

Texas NICUSA, LLC

Financial Statements

Year Ended December 31, 2017

With Independent Auditor's Report

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December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To Board of Managers
of Texas NICUSA, LLC

We have audited the accompanying financial statements of Texas NICUSA, LLC (the "Company"), which comprise the balance sheet as of December 31, 2017, and the related statements of income, changes in member's equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

McConnell & Jones

Houston, Texas
August 1, 2018

Texas NICUSA, LLC
Balance Sheet
December 31, 2017

Assets

Current assets	
Cash	\$ 14,523,699
Trade accounts receivable, net	3,135,725
Prepaid expenses	798,708
Other current assets	66,375
Total current assets	<u>18,524,507</u>
Property and equipment, net	1,244,825
Deferred income taxes, net	277
Other assets	84,149
Total assets	<u>\$ 19,853,758</u>

Liabilities and Member's Equity

Current liabilities	
Accounts payable	\$ 569,234
Accrued expenses	4,415,992
Deferred rent	98,343
Customer deposits	458
Unearned revenue	6,967
Total current liabilities	<u>5,090,995</u>
Deferred rent	13,085
Other long-term liabilities	401,699
Total liabilities	<u>5,505,779</u>
Commitments and contingencies (Notes 2, 6, 7 and 8)	-
Member's equity	
Member's equity, 100 units outstanding	1,000
Additional paid-in equity	1,611,627
Accumulated earnings	20,470,056
Due from affiliated companies	(7,734,703)
Total member's equity	<u>14,347,980</u>
Total liabilities and member's equity	<u>\$ 19,853,759</u>

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

Texas NICUSA, LLC
Statement of Income
Year Ended December 31, 2017

Revenues	\$ 65,634,128
Cost of revenues	<u>49,432,704</u>
Operating income before income taxes	16,201,424
Income tax expense	
Current	5,618,618
Deferred	<u>19,663</u>
Net income	<u><u>\$ 10,563,143</u></u>

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

Texas NICUSA, LLC
Statement of Changes in Member's Equity
Year Ended December 31, 2017

	<u>Member's Equity</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Earnings</u>	<u>Due From Affiliated Companies</u>	<u>Total</u>
	<u>Units</u>	<u>Amount</u>				
Balance at January 1, 2017	100	\$ 1,000	\$ 1,413,678	\$ 14,406,913	\$ (7,815,345)	\$ 8,006,246
Increase in due from affiliated	-	-	-	-	(4,419,358)	(4,419,358)
Noncash Dividend declared	-	-	-	(4,500,000)	4,500,000	-
Stock-based compensation	-	-	197,949	-	-	197,949
Net income	-	-	-	10,563,143	-	10,563,143
Balance at December 31, 2017	<u>\$ 100</u>	<u>\$ 1,000</u>	<u>\$ 1,611,627</u>	<u>\$ 20,470,056</u>	<u>\$ (7,734,703)</u>	<u>\$ 14,347,980</u>

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

Texas NICUSA, LLC
Statement of Cash Flows
Year Ended December 31, 2017

Cash flows from operating activities	
Net income	\$ 10,563,143
Non-cash items included in net income:	
Depreciation	814,313
Stock-based compensation expense	197,949
Deferred income taxes	19,663
Gain on disposal of assets	(750)
Changes in operating assets and liabilities, net:	
Trade accounts receivable	(1,170,148)
Prepaid expenses	151,018
Other current assets	940
Other assets	(18,310)
Accounts payable	236,165
Accrued expenses	675,934
Customer deposits	(6,002)
Deferred rent	(75,103)
Other long-term liabilities	100,727
Net cash provided by operating activities	<u>11,489,539</u>
Cash flows from investing activities	
Purchases of property and equipment	(588,512)
Proceeds from sale of property and equipment	750
Net cash used in investing activities	<u>(587,762)</u>
Cash flows from financing activities	
Payments to affiliated companies, net	<u>(4,419,358)</u>
Net cash used in financing activities	<u>(4,419,358)</u>
Net increase in cash	6,482,419
Cash, beginning of period	<u>8,041,280</u>
Cash, end of period	<u>\$ 14,523,699</u>
Supplemental cash flow information	
Non-cash investing activities	
Capital expenditures accrued but not yet paid	\$ 22,390
Noncash dividend declared	\$ 4,500,000
Cash payments	
Taxes paid to affiliates	\$ 5,618,618

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

Texas NICUSA, LLC

Notes to Financial Statements

December 31, 2017

1. The Company

Texas NICUSA, LLC, (the “Company”), was incorporated on May 4, 2009 to design, build and operate an internet-based portal and digital government services for the state of Texas (the “State”) allowing businesses and citizens to complete digital transactions and obtain government information online. The Company is a wholly owned subsidiary of NICUSA, Inc. (“NICUSA”). NICUSA is a wholly owned subsidiary of NIC Inc. (“NIC”). The Company has an indefinite life, but it can be terminated at any point by its sole member, NICUSA. NICUSA is not liable for any debt, obligations, or liabilities of the Company. In addition, the liability of NICUSA is limited to the amount of NICUSA’s capital contribution.

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

In early 2018, the Company was selected to provide payment processing services set forth in the Texas.gov 3.0 Procurement RFO (the “Texas RFO”), but was not selected to provide the portal operations, maintenance and development services set forth in the Texas RFO. The current agreement between the State and the Company expires on August 31, 2018 and the new payment processing services contract commences on September 1, 2018.

2. Summary of Significant Accounting Policies

Cash and cash equivalents

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

Trade Accounts Receivable

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

Texas NICUSA, LLC
Notes to Financial Statements
December 31, 2017

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation and amortization is computed using the straight-line method over estimated useful lives of 8 years for furniture and fixtures, 3-10 years for equipment, 3-5 years for purchased software, and the lesser of the term of the lease or 5 years for leasehold improvements. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in results of operations for the period. The cost of maintenance and repairs is charged to expense as incurred. Significant betterments are capitalized.

The Company periodically evaluates the carrying value of property and equipment to be held and used when events and circumstances indicate the carrying amount may not be fully recoverable. The carrying value of property and equipment is considered impaired when the anticipated undiscounted cash flow from the asset group is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the asset. Fair value is determined primarily using the anticipated cash flow discounted at a rate commensurate with the risk involved. Losses on assets to be disposed of are determined in a similar manner, except that fair values are reduced for the cost to dispose. The Company did not record any impairment losses on property and equipment in 2017.

Accrued Expenses

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

Customer Deposits

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

Deferred Rent

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

Texas NICUSA, LLC
Notes to Financial Statements
December 31, 2017

Revenue Recognition

The Company recognizes revenue from providing outsourced digital government services (primarily transaction-based fees) net of the transaction fees due to the government when the services are provided. Revenues from application development services provided to the State are recognized on a gross basis as the services are provided at rates provided for in the contract. In connection with the revenues generated under the contract with the State, the Company is entitled to retain any revenues remaining after payment of all network operating expenses, statutory fees for retrieval of public information and various other expenses. The transaction fees that the Company collects on behalf of and must remit to state agencies for data access and other statutory fees are accrued as accounts payable at the time services are provided and generally must be remitted regardless of whether the Company ultimately collects the fees from its customers. As a result, trade accounts receivable and accounts payable reflect the gross amounts outstanding at the balance sheet date.

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

Cost of Revenues

The Company expenses as incurred the employee costs to develop, operate and maintain the government portal and digital government services as cost of revenues in the statement of income. Cost of revenues includes all direct costs associated with operating the State's portal and digital government services on an outsourced basis including employee compensation and benefits (including stock-based compensation), subcontractor labor costs, telecommunications, data processing, bank fees, fees required to process credit/debit card and automated clearinghouse transactions, maintenance, depreciation and all other costs associated with the provision of dedicated client service such as office facilities. As further described in Note 8, Related Party Transactions, cost of revenues also includes general and administrative expenses for certain services the Company receives from NIC and its affiliates.

Stock-Based Compensation

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

Texas NICUSA, LLC
Notes to Financial Statements
December 31, 2017

Income Taxes

Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. NIC, along with its subsidiaries, files a consolidated federal income tax return. The provision for income taxes is allocated to the Company under the separate return method using the consolidated NIC federal tax rate of 35%; however, when the Company generates losses or credits, it is given benefit for such losses or credits as they are used by other members of the consolidated group. The Company is operating under a tax-sharing arrangement with NIC. Accordingly, the Company agrees to pay NIC the amount of any income tax for which the Company would have been liable or entitled to for that year, computed as though the Company had filed a separate tax return. As of December 31, 2017, the Company had no liability to NIC for federal or state income taxes.

The Company does not recognize a tax benefit for uncertain tax positions unless management's assessment concludes that it is "more likely than not" that the position is sustainable, based on its technical merits. If the recognition threshold is met, the Company recognizes a tax benefit based upon the largest amount of the tax benefit that is more likely than not probable, determined by cumulative probability, of being realized upon settlement with the taxing authority. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense in the statements of income. See Note 5 for additional information regarding the Company's liability for unrecognized tax benefits at the balance sheet dates.

Fair Value of Financial Instruments

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

Comprehensive Income

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

Indemnification

Under the Company's contract with the State, the Company has agreed to fully indemnify the State against third party claims that the Company's services infringe upon the intellectual property rights of others and against claims arising from the Company's performance or the performance of the

Texas NICUSA, LLC

Notes to Financial Statements

December 31, 2017

Company's subcontractors under the contract. The Company has not experienced such claims. Accordingly, the Company had not accrued any liability on the aforementioned indemnification obligations at the balance sheet date.

Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles in the United States ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

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

Credit Losses

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments-Credit Losses (Topic 326)*, to replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For trade and other receivables, the Company will be required to use a forward-looking expected loss model rather than the incurred loss model for recognizing credit losses which reflects losses that are probable. The ASU will be effective for NIC beginning January 1, 2020, with early adoption permitted beginning January 1, 2019. Application of the amendments is through a cumulative-effect adjustment to retained earnings as of the effective date. The Company is currently evaluating the new standard and the estimated impact it may have on the Company's financial statements.

Stock Compensation

In March 2016, the FASB issued ASU 2016-09, *Compensation-Stock Compensation (Topic 718: Improvements to Employee Share-Based Payment Accounting)*, which simplifies several aspects of accounting for employee share-based payment transactions, including accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The Company adopted the new standard on January 1, 2017 and it did not have a material impact on the Company's financial statements.

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Leases

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which will update the existing guidance on accounting for leases and require new qualitative and quantitative disclosures about the Company's leasing activities. The new standard requires the recognition of right-of-use ("ROU") assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. The ASU is effective for the annual reporting period beginning January 1, 2019 and requires a modified retrospective transition approach. The Company is currently evaluating the effects that the standard will have on its financial statements, which the Company anticipates could be significant, due mainly to its non-cancellable operating leases for office space. As further described in Note 7, Operating Leases, the Company had minimum lease commitments under non-cancellable operating leases totaling approximately \$930,000 as of December 31, 2017.

Revenue from Contracts with Customers

In May 2014, the FASB issued a new standard related to revenue recognition ("ASC 606"). Under the new standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. In addition, the standard requires expanded disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The FASB has issued several amendments to the standard, including clarification on accounting for licenses of intellectual property and identifying performance obligations.

ASC 606 permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application as an adjustment to retained earnings (the modified retrospective approach). The Company adopted the standard using the modified retrospective approach on January 1, 2018.

The impact to the Company's financial results of adopting the new standard was not material because the assessment of its contracts supports the recognition of revenue of when the services are provided at the time of the transaction for transaction-based fees, which is consistent with the Company's historical revenue recognition policy. The impact of adopting the new standard relates to the portal software development and services contract with the State, which revenue may be recognized either over time using an input or output method as services are provided or upon

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completion of a project, depending upon the terms of the specific contract. Previously such revenues were recognized at a point in time upon customer acceptance or completion of a project-based milestone. The Company has quantified the impact of this change and determined it will not have a material impact on the Company's financial statements.

Subsequent Events

The Company has performed an evaluation of subsequent events for potential recognition or disclosure through August 1, 2018, the date the financial statements were available to be issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements, outside of the contract matters discussed in Note 1.

3. Concentration Risks

Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and accounts receivable. The Company limits its exposure to credit loss by depositing its cash with high credit quality financial institutions and monitoring the financial stability of those institutions. The Federal Deposit Insurance Corporation ("FDIC") provides deposit insurance coverage up to \$250,000 per depositor for deposit accounts at each FDIC-insured depository institution. At December 31, 2017, the amount of cash covered by FDIC deposit insurance was \$250,000 and \$14,273,699 of cash was above the FDIC deposit insurance limit. The Company performs ongoing credit evaluations of its customers and generally requires no collateral to secure accounts receivable. The Company performs ongoing credit evaluations of its customers and generally requires no collateral to secure accounts receivable. At December 31, 2017, the Company's allowance for doubtful accounts was \$7,000. The Company considers its remaining accounts receivable to be fully collectible. The Company did not experience any significant credit losses for the periods reported.

Service Risk

The Company provides a motor vehicle inspection service for the Department of Public Safety. This service accounted for approximately 38% of the Company's revenues in 2017. In addition, the Company offers access to driver history records (referred to as DHR) through the portal. This service accounted for approximately 25% of the Company's revenues in 2017. The Company also provides an online vehicle registration renewal service. This service accounted for approximately 10% of the Company's revenues in 2017.

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Customer Risk

A primary source of revenue is derived from data resellers, who use the portal to access DHR records for the auto insurance industry. For the year ended December 31, 2017, the Company derived 14% of its revenues from one data reseller. At December 31, 2017, approximately 36% of the Company's accounts receivable were due from one State agency.

4. Property and Equipment

Property and equipment consisted of the following at December 31, 2017:

Furniture and fixtures	\$ 794,107
Equipment	8,238,639
Purchased software	1,266,280
Leasehold improvements	<u>172,050</u>
	10,471,076
Less accumulated depreciation	<u>(9,226,251)</u>
	<u><u>\$ 1,244,825</u></u>

Depreciation and amortization expense for the year ended December 31, 2017 was \$814,313.

5. Income Taxes

For the year ended December 31, 2017, the Company's effective tax rate was 35%. At December 31, 2017, the Company had deferred tax assets of \$130,093, offset by deferred tax liabilities of \$129,816 for a net deferred tax asset balance of \$277. Deferred tax assets and liabilities resulted primarily from differences between book and tax depreciation, deferred rent, stock-based compensation and accrued but unused employee vacation expense. Management believes NIC's consolidated taxable income in the future will more likely than not be sufficient to utilize the Company's net deferred tax asset.

A reconciliation of the beginning and ending amount of the liability for unrecognized income tax benefits (included in other long-term liabilities in the balance sheet) for the year ended December 31, 2017 is as follows:

Texas NICUSA, LLC
Notes to Financial Statements
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Balance at beginning of year	\$ 300,972
Additions for tax positions of prior years	17,155
Reductions for tax positions of prior years	(46,109)
Additions for tax positions of current year	129,681
Expiration of statute of limitations	-
Balance at end of year	<u>\$ 401,699</u>

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

The Company recognizes accrued interest and penalties associated with uncertain tax positions as part of income tax expense in the statement of income. At December 31, 2017, accrued interest and penalty amounts were not material.

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

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was signed into law. The Tax Act, among other changes, reduces the statutory federal corporate income tax rate from 35% to 21%. In the fourth quarter of 2017, Company recognized a one-time charge totaling approximately \$22,000 to reduce net deferred tax expenses resulting in a net deferred tax asset as of December 31, 2017, based on the anticipated reduction in the Company's prospective effect tax rate resulting from the Tax Act. The Company will receive the benefit of the reduced statutory federal corporate income tax rate starting January 1, 2018, which will be partially offset by changes in certain deductions (most notably the elimination of the domestic production activity deductions). The Company has recorded a provisional re-measurement of its deferred tax assets and liabilities, resulting in an immaterial impact on its 2017 income tax provision. The Company will continue to assess the impact of the new tax legislation, as well as any related future regulations and rules, and will record any additional impacts as identified during the measurement period, if necessary.

6. Letter of Credit

The Company has issued an irrevocable letter of credit to secure its office space in the amount of \$788,134, which was unused at December 31, 2017. The letter expires on December 31, 2018.

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Notes to Financial Statements
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7. Operating Leases

The Company leases its office space and certain equipment under noncancelable operating leases. The lease for office space is tied to the period of performance under the Company's contract with the State. The future minimum lease payments under all noncancelable operating leases at December 31, 2017 were approximately \$930,000 for 2018.

Operating lease expense for the year ended December 31, 2017 was approximately \$996,000.

8. Related Party Transactions

The balance due from affiliated companies at December 31, 2017 consisted primarily of cash advanced to affiliates, reduced by the payment of operating expenses paid by the affiliates on behalf of the Company. The average balance due from affiliated companies during the year ended December 31, 2017 was approximately \$7,775,000.

On December 29, 2017, the Company forgave NICUSA of \$4,500,000 in amounts due from affiliated companies. The Company treated the forgiveness as noncash dividends to NICUSA of \$4,500,000.

The Company receives certain general and administrative services from NIC and its affiliates. Such services are performed on a centralized basis, benefit all affiliates and include, among others, executive and operations management, technical consultation, human resource management, information technology, use of intellectual property, security, legal, accounting support and payroll processing. NIC charges the Company for such services based on an allocation methodology which NIC management believes fairly allocates amounts based on benefits received. In 2017, the Company recognized approximately \$6,378,000 in expense related to these services, which is included in cost of revenues in the statement of income. Due to the nature of these related party charges, it is not practicable to estimate what the Company's costs would have been on a stand-alone basis to provide these services. Accordingly, the accompanying financial statements may not necessarily be indicative of the conditions that would have existed, or the results of operations that would have occurred, if the Company had operated as an independent entity to provide these services.

The Company's ultimate parent company, NIC, maintains a \$10 million unsecured revolving credit agreement, which is available to finance working capital, issue letters of credit, and finance general corporate purposes. The Company and other wholly owned subsidiaries of NICUSA and NIC have

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guaranteed the obligations of NIC in connection with this credit agreement. At December 31, 2017, NIC had no principal amounts of indebtedness outstanding under the credit agreement.

9. Employee Benefit Plans

For the year ended December 31, 2017, the Company recognized approximately \$198,000 in stock-based compensation expense for the NIC stock compensation and employee stock purchase plans, in which the Company's employees participated, in cost of revenues in the statement of income and in member's equity on the balance sheet, representing a capital contribution from NIC.

Restricted Stock Plan

The NIC stock compensation plan provides for the granting of incentive stock options, non-qualified stock options and restricted stock awards to encourage certain employees of NIC and its subsidiaries to participate in the ownership of NIC and to provide additional incentive for such employees to promote the success of its business through sharing in the future growth of such business. NIC did not grant any stock options in 2017. Unvested restricted stock awards contain non-forfeitable rights to dividends declared by NIC. Restricted stock awards vest beginning one year from the date of grant in annual installments of 25%.

During 2017, the Compensation Committee of the Board of Directors of NIC granted to certain Company employees service-based restricted stock awards with a grant-date fair value totaling approximately \$160,000. At December 31, 2017, the Company had approximately \$221,000 of total unrecognized compensation cost related to nonvested restricted stock awards. The Company expects to recognize this cost over a weighted average period of approximately two years from December 31, 2017.

Employee Stock Purchase Plan

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

Defined Contribution 401(k) Profit Sharing Plan

NIC, in conjunction with affiliated companies, sponsors a defined contribution 401(k) profit sharing plan. In accordance with the plan, all full-time employees are eligible immediately upon employment and non-full time employees are eligible upon reaching 1,000 hours of service in the

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relevant period. A discretionary match of an employee's contribution of up to 5% of an employee's base salary and a discretionary contribution may be made to the plan as determined by NIC's Board of Directors. Expense related to Company matching contributions totaled approximately \$338,000 for the year ended December 31, 2017. No discretionary contributions were made for the year ended December 31, 2017.