

**Texas NICUSA, LLC**  
**Financial Statements**  
**Year Ended December 31, 2016**  
**With Report of Independent Auditors**

**Texas NICUSA, LLC**  
**Index**  
**December 31, 2016**

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## 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 as of December 31, 2016, 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, 2016 and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**HORNE, LLP**A handwritten signature in black ink that reads "HORNE LLP". The letters are cursive and slanted to the right.

Ridgeland, Mississippi  
July 26, 2017

**Texas NICUSA, LLC**  
**Balance Sheet**  
**December 31, 2016**

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	<b>2016</b>
<b>Assets</b>	
Current assets	
Cash	\$ 8,041,280
Trade accounts receivable	1,965,577
Prepaid expenses	949,726
Other current assets	<u>67,315</u>
Total current assets	11,023,898
Property and equipment, net	1,448,236
Deferred income taxes, net	19,940
Other assets	<u>65,839</u>
Total assets	<u>\$ 12,557,913</u>
<b>Liabilities and Member's Equity</b>	
Current liabilities	
Accounts payable	\$ 333,069
Accrued expenses	3,717,668
Deferred rent	88,201
Customer deposits	6,460
Unearned revenue	<u>6,967</u>
Total current liabilities	4,152,365
Deferred rent	98,330
Other long-term liabilities (Note 5)	<u>300,972</u>
Total liabilities	<u>4,551,667</u>
Commitments and contingencies (Notes 2, 6, 7 and 8)	-
Member's equity	
Member's equity, 100 units outstanding	1,000
Additional paid-in equity	1,413,678
Accumulated earnings	14,406,913
Due from affiliated companies	<u>(7,815,345)</u>
Total member's equity	<u>8,006,246</u>
Total liabilities and member's equity	<u>\$ 12,557,913</u>

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

\*\*\*Proprietary and Confidential\*\*\*

**Texas NICUSA, LLC**  
**Statement of Income**  
**Year Ended December 31, 2016**

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	<b>2016</b>
Revenues	\$ 62,307,692
Cost of revenues	<u>44,644,110</u>
Operating income before income taxes	17,663,582
Income tax expense	
Current	5,587,657
Deferred	<u>127,894</u>
Net income	<u>\$ 11,948,031</u>

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

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**Texas NICUSA, LLC**  
**Statement of Changes in Member's Equity**  
**Year Ended December 31, 2016**

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	<u>Member's Equity</u>		<u>Additional Paid-in Equity</u>	<u>Accumulated Earnings</u>	<u>Due From Affiliated Companies</u>	<u>Total</u>
	<u>Units</u>	<u>Amount</u>				
<b>Balance at January 1, 2016</b>	100	\$ 1,000	\$ 1,209,795	\$ 2,458,882	\$ -	\$ 3,669,677
Increase in due from affiliated companies (Note 8)	-	-	-	-	(7,815,345)	(7,815,345)
Stock-based compensation	-	-	203,883	-	-	203,883
Net income	-	-	-	11,948,031	-	11,948,031
<b>Balance at December 31, 2016</b>	<u>100</u>	<u>\$ 1,000</u>	<u>\$ 1,413,678</u>	<u>\$ 14,406,913</u>	<u>\$(7,815,345)</u>	<u>\$ 8,006,246</u>

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**Texas NICUSA, LLC**  
**Statement of Cash Flows**  
**Year Ended December 31, 2016**

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	<b>2016</b>
<b>Cash flows from operating activities</b>	
Net income	\$ 11,948,031
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	753,649
Stock-based compensation	203,883
Deferred income taxes	127,894
Gain on disposal of assets	(2,967)
Changes in operating assets and liabilities:	
Decrease in trade accounts receivable	7,703,260
Decrease in prepaid expenses	48,887
Decrease in other current assets	5,051
Increase in accounts payable	10,647
Increase in accrued expenses	507,339
Increase in customer deposits	6,460
Decrease in deferred rent	(78,071)
Increase in other long-term liabilities	217,076
Net cash provided by operating activities	<u>21,451,139</u>
<b>Cash flows from investing activities</b>	
Purchases of property and equipment	(767,208)
Proceeds from sale of property and equipment	3,800
Net cash used in investing activities	<u>(763,408)</u>
<b>Cash flows from financing activities</b>	
Payments to affiliated companies, net	<u>(21,342,688)</u>
Net cash used in financing activities	<u>(21,342,688)</u>
Net decrease in cash	(654,957)
<b>Cash</b>	
Beginning of year	<u>8,696,237</u>
End of year	<u>\$ 8,041,280</u>
<b>Supplemental cash flow information</b>	
Non-cash investing activities	
Capital expenditures accrued but not yet paid	\$ 50,013
Cash payments	
Taxes paid to affiliates	\$ 5,587,657

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

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# Texas NICUSA, LLC

## Notes to Financial Statements

### December 31, 2016

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#### 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”). The Company has an indefinite life, but it can be terminated at any point by its sole member, NICUSA. NICUSA is not liable for any debt, obligations, or liabilities of the Company. In addition, the liability of NICUSA is limited to the amount of NICUSA’s capital contribution.

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

##### **Cash and cash equivalents**

Cash and cash equivalents primarily include cash on hand in the form of bank deposits. The Company considers all non-restricted highly liquid instruments purchased with an original maturity of one month or less to be cash equivalents.

##### **Trade Accounts Receivable**

The Company records trade accounts receivable at net realizable value. This value includes an appropriate allowance for estimated uncollectible accounts. The Company calculates this allowance based on its history of write-offs, the level of past-due accounts, and its relationship with, and the economic status of, its customers. Trade accounts receivable are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

##### **Property and Equipment**

Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over estimated useful lives of 8 years for furniture and fixtures, 3-10 years for equipment, 3-5 years for purchased software, and the lesser of the term of the lease or 5 years for leasehold improvements. 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 results of operations for the period. The cost of maintenance and repairs is charged to expense as incurred. Significant betterments are capitalized.

The Company periodically evaluates the carrying value of property and equipment to be held and used when events and circumstances indicate the carrying amount may not be fully recoverable. The carrying value of property and equipment is considered impaired when the anticipated undiscounted cash flow from the asset group is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the asset. 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 2016.

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# Texas NICUSA, LLC

## Notes to Financial Statements

### December 31, 2016

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#### **Accrued Expenses**

The Company estimates expenses which have been incurred but not yet paid or for which invoices have not yet been received. Significant components of accrued expenses consist primarily of employee vacation, payment processing fees, and miscellaneous other accruals.

#### **Customer Deposits**

The Company records amounts received that exceed amounts owed from customers for services provided in current liabilities on the balance sheet.

#### **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 on a gross basis as the services are provided at rates provided for in the contract. In connection with the revenues generated under the contract with the State, the Company is entitled to retain any revenues remaining after payment of all network operating expenses, statutory fees for retrieval of public information and various other expenses. The transaction fees that the Company collects on behalf of and must remit to state agencies for data access and other statutory fees are accrued as accounts payable at the time services are provided and generally must be remitted regardless of whether the Company ultimately collects the fees from its customers. As a result, trade accounts receivable and accounts payable reflect the gross amounts outstanding at the balance sheet date.

Amounts received prior to providing services are recorded as unearned revenue. The Company makes a determination as to the portion of unearned revenue that will be earned within one year and records that amount in current liabilities on the balance sheet. The remainder, if any, is recorded in long-term liabilities.

#### **Cost of Revenues**

The Company expenses as incurred the employee costs to develop, operate and maintain the government portal and digital government services as cost of revenues in the statement of income. Cost of revenues includes all direct costs associated with operating the State's portal and digital government services 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, depreciation and all other costs associated with the provision of dedicated client service such as office facilities. As further described in Note 8, Related Party Transactions, cost of revenues also includes general and administrative expenses for certain services the Company receives from NIC and its affiliates.

#### **Stock-Based Compensation**

The Company measures stock-based compensation cost at the grant date, based on the calculated fair value of the award, and recognizes an expense on a straight-line basis over the employee's requisite service period for the entire award (generally the vesting period of the grant). The

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# Texas NICUSA, LLC

## Notes to Financial Statements

### December 31, 2016

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Company estimates and excludes compensation cost related to awards not expected to vest based upon estimated forfeitures.

#### **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 allocated to the Company under the separate return method using the consolidated NIC federal tax rate of 35%; 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 is operating under a tax-sharing arrangement with NIC. Accordingly, the Company agrees to pay NIC the amount of any income tax for which the Company would have been liable or entitled to for that year, computed as though the Company had filed a separate tax return. As of December 31, 2016, the Company had no liability to NIC for federal or state income taxes.

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 more likely than not probable, determined by cumulative probability, of being realized upon settlement with the taxing authority. 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.

#### **Fair Value of Financial Instruments**

The carrying values of the Company's accounts receivable and accounts payable approximate fair value.

#### **Comprehensive Income**

The Company has no components of other comprehensive income or loss and, accordingly, the Company's comprehensive income is the same as its net income for all periods presented.

#### **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.

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# Texas NICUSA, LLC

## Notes to Financial Statements

### December 31, 2016

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#### **Recent Accounting Pronouncements**

The effective dates of the new accounting pronouncements described below represent those applicable to the Company's ultimate parent entity, NIC. The Company currently expects to adopt these new standards in the same periods as NIC.

#### Credit Losses

In June 2016, the Financial Accounting Standards Board ("FASB") issued a new standard to replace the incurred loss impairment methodology in current U.S. Generally Accepted Accounting Principles ("GAAP") with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For trade and other receivables, the Company will be required to use a forward-looking expected loss model rather than the incurred loss model for recognizing credit losses which reflects losses that are probable. The new standard will be effective for NIC beginning January 1, 2020, with early adoption permitted beginning January 1, 2019. Application of the amendments is through a cumulative-effect adjustment to retained earnings as of the effective date. The Company is currently evaluating the new standard and the estimated impact it may have on the Company's financial statements.

#### Stock Compensation

In March 2016, the FASB issued a new standard 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 NIC's annual reporting period beginning January 1, 2017, including interim periods within that reporting period. The Company will adopt the new standard in 2017 and does not believe it will have a material impact on the Company's financial statements.

#### Leases

In February 2016, the FASB issued a new standard related to leases to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the balance sheet. Most prominent among the amendments is the recognition of assets and liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. Under the new standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The standard is effective for NIC's annual reporting period beginning January 1, 2019, including interim periods within that reporting period. The Company will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Early application is permitted. The Company is currently evaluating the effects that the standard will have on its financial statements, which the Company anticipates could be significant, due mainly to its non-cancellable lease for office space. As further described in Note 7, Operating Leases, the Company had minimum lease commitments under non-cancellable operating leases totaling approximately \$2,005,000 as of December 31, 2016.

#### Revenue from Contracts with Customers

In May 2014, the FASB issued a new standard related to revenue recognition. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. In addition, the standard requires expanded disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The FASB

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# Texas NICUSA, LLC

## Notes to Financial Statements

### December 31, 2016

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has issued several amendments to the standard, including clarification on accounting for licenses of intellectual property and identifying performance obligations.

The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective approach). The standard is effective for NIC's annual reporting period beginning January 1, 2018. The Company currently expects it will adopt the standard using the modified retrospective approach in 2018.

The Company has established an implementation team that has completed a preliminary impact assessment of the new standard and a scoping of its revenue sources by type of service provided under its contracts with customers. The Company continues to assess the standard and is currently evaluating a sample of customer contracts for each revenue source to determine the estimated impact the standard will have on the Company's sources of revenue and financial statements.

#### **Subsequent Events**

The Company has performed an evaluation of subsequent events for potential recognition or disclosure through July 26, 2017, the date the financial statements were available to be 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, 2016, the amount of cash covered by FDIC deposit insurance was \$250,000 and \$7,791,280 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. 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 year ended December 31, 2016.

#### **Service Risk**

The Company provides a motor vehicle inspection service for the Department of Public Safety. This service accounted for approximately 37% of the Company's revenues in 2016. In addition, the Company offers access to driver history records (referred to as DHR) through the portal. This service accounted for approximately 27% of the Company's revenues in 2016. The Company also provides an online vehicle registration renewal service. This service accounted for approximately 11% of the Company's revenues in 2016.

#### **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, 2016, the Company derived 17% of its revenues from one data reseller. At December 31, 2016, approximately 21% of the Company's accounts receivable were due from one State agency.

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**Texas NICUSA, LLC**  
**Notes to Financial Statements**  
**December 31, 2016**

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**4. Property and Equipment**

Property and equipment consisted of the following at December 31:

	<b>2016</b>	<b>Useful Lives</b>
Furniture and fixtures	\$ 706,240	8 years
Equipment	8,211,550	3–5 years
Purchased software	1,193,492	3 years
		Lesser of 5 years
Leasehold improvements	<u>140,293</u>	or term of lease
	10,251,575	
Less accumulated depreciation	<u>(8,803,339)</u>	
	<u>\$ 1,448,236</u>	

Depreciation expense for the year ended December 31, 2016 was \$753,649.

**5. Income Taxes**

The Company's lower effective tax rate of 32% compared to the U.S. federal statutory rate of 35% was mainly due to decreases in the rate related to the domestic production activities deduction and federal research and development tax credits, partially offset by an increase in the rate related to the liability for unrecognized income tax benefits and state income taxes.

At December 31, 2016, the Company had deferred tax assets of \$187,855, offset by deferred tax liabilities of \$167,915 for a net deferred tax asset balance of \$19,940. 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.

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, 2016 is as follows:

	<b>2016</b>
Balance at beginning of year	\$ 83,896
Additions for tax positions of prior years	113,056
Additions for tax positions of current year	123,757
Expiration of statute of limitations	<u>(19,737)</u>
Balance at end of year	<u>\$ 300,972</u>

The increase in the amount of the liability for unrecognized income tax benefits in 2016 was mainly due to the domestic production activities deduction that NIC began recognizing in 2016.

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**Texas NICUSA, LLC**  
**Notes to Financial Statements**  
**December 31, 2016**

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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, 2016, accrued interest and penalty amounts were not material.

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

**6. Letter of Credit**

The Company has issued an irrevocable letter of credit to secure its office space in the amount of \$788,134, which was unused at December 31, 2016. The letter expires on December 31, 2018.

**7. Operating Leases**

The Company leases its office space and certain equipment under noncancelable operating leases. The lease for office space is tied to the period of performance under the Company's contract with the State. The future minimum lease payments under all noncancelable operating leases at December 31, 2016 are as follows:

<b>Fiscal Year</b>	
2017	\$ 1,003,473
2018	<u>1,001,554</u>
Total minimum lease payments	<u>\$ 2,005,027</u>

Operating lease expense for the year ended December 31, 2016 was approximately \$885,000.

**8. Related Party Transactions**

The balance due from affiliated companies at December 31, 2016 consisted primarily of cash advanced to affiliates, reduced by the payment of operating expenses paid by the affiliates on behalf of the Company. This balance is noninterest bearing and generally settled on a monthly basis through the payment of operating expenses by affiliates on behalf of the Company. The average balance due from affiliated companies during the year ended December 31, 2016 was approximately \$3,908,000.

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, use of intellectual property, 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 2016, the Company recognized approximately \$5,796,000 in expense related to these services, which is included in cost of revenues in the statement of income. Due to the nature of these related party charges, it is not practicable to estimate what the Company's costs would have been on a stand-alone basis to provide these services. Accordingly, the accompanying financial statements may not necessarily be indicative of the conditions that would have existed, or the results of operations that

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# Texas NICUSA, LLC

## Notes to Financial Statements

### December 31, 2016

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would have occurred, if the Company had operated as an independent entity to provide these services.

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, 2016, NIC had no principal amounts of indebtedness outstanding under the credit agreement.

## 9. Employee Benefit Plans

### Restricted Stock Plan

Eligible employees of the Company participate in NIC's stock compensation plan. The NIC stock compensation plan provides for the granting of incentive stock options, non-qualified stock options and restricted stock awards to encourage certain employees of NIC and its subsidiaries to participate in the ownership of NIC and to provide additional incentive for such employees to promote the success of its business through sharing in the future growth of such business. NIC did not grant any stock options in 2016. Unvested restricted stock awards contain non-forfeitable rights to dividends declared by NIC. Restricted stock awards vest beginning one year from the date of grant in annual installments of 25%. During 2016, the Compensation Committee of the Board of Directors of NIC granted to certain Company employees service-based restricted stock awards with a grant-date fair value totaling approximately \$141,000. At December 31, 2016, the Company had approximately \$200,000 of total unrecognized compensation cost, net of estimated forfeitures. The Company expects to recognize this cost over a weighted average period of approximately two years from December 31, 2016.

### Employee Stock Purchase Plan

Eligible employees of the Company may participate in NIC's employee stock purchase plan. Terms of the plan permit eligible employees to purchase NIC common stock through payroll deductions up to the lesser of 15% of each employee's compensation or \$25,000. Amounts deducted and accumulated by the participant are used to purchase shares of NIC's common stock at 85% of the lower of the fair value of the common stock at the beginning or the end of the offering period, as defined in the plan.

For the year ended December 31, 2016, the Company recognized approximately \$204,000 in stock-based compensation expense for the NIC stock compensation and employee stock purchase plans, in which the Company's employees participated, in cost of revenues in the statement of income and in additional paid-in equity in the balance sheet, representing a capital contribution from NIC.

### Defined Contribution 401(k) Profit Sharing Plan

NIC, 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 \$281,000 for the year ended December 31, 2016. No discretionary contributions were made for the year ended December 31, 2016.

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