

NIC INC
Form DEF 14A
March 31, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)**

Filed by the Registrant **X**
Filed by a Party other than the Registrant **O**

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only
(as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-12

NIC INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1. Title of each class of securities to which transaction applies:

2. Aggregate number of securities to which transaction applies:

3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

Edgar Filing: NIC INC - Form DEF 14A

4. Proposed maximum aggregate value of transaction:

5. Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1. Amount Previously Paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

NIC INC.
10540 South Ridgeview Road
Olathe, KS 66061

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held On May 4, 2004
at the
Sheraton Overland Park Hotel at Convention Center
6100 College Boulevard
Overland Park, Kansas 66211

TO THE SHAREHOLDERS OF NIC INC.:

The Annual Meeting of Shareholders of NIC Inc., a Colorado corporation (the Company), will be held at the Sheraton Overland Park Hotel at Convention Center, 6100 College Boulevard, Overland Park, Kansas 66211, on May 4, 2004, at 10:00 a.m., Central Daylight Time, to consider and take action on:

1. Electing five (5) directors to serve until the next Annual Meeting of Shareholders;
2. Considering and voting upon a proposal to approve the 2004 Amended and Restated Stock Option Plan;

Edgar Filing: NIC INC - Form DEF 14A

3. Considering and acting upon a proposal to ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent public accountants for the fiscal year ending December 31, 2004; and
4. In the discretion of the designated proxies, upon such other business relating to the foregoing as may properly come before the meeting, and such matters incidental to the conduct of the meeting, and at any adjournments or postponements thereof.

The Board of Directors has fixed March 15, 2004, as the record date for the determination of Shareholders entitled to receive notice of and to vote at the meeting or any adjournments or postponements thereof. A list of the Shareholders will be available for inspection at the offices of the Company during ordinary business hours for the ten-day period prior to the Annual Meeting.

By Order of the Board of Directors:

William F. Bradley, Jr.
Secretary

Olathe, Kansas
March 31, 2004

NIC INC.

PROXY STATEMENT

GENERAL INFORMATION

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of NIC Inc. (the Company), a Colorado corporation, of proxies, in the accompanying form, to be used at the Annual Meeting of Shareholders. The meeting will be held at the Sheraton Overland Park Hotel at Convention Center, 6100 College Blvd., Overland Park, Kansas 66211, on May 4, 2004, at 10:00 a.m. Central Daylight Time, and any adjournments thereof (the Meeting).

If you specify a choice on the proxy as to how your shares are to be voted on a particular matter, the shares will be voted accordingly. If no choice is specified, the shares will be voted:

FOR the election of the five nominees for director named herein;

FOR the 2004 Amended and Restated Stock Option Plan; and

FOR the ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent public accountants for the fiscal year ending December 31, 2004.

You can revoke your proxy any time before the voting at the Meeting by sending a properly signed written notice of your revocation to the Corporate Secretary of the Company, by submitting another proxy that is properly signed and bears a later date, or by voting in person at the Meeting. Attendance at the Meeting will not itself revoke an earlier submitted proxy. You should direct any written notices of revocation and related correspondence to NIC Inc., 10540 South Ridgeview Road, Olathe, KS 66061, Attention: Corporate Secretary.

Shares represented by valid proxies in the form enclosed received in time for use at the Meeting and not revoked at or prior to the Meeting, will be voted at the Meeting. The presence, in person or by proxy, of the holders of a majority of the outstanding shares of the Company's Common Stock is necessary to constitute a quorum at the Meeting. With respect to the tabulation of proxies for purposes of constituting a quorum, abstentions will be counted as part of total shares voting in order to determine whether or not a quorum has been achieved at the Meeting. Abstentions and broker non-votes will have no effect on the election of directors.

Edgar Filing: NIC INC - Form DEF 14A

The close of business on March 15, 2004, has been fixed as the record date for determining the Shareholders entitled to notice of and to vote at the Meeting. As of that date, the Company had 58,902,618 shares of Common Stock outstanding and entitled to vote. Holders of Common Stock are entitled to one vote per share on all matters to be voted on by Shareholders. This Proxy Statement and the accompanying proxy are being mailed on or about April 1, 2004, to all Shareholders entitled to notice of and to vote at the Meeting.

The cost of soliciting proxies, including expenses in connection with preparing and mailing this Proxy Statement, will be borne by the Company. In addition, the Company will reimburse brokerage firms and other persons representing beneficial owners of the Common Stock of the Company for their expenses in forwarding proxy material to such beneficial owners. Solicitation of proxies by mail may be supplemented by telephone, telegram, and other electronic means, and personal solicitation by the directors, officers or employees of the Company. No additional compensation will be paid to directors, officers or employees for such solicitation.

The Company's Annual Report on Form 10-K and Summary Annual Report to Shareholders for the fiscal year ended December 31, 2003, are being mailed to the Shareholders with the Proxy Statement but do not constitute a part hereof.

SHARE OWNERSHIP

The following table sets forth information concerning the ownership of Common Stock by (i) each current member of the Board of Directors of the Company, (ii) each current executive officer of the Company named in the Summary Compensation Table appearing under "Executive Compensation" below, (iii) all current directors, and executive officers of the Company as a group and (iv) the beneficial owners of more than 5% of the outstanding shares of Common Stock, all as of February 27, 2004.

	Shares Beneficially Owned(1)	
	Number	Percentage
5% Shareholders		
Jeffery S. Fraser and Ross C. Hartley co-trustees of National Information Consortium Voting Trust, dated June 30, 1998 c/o Jeffery S. Fraser P.O. Box 4919 Jackson, WY 83001	26,100,894	44.3%
Federated Investors, Inc.(2) Federated Investors Tower Pittsburgh, PA 15222	4,011,634	6.8%
Named Executive Officers and Directors		
Jeffery S. Fraser	26,250,894	44.6%
William F. Bradley, Jr.	1,876,261	3.2%
Samuel R. Somerhalder	1,203,610	2.0%
Harry H. Herington	1,103,167	1.9%
Eric J. Bur	380,750	*
Richard L. Brown	36,949	*
Stephen M. Kovzan	34,945	*
John L. Bunce, Jr.	135,910	*
Daniel J. Evans	80,514	*
Ross C. Hartley	26,476,891	45.0%
Pete Wilson	37,265	*
All executive officers and directors as a group (11 persons)	27,720,196	47.1%

* Less than 1%

Edgar Filing: NIC INC - Form DEF 14A

- (1) The number of shares of Common Stock issued and outstanding on February 27, 2004, was 58,887,730. The calculation of percentages is based upon the number of shares of Common Stock issued and outstanding on such date, plus shares of Common Stock subject to options held by the respective persons on February 27, 2004 and exercisable within 60 days thereafter. The persons and entities named in the table have sole voting and dispositive power with respect to all shares shown as beneficially owned by them, except as described below.
- (2) Reflects ownership as of December 31, 2003, as reported on a Schedule 13G filed by Federated Investors, Inc., on February 13, 2004, in which Federated Investors, Inc., and certain affiliates reported that Federated Investors, Inc., and certain affiliates had sole voting power over 4,011,634 of such shares, shared voting power over none of such shares and sole dispositive power over all 4,011,634 of such shares.

Shares held by Mr. Fraser include 19,162,478 shares held of record by the Voting Trust, for which Mr. Fraser acts as a co-trustee, 5,795,110 shares held of record by the Voting Trust which are beneficially owned by Jaytide Investments, LLC, a limited liability company of which Mr. Fraser is the sole manager, 846,841 shares held of record by the Voting Trust which are beneficially owned by Kidco Management, LLC, a limited liability company of which Mr. Fraser is the sole manager and 296,465 shares held of record by the

2

Voting Trust for the benefit of Crimson Tide Charitable Remainder Unitrust, for which Mr. Fraser is the trustee. Mr. Fraser disclaims beneficial ownership over 2,897,555 shares owned by Jaytide Investments, LLC.

Shares held by Mr. Bradley include 1,748,092 shares held of record by the Voting Trust, for which Messrs. Fraser and Hartley act as co-trustees, for the benefit of Mr. Bradley, and 105,000 shares subject to options exercisable within 60 days of February 27, 2004.

Shares held by Mr. Somerhalder include 1,075,382 shares held of record by the Voting Trust, for which Messrs. Fraser and Hartley act as co-trustees, for the benefit of Mr. Somerhalder or his wife. The shares held also include 1,500 shares held directly by Mrs. Somerhalder and 105,000 shares subject to options exercisable within 60 days of February 27, 2004.

Shares held by Mr. Herington include 972,592 shares held of record by the Voting Trust, for which Messrs. Fraser and Hartley act as co-trustees, for the benefit of Mr. Herington. These shares include 12,668 shares held for each of Mr. Herington's minor children, Harry H. Herington and Amanda K. Herington. Shares held by Mr. Herington also include 105,000 shares subject to options exercisable within 60 days of February 27, 2004.

Shares held by Mr. Bur include 348,750 shares subject to options exercisable within 60 days of February 27, 2004.

Shares held by Mr. Brown include 14,199 shares held of record by the Voting Trust, for which Messrs. Fraser and Hartley act as co-trustees, and 22,750 shares subject to options exercisable within 60 days of February 27, 2004.

Shares held by Mr. Kovzan represent shares subject to options exercisable within 60 days of February 27, 2004.

Shares held by Mr. Bunce include 15,000 shares subject to options exercisable within 60 days of February 27, 2004.

Shares held by Governor Evans include 60,514 shares held in a family trust for which Governor Evans and his wife act as co-trustees, and 20,000 shares subject to options exercisable within 60 days of February 27, 2004.

Shares held by Mr. Hartley include 19,146,936 shares held in the Voting Trust, for which Mr. Hartley acts as a co-trustee, and 6,953,958 shares held of record by the Voting Trust for the benefit of Mr. Hartley and his children. Shares held for the benefit of Mr. Hartley's children include 304,482 shares held in an irrevocable trust established for the benefit of Hillary L. Hartley, 304,482 shares held in an irrevocable trust established for the benefit of Antonia C. Hartley and 304,482 shares held in an irrevocable trust established for the benefit of William R. Hartley. Shares held by Mr. Hartley include 10,000 shares subject to options exercisable within 60 days of February 27, 2004.

Shares held by Governor Wilson include 20,000 shares subject to options exercisable within 60 days of February 27, 2004.

Shares held by all executive officers and directors as a group include 26,100,894 shares held in the Voting Trust, for which Messrs. Fraser and Hartley act as co-trustees, and 786,445 shares subject to options exercisable within 60 days of February 27, 2004.

BOARD OF DIRECTORS

The following table sets forth certain information regarding NIC's directors. Each have been nominated for re-election by the Corporate Governance and Nominating Committee:

Name	Age	Position
Jeffery S. Fraser	44	Chairman of the Board, President and Chief Executive Officer
John L. Bunce, Jr.	44	Director
Daniel J. Evans	79	Director
Ross C. Hartley	56	Director
Pete Wilson	70	Director

Jeffery S. Fraser, one of the Company's founders, has served as Chairman since the Company's formation. Mr. Fraser was named Chief Executive Officer in May 2002 and previously held that position from January 1992 until November 1999. Additionally, from August 1991 to September 1998, he founded and served as President and Chief Executive Officer of the Company's first portal subsidiary, Kansas Information Consortium, Inc. Mr. Fraser holds a B.S. in human resource management and an M.S. in information systems from Friends University in Wichita, Kansas.

John L. Bunce, Jr. has served as one of the Company's directors since June 1998. Mr. Bunce is a Managing Director and a member of the executive committee of Hellman & Friedman LLC, a private equity investment firm, which he joined as an associate in 1988. Mr. Bunce also serves as a director of Western Wireless Corporation, a cellular telecommunications company, Digitas, a direct marketing and interactive agency, Falcon International Communications L.P., a cable company, Arch Capital Group, Ltd., an insurance company, and several privately held companies. Mr. Bunce holds a B.A. in international relations from Stanford University and an M.B.A. from the Harvard Business School.

Daniel J. Evans has served as one of the Company's directors since November 1998. Governor Evans is the chairman of and has served as a consultant for Daniel J. Evans Associates Consulting, a consulting company in Washington, since May 1989. Governor Evans currently serves as a director of Puget Sound Energy, an investor-owned electric utility company, Flow International, a water jet cutting company, Western Wireless Corporation, a wireless communications company, COSTCO, a retailer, and Cray Computer, a computer manufacturing company. He also served as a U.S. Senator from September 1983 to January 1989 and the Governor of the State of Washington from January 1965 to January 1977. Governor Evans holds a B.S. and an M.S. in civil engineering from the University of Washington.

Ross C. Hartley, one of the Company's founders, has served as one of the Company's directors since the Company's formation. From its incorporation to March 1999, Mr. Hartley served as Vice President of Marketing of Kansas Information Consortium, Inc. Mr. Hartley also served as President of The Hartley Insurance Group, a group of independent insurance agencies in Kansas, from 1974 to 2000. He also serves as a director of Empire District Electric Company, an investor-owned electric utility company. Mr. Hartley holds a B.S. in mathematics from Baker University in Baldwin City, Kansas and a J.D. degree from the University of Kansas School of Law.

Pete Wilson has served as one of the Company's directors since July 1999. Governor Wilson served as Governor of the State of California from 1991 until 1999. Prior to serving as Governor of California, Governor Wilson served in the U.S. Senate for eight years, representing the State of California. He has also served as the mayor of San Diego, California. Governor Wilson is a member of The Irvine Company board of directors and is on the Thomas Weisel Partners board of advisors. He received his undergraduate degree from Yale University and his law degree from Boalt Hall (University of California at Berkeley). After graduating from Yale, Governor Wilson spent three years in the Marine Corps as an infantry officer.

All directors hold office until the next annual meeting of shareholders and until their successors have been duly elected and qualified. Executive officers are elected by and serve at the discretion of the Board of Directors.

CORPORATE GOVERNANCE, BOARD COMMITTEES AND BOARD COMPENSATION

Corporate Governance

The Board of Directors of NIC believes that shareholder confidence in the Company, its management and its financial reporting is critical to the success of the Company. NIC's Web site, www.nicusa.com/investor contains links to NIC's current committee charters, corporate governance guidelines, and code of business conduct and ethics. Copies of these documents may also be obtained by writing to NIC's Corporate Secretary, NIC Inc., 10540 South Ridgeview Road, Olathe, KS 66061. NIC continues to review its corporate governance policies and practices periodically, along with the provisions of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley), the new rules of the Securities and Exchange Commission and the new listing standards of Nasdaq.

Committees of the Board

The Board has 3 standing committees: (1) an Audit Committee, (2) a Compensation Committee and (3) a Corporate Governance and Nominating Committee. The Board of Directors has determined that all members of the Audit Committee are independent, as independence is defined in Rule 4200(a)(14) of the National Association of Securities Dealers, Inc. listing standards and the Company's corporate governance guidelines.

Audit Committee. The Audit Committee, which held four (4) meetings in fiscal 2003, currently has three members, Messrs. Bunce (Chairperson), Evans and Wilson.

The responsibilities of the Audit Committee include: (i) oversight of the integrity of the Company's financial statements; (ii) oversight of the Company's compliance with legal and regulatory requirements; (iii) oversight of the independent public accountants' qualifications and independence; (iv) oversight of the performance of the independent public accountants; and (v) preparing the Audit Committee report to be included in NIC's Proxy Statement.

When Sarbanes-Oxley was first enacted, the Company believed that it had at least one member of the Audit Committee that would meet the criteria for an audit committee financial expert as defined in Item 401(h)(2) of Regulation S-K and pursuant to Section 407 of Sarbanes-Oxley. However, as further commentary and regulation have elaborated upon the original meaning of Sarbanes-Oxley, the Board is no longer certain that it has at least one member that meets the necessary criteria. Therefore, it has instructed the Corporate Governance and Nominating Committee to prepare criteria and commence a search for a potential Board member with the necessary qualifications. To date, the Committee has not recommended an individual nominee to fill this position.

The Board believes that the members of the Audit Committee are able to read and understand financial statements and have an understanding of generally accepted accounting principles. After the Company's change in management in 2002 and the subsequent strategic refocusing on the Company's core portal outsourcing business, the Company's business has become more simplified. The Board believes each member of the Audit Committee has experience evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to those issues that can reasonably be expected to be encountered by the Company in its consolidated financial statements.

Compensation Committee. The Compensation Committee currently has three members, Messrs. Bunce (Chairperson), Evans and Wilson. The Board of Directors has determined that the Compensation Committee is comprised entirely of independent directors. In prior years, the Compensation Committee reviewed and approved the compensation payable to the Company's Chief Executive Officer. Commencing in 2004, the Compensation Committee will review and approve the salaries, bonuses and other compensation payable to all of the Company's executive officers. The Committee, in conjunction with the Board, also administers the Company's stock plans, including the 1998 Stock Option Plan, the 1999 Stock Option Plan of SDR

Technologies, Inc. and the 1999 Employee Stock Purchase Plan, and performs such other duties as may from time to time be assigned by the Board with respect to compensation.

Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee was formed in 2004. The members of the Corporate Governance and Nominating Committee are Messrs. Bunce (Chairperson), Evans and Wilson. The Board of Directors has determined that the Corporate Governance and Nominating Committee is comprised entirely of independent directors.

Edgar Filing: NIC INC - Form DEF 14A

The Corporate Governance and Nominating Committee identifies individuals qualified to serve as directors of the Company, and selects or recommends that the Board select, the nominees for all directorships, whether such directorships are filled by the Board or by vote of the shareholders. The Corporate Governance and Nominating Committee uses the guidelines set forth in the Company's Corporate Governance Principles and Practices, which provide that all directors must possess high personal and professional ethics, integrity and values; informed judgment; sound business experience and be committed to representing the long term interests of the Company's shareholders. The Committee has not established any specific minimum qualification standards for Board nominees; however, the Committee may identify certain skills, experience or attributes as being particularly desirable for specific director nominees in order to complement the existing Board composition.

Each nominee for director is an existing director standing for re-election. The Board has determined that a majority of the Board are independent directors.

The Corporate Governance and Nominating Committee will consider nominees recommended by shareholders if those nominations are submitted by shareholders of record in accordance with Section 3.14 of the Company's Bylaws. Section 3.14 is set forth at page 27 of this Proxy Statement under Other Information Nomination of Directors by Shareholders. Shareholders nominating directors must also comply with applicable requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations adopted thereunder. NIC did not receive any unsolicited proposals for Board nominees from shareholders.

Code of Business Conduct and Ethics

The Board has adopted a Code of Business Conduct and Ethics to promote its commitment to the legal and ethical conduct of the Company's business, which can be found on the Company's Web site. All employees, including the Chief Executive Officer, Chief Financial Officer and other senior officers, are required to abide by the Code of Business Conduct and Ethics, which provides the foundation for compliance with corporate policies and procedures, and best business practices. The policies and procedures address a wide array of professional conduct, including methods for avoiding and resolving conflicts of interest, protecting confidential information and a strict adherence to all laws and regulations applicable to the conduct of the Company's business. The Company intends to satisfy its obligations, imposed under Sarbanes-Oxley, to disclose promptly amendments to, or waivers from, the Code of Business Conduct and Ethics, if any, on the Company's Web site.

Employee Complaint Procedures for Accounting and Auditing Matters

The Board also adopted Employee Compliant Procedures for Accounting and Auditing Matters for all employees, which can also be found on the Company's Web site. This document contains procedures for the Audit Committee to receive, retain and treat complaints received regarding accounting, internal accounting controls or auditing matters, and to allow for the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

Compensation of Directors

The Company's policy is not to pay cash compensation to members of the Board for serving as a director or for their attendance at Board meetings or Committee meetings. All directors are eligible to participate in the Company's 1998 Stock Option Plan (and will be eligible to participate in the 2004 Plan, if approved by

shareholders), and non-employee directors are eligible to participate in the Company's 1999 Employee Stock Purchase Plan.

Currently, all of a non-employee director's annual retainer and/or retainer fees or other awards or compensation is payable in non-qualified stock options as determined by the Board. The Board will determine the terms and conditions of any such awards, including those that apply upon the termination of a non-employee director's service as a member of the Board. Directors who are not employees of the Company are reimbursed for travel expenses and other out-of-pocket costs incurred in connection with their attendance at meetings.

During 2003, each non-employee director received non-qualified options to purchase 50,000 shares of Common Stock, which vest in four equal annual installments, commencing on the first anniversary of the grant date.

Board Meetings and Attendance

During the fiscal year ended December 31, 2003, there were four (4) meetings of the Board of Directors. Each director attended at least 75% of the total number of meetings of the Board of Directors and its committees on which he served during the fiscal year. In addition, the Board of

Edgar Filing: NIC INC - Form DEF 14A

Directors and its Committees acted at various times by unanimous written consent pursuant to Colorado law.

The Board of Directors strongly encourages each director to attend the annual shareholders meetings, although this is not stated in a formal policy. In 2003, Messrs. Fraser, Hartley and Bunce attended the Annual Meeting.

Commencing in 2004, the independent directors of the Board will also meet in executive session at each regular Board meeting. These executive sessions will be chaired by one of the independent directors on a rotating basis.

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of the Company's Board of Directors or Compensation Committee. Mr. Fraser served as a member of the Compensation Committee during the fiscal years ended December 31, 2000 and 2001, and until he became President and CEO of the Company in mid-2002, and participated in decisions concerning compensation of executive officers during those years. Mr. Hartley served as a member of the Compensation Committee until May 2003.

EXECUTIVE OFFICERS

The names of, and certain information regarding, executive officers of the Company who are not directors of the Company, are set forth below. The executive officers serve at the pleasure of the Board of Directors.

<u>Name</u>	<u>Age</u>	<u>Positions with the Company</u>
Harry H. Herington	44	Chief Operating Officer
Eric J. Bur	42	Chief Financial Officer
William F. Bradley, Jr.	49	Executive Vice President Strategy, Policy & Legal, General Counsel and Secretary
Samuel R. Somerhalder	62	Executive Vice President Operations and Administration
Richard L. Brown	41	Executive Vice President Technology and Solutions
Stephen M. Kovzan	35	Vice President Financial Operations and Chief Accounting Officer

Harry H. Herington became the Company's Chief Operating Officer in May 2002. In addition, he served as the Company's Executive Vice President Portal Operations from January 1999 through April 2002. He

7

served as one of the Company's directors from May 1998 to February 1999. He also serves as President of NICUSA, Inc. From September 1995 to September 1996, Mr. Herington served as the Vice President of Kansas Information Consortium, Inc. Prior to joining the Company, Mr. Herington was the Associate General Counsel for the League of Kansas Municipalities from August 1992 to September 1995. Mr. Herington served as a director of E-Filing.com, Inc., a provider of online filing applications for legal services in which NIC Inc. owns a minority equity interest, until August 2003. Mr. Herington holds a B.A. degree from Wichita State University in Kansas and a J.D. degree from the University of Kansas School of Law.

Eric J. Bur became the Company's Chief Financial Officer in April 2001. Prior to joining the Company, Mr. Bur was the Senior Vice President of Finance for American Century Investments, Kansas City, Missouri, from 1995 through 2000. From 1987 through 1995, he was a senior manager for Ernst & Young, LLP, and from 1984 through 1987, a senior accountant with KPMG Peat Marwick. Mr. Bur received a B.S. degree in business and accounting from the University of Kansas in 1984, and is a Certified Public Accountant.

William F. Bradley, Jr. has served as the Company's Secretary since May 1998, General Counsel since July 1998 and Executive Vice President Strategy, Policy and Legal since January 1999. In addition, Mr. Bradley served as a director from May 1998 to February 1999. From January 1995 to the present, he has served in various executive capacities with the Company's subsidiaries. From July 1989 to December 1994, Mr. Bradley was an associate and later a partner at Hinkle, Eberhart & Elkouri, LLC, a law firm in Kansas. Mr. Bradley serves as a director of E-Filing.com, Inc., a provider of online filing applications for legal services in which NIC Inc. owns a minority equity interest. Mr. Bradley

Edgar Filing: NIC INC - Form DEF 14A

holds a B.A. degree in English from the University of Kansas, and a J.D. degree from the University of Kansas School of Law.

Samuel R. Somerhalder has served as the Company's Executive Vice President Operations and Administration since January 1999. From May 1998 to November 1998, Mr. Somerhalder served as one of the Company's directors. Prior to that, he served as President, Chief Executive Officer and a director of the Company's subsidiary, Nebraska Interactive, Inc., from May 1995 until August 1999. From November 1994 to April 1996, he also served as Secretary of Nebraska Interactive, Inc. Prior to joining the Company, Mr. Somerhalder was the Senior Vice President of Marketing for First Commerce Technologies, Inc., an information technology company, from October 1991 to January 1995. Mr. Somerhalder holds a B.S. degree in business administration from Kansas State University.

Richard L. Brown has served as the Company's Executive Vice President of Technology and Solutions since November 2002. From October 2001 to November 2002, Mr. Brown was Vice President of eGovernment Solutions. From March 2001 to October 2001, Mr. Brown served as a regional manager for the Company's portal operations. From January 1999 to March 2001, Mr. Brown was President and Chief Executive Officer of Utah Interactive, LLC, the NIC subsidiary responsible for Utah's eGovernment services portal. From May 1998 to December 1998 he also served as director of Marketing and Operations for Indiana Interactive, LLC, the NIC subsidiary that manages Indiana's eGovernment portal. Mr. Brown holds degrees in Technology and Economics from Purdue University.

Stephen M. Kovzan has served as the Company's Vice President of Financial Operations and Chief Accounting Officer since September 2000. Mr. Kovzan joined the Company in October 1999 and served as the Company's Controller until September 2000. Prior to joining the Company, Mr. Kovzan served as a business assurance manager with PricewaterhouseCoopers LLP. Mr. Kovzan is a Certified Public Accountant and holds a B.S. in business administration from the University of Tulsa and an M.S. in business from the University of Kansas.

Family Relationships

There are no family relationships among any of the Company's directors or executive officers other than between Mr. Fraser and Mr. Somerhalder, who are brothers-in-law.

8

EXECUTIVE COMPENSATION

Summary Compensation Table

The following Summary Compensation Table sets forth summary information as to compensation received by the Company's Chief Executive Officer and each of the four other most highly compensated persons whose total salary, bonus and other compensation exceeded \$100,000 (collectively, the named executive officers) during fiscal 2003. In accordance with the rules of the SEC, the compensation described in this table does not include perquisites and other personal benefits received by the executive officers named in the table below which do not exceed the lesser of \$50,000 or 10% of the total salary and bonus reported for these officers.

	Year	Annual Compensation			Long-Term Compensation Awards		
		Salary	Bonus	Other	Restricted Stock Awards	Securities Underlying Options (#)	All Other Compensation(1)
Jeffery S. Fraser	2003	\$ 1				247,043	\$ 11,970
President and Chief Executive Officer	2002	1					8,967
	2001	1					8,645
Harry H. Herington	2003	193,000				150,000	14,970
Chief Operating Officer	2002	176,000	\$245,916(2)			50,000	11,717
	2001	176,000	11,000(3)			110,000	11,270

Edgar Filing: NIC INC - Form DEF 14A

				Long-Term Compensation Awards	
Eric J. Bur	2003	176,875	7,000		11,558
Chief Financial Officer	2002	160,000		50,000	8,967
	2001	120,000(4)		17,250	6,484
William F. Bradley, Jr.	2003	167,500		75,000	9,658
Executive Vice President	2002	150,000		50,000	5,159
Strategy, Policy and Legal General Counsel and Secretary	2001	112,500		110,000	4,978
Stephen M. Kovzan	2003	125,208	7,000	\$95,201(5)	11,970
Vice President Financial Operations and Chief Accounting Officer	2002	114,125	6,000		8,967
	2001	106,250	10,000		8,645

- (1) For 401(k) matching funds and/or health insurance.
- (2) Consists of bonus earned for performance in 2001 but paid in 2002.
- (3) Consists of bonus earned for performance in 2000 but paid in 2001.
- (4) Mr. Bur commenced employment with the Company on April 1, 2001, at an annual salary of \$160,000.
- (5) Consists of the dollar value of the difference between the price paid by Mr. Kovzan to exercise non-qualified stock options and the fair market value of the Common Stock of the Company on the date of exercise.

Option Grants

The following table sets forth information concerning stock option grants to the named executive officers during the fiscal year ended December 31, 2003.

Option/SAR Grants Fiscal 2003

Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
Number of Securities Underlying Options	Percent of Total Options Granted to	Exercise or Expiration Base Price (\$/Sh)	Expiration Date	5% (\$)	10% (\$)

	Individual Grants			Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
		Employees in Fiscal Year			
Jeffery S. Fraser	77,043	4.1%	\$2.5705-14-06	\$ 31,210	\$ 65,538
Jeffery S. Fraser	150,000	8.0%	3.3407-31-08	138,417	305,866
Jeffery S. Fraser	20,000	1.1%	7.6711-10-08	42,382	93,652
Harry H. Herington	150,000	8.0%	3.0407-31-08	125,984	278,393
Eric J. Bur	100,000	5.3%	3.0407-31-08	83,990	185,595
William F. Bradley, Jr.	75,000	4.0%	3.0407-31-08	62,992	139,196
Stephen M. Kovzan	30,000	1.6%	3.0407-31-08	25,197	55,679

Aggregated Option Exercises in Fiscal 2003 and Fiscal Year-End Option Values

The following table sets forth information concerning stock option exercises by the named executive officers and the value of unexercised options at December 31, 2003.

Aggregated Option Exercises in Fiscal 2003 and Year-End Option Values

Name	Shares Acquired on Exercise	Value Realized\$(1)	Number of Securities Underlying Unexercised Options at Fiscal Year-end		Value of Unexercised In-the-Money Options at Fiscal Year-end\$(2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Jeffery S. Fraser				247,043		\$ 1,131,355
Harry H. Herington			80,000	230,000	\$ 387,000	1,135,500
Eric J. Bur			242,500	342,500	941,050	1,440,050
William F. Bradley, Jr.			80,000	155,000	387,000	761,250
Stephen M. Kovzan	30,000	\$ 95,201	22,445	75,815	79,500	358,025

(1) Market value of the underlying shares on the dates of exercise less the option exercise price.

(2) Market value of shares covered by in-the-money options on December 31, 2003, less the option exercise price. Options are in the money if the market value of the shares covered thereby is greater than the option exercise price. At December 31, 2003, the closing sales price for the Company's shares was \$8.03.

Employment Agreements

Jeffery S. Fraser

On July 24, 1998, Jeffery S. Fraser entered into an employment agreement with the Company. Mr. Fraser currently serves as the Company's Chairman, President and Chief Executive Officer. The employment agreement provides Mr. Fraser with an annual base salary of \$249,000;

however, effective January 1, 2000, Mr. Fraser reduced his salary to \$1.00 per year. The Compensation Committee of the Company has set Mr. Fraser's base compensation for the 2004 fiscal year at \$5,500. Should the Company terminate Mr. Fraser's employment without cause on or after July 1, 2001, Mr. Fraser will not be entitled to severance pay, except as provided in the Company's severance benefit plan, if any, in effect on the termination date. Cause is defined in

the agreement as: (a) indictment or conviction for any felony or crime involving dishonesty; (b) willful participation in any fraud against the Company; (c) willful breach of Mr. Fraser's duties to the Company; (d) intentional damage to any of the Company's property; or (e) conduct by Mr. Fraser which the Company's Board of Directors determines to be inappropriate for his position.

Should the Company terminate Mr. Fraser's employment for cause, it must pay Mr. Fraser all compensation due on the date of termination.

Under the terms of his agreement, Mr. Fraser may terminate his employment with the Company in writing at any time for any reason. In connection with his employment agreement, Mr. Fraser entered into a proprietary information and inventions agreement and a non-competition agreement. Should Mr. Fraser's employment with the Company terminate for any reason, the agreements provide collectively that Mr. Fraser: (a) will not use any of the Company's proprietary information without the Company's prior written consent; (b) will not use any confidential information to compete against the Company or any of the Company's employees; and (c) will not, for three years following termination, solicit any of the Company's employees or customers.

Harry H. Herington

On September 1, 2000, Harry H. Herington entered into an employment agreement with the Company. Mr. Herington currently serves as the Company's Chief Operating Officer. The employment agreement provided Mr. Herington with an annual base salary of \$140,000. Mr. Herington's current annual salary is \$210,000. Should the Company terminate Mr. Herington's employment without cause, Mr. Herington will not be entitled to severance pay, except as provided in the Company's severance benefit plan, if any, in effect on the termination date.

Should the Company terminate Mr. Herington's employment for cause, it must pay Mr. Herington all compensation due on the date of termination.

In the event Mr. Herington's employment is terminated without cause in connection with or in contemplation of a change in control of the Company, or if Mr. Herington voluntarily terminates his employment within six (6) months of a change of control, Mr. Herington is entitled to receive a severance payment equal to the product of the number of full years Mr. Herington was employed with the Company times the sum of (a) one month's salary and (b) one-twelfth times the annual bonus earned by Mr. Herington for the last complete calendar year or year of employment, whichever is greater. The amount of any severance payment to Mr. Herington may be reduced (but not below zero) if such payment is determined by the Company's certified public accountants to be nondeductible by the Company for federal income tax purposes because of Section 280G of the Internal Revenue Code, in which case, the amount payable to Mr. Herington shall be the maximum amount payable without causing such payment to be nondeductible by the Company. In addition, all stock options held by Mr. Herington shall vest upon a change of control.

A change of control shall be deemed to have occurred if any person (other than a trustee or a fiduciary holding securities under the Company's employee benefit plan) who is not a beneficial owner (as that term is defined in Rule 13d-3 under the Securities Exchange Act) of 5% or more of the Company's Common Stock as of the date of Mr. Herington's employment agreement becomes the beneficial owner of 40% or more of the Company's Common Stock, or the shareholders approve a merger or consolidation of the Company with another company, other than a merger or consolidation in which the shareholders of the Company own 50% or more of the voting stock of the surviving corporation, the sale of all or substantially all of the assets of the Company or the liquidation or dissolution of the Company.

Under the terms of his agreement, Mr. Herington may terminate his employment with the Company in writing at any time for any reason. In connection with his employment agreement, Mr. Herington entered into a proprietary information and inventions agreement and a non-competition agreement. Should Mr. Herington's employment with the Company terminate for any reason, the agreements provide collectively that Mr. Herington: (a) will not use any of the Company's proprietary information without the Company's prior

Edgar Filing: NIC INC - Form DEF 14A

written consent; (b) will not use any confidential information to compete against the Company or any of the Company's employees; and (c) will not, for three years following termination, solicit any of the Company's employees or customers.

Eric J. Bur

On April 1, 2001, Eric J. Bur entered into an employment agreement with the Company to become the Company's Chief Financial Officer. The employment agreement provided Mr. Bur with an annual base salary of \$160,000. Mr. Bur's current annual salary is \$190,000. Should the Company terminate Mr. Bur's employment without cause, as similarly defined in Mr. Fraser's employment agreement, before April 1, 2004, the Company must pay Mr. Bur one year's base salary in a single lump sum distribution on the first regular Company pay period after his termination. Should the Company terminate Mr. Bur's employment without cause on or after April 1, 2004, Mr. Bur will not be entitled to severance pay, except as provided in the Company's severance benefit plan, if any, in effect on the termination date.

Should the Company terminate Mr. Bur's employment for cause, it must pay Mr. Bur all compensation due on the date of termination.

In the event Mr. Bur's employment is terminated without cause in connection with or in contemplation of a change in control of the Company, as similarly defined in Mr. Herington's employment agreement, or if Mr. Bur voluntarily terminates his employment within six (6) months of a change of control, Mr. Bur is entitled to receive a severance payment equal to the product of the number of full years Mr. Bur was employed with the Company times the sum of (a) one month's salary and (b) one-twelfth times the annual bonus earned by Mr. Bur for the last complete calendar year or year of employment, whichever is greater. The amount of any severance payment to Mr. Bur may be reduced (but not below zero) if such payment is determined by the Company's certified public accountants to be nondeductible by the Company for federal income tax purposes because of Section 280G of the Internal Revenue Code, in which case, the amount payable to Mr. Bur shall be the maximum amount payable without causing such payment to be nondeductible by the Company. In addition, all stock options held by Mr. Bur shall vest upon a change of control.

Under the terms of his agreement, Mr. Bur may terminate his employment with the Company in writing at any time for any reason. In connection with his employment agreement, Mr. Bur entered into a proprietary information and inventions agreement and a non-competition agreement. Should Mr. Bur's employment with the Company terminate for any reason, the agreements provide collectively that Mr. Bur: (a) will not use any of the Company's proprietary information without the Company's prior written consent; (b) will not use any confidential information to compete against the Company or any of the Company's employees; and (c) will not, for three years following termination, solicit any of the Company's employees or customers.

William F. Bradley, Jr.

On September 1, 2000 William F. Bradley Jr., entered into an employment agreement with the Company. Mr. Bradley currently serves as the Company's Executive Vice President Strategy, Policy and Legal, General Counsel and Secretary. The employment agreement provided Mr. Bradley with an annual base salary of \$140,000. Mr. Bradley's current annual salary is \$185,000. Should the Company terminate Mr. Bradley's employment without cause, Mr. Bradley will not be entitled to severance pay, except as provided in the Company's severance benefit plan, if any, in effect on the termination date.

Should the Company terminate Mr. Bradley's employment for cause, it must pay Mr. Bradley all compensation due on the date of termination.

In the event Mr. Bradley's employment is terminated without cause in connection with or in contemplation of a change in control of the Company, as similarly defined in Mr. Herington's employment agreement, or if Mr. Bradley voluntarily terminates his employment within six (6) months of a change of control, Mr. Bradley is entitled to receive a severance payment equal to the product of the number of full years Mr. Bradley was employed with the Company times the sum of (a) one month's salary and (b) one-

twelfth times the annual bonus earned by Mr. Bradley for the last complete calendar year or year of employment, whichever is greater. The amount of any severance payment to Mr. Bradley may be reduced (but not below zero) if such payment is determined by the Company's certified public accountants to be nondeductible by the Company for federal income tax purposes because of Section 280G of the Internal Revenue Code, in which case, the amount payable to Mr. Bradley shall be the maximum amount payable without causing such payment to be nondeductible by the Company. In addition, all stock options held by Mr. Bradley shall vest upon a change of control.

Under the terms of his agreement, Mr. Bradley may terminate his employment with the Company in writing at any time for any reason. In connection with his employment agreement, Mr. Bradley entered into a proprietary information and inventions agreement and a non-competition agreement. Should Mr. Bradley's employment with the Company terminate for any reason, the agreements provide collectively that Mr. Bradley:

Edgar Filing: NIC INC - Form DEF 14A

(a) will not use any of the Company's proprietary information without the Company's prior written consent; (b) will not use any confidential information to compete against the Company or any of the Company's employees; and (c) will not, for three years following termination, solicit any of the Company's employees or customers.

Samuel R. Somerhalder

On September 1, 2000, Samuel R. Somerhalder entered into an employment agreement with the Company. Mr. Somerhalder currently serves as the Company's Executive Vice President Operations and Administration. The employment agreement provided Mr. Somerhalder with an annual base salary of \$140,000. Mr. Somerhalder's current annual salary is \$175,000. Should the Company terminate Mr. Somerhalder's employment without cause, Mr. Somerhalder will not be entitled to severance pay, except as provided in the Company's severance benefit plan, if any, in effect on the termination date.

Should the Company terminate Mr. Somerhalder's employment for cause, it must pay Mr. Somerhalder all compensation due on the date of termination.

In the event Mr. Somerhalder's employment is terminated without cause in connection with or in contemplation of a change in control of the Company, as similarly defined in Mr. Herington's employment agreement, or if Mr. Somerhalder voluntarily terminates his employment within six (6) months of a change of control, Mr. Somerhalder is entitled to receive a severance payment equal to the product of the number of full years Mr. Somerhalder was employed with the Company times the sum of (a) one month's salary and (b) one-twelfth times the annual bonus earned by Mr. Somerhalder for the last complete calendar year or year of employment, whichever is greater. The amount of any severance payment to Mr. Somerhalder may be reduced (but not below zero) if such payment is determined by the Company's certified public accountants to be nondeductible by the Company for federal income tax purposes because of Section 280G of the Internal Revenue Code, in which case, the amount payable to Mr. Somerhalder shall be the maximum amount payable without causing such payment to be nondeductible by the Company. In addition, all stock options held by Mr. Somerhalder shall vest upon a change of control.

Under the terms of his agreement, Mr. Somerhalder may terminate his employment with the Company in writing at any time for any reason. In connection with his employment agreement, Mr. Somerhalder entered into a proprietary information and inventions agreement and a non-competition agreement. Should Mr. Somerhalder's employment with the Company terminate for any reason, the agreements provide collectively that Mr. Somerhalder: (a) will not use any of the Company's proprietary information without the Company's prior written consent; (b) will not use any confidential information to compete against the Company or any of the Company's employees; and (c) will not, for three years following termination, solicit any of the Company's employees or customers.

13

Richard L. Brown

On March 1, 1999, Richard L. Brown entered into an employment agreement with the Company. Mr. Brown currently serves as the Company's Executive Vice President of Technology and Solutions. The employment agreement provides Mr. Brown with an annual base salary of \$85,000. Mr. Brown's current salary is \$175,000 per year. Should the Company terminate Mr. Brown's employment without cause on or after March 1, 2002, Mr. Brown will not be entitled to severance pay, except as provided in the Company's severance benefit plan, if any, in effect on the termination date. Cause is defined in the agreement as: (a) indictment or conviction for any felony or crime involving dishonesty; (b) willful participation in any fraud against the Company; (c) willful breach of Mr. Brown's duties to the Company; (d) intentional damage to any of the Company's property; or (e) conduct by Mr. Brown which the Company's Board of Directors determines to be inappropriate for his position.

Should the Company terminate Mr. Brown's employment for cause, it must pay Mr. Brown all compensation due on the date of termination.

Under the terms of his agreement, Mr. Brown may terminate his employment with the Company in writing at any time for any reason. In connection with his employment agreement, Mr. Brown entered into a proprietary information and inventions agreement and a non-competition agreement. Should Mr. Brown's employment with the Company terminate for any reason, the agreements provide collectively that Mr. Brown: (a) will not use any of the Company's proprietary information without the Company's prior written consent; (b) will not use any confidential information to compete against the Company or any of the Company's employees; and (c) will not, for three years following termination, solicit any of the Company's employees or customers.

Stephen M. Kovzan

On September 1, 2000, Stephen M. Kovzan entered into an employment agreement with the Company. He currently serves as the Company's Vice President Financial Operations and Chief Accounting Officer. This agreement provided Mr. Kovzan with an annual base salary of \$95,000.

Edgar Filing: NIC INC - Form DEF 14A

Mr. Kovzan's current annual salary is \$130,000. Should the Company terminate Mr. Kovzan's employment without cause, Mr. Kovzan will not be entitled to severance pay, except as provided in the Company's severance benefit plan, if any, in effect on the termination date.

Should the Company terminate Mr. Kovzan's employment for cause, it must pay Mr. Kovzan all compensation due on the date of termination.

In the event Mr. Kovzan's employment is terminated without cause in connection with or in contemplation of a change in control of the Company, as similarly defined in Mr. Herington's employment agreement, or if Mr. Kovzan voluntarily terminates his employment within six (6) months of a change of control, Mr. Kovzan is entitled to receive a severance payment equal to the product of the number of full years Mr. Kovzan was employed with the Company times the sum of (a) one month's salary and (b) one-twelfth times the annual bonus earned by Mr. Kovzan for the last complete calendar year or year of employment, whichever is greater. The amount of any severance payment to Mr. Kovzan may be reduced (but not below zero) if such payment is determined by the Company's certified public accountants to be nondeductible by the Company for federal income tax purposes because of Section 280G of the Internal Revenue Code, in which case, the amount payable to Mr. Kovzan shall be the maximum amount payable without causing such payment to be nondeductible by the Company. In addition, all stock options held by Mr. Kovzan shall vest upon a change of control.

Under the terms of his agreement, Mr. Kovzan may terminate his employment with the Company in writing at any time for any reason. If Mr. Kovzan terminates his employment with the Company voluntarily, he will not be entitled to severance pay. In connection with his employment agreement, Mr. Kovzan entered into a proprietary information and inventions agreement and a non-competition agreement. Should Mr. Kovzan's employment with the Company terminate for any reason, the agreements provide collectively

14

that Mr. Kovzan: (a) will not use any of the Company's proprietary information without the Company's prior written consent; (b) will not use any confidential information to compete against the Company or any of the Company's employees; and (c) will not, for three years following termination, solicit any of the Company's employees or customers.

Benefit Plans

1998 Stock Option Plan

The 1998 Stock Option Plan (1998 Plan) was adopted and approved by the Company's Board of Directors and by the Company's shareholders in May 1998, at which time a total of 4,643,377 shares of Common Stock were reserved for issuance under this plan. In November 1998, the 1998 Plan was amended to reserve a total of 7,893,741 shares of Common Stock for issuance under this plan. In May 1999, the 1998 Plan was amended to reserve a total of 9,286,754 shares of Common Stock for issuance under this plan. At December 31, 2003, options to purchase 3,070,133 shares of Common Stock granted under the 1998 Plan had been exercised, options to purchase 4,536,862 shares of Common Stock were outstanding and options to purchase 1,679,759 shares of Common Stock remained available for grant. The outstanding options were exercisable at a weighted average exercise price of \$4.00 per share. Outstanding options to purchase an aggregate of 2,425,509 shares were held by employees who are not officers or directors of the Company.

The Board of Directors, in conjunction with the Compensation Committee, administers the 1998 Plan. Awards under the 1998 Plan may consist of incentive stock options, which qualify under Section 422 of the Internal Revenue Code, or non-qualified stock options, which are stock options that do not qualify under that provision.

Incentive stock options may be granted to employees and officers of the Company or any of its subsidiaries, and non-qualified stock options may be granted to employees, officers or directors of the Company or any of its subsidiaries. The terms of such grants, subject to the restrictions in the 1998 Plan, are set by the Board or the Compensation Committee. Incentive stock option grants are subject to certain restrictions relating to the duration of the option, the size of an option award and the exercise price.

In the event of (a) a merger, consolidation or reorganization in which NIC is not the surviving company or (b) the acquisition by another company of all or substantially all of the Company's assets, then every option outstanding under the 1998 Plan may be assumed or replaced with new options of comparable value by the surviving, continuing, successor or acquiring company. In the alternative, the Compensation Committee may provide that an optionee can exercise his or her options within the period of 30 days prior to the merger, consolidation, reorganization or acquisition. Additionally, in connection with change of control situations in which a person, other than one of the Company's shareholders, directors or officers, acquires greater than 50% of the combined voting power of the company or less than a majority of the directors are persons who were nominated or selected by the Company's Board of Directors, the Compensation Committee may accelerate the time at which options granted under the 1998 Plan may be exercised by an optionee.

Edgar Filing: NIC INC - Form DEF 14A

The 1998 Plan will terminate automatically in 2008 unless sooner terminated by the Board of Directors. The Board of Directors has approved a 2004 Amended and Restated Stock Option Plan, subject to approval by shareholders. The changes to the 1998 Plan which would be made by the 2004 Amended and Restated Stock Option Plan are discussed under 2004 Amended and Restated Stock Option Plan, Which Amends and Restates the 1998 Stock Option Plan, Proposal No. 2, below. Options granted under the 1998 Plan will be subject to the terms of the 1998 Plan as it existed when the options were granted.

SDR 1999 Stock Option Plan

In connection with the Company's acquisition of SDR Technologies, Inc. in May 2000, the Company adopted the 1999 Stock Option Plan of SDR Technologies, Inc. Options to purchase 229,965 shares were granted in connection with the acquisition of SDR. At December 31, 2003, options to purchase 170,693 shares of Common Stock granted under the SDR Plan had been exercised, options to purchase 29,677 shares of

15

Common Stock were outstanding and options to purchase 27,196 shares had been canceled or expired. Options to purchase 2,399 shares of Common Stock remained available for grant. No options in addition to those granted at the close of the SDR transaction will be granted under this plan. The SDR Plan is also administered by the Compensation Committee of the Board.

Unless previously terminated by the Board of Directors, the plan will terminate at the close of business on December 31, 2009. Termination of the plan will not affect any option previously granted.

1999 Employee Stock Purchase Plan

The 1999 Stock Purchase Plan was approved by the Board of Directors and the Company's shareholders in May 1999. The Company's stock purchase plan is intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code in order to provide the Company's employees with an opportunity to purchase shares of the Company's stock through payroll deductions. An aggregate of 2,321,688 shares of Common Stock has been reserved for issuance and are available for purchase under the stock purchase plan, subject to adjustment in the event of a stock split, stock dividend or other similar change in the Company's Common Stock or its capital structure. At December 31, 2003, 81,235 shares of Common Stock had been purchased by employees under the 1999 plan.

All employees of the Company and of its affiliates who have been employed for a continuous period, as determined by the Board or committee administering the stock purchase plan, but which will not exceed two years preceding the offering are eligible to participate in the Company's stock purchase plan, provided that no employee of the Company or of its affiliates whose customary employment is for less than five months in any calendar year and less than 20 hours per week are eligible to participate in the Company's stock purchase plan. Non-employee directors, consultants, and employees subject to the rules or laws of a foreign jurisdiction that prohibit or make impractical their participation in a stock purchase plan are not eligible to participate in the Company's stock purchase plan.

The Company's stock purchase plan is administered by the Compensation Committee of the Board of Directors. The Compensation Committee has the complete authority to make awards and will designate offering periods not to exceed 27 months. The Compensation Committee will establish one or more purchase dates during an offering period during which stock purchase rights may be exercised and Common Stock may be purchased.

In the event the Company dissolves, liquidates, merges or consolidates through a merger in which the Company is not the surviving corporation, effectuate a reverse merger in which the Company is the surviving corporation but the shares of Common Stock outstanding prior to the merger are converted into other property, whether in the form of securities, cash or otherwise, or are acquired by any person, entity or group, as defined by the Exchange Act or any successive provisions, holding at least 50% of the Company's combined voting power, then, the Board or committee administering the stock purchase plan may (a) allow the surviving or acquiring corporation to assume the outstanding rights or substitute similar rights for those participating under the stock purchase plan, (b) have the existing rights under the stock purchase plan remain in full force and effect or (c) allow those participating under the stock purchase plan to use their accumulated payroll deductions to purchase the Company's Common Stock immediately prior to the transactions described above, provided that their rights under the ongoing offering period will be terminated.

A participating employee is granted a purchase right by which shares of the Company's Common Stock may be purchased during any offering period at the lesser of (a) 85% of the fair market value of the Company's Common Stock on the date of the commencement of the offer period or (b) 85% of the fair market value of the Company's Common Stock on the purchase date. The participant's purchase right is exercised in this manner on each exercise date arising in the offer period unless, on any purchase date, the fair market value of the Company's Common Stock is lower than the fair market value of the Company's Common Stock on the first day of the offering period. If so, the participant's participation in

the original offering period is terminated, and the participant is automatically enrolled in the next offering period which will commence on the next day.

Payroll deductions may range up to 15% of a participant's regular base pay, exclusive of bonuses, overtime, shift-premiums, commissions, reimbursements or other expense allowances. Participants may not make direct cash payments to their accounts. The Board or committee administering the stock purchase plan may establish the maximum number of the Company's shares of Common Stock that any employee may purchase under the stock purchase plan during an offering period. The Internal Revenue Code imposes additional limitations on the amount of Common Stock that may be purchased during any calendar year.

The following table summarizes the shares reserved for issuance under the Company's equity compensation plans as of December 31, 2003:

Plan category	Number of shares to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of shares available for future issuance under equity compensation plans
Equity compensation plans approved by shareholders	4,536,862	\$4.00	1,679,759
Equity compensation plans not approved by shareholders(1)	29,677	\$1.85	2,399

- (1) In connection with the Company's acquisition of SDR Technologies, Inc. in May 2000, the Company adopted the 1999 Stock Option Plan of SDR Technologies, Inc. (the "SDR Plan"). Options to purchase 229,965 shares were granted in connection with the acquisition of SDR. However, no options in addition to those granted at the close of the SDR transaction will be granted under this plan. The SDR Plan is administered by the Compensation Committee of the Company's Board of Directors.

Performance Graph

The performance graph compares the annual change in the Company's cumulative total Shareholder return on its Common Stock during a period commencing on July 15, 1999, the date the Company's stock began publicly trading, and ending on December 31, 2003 (as measured by dividing (i) the sum of (A) the cumulative amount of dividends for the measurement period, assuming dividend reinvestment and (B) the difference between the Company's share price at the end and the beginning of the measurement period; by (ii) the share price at the beginning of the measurement period) with the cumulative total return of each of: (a) the Nasdaq Composite (U.S.) Index and (b) a Peer Group, assuming a \$100 investment on July 15, 1999. The Company's share price at the beginning of the measurement period was the closing price for the Company's Common Stock on July 15, 1999, and not the price at which the Company's shares of Common Stock were initially offered for purchase in its public offering. It should be noted that the Company has not paid any dividends on its Common Stock, and no dividends are included in the presentation of the Company's performance. The stock price performance on the graph below is not necessarily indicative of future price performance.

**Comparison of Cumulative Total Return Among
NIC Inc.,
Nasdaq Composite (U.S.) Index and a Peer Group**

The Peer Group consists of seven companies, each of whose business focus is similar to that of the Company. While not all of the companies provide services exclusively to governments, the services provided are similar to that provided by the Company. The members of the Peer Group are as follows: PEC Solutions, Inc. (PECS), Bearing Point, Inc. (BE) (formerly known as KPMG Consulting, Inc. (KCIN)), Accenture, Ltd. (ACN), International Business Machines Corp. (IBM), Maximus, Inc. (MMS), American Management Systems, Inc. (AMSY) and Official Payments Corporation (OPAY). Bearing Point, Inc. began trading publicly on February 8, 2001, and Accenture, Ltd. began trading publicly on July 18, 2001. Official Payments Corporation was included until May 31, 2002, when, as a result of the merger with Tier Technologies, it was no longer a compatible member of the Peer Group.

REPORT ON EXECUTIVE COMPENSATION BY THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

The Compensation Committee (the Committee) is comprised solely of independent directors, and is responsible for the establishment and oversight of the Company's executive compensation program. It is the responsibility of the Committee to review, recommend and approve changes to the Company's compensation policies and benefits programs, to administer the Company's stock option plans, including approving stock option grants to executive officers, and to otherwise ensure that the Company's compensation philosophy is consistent with the Company's best interests and is properly implemented. It reviews, recommends and approves the compensation of Mr. Fraser, the Chairman and Chief Executive Officer. Commencing in 2004, the Compensation Committee will review and approve the compensation of the other executive officers of the Company.

The goal of the Compensation Committee is to ensure that the Company employs qualified, experienced executives whose financial interests are aligned with that of the shareholders, and provide each individual with a significant incentive to manage the Company from the perspective of an owner with an equity stake in the Company. The Committee considers general industry practice and other factors in structuring executive compensation. The principal components of the Company's executive compensation arrangements are base salary, cash bonus awards and stock options.

Salaries at all employee levels are generally targeted at median market levels. In determining appropriate salary levels, the Committee considers the officer's impact level, scope of responsibility, prior experience, past accomplishments and data on prevailing compensation levels in relevant executive labor markets. In 2003, the Committee retained consultants to conduct a compensation survey in order to track Company compensation for management with that of other employers. The results of the survey will be taken into consideration as the Committee considers various employee and management compensation programs in 2004 and thereafter. The Committee reviews each senior executive officer's salary annually, and such salaries are adjusted periodically when the Committee believes that adjustment is required, taking into account competitive factors in the industry and locations of the Company's activities. Supplemental cash bonus awards may be made periodically to reflect superior performance by individual employees, in accordance with recommendations by senior management.

Mr. Fraser became the Company's Chief Executive Officer in June 2002. At Mr. Fraser's request, Mr. Fraser's salary was \$1 per year for 2002 and 2003. The Committee will annually review the compensation of Mr. Fraser. The Compensation Committee has approved a base salary of \$5,500 for Mr. Fraser for 2004. Mr. Fraser's base salary for fiscal 2004 provides Mr. Fraser with a total cash compensation opportunity significantly more conservative than chief executive officer positions of comparably sized companies.

The Committee believes that equity-based incentive arrangements, such as employee stock options, are among the most effective means available to the Company of aligning the interests of employees with the objectives of shareholders generally, competing in today's environment in the technology sector, and of building their long term commitment to the Company. The Company emphasizes stock option awards as an essential element of the remuneration package available to its executives and employees, and believes that the practice of granting stock options is critical to retaining and recruiting talented executive personnel. Stock

options typically vest in annual increments over periods of up to four years to encourage long-term commitment to the Company by the grantees. In determining the number of shares and/or share options to be given to each executive, the Committee considers the officer's responsibilities, the expected future contribution of the officer to the Company's performance, the officer's base salary and any incentive/performance-based cash bonus awards. During the fiscal year ended December 31, 2003, all named executive officers received options to purchase shares.

Edgar Filing: NIC INC - Form DEF 14A

The Committee believes the Company's stock option plans have been effective in attracting, retaining and motivating executives and employees of the Company and are an important component of the overall compensation program. The Committee will monitor the Company's compensation program in order to maintain a proper balance between cash compensation and equity-based incentives, and may consider revisions in the future, although it is expected that equity-based compensation will remain one of the principal components of compensation.

The Compensation Committee

John L. Bunce, Jr. (Chairperson)
Daniel J. Evans
Pete Wilson

REPORT OF THE AUDIT COMMITTEE

The purpose of the Audit Committee (the Committee) is to assist the Board of Directors in its oversight of (i) the integrity of the Company's financial statements, (ii) the Company's compliance with legal and regulatory requirements, (iii) the independent public accountants' qualifications and independence, and (iv) the performance of the independent public accountants; and to prepare this report. The Board of Directors, in its business judgment, has determined that all members of the Committee are independent, as required by applicable listing standards of the Nasdaq Stock Market, Inc., Sarbanes-Oxley and the rules promulgated thereunder.

The Committee operates pursuant to a Charter that was last amended and restated by the Board on March 4, 2004, a copy of which is attached to this Proxy Statement as Appendix A. As set forth in the Charter, management of the Company is responsible for the preparation, presentation and integrity of the Company's financial statements and for the effectiveness of internal control over financial reporting. Management is responsible for maintaining the Company's accounting and financial reporting principles and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent public accountants are responsible for auditing the Company's financial statements, expressing an opinion as to their conformity with generally accepted accounting principles and annually auditing management's assessment of the effectiveness of internal control over financial reporting (commencing in the fiscal year ending December 31, 2004).

In the performance of its oversight function, the Committee has considered and discussed the audited financial statements with management and the independent public accountants. The Committee has also discussed with the independent public accountants the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as currently in effect. Finally, the Committee has received the written disclosures and the letter from the independent public accountants required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, as currently in effect, and has discussed with the public accountants the public accountants' independence.

The members of the Audit Committee are not full-time employees of the Company and are not performing the functions of auditors or accountants. As such, it is not the duty or responsibility of the Audit Committee or its members to conduct field work or other types of auditing or accounting reviews or procedures or to set auditor independence standards. Members of the Committee necessarily rely on the information provided to them by management and the independent public accountants. Accordingly, the

20

Committee's considerations and discussions referred to above do not assure that the audit of the Company's financial statements has been carried out in accordance with generally accepted auditing standards, that the financial statements are presented in accordance with generally accepted accounting principles or that the Company's public accountants are in fact independent.

Based upon the reports and discussions described in this report, and subject to the limitations on the roles and responsibilities of the Committee referred to above and in the Charter, the Committee recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003, to be filed with the Securities and Exchange Commission.

The Audit Committee

John L. Bunce, Jr. (Chairperson)
Daniel J. Evans
Pete Wilson

Edgar Filing: NIC INC - Form DEF 14A

The information contained in the (i) Report of the Compensation Committee, (ii) Report of the Audit Committee and (iii) Performance Graph shall not be deemed to be soliciting material or deemed to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act, as amended, except to the extent that the Company specifically incorporated it by reference in such filing.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors and officers, and shareholders who own more than 10% of the Company's Common Stock, to report their ownership of the Company's Common Stock and any changes in that ownership to the Securities and Exchange Commission (the "SEC") and Nasdaq. Officers, directors and greater than 10% shareholders are required by SEC regulation to furnish the Company with copies of all such forms that they file.

Based solely on review of the copies of such reports furnished to the Company, the Company believes that all required filings in 2003 were made in a timely fashion, except that Mr. Evans inadvertently filed two late reports, and Messrs. Wilson and Hartley each inadvertently filed one late report.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During 2003, the Company rented aircraft on an hourly basis from JH Jet L.L.C., a Wyoming corporation, in which each of Messrs. Fraser and Hartley have an approximate 50% interest, at costs that the Company believes are reasonable compared to similar services provided by unaffiliated third parties. The Company paid approximately \$565,000 in rentals to this Company during 2003. The Audit Committee has reviewed and approved the Company's rental of aircraft from JH Jet L.L.C.

The Company has entered into indemnification agreements with each of the Company's directors and officers. These indemnification agreements will require the Company to indemnify these individuals to the fullest extent permitted by Colorado law. The Company has also entered into various employment agreements with the Company's officers. See Executive Compensation Employment Agreements for a more detailed description.

ELECTION OF DIRECTORS (Proposal 1)

The Board of Directors currently consists of five directors. There are two vacancies on the Board. If any of the nominees becomes unable to serve for any reason, or for good cause will not serve, which is not anticipated, the Board of Directors may, unless the Board by resolution provides for a lesser number of

21

directors, designate substitute nominees. If that occurs, the persons named in the enclosed proxy will vote proxies that would otherwise be voted for all named nominees for the election of the substitute nominee or nominees.

Brief biographies of each of the director nominees are included beginning on page 4 of this Proxy Statement.

The five nominees receiving the most votes for their election will be elected directors. Abstentions and broker non-votes have no effect on the election of directors. Shareholders do not have the right to cumulate their votes for directors.

Recommendation of the Board of Directors Concerning the Election of Directors

The Board of Directors of the Company recommends a vote FOR Jeffery S. Fraser, John L. Bunce, Jr., Daniel J. Evans, Ross C. Hartley and Pete Wilson to hold office until the 2005 Annual Meeting of Shareholders and until their successors are elected and qualified. Proxies received by the Board of Directors will be voted FOR all of the nominees unless shareholders specify a contrary choice in their proxy.

2004 AMENDED AND RESTATED STOCK OPTION PLAN WHICH AMENDS AND RESTATES THE 1998 STOCK OPTION PLAN (Proposal 2)

Edgar Filing: NIC INC - Form DEF 14A

The Company's 1998 Stock Option Plan (the "1998 Plan") was adopted by the shareholders at the Company's May 1998 Annual Meeting. On March 4, 2004, the Board of Directors approved a 2004 Amended and Restated Stock Option Plan (the "2004 Plan"), subject to the approval of such 2004 Plan by the shareholders at the Annual Meeting. The number of shares reserved for issuance under the 2004 Plan will not change from the shares reserved for issuance under the 1998 Plan, which is discussed beginning on page 15 of this Proxy Statement. A full copy of the 2004 Plan is attached as Appendix B to this Proxy Statement.

Amendments to the 1998 Plan

Generally described, the 2004 Plan is broadly drafted so that the Board has greater flexibility and discretion as to the terms of grants and may change the terms of outstanding individual grants without having to amend the 2004 Plan terms in a manner that requires shareholder approval. Subject to shareholder approval, the 2004 Plan amends the 1998 Plan in the following material respects:

Administration. The 2004 Plan will be administered by the Board of Directors, but may be delegated to a committee of the Board consisting of two or more Board members who are outside directors. Furthermore, grants intended to comply with Internal Revenue Code 162(m) must be granted by a committee of outside directors.

Grants of Stock Options. Subject to the terms of the 2004 Plan, the Board is authorized to delegate to a committee or any one or more Board members the authority to grant options to persons who are neither officers or directors of NIC or a related company, nor persons who are or expected to be subject to Internal Revenue Code Section 162(m). Additionally, the Board is authorized to delegate to an officer of the Company the authority to grant options to persons who are neither officers or directors of NIC or a related company, nor persons who are or expected to be subject to Internal Revenue Code Section 162(m), provided that such grant is at fair market value on the grant date and is evidenced by an option agreement approved by the Board.

Grants may be made to a consultant of NIC or a related company, as well as any employee or director of either. Grants may be made to substantially all employees of NIC or a related company.

A nonstatutory option may be granted to a more than 10% shareholder of NIC or a related company with an exercise price that is less than 110% (but no less than 100%) of fair market value and for a period that is longer than five (5) years.

Payment of Exercise Price of Options. The option price can be paid with a note or other deferred payment arrangement.

22

Limitations on Individual Grants. The 2004 Plan imposes individual limitations on annual grants to comply with Section 162(m) of the Internal Revenue Code of 1986, as amended. More specifically, no single participant may receive options in any calendar year that relate to more than 200,000 shares of Common Stock, subject to adjustment in certain circumstances.

Exercisability of Options. The Board can accelerate the exercisability of any option for any reason, including a change in control as defined by the Board. Unless extended by the Board, the exercise period for any option after termination from employment for a reason other than death or total and permanent disability is the earlier of the expiration of the option term or a minimum of three months. The exercise period for any option after termination from employment for death or total and permanent disability is the earlier of the expiration of the option term or a minimum of 12 months, unless extended by the Board. In all events, the Board may determine and delay the expiration of an option term. The impact on exercisability of any termination, voluntary or involuntary, is determined by the Board rather than the 2004 Plan terms.

Transferability of Options. A nonstatutory option may be by its terms transferable.

Extension of Termination Date. The 2004 Plan will terminate on December 31, 2013.

Summary of 2004 Plan

The essential features of the 2004 Plan are outlined below. The following is merely a summary of the provisions of the 2004 Plan. Shareholders are encouraged to review the actual plan, which has been attached as Appendix B.

Purpose. The purpose of the 2004 Plan is to provide a means by which employees, officers and directors of NIC, and any company affiliated with NIC, and any consultant to NIC or any of its affiliated companies may be given an opportunity to benefit from participation in the ownership of NIC Common Stock through the granting of stock options. Substantially all of the Company's employees are eligible to participate

Edgar Filing: NIC INC - Form DEF 14A

in the 2004 Plan.

Administration. The 2004 Plan will be administered by the Board of Directors. The Board has the power, subject to the provisions of the 2004 Plan, to determine when and how each stock option will be granted, the terms of each stock option, which need not be identical, including the number of shares underlying an option and the vesting schedule of the option.

The Board has the power to delegate administration of the 2004 Plan to a committee composed of outside directors. The Board is also authorized to delegate to an officer of the Company the authority to grant options to persons who are not officers or directors of NIC, or persons who are or expected to be subject to Internal Revenue Code Section 162(m), provided that such grant is at fair market value on the grant date and is evidenced by an option agreement approved by the Board.

Stock Subject to 2004 Plan. There will be 9,286,754 shares of Common Stock reserved for issuance under the 2004 Plan. At December 31, 2003, options to purchase 3,070,133 shares of Common Stock granted under the 1998 Plan had been exercised, options to purchase 4,536,862 shares of Common Stock were outstanding and options to purchase 1,679,759 shares of Common Stock would be available for grant under the 2004 Plan. The number of shares available under the 2004 Plan will be subject to adjustment in the event of 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 otherwise. If any such event occurs, the 2004 Plan will be appropriately adjusted in the class(es) and maximum number of shares subject to the 2004 Plan, and the outstanding options will be appropriately adjusted in the class(es), number of shares and price per share of stock subject to such outstanding stock options.

Eligibility. Incentive stock options may be granted under the 2004 Plan only to NIC employees. Incentive stock options must also satisfy certain conditions and limitations established under the United States Internal

23

Revenue Code. Non-statutory, or non-qualified, stock options may be granted to employees, directors and consultants.

No person may be granted options covering more than 200,000 shares of Common Stock per calendar year. The purpose of this limitation is generally to permit NIC to continue to be able to deduct for tax purposes the compensation attributable to the exercise of options granted under the 2004 Plan.

Terms of Options. The following is a description of the permissible terms of stock options under the 2004 Plan. Individual option grants may be more restrictive as to any or all of the permissible terms described below.

Exercise Price; Payment. The exercise price for each incentive stock option shall not be less than 100% of the fair market value of NIC's Common Stock on the date of the option grant. The exercise price of each non-qualified stock option shall be the price determined by the Board. The exercise price of options granted under the 2004 Plan must be paid either: (1) in cash at the time the option is exercised; or (2) at the discretion of the Board at the time of the grant of the option: (i) by delivery of other shares of NIC Common Stock; (ii) by written direction to an authorized broker to sell the shares of Common Stock purchased upon exercise of the option, and payment of the appropriate portion of the proceeds thereof to the Company; (iii) pursuant to a deferred payment or other arrangement with the optionee; or (iv) any combination of the above.

Exercise/Vesting. Options granted under the 2004 Plan may become exercisable in cumulative increments (vest) as determined by the Board. Shares of stock covered by currently outstanding options typically vest as to 25% of the shares on the one-year anniversary of the date of grant, and 25% on the second, third and fourth anniversary of the date of grant. Shares covered by options granted in the future under the 2004 Plan may be subject to different vesting terms. To the extent provided by the terms of an option, an optionee may satisfy any federal, state or local tax withholding obligation relating to the exercise of such option by a cash payment upon exercise, by authorizing the Company to withhold a portion of the stock otherwise issuable to the optionee, by delivering already-owned and unencumbered NIC Common Stock, or by a combination of these means.

Term. In general, an option will terminate on the date that is three months after the termination of the optionee's relationship with NIC as an employee, director or consultant, as applicable. Special rules apply in the case of such a termination due to death or disability. In all events, an option will terminate if still outstanding on the 10-year anniversary of the date of grant.

Restrictions on Transfer. Except as otherwise provided in the applicable stock option agreement or the 2004 Plan, no stock option may be transferred by the optionee other than by will or the laws of descent or distribution.

Edgar Filing: NIC INC - Form DEF 14A

Acceleration of Exercisability and Vesting. The Board has the power to accelerate the time at which a stock option may first be exercised.

Duration, Amendment and Termination. The Board may suspend or terminate the 2004 Plan at any time. Unless terminated earlier, the 2004 Plan shall terminate on December 31, 2013. No options may be granted under the 2004 Plan while the 2004 Plan is suspended or after it is terminated.

The Board may amend the 2004 Plan at any time or from time to time; however, no amendment shall be effective unless approved by the shareholders of NIC within 12 months before or after the adoption of the amendment, where the amendment will (1) increase the number of shares reserved for options under the plan; (2) modify certain requirements as to eligibility for participation in the 2004 Plan; or (3) certain other amendments as described in Section 12 of the 2004 Plan.

The Board may amend the terms of any stock option without approval of the Company's shareholders even, for example, in the case of amendments: (1) to extend the exercise period of an option granted under the 2004 Plan; or (2) to accelerate the time at which a stock option may first be exercised or the time during which a stock option, or any part thereof, will vest.

24

Certain Federal Income Tax Information

Incentive Stock Options. Incentive stock options granted under the 2004 Plan are intended to be eligible for the favorable federal income tax treatment accorded incentive stock options under the Internal Revenue Code.

Generally, there are no federal income tax consequences to the optionee or NIC by reason of the grant or exercise of an incentive stock option. However, the exercise of an incentive stock option may cause an optionee to be subject to, or result in an increase in, liability for alternative minimum tax.

If an optionee holds stock acquired through exercise of an incentive stock option for more than two years from the date on which the option is granted, and more than one year from the date on which the shares are transferred to the optionee upon exercise of the option, any gain or loss on a disposition of such stock will be capital gain or loss. Generally, if the optionee disposes of the stock before the expiration of either of these holding periods (a disqualifying disposition), at the time of disposition, the optionee will realize taxable ordinary income equal to the lesser of: (1) the excess of the stock's fair market value on the date of exercise over the exercise price; or (2) the optionee's actual gain, if any, on the purchase and sale. The optionee's additional gain, or any loss, upon the disqualifying disposition will be a capital gain or loss, which will be long-term if the optionee has held the stock more than 12 months. Otherwise the capital gain or loss will be short-term. To the extent the optionee recognizes ordinary income by reason of a disqualifying disposition, the Company generally will be entitled, subject to the requirement of reasonableness, the provisions of Section 162(m) of the Code, and certain other requirements, to a corresponding business expense deduction in the tax year in which the disqualifying disposition occurs.

Non-statutory Stock Options. Nonstatutory stock options granted under the 2004 Plan generally have the following federal income tax consequences. Except as provided below, there are no tax consequences to the participant by reason of the grant of such a stock option. Upon exercise of the stock option, the recipient normally will recognize taxable ordinary income equal to the excess of the stock's fair market value over the exercise price, if any. However, to the extent the stock is subject to certain types of vesting restrictions, the taxable event will be delayed until the vesting restrictions lapse, unless the participant elects to be taxed on receipt of the stock. With respect to employees, the Company is generally required to withhold income and employment taxes based on the ordinary income recognized. Generally, the Company will be entitled, subject to the requirement of reasonableness, the provisions of Section 162(m) of the Code, and certain other requirements, to a business expense deduction equal to the taxable ordinary income realized by the participant. Upon disposition of the stock, the optionee will recognize a capital gain or loss equal to the difference between the selling price and the sum of the amount paid for such stock, plus any amount recognized as ordinary income upon acquisition, or vesting, of the stock. Such capital gain or loss will be long-term or short-term, depending on whether the stock was held for more than one year.

Potential Limitation on Deductions. Section 162(m) of the Code denies a deduction to any publicly held corporation for compensation paid to certain employees in a taxable year to the extent that compensation exceeds \$1 million for a covered employee. It is possible that compensation attributable to stock options under the 2004 Plan, when combined with all other types of compensation received by a covered employee from NIC, may cause this limitation to be exceeded in any particular year.

Certain kinds of compensation, including qualified performance-based compensation, are disregarded for purposes of the deduction limitation. In accordance with United States Treasury regulations issued under Section 162(m) of the Code, compensation attributable to stock options will qualify as performance-based compensation, provided that: (1) the stock option plan contains a per-employee limitation on the number of shares

for which stock options may be granted during a specified period; (2) the per-employee limitation is approved by the shareholders; (3) the award is granted by a compensation committee comprised solely of two or more outside directors ; and (4) the exercise price of the option is not less than the fair market value of the stock on the date of grant.

The 2004 Plan is intended to permit option grants to a covered employee that qualify as performance-based compensation exempt from the \$1 million deduction limitation.

Recommendation of the Board of Directors Concerning the 2004 Amended and Restated Stock Option Plan

The Board of Directors of the Company recommends a vote FOR approval of the 2004 Amended and Restated Stock Option Plan. The affirmative vote of the holders of a majority of the shares present, in person or represented by proxy and entitled to vote at the Annual Meeting, will be required to approve the 2004 Plan. Proxies received by the Board of Directors will be voted FOR approval of the 2004 Plan unless shareholders specify a contrary choice in their proxy. Should the shareholders fail to approve the 2004 Plan, the 1998 Plan will remain in effect, excluding the amendments that, as described above were adopted subject to shareholder approval.

**INDEPENDENT PUBLIC ACCOUNTANTS
(Proposal 3)**

The Audit Committee has recommended to the Board that PricewaterhouseCoopers LLP, independent public accountants, be appointed to audit the consolidated financial statements of the Company for the fiscal year ending December 31, 2004. The Board proposes that the shareholders ratify this appointment. PricewaterhouseCoopers LLP audited the Company's consolidated financial statements for the fiscal year ended December 31, 2003. The Company expects that representatives of PricewaterhouseCoopers LLP will be present at the Meeting, with the opportunity to make a statement if they so desire, and will be available to respond to appropriate questions.

In the event that ratification of the appointment of PricewaterhouseCoopers LLP as the independent public accountants for the Company is not obtained at the Meeting, the Board of Directors will reconsider the appointment.

The affirmative vote of a majority of the votes cast at the Meeting is required to ratify the appointment of the independent public accountants.

Independent Public Accountant Fees

The aggregate fees incurred by the Company, including its wholly owned subsidiaries, for professional services provided by PricewaterhouseCoopers LLP during the fiscal years ended December 31, 2003 and 2002, are set forth below:

	<u>2003</u>	<u>2002</u>
Audit fees	\$ 192,000	\$ 206,000
Audit-related fees	84,000	55,000
Tax fees	116,000	75,000
Other fees	8,000	10,000
Total fees	\$ 400,000	\$ 346,000

Audit Fees

Audit fees, including those for statutory audits, consist of fees billed for the audits of the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K and reviews of the Company's consolidated financial statements included in the Company's Quarterly Reports on Form 10-Q.

Audit-Related Fees

Audit-related fees consist of fees billed for the audits of financial statements for certain subsidiaries of the Company, audits of benefit plan financial statements and related Form 11-K audits. Audit-related fees also consist of fees billed for consultation concerning accounting standards, reporting standards and internal controls.

Tax Fees

Tax fees consist of fees billed for tax compliance and tax advice.

Other Fees

Other fees consist of fees billed for an information system security review required by contract.

Pre-Approval Policies and Procedures

The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent public accountants to the Company and its subsidiaries, subject to the exceptions for non-audit services described in the Securities Exchange Act of 1934 and the rules and regulations adopted thereunder. The Audit Committee has adopted policies and procedures for the pre-approval of fees and services provided by the independent public accountants. Additionally, each permissible non-audit service entered into since May 6, 2003, has been reviewed and approved by the Audit Committee.

Recommendation of the Board of Directors Concerning the Ratification of Independent Public Accountants

The Board of Directors of the Company recommends a vote FOR the ratification of the appointment of the independent public accountants. Proxies solicited by the Board will be voted in favor thereof unless a shareholder has indicated otherwise on the proxy.

OTHER MATTERS

The Board of Directors knows of no other business which will be presented to the Meeting. If any other business is properly brought before the Meeting, it is intended that proxies in the enclosed form will be voted in respect thereof in accordance with the judgment of the persons voting the proxies.

CONTACT THE BOARD

Shareholders may at any time contact the Board of Directors by sending an email to board@nicusa.com or by writing to the Board of Directors at the corporate offices of the Company. All communications required by law or regulation to be relayed to the Board will be promptly delivered to the Board. NIC's Director of Investor Relations monitors these email messages and facilitates an appropriate response. Shareholders are also encouraged to attend the Annual Meeting of Shareholders and ask questions of directors concerning NIC.

OTHER INFORMATION

Nomination of Directors by Shareholders

Section 3.14 of the Company's bylaws provides the procedures that must be followed in order for shareholders of record to nominate directors, as follows:

Nominations of persons for election to the Board of Directors of the Company may be made at a meeting of shareholders by any shareholder of the Company who is a shareholder of record at the time of giving of notice provided for in this Section 3.14 of Article III, who shall be entitled to vote for the election of directors at the meeting and who complies with the notice procedures set forth in Section 3.14. Director nominations shall be made pursuant to timely notice in writing to the Secretary of the Company. To be timely, a shareholder's notice shall be delivered to or mailed and received at the principal executive offices of the Company (i) with respect to an election to be held at the annual meeting of the shareholders of the Company, not later than 90 days prior to the anniversary date of the immediately preceding annual meeting of shareholders of the Company, and (ii) with respect to an election to be held at a special meeting of shareholders of the Company for the election of directors, not later than the closing of business on the 10th day following the day on which such notice of the date of the meeting was mailed or public disclosure of the date of the meeting was made, whichever first occurs. The notice to the Secretary shall set forth (a) as to each

person whom the shareholder proposes to nominate for election or re-election as a director, all information relating to the person that is required to be disclosed in solicitations for proxies for election of directors, or is otherwise required, pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including the written consent of such person to be named in the proxy statement as a nominee and to serve as a director if elected); and (b) as to the shareholder giving the notice (i) the name and address, as they appear on the Company's books, of such shareholder, and (ii) the class and number of shares of capital stock of the Company which are beneficially owned by the shareholder.

In the event that a person is validly designated as nominee to the Board and thereafter becomes unable or unwilling to stand for election to the Board of Directors, the shareholder who proposed such nominee, as the case may be, may designate a substitute nominee.

SHAREHOLDER PROPOSALS

To be considered for inclusion in the Company's proxy statement relating to the 2005 Annual Meeting of Shareholders, Shareholder proposals must be received no later than November 12, 2004. To be considered for presentation at the Annual Meeting, although not included in the proxy statement, proposals must be received no later than February 1, 2005, nor earlier than January 1, 2005. All shareholder proposals should be marked for the attention of Corporate Secretary, NIC Inc., 10540 South Ridgeview Road, Olathe, KS 66061.

WHETHER OR NOT YOU INTEND TO BE PRESENT AT THE MEETING, YOU ARE ENCOURAGED TO FILL OUT, SIGN, DATE AND RETURN THE ENCLOSED PROXY AT YOUR EARLIEST CONVENIENCE.

By order of the Board of Directors:

William F. Bradley, Jr.
Corporate Secretary

Olathe, Kansas
March 31, 2004

NIC INC. AUDIT COMMITTEE CHARTER STATEMENT OF POLICY AND PURPOSE

The Audit Committee (the "Committee") shall provide assistance to the Board of Directors of NIC Inc. (the "Company") in fulfilling its oversight of (i) the integrity of the Company's financial statements, (ii) the Company's compliance with legal and regulatory requirements, (iii) the independent public accountants' qualifications and independence, and (iv) the performance of the independent public accountants; and to prepare the Report of the Audit Committee to be included in the Company's Proxy Statement. In so doing, it is the responsibility of the Committee to maintain free and open means of communication among the Board, the independent public accountants and the financial management of Company.

In carrying out its responsibilities, the Committee believes its policies and procedures should remain flexible, in order to best react to changing conditions and to provide oversight to the Board and shareholders to help see to it that the corporate accounting and reporting practices of the Company are in accordance with all applicable requirements. The function of the Committee is oversight. The management of the Company is responsible for the preparation, presentation and integrity of the Company's financial statements. Management is responsible for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent public accountants are responsible for planning and carrying out a proper audit and reviews, including reviews of the Company's quarterly financial statements prior to the filing of each quarterly report on Form 10-Q and other procedures. In fulfilling their responsibilities hereunder, it is recognized that the members of the Committee are not employees of the Company and are not, and do not represent themselves to be, accountants or auditors by profession or experts in the fields of accounting or auditing, except as required by other provisions of this charter. Therefore, it is not the duty or responsibility of the Committee to conduct field

Edgar Filing: NIC INC - Form DEF 14A

work or other types of auditing or accounting reviews or procedures, and each member of the Committee shall be entitled to rely on (i) the integrity and skill of those persons and organizations within and outside the Company that it receives information from and (ii) the accuracy of the financial and other information provided by such persons or organizations absent actual knowledge to the contrary (which shall be promptly reported to the Board).

STRUCTURE AND ORGANIZATION

1. **Number.** The Committee shall consist of at least three members of the Board of Directors.

2. **Independence.** Except as otherwise permitted by the applicable rules of the Nasdaq Stock Market, Inc. and Section 301 of the Sarbanes-Oxley Act of 2002 (the Act), each member of the Committee shall be independent as defined by such rules and Act. In addition, no member of the Committee shall have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the past three years.

3. **Financial Literacy.** Each member of the Committee shall be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement, changes in shareholders' equity statement and cash flow statement and shall otherwise be financially literate, as such qualification is interpreted by the Company's Board of Directors in its business judgment. At least one member of the Committee must have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. Unless otherwise determined by the Board of Directors (in which case disclosure of such determination shall be made in the Company's SEC periodic reports), at least one member of the Committee shall be an audit committee financial expert as defined by the Act and applicable SEC rules.

A-1

4. **Chair.** Unless the Board of Directors elects a Chair of the Committee, the Committee shall elect a Chair by majority vote.

5. **Compensation.** The compensation of the Committee members shall be as determined by the Board of Directors. No member of the Committee may receive any compensation from the Company other than director's fees, which may be payable in cash or securities of the Company, at the discretion of the Board of Directors. The Company shall also reimburse members of the Committee for any reasonable out-of-pocket costs incurred while performing their duties and responsibilities as members of the Committee.

6. **Selection and Removal.** Members of the Committee shall be appointed by the Board of Directors. Unless otherwise determined by the Board, no member of the Committee may serve on the Audit Committee of more than two other public companies. The Board of Directors may remove members from the Committee with or without cause.

7. **Meetings.** The Committee shall meet at least four times annually or more frequently as it deems necessary to perform its responsibilities. In addition, the Committee or its Chair shall communicate with management and the independent public accountant quarterly to review the Company's financial statements and significant findings based upon the independent public accountants' limited review procedures. The Committee shall submit the minutes of all meetings of the Committee to, or discuss the matters discussed at each committee meeting with, the Board.

RESPONSIBILITIES

1. **General.** To fulfill its responsibilities the Committee shall:

Review and discuss with management and independent public accountant the Company's annual and quarterly financial statements, including the Company's disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations and the matters about which Statement on Auditing Standards No. 61 requires discussion.

Oversee the accounting and financial reporting processes of the Company and the audits of the financial statements of the Company.

Review and discuss generally with management the types of financial information and earnings guidance to be provided to analysts and rating agencies and to be disclosed in the Company's earnings press releases (including any use of pro forma or adjusted non-GAAP information).

Edgar Filing: NIC INC - Form DEF 14A

Consider annually whether it will recommend to the Board of Directors that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K.

The Committee shall prepare for inclusion where necessary in a proxy or information statement of the Company relating to an annual meeting of security holders at which directors are to be elected (or special meeting or written consents in lieu of such meeting), the report described in Item 306 of Regulation S-K.

The Committee shall direct the independent public accountant to use its best efforts to perform all reviews of interim financial information prior to disclosure by the Company of such information and to discuss promptly with the Committee, Chief Financial Officer and Chief Accounting Officer any matters identified in connection with the public accountants' review of interim financial information which are required to be discussed by Statement on Auditing Standards Nos. 61, 90 and 100. The Committee shall direct management to advise the Committee in the event that the Company proposed to disclose interim financial information prior to completion of the independent public accountants' review of interim financial information.

A-2

2. Oversight of Independent Public Accountant

The Committee shall be directly responsible for appointing, evaluating and, when necessary, terminating the independent public accountant. The Committee may, in its discretion, seek shareholder ratification of the independent public accountant it appoints.

The Committee shall be directly responsible for setting the compensation of the independent public accountant. The Committee is empowered, without further action by the Board of Directors, to cause the Company to pay the compensation of the independent public accountant established by the Committee.

The Committee shall preapprove all auditing services and non-audit services (other than de minimus non-audit services as defined by the Act) to be provided to the Company by the independent public accountant. The Committee shall cause the Company to disclose in its SEC periodic reports the approval by the Committee of any non-audit services to be performed by the independent public accountant.

The Committee shall annually assess the independent public accountant's independence. The Committee shall require that the independent public accountants annually provide a formal written statement delineating all relationships between the independent public accountants and the Company, consistent with Independence Standards Board (ISB) Standard No. 1. The Committee shall be responsible for actively engaging in a dialogue with the independent public accountants and recommending action to the Board as appropriate with respect to any disclosed relationships or services that may affect the objectivity and independence of the independent public accountants.

The Committee shall meet with the independent public accountants and financial management of the Company to review the scope of the proposed audit for the current year and the audit procedures to be utilized, and at the conclusion of such audit, including any comments or recommendations of the independent public accountants.

The Committee shall annually obtain and review a report by the independent public accountant describing:

- (a) the firm's internal quality control procedures; and
- (b) any material issues raised by the most recent internal quality control review, or peer review, of the firm, or by an inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues.

The independent public accountant shall report directly to the Committee and the Committee shall be directly responsible for oversight of the work of the independent public accountant, including resolution of disagreements between Company management and the independent public accountant regarding financial reports. The Committee shall as necessary obtain and review the reports required to be made by the independent public accountant pursuant to paragraph (k) of Section 10A of the Securities Exchange Act of 1934 regarding:

- (a) critical accounting policies and practices;

Edgar Filing: NIC INC - Form DEF 14A

- (b) alternative treatments of financial information within generally accepted accounting principles that have been discussed with Company management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent public accountant; and
- (c) other material written communications between the independent public accountant and Company management, such as any management letter or schedule of unadjusted differences.

The Committee shall review with the independent public accountants any significant matters regarding internal controls over financial reporting that have come to their attention during the conduct of their

A-3

audit. In addition, the Committee shall review with the independent public accountants and the Company's financial and accounting personnel the adequacy and effectiveness of the accounting and financial controls of the Company and elicit any recommendations for the improvement of such internal control procedures or particular areas where new or more detailed controls or procedures may be desirable. Particular emphasis should be given to the adequacy of such internal controls to expose any payments, transactions or procedures that might be deemed illegal or otherwise improper.

The Committee shall review the competence of the key partners and managers of the accounting firm that is responsible for the audit on an annual basis.

The Committee shall discuss with the independent public accountants and the Company's financial management the public accountants' judgments about the quality of the Company's accounting principles as applied in its financial reporting and significant judgments affecting the financial statements. The discussion should include such matters as the consistency of application of accounting policies and the clarity and completeness of the Company's accounting information contained in the financial statements and related disclosures.

The Committee shall provide sufficient opportunity for the independent public accountants to meet with the members of the Committee without members of management present. Among the items to be discussed in these meetings are the independent public accountants' evaluation of the Company's financial and accounting personnel, and the cooperation that the independent public accountants received during the course of the audit.

3. *Internal Controls and Procedures*

The Committee shall coordinate the Board of Directors' oversight of the Company's internal accounting controls, the Company's disclosure controls and procedures and the Company's code of business conduct and ethics. The Committee shall receive and review the reports of the CEO and CFO required by Section 302 of the Sarbanes-Oxley Act and Rule 13a-14 of the Exchange Act (i.e., the Certification of Disclosure in Annual and Quarterly Results).

The Committee shall discuss the Company's policies with respect to risk assessment and risk management, including guidelines and policies to govern the process by which the Company's exposure to risk is handled.

The Committee shall establish policies regarding the hiring of employees or former employees of the Company's independent public accountant.

The Committee shall establish procedures for (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

4. *Other Responsibilities*

The Committee shall review and preapprove all transactions between the Company and any officer, director or employee, or affiliate thereof, of the Company, or any other transaction required to be disclosed pursuant to Item 404 of SEC Regulation S-K.

The Committee shall annually review this Charter and recommend any proposed changes to the Board of Directors. The Charter will be published at least every three years in accordance with SEC regulations.

The Committee shall regularly update the Board of Directors regarding the Company's compliance with financial policies and procedures, the performance of the independent public accountant, and the independence of the independent public accountant.

A-4

The Committee may form and delegate authority to one or more subcommittees (including a subcommittee consisting of a single member), as it deems appropriate from time to time under the circumstances. Any decision of a subcommittee to preapprove audit or non-audit services shall be presented to the full Committee at its next scheduled meeting.

The Committee shall annually direct the Company to prepare and provide to Nasdaq such written confirmations regarding the membership and operation of the Committee as Nasdaq rules require.

The Committee shall have the authority to engage independent legal, accounting and other advisors as it deems necessary to carry out its responsibilities. These independent advisors may be the regular advisors to the Company. The Committee is empowered, without further action by the Board of Directors, to cause the Company to pay the compensation of such advisors as established by the Committee.

The Committee shall have the authority to conduct or authorize investigations into any matters within the scope of its responsibilities as it shall deem appropriate, including the authority to request any officer, employee or advisor of the Company to meet with the Committee or any advisors engaged by the Committee.

The Committee shall annually evaluate its own performance.

A-5

Appendix B

NIC INC. 2004 AMENDED AND RESTATED STOCK OPTION PLAN

Adopted by the Board: March 4, 2004

Adopted by the Stockholders: _____, _____

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.

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-statutory 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.

D. The Plan is a 2004 amendment and restatement of the National Information Consortium, Inc. 1998 Stock Option Plan, as adopted effective May 5, 1998 and amended November 3, 1998 and May 4, 1999, and revised as of August 31, 1999. Any option granted under the National Information Consortium, Inc. 1998 Stock Option Plan prior to the Plan's effective date, as provided in Article XIV, shall be subject to the terms of the National Information Consortium, Inc. 1998 Stock Option Plan as they existed immediately prior to that effective date.

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.

Board means the Board of Directors of the Company.

Code means the Internal Revenue Code of 1986, as amended.

Committee means the Committee of Outside Directors appointed by the Board in accordance with subsection C of Article III to administer the Plan.

Common Stock means shares of the Company's common stock, no par value.

Company means NIC Inc., a Colorado 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.

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

B-1

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 who, on the last day of the taxable year, is the chief executive officer (or is acting in such capacity) or is among the four most highly compensated officers (other than the chief executive officer) of the Company for whom total compensation is required to be reported to stockholders under the Exchange Act, as determined for purposes of Section 162(m) of the Code.

Director means a member of the Board or of the board of directors of an Affiliate.

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.

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 listed on any established stock exchange or national quotation system, including without limitation the Nasdaq Stock Market, the Fair Market Value of a share of Common Stock shall be the closing sales price for such stock (or the average of the closing ask and the closing bid prices, if no such sales were reported) as quoted on such quotation system or exchange (or the exchange or quotation system with the greatest volume of trading in Common Stock) on the last market trading day prior to the day of determination, as reported in the Wall Street Journal or such other source as the Board deems reliable; and

Edgar Filing: NIC INC - Form DEF 14A

(ii) In the absence of an established market for the Common Stock, the Fair Market Value shall be determined in good faith by the Board.

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-Statutory 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 agreement between the Company and an Optionee evidencing the terms and conditions of an individual Option grant. Each Option Agreement shall be subject to the terms and conditions of the Plan.

Optionee means an Employee, Director or Consultant, or their transferees, who holds an outstanding Option.

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

B-2

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 and a non-employee director for the purposes of Rule 16b-3 under the Exchange Act.

Plan means this NIC Inc. 2004 Amended and Restated Stock Option 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.

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:

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

To approve one or more forms of Option Agreement.

To construe and interpret, in its sole discretion, the Plan and Options 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.

To amend, modify or otherwise change in any manner the Plan or an Option as provided in Article XII and to suspend or terminate the Plan as provided in Article XIII.

Edgar Filing: NIC INC - Form DEF 14A

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 Optionee and any other person with an interest in the Plan or in an Option 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 (the Committee), all of the members of which Committee shall be Outside Directors. 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 Option to an eligible person who is a Covered Employee or who is expected to be Covered Employee at the time of recognition of income resulting from such Option 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 Options 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 Option, or (B) not persons with respect to whom the Company wishes to avoid the application of Section 162(m) of the Code.

B-3

In any event that the administration of the Plan is delegated to the Committee under this Article III, the Committee shall have, 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 revert to the Board the administration of the Plan.

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 Options, 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 Option, 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 such Option shall be equal to the Fair Market Value of such stock at the date of grant, and (ii) each such Option 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 Option.

ARTICLE IV. SHARES SUBJECT TO THE PLAN.

A. Subject to the provisions of Article XI relating to adjustments upon changes in stock, the amount of stock that may be issued pursuant to Options shall not exceed in the aggregate nine million two hundred eighty-six thousand seven hundred fifty-four (9,286,754) shares of the Common Stock. If any Option 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 Option shall revert to and again become available for issuance under the Plan.

B. The 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-Statutory Stock Options 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 Optionee 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-Statutory Stock Options.

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

B-4

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 an Optionee 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-Statutory 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 assumption or substitution for another option 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-Statutory 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 Optionee 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 the minimum amount, if any, of any applicable taxes which the Company is required to withhold.

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.

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 Optionee only by such Optionee or by his attorney-in-fact or conservator, unless such exercise by the attorney-in-fact or the conservator of the Optionee would disqualify the Incentive Stock Option as such. Unless the Board otherwise specifies, a Non-Statutory 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 Optionee only by such person or by his attorney-in-fact or conservator. Notwithstanding the foregoing, the Optionee 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 Optionee, shall thereafter be entitled to exercise the Option.

B-5

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 an Optionee's Continuous Status as an Employee, Director or Consultant terminates (other than upon the Optionee's death or disability), the Optionee may exercise his or her Option (to the extent that the Optionee 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 Optionee'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 Optionee 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 Optionee 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 an Optionee's Continuous Status as an Employee, Director or Consultant terminates (other than upon the Optionee's death or disability).

G. Disability of Optionee. In the event an Optionee's Continuous Status as an Employee, Director or Consultant terminates as a result of the Optionee's disability, as defined in Section 22(e)(3) of the Code, the Optionee may exercise his or her Option (to the extent that the Optionee 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, the Optionee 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 Optionee 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 an Optionee's Continuous Status as an Employee, Director or Consultant terminates as a result of the Optionee's disability.

H. Death of Optionee. In the event of the death of an Optionee during, or within a period specified in the Option after the termination of, the Optionee's Continuous Status as an Employee, Director or Consultant, the Option may be exercised (to the extent the Optionee was entitled to exercise the Option at the date of death) by the Optionee'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 Optionee'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 Optionee 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

B-6

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 an Optionee's Continuous Status as an Employee, Director or Consultant terminates as a result of the Optionee's death.

I. Responsibility for Option Exercise. An Optionee 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 an Optionee (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 Optionee's or person's request to the Board. The Company shall have no duty or obligation to

notify any Optionee 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, the Board or the Committee may grant an Option with an exercise price lower than that set forth above if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code or pursuant to a Non-Statutory Option.

ARTICLE VIII. COVENANTS OF THE COMPANY.

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

ARTICLE IX. USE OF PROCEEDS FROM EXERCISE OF OPTIONS.

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

ARTICLE X. 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 Option unless and until such person has satisfied all requirements for exercise, which can include an early exercise, of the Option pursuant to its terms and the Company has issued such shares.

B. Nothing in the Plan or any instrument executed or Option granted pursuant thereto shall confer upon any Employee, Director or Consultant or other holder of Options 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 Colorado Law, or the right to terminate the relationship of any Consultant with the Company or its Affiliates.

C. If the Company or its Affiliates shall be required to withhold any amounts by reason of federal, state or local tax laws, rules or regulations, in respect of the issuance of Options 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 Optionee. 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 shall be entitled to take and authorize

B-7

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 Optionee 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 amount determined by the applicable minimum statutory withholding rules.

E. The Company shall not be required to issue fractional shares pursuant to this Plan and, accordingly, an Optionee 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 Colorado and construed accordingly, without reference to the conflict of laws principles.

ARTICLE XI. ADJUSTMENTS UPON CHANGES IN STOCK.

If any change is made in the stock subject to the Plan, or subject to any 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 Plan will be appropriately adjusted in the class(es) and maximum number of shares subject to the Plan, and the outstanding Options will be appropriately adjusted in the class(es) and number of shares and price per share of stock subject to such outstanding Options. 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 XII. AMENDMENT OF THE PLAN AND OPTIONS.

A. The Board at any time, and from time to time, may amend the Plan. However, except as provided in Article XI 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:

Increase the number of shares reserved for Options under the Plan;

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

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.

B-8

D. Rights and obligations under any Option granted before amendment of the Plan shall not be materially impaired by any amendment of the Plan except with the written consent of the Optionee, 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 Option or waive any restrictions or conditions applicable to any Option or any shares acquired upon the exercise thereof and accelerate, continue, extend or defer the exercise time for any Option or the vesting of any shares acquired upon the exercise thereof, including with respect to the period following an Optionee's termination of Continuous Status as an Employee, Director or Consultant; provided, however, that the rights and obligations under any Option shall not be materially impaired by any such amendment except with the written consent of the Optionee, 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 shall have authority to amend the Plan to take into account changes in law and tax and accounting rules, as well as other developments, and to grant Options that qualify for beneficial treatment under such rules without stockholder approval.

ARTICLE XIII. TERMINATION OR SUSPENSION OF THE PLAN.

NIC INC.

Vote On Directors

1. Election of Directors.

Nominees: (01) Jeffery S. Fraser, (02) John L. Bunce, Jr.,
(03) Daniel J. Evans, (04) Ross C. Hartley, and
(05) Pete Wilson.

For All	Withhold All	For All Except
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

To withhold authority to vote, mark "For All Except" and write the nominee's number on the line below.

Vote On Proposals

2. Approve the 2004 Amended and Restated Stock Option Plan.

For

3. Ratify the appointment of PricewaterhouseCoopers LLP as independent public accountants for the fiscal year ending December 31, 2004.

In the discretion of the designated proxies upon such other business relating to the foregoing as may properly come before the meeting, and such matters incidental to the conduct of the meeting, and at any adjournments or postponements thereof.

Please mark, date, and sign your name exactly as it appears hereon and return the Proxy in the enclosed envelope as promptly as possible. It is important to return this Proxy properly signed in order to exercise your right to vote if you do not attend the meeting and vote in person. When signing as agent, partner, attorney, administrator, guardian, trustee, or in any other fiduciary or official capacity, please indicate your title. If stock is held jointly, each joint owner must sign.

For comments, please check this box and write them on the back where indicated

Yes No

Please indicate if you plan to attend the meeting

Signature [PLEASE SIGN WITHIN BOX] Date

Signature (Joint Owners) Date

PROXY

NIC INC.

**ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MAY 4, 2004**

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS.

KNOW ALL MEN BY THESE PRESENTS: That the undersigned shareholder of NIC Inc. (the Company) hereby constitutes and appoints Jeffery S. Fraser and Ross C. Hartley, or either of them, as attorneys and proxies to appear, attend, and vote all of the shares of the Common Stock of NIC Inc. standing in the name of the undersigned at the Annual Meeting of Shareholders of NIC Inc. to be held at the Sheraton Overland Park Hotel at Convention Center, 6100 College Blvd., Overland Park, KS 66211, on May 4, 2004, at 10:00 a.m., Central Daylight Time, and at any adjournment or adjournments thereof.

THE SHARES REPRESENTED HEREBY WILL BE VOTED AS SPECIFIED HEREON WITH RESPECT TO PROPOSALS ONE, TWO AND THREE. IF NO SPECIFICATION IS MADE, THE SHARES REPRESENTED HEREBY WILL BE VOTED FOR PROPOSALS ONE, TWO AND THREE. THIS PROXY WILL BE VOTED IN ACCORDANCE WITH THE DISCRETION OF THE PROXIES ON ANY OTHER BUSINESS.

Comments:

(If you noted any comments above, please check the corresponding box on the reverse side.)

**SEE REVERSE
SIDE**

CONTINUED AND TO BE SIGNED ON REVERSE SIDE

**SEE REVERSE
SIDE**