Texas NICUSA, LLC

Financial Statements
December 31, 2015

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HORNE
CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

Board of Managers
Texas NICUSA, LLC
100 Congress Avenue, Suite 600
Austin, Texas 78701

Report on the Financial Statements

We have audited the accompanying financial statements of Texas NICUSA, LLC (the "Company"), which comprise the balance sheet of as of December 31, 2015 and the related statements of income, changes in member's equity and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2015 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Horne LLP

Austin, Texas
July 12, 2016

Texas NICUSA, LLC
Balance Sheet
December 31, 2015

		2015
Assets		
Current assets		
Cash	$	8,696,237
Trade accounts receivable		9,668,837
Prepaid expenses		998,613
Other current assets		72,366
Total current assets		19,436,053
Property and equipment, net		1,385,497
Deferred income taxes, net		147,834
Other assets		65,839
Total assets	$	21,035,223
Liabilities and Member's Equity		
Current liabilities		
Accounts payable	$	322,422
Accrued expenses		3,160,316
Due to affiliated companies		13,527,343
Deferred rent		78,072
Unearned revenue		6,967
Total current liabilities		17,095,120
Deferred rent		186,530
Other long-term liabilities (Notes 2 and 5)		83,896
Total liabilities		17,365,546
Commitments and contingencies (Notes 2, 6, 7 and 8)		-
Member's equity		
Member's equity, 100 units outstanding		1,000
Additional paid-in equity		1,209,795
Accumulated earnings		2,458,882
Total member's equity		3,669,677
Total liabilities and member's equity	$	21,035,223

The accompanying notes are an integral part of these financial statements.

Texas NICUSA, LLC
Statement of Income
Year Ended December 31, 2015

	2015
Revenues	$ 61,176,140
Cost of portal revenues (Notes 2, 8 and 9)	46,261,322
Operating income before income taxes	14,914,818
Income tax expense (benefit)	
Current	5,815,537
Deferred	(399,519)
Net income	$ 9,498,800

The accompanying notes are an integral part of these financial statements.

Texas NICUSA, LLC
Statement of Changes in Member's Equity
Year Ended December 31, 2015

	Member's Equity		Additional Paid-in	Accumulated	
	Units	Amount	Equity	Earnings	Total
Balance at January 1, 2015	100	$ 1,000	$ 991,387	$ 196,588	$ 1,188,975
Noncash dividend declared (Note 8)	-	-	-	(7,236,506)	(7,236,506)
Stock-based compensation	-	-	218,408	-	218,408
Net income	-	-	-	9,498,800	9,498,800
Balance at December 31, 2015	100	$ 1,000	$ 1,209,795	$ 2,458,882	$ 3,669,677

The accompanying notes are an integral part of these financial statements.

Texas NICUSA, LLC
Statement of Cash Flows
Year Ended December 31, 2015

	2015
Cash flows from operating activities	
Net income	$ 9,498,800
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	2,048,206
Stock-based compensation expense	218,408
Deferred income taxes	(399,519)
Gain on disposal of assets	(502)
Changes in operating assets and liabilities:	
(Increase) in trade accounts receivable	(6,916,167)
(Increase) in prepaid expenses	(237,990)
(Increase) in other current assets	(6,532)
(Decrease) in accounts payable	(258,906)
(Decrease) in accrued expenses	(54,719)
(Decrease) in deferred rent	(67,943)
(Decrease) in unearned revenue	(138,276)
Increase in other long-term liabilities	83,896
Net cash provided by operating activities	3,768,756
Cash flows from investing activities	
Purchases of property and equipment	(725,492)
Proceeds from sale of property and equipment	2,650
Net cash used in investing activities	(722,842)
Cash flows from financing activities	
Payments to affiliated companies, net	(1,658,917)
Net cash used in financing activities	(1,658,917)
Net increase in cash	1,386,997
Cash	
Beginning of year	7,309,240
End of year	$ 8,696,237
Other cash flow information:	
Noncash dividend declared	$ 7,236,506
Capital expenditures accrued but not yet paid	$ 678

The accompanying notes are an integral part of these financial statements.

1. The Company

Texas NICUSA, LLC, (the “Company”), was incorporated on May 4, 2009 to design, build and operate an Internet-based portal and digital government services for the state of Texas (the “State”) allowing businesses and citizens to complete digital transactions and obtain government information online. The Company is a wholly owned subsidiary of NICUSA, Inc. (“NICUSA”). NICUSA is a wholly owned subsidiary of NIC Inc. (“NIC”), a publicly traded company.

The Company’s current contract with the State runs through August 31, 2018. Under the contract, the Company funds the development and ongoing operational costs of the portal. The Company typically owns all the intellectual property in connection with the applications developed. Upon the completion of a defined contract period, the State becomes entitled to a perpetual for use only license for the applications the Company developed during the contract period, with no additional compensation due to the Company.

2. Summary of Significant Accounting Policies

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in cost of portal revenues in the statement of income for the period. The cost of maintenance and repairs is charged to expense as incurred. Significant betterments are capitalized.

The Company evaluates the carrying value of property and equipment to be held and used when events and circumstances warrant such a review. The assets are reviewed in total, since the use of certain assets are provided free of charge for the benefit of the State’s portal. The carrying value of property and equipment is considered impaired when the anticipated undiscounted cash flow from the assets is less than the carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the assets. Fair value is determined primarily using the anticipated cash flow discounted at a rate commensurate with the risk involved. Losses on assets to be disposed of are determined in a similar manner, except that fair values are reduced for the cost to dispose. The Company did not record any impairment losses on property and equipment in 2015.

Deferred Rent

The Company accounts for certain operating leases containing predetermined fixed increases of the base rental rate during the lease term as rental expense on a straight-line basis over the lease term. The Company has recorded the difference between the amounts charged to operations and amounts payable under the leases as deferred rent in the accompanying balance sheet.

Revenue Recognition

The Company recognizes revenue from providing outsourced digital government services (primarily transaction-based fees) net of the transaction fees due to the government when the services are provided. Revenues from application development services provided to the State are recognized as the services are provided at rates agreed to between the parties.

In connection with the Company’s revenues generated under the contract with the State, the Company receives a fixed percentage of the net fees collected by the State after the State pays statutory transaction fees due to state agencies. The State is responsible for the direct collection of transaction fees and remits a portion of such fees to the Company as remuneration for its services. Accordingly, at the balance sheet date, trade accounts receivable reflect net amounts due to the Company from the State.

Amounts received prior to providing services are recorded as unearned revenue. At each balance sheet date, the Company makes a determination as to the portion of unearned revenue that will be earned within one year and records that amount as a current liability. The remainder, if any, is recorded as a noncurrent liability.

Cost of Portal Revenues

The Company expenses as incurred the employee costs to develop, operate and maintain the government portal as cost of portal revenues in the statement of income. Cost of portal revenues includes all direct costs associated with operating the State's portal on an outsourced basis including employee compensation and benefits (including stock-based compensation), subcontractor labor costs, telecommunications, data processing, bank fees, fees required to process credit/debit card and automated clearinghouse transactions, maintenance, gains and losses on disposal of assets and all other costs associated with the provision of dedicated client service such as office facilities.

Stock-Based Compensation

Eligible employees of the Company participate in NIC's stock compensation plan and stock purchase plan. The Company measures stock-based compensation cost at the grant date, based on the calculated fair value of the award, and recognizes an expense over the employee's requisite service period (generally the vesting period of the grant). The Company estimates and excludes compensation cost related to awards not expected to vest based upon estimated forfeitures. For the year ended December 31, 2015, the Company recognized approximately $218,000, in stock-based compensation expense, which has been included in cost of portal revenues in the statement of income with an offsetting entry to additional paid-in equity in the balance sheet representing a capital contribution from NIC.

Income Taxes

Deferred income taxes are recognized for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year end based on enacted laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. NIC, along with its subsidiaries, files a consolidated federal income tax return. The provision for income taxes is generally allocated to the Company under the separate return method; however, when the Company generates losses or credits, it is given benefit for such losses or credits as they are used by other members of the consolidated group.

The Company does not recognize a tax benefit for uncertain tax positions unless management's assessment concludes that it is "more likely than not" that the position is sustainable, based on its technical merits. If the recognition threshold is met, the Company recognizes a tax benefit based upon the largest amount of the tax benefit that is greater than 50% likely to be realized. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense in the statement of income. See Note 5 for additional information regarding the Company's liability for unrecognized tax benefits at the balance sheet date.

Indemnification
Under the Company's contract with the State, the Company has agreed to fully indemnify the State against third party 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. The Company has not experienced such claims. Accordingly, the Company had not accrued any liability on the aforementioned indemnification obligations at the balance sheet date.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements
In March 2016, the Financial Accounting Standards Board ("FASB") issued new authoritative literature, Compensation – Stock Compensation, 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. For public companies, 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 is currently evaluating the newly issued guidance and the estimated impact it will have 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. For public companies, 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 newly issued guidance and the estimated impact it will have on the Company's financial statements.

In November 2015, the FASB issued new authoritative literature, Balance Sheet Classification of Deferred Taxes, to simplify the financial statement presentation of deferred taxes in the balance sheet. The standard requires that all deferred tax assets and liabilities be classified as noncurrent. For public companies, the standard is effective for the annual reporting period beginning January 1, 2017, including interim periods within that reporting period, and early adoption is permitted as of the beginning of any interim or annual reporting period. The standard may be adopted either prospectively to all deferred tax assets and liabilities or retrospectively to all periods presented. The Company adopted the standard on a retrospective basis effective for the year ended December 31, 2015. The change in presentation of deferred tax assets and liabilities did not have a significant impact 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. For public companies, 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 member's equity. The Company is currently evaluating the newly issued guidance, including which transition approach will be applied and the estimated impact it will have on the Company's financial statements.

Subsequent Events

The Company has performed an evaluation of subsequent events through July 12, 2016, the date the financial statements were issued.

3. Concentration Risks

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 December 31, 2015, the amount of cash covered by FDIC deposit insurance was $250,000 and $8,446,237of 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. Due to the high credit worthiness of the Company's customers the Company considers accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts has been recorded. The Company did not experience any significant credit losses for the periods reported.

Service Risk

The highest volume, most commercially valuable service the Company offers is access to driver history records (referred to as DHR) through the portal. This service accounted for approximately 27% of the Company's revenues in 2015. In addition, the Company provides a motor vehicle inspection service for the Department of Public Safety. This service accounted for approximately 22% of the Company's revenues in 2015. The Company also provides an online vehicle registration renewal service. This service accounted for approximately 11% of the Company's revenues in 2015.

Customer Risk

A primary source of revenue is derived from data resellers, who use the portal to access DHR records for the auto insurance industry. For the year ended December 31, 2015, the Company derived 17%, of its revenues from one data reseller. At December 31, 2015, approximately 80% of the Company's accounts receivable were due from one State agency.

4. Property and Equipment

Property and equipment consisted of the following at December 31:

	2015	Useful Lives
Furniture and fixtures	$ 694,280	8 years
Equipment	7,817,929	3–5 years
Purchased software	1,205,526	3 years
Leasehold improvements	135,329	Lesser of 5 years or term of lease
	9,853,064	
Less accumulated depreciation	(8,467,567)	
	$ 1,385,497	

Depreciation expense for the year ended December 31, 2015 was $2,048,206.

5. Income Taxes

At December 31, 2015, deferred tax assets and liabilities resulted primarily from differences between book and tax depreciation, deferred rent, stock-based compensation and accrued but unused employee vacation expense. Management believes NIC’s consolidated taxable income in the future will more likely than not be sufficient to utilize the Company’s net deferred tax asset. As of December 31, 2015, the Company’s deferred tax asset was $217,279 and the deferred tax liability was $69,445.

A reconciliation of the beginning and ending amount of the liability for unrecognized income tax benefits (included in other long-term liabilities in the balance sheet) for the year ended December 31, 2015 is as follows:

	2015
Balance at beginning of year	$ 61,065
Additions for tax positions of prior years	10,108
Additions for tax positions of current year	17,283
Expiration of statute of limitations	(4,560)
Balance at end of year	$ 83,896

It is expected that the amount of unrecognized tax benefits will change in the next 12 months. However, the Company does not expect the change to have a significant impact on its results of operations or financial condition.

The Company recognizes accrued interest and penalties associated with uncertain tax positions as part of income tax expense in the statement of income. At December 31, 2015, accrued interest and penalty amounts were not material.

State income tax returns are generally subject to examination for a period of three to five years after filing of the respective return.

6. Letter of Credit

The Company has issued to the Metropolitan Life Insurance Company an irrevocable letter of credit to secure its office space in the amount of $1,001,293, which was unused at December 31, 2015. The letter expires on December 31, 2018.

7. Operating Leases

The Company leases its office space and certain equipment under noncancelable operating leases. The future minimum lease payments under all noncancelable operating leases at December 31, 2015 are as follows:

Fiscal Year	
2016	$ 915,214
2017	925,343
2018	935,472
Total minimum lease payments	$ 2,776,029

Operating lease expense for the year ended December 31, 2015 was approximately $835,000.

8. Related Party Transactions

The balance due to affiliated companies at December 31, 2015 consisted primarily of the payment of taxes and operating expenses by affiliates on behalf of the Company, net of cash advanced to affiliates.

On December 1, 2015, the Company declared a noncash dividend to NICUSA totaling $7,236,506. As a result of this dividend, the Company relieved NICUSA of $7,236,506 in amounts due from affiliated companies during 2015, and treated this item as a dividend distribution.

The Company receives certain general and administrative services from NIC and its affiliates. Such services are performed on a centralized basis, benefit all affiliates and include, among others, executive and operations management, technical consultation, human resource management, information technology, security, legal, accounting support and payroll processing. NIC charges the Company for such services based on an allocation methodology which NIC management believes fairly allocates amounts based on benefits received. In 2015, the Company recognized approximately $2,519,000, in expense related to these services, which is included in cost of portal revenues in the statement of income.

The Company's ultimate parent company, NIC, maintains a $10 million unsecured revolving credit agreement, which is available to finance working capital, issue letters of credit, and finance general corporate purposes. The Company and other wholly owned subsidiaries of NICUSA and NIC have guaranteed the obligations of NIC in connection with this credit agreement. At December 31, 2015, NIC had no principal amounts of indebtedness outstanding under the credit agreement

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9. Employee Benefit Plans

The Company, in conjunction with affiliated companies, sponsors a defined contribution 401(k) profit sharing plan. In accordance with the plan, all full-time employees are eligible immediately upon employment and non-full time employees are eligible upon reaching 1,000 hours of service in the relevant period. A discretionary match of an employee's contribution of up to 5% of an employee's base salary and a discretionary contribution may be made to the plan as determined by NIC's Board of Directors. Expense related to Company matching contributions totaled approximately $289,000 for the year ended December 31, 2015. No discretionary contribution was made for the year ended December 31, 2015.

Eligible employees of the Company also participate in NIC's employee stock compensation plan and stock purchase plan (Note 2).