30,			Nine months ended September 30,		
	2016	% Change	2015	2016	% Change	2015
IGS transaction-based	\$ 44,356	12%	\$ 39,536	\$ 131,565	13%	\$ 116,318
DHR transaction-based	27,249	3%	26,425	80,205	3%	77,720
Portal software development	2,117	(27%)	2,887	8,112	(6%)	8,659
Portal management	1,275	-	1,275	3,825	(12%)	4,370
Total	\$ 74,997	7%	\$ 70,123	\$ 223,707	8%	\$ 207,067

Portal revenues in the current quarter increased 7%, or approximately \$4.9 million, over the prior year quarter mainly due to (i) a 5%, or approximately \$3.5 million, increase in same state portal revenues (portals in operation and generating comparable revenues for two full periods); and (ii) a 2%, or approximately \$1.4 million, increase in revenues as a result of revenues generated from our new Louisiana portal (which began generating DHR revenues in July 2016). See Note 2 to the Unaudited Consolidated Financial Statements for additional discussion of the Louisiana master contract.

The increase in same state portal revenues over the prior year quarter is primarily attributable to higher revenues from our Texas, Maryland, and Colorado portals, among others. Same state IGS transaction-based revenues increased 12% in the current quarter compared to 11% in the prior year quarter. The increase in same state IGS transaction-based revenues in the current quarter was due to higher revenues from several key services, including vehicle inspections in Texas, motor vehicle registrations in Maryland and Colorado, hunting and fishing licensing in Wisconsin and business registration filings in Maryland. During the current quarter, transaction volumes for vehicle inspections in Texas normalized to approximate historical levels as compared to the first and second quarters of 2016. As previously disclosed, a change in legislation negatively impacted revenues from this service in the first and second quarters of 2016. Same state DHR transaction-based revenues decreased 1% in the current quarter compared to 7% growth in the prior year quarter. The decrease in same state DHR transaction-based revenues in the current quarter was mainly due to lower transaction volumes from our Pennsylvania, Tennessee and Connecticut portals. Our same state portal software development and services revenues decreased 27% in the current quarter due to lower project-based revenues from our Tennessee, Utah and Oklahoma portals, among others.

Portal revenues in the current year-to-date period increased 8%, or approximately \$16.6 million, over the prior year-to-date period, mainly due to (i) a 7%, or \$15.3 million, increase in same state portal revenues; and (ii) a 1%, or approximately \$1.9 million, increase in revenues as a result of revenues generated from our new Louisiana portal (including the prior Louisiana pilot program). These increases were partially offset by a \$0.6 million decrease in revenues from our legacy Delaware portal contract, which expired on March 31, 2015.

The increase in same state portal revenues over the prior year-to-date period was mainly due to higher revenues from our Maryland, Wisconsin and Colorado portals, among others. Same state IGS transaction-based revenues increased 13% in the current year-to-date period compared to 11% in the prior year-to-date period. The increase in same state IGS transaction-based revenues in the current year-to-date period was due to higher revenues from several key services, including motor vehicle registrations in Colorado and Maryland, hunting and fishing licensing in Wisconsin and business registration and tax filings in Maryland. Same state DHR transaction-based revenues grew 2% in the current year-to-date period compared to 5% in the prior year-to-date period. The decrease in same state DHR transaction-based revenue growth in the current year-to-date period was mainly due to lower transaction volumes from our Pennsylvania, Tennessee and Connecticut portals and to the anniversary of a DHR monitoring service in one state portal which launched in the second quarter of 2015. Same state portal software development and services revenues decreased 6% in the current year-to-date period mainly due to lower project-based revenues from our Colorado, Tennessee and Utah portals, among others.

COST OF PORTAL REVENUES. In the analysis below, we have categorized our cost of portal revenues between fixed and variable costs (in thousands), with the corresponding percentage increase or decrease from the prior year period. Fixed costs include costs such as employee compensation and benefits (including stock-based compensation), subcontractor labor costs, telecommunications, provision for losses on accounts receivable, gains and losses on disposal of assets, and all other costs associated with the provision of dedicated client service such as dedicated facilities. Variable costs consist of costs that vary with our level of portal revenues and primarily include interchange fees required to process credit/debit card and automated clearinghouse transactions and, to a lesser extent, costs associated with revenue share arrangements with our state partners.

Cost of Portal Revenue Analysis	Three months ended September 30,			Nine months ended September 30,		
	2016	% Change	2015	2016	% Change	2015
Fixed costs	\$ 27,712	9%	\$ 25,346	\$ 82,318	4%	\$ 79,396
Variable costs	17,428	11%	15,712	52,560	14%	45,971
Total	\$ 45,140	10%	\$ 41,058	\$ 134,878	8%	\$ 125,367

Cost of portal revenues in the current quarter increased 10%, or approximately \$4.1 million, over the prior year quarter due mainly to a \$3.9 million increase in same state cost of portal revenues. Cost of portal revenues in the current quarter from our new Louisiana portal increased approximately \$0.2 million over the prior year quarter, which included the prior Louisiana pilot program.

The increase in same state cost of portal revenues in the current quarter was primarily attributable to an increase in variable fees to process credit/debit card transactions, due mainly to higher IGS transaction volumes, as further discussed above. Furthermore, the increase was partially attributable to higher employee compensation and benefits, software maintenance and development subcontracting costs across various portals.

A significant percentage of our IGS transaction-based revenues are generated from online applications whereby users pay for information or transactions via credit/debit cards. We typically earn a portion of the credit/debit card transaction amount, but also must pay an associated interchange fee to the bank that processes the credit/debit card transaction. We earn a lower incremental gross profit percentage on these transactions as compared to our DHR and other IGS transactions. However, we plan to continue to implement these services as they contribute favorably to our operating income growth.

Our portal gross profit percentage was 40% in the current quarter, down from 41% in the prior year quarter, due mainly to lower same state portal software development and services revenues and lower same state DHR transaction-based revenues in the current quarter, as further discussed above. We carefully monitor our portal gross profit percentage to strike the balance between generating a solid return for our stockholders and delivering value to our government partners through ongoing investment in our portal operations (which we believe also benefits our stockholders).

Cost of portal revenues in the current year-to-date period increased 8%, or approximately \$9.5 million, over the prior year-to-date period due mainly to a \$9.4 million increase in same state cost of portal revenues. Cost of portal revenues in the current year-to-date period from our new Louisiana portal (including the prior Louisiana pilot program) increased \$0.5 million over the prior year-to-date period. These increases were partially offset by a \$0.4 million decrease in cost of portal revenues resulting from the expiration of our legacy Delaware portal contract on March 31, 2015.

The increase in same state cost of portal revenues in the current year-to-date period was primarily attributable to an increase in variable fees to process credit/debit card transactions, due mainly to higher IGS transaction volumes, as further discussed above, and, to a lesser extent, higher employee compensation and benefit costs.

Our portal gross profit percentage was 40% in the current year-to-date period, up from 39% in the prior year-to-date period, due mainly to an increase in portal gross profits in the current year-to-date period from our Maryland and Colorado portals driven by higher revenues, as further discussed above. In addition, the prior year-to-date period included start-up costs from the Louisiana pilot of approximately \$0.9 million.

SOFTWARE & SERVICES REVENUES. In the analysis below, we have categorized our software & services revenues by business (in thousands), with the corresponding percentage increase from the prior year period.

Software & Services Revenue Analysis	Three months ended September 30,			Nine months ended September 30,		
	2016	% Change	2015	2016	% Change	2015
NIC Federal	\$ 3,684	7%	\$ 3,455	\$ 10,889	12%	\$ 9,760
Other	1,692	15%	1,469	4,977	13%	4,391
Total	\$ 5,376	9%	\$ 4,924	\$ 15,866	12%	\$ 14,151

Software & services revenues in the current quarter and year-to-date periods increased 9% and 12%, or approximately \$0.5 million and \$1.7 million, respectively, over the corresponding prior year periods. These increases were primarily due to higher revenues in the current quarter and year-to-date periods from our contract with the FMCSA (\$0.2 million and \$1.0 million, respectively) as a result of increased adoption of the PSP and from various other software & services businesses, primarily payment processing (\$0.3 million and \$0.7 million, respectively).

COST OF SOFTWARE & SERVICES REVENUES. Cost of software & services revenues in the current quarter and year-to-date periods increased 10% and 9%, or approximately \$0.1 million and \$0.4 million, respectively, over the corresponding prior year periods due mainly to higher interchange fees incurred as a result of higher revenues in our payment processing businesses and higher employee compensation and benefit costs. Our software & services gross profit percentage was 72% and 73% in the current quarter and year-to-date periods compared to 72% in both of the corresponding prior year periods. The higher gross profit percentage in the current year-to-date period was mainly due to higher revenues from the PSP and other payment processing services, as further discussed above.

SELLING & ADMINISTRATIVE. As a percentage of total consolidated revenues, selling & administrative expenses were 15% and 14%, respectively, in the current quarter and year-to-date periods, compared to 14% in both of the corresponding prior year periods. Selling & administrative expenses in the current quarter and year-to-date periods increased 10% and 7%, or approximately \$1.1 million and \$2.3 million, respectively, over the corresponding prior year periods mainly due to higher personnel, software maintenance and other costs to support and enhance corporate-wide information technology, security and portal operations.

DEPRECIATION & AMORTIZATION. As a percentage of total consolidated revenues, depreciation & amortization expense was 2% in both the current quarter and year-to-date periods compared to 3% in both of the corresponding prior year periods. Depreciation and amortization expense in the current quarter and year-to-date periods decreased 21% and 24%, or approximately \$0.4 million and \$1.6 million, respectively, from the corresponding prior year periods mainly due to certain capital expenditures made in prior years for certain of our outsourced portal businesses and for our centralized hosting environment becoming fully depreciated.

INCOME TAXES. Our effective tax rate was approximately 20% and 31%, respectively, for the current quarter and year-to-date periods ended September 30, 2016 compared to approximately 36% and 38%, respectively, in the corresponding prior year periods. Our effective tax rate in the current year periods was lower mainly due to favorable benefits related to the domestic production activities deduction, the federal research and development credit, an adjustment to certain deferred tax liabilities related to a previous acquisition of a business and other adjustments related to the filing of the Company's 2015 federal tax return during the third quarter of 2016.

During the current quarter, we completed our study of qualifying activities for the domestic production activities deduction and began recognizing tax benefits for the deduction. In the current quarter, we recognized tax benefits, included in our income tax provision, of approximately \$1.4 million for the 2015 tax year and approximately \$1.0 million for the first nine months of the 2016 tax year related to the estimated domestic production activities deduction.

In the prior year periods, legislation extending the federal research and development credit beyond December 31, 2014 had not been enacted. On December 18, 2015, the Protecting Americans from Tax Hikes Act was signed into law, which included a provision making the federal research and development credit permanent.

Liquidity and Capital Resources

Operating activities

Net cash provided by operating activities was \$57.2 million in the current year-to-date period compared to \$37.0 million in the prior year-to-date period. The increase in net cash provided by operating activities in the current year-to-date period was mainly the result of (i) an increase in net income, excluding non-cash charges for depreciation & amortization, deferred income taxes and stock-based compensation, and (ii) the timing of collections for accounts receivable in the current and prior year periods primarily at our Texas portal, including the vehicle inspection service, and in our Colorado and Montana portals, among others, partially offset by the timing of payments in the current and prior year periods to our government partners primarily in Colorado, Montana and Alabama, among others. Furthermore, the timing of accounts receivable collections and payments to our government partners in Louisiana, our newest portal, also contributed to the increase in net cash provided by operating activities in the current year-to-date period.

Investing activities

Net cash used in investing activities was approximately \$5.7 million in the current year-to-date period compared to \$3.9 million in the prior year-to-date period. Investing activities in the current and prior year-to-date periods primarily reflect \$3.9 million and \$3.3 million, respectively, of capital expenditures, which were for fixed asset additions in our outsourced portal businesses and in our centralized hosting environment to support and enhance corporate-wide information technology and security infrastructure, including Web servers, purchased software and office equipment. Furthermore, in the current and prior year-to-date periods we capitalized approximately \$1.8 million and \$0.6 million, respectively, of internal-use software development costs primarily related to the enhancement of centralized customer management, billing and payment processing systems that support our portal operations and accounting systems.

Financing activities

Net cash provided by financing activities was approximately \$1.5 million and \$1.4 million in the current and prior year-to-date periods, respectively. Financing activities in both the current and prior year-to-date periods primarily reflect the receipt of approximately \$1.1 million in proceeds from our employee stock purchase program in both periods and tax deductions of approximately \$0.4 million and \$0.3 million in the current and prior year-to-date periods, respectively, related to stock-based compensation.

Liquidity

We recognize revenues primarily from providing outsourced government services net of the transaction fees due to the government when the services are provided. We recognize accounts receivable at the time these services are provided, and also accrue the related fees that we must remit to the government as accounts payable at such time. As a result, trade accounts receivable and accounts payable reflect the gross amounts outstanding at the balance sheet dates. We typically collect a majority of our accounts receivable prior to remitting amounts payable to our government partners.

We believe our working capital and current ratio are important measures of our short-term liquidity. Working capital, defined as current assets minus current liabilities, increased to \$153.2 million at September 30, 2016, from \$106.6 million at December 31, 2015. The increase in our working capital was primarily due to cash generated from operating activities and the timing of payments to our government partners. Our current ratio, defined as current assets divided by current liabilities, was 2.6 and 1.9 at September 30, 2016 and December 31, 2015, respectively.

At September 30, 2016, our cash balance was \$151.4 million compared to \$98.4 million at December 31, 2015. We believe that our currently available liquid resources and cash generated from operations will be sufficient to meet our operating requirements, capital expenditure requirements and dividend payments (if any) for at least the next 12 months without the need for additional capital. We have a \$10.0 million unsecured revolving credit facility (the "Credit Agreement") with a bank that is available to finance working capital, issue letters of credit and finance general corporate purposes. The Credit Agreement also includes an accordion feature that will allow us to increase the available capacity under the Credit Agreement to \$50.0 million, subject to securing additional commitments from the bank. We can obtain letters of credit in an aggregate amount of \$5.0 million, which reduces the maximum amount available for borrowing under the Credit Agreement. In total, we had \$4.1 million in available capacity to issue additional letters of credit and \$9.1 million of unused borrowing capacity at September 30, 2016 under the Credit Agreement. We were in compliance with all of the financial covenants under the Credit Agreement at September 30, 2016.

We issue letters of credit as collateral for certain office leases, and to a much lesser extent, as collateral for performance on one of our outsourced state portal contracts. These irrevocable letters of credit are generally in force for one year. Letters of credit may have an expiration date of up to one year beyond the expiration date of the Credit Agreement. We had unused outstanding letters of credit totaling approximately \$0.9 million at September 30, 2016. We are not currently required to cash collateralize these letters of credit.

At September 30, 2016, we were bound by performance bond commitments totaling approximately \$6.3 million on certain outsourced government portal contracts. We have never had any defaults resulting in draws on performance bonds. Had we been required to post 100% cash collateral at September 30, 2016 for the face value of all performance bonds, letters of credit, and our line of credit in conjunction with a corporate credit card agreement, unrestricted cash would have decreased by approximately \$8.3 million and would have been classified as restricted cash.

On November 1, 2016, our Board of Directors declared a special cash dividend of \$0.65 per share, payable to stockholders of record as of November 16, 2016. The dividend, which is expected to total approximately \$43.3 million based on the current number of shares outstanding, will be paid on December 9, 2016, out of our available cash. On November 2, 2015, our Board of Directors declared a \$0.55 per share special cash dividend totaling approximately \$36.5 million that was paid out of our available cash on January 4, 2016.

On November 1, 2016, our Board of Directors approved a dividend policy pursuant to which it plans to make, subject to subsequent declaration, regular quarterly cash dividends of \$0.08 per share, beginning with the first declaration and payment in the first quarter of 2017. While our Board of Directors currently intends to authorize the payment of regular quarterly cash dividends on our common stock, the Board monitors and evaluates our dividend practice quarterly and may elect to increase, decrease or not pay a dividend at any time. Our ability to pay dividends could be affected by future business performance, liquidity, capital needs, alternative investment opportunities and debt covenants associated with our line of credit.

We currently expect our capital expenditures to range from \$5.0 million to \$6.0 million in fiscal 2016, which we intend to fund from our cash flows from operations and existing cash reserves. This estimate includes capital expenditures for normal fixed asset additions in our outsourced portal businesses, including equipment upgrades and enhancements in our Texas portal, and in our centralized hosting environment to support and enhance corporate-wide information technology and security infrastructure, including Web servers, purchased software, and office equipment.

We may need to raise additional capital within the next 12 months to:

- fund operations if unforeseen costs arise;
- support our expansion into other federal, state and local government agencies beyond what is contemplated if unforeseen opportunities arise;
- expand our product and service offerings beyond what is contemplated if unforeseen opportunities arise;
- fund acquisitions;
- respond to unforeseen competitive pressures; and
- acquire technologies beyond what is contemplated.

Any projections of future earnings and cash flows are subject to substantial uncertainty. If our cash generated from operations and the unused portion of our line of credit are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity securities or issue debt securities. If we need to obtain new debt or equity financing in the future, the terms and availability of such financing may be impacted by economic and financial market conditions, as well as our financial condition and results of operations at the time we seek additional financing. The sale of additional equity securities could result in dilution to our stockholders. There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all.

Off-balance sheet arrangements and contractual obligations

We do not have off-balance sheet arrangements that are not recorded or disclosed in our financial statements. As of September 30, 2016, there have been no material changes outside the ordinary course of business from the disclosures relating to contractual obligations contained under “Off-Balance Sheet Arrangements and Contractual Obligations” in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 23, 2016. While we have significant operating lease commitments for office space, except for our headquarters, those commitments are generally tied to the period of performance under related portal contracts. We have income tax uncertainties of approximately \$5.2 million at September 30, 2016. These obligations are classified as non-current on our unaudited consolidated balance sheet, as resolution is expected to take more than a year. We estimate that these matters could be resolved in one to three years. However, the ultimate timing of resolution is uncertain.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK. Our cash is held entirely in domestic non-interest bearing transaction bank accounts.

We currently have no principal amounts of indebtedness outstanding under our line of credit.

We do not use derivative financial instruments.

ITEM 4. CONTROLS AND PROCEDURES

a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that material information required to be disclosed in its filings under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of such date.

b) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting that occurred during our third quarter of 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Share Repurchases

During the third quarter of 2016, we acquired and cancelled shares of common stock surrendered by employees to pay income taxes due upon the vesting of restricted stock as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
July 17, 2016	1,387	\$ 22.67	N/A	N/A

ITEM 6. EXHIBITS

- 10.1 NIC Inc. 2014 Amended and Restated Stock Compensation Plan
- 10.2 Form of Amended and Restated Restricted Stock Agreement for NIC Inc. 2014 Amended and Restated Stock Compensation Plan
- 10.3 Form of Amended and Restated Performance-Based Restricted Stock Agreement for NIC Inc. 2014 Amended and Restated Stock Compensation Plan
- 10.4 Form of Amended and Restated Stock Option Agreement for NIC Inc. 2014 Amended and Restated Stock Compensation Plan
- 10.5 NIC Inc. Management Annual Incentive Plan for Senior Executives
- 10.6 NIC Inc. Amended and Restated Employee Stock Purchase Plan
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Section 906 Certifications of Chief Executive Officer and Chief Financial Officer
- 101 The following financial information from NIC's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, formatted in XBRL (Extensible Business Reporting Language) includes (i) Unaudited Consolidated Balance Sheets at September 30, 2016 and December 31, 2015, (ii) Unaudited Consolidated Statements of Income for the three and nine months ended September 30, 2016 and 2015, (iii) Unaudited Consolidated Statement of Changes in Stockholders' Equity for the nine months ended September 30, 2016, (iv) Unaudited Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015, and (v) the Notes to Unaudited Consolidated Financial Statements (submitted electronically herewith).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NIC INC.

Dated: November 3, 2016

/s/ Stephen M. Kovzan
Stephen M. Kovzan
Chief Financial Officer

NIC INC.
EXHIBIT INDEX

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NIC INC. 2014 AMENDED AND RESTATED STOCK COMPENSATION PLAN

(An amendment and restatement of the
NIC Inc. 2006 Amended and Restated Stock Option and Incentive Plan)

ARTICLE I. PURPOSE.

A. The purpose of the Plan is to provide a means by which selected Employees, Directors and Consultants of the Company, and its Affiliates, if any, may be given an opportunity to benefit from increases in value of the Common Stock of the Company through the grant of Options, Restricted Stock Awards or both.

B. The Company, by means of the Plan, seeks to retain the services of persons who are now Employees or Directors of or Consultants to the Company or its Affiliates, to secure and retain the services of new Employees, Directors and Consultants, and to provide incentives for such persons to exert maximum efforts for the success of the Company and its Affiliates.

C. All Options granted under the Plan shall be separately designated as Incentive Stock Options or Non-Qualified Stock Options at the time of grant, and in such form as issued pursuant to Article VI, and a separate certificate or certificates will be issued for shares purchased on exercise of each type of Option or granted pursuant to a Restricted Stock Award, which shall also be in such form as issued pursuant to Article VIII.

D. The Plan is a 2014 amendment and restatement of the NIC Inc. 2006 Amended and Restated Stock Option and Incentive Plan, as amended May 5, 2009 (the "2006 Plan"). The "Effective Date" of this amended and restated Plan shall be the date the stockholders of the Company approve this amended and restated Plan. Any Option or Restricted Stock Award granted under the 2006 Plan prior to the Plan's Effective Date shall be subject to the terms of the 2006 Plan as they existed immediately prior to the Effective Date. Pursuant to Article XIII, the Plan was amended by the Board effective as of October 12, 2016 to reflect the recent Financial Accounting Standards Board ("FASB") amendments to ASC 718 relating to share withholding for payment of personal income taxes.

ARTICLE II. DEFINITIONS.

"Act" means the Securities Act of 1933, as amended.

"Affiliate" means any parent corporation or subsidiary corporation of the Company, whether now or hereafter existing, as those terms are defined in Sections 424(e) and (f) respectively, of the Code.

"Award" means either an Option or a Restricted Stock Award.

"Board" means the Board of Directors of the Company.

"Code" means the Internal Revenue Code of 1986, as amended, and any Internal Revenue Code adopted in the future to replace the Internal Revenue Code of 1986.

"Committee" means the Committee of Outside Directors appointed by the Board in accordance with Subsection C of Article III to administer the Plan. For any purposes under this Plan, the Committee may be the Compensation Committee of the Company's Board.

“Common Stock” means shares of the Company’s common stock, no par value.

“Company” means NIC Inc., a Delaware corporation.

“Consultant” means any person, including an advisor, engaged by the Company or an Affiliate to render consulting services as an independent contractor and who is compensated for such services, provided that the term “Consultant” shall not include Directors who are paid only a director’s fee by the Company or who are not compensated by the Company for their services as Directors. Solely for purposes of Substitute Awards, the term Consultant includes any current or former consultant of an Acquired Entity (as defined in the definition of Substitute Awards) who holds Acquired Entity Awards (as defined in the definition of Substitute Awards) immediately prior to the Acquisition Date (as defined in the definition of Substitute Awards).

“Continuous Status as an Employee, Director or Consultant” means that the provision of services to the Company or an Affiliate in any capacity of Employee, Director or Consultant, is not interrupted or terminated. Continuous Status as an Employee, Director or Consultant shall not be considered interrupted in the case of (i) any approved leave of absence, (ii) transfers between locations of the Company or among the Company, any Affiliate, or any successor, in any capacity of Employee, Director or Consultant, or (iii) any change in status as long as the person remains in the service of the Company, Affiliate or successor in any capacity of Employee, Director or Consultant (except as otherwise provided in the Option Agreement). An approved leave of absence shall include sick leave, military leave, or any other authorized personal leave approved by the Company; provided, however, that any such authorized leave of absence shall be treated as Continuous Status as an Employee, Director or Consultant for the purposes of vesting only to the extent as may be provided in the Company’s leave policy. For purposes of Incentive Stock Options, no such leave may exceed ninety (90) days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. The Board, in its sole discretion, shall in all cases determine whether Continuous Status as an Employee, Director or Consultant shall be considered interrupted or terminated.

“Covered Employee” means any person that meets the definition of “covered employee” under Section 162(m) of the Code.

“Director” means a member of the Board or of the board of directors of an Affiliate. Solely for purposes of Substitute Awards, the term Director includes any current or former director of an Acquired Entity (as defined in the definition of Substitute Awards) who holds Acquired Entity Awards (as defined in the definition of Substitute Awards) immediately prior to the Acquisition Date (as defined in the definition of Substitute Awards).

“Employee” means any person, including Officers and Directors, employed by the Company or any Affiliate of the Company as determined under the rules contained in Code Section 3401. Neither service as a Director nor payment of a director’s fee by the Company shall be sufficient by itself to constitute “employment” by the Company. Solely for purposes of Substitute Awards, the term Employee includes any current or former employee of an Acquired Entity (as defined in the definition of Substitute Awards) who holds Acquired Entity Awards (as defined in the definition of Substitute Awards) immediately prior to the Acquisition Date (as defined in the definition of Substitute Awards).

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Fair Market Value” means, as of any date, the value of the Common Stock of the Company determined as follows:

(i) If the Common Stock is readily tradable on an established securities market, the fair market value of the Common Stock on the date of grant means the value determined based upon the last sale before or the first sale after the grant, the closing price on the trading day before or the trading day of the grant of the Award, or any other reasonable basis using actual transactions in the Common Stock as reported by such market and consistently applied.

(ii) If the Common Stock is not readily tradable on an established securities market, the fair market value of the Common Stock on the date of grant means the value determined by a valuation of the Common Stock determined by an independent appraisal that meets the requirements of Section 401(a)(28)(C) of the Code and the regulations thereunder as of a date that is no more than 12 months before the relevant Option grant date.

“Incentive Stock Option” means an Option intended to qualify as an incentive stock option (as set forth in the Option Agreement) and that qualifies as an Incentive Stock Option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

“Non-Qualified Stock Option” means an Option not intended to qualify as an Incentive Stock Option (as set forth in the Option Agreement) or that does not qualify as an Incentive Stock Option.

“Officer” means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

“Option” means a stock option granted pursuant to the Plan.

“Option Agreement” means a written or electronic agreement between the Company and a Recipient evidencing the terms and conditions of an individual Option grant. Each Option Agreement shall be subject to the terms and conditions of the Plan.

“Outside Director” means a Director who (i) is not a current employee of the Company or an “affiliated corporation” (within the meaning of Treasury regulations promulgated under Section 162(m) of the Code), (ii) is not a former employee of the Company or an “affiliated corporation” receiving compensation for prior services (other than benefits under a tax qualified pension plan) during the taxable year, (iii) has not been an officer of the Company or an “affiliated corporation” at any time, (iv) is not currently receiving direct or indirect remuneration (including any payment in exchange for goods or services) from the Company or an “affiliated corporation” in any capacity other than as a Director, (v) is otherwise considered an “outside director” for purposes of Section 162(m) of the Code, a “non-employee director” for purposes of Rule 16b-3 under the Exchange Act and an “independent director” for purposes of Rule 4350 of the National Association of Securities Dealers, Inc.

“Plan” means this NIC Inc. 2014 Amended and Restated Stock Compensation Plan.

“Purchase Price” is defined in Subsection C of Article VI.

“Recipient” means an Employee, Director or Consultant, or their transferees, who holds an outstanding Option or Restricted Stock Award.

“Restricted Stock” means Common Stock awarded to an Employee pursuant to Article VIII that is subject to certain restrictions and a substantial risk of forfeiture.

“Restricted Stock Agreement” means a written or electronic agreement between the Company and a Recipient evidencing the terms, conditions and restrictions of an individual Restricted Stock Award. Each Restricted Stock Agreement shall be subject to the terms and conditions of the Plan.

“Rule 16b-3” means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

“Substitute Award” means an Award granted under the Plan in substitution for stock or stock based awards (“Acquired Entity Awards”) held by current and former employees, directors or consultants of another corporation or entity who become Employees, Directors or Consultants of the Company or an Affiliate as the result of a merger or consolidation of the employing corporation or other entity (the “Acquired Entity”) with the Company or an Affiliate, or the acquisition by the Company or an Affiliate, of property or stock of, or other ownership interest in, the Acquired Entity immediately before such merger, consolidation or acquisition (“Acquisition Date”) as agreed to by the parties to such corporate transaction and as may be set forth in the definitive purchase agreement. The limitations of Subsection A of Article IV on the number of shares of Common Stock reserved or available for Awards, and the limitations under Subsection D of Article V with respect to Awards granted in any calendar year, shall not apply to Substitute Awards. Any issuance of a Substitute Award which relates to an Option shall be completed in conformity with the rules under Code Section 409A relating to the substitutions and assumptions of stock rights by reason of a corporate transaction.

ARTICLE III. ADMINISTRATION.

A. The Plan shall be administered by the Board unless and until the Board delegates administration to the Committee, as provided in Subsection C of this Article III.

B. The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine, in its sole discretion, from time to time which of the persons eligible under the Plan shall be granted an Award; when and how each Award shall be granted; whether an Option granted will be an Incentive Stock Option or a Non-Qualified Stock Option, or a combination of the foregoing; the provisions of each Award granted (which need not be identical), including the time or times when a person shall be permitted to receive stock pursuant to an Award; the number of shares with respect to which an Award shall be granted to each such person; and all other terms, conditions and restrictions applicable to each such Award or shares acquired upon exercise of an Option not inconsistent with the terms of the Plan.

(ii) To approve one or more forms of Option Agreement and Restricted Stock Agreement.

(iii) To construe and interpret, in its sole discretion, the Plan and Awards granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Option Agreement, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

(iv) To amend, modify or otherwise change in any manner the Plan or an Award as provided in Article XIII and to suspend or terminate the Plan as provided in Article XIV.

(v) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company that are not in conflict with the provisions of the Plan.

All decisions, determinations and interpretations of the Board shall be final, binding and conclusive on any Recipient and any other person with an interest in the Plan or in an Award and on any Affiliate.

C. The Board may delegate administration of the Plan to a committee composed of not fewer than two (2) of its members, all of the members of which Committee shall be Outside Directors. The Committee may be the Board's Compensation Committee. Furthermore, notwithstanding anything in this Article III to the contrary, the Board shall delegate administration of the Plan to the Committee for any grant of an Award to an eligible person who is a Covered Employee or who is expected to be a Covered Employee at the time of recognition of income resulting from such Award with respect to either of whom the Company wishes to avoid the application of Section 162(m) of the Code.

Notwithstanding anything in this Article III to the contrary, at any time the Board or the Committee may delegate to a committee of one or more members of the Board the authority to grant Awards to eligible persons who (i) are not then subject to Section 16 of the Exchange Act and (ii) are either (A) not then Covered Employees and are not expected to be Covered Employees at the time of recognition of income resulting from such Award, or (B) not persons with respect to whom the Company wishes to avoid the application of Section 162(m) of the Code.

In the event that any administration of the Plan is delegated to the Committee under this Article III, the Committee shall have, during such delegation and in connection with the administration of the Plan, the powers theretofore possessed by the Board (and references in this Plan to the Board shall thereafter be to the committee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may abolish the Committee at any time and, upon abolition administration of the Plan shall revert automatically, without any further action on the Board's part, to the Board.

D. Notwithstanding anything in this Article III to the contrary, at any time the Board may also delegate to any proper Officer the authority to grant Awards, without further approval of the Board, to eligible persons who (i) are not then subject to Section 16 of the Exchange Act and (ii) are either (A) not then Covered Employees and are not expected to be Covered Employees at the time of recognition of income resulting from such Award, or (B) not persons with respect to whom the Company wishes to avoid the application of Section 162(m) of the Code; provided, however, that (i) the exercise price per share of each Option Award shall be equal to the Fair Market Value of such stock at the date of grant, and (ii) each Option Award shall be subject to the terms and conditions of the standard form of Option Agreement approved by the Board and shall conform to the provisions of the Plan and such other guidelines as shall be established from time to time by the Board.

E. No member of the Board or of any committee constituted under this Article III or any Officer acting pursuant to this Article shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or any Award.

ARTICLE IV. SHARES SUBJECT TO THE PLAN.

A. Subject to the provisions of Article XII relating to adjustments upon changes in stock, the amount of stock that may be issued pursuant to Awards granted after the Effective Date of this amended and restated Plan shall not exceed, in the aggregate, 15,825,223 shares of Common Stock, plus all shares subject to outstanding Awards on the Effective Date (the "Maximum Share Limit"). Any share of Common Stock required to satisfy Substitute Awards shall not count against the Maximum Share Limit. The shares of Common Stock may be divided among the various Plan components as the Board or Committee shall determine; provided, however, the maximum number of shares of Common Stock that may be issued pursuant to Incentive Stock Options shall be the sum of the Maximum Share Limit and any Incentive Stock Options issued as Substitute Awards. If any Award shall for any reason expire or otherwise terminate, in whole or in part, without having been exercised in full, the shares not acquired underlying such Award shall revert to and again become available for issuance under the Plan.

B. The Common Stock subject to the Plan may be unissued shares or reacquired shares, bought on the market or otherwise.

ARTICLE V. ELIGIBILITY.

A. Incentive Stock Options may be granted only to Employees. Non-Qualified Stock Options and Restricted Stock may be granted only to Employees, Directors or Consultants.

B. No person shall be eligible for the grant of an Incentive Stock Option if, at the time of grant, such person owns (or is deemed to own pursuant to Section 424(d) of the Code) stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company, or of any of its Affiliates (a "Ten Percent Stockholder"), unless the exercise price of such Option is at least one hundred ten percent (110%) of the Fair Market Value of such stock at the date of grant and the Option is not exercisable after the expiration of five (5) years from the date of grant.

C. To the extent that the aggregate Fair Market Value (determined at the time of grant) of stock with respect to which Incentive Stock Options are exercisable for the first time by any Recipient during any calendar year under all plans of the Company and its Affiliates exceeds one hundred thousand dollars (\$100,000), the Options or portions thereof which exceed such limit (according to the order in which they were granted) shall be treated as Non-Qualified Stock Options.

D. Subject to the provisions of Article XII relating to adjustments upon changes in stock, no person shall be eligible to be granted Awards covering more than two hundred thousand (200,000) shares of the Common Stock in any calendar year.

ARTICLE VI. TERMS OF OPTIONS.

Each Option shall be evidenced by an Option Agreement in such form and shall contain such terms and conditions as the Board shall deem appropriate. No Option or purported Option shall be a valid and binding obligation of the Company unless evidenced by a fully executed Option Agreement or by communicating with the Company in such manner as the Company may authorize. The provisions of separate Options need not be identical, but each Option shall include (through incorporation of provisions hereof or as specifically set forth in the Option Agreement or otherwise) the substance of each of the following provisions:

A. Term. No Incentive Stock Option shall be exercisable after the expiration of ten (10) years from the date it was granted. However, in the case of an Incentive Stock Option granted to a Recipient who, at the time the Option is granted, is a Ten Percent Stockholder (as described in Subsection B of Article V), the term of the Option shall be five (5) years from the date of grant thereof or such shorter term as may be provided in the Option Agreement.

B. Price. The exercise price of each Option shall be not less than one hundred percent (100%) of the Fair Market Value of the stock subject to the Option on the date the Option is granted. Notwithstanding the foregoing, an Option (whether an Incentive Stock Option or a Non-Qualified Stock Option) may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to a Substitute Award in a manner satisfying the provisions of Section 424(a) of the Code.

C. Consideration. The purchase price of stock acquired pursuant to an Option (the "Purchase Price") shall be paid, to the extent permitted by applicable statutes and regulations, either (i) in cash or check at the time the Option is exercised, or (ii) as set forth in the Option Agreement (or in the case of a Non-Qualified Stock Option, as subsequently determined in the discretion of the Board or the Committee) (A) in shares of Common Stock duly endorsed over to the Company (which shares shall have been owned by the Option holder for at least six (6) months prior to such exercise and, for purposes of this paragraph, be valued at their Fair Market Value as of the business day immediately preceding the date of such exercise), (B) by written direction to an authorized broker to sell the shares of Common Stock purchased pursuant to such exercise immediately for the account of the Option holder and pay an appropriate portion of the proceeds thereof to the Company, (C) according to a deferred payment or other arrangement (which may include, without limiting the generality of the foregoing, the use of other Common Stock of the Company) with the Recipient in any other form of legal consideration that may be acceptable to the Board, or (D) any combination of such methods of payment which together amount to the full exercise price of the shares purchased pursuant to the exercise of the Option. For purposes of this Subsection C, the Purchase Price shall include the amount of the full exercise price of the Common Stock shares purchased pursuant to the exercise of the Option plus an amount, if any, of any applicable taxes which the Company withholds. The Fair Market Value of any shares of Common Stock withheld or tendered to satisfy any such tax withholding obligations shall not exceed the sum of (i) the product of the amount of ordinary income recognized in connection with the Option exercise and the optionee's highest marginal income tax rate, and (ii) the optionee's FICA tax liability in connection with the Option exercise.

In the case of any deferred payment arrangement, interest shall be payable at least annually and shall be charged at the minimum rate of interest necessary to avoid the treatment as interest, under any applicable provisions of the Code, of any amounts other than amounts stated to be interest under the deferred payment arrangement. No deferred payment arrangement shall be permitted if the exercise of an Option for such a deferred payment would be a violation of any law or cause the Plan to be deemed a "nonqualified deferred compensation plan", as defined in Section 409A of the Code.

D. Transferability. An Incentive Stock Option shall not be transferable except by will or by the laws of descent and distribution, and shall be exercisable during the lifetime of the Recipient only by such Recipient or by his attorney-in-fact or conservator, unless such exercise by the attorney-in-fact or the conservator of the Recipient would disqualify the Incentive Stock Option as such. Unless the Board otherwise specifies, a Non-Qualified Stock Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Recipient only by such person or by his attorney-in-fact or conservator.

Notwithstanding the foregoing, the Recipient may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Recipient, shall thereafter be entitled to exercise the Option.

E. Vesting. The total number of shares of stock subject to an Option may, but need not, be allotted in periodic installments (which may, but need not, be equal). The Option Agreement may provide that from time to time during each of such installment periods, the Option may become exercisable (“vest”) with respect to some or all of the shares allotted to that period, and may be exercised with respect to some or all of the shares allotted to such period and/or any prior period as to which the Option became vested but was not fully exercised. The Option may be subject to such other terms and conditions on the time or times when it may be exercised (which may be based on performance or other criteria) as the Board may deem appropriate. Unless otherwise specified in an Option Agreement, the shares of stock underlying an Option grant shall vest in four equal amounts: the first installment will be first exercisable on the six (6)-month anniversary of the option grant date and each succeeding installment will be first exercisable one (1) year from the date that the immediately preceding installment became exercisable. Any vesting schedule can be accelerated in the discretion of the Board, unless otherwise specified in the Option Agreement.

F. Termination of Employment or Relationship as a Director or Consultant. In the event a Recipient’s Continuous Status as an Employee, Director or Consultant terminates (other than upon the Recipient’s death or disability), the Recipient may exercise his or her Option (to the extent that the Recipient was entitled to exercise it at the date of termination) but only within such period of time ending on the earlier of (i) the date three (3) months after the termination of the Recipient’s Continuous Status as an Employee, Director or Consultant (or, such longer or shorter period specified in the Option Agreement), or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, at the date of termination, the Recipient is not entitled to exercise his or her entire Option, the shares covered by the unexercisable portion of the Option shall revert to and again become available for issuance under the Plan. If, after termination, the Recipient does not exercise his or her Option within the time specified in the Option Agreement or in this Plan, the Option shall terminate, and the shares covered by such Option shall revert to and again become available for issuance under the Plan. The above terms shall apply only if the specific Option grant is silent on the above issues; however, a specific Option grant may provide for different terms in the event a Recipient’s Continuous Status as an Employee, Director or Consultant terminates (other than upon the Recipient’s death or disability).

G. Disability of Recipient. In the event a Recipient’s Continuous Status as an Employee, Director or Consultant terminates as a result of the Recipient’s disability, as defined in Section 22(e)(3) of the Code, the Recipient may exercise his or her Option (to the extent that the Recipient was entitled to exercise it at the date of termination), but only within such period of time ending on the earlier of (i) the date twelve (12) months following such termination (or, such longer or shorter period specified in the Option Agreement), or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, at the date of termination of Continuous Status, the Recipient is not entitled to exercise his or her entire Option, the shares covered by the unexercisable portion of the Option shall revert to and again become available for issuance under the Plan. If, after termination, the Recipient does not exercise his or her Option within the time specified herein, the Option shall terminate, and the shares covered by such Option shall revert to and again become available for issuance under the Plan. The above terms shall apply only if the specific Option grant is silent on the above issues; however, a specific Option grant may provide for different terms in the event a Recipient’s Continuous Status as an Employee, Director or Consultant terminates as a result of the Recipient’s disability.

H. Death of Recipient. In the event of the death of a Recipient during, or within a period specified in the Option after the termination of, the Recipient’s Continuous Status as an Employee, Director or Consultant, the Option may be exercised (to the extent the Recipient was entitled to exercise the Option at the date of death) by the Recipient’s estate, by a person who acquired the right to exercise the Option by bequest or inheritance or by a person designated to exercise the option upon the Recipient’s death pursuant to Subsection D of Article VI, but only within the period ending on the earlier of (i) the date twelve (12) months following the date of death (or, such longer or shorter period specified in the Option Agreement), or (ii) the expiration of the term of such Option as set forth in the Option Agreement. If, at the time of death, the Recipient was not entitled to exercise his or her entire Option, the shares covered by the unexercisable portion of the Option shall revert to and again become available for issuance under the Plan. If, after death, the Option is not exercised within the time specified herein, the Option shall terminate, and the shares covered by such Option shall revert to and again become available for issuance under the Plan. The above terms shall apply only if the specific Option grant is silent on the above issues; however, a specific Option grant may provide for different terms in the event a Recipient’s Continuous Status as an Employee, Director or Consultant terminates as a result of the Recipient’s death.

I. Responsibility for Option Exercise. A Recipient is responsible for taking any and all actions as may be required to exercise any Option in a timely manner, and for properly executing any documents as may be required for the exercise of an Option in accordance with such rules and procedures as may be established from time to time under the Plan. By signing or accepting an Option Agreement a Recipient (and any person to whom the Option under that Option Agreement is transferred) acknowledges that information regarding the procedures and requirements for the exercise of that Option is available upon such Recipient's or person's request to the Board. The Company shall have no duty or obligation to notify any Recipient of the expiration of any Option.

ARTICLE VII. REPRICING, CANCELLATION AND RE-GRANT OF OPTIONS.

The Board or the Committee shall not effect at any time directly or indirectly the repricing of any outstanding Options, including without limitation a repricing by the cancellation of any outstanding Options under the Plan and the grant in substitution therefor of new Options under the Plan covering the same or different amount of shares of stock. Notwithstanding the foregoing, an Option (whether an Incentive Stock Option or a Non-Qualified Stock Option) may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an Substitute Award in a manner satisfying the provisions of Section 424(a) of the Code.

ARTICLE VIII. RESTRICTED STOCK AWARDS

A. The Board is authorized to make Awards of Restricted Stock to any Recipient selected by the Board in such amounts and subject to such terms and conditions as determined by the Board. All Awards of Restricted Stock shall be evidenced by a Restricted Stock Agreement.

B. Restricted Stock shall be subject to such restrictions on transferability and other restrictions as the Board may impose (including, without limitation, limitations on the right to vote Restricted Stock or the right to receive dividends on the Restricted Stock). These restrictions may lapse separately or in combination at such times, pursuant to such circumstances, in such installments, or otherwise, as the Board determines at the time of the grant of the Award or thereafter.

C. All Awards of Restricted Stock shall be subject to a "substantial risk of forfeiture" as defined by Treasury Regulation sections 1.83-3(c) and 1.409A-1(d). Except as otherwise determined by the Board at the time of the grant of the Award or thereafter, upon termination of employment or service during the applicable restriction period, Restricted Stock that is at that time subject to restrictions shall be forfeited; provided, however, that, the Board may (a) provide in any Restricted Stock Award Agreement that restrictions or forfeiture conditions relating to Restricted Stock will be waived in whole or in part in the event of terminations resulting from specified causes, and (b) in other cases waive in whole or in part restrictions or forfeiture conditions relating to Restricted Stock.

D. Restricted Stock granted pursuant to the Plan may be evidenced in such manner as the Board shall determine. If certificates representing shares of Restricted Stock are registered in the name of the Participant, certificates must bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, and the Company may, at its discretion, retain physical possession of the certificate until such time as all applicable restrictions lapse.

ARTICLE IX. COVENANTS OF THE COMPANY.

During the terms of the Awards, the Company shall keep available at all times the number of shares of Common Stock required to satisfy such Awards.

ARTICLE X. USE OF PROCEEDS FROM EXERCISE OF OPTIONS.

Proceeds from the exercise of Options shall constitute general funds of the Company.

ARTICLE XI. MISCELLANEOUS.

A. Neither an Employee, Director or Consultant nor any person to whom an Option may be transferred shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares subject to such Award unless and until such person has satisfied all requirements for exercise, which can include an early exercise, of the Option pursuant to its terms, or until all restrictions on a Restricted Stock Award have lapsed, and the Company has issued such shares.

B. Nothing in the Plan or any instrument executed or Award granted pursuant thereto shall confer upon any Employee, Director or Consultant or other holder of Awards or Common Stock issued upon exercise of Options any right to continue in the employ of the Company or any Affiliate (or to continue acting as a Director or Consultant) or shall affect the right of the Company or any Affiliate to terminate the employment of any Employee with or without cause, the right of the Company's Board of Directors and/or the Company's stockholders to remove any Director pursuant to the terms of the Company's Articles of Incorporation and By-Laws and the provisions of Delaware Law, or the right to terminate the relationship of any Consultant with the Company or its Affiliates.

C. If the Company or its Affiliates is required to withhold any amounts by reason of federal, state or local tax laws, rules or regulations, in respect of the issuance of Awards or shares of stock pursuant to the Plan, the Company or such Affiliates shall be entitled to deduct and withhold such amounts from any cash payments to be made to the Recipient. In any event, such person shall promptly make available to the Company or such Affiliate, when requested by the Company or such Affiliate, sufficient funds to meet the requirements of such withholding, and the Company or such Affiliate may take and authorize such steps as it may deem advisable in order to have such funds made available to the Company or such Affiliate from any funds or property due or to become due to such person.

D. To the extent provided by the terms of an Option Agreement, the person to whom an Option is granted may satisfy any federal, state or local tax withholding obligation relating to the exercise or acquisition of stock under an Option by any of the following means or by a combination of such means: (i) tendering a cash payment; (ii) authorizing the Company to withhold shares from the shares of the stock otherwise issuable to the Recipient as a result of the exercise or acquisition of stock underlying the Option; or (iii) delivering to the Company unencumbered shares of the Company's stock owned by the person acquiring the stock. The Fair Market Value of any shares of Common Stock withheld or tendered to satisfy any such tax withholding obligations shall not exceed the sum of (i) the product of the amount of ordinary income recognized in connection with the Option exercise and the optionee's highest marginal income tax rate, and (ii) the optionee's FICA tax liability in connection with the Option exercise.

E. The Company shall not be required to issue fractional shares pursuant to this Plan and, accordingly, a Recipient may be awarded or required to purchase only whole shares.

F. The Plan and all determinations made and actions taken hereunder, to the extent not otherwise governed by the Code or laws of the United States, shall be governed by the laws of the State of Delaware and construed accordingly, without reference to the conflict of laws principles.

G. The receipt, transfer and exercise of any Award is subject to taxation under Section 83 of the Code.

ARTICLE XII. ADJUSTMENTS UPON CHANGES IN STOCK.

If any change is made in the stock subject to the Plan, or subject to any Award, without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company), the Plan will be appropriately adjusted in the class(es) and maximum number of shares subject to the Plan, and the outstanding Awards will be appropriately adjusted in the class(es) and number of shares and price per share of stock subject to such outstanding Awards. Such adjustments shall be made by the Board or the Committee, the determination of which shall be final, binding and conclusive. (The conversion of any convertible securities of the Company shall not be treated as a transaction not involving the receipt of consideration by the Company.)

ARTICLE XIII. AMENDMENT OF THE PLAN AND AWARDS.

A. The Board at any time, and from time to time, may amend the Plan. However, except as provided in Article XII relating to adjustments upon changes in stock, no amendment shall be effective unless approved by the stockholders of the Company within twelve (12) months before or after the adoption of the amendment, where the amendment will:

(i) Increase the number of shares reserved for Awards under the Plan;

(ii) Modify the requirements as to eligibility for participation in the Plan (to the extent such modification requires stockholder approval in order for the Plan to satisfy the requirements of Section 422 of the Code); or

(iii) Modify the Plan in any other way if such modification requires stockholder approval in order for the Plan to satisfy the requirements of Section 422 of the Code.

B. The Board may in its sole discretion submit any other amendment to the Plan for stockholder approval, including, but not limited to, amendments to the Plan intended to satisfy the requirements of Section 162(m) of the Code and the regulations promulgated thereunder regarding the exclusion of performance-based compensation from the limit on corporate deductibility of compensation paid to certain executive officers.

C. It is expressly contemplated that the Board may amend the Plan in any respect the Board deems necessary or advisable to provide eligible Employees, Directors or Consultants with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to Incentive Stock Options and/or to bring the Plan and/or Incentive Stock Options granted under it into compliance therewith.

D. Rights and obligations of the Recipient under any Award granted before amendment of the Plan shall not be materially impaired by any amendment of the Plan except with the written consent of the Recipient, unless such amendment is necessary to comply with any applicable law, regulation or rule as determined in the sole discretion of the Board.

E. The Board at any time, and from time to time, may amend, modify, extend, cancel or renew any Award or waive any restrictions or conditions applicable to any Award or any shares acquired upon the exercise thereof and accelerate, continue, extend or defer the exercise time for any Award or the vesting of any shares acquired upon the exercise thereof, including with respect to the period following a Recipient's termination of Continuous Status as an Employee, Director or Consultant; provided, however, that the rights and obligations under any Award shall not be materially impaired by any such amendment except with the written consent of the Recipient, unless such amendment is necessary to comply with any applicable law, regulation or rule as determined in the sole discretion of the Board.

The Board may accelerate the time at which an Option may first be exercised or the time during which an Option or any part thereof will vest notwithstanding the provisions in the Option Agreement stating the time at which it may first be exercised or the time during which it will vest.

F. The Board may amend the Plan to take into account changes in law and tax and accounting rules, as well as other developments, and to grant Awards that qualify for beneficial treatment under such rules without stockholder approval.

ARTICLE XIV. TERMINATION OR SUSPENSION OF THE PLAN.

A. The Board may suspend or terminate the Plan at any time. Unless sooner terminated, no Incentive Stock Options may be granted under the Plan after May 6, 2024, which is the tenth anniversary of the date this amended and restated Plan is approved by the stockholders of the Company. No Awards may be granted under the Plan while the Plan is suspended or after it is terminated.

B. Rights and obligations under any Award granted while the Plan is in effect shall not be impaired by suspension or termination of the Plan, except with the written consent of the Recipient, unless such impairment is necessary to qualify the Award as an Incentive Stock Option or to comply with any applicable law, regulation or rule all as determined in the sole discretion of the Board.

ARTICLE XV. EFFECTIVE DATE OF PLAN.

This amended and restated Plan was approved by the stockholders of the Company on May 6, 2014. The Board amended certain provisions on the Plan, to reflect the FASB's recent amendments to ASC 718 relating to share withholding, effective October 12, 2016. Pursuant to Article XIII, these amendments were not required to be approved by the stockholders of the Company.

ARTICLE XVI. COMPLIANCE WITH SECURITIES LAWS.

The grant of Awards and the issuance of shares of Common Stock upon the exercise of Options shall be subject to compliance with all applicable requirements of federal and state law with respect to such securities. Options may not be exercised if the issuance of shares of Common Stock upon exercise would constitute a violation of any applicable federal or state securities laws or other laws or regulations or the requirements of any stock exchange or market system upon which the Common Stock may then be listed. In addition, no Option may be exercised unless (A) a registration statement under the Act shall at the time of exercise of the Option be in effect with respect to the Common Stock shares to be issued upon the exercise of that Option or (B) in the opinion of counsel to the Company, the Common Stock shares issuable upon exercise of the Option may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Common Stock shares under the Plan shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition of the exercise of any Option, the Company may require the Recipient to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company. The Company may, upon the advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the Common Stock.

ARTICLE XVII. COMPLIANCE WITH SECTION 409A.

To the extent that the Board determines that any Award granted under the Plan is subject to Section 409A of the Code, the Option Agreement or other agreement evidencing the Award will incorporate the terms and conditions required by Section 409A of the Code. To the extent applicable, the Plan and Award agreements will be interpreted in accordance with Section 409A of the Code and Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the Plan's Effective Date. Notwithstanding any provision of the Plan to the contrary, in the event that following the Plan's Effective Date the Board determines that any Award may be subject to Section 409A of the Code and related Department of Treasury guidance (including such Department of Treasury guidance as may be issued after the Plan's Effective Date), the Board may adopt such amendment to the Plan and applicable Award agreements or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Board determines are necessary or appropriate to (a) exempt the Award from Section 409A of the Code and/or preserve the intended tax treatment of the benefits provided with respect to the Award, or (b) comply with the requirements of Section 409A of the Code and related Department of Treasury guidance.

**NIC INC. 2014 AMENDED AND RESTATED
STOCK COMPENSATION PLAN**

Amended and Restated Restricted Stock Agreement

NIC Inc., a Delaware corporation (the "Company"), seeks to provide a means by which the Company, through the grant of the Shares (as defined below) to [executive name] ("Grantee"), may retain the Grantee's services and motivate the Grantee to exert his or her best efforts on behalf of the Company and any Affiliate;

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties agree as follows:

1. Grant of Restricted Stock . The Company hereby grants to Grantee, as of [date] (the "Grant Date") [number] shares of the Company's \$0.0001 par value Common Stock (the "Shares"), subject to the restrictions, terms, conditions and other provisions of this Restricted Stock Agreement (the "Agreement") and of the NIC Inc. 2014 Amended and Restated Stock Compensation Plan (the "Plan"), which restrictions, terms, conditions and other provisions are incorporated herein by this reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Agreement.

Following the lapse of all restrictions and the compliance with all terms and conditions set forth in this Agreement and the Plan (subject to any adjustment to the number of Shares as provided in Section 3 hereof), a certificate for the Shares granted pursuant to this Agreement will be issued to Grantee or in lieu of a certificate, the Shares issued to Grantee pursuant to this Agreement may be registered as book entry shares with the Company's transfer agent. Notwithstanding the foregoing, in the event of separation or termination of the Grantee's employment with the Company for any reason, including as a result of the Grantee's retirement, death or disability, all unreleased, restricted Shares shall be forfeited upon such separation or termination.

2. Restrictions .

(a) No Shares shall be released from restrictions until the anniversary of the Grant Date specified on Exhibit A and compliance with any other conditions specified on Exhibit A of this Agreement, subject to earlier release pursuant to the terms of this Agreement (the "Release Date").

(b) From the date of this Agreement until the Release Date, Grantee shall not sell, assign, exchange, transfer, pledge, hypothecate or otherwise dispose of or encumber any of the Shares.

3. Terms and Conditions .

(a) **Adjustments in Event of Change in Common Stock .** If any change is made in the Shares, without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company), the number of Shares will be appropriately adjusted in the class(es) and number of shares and price per share of stock of those subject Shares in such manner as the Board may deem equitable to prevent substantial dilution or enlargement of the rights granted to the Grantee; provided, however, that no such adjustment shall cause the Company to issue a fractional share. Such adjustments shall be final, binding and conclusive. (The conversion of any convertible securities of the Company shall not be treated as a transaction not involving the receipt of consideration by the Company.)

(b) **Rights as a Stockholder .** Subject to the terms of this Agreement, the Grantee shall have all the rights and privileges of a stockholder of the Company while the Shares are subject to stop-transfer instructions, or otherwise held in escrow, including the right to vote and to receive dividends (if any).

(c) **No Rights to Continued Relationship .** The Shares shall not confer upon the Grantee any right with respect to continuance of employment by the Company or by an Affiliate, nor shall it interfere in any way with the right of his or her employer to terminate his or her employment at any time. The Shares shall not confer upon the Grantee any right with respect to continuance of a directorship of the Company or of an Affiliate, nor shall it interfere in any way with the right of the stockholders to remove him or her as a director at any time.

The Shares shall not confer upon the Grantee any right with respect to continuance of any consulting arrangement with the Company or any Affiliate, nor shall it interfere in any way with the right of the Company or an Affiliate, as the case may be, to terminate any such arrangement.

(d) Compliance with Other Laws and Regulations . This Agreement and the obligation of the Company to sell and deliver Shares hereunder, shall be subject to all applicable federal and state laws, rules, and regulations, and to such approvals by any government or regulatory agency as may be required. The Company shall not be required to issue or deliver any certificates for Shares prior to the completion of any registration or qualification of such Shares under any federal or state law, or any rule or regulation of any governmental body which the Company shall, in its sole discretion, determine to be necessary or advisable.

To the extent applicable, it is intended that this Agreement and the Plan either be exempt from or comply with the provisions of Section 409A of the Code. This Agreement and the Plan shall be administered in a manner consistent with this intent, and any provision that would cause this Agreement or the Plan to fail to satisfy Section 409A of the Code shall have no force or effect until amended to comply with Section 409A of the Code (which amendment may be retroactive to the extent permitted by Section 409A of the Code and may be made by the Company without the consent of the Grantee).

(e) Withholding Taxes . The Grantee agrees to make appropriate arrangements with the Company or Affiliate, as the case may be, for the satisfaction of all federal, state and local income and employment tax withholding requirements applicable to the lapse of restrictions on the Shares. No certificates representing Shares will be delivered until the Grantee has made acceptable arrangements for these withholding requirements. Unless denied by the Committee, the Grantee may elect to pay amounts of tax withholding by electing to transfer to the Company, or have withheld from any shares otherwise eligible to be delivered under this Agreement, shares of Common Stock having a value equal to the amount to be withheld for tax purposes under federal, state or local law. The value of shares of Common Stock to be transferred to the Company shall be the fair market value of the shares on the date that the amount of tax to be withheld is to be determined (the "Tax Date"), as determined by the Company; provided, however, in no event shall the amount withheld exceed the sum of (i) the product of the amount of ordinary income recognized in connection with the lapse of the restrictions on the Shares and the Grantee's highest marginal income tax rate, and (ii) the Grantee's FICA tax liability in connection with the lapse of restrictions on the Shares. Any such elections by the Grantee to have shares of Common Stock withheld for this purpose will be subject to the following restrictions:

- (i) All elections must be made prior to the Tax Date;
- (ii) All elections shall be irrevocable; and
- (iii) If the Grantee is an officer or director of the Company within the meaning of Section 16 of the Securities Exchange Act of 1934 ("Section 16"), the Grantee must satisfy the requirements of such Section 16 and any applicable rules thereunder with respect to the use of Common Stock to satisfy such tax withholding.

4. Investment Representation . The Company may require that the Grantee furnish to the Company, as a condition of acquiring stock hereunder, (a) written assurances satisfactory to the Company, or counsel for the Company, as to the Grantee's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company, or counsel for the Company, who is knowledgeable and experienced in financial and business matters, and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of acquiring the Shares; and (b) written assurances satisfactory to the Company, or counsel for the Company, stating that the Grantee is acquiring the stock for the Grantee's own account and not with any present intention of selling or otherwise distributing the stock. The Company may (a) restrict the transferability of the stock and require a legend to be endorsed on the certificates representing such stock, as appropriate to reflect resale restrictions, if any, imposed by the Board or as appropriate to comply with any applicable state or federal securities laws, rules or regulations; and (b) condition the issuance and delivery of stock upon the listing, registration or qualification of such stock upon a securities exchange or quotation system or under applicable securities laws. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (a) the issuance of stock has been registered under a then currently effective registration statement under the Securities Act, or (b) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the stock.

5. **Grantee Bound by the Plan** . The Grantee agrees to be bound by all the terms and provisions of the Plan. To the extent that the terms of this Agreement are inconsistent with the terms of the Plan, the terms of the Plan shall govern. The captions used in this Agreement, and the Plan are inserted for convenience and shall not be deemed a part of the Agreement for construction or interpretation.

6. **Governing Law** . This Agreement and the Plan shall be construed in accordance with the laws of the State of Delaware, without regard to the conflict of laws principles.

7. **Notices** . Any notice to the Company or the Board that is required to be made under the terms of the Agreement or under the terms of the Plan shall be addressed to the Company in care of its Compensation Committee Chairman at 25501 West Valley Parkway, Suite 300, Olathe, Kansas 66061, with a copy to its General Counsel at the same address. Any notice that is required to be made to the Grantee under the terms of the Agreement or under the terms of the Plan shall be addressed to him or her at the address indicated below:

unless the Grantee notifies the Company of his or her address change in writing as provided in this Section 7 in which case the notice shall be addressed to the Grantee at his or her new address. A notice under this Section 7 shall be deemed to have been given or delivered upon personal delivery or upon deposit in the United States mail, by registered or certified mail, postage prepaid and properly addressed as provided in this Section 7.

* * * * *

**NIC INC. 2014 AMENDED AND RESTATED
STOCK COMPENSATION PLAN**

[Year] Amended and Restated Performance-Based Restricted Stock Agreement

NIC Inc., a Delaware corporation (the "Company"), seeks to provide a means by which the Company, through the grant of the Shares (as defined below) to [executive name] ("Grantee"), may retain Grantee's services and motivate Grantee to exert his or her best efforts on behalf of the Company and any Affiliate;

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties agree as follows:

1. Grant of Performance-Based Restricted Stock . The Company hereby promises to grant to Grantee, as of [date] (the "Grant Date") [number] shares of the Company's \$0.0001 par value Common Stock (the "Shares"), subject to the restrictions, terms, conditions and other provisions of this Performance-Based Restricted Stock Agreement (the "Agreement") and of the NIC Inc. 2014 Amended and Restated Stock Compensation Plan (the "Plan"), which restrictions, terms, conditions and other provisions are incorporated herein by this reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Agreement.

The actual number of Shares, if any, (subject to any adjustment to the number of Shares as provided in Section 3 hereof, and as will be reflected by delivery of Share certificates or registered as book entry shares with the Company's transfer agent) that will be delivered pursuant to this Agreement is dependent upon the level of achievement of the performance goals set forth in Exhibit A (the "Performance Goals") during the period from January 1, [year] through December 31, [year] (the "Performance Period") and the compliance with all terms and conditions set forth in this Agreement and the Plan.

2. Restrictions and Forfeiture

If Grantee's Continuous Status as an Employee, Director or Consultant terminates for any reason other than death or disability (as disability is defined in Internal Revenue Code Section 22(e)(3)) or following a Control Change as provided for in Section 4(b), Grantee shall forfeit all rights to receive any undelivered Shares under this Agreement. Grantee's right to receive any undelivered Shares will also be forfeited if the Committee determines that Grantee engaged in misconduct in connection with his or her employment with the Company.

From the date of this Agreement and until a Share is delivered to Grantee, Grantee shall have no rights to sell, assign, exchange, transfer, pledge, hypothecate or otherwise encumber any right he or she may have to receive such Share under this Agreement.

3. Acceleration of Payment of Shares on Death or Disability .

If Grantee's Continuous Status as an Employee, Director or Consultant terminates due to his or her death or disability, Grantee shall receive a pro rata portion of the Shares eligible to be received under this Agreement. The pro rata portion will be determined by calculating the product of (a) the total number of Shares Grantee would have received if his or her employment had not terminated and based on the ultimate level of achievement toward the Performance Goals at the end of the Performance Period multiplied by (b) a fraction, the numerator of which is the number of full and partial months of employment Grantee completed after the Grant Date and the denominator is [thirty-six (36)]. For the avoidance of doubt, unless otherwise determined by the Committee in its sole discretion, in no event will any Shares be paid on account of Grantee's death or disability if the Performance Goals are achieved at a level less than Threshold.

4. Terms and Conditions .

(a) Adjustments in Event of Change in Common Stock . If any change is made in the Shares, without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company), the number of Shares eligible to be paid pursuant to the terms and conditions of this Agreement (including any Dividend Shares credited to Grantee's account in accordance with Section 4(c)) will be appropriately adjusted in the class(es) and number of shares and price per share of stock of those subject Shares in such manner as the Board may deem equitable to prevent substantial dilution or enlargement of the rights granted to Grantee; provided, however, that no such adjustment shall cause the Company to issue a fractional share. Such adjustments shall be final, binding and conclusive. (The conversion of any convertible securities of the Company shall not be treated as a transaction not involving the receipt of consideration by the Company.)

(b) Sale of the Company . In the event of a dissolution, liquidation or sale of all or substantially all of the assets of the Company, or a transaction following which the Company is not the surviving corporation in any merger, consolidation, or reorganization (a "Control Change"), then all or a portion of the number of the Shares eligible to be delivered pursuant to this Agreement shall be delivered in accordance with the following:

(i) If the Control Change occurs on or prior to the first anniversary of the Grant Date and this Agreement is not assumed, converted, or replaced by the continuing entity, Grantee shall be paid immediately before the Control Change a number of Shares equal to that number of Shares Grantee would have been paid if each of the Performance Goals was achieved at the "Target" level.

(ii) If the Control Change occurs after the first anniversary of the Grant Date and this Agreement is not assumed, converted, or replaced by the continuing entity, Grantee shall be paid immediately before the Control Change a number of Shares based on the actual performance of the Company as if the Performance Period ended on December 31 immediately preceding the date, on which the Control Change occurs, with appropriate adjustments, if necessary to reflect such shortened Performance Period.

(iii) If the Control Change occurs on or before the first anniversary of the Grant Date and this Agreement is assumed by the continuing entity, Grantee shall be paid at the end of the Performance Period the same number of Shares Grantee would have been paid if each of the Performance Goals was achieved at the "Target" level, subject to Grantee's Continuous Status as an Employee, Director or Consultant through the end of the Performance Period.

(iv) If the Control Change occurs after the first anniversary of the Grant Date and this Agreement is assumed by the continuing entity, Grantee shall be paid at the end of the Performance Period the same number of Shares based on the actual performance of the Company as if the Performance Period ended on December 31 immediately preceding the date on which the Control Change occurs, subject to Grantee's Continuous Status as an Employee, Director or Consultant through the end of the Performance Period with appropriate adjustments, if necessary, to reflect such shortened Performance Period.

Notwithstanding the provisions of clause (iii) and (iv) to the contrary, if, during the remaining portion of the applicable Performance Period for the applicable award and following the Control Change, (A) Grantee's Continuous Status as an Employee, Director or Consultant is terminated by the Company other than for cause or, (B) if Grantee is a participant in an arrangement or covered by an employment agreement that provides for certain rights upon Grantee's resignation with "good reason" and Grantee resigns for such a "good reason", then, to the extent not then-vested, Grantee shall be paid upon his or her termination of employment the number of Shares that would have been paid under (iii) or (iv) as applicable.

If this Agreement is assumed in connection with a Control Change transaction, then the Board shall equitably and proportionately adjust the number of Shares and the kind of Shares or securities covered by this Agreement immediately after such transaction solely as necessary to preserve (but not increase) the level of incentives intended by this Agreement.

This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

(c) Dividend Shares . Provided this Agreement has not otherwise been terminated or any of Grantee's rights to receive Shares have not been forfeited, Grantee shall be entitled to receive dividend equivalent accruals on the Shares for any cash dividends declared before any Shares are paid under this Agreement. At the end of the Performance Period or at any other time Grantee becomes entitled to receive the payment of Shares hereunder, Grantee shall receive an additional number of Shares ("Dividend Shares") determined as follows: (1) as of each date (the "Dividend Payment Date") that the Company would otherwise pay a declared cash dividend on the total number of Shares set forth in Section 1 if such Shares were outstanding, the Company will credit a number of Dividend Shares to a notional account established for the benefit of Grantee. The number of Dividend Shares so credited will be calculated by dividing the amount of such hypothetical cash dividend payment by the Fair Market Value of the Company's common stock on the Dividend Payment Date (rounded down to the nearest whole Dividend Share); and (2) on the date some or all of the Shares are paid under this Agreement, the total number of Dividend Shares credited to Grantee's notional account will be converted into an equivalent number of Shares and paid to Grantee.

(d) No Rights as a Stockholder . Each Share potentially eligible to be delivered pursuant to this Agreement is not considered issued or outstanding until an actual delivery of the Share has been made. Accordingly, until such Share has been delivered to Grantee pursuant to the terms of this Agreement, Grantee shall have no rights and privileges as a stockholder of the Company with respect to such Share, including no right to vote or receive dividends paid on any Shares. Notwithstanding the foregoing sentence, Grantee is entitled to receive Dividend Shares as provided above in Section 4(c).

(e) No Rights to Continued Relationship . Grantee's right to receive any Shares under this Agreement shall not confer upon Grantee any right with respect to continuance of employment by the Company or by an Affiliate, nor shall it interfere in any way with the right of his or her employer to terminate his or her employment at any time.

Grantee's right to receive any Shares hereunder shall not confer upon Grantee any right with respect to continuance of a directorship of the Company or of an Affiliate, nor shall it interfere in any way with the right of the stockholders to remove him or her as a director at any time.

Grantee's right to receive any Shares hereunder shall not confer upon Grantee any right with respect to continuance of any consulting arrangement with the Company or any Affiliate, nor shall it interfere in any way with the right of the Company or an Affiliate, as the case may be, to terminate any such arrangement.

(f) Compliance with Other Laws and Regulations . This Agreement and the obligation of the Company to sell and deliver Shares hereunder, shall be subject to all applicable federal and state laws, rules, and regulations, and to such approvals by any government or regulatory agency as may be required. The Company shall not be required to issue or deliver any certificates for Shares prior to the completion of any registration or qualification of such Shares under any federal or state law, or any rule or regulation of any governmental body which the Company shall, in its sole discretion, determine to be necessary or advisable; provided, however, the Company shall use reasonable efforts to cause such issuance or delivery to comply with all such laws and rules as promptly as practicable.

To the extent applicable, it is intended that this Agreement and the Plan either be exempt from or comply with the provisions of Section 409A of the Code. This Agreement and the Plan shall be administered in a manner consistent with this intent, and any provision that would cause this Agreement or the Plan to fail to satisfy Section 409A of the Code shall have no force or effect until amended to comply with Section 409A of the Code (which amendment may be retroactive to the extent permitted by Section 409A of the Code and may be made by the Company without the consent of Grantee).

(g) Withholding Taxes . Grantee agrees to make appropriate arrangements with the Company or Affiliate, as the case may be, for the satisfaction of all federal, state and local income and employment tax withholding requirements applicable to the delivery of any Shares. No certificates representing Shares will be delivered until Grantee has made acceptable arrangements for these withholding requirements. Unless denied by the Committee, the Grantee may elect to pay tax withholding by electing to transfer to the Company, or have withheld from any Shares otherwise eligible to be delivered under this Agreement, Shares having a value equal to the amount to be withheld for tax purposes under federal, state or local law as may be elected by Grantee. The value of Shares to be transferred to the Company shall be the fair market value of the Shares on the date that the amount of tax to be withheld is to be determined (the "Tax Date"), as determined by the Company; provided, however, in no event shall the amount withheld exceed the sum of (i) the product of the amount of ordinary income recognized in connection with the delivery of the Shares and the Grantee's highest marginal income tax rate, and (ii) the Grantee's FICA tax liability in connection with the delivery of the Shares. Any such elections by Grantee to have Shares withheld for this purpose will be subject to the following restrictions:

(i) All elections must be made prior to the Tax Date;

(ii) All elections shall be irrevocable; and

(iii) If Grantee is an officer or director of the Company within the meaning of Section 16 of the Securities Exchange Act of 1934 ("Section 16"), Grantee must satisfy the requirements of such Section 16 and any applicable rules thereunder with respect to the use of Common Stock to satisfy such tax withholding.

5. Investment Representation . The Company may require that Grantee furnish to the Company, as a condition of acquiring stock hereunder, (a) written assurances satisfactory to the Company, or counsel for the Company, as to Grantee's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company, or counsel for the Company, who is knowledgeable and experienced in financial and business matters, and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of acquiring the Shares; and (b) written assurances satisfactory to the Company, or counsel for the Company, stating that Grantee is acquiring the stock for Grantee's own account and not with any present intention of selling or otherwise distributing the stock. The Company may (a) restrict the transferability of the stock and require a legend to be endorsed on the certificates representing such stock, as appropriate to reflect resale restrictions, if any, imposed by the Board or as appropriate to comply with any applicable state or federal securities laws, rules or regulations; and (b) condition the issuance and delivery of stock upon the listing, registration or qualification of such stock upon a securities exchange or quotation system or under applicable securities laws. The Company will use reasonable efforts to cause such issuance and delivery to be in compliance with all applicable listing, registration or qualification requirements or applicable exception therefrom as promptly as practicable following Grantee's entitlement to the shares. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (a) the issuance of stock has been registered under a then currently effective registration statement under the Securities Act, or (b) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws.

6. Grantee Bound by the Plan . Grantee agrees to be bound by all the terms and provisions of the Plan. To the extent that the terms of this Agreement are inconsistent with the terms of the Plan, the terms of the Plan shall govern. The captions used in this Agreement, and the Plan are inserted for convenience and shall not be deemed a part of the Agreement for construction or interpretation.

7. Governing Law . This Agreement and the Plan shall be construed in accordance with the laws of the State of Delaware, without regard to the conflict of laws principles.

8. Notices . Any notice to the Company or the Board that is required to be made under the terms of the Agreement or under the terms of the Plan shall be addressed to the Company in care of its Compensation Committee Chairman at 25501 West Valley Parkway, Suite 300, Olathe, Kansas 66061 with a copy to its General Counsel at the same address. Any notice that is required to be made to Grantee under the terms of the Agreement or under the terms of the Plan shall be addressed to him or her at the address indicated below:

unless Grantee notifies the Company of his or her address change in writing as provided in this Section 8 in which case the notice shall be addressed to Grantee at his or her new address. A notice under this Section 8 shall be deemed to have been given or delivered upon personal delivery or upon deposit in the United States mail, by registered or certified mail, postage prepaid and properly addressed as provided in this Section 8.

This Agreement has been executed and delivered by the parties hereto effective date above written.

NIC INC.

By: _____
Name: _____
Title: _____

GRANTEE

Exhibit A

Performance Goals

The total number of Shares granted under this Award that will ultimately be delivered to Grantee based on the achievement of the established performance goals will depend on the Company's consolidated financial performance with respect to each of the following three measures for the Performance Period:

- Operating income growth (three-year compound annual growth rate, or CAGR) – [__%] weighting
 - Total revenue growth (three-year CAGR) – [__%] weighting
 - Return on invested capital (three-year average) – excluding taxes paid – [__%] weighting
-

Each of these metrics is defined as follows:

The definition of Operating Income is consistent with that term defined in generally accepted accounting principles and will be derived from the face of the consolidated statements of income included in the Company's Annual Reports on Form 10-K for the respective fiscal years.

The definition of Total Revenue is consistent with that term defined in generally accepted accounting principles and will be derived directly from the face of the consolidated statements of income included in the Company's Annual Reports on Form 10-K for the respective fiscal years.

Return on Invested Capital is defined as consolidated earnings before interest and taxes (EBIT) multiplied by the difference between one (1) minus the Company's effective tax rate for the year, the product of which is divided by the difference between the average of total assets as of the beginning and end of the year and the average of total liabilities as of the beginning and end of the year. Consolidated EBIT will be derived from the face of the consolidated income statements included in the Company's Annual Reports on Form 10-K for the respective fiscal years. Total assets and non-interest bearing liabilities will be derived from the face of the consolidated balance sheets included in the Company's Annual Reports on Form 10-K for the respective fiscal years.

Calculation of Deliverable Shares

At the end of the Performance Period, the Company will deliver a number of Shares based on a pre-defined schedule of Threshold, Target and Superior Company performance. The Threshold, Target and Superior Performance Goals for each of the three measures above have been established by the Committee and are set forth in the table immediately below.

	Threshold	Performance Goals	
		Target	Superior
Operating income growth (3-year CAGR)	[__%]	[__%]	[__%]
Total revenue growth (3-year CAGR)	[__%]	[__%]	[__%]
Return on invested capital (3-year average)	[__%]	[__%]	[__%]

The total number of Shares granted in Section 1 of this Agreement was determined based on the quotient of [__%] of the Grantee's base salary (on the Grant Date) divided by the market value of one Share on the Grant Date. Accordingly, only if all Performance Goals are achieved at the Superior level will the total number of Shares be delivered.

If less than Superior performance is obtained for each of the three Performance Goals, then the number of Shares to be delivered at the end of the Performance Period will be the quotient obtained by dividing (a) the product of (1) the Grantee's base salary as of the Grant Date times (2) the weighted percentages of [__%], [__%] or [__%] for Company performance at Threshold, Target or Superior levels, respectively by (b) the fair market value of one Share on the Grant Date. For each performance measure, the weighted percentage will be 0% if Threshold performance is not achieved for that Performance Goal, and no additional shares will be awarded for performance in excess of the Superior level. For amounts between the Threshold and Target levels or between the Target and Superior levels, straight line interpolation, rounded up to the next whole share, will be used to determine the number of Shares that is to be delivered. However, the overall maximum number of Shares to be delivered at the end of the Performance Period will be the quotient obtained by dividing (a) the product of (1) the Grantee's base salary as of the Grant Date times (2) [__%] ([X] times Target) by (b) the fair market value of one Share on the Grant Date, rounded up to the next whole share.

**NIC INC. 2014 AMENDED AND RESTATED
STOCK COMPENSATION PLAN**

Amended and Restated Stock Option Agreement

NIC Inc., a Delaware corporation (the "Company"), seeks to provide a means by which the Company, through the grant of the Option (as defined below) to [executive name] ("Optionee"), may retain the Optionee's services and motivate the Optionee to exert his or her best efforts on behalf of the Company and any Affiliate;

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties agree as follows:

1. Grant of Option. The Company hereby grants to the Optionee an option to purchase (the "Option") the total number of shares of the Company's \$0.0001 par value common stock subject to the Option (the "Shares") set forth in the Certificate of Stock Option Grant (the "Certificate"), at the Grant Price per share set forth in the Certificate, subject to the terms and provisions of this Stock Option Agreement (this "Agreement") and of the Certificate and the NIC Inc. 2014 Amended and Restated Stock Compensation Plan (the "Plan"), which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Agreement. By accepting the Option, the Optionee (and any person to whom the Option is transferred) acknowledges that the Plan has been made available to him or her.

If designated in the Certificate as an Incentive Stock Option, the Option is intended to qualify as an Incentive Stock Option as defined in Code Section 422. Nevertheless, to the extent that it exceeds the \$100,000 rule of Code Section 422(d), the Option shall be treated as a Non-Qualified Stock Option. If designated in the Certificate as a Non-Qualified Stock Option, the Option is not intended to qualify as an Incentive Stock Option under Code Section 422.

2. Terms and Conditions.

(a) Grant Expiration Date. The Option shall expire on the Grant Expiration Date provided in the Certificate. The Optionee is responsible for taking any and all actions as may be required to exercise the Option in a timely manner, and for properly executing any documents as may be required for the exercise of the Option in accordance with such rules and procedures established from time to time under the Plan. The Company has no duty to notify the Optionee (or any person to whom the Option is transferred) of the expiration of the Option. By accepting the Option, the Optionee (and any person to whom the Option is transferred) acknowledges that the information regarding the procedures and requirements for the exercise of the Option has been made available to him or her.

(b) Exercise of Option During Continuous Employment. Subject to the provisions of this Agreement, the Option may be exercised by the Optionee in installments as provided in the Certificate, rounded to the next lowest integer in the case of any fractional share.

To the extent not exercised, an installment shall accumulate and be exercisable, in whole or in part, in any subsequent period but not later than the Grant Expiration Date provided in Section 2(a) of this Agreement. When the right to exercise any installment accrues, the Shares included in that installment may be purchased at that time or from time thereafter during the Option period ending on the Grant Expiration Date provided in Section 2(a) of this Agreement.

An exercise of any part of the Option shall be accompanied by a written notice to the Company as provided in Section 5 of this Agreement and specifying the number of Shares as to which the Option is being exercised.

(c) Exercise Upon Termination of Employment or Relationship as a Director or Consultant.

Death. In the event that the Optionee's Continuous Status as an Employee, Director or Consultant terminates due to his or her death, the Option may be exercised by the Optionee's estate or by any other person who acquired the Option by reason of the death of the Optionee within the 12 months immediately following his or her death and to the extent that the Optionee was entitled to exercise the Option at the date of his or her death; provided, however, that the Option may not be exercised after the Grant Expiration Date provided in Section 2(a) of this Agreement.

Disability. If the Optionee's Continuous Status as an Employee, Director or Consultant terminates due to his or her disability (as defined in Code Section 22(e)(3)), the Option may be exercised by the Optionee within the 12 months immediately following such termination and to the extent that the Optionee was entitled to exercise the Option at the date of his or her termination due to his or her disability; provided, however, that the Option may not be exercised after the Grant Expiration Date provided in Section 2(a) of this Agreement.

Other Termination of Relationship. If the Optionee's Continuous Status as an Employee, Director or Consultant terminates other than by death or due to disability and other than involuntarily for cause or voluntarily by the Optionee, the Optionee's right to exercise the Option may be exercised within the 30 days immediately following such termination and to the extent that the Optionee was entitled to exercise the Option at the date his or her termination; provided, however, that the Option may not be exercised after the Grant Expiration Date provided in Section 2(a) of this Agreement.

If the Optionee's Continuous Status as an Employee, Director or Consultant is voluntarily terminated by the Optionee or involuntarily terminated for cause, the Optionee's right to exercise the Option shall immediately terminate and any then unexercised portion of the Option shall be immediately canceled.

For purposes of this Agreement, the term "cause" shall mean, with respect to any Optionee, (a) cause as defined in the employment agreement with the Company or any subsidiary thereof to which the Optionee is a party or, if none, (b) the occurrence of any of the following events:

- (i) the willful and continued failure by the Optionee to substantially perform his or her duties with the Company or any subsidiary thereof on a full-time basis (other than any such failure resulting from total or partial incapacity due to physical or mental illness) after a written demand for substantial performance is delivered to the Optionee by the Board, which demand identifies the manner in which the Board believes that he or she has not substantially performed such duties;
 - (ii) the willful engaging by the Optionee in conduct which is significantly injurious to the Company or to any subsidiary of the Company, monetarily or otherwise, after a written demand for cessation of such conduct is delivered to the Optionee by the Board, which demand specifically identifies the manner in which the Board believes that the Optionee has engaged in such conduct and the injury to the Company or to a subsidiary of the Company resulting therefrom;
 - (iii) the commission by the Optionee of an act or acts constituting a crime involving moral turpitude;
 - (iv) the breach by the Optionee of one or more covenants, if any, in an agreement to which the Optionee and the Company are parties;
 - (v) violation by the Optionee of Company policy; or
 - (vi) the commission by the Optionee of a significant act of dishonesty, deceit or breach of fiduciary duty in the performance of the Optionee's duties with the Company or with any subsidiary of the Company.
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For purposes of clauses (i) and (ii) of this definition, no act, or failure to act, on the part of an Optionee shall be deemed to be willful unless knowingly done, or omitted to be done, by the Optionee not in good faith and without a reasonable belief that such action or omission was in the best interests of the Company or of a subsidiary of the Company.

(d) Payment of Grant Price Upon Exercise. At the time of any purchase of Shares under the Option, the Grant Price for such Shares as set forth in the Certificate shall be paid by the Optionee in full to the Company. The Optionee may pay the Grant Price in whole or in part by any of the following methods:

- (i) cash or by check made payable to the Company;
- (ii) by delivery to the Company of certificates representing the number of Shares then owned by the Optionee, the Fair Market Value of which equals the purchase price of the Shares purchased pursuant to the Option, properly endorsed for transfer to the Company; provided, however, that Shares used for this purpose must have been held by the Optionee for such minimum period of time as may be established from time to time by the Committee; and provided further that the Fair Market Value of any Shares delivered in payment of the purchase price upon exercise of the Options shall be the Fair Market Value as of the exercise date, which shall be the date of delivery of the certificates for the Shares used as payment of the Option Grant Price;

In lieu of actually surrendering to the Company the stock certificates representing the number of Shares then owned by the Optionee, the Optionee may submit to the Company a statement affirming ownership by the Optionee of such number of Shares (together with such evidence of ownership as the Company may require) and request that such Shares, although not actually surrendered, be deemed to have been surrendered by the Optionee as payment of the exercise price;

- (iii) by authorizing a third party to sell a sufficient portion of the Shares acquired upon the exercise of the Option and remit to the Company the portion of the sale proceeds sufficient to pay the Grant Price and any tax withholding resulting from such exercise that is not paid by the Optionee in cash or by check; or
- (iv) any combination of the consideration provided in the foregoing subsections (i), (ii) and (iii).

(e) Nontransferability. The Option shall not be transferable other than by a will of the Optionee or by the laws of descent and distribution, and shall be exercisable during the lifetime of the Optionee only by the Optionee or his attorney-in-fact or conservator, unless the Option is an Incentive Stock Option and such exercise by the attorney-in-fact or the conservator of the Optionee would disqualify the Option as such under Code Section 422.

(f) Adjustments in Event of Change in Common Stock. If any change is made in the Shares subject to the Option, without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company), the Option will be appropriately adjusted in the class(es) and number of shares and price per share of stock of those subject Shares in such manner as the Board may deem equitable to prevent substantial dilution or enlargement of the rights granted to the Optionee; provided, however, that no such adjustment shall cause the Company to issue a fractional share under the Option. Such adjustments shall be final, binding and conclusive. (The conversion of any convertible securities of the Company shall not be treated as a transaction not involving the receipt of consideration by the Company.)

(g) No Rights as a Stockholder. The Optionee shall have no rights as a stockholder with respect to any Shares subject to the Option prior to the date of issuance to him or her of a certificate or certificates for such Shares.

(h) No Rights to Continued Relationship. The Option shall not confer upon the Optionee any right with respect to continuance of employment by the Company or by an Affiliate, nor shall it interfere in any way with the right of his or her employer to terminate his or her employment at any time.

The Option shall not confer upon the Optionee any right with respect to continuance of a directorship of the Company or of an Affiliate, nor shall it interfere in any way with the right of the stockholders to remove him or her as a director at any time.

The Option shall not confer upon the Optionee any right with respect to continuance of any consulting arrangement with the Company or any Affiliate, nor shall it interfere in any way with the right of the Company or an Affiliate, as the case may be, to terminate any such arrangement.

(i) Sale of the Company. In the event of a dissolution, liquidation or sale of all or substantially all of the assets of the Company, or that the Company is not the surviving corporation in any merger, consolidation, or reorganization, then the Option shall be canceled as of the effective date of such transaction; provided, however, the Board shall give at least 30 days' written notice of the transaction to the Optionee and during the period beginning on the date the Optionee receives the notice and ending on the date of the transaction, the Optionee shall have the right to exercise all or any part of the unexercised portion of the Option (without regard to employment requirements or any installment exercise limitations) (the "Accelerated Amount"); provided further that no part of the Option may be exercised after the Grant Expiration Date provided in Section 2(a) of this Agreement. If the Option is an Incentive Stock Option, the Accelerated Amount under this Section shall remain exercisable as an Incentive Stock Option under Code Section 422 only to the extent that the \$100,000 dollar limitation of Code Section 422(d) is not exceeded. To the extent that such dollar limitation is exceeded, the Accelerated Amount shall be exercisable as a Non-Qualified Stock Option.

(j) Compliance with Other Laws and Regulations. The Option and the obligation of the Company to sell and deliver Shares hereunder, shall be subject to all applicable federal and state laws, rules, and regulations, and to such approvals by any government or regulatory agency as may be required. The Company shall not be required to issue or deliver any certificates for Shares prior to the completion of any registration or qualification of such Shares under any federal or state law, or any rule or regulation of any governmental body which the Company shall, in its sole discretion, determine to be necessary or advisable.

To the extent applicable, it is intended that this Agreement and the Plan comply with the provisions of Section 409A of the Code. This Agreement and the Plan shall be administered in a manner consistent with this intent, and any provision that would cause this Agreement or the Plan to fail to satisfy Section 409A of the Code shall have no force or effect until amended to comply with Section 409A of the Code (which amendment may be retroactive to the extent permitted by Section 409A of the Code and may be made by the Company without the consent of the Optionee).

(k) Withholding Taxes. The Optionee agrees to make appropriate arrangements with the Company or Affiliate, as the case may be, for the satisfaction of all federal, state and local income and employment tax withholding requirements applicable to the exercise of the Option. No Shares will be delivered pursuant to the exercise of the Option until the Optionee, or any other person to whom the Option is transferred, has made acceptable arrangements for these withholding requirements. Unless denied by the Committee, the Optionee may elect to pay tax withholding by electing to transfer to the Company, or have withheld from any shares otherwise eligible to be delivered under this Agreement, shares of Common Stock having a value equal to the amount to be withheld for tax purposes under federal, state or local law as may be elected by the Optionee. The value of shares of Common Stock to be transferred to the Company shall be the fair market value of the shares on the date that the amount of tax to be withheld is to be determined (the "Tax Date"), as determined by the Company; provided, however, in no event shall the Fair Market Value of any shares of Common Stock withheld or tendered to satisfy any such tax withholding obligations exceed the sum of (i) the product of the amount of ordinary income recognized in connection with the Option exercise and the Optionee's highest marginal income tax rate, and (ii) the Optionee's FICA tax liability in connection with the Option exercise. Any such elections by the Optionee to have shares of Common Stock withheld for this purpose will be subject to the following restrictions:

- (i) All elections must be made prior to the Tax Date;
- (ii) All elections shall be irrevocable; and
- (iii) If the Optionee is an officer or director of the Company within the meaning of Section 16 of the Securities Exchange Act of 1934 (“Section 16”), the Optionee must satisfy the requirements of such Section 16 and any applicable rules thereunder with respect to the use of Common Stock to satisfy such tax withholding.

3. Investment Representation. The Company may require that the Optionee furnish to the Company, as a condition of exercising or acquiring stock underlying the Option, (a) written assurances satisfactory to the Company, or counsel for the Company, as to the Optionee’s knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company, or counsel for the Company, who is knowledgeable and experienced in financial and business matters, and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Option; and (b) written assurances satisfactory to the Company, or counsel for the Company, stating that the Optionee is acquiring the stock subject to the Option for the Optionee’s own account and not with any present intention of selling or otherwise distributing the stock underlying the Option. The Company may (a) restrict the transferability of the stock underlying the Option and require a legend to be endorsed on the certificates representing such stock, as appropriate to reflect resale restrictions, if any, imposed by the Board pursuant to the Option when granted, or as appropriate to comply with any applicable state or federal securities laws, rules or regulations; and (b) condition the exercise of the Option or the issuance and delivery of stock underlying the Option upon the listing, registration or qualification of such stock upon a securities exchange or quotation system or under applicable securities laws. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (a) the issuance of stock upon the exercise of the Option has been registered under a then currently effective registration statement under the Securities Act, or (b) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Option as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the stock.

4. Optionee Bound by the Plan. The Optionee agrees to be bound by all the terms and provisions of the Plan. To the extent that the terms of this Agreement are inconsistent with the terms of the Plan, the terms of the Plan shall govern. The captions used in the Certificate, this Agreement, and the Plan are inserted for convenience and shall not be deemed a part of the Option for construction or interpretation.

This Agreement, the Certificate, and the Plan shall be construed in accordance with the laws of the State of Delaware, without regard to the conflict of laws principles.

5. Notices. Any notice to the Company or the Board that is required to be made under the terms of this Agreement or under the terms of the Plan shall be addressed to the Company in care of its Compensation Committee Chairman at 25501 West Valley Parkway, Suite 300, Olathe, Kansas 66061, with a copy to its General Counsel at the same address. Any notice that is required to be made to the Optionee under the terms of this Agreement or under the terms of the Plan shall be addressed to him or her at the address indicated in the Certificate unless the Optionee notifies the Company of his or her address change in writing as provided in this Section 5 in which case the notice shall be addressed to the Optionee at his or her new address. A notice under this Section 5 shall be deemed to have been given or delivered upon personal delivery or upon deposit in the United States mail, by registered or certified mail, postage prepaid and properly addressed as provided in this Section.

NIC Inc.
Management Annual Incentive Plan for Senior Executives
(as approved [Date])

Objective – The Management Annual Incentive Plan for Senior Executives ("MAIPSE" or "Plan") is intended (i) to attract, retain, and reward key executives of NIC Inc. ("NIC" or "the Company") (ii) to promote execution against annual performance goals and (iii) with respect to any Potential Covered Employee, to operate as a Plan within or under an "umbrella" plan previously adopted and titled the NIC Inc. Executive Incentive Plan ("Executive Incentive Plan"). The Plan is designed to:

- Reinforce strategically important operational and financial objectives;
- Contribute to competitive compensation opportunities; and
- Align the interests of Participants with those of NIC's stockholders.

Definitions – Certain terms are defined in *Attachment A* for the purposes of the Plan.

Administration – The Plan shall be administered by the Compensation Committee of the Board of Directors (the "Committee"); provided, however, that the Committee, in its discretion, may delegate to certain officers or employees of the Company the responsibility for handling certain day-to-day operational aspects of the Plan. Any reference to the Plan Administrator hereinafter which relates to administration of the Plan will refer to the Committee and/or any officer(s) or employee(s) to whom the Committee has delegated responsibilities or powers, except to the extent such delegation of a responsibility or power would cause an Award that the Committee intends to qualify as "performance-based compensation," as described in Code Section 162(m)(4)(C), to fail to qualify as such.

The Committee has discretion, subject to the provisions of this Plan and the Executive Incentive Plan, and subject to such orders or resolutions not inconsistent with the provisions of the Plan as may from time to time be adopted by the Board of Directors, to (i) interpret the Plan; (ii) prescribe, amend, and rescind any rules and regulations necessary or appropriate for the administration of the Plan; and (iii) make such other determinations and take such other action as it deems necessary or advisable. Without limiting the generality of the foregoing sentence, the Committee may, in its sole discretion, treat all or any portion of any period during which a Participant is on military leave or on an approved leave of absence (as defined by the Committee) from the Company as a period of employment of such Participant by the Company for the purpose of this Plan. Any interpretation, determination, or other action made or taken by the Committee shall be final, binding, and conclusive on all interested parties.

If the Committee determines that a Participant may be a Covered Employee at the end of the Company's fiscal year during which the value of an Award is to be paid pursuant to the terms of the Plan and recognized as income to the Participant for federal income tax purposes (a "Potential Covered Employee"), the Committee may determine to make the Award qualify as "performance-based compensation" under Code Section 162(m)(4)(C). If so, the Committee shall exercise its powers under this Plan in a manner consistent with Code Section 162(m) and Treas. Reg. § 1.162-27.

Term of the Plan – The Plan will be considered in effect as of the start of the Plan Year, subject to approval of the Committee and ratification of the Board of Directors of the Company (the "Board"). The Plan will be effective for one Plan Year unless terminated earlier by action of the Board or Committee. Awards granted hereunder prior to such termination will continue to be effective in accordance with the terms and conditions of the Plan. NIC anticipates that a successor to the Plan will be established each year, but has no obligation to establish any such successor plan.

Eligibility – The Plan covers select employees of the Company, as determined by the Committee. Eligibility under the Plan or participation in the Plan is not a guarantee of employment, and does not guarantee eligibility or participation in any successor plan. To be eligible for the full Award under the Plan, a Participant must remain in the Company's employ for the entire Plan Year, except as otherwise provided in this Plan or the Participant's employment agreement with the Company.

For individuals that are not eligible under the Plan at the start of the Plan Year, the following guidelines apply:

1. Newly-hired Employee

At the sole discretion of the Committee, a newly-hired employee shall be eligible for an Award if the individual commences employment with the Company at or prior to the first day of the third quarter of the Plan Year (i.e., minimum six months of employment for the Plan Year). No Award under the Plan shall be granted if employment commences more than six months after commencement of the Plan Year.

2. Mid-period Promotion

At the sole discretion of the Committee, an employee who is promoted into eligibility during the Plan Year shall be eligible if the promotion becomes effective at or prior to the first day of the third quarter of the Plan Year (i.e., promotion becomes effective a minimum of six months prior to the end of the Plan Year). No Award shall be granted if the promotion becomes effective less than six months prior to the end of the Plan Year.

3. Establishment of Performance Goals

If the Committee intends the Award to qualify as "performance-based compensation" under Code Section 162(m)(4)(C), the Committee may establish a Section 162(m) Performance Goal specifically for the individual, or may apply the limitations and requirements of such "performance-based compensation" directly to the Award, using performance measures and goals authorized in the Executive Incentive Plan. Any performance goal intended to qualify as "performance-based compensation" under Code Section 162(m)(4)(C) shall be substantially uncertain as of time the goal is established, and shall be established before 25% of the performance period applicable to the Participant has elapsed.

Termination of Service – In the event a Participant separates from service to the Company prior to the end of a Plan Year, the Award made to the Participant will be treated as follows:

1. Death or Disability

If the applicable performance goals are ultimately satisfied, a Participant who dies or experiences a Disability during the Plan Year will receive (or the Participant's estate will receive) a pro rata Award based on actual days worked during the Plan Year, based on actual performance as measured at the end of the Plan Year. Accordingly, for the avoidance of doubt, such award will be made only if the performance goals are attained. The Award will be paid as soon as practicable following certification of attainment of the applicable performance goals.

2. Retirement

If the applicable performance goals are ultimately satisfied, a Participant who retires during a given Plan Year will receive a pro rata Award based on actual performance as measured at the end of the Plan Year, subject to any required severance agreement. Accordingly, for the avoidance of doubt, such award will be made on account of a Participant's retirement only if the performance goals are attained. The Award will be paid as soon as practicable following certification of attainment of the applicable performance goals.

3. Other Termination

All other termination events will be treated in accordance with the provisions set forth in a Participant's employment agreement; provided, however, that any provision of an employment agreement that requires vesting of any portion of an Award for a Covered Employee shall have no effect if the Committee intends such Award to qualify as "performance-based compensation" under Code Section 162(m)(4)(C) (unless such vesting occurs as the result of the Participant's death or Disability).

Incentive Opportunity – The Committee will establish incentive opportunities under the Plan for each Participant during the "applicable period," which is no later than 90 days after the start of the Plan Year (or if shorter, before 25% of the performance period applicable to the Participant has elapsed for Awards subject to Code Section 162(m)). The Committee will, in its sole discretion and within the applicable period, establish Threshold, Target, and Superior goals associated with each performance measure and determine the weighting of each measure for the purposes of incentive opportunities under the Plan. Generally, incentive opportunities will be established as a percentage of a Participant's base salary, and the Award percentage earned will be applied to a Participant's base salary (as described in this Plan under "Award Payout"). At the end of the Plan Year, a Participant may earn an Award equal to, greater than, or lesser than (including zero) the target opportunity, subject to Threshold, Target, and Superior levels of performance, as established by the Committee in its sole discretion. No payments will be awarded if Threshold performance is not achieved, and no additional payments above the maximum incentive amount will be awarded for performance in excess of the Superior level, except as determined by the Committee, in its sole discretion, subject to limitations required to maintain the intended purpose of the Plan and of any particular Award, including prohibitions on discretionary increases applicable to Awards that the Committee intends to qualify as "performance-based compensation," as described in Code Section 162(m)(4)(C).

Performance Measurement Period – Except as otherwise provided in the Plan, the measurement period is the Plan Year, coinciding with the Company's fiscal year beginning on January 1 and ending on December 31.

Performance Measures and Goals – The Committee will establish the performance measures and associated weightings for incentive calculations under the Plan. The Committee may modify the definition of performance measures under the Plan and/ or substitute new measures for new Plan Years.

These performance measures can be one or more of the following consolidated (company-wide) or subsidiary, division or operating unit financial measures; provided that for any Award that is intended to qualify as "performance-based compensation" under Code Section 162(m)(4)(C), either (a) payment of any amount pursuant to the Award will be subject to achieving the Section 162(m) Performance Goal established by the Committee for the Participant under the Executive Incentive Plan, or (b) the performance measures shall be one or more of those measures described in section 4 of the NIC Executive Incentive Plan: (1) pre-tax or after-tax income (before or after allocation of corporate overhead and bonus), (2) net income (before or after taxes), (3) reduction in expenses, (4) pre-tax or after-tax operating income, (5) earnings (including earnings before taxes, earnings before interest and taxes, or earnings before interest, taxes, depreciation and amortization), (6) gross revenue, (7) working capital, (8) profit margin or gross profits, (9) share price, (10) cash flow or cash flow per share (before or after dividends), (11) cash flow return on investment or cash flow return on invested capital, (12) return on capital (including return on total capital or return on invested capital), (13) return on assets or net assets, (14) market share, (15) pre-tax or after-tax earnings per share, (16) pre-tax or after-tax operating earnings per share, (17) total stockholder return, (18) growth measures, such as revenue growth or operating income growth, as compared with a peer group or other benchmark, (19) economic value-added models or equivalent metrics, (20) comparisons with various stock market indices, (21) improvement in or attainment of expense levels or working capital levels, (22) operating margins, gross margins or cash margins, (23) year-end cash, (24) debt reductions, (25) stockholder equity, (26) regulatory achievements, (27) implementation, completion or attainment of measurable objective with respect to research, development, products or projects, production volume levels, acquisitions and divestitures and recruiting and maintaining personnel, (28) customer satisfaction, (29) operating efficiency, productivity ratios, (30) strategic business criteria, consisting of one or more objectives based on meeting specified revenue, market penetration, geographic business expansion goals (including accomplishing regulatory approval for projects), cost or cost savings targets, accomplishing critical milestones for projects, and goals relating to acquisitions or divestitures, or any combination thereof (in each case before or after such objective income and expense allocations or adjustments as the Committee may specify within the applicable period).

Performance goals may be expressed on an absolute and/ or relative basis, may be based on or otherwise employ comparisons based on current internal targets, the past performance of the Company or the performance of one or more subsidiaries, divisions or operating units of the Company or the past or current performance of other companies, or any combination thereof and in the case of earnings-based measures, may use or employ comparisons relating to capital (including, but not limited to, the cost of capital), stockholders' equity and/ or shares outstanding, or to assets or net assets. Regardless of whether the Participant is a Covered Employee, and as described in Treas. Reg. § 1.162-27(e), (a) the performance goals shall be objective, (b) the achievement of such goals be "substantially uncertain" at the time that they are established, and (c) the Award's compensation formula shall be defined in such a way that a third party with knowledge of the relevant facts could determine whether and to what extent the performance goal has been met and what amount of compensation would be paid as a result. Notwithstanding the foregoing, the Committee shall have the right to apply "negative discretion," within the meaning of Treas. Reg. § 1.162-27(e)(2)(iii), to reduce or eliminate the compensation payable as a result of such performance.

The Committee, in its sole discretion, may determine during the applicable period to specifically exclude any or all of the following from performance calculations under the Plan: effects of extraordinary, unusual, special, or one-time events; effects of legal, accounting, or regulatory changes; effects of events that are outside of management's control; effects of events that are not reflective of a decision made (or area overseen) by management; effects of "preventive" measures taken by management; effects from the disposal of a business segment; or effects of tax adjustments. The Committee may also, in its sole discretion, specifically exclude any or all of the foregoing events or effects after the end of the applicable period, to the extent such events or effects were not reasonably anticipated to occur; provided, however, that the Committee's discretion to exclude such events or effects after the end of the applicable period shall be limited to "negative discretion," within the meaning of Treas. Reg. § 1.162-27(e)(2)(iii), to the extent necessary for any Award that is intended to qualify as "performance-based compensation" under Code Section 162(m)(4)(C) to maintain such qualification.

Performance measures, their weightings, and associated goals for the Plan Year are set forth in Attachment B.

Award Payout - Awards will be paid to Participants as soon as practicable in the year following the Plan Year, after the Committee certifies results of the performance measures. No interest shall accrue or be paid on any Awards, even if payment is substantially delayed. Awards that are determined as a percentage of a Participant's base salary will be calculated using the Participant's actual base salary as of May 1st for the Year in which the performance goals are established and the Performance Award is payable, unless the Award is intended to qualify as "performance-based compensation" under Code Section 162(m)(4)(C).

If the Award is intended to qualify as "performance-based compensation" under Code Section 162(m)(4)(C), then either (a) the Award will be calculated as a percentage of the Participant's actual base salary as of the time the performance goal was established, or (b) if a Section 162(m) Performance Goal applies to the Participant, the compensation payable to Participant under the Award shall be limited by the Section 162(m) Performance Goal Formula based upon the Participant's actual base salary as of the time the performance goal was established.

Payment under the Plan is subject to compliance by the Participant with any written agreement between the Participant and the Company, including an employment agreement, non-compete agreement, or other agreement relating to confidential information. If the Participant breaches any such agreement, he/ she shall immediately forfeit his/ her right to receive any unpaid amounts earned under the Plan.

The Company has the right to deduct from all net amounts paid under the Plan any federal, state, or local taxes required by law to be withheld with respect to such payments.

Miscellaneous Provisions

1. The Plan may be amended or discontinued by the Committee at any time without prior notification to Participants. However, no amendment may adversely affect an outstanding Award made under the Plan.
 2. The Committee maintains sole discretion to adjust Awards under the Plan downward for legitimate and reasonable performance reasons.
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3. The Committee will, to the extent permitted by law, have the sole and absolute authority to make retroactive adjustments to any Awards paid to Participants where the payment was predicated upon the achievement of erroneous financial or strategic business results, or where the Participant engaged in intentional misconduct that increased his/ her incentive income. Where applicable, the Company will seek to recover any amount determined to have been inappropriately received by a Participant under the Plan.
 4. The Committee may obtain such agreements or undertakings, if any, as the Committee may deem necessary or advisable to assure compliance with any law or regulation of any governmental authority. The Plan and any Award made hereunder shall be subject to all applicable federal and state laws, rules and regulations, and to such approvals by any government or regulatory agency as may be required.
 5. No member of the Board or Committee, nor any officer or employee of the Company acting on behalf of the Board or Committee, shall be personally liable for any action, determination, or interpretation taken or made in good faith with respect to the Plan. All members of the Board or Committee, and each and any officer or employee of the Company acting on their behalf will, to the extent permitted by law, be fully indemnified and protected by the Company with respect to any such action, determination, or interpretation.
 6. The interests of Participants under the Plan are not subject to claims, indebtedness, attachment, execution, garnishment, or other legal or equitable process. Participant interests under the Plan may not be transferred or assigned, other than by will or by the laws of descent and distribution. If the Participant attempts to alienate, assign, pledge, hypothecate, or otherwise dispose of Awards or other rights under the Plan, except as provided for in this Plan, or in the event of any levy, attachment, execution, or similar process upon the right or interest conferred by this Plan, the Board may terminate the Participant's Award by notice to him/ her, and it shall thereupon become null and void.
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Attachment A – Definitions

1. "Award" means, a performance compensation opportunity granted to a Participant under (and subject to the terms of) this Plan, which provides for a cash payment if specified performance criteria are satisfied and the Participant complies with all other criteria under the Plan.
 2. "Code" means the Internal Revenue Code of 1986, as amended, and any Internal Revenue Code adopted in the future to replace the Internal Revenue Code of 1986.
 3. "Covered Employee" means Covered Employee as defined in the NIC Executive Incentive Plan.
 4. "Disability" means except as otherwise provided by the Committee, that the Participant has become eligible to receive long-term disability benefits under a Company-sponsored long-term disability plan, if any.
 5. "Employee" refers to any person who is employed by the Company, is on the Company's payroll, and whose wages are subject to withholding under the Federal Insurance Contributions Act, codified in Code § 3121.
 6. "Participant" shall mean an Employee of the Company to whom an Award is granted under this Plan.
 7. "Plan Administrator" means the individual or committee appointed or designated by the Committee to administer the Plan, if not the Committee itself.
 8. "Plan Year" refers to the active twelve-month period of performance under the Plan, which is the same period as NIC's fiscal year.
 9. "Potential Covered Employee" means a Participant the Committee determines may be a Covered Employee at the end of the Company's fiscal year during which the value of an Award is to be paid pursuant to the terms of the Plan and recognized as income by the Participant for federal income tax purposes.
 10. "Retirement" means a Participant's date of termination which is designated by the Committee as a "Retirement" for purposes of the Plan or, if applicable, a Participant's date of termination after the normal retirement date specified in a plan maintained by the Company under which the Participant is covered, and which is qualified under section 401(a) of the Code.
 11. "Section 162(m) Performance Goal" means the Plan Year performance goal established by the Committee under the Executive Incentive Plan, no later than 90 days after the start of the Plan Year, which must be achieved and certified by the Committee in order for a Participant who was designated by the Committee as subject to such goal to receive any amount of compensation pursuant to his or her Award under this Plan. The Committee shall set forth the generally applicable Section 162(m) Performance Goal for the Plan Year in *Attachment C* to this Plan.
 12. "Termination of Service" occurs when a Participant ceases to serve as an Employee of the Company, for any reason.
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Attachment B – Performance Measures and Weightings

For [Year], designated Participants shall be subject to a Section 162(m) Performance Goal that must be achieved in order for payment of an Award under this Plan to occur. The designated Participants and the applicable Section 162(m) Performance Goal are set forth in Attachment C.

For [Year], all Participants will be evaluated based on the Company's consolidated operating results. The Committee has determined the following two measures will be used for Plan purposes, each with the assigned weightings as described:

- **Operating Income**
[%] of a Participant's opportunity under the Plan – The definition of Operating Income is consistent with that term defined in generally accepted accounting principles and will be derived directly from the face of the consolidated statements of income included in the Company's Annual Report on Form 10-K for the year ending December 31, [Year]
- **Total Revenue**
[%] of a Participant's opportunity under the Plan – The definition of Total Revenue is consistent with that term defined in generally accepted accounting principles and will be derived directly from the face of the consolidated statements of income included in the Company's Annual Report on Form 10-K for the year ending December 31, [Year]

For the [Year] Plan Year, the Committee determined a "Target" performance level for the Company for each of the above two performance criteria. Performance of the Company at the Target level will result in an annual cash incentive that is [%] of base salary for the Chief Executive Officer ("CEO"), [%] of base salary for the Chief Operating Officer ("COO"), [%] of base salary for the Chief Financial Officer ("CFO"), and [%] of base salary for the Chief Security Officer ("CSO"). The Committee also determined a range of possible cash incentives above and below Target performance for the CEO, ranging from [%] of base salary for achieving "Threshold" performance to [%] of base salary for achieving "Superior" performance; for the COO ranging from [%] of base salary for achieving "Threshold" performance to [%] of base salary for achieving "Superior" performance; for the CFO ranging from [%] of base salary for achieving "Threshold" performance to [%] of base salary for achieving "Superior" performance; and for the CSO ranging from [%] of base salary for achieving "Threshold" performance to [%] of base salary for achieving "Superior" performance. For each of the CEO, COO, CFO and CSO, the maximum multiple of target (as a % of base salary) for each performance criteria at the "Superior" performance level is two (2) times Target; however, the overall maximum incentive payout for the two performance criteria, in the aggregate, is limited to [] times Target. No payments are awarded under the plan if Threshold performance is not achieved, and except as otherwise provided in this Attachment B, no additional payments are awarded for performance in excess of the Superior level. To the extent an Award is intended to qualify as "performance-based compensation" under Code Section 162(m)(4)(C), then either: (a) the Award will be calculated as a percentage of the Participant's actual base salary as of the time the performance goal was established, or (b) if a Section 162(m) Performance Goal applies to the Participant, the compensation payable to Participant under the Award shall be limited by the Section 162(m) Performance Goal Formula based upon the Participant's actual base salary as of the time the performance goal was established.

The following table sets forth Threshold, Target and Superior Company performance levels for the performance criteria included in the Plan for the [Year] Plan Year and the performance levels for Annual Cash Incentives as described above:

Performance Criteria	Performance Levels		
	Threshold	Target	Superior
Operating income ([%] of opportunity)	[%] of budget	Budget	[%] of Budget
Total revenues ([%] of opportunity)	[%] of budget	Budget	[%] of Budget

Performance Levels Annual Cash Incentive as a Percentage of Base Salary

	<u>Threshold</u>	<u>Performance Levels Target</u>	<u>Superior</u>
Chief Executive Officer	[%]	[%]	[%] (in the aggregate) ([%] of [%])
Any one or more measures (subject to aggregate limit)			[%] ([%] of [%])
Chief Operating Officer	[%]	[%]	[%] (in the aggregate) ([%] of [%])
Any one or more measures (subject to aggregate limit)			[%] ([%] of [%])
Chief Financial Officer	[%]	[%]	[%] (in the aggregate) ([%] of [%])
Any one or more measures (subject to aggregate limit)			[%] ([%] of [%])
Chief Security Officer	[%]	[%]	[%] (in the aggregate) ([%] of [%])
Any one or more measures (subject to aggregate limit)			[%] ([%] of [%])

Discretionary range of $\pm 20\%$ of the above percentages at each performance level; provided, however, that for any Award intended to qualify as "performance-based compensation" under Code Section 162(m) (4)(C), then (a) if no Section 162(m) performance goal applies, there shall be no discretion to increase the range of the above percentages at any performance level; and (b) if a Section 162(m) Performance Goal applies, then the discretion to increase the range of the above percentages at any performance level shall be limited so that the compensation payable for the Award cannot exceed the amount of compensation payable pursuant to the Section 162(m) Performance Goal Formula.

Target performance levels for operating income and total revenues are based upon the Company's fiscal [Year] annual budget approved by the Board of Directors on [Date]. Threshold and Superior performance levels in the table above were recommended by management and approved by the Committee based on the Company's past performance with respect to these metrics generally and relative to budget.

At the end of each Plan Year, the Committee shall have the option to evaluate actual Company performance against (i) Target expectations and (ii) broader market performance and/or the performance of the Company’s peer group used for executive compensation benchmarking, and consider adjustments to the annual cash incentive, if appropriate. For example, in periods where the Company achieves Target performance and outperforms the market, the Committee may determine it appropriate to pay more than if the Company were to achieve Target performance but underperform the market. The intent of this approach is to provide the Committee the option to adjust the annual cash incentive upward or downward with primary consideration to absolute performance against Target and secondary consideration to performance against market. The Committee may adjust the annual cash incentive component downward by up to 20% with respect to any Award, and may adjust the annual cash incentive component upward by up to 20% provided, however, that for any Award intended to qualify as "performance-based compensation" under Code Section 162(m)(4)(C), then (a) if no Section 162(m) Performance Goal applies, there shall be no discretion to increase the range of the above percentages at any performance level; and (b) if a Section 162(m) Performance Goal applies, then the discretion to increase the range of the above percentages at any performance level shall be limited so that the compensation payable for the Award cannot exceed the amount of compensation payable pursuant to the Section 162(m) Performance Goal Formula.

Example 1 :

The CEO's annual cash incentive is being calculated. The Company meets the Superior performance level for Operating Income and the Target performance level for Total Revenues. The CEO's annual cash incentive is computed as follows, and is subject to an achieved Section 162(m) Performance Goal:

<u>Measure</u>	<u>% of Opportunity</u>	<u>Performance Level Attained</u>	<u>Cash Incentive as % of Base Salary</u>	<u>Award as % of Base Salary</u>
Operating Income	[%]	Superior	[%]	[%]
Total Revenues	[%]	Target	[%]	[%]
Total Cash Incentive				[%]

Total Cash Incentive subject to ± 20% adjustment for a range of [%] to [%] of base salary; provided, however, that no adjustment to increase the compensation payable can occur unless the Award is also subject to an achieved Section 162(m) Performance Goal, and the amount payable pursuant to the Award cannot exceed the amount of compensation payable pursuant to the Section 162(m) Performance Goal Formula.

Example 2 :

The CEO's annual cash incentive is being calculated. The Company meets the Superior performance level for the two measures of Operating Income and Total Revenues.

The CEO's annual cash incentive is computed as follows, for an Award intended to qualify as "performance-based compensation," as described in Code Section 162(m)(4)(C):

<u>Measure</u>	<u>% of Opportunity</u>	<u>Performance Level Attained</u>	<u>Cash Incentive as % of Base Salary</u>	<u>Award as % of Base Salary</u>
Operating Income	[%]	Superior	[%]	[%]
Total Revenues	[%]	Superior	[%]	[%]
		Total cash incentive - Preliminary (in excess of aggregate limit)		[%]
		Total cash incentive – Final, reduced to		[%]

Total Cash Incentive subject to ± 20% adjustment for a range of [%] to [%] of base compensation; provided, however, that no adjustment to increase the compensation payable can occur unless the Award is also subject to an achieved Section 162(m) Performance Goal, and the amount payable pursuant to the Award cannot exceed the amount of compensation payable pursuant to the Section 162(m) Performance Goal Formula.

Attachment C – Section 162(m) Performance Goal

For Participants subject to a Section 162(m) Performance Goal, (a) no compensation will be paid pursuant to a Plan Award unless the Participant’s Section 162(m) Performance Goal is achieved, as certified by the Committee; and (b) no compensation paid pursuant to an Award may exceed the amount of compensation payable pursuant to the Section 162(m) Performance Goal Formula.

The following Participants are subject to the Section 162(m) Performance Goal established under the Executive Incentive Plan:

All Covered Employees

Except as otherwise specified in writing for any designated Participant, the Section 162(m) Performance Goal for [Year], as established under the Executive Incentive Plan, by the Committee no later than 90 days after the start of the [Year] fiscal year, shall be the following:

[Section 162(m) Performance Goal]

In determining the foregoing Section 162(m) Performance Goal, the following events or effects shall be excluded: [none].

If the Participant’s Section 162(m) Performance Goal is not achieved, no payment will owed pursuant to the Section 162(m) Performance Goal and no payment may be made pursuant to this Plan. If the Section 162(m) Performance Goal is attained (as certified by the Committee), the “Section 162(m) Performance Goal Formula” will be the lesser of (a) 200% of the Participant’s base salary at the time the Section 162(m) Performance Goal is established, or (b) \$2 million (unless the Committee has, in writing, established a different formula for any Participant. In addition, however, the Committee shall exercise its ability to use “negative discretion” to reduce the amount payable under the Section 162(m) Performance Goal Formula, pursuant to the rules set forth in this Plan.

NIC Inc.
Amended and Restated Employee Stock Purchase Plan

1. PURPOSE.

NIC Inc., a Delaware corporation, (the "Company") originally adopted in 1999 the NIC Inc. Employee Stock Purchase Plan (the "Plan") to provide a means by which an employee of the Company, and any affiliate of the Company ("Affiliate") may be given an opportunity to purchase stock of the Company. The Company has previously amended the Plan and hereby amends and restates the Plan effective as of October 24, 2011. With the Plan, the Company seeks to attract and retain the services of persons of ability as employees and motivate such employees to exert their best efforts on behalf of the Company, any Affiliate or other shareholder of the Company. For the purposes of the Plan, the term "Affiliate" means with respect to the Company either a parent corporation as defined in Section 424(e) of the Internal Revenue Code of 1986, as amended ("Code"), or a subsidiary corporation as defined in Code Section 424(f). The Plan is intended to qualify as an employee stock purchase plan under Code Section 423.

2. SHARES SUBJECT TO THE PLAN.

Subject to the provisions of Plan Section 12, 2,321,688 shares of the common voting stock of the Company ("Common Stock") are reserved and may be sold pursuant to stock purchase rights granted under the Plan. The reserved shares are such authorized and unissued shares of the Company as determined by the Company's Board of Directors ("Board"). If any right to purchase Common Stock granted under the Plan terminates for any reason without having been exercised, the Common Stock which was not purchased pursuant to such right will again be available under the Plan.

3. ADMINISTRATION OF THE PLAN.

The Plan is administered by the Board or a committee thereof consisting of three or more Board members, who may or may not be employees of the Company or an Affiliate, ("Committee"). The members of the Committee are appointed by and will serve at the pleasure of the Board. Any vacancies in the membership of the Committee are filled by an appointment by the Board. If the Board administers the Plan, the term "Committee" includes the Board.

The Committee will keep minutes of its meetings. All actions of the Committee will be taken by a majority of its members at a meeting duly called and held and at which a quorum is present. Any act approved in writing by all of the Committee members are fully effective as if taken by a vote of a majority of the members at a meeting duly called and held and at which a quorum is present.

Subject to and not inconsistent with the provisions of the Plan, the Committee has complete authority in its sole discretion to determine the employees to whom stock purchase rights are granted and the provisions for each offering of stock purchase rights (which need not be identical); to construe and interpret the Plan, including disputed and doubtful terms and provisions; to establish, amend and rescind rules and guidelines for administering the Plan; and to make all determinations necessary or advisable for the administration of the Plan.

All decisions, determinations and interpretations of the Committee are to be consistently and uniformly applied and conclusive and binding on all parties.

4. GRANT OF STOCK PURCHASE RIGHTS.

The Committee may from time to time grant to eligible employees the right to purchase Common Stock under the Plan ("Offering") on a date ("Offering Date") designated by the Committee. Each Offering will be in such form and will contain such terms and conditions as the Committee deems appropriate, which will comply with the requirements of Code Section 423(b)(5) so that all eligible employees granted rights to purchase stock under the Plan will have the same rights and privileges. The terms and conditions of an Offering will be incorporated by reference into the Plan and treated as part of the Plan. The provisions of an Offering need not be identical to the terms and conditions of any other Offering. Each Offering, however, will include (through incorporation of the provisions of this Plan by reference in the document comprising the Offering) the period during which the Offering will be effective, which period will not exceed twenty-seven months beginning with the Offering Date, and the substance of the provisions contained in Plan Sections 5 through 8, inclusive.

5. ELIGIBILITY FOR STOCK PURCHASE RIGHTS.

(a) Subject to the provisions of this Section 5, any employee of the Company is eligible to be granted a stock purchase right under the Plan. Any employee of an Affiliate which adopts the Plan with the approval of the Board also is eligible to be granted a stock purchase right under the Plan, subject to the provisions of this Section 5. For the purposes of the Plan, the term "employee" means a common law employee as determined in accordance with the rules of Code Section 3401(c) and the related Treasury regulations. The term "employee" does not include a member of the Board or of the board of directors of an Affiliate who is not also an employee of the Company or an Affiliate, or a leased employee within the meaning of Code Section 414(n). Additionally, the term employee does not include a person who provides services to the Company or an Affiliate under an agreement, contract or other arrangement pursuant to which he is classified initially as an independent contractor or whose remuneration for services to the Company or an Affiliate is treated initially as not subject to federal income tax withholding under Code Section 3402, unless he is subsequently reclassified as a common law employee as a result of a final decree of a court of competent jurisdiction or the settlement of an administrative or judicial proceeding.

(b) Except as provided in Plan Section 5(c), an employee of the Company or any Affiliate will not be eligible to be granted a stock purchase right under the Plan in an Offering, unless on the Offering Date, such employee has been in the employ of the Company or any Affiliate for such continuous period preceding such grant as the Committee may require. Any period of continuous employment required by the Committee with respect to a particular Offering will not exceed two years and will be set forth in the terms of that Offering. In addition, unless otherwise determined by the Committee and set forth in the terms of the particular Offering, no employee of the Company or of any Affiliate will be eligible to be granted a stock purchase right under the Plan, unless on the Offering Date, such employee's customary employment with the Company or such Affiliate is for at least twenty hours per week and at least five months in any calendar year.

(c) The Committee may provide that each person who, within a prescribed period during the course of an Offering and after the Offering Date, first becomes eligible to be granted a stock purchase right under the Plan will, on a date specified in the Offering which coincides with or follows the date when such person becomes an eligible employee, receive under the Offering a stock purchase right which will be deemed to be a part of that Offering. Such right will have the same characteristics as any right originally granted under that Offering, except that:

(i) The date on which such right is granted will be the "Offering Date" of such right for all purposes, including determination of the exercise price for the right; and

(ii) The period of the Offering with respect to the right will begin on its Offering Date and end coincident with the end of such Offering.

(d) No employee will be eligible for the grant of any stock purchase right in an Offering under the Plan if, immediately after the right is granted, such employee owns or would own stock possessing five percent or more of the total combined voting power or value of all classes of stock of the Company or any Affiliate. For purposes of this Section 5(d), the rules of Code Section 424(d) of the Code will apply in determining the stock ownership of any employee, and stock which such employee may purchase under all outstanding rights and options will be treated as stock owned by such employee.

(e) In no event shall an employee be entitled to purchase, for any Offering, more than the lesser of (i) the number of shares obtained by dividing \$25,000 by the fair market value of a share of Common Stock on the Offering Date for such Offering, or (ii) the maximum number of shares permitted to be purchased under Section 5(f) below.

(f) An eligible employee may be granted a stock purchase right under the Plan only to the extent that the right, together with all other stock purchase rights granted to him under any "employee stock purchase plan" of the Company and any Affiliates, as specified by Code Section 423(b)(8), does not permit the eligible employee's rights to purchase stock of the Company or any Affiliate under all such plans to accrue at a rate which exceeds twenty five thousand dollars of Fair Market Value of such stock (as defined in Section 6(c) and determined at the time such rights are granted) for each calendar year in which such rights are outstanding at any time.

6. PURCHASE PRICE.

(a) Subject to the limitations set forth in Sections 5(e) and (f), on each Offering Date, each eligible employee will be granted the right to purchase up to the number of shares of Common Stock of the Company purchasable with a maximum percentage designated by the Committee not exceeding fifteen percent of such eligible employee's Compensation (as defined in Plan Section 7(a)) during the period which begins on the Offering Date (or such later date as the Committee determines for a particular Offering) and ends on the date stated in the Offering, which date will be no later than the end of the Offering. The Committee will establish one or more dates during an Offering ("Purchase Date") on which stock purchase rights granted under the Plan will be exercised and Common Stock will be purchased pursuant to the Offering.

(b) In connection with each Offering made under the Plan and subject to the Plan terms, the Committee may specify a maximum number of Common Stock shares that may be purchased by each eligible employee and a maximum aggregate number of Common Stock shares that may be purchased by all eligible employees pursuant to such Offering. In addition, in connection with each Offering that contains more than one Purchase Date, the Committee may specify a maximum aggregate number of Common Stock shares which may be purchased by all eligible employees on any given Purchase Date under the Offering. If the aggregate purchase of Common Stock shares upon exercise of rights granted under the Offering would exceed any such maximum aggregate number, the Committee will make a pro rata allocation of the Common Stock shares available in as nearly a uniform manner as will be practicable and as it will deem to be equitable.

- (c) The purchase price of Common Stock acquired pursuant to rights granted under the Plan will be not less than the lesser of:
 - (i) An amount equal to eighty-five percent (85%) of the Fair Market Value of the Common Stock on the Offering Date; or
 - (ii) An amount equal to eighty-five percent (85%) of the Fair Market Value of the Common Stock on the Purchase Date.

For the purposes of the Plan, unless otherwise defined by the Committee for any particular Offering, the "Fair Market Value" of the Common Stock on any date means the closing price on that date on the NASDAQ Stock Market, the principal stock exchange on which the Common Stock is traded. If the Common Stock is not traded on a particular date, the Fair Market Value of this stock will be determined from the closing price on the immediately preceding date when the stock is traded. If the Common Stock price is not reported on any securities exchange or national market system, the "Fair Market Value" of the stock for the purposes of the Plan will be the value determined by the Committee.

7. PARTICIPATION IN THE PLAN.

(a) An eligible employee may become a Plan participant pursuant to an Offering by enrolling in the Plan in the manner required by the Company within the time specified by the Offering. In connection with such enrollment, a Plan participant will authorize payroll deductions of up to the maximum percentage specified by the Committee of such eligible employee's Compensation during the Offering. A participant may prospectively reduce (including to zero) or increase his authorized payroll deductions for any Offering. The payroll deductions made for any participant will be credited to a nominal account for such participant under the Plan, will be deposited with the general funds of the Company, and will not accrue interest for the benefit of the participant.

For the purposes of the Plan, "Compensation" is defined as an employee's regular salary or wages. "Compensation" does not include overtime, bonuses, commissions, severance pay, incentive pay, shift premium differentials, pay in lieu of vacation, imputed income for income tax purposes, patent fees, awards and prizes, back pay awards, reimbursement of expenses and living allowances, educational allowances, expense allowances, disability benefits, fringe benefits, deferred compensation, compensation under any stock plan maintained by the Company or an Affiliate, amounts paid for services as an independent contractor, or such other inclusions or exclusions as may be determined by the Committee, in its sole discretion, in a uniform and nondiscriminatory manner. Notwithstanding the preceding sentence, "Compensation" will be determined for any participant before giving effect to any salary reduction or cash or deferred arrangement under Code Section 401(k) or to a salary reduction arrangement pursuant to Code Section 125.

(b) At any time during an Offering, a participant may completely terminate his payroll deductions under the Plan and withdraw from the Offering by delivering to the Company a notice of withdrawal in such form as the Committee provides. Such a withdrawal may be made at any time prior to the end of the Offering, except as provided by the Committee in the Offering. Upon a participant's withdrawal from the Offering, the Company will distribute to the participant without interest all of his accumulated payroll deductions (to the extent they have not been used to acquire Common Stock for the participant) under the Offering. Immediately upon such distribution, the participant's interest in the Offering will automatically terminate. A participant's withdrawal from an Offering will have no effect upon his eligibility to participate in any subsequent Offering under the Plan; provided, however, that any such participant will be required to deliver a new participation agreement in order to participate in a subsequent Offering.

(c) Any stock purchase right granted pursuant to any Offering under the Plan to an eligible employee will terminate immediately upon his separation from service with the Company and any Affiliate, for any reason. Within an administratively practicable time thereafter, the Company will distribute to a terminated employee who is a participant all of his accumulated payroll deductions without interest (to the extent they have not been used to acquire Common Stock for the participant) under the Offering. All whole shares previously purchased by the terminated employee and credited to the Participant's account under the Plan will be automatically issued to the Participant as soon as administratively practicable after the terminated employee's separation from service.

(d) Rights granted under the Plan will not be transferable by a participant other than by will or the laws of descent and distribution, or by a beneficiary designation as provided in Plan Section 14. During his lifetime, a stock purchase right under the Plan will be exercisable only by the participant to whom it is granted.

8. EXERCISE OF STOCK PURCHASE RIGHTS.

(a) On each Purchase Date specified in the relevant Offering, each participant's accumulated payroll deductions and other additional payments specifically permitted in the Offering (without any increase for interest) will be applied to the purchase of whole shares of Common Stock, up to the maximum number of shares permitted pursuant to the terms of the Plan and the applicable Offering, at the purchase price specified in the Offering. No fractional shares will be issued upon the exercise of a stock purchase right granted under the Plan. The amount, if any, of accumulated payroll deductions remaining in any participant's nominal account after the purchase of shares on the final Purchase Date of an Offering will be distributed in full without interest to the participant after such Purchase Date as soon as administratively practical.

(b) On each Purchase Date during an Offering, the Plan custodian designated by the Committee will receive from the Company at the price provided in Plan Section 6(c), as many whole shares of Common Stock as may be purchased with the funds withheld from participants since the immediately preceding Purchase Date, or the Offering Date as the case may be, Upon the receipt of the Common Stock so purchased, the Plan custodian will allocate to the credit of each participant the number of whole shares of Common Stock to which he is entitled under the Offering. Subject to any restriction imposed by the Committee as provided in this Section 8, and any other restriction imposed by the Committee, the number of whole shares of Common Stock purchased by a participant under his Plan will be issued to the participant as soon as administratively practicable following the Purchase Date for such shares. Unless otherwise requested by the participant, and if permitted by this Section 8, Common Stock shares purchased under the Plan will be held in the name of, or in the name of a nominee of, the Plan custodian for the benefit of each participant, who will thereafter be a beneficial shareholder of the Company.

(c) No stock purchase right granted under the Plan may be exercised to any extent unless the Common Stock shares to be issued upon such exercise under the Plan (including rights granted thereunder) are covered by an effective registration statement pursuant to the Securities Act of 1933, as amended ("Securities Act") and the Plan is in material compliance with all applicable state, foreign and other securities and other laws applicable to the Plan. If on a Purchase Date in any Offering hereunder the Plan is not so registered or in such compliance, no stock purchase right granted under the Plan or any Offering will be exercised on such Purchase Date, and the Purchase Date will be delayed until the Plan is subject to such an effective registration statement and such compliance, except that the Purchase Date will not be delayed more than twelve months and the Purchase Date will in no event be more than twenty-seven months from the Offering Date. If on the Purchase Date of any Offering hereunder, as delayed to the maximum extent permissible, the Plan is not registered and in such compliance, no stock purchase right granted under the Plan or any Offering will be exercised and all payroll deductions accumulated during the Offering (to the extent they have not been used to acquire Common Stock for participants) will be distributed without interest to the participants.

9. COVENANTS OF THE COMPANY.

(a) During the terms of the stock purchase rights granted under the Plan, the Company will keep available at all times the number of shares of Common Stock required to satisfy such rights.

(b) The Company will seek to obtain from each federal, state, foreign or other regulatory commission or agency having jurisdiction over the Plan such authority as may be required to issue and sell shares of Common Stock upon exercise of the rights granted under the Plan. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority which counsel for the Company deems necessary for the lawful issuance and sale of Common Stock under the Plan, the Company will be relieved from any liability for failure to issue and sell stock upon exercise of such rights unless and until such authority is obtained.

10. USE OF PROCEEDS FROM STOCK.

Proceeds from the sale of stock pursuant to rights granted under the Plan will constitute general funds of the Company.

11. RIGHTS AS A SHAREHOLDER.

A participant will not be deemed to be the holder of, or to have any of the rights of a holder with respect to, any Common Stock share subject to any right granted under the Plan unless and until the participant's shareholdings acquired upon exercise of rights under the Plan are recorded in the books of the Company. A share of Common Stock issued to a participant under the Plan will be transferable in accordance with the applicable securities laws.

12. ADJUSTMENTS UPON CHANGES IN STOCK.

(a) If any change is made in the Common Stock subject to the Plan, or subject to any right granted under the Plan (through merger, consolidation, reorganization, recapitalization, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company), the Plan and any outstanding rights will be appropriately adjusted in the class and maximum number of shares subject to the Plan and in the class, number of shares, and price per share of stock subject to outstanding rights. Such adjustments will be made by the Board, the determination of which will be final, binding and conclusive. (The conversion of any convertible securities of the Company will not be treated as an above-described "transaction not involving the receipt of consideration by the Company.")

(b) In the event of (1) a dissolution or liquidation of the Company; (2) a merger or consolidation in which the Company is not the surviving corporation; (3) a reverse merger in which the Company is the surviving corporation but the shares of the Company's Common Stock outstanding immediately preceding the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise; or (4) the acquisition by any person, entity or group within the meaning of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act") or any comparable successor provisions (excluding any employee benefit plan, or related trust, sponsored or maintained by the Company or any Affiliate of the Company) of the beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act, or comparable successor rule) of securities of the Company representing at least fifty percent of the combined voting power entitled to vote in the election of directors, then, as determined by the Board in its sole discretion (1) any surviving or acquiring corporation may assume outstanding rights or substitute similar rights for those under the Plan, (2) such rights may continue in full force and effect, or (3) the participants' accumulated payroll deductions may be used to purchase Common Stock immediately prior to the transaction described above and all participants' rights under the ongoing Offering terminated.

13. AMENDMENT OF THE PLAN.

(a) The Board at any time, and from time to time, may amend the Plan; provided, that, except as provided in Plan Section 12 relating to adjustments upon changes in stock, no amendment will be effective unless approved by the shareholders of the Company within twelve months before or after the adoption of the amendment by the Board, where the amendment will:

(i) Increase the number of shares reserved for rights under the Plan;

(ii) Modify the provisions as to eligibility for participation in the Plan (to the extent such modification requires shareholder approval in order for the Plan to obtain employee stock purchase plan treatment under Code Section 423, and the related Treasury regulations, or to comply with the requirements of Rule 16b-3 under the Exchange Act, as amended ("Rule 16b-3")); or

(iii) Modify the Plan in any other way if such modification requires shareholder approval in order for the Plan to obtain employee stock purchase plan treatment under Code Section 423 of the Code, and the related Treasury regulations, or to comply with the requirements of Rule 16b-3. It is expressly contemplated that the Board may amend the Plan in any respect that the Board deems necessary or advisable to bring the Plan and any stock purchase right granted under the Plan into compliance with the Code and the related Treasury regulations.

(b) Rights and obligations under any stock purchase right granted before a Plan amendment will not be impaired by any amendment of the Plan, except with the consent of the eligible employee or participant to whom such rights were granted, or as necessary to comply with any laws or governmental regulations, or as necessary to ensure that the Plan and any stock purchase right granted under the Plan comply with the requirements of Code Section 423 and the related Treasury regulations.

14. DESIGNATION OF BENEFICIARY.

(a) A participant may file a written designation of a beneficiary who is to receive any Common Stock shares and cash, if any, from the participant's nominal account under the Plan in the event of such participant's death during or after the end of an Offering but prior to issuance to the participant of such shares and cash.

(b) Such designation of beneficiary may be changed by the participant at any time by written notice. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company will deliver such Common Stock shares and cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its sole discretion, may deliver such shares and cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

15. TERMINATION OR SUSPENSION OF THE PLAN.

(a) The Board in its discretion, may suspend or terminate the Plan at any time. No right may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) Rights and obligations under any stock purchase right granted while the Plan is in effect will not be impaired by suspension or termination of the Plan, except as expressly provided in the Plan or with the consent of the person to whom such right was granted, or except as necessary to comply with any laws or governmental regulation, or except as necessary to ensure that the Plan and rights granted under the Plan comply with the requirements of Code Section 423 and the related Treasury regulations.

16. EMPLOYMENT RIGHTS.

The Plan and any stock purchase right granted under the Plan will neither confer on any employee any right with respect to continuation of employment by the Company or any Affiliate, nor will it interfere in any way with the right of the Company or any Affiliate to terminate such employment at any time.

17. MISCELLANEOUS.

(a) As used in this Plan the term "and" means "and/or", the singular includes the plural, and the masculine includes the feminine and neuter. Headings of articles are not to be considered in the construction of the Plan.

(b) In the event that any provision of this Plan is held to be contrary to any statute or law, or otherwise unenforceable, the remaining provisions of this Plan will be enforced to the fullest extent practicable.

(c) The expenses of administering the Plan, including any expense incurred to purchase Common Stock to be issued under the Plan will be paid by the Company. Except as provided in Plan Section 7(d), a participant will be responsible for any expense incurred to certify or sell shares purchased by him under the Plan.

(d) All rights and obligations under the Plan will be construed and interpreted in accordance with the laws of the State of Delaware, without giving effect to the conflict of laws principles of such laws.

18. EFFECTIVE DATE.

This amended and restated version of the Plan became effective as of October 24, 2011.

CERTIFICATION

I, Harry Herington, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NIC Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2016

/s/ Harry Herington

Harry Herington

Chief Executive Officer

CERTIFICATION

I, Stephen M. Kovzan, certify that

1. I have reviewed this Quarterly Report on Form 10-Q of NIC Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2016

/s/ Stephen M. Kovzan
Stephen M. Kovzan
Chief Financial Officer

**Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002**

The undersigned Chief Executive Officer and Chief Financial Officer of NIC Inc. (the “Company”) each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2016 (the “Report”) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 3, 2016

/s/ Harry Herington

Harry Herington

Chief Executive Officer

/s/ Stephen M. Kovzan

Stephen M. Kovzan

Chief Financial Officer