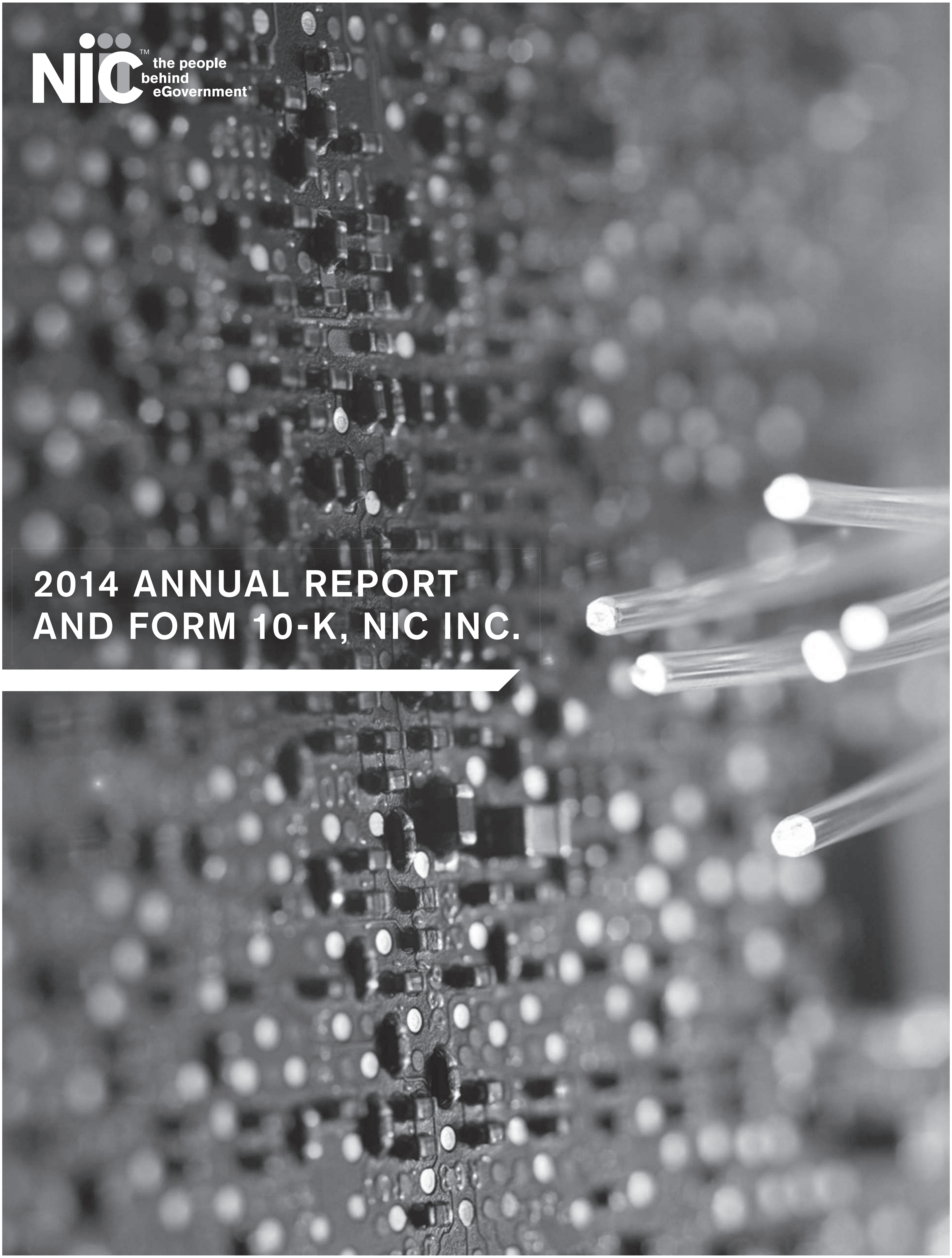
NIC the people behind eGovernment®

2014 ANNUAL REPORT AND FORM 10-K, NIC INC.



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MESSAGE TO STOCKHOLDERS

The Well-Traveled Path of eGovernment

ROBERT FROST SAID IN HIS FAMOUS POEM THAT TAKING THE ROAD LESS TRAVELED MAKES ALL THE DIFFERENCE.

IT'S TRUE.

More than 20 years ago, NIC blazed a trail and began making government information accessible online. That path has continued to evolve with technology, and also points the way to the future.

At NIC, we represent the past, present, and the future of eGovernment. Our model is proven, and thousands of federal, state, and local government agencies have united with us on this successful journey. We helped create the eGovernment industry. We lead this industry today. And, we will continue to be the eGovernment innovators of the future.

For some, it can be tempting to diverge. They see the majority heading down a successful path and question it. Even though it appears to be the best way, they hesitate to follow. And unfortunately, not everyone does.

That's human nature.

It is also natural in any business to gain new customers, expand existing accounts, and even lose some business. On occasion, we have been asked to bend our model. Sometimes we have been able to adapt, and other times we have chosen to part ways.

But, through it all, our focus remains on working together so closely with government that our success is aligned with theirs, in a seamless collaboration between public and private sectors.

In 2014, we welcomed new government partners into the NIC family. We added hundreds of new services, making sure that those services were accessible on mobile devices, and we securely processed billions of dollars in payments. We also continued our investment to expand our new business opportunities within the federal government. We know the federal government represents an important element of our Company's long-term success.

Our path of eGovernment is constantly taking us in new directions. However, it is built on a solid foundation. The heart of our model remains as strong today as it was two decades ago. Some may diverge, but our focus has not and will not waver.

We will continue to do what we do best – make government accessible for all through the use of technology. We will continue our enterprise-wide approach to offer eGovernment services for all agencies, and to use technology to make those services available for everyone.

To our government partners, the team of dedicated NIC employees, and my fellow stockholders, thank you for joining us on this path. There are no cracks in the trail – we're simply breaking ground on the path of eGovernment's future.

HARRY H. HERINGTON
Chief Executive Officer and Chairman of the Board

FOR A COMPLETE REVIEW OF NIC'S ACCOMPLISHMENTS IN 2014, PLEASE VISIT: https://annualreports.egov.com

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

FORM 10-K

(Mark One)

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

For the fiscal year ended **December 31, 2014**

OR

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

For the transition period from ___________ to ___________

Commission file number 000-26621

NiC® the people behind eGovernment®

NIC INC. (Exact name of registrant as specified in its charter)

Delaware	**52-2077581**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

25501 West Valley Parkway, Suite 300, Olathe, Kansas 66061
(Address of principal executive offices, including Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.0001 par value per share	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

The aggregate market value of voting stock held by non-affiliates of the registrant, as of June 30, 2014, was approximately $964,415,535 (based on the closing price for shares of the registrant's common stock as reported by the NASDAQ Global Select Market on that date). Shares of common stock held by each executive officer, director and holder of 10% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status for purposes of this calculation is not intended as a conclusive determination of affiliate status for other purposes.

On February 9, 2015, 65,370,096 shares of the registrant's common stock, $0.0001 par value per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement to be issued in connection with its Annual Meeting of Stockholders to be held in 2015 are incorporated by reference into Part III of this Form 10-K.

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NIC INC.
FORM 10-K ANNUAL REPORT

PART I

CAUTIONS ABOUT FORWARD LOOKING STATEMENTS

Statements in this Annual Report on Form 10-K regarding NIC Inc. and its subsidiaries (the "Company," "NIC," "we," "our," or "us") and its business, which are not current or historical facts, are "forward-looking statements" that involve risks and uncertainties. Forward-looking statements include, but are not limited to, statements of plans and objectives, statements of future economic performance or financial projections, statements of assumptions underlying such statements, and statements of NIC's or management's intentions, hopes, beliefs, expectations or predictions of the future. For example, statements like we "expect," we "believe," we "plan," we "intend," or we "anticipate" are forward-looking statements. Investors should be aware that our actual operating results and financial performance may differ materially from our expressed expectations because of risks and uncertainties about the future including risks related to economic and competitive conditions. Any forward-looking statements made in this Form 10-K speak only as of the date of this report. We will not necessarily update the information in this Annual Report on Form 10-K if any forward-looking statement later turns out to be inaccurate. No one should assume that results projected in or contemplated by the forward-looking statements will continue to be accurate in the future. Details about risks affecting various aspects of our business are included throughout this Form 10-K. Investors should read all of these risks carefully, and should pay particular attention to risks affecting competition issues discussed on page 11, the other specific risk factors discussed on pages 12 to 21, the factors discussed in the introduction to Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and commitments and contingencies described in Notes 2, 3, 6, 7 and 9 to the Consolidated Financial Statements included in this Form 10-K. Other factors not presently identified may also cause actual results to differ.

AVAILABLE INFORMATION

Our website address is http://www.egov.com. Through this website, we make available, free of charge, on the Investor Relations section of our website (http://www.egov.com/Investors/Financials/Pages/SEC.aspx) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to these reports (if any), as soon as reasonably practicable after these reports are electronically filed with or furnished to the Securities and Exchange Commission (the "SEC"). We also make available through our website other reports filed with the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including our proxy statements and reports filed by officers and directors under Section 16(a) of the Exchange Act. We do not intend for information contained in our website to be part of this Annual Report on Form 10-K.

The public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street NE, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding the issuers that file electronically with the SEC.

FREQUENTLY USED TERMS

In this Annual Report on Form 10-K, we use the terms "NIC," "the Company," "we," "our," and "us" to refer to NIC Inc. and its subsidiaries, unless the context otherwise requires. All references to years, unless otherwise noted, refer to our fiscal year, which ends on December 31. We use the term "eGovernment" to refer to electronic government, and we use the term "portal" to refer to an official government website outsourced to NIC. We use the term "enterprise-wide" to refer to our portals that provide state-wide services to multiple government agencies. We also use the term "partner" to refer to our government clients, with whom we have contractual relationships for eGovernment services.

INDUSTRY AND MARKET DATA

Industry and market data and survey and study results disclosed in this Form 10-K were obtained from industry, university, public interest, government and general publications. We have not independently verified the industry and market data or survey or study results obtained from these publications. Actual future industry and market conditions and results may differ materially from the conditions and results forecasted or reported in these publications.

ITEM 1. BUSINESS

Business Overview

NIC is a leading provider of eGovernment services that helps governments use the Internet to reduce internal costs, increase efficiencies, and provide a higher level of service to businesses and citizens. We accomplish this currently through two channels: our primary outsourced portal businesses and our software & services businesses. In our primary outsourced portal businesses, we generally enter into long-term contracts with state and local governments to design, build, and operate Internet-based, enterprise-wide portals on their behalf. These portals consist of websites and applications we have built that allow businesses and citizens to access government information online and complete secure transactions, such as applying for a permit, retrieving government records, or filing a government-mandated form or report. The business model supporting most of our long-term contracts is a self-funded model. Our self-funded business model is one where we absorb the costs to build the portal's technical infrastructure and develop eGovernment services. After a service has launched, we and our government partners share a portion of the fees generated from electronic transactions, which are paid by the end users of the service. Our government partners benefit by reducing their financial and technology risks, increasing their operational efficiencies, and gaining a centralized, customer-focused presence on the Internet, while businesses and citizens receive a faster, more convenient, and more cost-effective means to interact with governments. We are typically responsible for funding up-front investment and ongoing operations and maintenance costs of the government portals.

We typically enter into multi-year contracts with our government partners and manage operations for each contractual relationship through separate local subsidiaries that operate as decentralized businesses with a high degree of autonomy. Our business plan is to increase our revenues by delivering new services to a growing number of government entities within our existing contractual relationships and by signing long-term portal contracts with new government partners.

Our software & services businesses operate primarily through our subsidiary NIC Technologies, LLC ("NIC Technologies") which provides software development and services, other than outsourced portal services, to state and local governments as well as federal agencies.

Segment Information

Our Outsourced Portals segment is our only reportable segment and generally includes our subsidiaries that operate outsourced state and local government portals and the corporate divisions that support portal operations. The Other Software & Services category primarily includes our subsidiaries that provide software development and services, other than outsourced portal services, to state and local governments as well as federal agencies. For additional information relating to our reportable and operating segments, refer to Note 11 in the Notes to Consolidated Financial Statements included in this Form 10-K.

Industry Background

The market for business-to-government and citizen-to-government transactions

Government regulation of commercial and consumer activities requires billions of transactions and exchanges of large volumes of information between government agencies and the businesses they regulate and the citizens they serve. These transactions and exchanges include, but are not limited to: motor vehicle driver history record retrieval, motor vehicle registrations, tax returns, permit applications, and requests for government-gathered information. Government agencies typically defray the cost of processing these transactions and of storing, retrieving, and distributing information through a combination of general tax revenues, service fees, and charges for direct access to public records.

The limits of traditional government transaction methods

Traditionally, government agencies have transacted, and in many cases continue to transact, with businesses and citizens using processes that are inconvenient and labor-intensive, require extensive paperwork, and use outmoded technology and large amounts of scarce staff resources. Transactions and information requests are often made in person or by mail, which increases the potential for the compromise of sensitive personal information or errors that require revisions and follow-ups, particularly if the transactions and information requested are processed manually. Even newer methods, including telephone response systems, rely on multiple systems and potentially incompatible data formats, and require significant expertise and expenditures to introduce and maintain. As a result, businesses and citizens often have no choice but to face costly delays to complete essential tasks. These delays include waiting in line at a government agency, for answers by telephone, for responses by mail, or for payments by check. In addition, government agencies may not use modern methods of electronic payment, leaving businesses and citizens unable to pay certain fees online or at the counter using credit/debit cards or electronic checks, or government agencies may require advance payment rather than monthly billing. Businesses and citizens encounter further inconvenience and delay because they usually can work with government agencies only during normal business hours. Even when electronic alternatives are available, they often require a cumbersome process of multiple contacts with different government agencies or outdated payment methods. Increases in the level of economic activity and in the population have exacerbated these problems and increased the demand for new services.

Growth of the Internet, electronic commerce, and eGovernment

The Internet is a global medium that enables billions of people worldwide to share information, communicate, and conduct business electronically. The Pew Research Center, a nonprofit, nonpartisan group that provides information on the issues shaping America, launched the Pew Internet & American Life Project to study the social impact of the Internet (the "Project").

According to the Project's February 2014 report, "The Web at 25 in the U.S.," 87% of all American adults use the Internet, compared to just 66% of all American adults 10 years ago. In addition, Americans continue to access the Internet through various devices, with 68% of adults connecting to the Internet with mobile devices like a smartphone or tablet computer. According to the study, 23% of American adults can be classified as accessing the Internet using only a smartphone or tablet computer and not some other device such as a desktop or laptop computer.

Technology, and in particular eGovernment, continues to be important to state, local, and federal governments in the United States, as well as governments worldwide. In its "Analytical Perspectives of the Budget of the U.S. Government," the

Office of Management and Budget of the Obama Administration stated that it is committed to building a 21st century government that is more efficient and effective for the American people, with information technology as a critical component of reaching that goal. Therefore, the federal government is planning to invest $79.0 billion on information technology ("IT") in fiscal year 2015. According to IT consultancy Gartner, worldwide IT spending is estimated to reach nearly $4.0 trillion by the end of 2015, a 3.9% increase over 2014. In addition, the 2014 United Nation's eGovernment survey notes the importance of eGovernment in "strengthening national capabilities, enhancing governments' performance, increasing efficiency, effectiveness and inclusiveness of public services, promoting transparency and reducing corruption in the public sector, helping governments 'go green', facilitating effective disaster management, favoring an enabling environment for economic growth, as well as promoting social inclusion through equitable access to services."

Acceptance of the Internet as a medium for eGovernment

The acceptance of the Internet and electronic commerce presents a significant opportunity for the development of eGovernment, in which government agencies conduct transactions and distribute information over the Internet. By using the Internet, government agencies can increase the volume and efficiency of interactions with constituents without significantly increasing expenditures or demands on current personnel. In addition, regardless of physical distance, businesses and citizens can obtain government information quickly and easily over the Internet. For example, motor vehicle administrators can provide instantaneous responses to auto insurers' requests for driving record data by allowing controlled access to government databases through the Internet. This online interaction reduces costs for both government and users and decreases response times compared to providing the same data by mail.

Challenges to the implementation of eGovernment services

Despite the potential benefits of eGovernment, barriers to creating successful Internet-based services may preclude governments from implementing them. Some of these barriers are similar to those the private sector encounters, including:

- the high cost of implementing and maintaining Internet technology in a budget-constrained environment;
- the need to quickly assess the requirements of potential customers and cost-effectively design and implement eGovernment services that are tailored to meet these requirements;
- the intense competition for qualified technical personnel; and
- the need for updated Internet and mobile friendly payment methods, that are secure and compliant with Payment Card Industry standards.

Governments also face some unique challenges that exacerbate the difficulty of advancing to Internet-based services, including:

- lengthy and potentially politically charged appropriations processes that make it difficult for governments to acquire resources and to develop Internet services quickly;
- a diverse and substantially autonomous group of government agencies that have adopted varying and fragmented approaches to providing information and transactions over the Internet;
- a lack of marketing expertise to ensure that services are designed to meet the needs of businesses and citizens, to increase the awareness of the availability of the services, and to drive adoption of the online service delivery channel;
- security and privacy concerns that are amplified by the confidential nature of the information and transactions available from and conducted with governments and the view that government information is part of the public trust;
- changes in administration and turnover in government personnel among influencers and key decision makers; and
- barriers to use of credit/debit cards and electronic check payments.

We believe many private sector service providers generally do not address the unique needs of enterprise-wide eGovernment. Most service providers do not fully understand and are not well-equipped to deal with the unique political, regulatory, and security structures of governments. These providers, including large systems integrators, typically take a time-and-materials, project-based pricing approach and provide "off-the-shelf" solutions designed for other industries that may not adequately address the needs of government.

What We Provide to Governments

We provide Internet-based eGovernment services designed to meet the needs of governments, businesses, and citizens. The key elements of our service delivery are:

Customer-focused, one-stop government portal

Using our marketing and technical expertise and our government experience, we generally design, build, and operate Internet-based portals on an enterprise-wide basis for our state and local government partners and Internet-based services for our federal partners that are designed to meet their needs as well as those of the businesses and citizens they serve. Our enterprise-wide outsourced portals are designed to create a single point of presence on the Internet that allows businesses and citizens to reach the website of every government agency in a specific jurisdiction from one online location. We strive to employ a common look and feel in the websites of all government agencies associated with each state's government portal and make them useful, appealing, and easy to use. In addition to developing and managing the government portal, we develop applications that allow businesses and citizens to complete processes that have traditionally required separate offline interactions with several different government agencies or older generation electronic access. These applications permit businesses and citizens to conduct transactions with government agencies and to obtain information 24 hours per day and seven days per week using the latest technology and payment methods. We also help our government partners generate awareness and educate businesses and citizens about the availability and potential benefits of eGovernment services.

Compelling and flexible financial models for governments

With our self-funded business model, we allow governments to implement comprehensive eGovernment services at minimal cost and risk. We take on the responsibility and cost of designing, building, and operating government portals and applications, with minimal use of government resources. We employ our technological resources and accumulated expertise to help governments avoid the risks of selecting and investing in new and often untested technologies that may be implemented by unproven third-party providers. We implement our services rapidly, efficiently, and accurately, using our well-tested and reliable infrastructure and processes. Once we establish a portal and the associated applications, we manage transaction flows, data exchange and payment processing, and we fund ongoing costs from the fees received from portal users, who access information and conduct transactions through the portal. A 2013 study by the University of Utah of nearly 1,500 businesses in three NIC partner states, found that 95% approve of their state's eGovernment services, with 90% preferring to conduct business with state government online and 96% saying that eGovernment services save their business time. In addition, the majority of the businesses surveyed said they believe fees associated with eGovernment services are reasonable and that eGovernment services reinforce the perception that the state is business-friendly. A 2012 study by the University of Utah found that by placing just nine high-volume services online and by utilizing NIC's self-funded business model, the state of Utah avoided approximately $61 million in costs related to the operations of its official web portal and the development of online services from fiscal years 2007 through 2011. We are also able to provide specific fee-based application and outsourced portal solutions to governments who cannot or do not wish to pursue a self-funded portal solution.

Focused relationship with governments

We form relationships with governments by developing an in-depth understanding of their interests and then aligning our interests with theirs. By tying our revenues to the development of successful services and applications, we work to assure government agencies and constituents that we are focused on their needs. Moreover, we have pioneered and encourage our partners to adopt a model for eGovernment policymaking that involves the formation of oversight boards to bring together interested government agencies, business and consumer groups, and other vested interest constituencies in a single forum. We work within this forum to maintain constant contact with government agencies and constituents and strive to ensure their participation in the development of eGovernment services. We attempt to understand and facilitate the resolution of potential disputes among these participants to maximize the benefits of our services. We also design our services to observe relevant privacy and security regulations, so that they meet the same high standards of integrity, confidentiality, and public service as government agencies strive to observe in their own actions.

Government Contracts

Our outsourced portal contracts

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

NIC Portal Entity	Portal Website (State)	Year Services Commenced	Contract Expiration Date (Renewal Options Through)
Connecticut Interactive, LLC	www.ct.gov (Connecticut)	2014	1/9/2017 (1/9/2020)
Wisconsin Interactive Network, LLC	www.wisconsin.gov (Wisconsin)	2013	5/13/2018 (5/13/2023)
Pennsylvania Interactive, LLC	www.pa.gov (Pennsylvania)	2012	11/30/2017 (11/30/2022)
NICUSA, OR Division	www.oregon.gov (Oregon)	2011	11/22/2021
NICUSA, MD Division	www.maryland.gov (Maryland)	2011	8/10/2016 (8/10/2019)
Delaware Interactive, LLC	www.delaware.gov (Delaware)	2011	3/31/2015 (in transition period)
Mississippi Interactive, LLC	www.ms.gov (Mississippi)	2011	12/31/2015 (12/31/2021)
New Jersey Interactive, LLC	www.nj.gov (New Jersey)	2009	2/28/2015
Texas NICUSA, LLC	www.Texas.gov (Texas)	2009	8/31/2017 (8/31/2018)
West Virginia Interactive, LLC	www.WV.gov (West Virginia)	2007	12/31/2014 (services continue to be provided under the terms and conditions of the prior contract)
Vermont Information Consortium, LLC	www.Vermont.gov (Vermont)	2006	6/8/2016 (6/8/2019)
Colorado Interactive, LLC	www.Colorado.gov (Colorado)	2005	4/30/2019 (4/30/2023)
South Carolina Interactive, LLC	www.SC.gov (South Carolina)	2005	7/15/2019 (7/15/2021)
Kentucky Interactive, LLC	www.Kentucky.gov (Kentucky)	2003	8/31/2015
Alabama Interactive, LLC	www.Alabama.gov (Alabama)	2002	3/1/2016 (3/1/2017)
Rhode Island Interactive, LLC	www.RI.gov (Rhode Island)	2001	7/1/2017 (7/1/2019)
Oklahoma Interactive, LLC	www.OK.gov (Oklahoma)	2001	3/31/2015
Montana Interactive, LLC	www.MT.gov (Montana)	2001	12/31/2017 (12/31/2020)
NICUSA, TN Division	www.TN.gov (Tennessee)	2000	3/31/2016
Hawaii Information Consortium, LLC	www.eHawaii.gov (Hawaii)	2000	1/3/2016 (3-year renewal options)
Idaho Information Consortium, LLC	www.Idaho.gov (Idaho)	2000	6/30/2017
Utah Interactive, LLC	www.Utah.gov (Utah)	1999	6/5/2016 (6/5/2019)
Maine Information Network, LLC	www.Maine.gov (Maine)	1999	7/1/2016 (7/1/2018)
Arkansas Information Consortium, LLC	www.Arkansas.gov (Arkansas)	1997	6/30/2018
Iowa Interactive, LLC	www.Iowa.gov (Iowa)	1997	6/30/2016 (6/30/2020)
Indiana Interactive, LLC	www.IN.gov (Indiana)	1995	7/31/2016
Nebraska Interactive, LLC	www.Nebraska.gov (Nebraska)	1995	1/31/2016
Kansas Information Consortium, LLC	www.Kansas.gov (Kansas)	1992	12/31/2021 (annual 1-year renewal options)

Contract developments

During the first quarter of 2014, we were awarded a three-year contract by the state of Connecticut to manage its government portal, which includes renewal options for the government to extend the contract up to an additional three years. In addition, we were awarded a new five-year contract from the state of Colorado, which includes an option for the government to extend the contract up to an additional four years.

During the second quarter of 2014, we were awarded a new three-year contract by the state of Rhode Island, which includes renewal options for the government to extend the contract for two additional one-year periods. In addition, we were awarded a new two-year contract by the state of Iowa, which includes renewal options for the government to extend the contract for four additional one-year periods. We also received a one-year contract extension from the Commonwealth of Kentucky.

During the third quarter of 2014, we were awarded a new seven-year contract by the state of Kansas, which includes annual renewal options for the government to extend the contract for additional one-year periods. In addition, we executed a two-year contract extension with the state of Indiana. We were also awarded a new five-year contract by the state of South Carolina, which includes renewal options for the government to extend the contract up to an additional two years. We also executed an 18-month contract extension with the state of Tennessee.

During the fourth quarter of 2014, we executed a one-year contract extension with the state of Texas.

During the first quarter of 2015, we received a two-year contract extension from the state of Montana and a two-year contract extension from the state of Idaho. In addition, we executed a one-year contract extension with the state of Alabama.

Portal agreements

Our outsourced government portals operate under separate contracts that generally have an initial multi-year term. Under a typical self-funded contract, a government agrees that:

- we have the right to develop a comprehensive Internet portal owned by that government to deliver eGovernment services;
- the portal we establish is the primary electronic and Internet interface between the government and its businesses and citizens;
- it will sponsor access to agencies and local governments for the purpose of our entering into agreements with these agencies to develop applications for their data and transactions and to link their Web pages to the portal; and
- it will establish a policy-making and fee approval authority, which typically includes agency members, business customers, and others, to establish prices for services and to set other policies.

In return, we agree to:

- develop, manage, market, maintain, and expand that government's portal and information and electronic commerce applications;
- assume the investment risk of building and operating that government's portal and applications without the direct use of tax dollars;
- process electronic payments;
- bear the risk of collecting transaction fees; and
- have an independent audit conducted upon that government's request.

We typically own all the intellectual property in connection with the applications we develop under our government portal contracts. After completion of a defined contract term, our government partner typically receives a perpetual, royalty-free license to use the software only in its own portal. However, certain customer management, billing, and payment processing software applications that we have developed and standardized centrally and that are utilized by our portal businesses, are being provided to an increasing number of our government partners on a software-as-a-service, or "SaaS," basis, and thus would not be included in any royalty-free license. If our contract was not renewed after a defined term or if our contract was terminated by our government partner for cause, the government agency would be entitled to take over the portal in place with no future obligation of or to us, except as otherwise provided in the contract and except for the services we provide on a SaaS basis, which would be available to our partners on a fee-for-service basis. We also provide certain payment processing services on a SaaS basis to a few private sector companies and to state and local agencies in states where we do not maintain an enterprise-wide outsourced portal contract, and may continue to market these services to other entities in the future. Historically, revenues from these services have not been significant, but have grown substantially in recent years. In some cases, we enter into contracts to provide consulting, application development, and portal management services to governments in exchange for an agreed-upon fee.

We also enter into separate agreements with various agencies and divisions of our government partners for the sale of electronic access to public records and to conduct other transactions. These agreements preliminarily establish the pricing of the electronic transactions and data access services we provide and the amounts we must remit to the agency. These terms are then submitted to the policy-making and fee approval authority for approval. Generally, our contracts provide that the amount of any fees we retain is set by governments to provide us with a reasonable return or profit. We have limited control over the level of fees we are permitted to retain. Any changes made to the amount or percentage of fees retained by us, or to the amounts charged for the services offered, could materially affect the profitability of the respective contract to us. We do have the general ability to control certain of our expenses in the event of a reduction in the amount or percentage of fees we retain; however, there may be a lag in the time it takes to do so should we determine it is necessary.

Any renewal of these contracts beyond the initial term by the government is optional and a government may terminate its contract prior to the expiration date if we breach a material contractual obligation and fail to cure such breach within a specified period or upon the occurrence of other events or circumstances specified in the contract. In addition, 18 contracts under which we provide outsourced portal services or software development and services can be terminated by the other party without cause on a specified period of notice. Collectively, revenues generated from these contracts represented 62% of our total consolidated revenues for the year ended December 31, 2014. In the event that any of these contracts is terminated without cause, the terms of the respective contract may require the government to pay a fee to us in order to continue to use our software in its portal. In addition, the loss of one or more of our larger state portal partners, such as Alabama, Arkansas, Colorado, Indiana, Kentucky, New Jersey, Pennsylvania, Tennessee, Texas, or Utah, as a result of the expiration, termination, or failure to renew the respective contract, if such partner is not replaced, could significantly reduce our revenues and profitability. See the discussion below under "Expiring Contracts" regarding the expiration of the Company's contracts with the states of Arizona and Delaware.

Our other outsourced state contracts

During the third quarter of 2014, our subsidiary, Louisiana Interactive, LLC, signed a master contract with the state of Louisiana Division of Administration, Office of Technology Services ("Louisiana Division") that creates a framework to provide certain eGovernment services for a pilot period. The pilot period commenced during the first quarter of 2015 and we anticipate it will conclude in approximately 12-18 months. Subsequent to the pilot period, the Louisiana Division has the option to receive enterprise-wide eGovernment services pursuant to the master contract.

Our subsidiary, New Mexico Interactive, LLC, has a contract to manage eGovernment services for the New Mexico Motor Vehicle Division ("MVD") and its parent, the New Mexico Taxation and Revenue Department. During the third quarter of 2014, we were awarded a new two-year contract by the MVD to manage eGovernment services through June 30, 2016. The contract includes a renewal option for the government to extend the contract for two additional one-year periods.

During the third quarter of 2014, our subsidiary, Virginia Interactive, LLC ("VI"), extended its agreement with the Virginia Department of Game and Inland Fisheries to provide eGovernment services through August 31, 2015. During the third quarter of 2014, VI extended its agreement with the Office of the Executive Secretary of the Supreme Court of Virginia to provide eGovernment services through August 31, 2015.

Outsourced federal contracts

Our subsidiary, NIC Technologies, LLC ("NIC Technologies") has a contract with the Federal Motor Carrier Safety Administration ("FMCSA") to develop and manage the FMCSA's Pre-Employment Screening Program ("PSP") for motor carriers nationwide, using the self-funded, transaction-based business model. During the third quarter of 2014, we received a six-month contract extension from the FMCSA, extending the term of the PSP contract through August 16, 2015.

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

Expiring contracts

As of December 31, 2014, there were 11 contracts under which we provide outsourced portal services or software development and services that have expiration dates within the 12-month period following December 31, 2014. Collectively, revenues generated from these contracts represented 25% of our total consolidated revenues for the year ended December 31, 2014. As described above, if a contract is not renewed after a defined term, the government partner would be entitled to take over the portal in place with no future obligation by us, except as otherwise provided in the contract and except for the services we provide on a SaaS basis, which would be available to the government agency on a fee-for-service basis.

During the first quarter of 2013, our subsidiary, NICUSA, Inc. ("NICUSA"), chose not to respond to a request for proposal issued by the state of Arizona for a new contract. NICUSA provided transition services as required by the contract through March 26, 2014. The costs incurred in transitioning out of NICUSA's contract with the state of Arizona, including employee retention bonuses, operating lease termination costs, and fixed asset impairment, did not have a material impact on our consolidated results of operations, cash flows, or financial condition. For the years ended December 31, 2014, 2013 and 2012, revenues from our legacy Arizona portal contract were approximately $0.8 million, $3.7 million and $3.8 million, respectively.

Our subsidiary, Delaware Interactive, LLC ("DI"), has a contract with the state of Delaware to manage the state's official government portal. Currently, the primary revenue source for DI under the contract is an annual portal management fee paid to DI by the state. During the second quarter of 2014, the state informed DI that due to fiscal constraints, it did not intend to renew its contact with DI when the contract term expired on September 30, 2014. However, during the third quarter of 2014, we received a six-month contract extension from the state of Delaware to provide transition services through March 31, 2015, which includes options for the government to extend the contract for additional three-month periods. We do not believe the expiration of DI's contract with the state of Delaware will have a material impact on our consolidated results of operations, cash flows or financial condition. For the years ended December 31, 2014, 2013 and 2012, revenues from our Delaware portal contract were approximately $2.4 million, $2.2 million and $1.4 million, respectively.

Our Portal Service Offerings

We work with our state and local government partners to develop, manage, and enhance comprehensive, enterprise-wide, Internet-based portals to deliver eGovernment services to their constituents. Our portals are designed to provide user-friendly, convenient, secure multi-channel access, including mobile access, to in-demand government information and services, and include numerous fee-based transaction services and applications that we have developed. These fee-based services and applications allow businesses and citizens to access constantly changing government information and to file necessary government documents. The types of services and the fees charged vary in each portal installation according to the unique preferences of that jurisdiction. In an effort to reduce the frustration businesses and citizens often encounter when dealing with multiple government agencies, we handle cross-agency communications whenever feasible and shield businesses and citizens from the complexity of older, mainframe-based systems that agencies commonly use, creating an intuitive and efficient interaction with governments. We also provide industry- compliant payment processing systems that accommodate credit/debit cards and electronic checks, as applicable.

Some of the online services we currently offer in different jurisdictions include**:**

Product or Service	**Description**	**Primary Users**
Motor Vehicle Driver History Record Retrieval	For those legally authorized businesses, this service offers controlled instant look-up of driving history records. Includes commercial licenses.	Insurance companies
Vehicle Title, Lien & Registration	Provides controlled interactive title, registration, and lien database access. Permits citizens to renew their vehicle registrations online.	Insurance companies, lenders, citizens
Motor Vehicle Inspections	Allows licensed state inspection stations to file certified motor vehicle and emissions testing inspections online.	Businesses
Temporary Vehicle Tags	Records temporary vehicle tag registration of a newly purchased car in real time with the state and issues a customized temporary plate for display on the vehicle.	Automobile dealerships, citizens, law enforcement
Driver’s License Renewal	Permits citizens to renew their driver’s license online using a credit/debit card.	Citizens
Hunting and Fishing Licenses	Permits citizens to obtain and pay for outdoor recreation licenses over the Internet or from point-of-purchase retail kiosks.	Citizens
Health Professional License Services	Allows users to search databases on several health professions to verify license status.	Hospitals, clinics, health insurers, citizens
Professional License Renewal	Permits professionals to renew their licenses online using a credit/debit card.	Attorneys, doctors, nurses, architects, and other licensed professionals
Business Registrations and Renewals	Allows business owners to search for and reserve a business name, submit and pay for the business registration, and renew the business registration on an annual basis.	Businesses
Secretary of State Business Searches	Allows users to access filings of corporations, partnerships, and other entities, including charter documents.	Attorneys, lenders
Uniform Commercial Code (UCC) Searches and Filings	Permits searches of the UCC database to verify financial liens, and permits filings of secured financial documents.	Attorneys, lenders
Limited Criminal History Searches	For those legally authorized, provides users with the ability to obtain a limited criminal history report on a specified individual.	Schools, governments, human resource professionals, nonprofits working with children or handicapped adults

Product or Service	Description	Primary Users
Court Services	Allows authorized users to search court record databases, make payments for court fines, and in some cases electronically file court documents.	Legal professionals, citizens
Vital Records	Provides authorized access to birth, death, marriage, domestic partnership and civil union certificates.	Citizens
Income and Property Tax Payments	Allows users to file and pay for a variety of state and local income and property taxes.	Businesses and citizens
Payment Processing	Permits use of the Internet for secure industry-compliant credit/debit card and electronic check payment processing both online and at the point of sale for government agency transactions.	Businesses and citizens

In addition to these services, we also provide customer service and support. Our customer service representatives serve as a liaison between our government partners and businesses and citizens.

Revenues

In our outsourced state and local portal businesses, we currently earn revenues from three main sources: transaction-based fees, time and materials-based fees for application development and fixed fees for portal management services. In most of our outsourced portal businesses, the majority of our revenues are generated from transactions, which generally include the collection of transaction-based fees and subscription fees from users. The following table reflects the underlying sources of portal revenues as a percentage of total portal revenues for the years ended December 31:

Percentage of Portal Revenues:	2014	2013	2012
Transaction-based	92%	90%	87%
Time and materials fees for application development	5%	6%	8%
Fixed fees for portal management	3%	4%	5%

The following table identifies each type of service, customer and portal partner that accounted for 10% or more of our total consolidated revenues in any of the past three years:

	Percentage of Total Consolidated Revenues		
	2014	2013	2012
Type of Service			
Motor Vehicle Driver History Record Retrieval *(This is the highest volume, most commercially valuable service we offer)*	35%	34%	34%
Motor Vehicle Registrations	12%	13%	10%
Customer			
LexisNexis Risk Solutions *(Resells motor vehicle driver history records to the insurance industry)*	24%	22%	23%
Portal Partner			
Texas	22%	23%	21%

Our contracts with data resellers, including LexisNexis Risk Solutions, are generally self-renewing until canceled by one side or the other, and generally may be terminated at any time after a 60-day notice. These contracts may be terminated immediately at the option of any party upon a material breach of the contract by the other party. Furthermore, these contracts are immediately terminable if the state statute allowing for the public release of these records is repealed.

Sales and Marketing

We have two primary sales and marketing goals:

- to retain and grow our revenue streams from existing government relationships; and
- to develop new sources of revenues through new government relationships.

We have well-established sales and marketing processes for achieving these goals, which are managed by our national sales division and a marketing department within most of our outsourced portal businesses.

Developing new sources of revenue

We focus our new government sales and marketing efforts on increasing the number of governments and government agencies that are receptive to a public/private model for delivering information and/or completing transactions over the Internet. We meet regularly with interested government officials to educate them on the public/private model and its potential advantages for their jurisdictions. Members of our management team are also regular speakers at conferences devoted to the application of Internet technologies to facilitate the relationship between governments and their citizens. In states or federal agencies where we believe interest is significant, we seek to develop supportive, educational relationships with professional and business organizations that may benefit from the government service improvements our service delivery can produce. We also focus our corporate marketing efforts on key government decision makers through the use of advertising, white paper development, media relations and social media. In addition, we continue to develop relationships with key government decision makers to expand our opportunities to manage eGovernment services in the federal arena.

Once a government decides to implement a public/private model for managing Internet access to information resources and transactions, it typically starts a selection process that operates under special rules that apply to government purchasing. These rules typically require open bidding by possible service providers against a list of requirements established by the government under existing procedures or procedures specifically created for the service provider selection process. We respond to requests for bids with a proposal that outlines in detail our philosophy and plans for implementing our business model. Once our proposal is selected, we enter into negotiations for a contract.

Growing existing markets

In our existing state, local and federal government relationships, our marketing efforts focus on:

- expanding the number of government agencies that provide services or information on the government portal;
- identifying new information and transactions that can be usefully and cost-effectively delivered over the Internet;
- working with the governance authorities in our existing markets to ensure that online services are priced in a manner to encourage usage; and
- increasing the number of potential users who do business with governments over the Internet.

Although each government's unique political and economic environment drives different marketing and development priorities, we have found many of our core applications to be relevant across multiple jurisdictions. Most of our enterprise-wide outsourced portal businesses have a director of marketing and additional marketing staff who meet regularly with government, business, and consumer representatives to discuss potential new services. We also promote the use of our extensive library of unique revenue-generating eGovernment services to existing and new customers through speaking engagements and targeted advertising to organizations for professionals, including lawyers, bankers, and insurance agents who have a need for regular interaction with government. We identify services that have been developed and implemented successfully for one government and replicate them in other jurisdictions.

Technology and Operations

Over the past 23 years, we have made substantial investments in the development of Internet-based applications and operations specifically designed to allow businesses and citizens to transact with and receive information from governments online. The scope of our technological expertise includes network engineering as it applies to the interconnection of government systems to the Internet, Internet security, Web-to-legacy system integration, Web-to-mainframe integration, Web-to-mobile integration, database design, website administration, Web page development, and payment processing. Within this scope, we have developed and implemented a comprehensive Internet portal framework for governments, and a broad array of stand-alone products and services using a combination of our own proprietary technologies and commercially available, licensed technologies. We believe that our technological expertise, coupled with our in-depth understanding of governmental processes and systems, has made us adept at rapidly creating tailored portal services that keep our partners on the forefront of eGovernment.

Each of our government partners has unique priorities and needs in the development of its eGovernment services. More than half of our employees work in the Internet services, application development, and technology operations areas, and most are focused on a single government partner's application needs. Our employees develop an understanding of a specific government's application priorities, technical profiles, and information technology personnel and management. At the same time, all of our development directors are trained by experienced technical staff from our other operations, and there is frequent communication and collaboration, which ensures that our government partners can make use of the most advanced eGovernment services we have developed throughout our organization.

Some of our portals and applications are physically hosted in each jurisdiction in which we operate on servers that we own or lease. The rest of our portals and applications are hosted at a central data facility operated by a third party, with backup at a similar facility in another location. We also provide links to sites that are maintained by government agencies or organizations that we do not manage. Our businesses provide uninterrupted online service 24 hours per day and seven days a week, and our operations maintain extensive backup, security, and disaster recovery procedures.

History has proven that our systems and applications are scalable and can easily be replicated from one government entity to another. We focus on sustaining low-overhead operations, with all major investments driven by the objective of deploying the highest value-added technology and applications to each operation.

Finally, we have designed our government portals and applications to be compatible with virtually any existing system and to be rapidly deployable. To enable speed and efficiency of deployment, we license commercially available technology whenever possible and focus on the integration and customization of these "off-the-shelf" hardware and software components when necessary. While we expect that commercially licensed technology will continue to be available at reasonable costs, there can be no assurance that the licenses for such third-party technologies will not be terminated or that we will be able to license third-party technology and applications for future services. While we do not believe that any one individual technology or application we license is material to our business, changes in or the loss of third party licenses could lead to a material increase in the costs of licensing or to our products becoming inoperable or their performance being materially reduced, with the result that we may need to incur additional development or procurement costs in an attempt to ensure continued performance of our services.

We regard our intellectual property as important to our success. We rely on a combination of nondisclosure and other contractual arrangements with governments, our employees, subcontractors and other third parties, copyrights and privacy and trade secret laws to protect and limit the distribution of the proprietary software applications, documentation, and processes we have developed in connection with the eGovernment services we offer.

Competition

We do not currently have significant competition from companies vying to provide enterprise-wide outsourced portal services to governments; however, we face intense competition from companies providing solutions to individual government agencies. We believe that the principal factors upon which our businesses compete are:

- our unique understanding of government needs;
- the quality and fit of eGovernment services;
- speed and responsiveness to the needs of businesses and citizens;
- cost-effectiveness; and
- enterprise-wide approach.

We believe we compete favorably with respect to the above-listed factors. In most cases, the principal alternative for our enterprise-wide services is a government-designed and managed service that integrates multiple vendors' technologies, products and services. Companies that have expertise in marketing and providing technical electronic services to government entities compete with us by further developing their services and increasing their focus on agency-specific segments of their business. Many of our potential competitors are national or international in scope and have greater resources than we do.

Additionally, in some geographic areas, we may face agency-level competition from smaller consulting firms with established reputations and political relationships with potential government partners. Examples of companies that may compete and/or currently compete with us at the agency level are the following:

- traditional large systems integrators, including CGI and Unisys;
- traditional large software applications developers, including Microsoft and Oracle;
- traditional consulting firms, including IBM Corp. and Accenture, Ltd.;
- electronic transaction payment processors, including ACI Worldwide, Inc. and Link2Gov Corp;
- smaller software application developers, including Kinsail, Accela, FAST Enterprises; and

- other niche providers, such as Active Network.

Seasonality

The use of some of our eGovernment services is seasonal, particularly the accessing of motor vehicle driver history records, resulting in lower revenues from this service in the fourth quarter of each calendar year, due to the lower number of business days in this quarter and a lower volume of transactions during the holiday periods.

Employees

As of December 31, 2014, we had 818 full-time employees, of which 160 were working in corporate operations, 642 were in our outsourced portal businesses and 16 were in our software & services businesses. Our future success will depend, in part, on our ability to continue to attract, retain and motivate highly qualified technical and management personnel. We also employ independent contractors to support our application development, marketing, sales and administrative departments. Our employees are not covered by any collective bargaining agreement, and we have never experienced a work stoppage. We believe that our relations with our employees are good.

ITEM 1A. RISK FACTORS

Our operations are subject to a number of risks and uncertainties, including those described below. If any of these risks actually occur, our business, financial condition, and results of operations could be materially adversely affected. In that case, the value of our common stock could decline substantially.

Security breaches, disruptions or unauthorized access to sensitive information and/or personal information that we store, process, use or transmit in our business may harm our reputation and adversely affect our business and results of operations.

A significant challenge to electronic commerce is the secure transmission of sensitive and/or personal information over information technology networks and systems which process, transmit and store electronic information, and manage or support a variety of business processes. The collection, maintenance, use, disclosure, and disposal of sensitive and personal information by our businesses are regulated at state and federal levels. Furthermore, we are required to comply with the Payment Card Industry's Data Security Standards ("PCI DSS") and the rules and standards promulgated by the National Automated Clearing House Association ("NACHA") because we provide online payment and electronic check processing services. Because we provide the electronic transmission of sensitive and personal information released from and filed with various government entities and we perform online payment and electronic check processing services, we face the risk of a security breach, whether through computer hacking, acts of vandalism or theft, malware, computer viruses, human errors, catastrophes or other unforeseen events that could lead to significant disruptions or compromises of our information technology networks and systems or the unauthorized release or use of sensitive or personal information. Additionally, vulnerabilities in the security of our own internal systems could compromise the confidentiality of, or result in unauthorized access to, personal information of our employees.

We rely on encryption and authentication technology purchased or licensed from third parties to provide the security and authentication tools to effectively secure transmission of confidential information, including user credit card information and banking data. Advances in computer capabilities, new discoveries in the field of cryptography, threats that evolve ahead of tools designed to counter them, or other developments may result in the breach or compromise of technology used by us to protect transaction data. Data breaches can also occur as a result of non-technical issues, such as so-called "social engineering."

Despite the various security measures we have in place to protect sensitive and personal information from unauthorized disclosure and to ensure compliance with applicable laws and regulations, our information technology networks and systems and those of our third party vendors and service providers can never be made completely secure against security incidents. Even the most well protected information, networks, systems, and facilities remain vulnerable to security breaches or disruptions, because (i) the techniques used in such attempts are constantly evolving and generally are not recognized until launched against a target, and in some cases are designed not to be detected and, in fact, may not be detected for an extended period and (ii) the security methodologies, protocols, systems and procedures used for protection are implemented by humans at each level, and human errors may occur. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, or if such measures are implemented, and even if appropriate training is conducted in support of such measures, human errors may still occur. It is impossible for us to entirely mitigate this risk. A party, whether internal or external, who is able to circumvent our security measures could misappropriate information, including, but not limited to user credit card information or other sensitive and personal information, or cause interruptions or direct damage to our government portals or their users.

Under payment card rules and our contracts with our credit card processors, if there is a breach of payment card information that we store, process, or transmit, we could be liable to the payment card issuers for their cost of issuing new cards and related expenses, and to partners for costs of notification and remediation, and for any damages to users under state laws or our partner contracts. If we fail to follow PCI DSS, we could incur significant fines imposed by the Payment Card Industry or jeopardize our ability to give customers the option of using payment cards to fund their payments or pay their fees, even if there is no compromise of personal information. In addition, if we fail to follow NACHA security requirements, we may be liable for substantial fines and penalties, cease and desist orders, and other sanctions that could restrict or eliminate our ability to provide certain of our services in one or more states or accept certain types of transactions in one or more states, or could force us to make costly changes to our business practices. If we were unable to accept payment cards or process checks electronically, our business would be negatively impacted.

In addition, any noncompliance with privacy laws or a security breach involving the misappropriation, loss or other unauthorized access, use or disclosure of sensitive or personal information, or other significant disruption involving our information technology networks and systems (whether or not caused by a breach of our contractual obligations or our negligence), may lead to negative publicity, impair our ability to conduct our business, subject us to private litigation and government investigations and enforcement actions and cause us to incur potentially significant liability, damages or remediation costs. It may also cause the governments with whom we contract to lose confidence in us, any of which may cause the termination or modification of our government contracts and impair our ability to win future contracts. Actual or anticipated attacks and risks affecting our own or our government partners' environment may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, to train employees, and to engage third party security experts and consultants. Although we maintain insurance coverage that, subject to policy terms and conditions and subject to a retention, is designed to address certain aspects of security and privacy liability, such insurance coverage may be insufficient to cover or protect against the costs, liabilities, and other adverse effects arising from a security breach or system disruption. If we fail to reasonably maintain the security of confidential information, we may also suffer significant reputational and financial losses and our results of operations, cash flows, financial condition, and liquidity may be adversely affected.

Because we have outsourced portal and software development and service contracts with a limited number of governments, the termination or non-renewal of certain of these contracts may harm our business.

Currently, we have 28 portals through which we provide enterprise-wide outsourced portal services to state governments. These contracts typically have multi-year terms with provisions for renewals for various periods at the option of the government. In addition, we have a limited number of other contracts with government agencies through which we provide outsourced portal and software development and services.

A government typically has the option to terminate its contract prior to the expiration date if we breach a material contractual obligation and fail to cure such breach within a specified period or upon the occurrence of other events or circumstances specified in our contracts.

In addition, we currently have 18 contracts under which we provide outsourced portal services or software development and services that can be terminated by the other party without cause on a specified period of notice. Collectively, revenues generated from these contracts represented 62% of our total consolidated revenues for the year ended December 31, 2014. The Texas portal, which is one of the 18 contracts noted above, accounted for approximately 22% of our total consolidated revenues for the year ended December 31, 2014. In the event that any of these contracts is terminated without cause, the terms of the respective contract may require the government to pay a fee to us in order to continue to use our software in its portal. Also, the contract with the FMCSA can be terminated by the other party without cause on a specified period of notice.

As of December 31, 2014, we have 11 contracts under which we provide outsourced portal services or software development and services that have expiration dates within the 12-month period following December 31, 2014. Collectively, revenues generated from these contracts represented 25% of our total consolidated revenues for the year ended December 31, 2014. If a contract is not renewed after a defined term, the government partner would be entitled to take over the portal in place with no future obligation to us, except as otherwise provided in the contract and except for the services we provide on a software-as-a-service, or SaaS, basis, which would be available to the government agency on a fee-for-service basis.

The loss of a contract with one or more states or the FMCSA, as a result of the expiration, termination, or failure to renew the contract, if not replaced, could significantly reduce our revenues and profitability. If these revenue shortfalls were to occur, our business, results of operations, cash flows, and financial condition would be harmed. We cannot be certain if, when, or to what extent, governments might fail to renew or terminate any or all of their contracts with us.

Because we generally grant our government partners fully paid, perpetual licenses to use and modify certain software and applications we develop, upon a termination by them for cause or the natural expiration of our portal contracts, our government partners could elect to take over the operation and maintenance of our software and applications themselves, or hire a competitor to operate and maintain such software and applications. Any such decision to do so could adversely affect our revenues and profits.

After termination for cause or the natural expiration of our portal contracts, it is possible that governments and their contractors may operate the portals themselves using the perpetual use license we typically are contractually obligated to provide to them. This license generally permits the government to use and modify the software programs and other applications we have developed for them in the operation of their portals (excluding software applications that we provide on a SaaS basis) on a perpetual, royalty-free basis. This perpetual use license could make it easier and more cost effective for our customers to elect not to enter into a new contract with us after the expiration of one of our portal contracts. Any such election could adversely affect our revenues and profits. Additionally, anyone using our software programs and other applications may inadvertently allow our intellectual property or other information to fall into the hands of third parties, including our competitors. In the event that a contract is terminated prior to the natural expiration of the term without cause, the terms of the respective contract typically require the government to pay a fee to us in order to continue to use our software in its portal.

The growth in our revenues may be limited by the number of governments and government agencies that choose to provide eGovernment services using our business model and by the finite number of governments with which we may contract for our eGovernment services.

Our revenues are generated principally from contracts with state governments and government agencies within a state to provide eGovernment services on behalf of those government entities to complete transactions and distribute public information electronically. The growth in our revenues largely depends on government entities adopting our business model. We cannot assure that government entities will choose to provide eGovernment services or continue to provide eGovernment services at current levels, or that they will provide such services with private assistance or by adopting our model. Generally, under our self-funded business model, we initially generate a high proportion of our revenues from a limited number of transaction-based services we provide on behalf of a limited number of government agencies within a state, as other agencies consider participating in the portal. The failure to secure contracts with certain government agencies, particularly those agencies that control motor vehicle driver history records, could result in revenue levels insufficient to support a portal's operations on a self-sustained, profitable basis. In addition, as there is a finite number of states remaining with which we can contract for our services, future increases in our revenues may depend, in part, on our ability to expand our business model to include multi-state cooperative organizations, local governments, and federal agencies and to broaden our service offerings to diversify our revenue streams across our lines of business. We cannot assure that we will succeed in expanding into new markets, broadening our service offerings, or that our services will be adaptable to those new markets.

Some government partners may require specific government legislation to be passed for us to initiate and maintain our government contracts, and any failure to pass such legislation or any repeal or modification of or successful challenge to such legislation or changes in applicable law could adversely affect our business and results of operations.

Because a central part of our business includes the execution of contracts with governments under which we remit a portion of user fees charged to businesses and citizens to state agencies, it is sometimes necessary for governments to draft and adopt specific legislation before the government can circulate a request for proposal ("RFP") to which we can respond or can otherwise award such a contract. Furthermore, the maintenance of our government contracts requires the continued acceptance of our approach, including any enabling legislation and any implementing regulations. In the past, various entities that use the portals we operate to obtain government information have challenged the authority of governments to electronically provide these services exclusively through portals like those we operate, and other parties have challenged the contract awarding process in particular instances. A successful challenge in the future could result in a proliferation of alternative ways to obtain these services, which would harm our business, results of operations, cash flows, and financial condition. The repeal or modification of any enabling legislation, changes in applicable law or other legal challenge would also harm our business, results of operations, cash flows, and financial condition.

We earn a significant percentage of our revenues from a limited number of services and customers, and any reduction in demand for those services from those customers could adversely affect our results of operations.

We obtain a high proportion of our revenues from a limited number of services. A significant portion of our revenues is derived from data resellers' use of our portals to access motor vehicle driver history records for the automobile insurance industry. Transaction-based fees charged for access to motor vehicle driver history records accounted for approximately 35% of our total consolidated revenues for the year ended December 31, 2014. One of these data resellers, LexisNexis Risk Solutions, accounted for approximately 24% of our total consolidated revenues during this period, or approximately three-quarters of our revenues from motor vehicle driver history records. This service is expected to continue to account for a significant portion of our revenues in the near future. However, regulatory changes or the development or increased use of alternative information sources, such as credit scoring, could materially reduce our revenues from this service. Our contracts with data resellers generally may be terminated at any time after a 60-day notice and may be terminated immediately at the option of any party in certain circumstances. A reduction in revenues from currently popular services would harm our business, results of operations, cash flows, and financial condition.

We could suffer significant losses and liability if our operations, systems or platforms are disrupted or fail to perform properly or effectively.

The continued efficiency and proper functionality of our technical systems, platforms, and operational infrastructure is integral to our performance. As we grow, we continue to purchase equipment and to upgrade our technology and network infrastructure to handle increased traffic on our Internet-based portals. We may experience occasional system interruptions and delays that make our applications and eGovernment services unavailable or slow to respond and prevent businesses and citizens from accessing information and services on our government portals. Any such interruptions or delays in the future could cause users to stop visiting our government portals and could cause our government partners to penalize us or terminate agreements with us. Our operations, systems and platforms may also be disrupted or fail due to catastrophic events such as natural disasters, telecommunications failures, power outages, cyber-attacks, terrorist attacks, or other catastrophic events. If any of these circumstances occurred, our business could be harmed.

The Internet-based services for some of our portals and applications are physically hosted individually by the state or city where we provide services on servers that we typically own or lease. Our other portals and applications are hosted at a leased Computer Data Center ("CDC") on servers that we own with a near real-time backup CDC located in a different geographic region of the country. CDC servers are virtually segmented by government partner while housing more than one government partner's services. An outage in one of the servers hosted outside one of the CDCs could affect that government partner's services. An outage at both of our leased CDCs, or at one CDC and to the connection to our backup facility, could affect more than one government partner's services. Any of these system failures could harm our business, results of operations, cash flows, and financial condition. Our insurance policies may not adequately compensate us for any losses that may occur due to any failures of or interruptions in our systems.

Our portal revenues could be harmed as a result of government budget deficits.

The majority of our portal revenues are derived from fees we charge to users for transactions conducted through our portals and share with our government partners. Budget-strapped governments may seek to reduce our transaction revenues from our self-funded business model or our profit margin on transactions, or may decide to operate the portals themselves. In addition, approximately 5% of our portal revenues in 2014 were derived from time and materials-based fees for application development and approximately 3% of our portal revenues in 2014 were derived from fixed fees for portal management services, both of which are paid directly to us by governments. In the event of budget deficits, our government partners may be required to curtail discretionary spending on such projects and our portal revenues could be harmed.

If our rate of growth accelerates, we may not effectively manage our growth, which would adversely affect our business and our results of operations.

Our growth rate may accelerate if we experience increased acceptance of our services under new or existing government contracts. If we cannot manage our growth effectively, we may not be able to coordinate the activities of our technical, accounting, and marketing staffs, and our business could be harmed. As part of our growth plan, we must implement new operational procedures and internal controls to expand, train, and manage our employees and to coordinate the operations of our various subsidiaries. If we cannot successfully implement eGovernment contracts that were recently awarded or may be awarded in the future in a timely and cost-effective manner or effectively manage the growth of our government portals, staff, software installation and maintenance teams, offices and operations, our business and results of operations may be adversely affected.

Our business will be adversely affected if we are unable to hire, integrate, train, or retain the qualified personnel that our business requires.

Our future success will depend, in part, on the efforts of our executive officers and other key employees, most of whom have extensive experience with us and in our industry. The loss of any of our executives or key employees could harm our business. In addition, we currently expect that we will need to hire additional personnel in all areas throughout 2015, including personnel for new operations in jurisdictions in which we may obtain contracts. We may not be able to retain our current key employees or attract, integrate, or retain other qualified employees in the future. If we do not succeed in attracting new personnel or integrating, retaining, and motivating our current personnel, our business could be harmed. In addition, new employees generally require substantial training in the presentation, policies, and positioning of our government portals and other services. This training will require substantial resources and management attention.

Because a major portion of our accounts receivable is generated from a small number of users, negative trends in their businesses could cause us significant credit loss and negatively impact our results of operations and financial condition.

LexisNexis Risk Solutions and other data resellers that represent a significant portion of our business have a period of time, generally within 25 days of billing, to remit payment. As a result, we are subject to a significant concentration of credit risk that these users will not pay for their purchases. Our credit risk may increase due to liquidity or solvency issues experienced by these users. At December 31, 2014, LexisNexis Risk Solutions accounted for approximately 24% of our consolidated accounts receivable. In addition, our business is generally subject to the risk that our customers and counterparties will fail to meet their obligations when due. While we perform ongoing credit evaluations of our customers, we generally do not require collateral to secure accounts receivable. If we were unable to collect a major portion of our accounts receivable, we may suffer significant losses and our results of operations, cash flows, financial condition, and liquidity may be adversely affected.

Increases in credit/debit card association and automated clearing house fees may result in the loss of customers or a reduction in our earnings.

From time to time, credit/debit card and electronic check processors increase the fees (interchange and assessment fees) that they charge companies such as us. We could attempt to pass these increases along to our government client customers, but this might result in the loss of those customers. If we elect not to pass along such increased fees to our government client customers in the future, we may have to absorb all or a portion of such increases thereby increasing our operating costs and reducing our earnings.

We may suffer substantial harm to our business if our government partners are not satisfied with our services or services provided by our third-party credit/debit card or electronic check processors.

We depend to a large extent on our relationships with our government partners, our reputation for high quality professional services and our commitment to preserving public trust to attract and retain customers. Through these relationships, we estimate that we processed over $20 billion of credit/debit card and electronic check payments for our government partners in 2014. As a result, if one of our government partners is not satisfied with our services or services provided by our third-party credit/debit card or electronic check processors, it may be more damaging to our business than to other businesses.

We depend on subcontractors or the third parties with whom we partner for certain projects, deliverables, or financial transaction processes. If these parties fail to satisfy their obligations to us or we are unable to maintain these relationships, our operating results and business prospects could be adversely affected.

Certain large and complex projects and certain transactions require that we utilize subcontractors or that our services and solutions integrate with the software, systems, or infrastructure requirements of other vendors and service providers. Our ability to serve our clients and deliver and implement our solutions in a timely manner depends on our ability to retain and maintain relationships with subcontractors, vendors, and service providers and the ability of these subcontractors, vendors, and service providers to meet their obligations in a timely manner, as well as on our effective oversight of their performance. There is a risk that we may have disputes with our subcontractors arising from, among other things, the quality and timeliness of work performed by the subcontractors or customer concerns about the subcontractors. Disputes with subcontractors could lead to litigation. Adverse judgments or settlements in legal disputes may result in significant monetary damages or injunctive relief against us. In addition, if any of our subcontractors fails to perform on a timely basis the agreed-upon services, our ability to fulfill our obligations as a prime contractor may be jeopardized. Subcontractor performance deficiencies could result in the termination of our contract for default. A termination for default could expose us to liability for damages and have an adverse effect on our business prospects, results of operations, cash flows, and financial condition and our ability to compete for future contracts and orders.

We may become subject to liability under rules and standards for processing electronic direct debit payments from bank accounts and credit card payments.

Our electronic check processing for online payments made by direct debit to a bank account is governed by rules and standards promulgated by the NACHA, an industry trade association of banking institutions and regional automated clearing house associations, and applicable law. Under those rules, we may become potentially liable for failing to handle transactions in accordance with those rules, or for failing to return funds within the prescribed time frame to the bank account of the person or entity disputing our authorization to debit those funds, before the dispute regarding our authorization is resolved. Our agreements with governmental agencies at the state, federal, and local levels transfer this obligation for rapid funds return during dispute resolution to the government agencies affected, but in the event that such return does not happen, we may be potentially liable notwithstanding the government’s failure, and we may not be able to obtain reimbursement from the government involved or from the individual user or entity that initiated the debit without authorization. If this were to happen, our business, results of operations, cash flows, and financial condition may be adversely affected. Our credit card and electronic check processing is also subject to the applicable rules of the particular card association or clearinghouse and applicable law. Additionally, in certain jurisdictions we are or may become subject to laws governing money transmitters and anti-money laundering for certain services we offer. If our interpretations, or those of our government partners, of any laws, rules, regulations, or standards are determined to be incorrect, we could be exposed to significant financial liability, substantial fines and penalties, cease and desist orders, and other sanctions that could restrict or eliminate our ability to provide certain of our services in one or more states or accept certain types of transactions in one or more states, or could force us to make costly changes to our business practices. Even if we are not forced to change our business practices, the costs of compliance and obtaining necessary licenses and regulatory approvals could be substantial.

We may become liable for violations of the Driver Privacy Protection Act as adopted federally or in each state.

We act as an outsourced manager on behalf of states, for electronic access to records pertaining to motor vehicles and motor vehicle operators (driver history records) by users and certain permitted resellers. These records are the largest group of records for which we process electronic access for state agencies, and are processed in the majority of our portal states. These records contain “personal information” and “sensitive personal information” as defined by the federal Driver Privacy Protection Act, and state versions of that Act adopted in every state (collectively, the “DPPA”). The DPPA regulates categories and circumstances under which “personal information” and “sensitive personal information” may be disclosed to requestors. Each state has procedures for complying with the DPPA, and such procedures may vary from state to state. We closely follow each respective state’s existing compliance procedures for general access, with our electronic access. If we fail to follow such procedures, or we grant access to users not in compliance with such procedures, or if such procedures are deemed inadequate in some way, our business, results of operations, cash flows, and financial condition may be adversely affected. The DPPA permits statutory damages to be awarded to the subjects of such records, even without proof of actual damage, for certain infringements or violations of the DPPA. We may be potentially liable for such damages in such instances, and we may have no recourse against the state, or the state may not be jointly and severally liable with us.

We may become liable for violations of the Safe, Accountable, Efficient Transportation Equity Act: A Legacy for Users if we disclose Pre-employment Screening Program (PSP) record data improperly.

A federal law known as the Safe, Accountable, Efficient Transportation Equity Act: A Legacy for Users ("SAFETEA-LU") limits access to PSP record data to commercial driving operator applicants, their prospective employers, and the employers' agents, and can only be used in screening applicants for employment. Because the service is only useful if data access is quick and easy, we employ sophisticated systems of online agreements and validation information gathering, plus third party verification systems, to verify the identity and bona fides of any requestor. These systems may be incomplete or contain errors or omissions, or their operation may be flawed, resulting in improper disclosure or disclosure for an improper purpose or to improper persons. If we fail to follow appropriate procedures, or we grant access to users not in compliance with such procedures, or if such procedures are deemed inadequate in some way, we may become subject to monetary fines, penalties, or damages, and our business, results of operations, cash flows, and financial condition may be adversely affected. Furthermore, the magnitude of the potential number of transactions accessed through our PSP service may result in monetary damages that are correspondingly large. In addition, any failure to comply with SAFETEA-LU may result in reputational damage.

We may become liable for violations of the Fair Credit Reporting Act as adopted federally.

Our PSP service for the FMCSA requires that PSP record data be disclosed in compliance with the Fair Credit Reporting Act ("FCRA"). We may also have other online services that are or become subject to the FCRA. If we fail to follow such procedures, or we grant access to users not in compliance with such procedures, or if such procedures are deemed inadequate in some way, or if other services we offer are deemed subject to the FCRA, we may become subject to monetary fines, penalties or damages, and our business, results of operations, cash flows, and financial condition may be adversely affected. The FCRA permits statutory damages to be awarded to the subjects of such records, even without proof of actual damage, for certain infringements or violations of the FCRA. In addition, any failure to comply with the FCRA may result in reputational damage.

Compliance with changing regulation of corporate governance, public disclosure and other regulatory requirements or industry standards may result in additional expenses.

Changing laws, regulations, and standards relating to corporate governance, public disclosure and other regulatory requirements or industry standards, including the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the Sarbanes-Oxley Act of 2002, new SEC regulations and NASDAQ Global Select Market rules, or Payment Card Industry standards are creating uncertainty for public companies such as ours. These new or changed laws, regulations, and standards are subject to varying interpretations in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining adequate and appropriate standards of corporate governance and public disclosure. As a result, our efforts to comply with evolving laws, regulations, and standards have resulted in, and certain regulations could continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. Further, as a result of increasing regulation, our board members and executive officers could face an increased risk of personal liability in connection with the performance of their duties. As a result, we may have difficulty attracting and retaining qualified board members and executive officers, which could harm our business. If our efforts to comply with new or changed laws, regulations, and standards differ from the activities intended by regulatory or governing bodies due to ambiguities in the laws themselves or related to practice, our reputation may be harmed.

If our competitors become more successful in developing and selling products for government-managed services, then our business could be adversely affected.

The principal alternative to our model is a government-designed and managed service that utilizes other vendors' technologies, products, and services. Companies that have expertise in marketing and providing technical electronic services to government entities compete with us by further developing their services and increasing their focus on this area of their businesses. Many of our potential competitors are national or international in scope and have greater resources than we do. These resources could enable our potential competitors to initiate severe price cuts or take other measures in an effort to gain market share. Additionally, in some geographic areas, we may face competition from smaller consulting firms with established reputations and political relationships with potential government partners. If we do not compete effectively or if we experience any pricing pressures, reduced profit margins or loss of market share resulting from increased competition, our business, results of operations, cash flows, and financial condition may be adversely affected.

Our intellectual property rights are valuable and any inability to protect them could harm our company.

We regard our intellectual property as important to our success. We rely on a combination of nondisclosure and other contractual arrangements with governments, our employees, subcontractors, and other third parties, copyrights and privacy and trade secret laws to protect and limit the distribution of the proprietary applications, documentation and processes we have developed in connection with the eGovernment services we offer. Despite our precautions, third parties may succeed in misappropriating our intellectual property or independently developing similar intellectual property. If we fail to adequately protect our intellectual property rights and proprietary information or if we become involved in litigation relating to our intellectual property rights and proprietary technology, our business could be harmed. Any actions we take may not be adequate to protect our proprietary rights, and other companies may develop technologies that are similar or superior to our proprietary technology.

The fees we collect for many of our services are subject to government regulation that could limit growth of our revenues and profitability.

Under the terms of our self-funded outsourced government portal contracts, we remit a portion of the transaction fees we collect to state agencies. Generally, our contracts provide that the amount of any transaction fees we charge is set by governments to provide us with a reasonable return or profit. We have limited control over the level of transaction fees we are permitted to retain. Our business, results of operations, cash flows, and financial condition may be harmed if the level of fees we are permitted to retain in the future is too low or if our costs rise without a commensurate increase in fees.

Because we have certain outsourced portal contracts that contain performance bond requirements and/or indemnification provisions, we may suffer monetary liability and damages if claims arise under such contracts. In addition, any failure to meet such obligations, whether or not a performance bond is in place, may result in reputational damage.

We are bound by performance bond commitments on certain outsourced portal contracts. Performance deficiencies by us or our subcontractors could result in a default of a performance bond, which could expose us to liability and have an adverse effect on our business prospects, on our financial condition, and on our ability to compete for future outsourced portal contracts. Further, under certain of our outsourced portal contracts, we are required to fully indemnify our government clients against claims arising from our performance or the performance of our subcontractors. If we fail to meet our contractual obligations, if our performance or our subcontractors' performance gives rise to claims, if our government partners are otherwise held liable for claims related to the services provided under our contracts, or if our government partners seek to hold us liable for claims or damages related to the services provided under our contracts, we could be subject to legal liability, monetary damages and loss of customer relationships.

Our business will suffer if we lose the right to provide access to the content filed or distributed through our outsourced portals or we are held liable for the content that we pass to users from government entities.

We do not own or create the content filed or distributed through our outsourced portals. We depend on the governments with which we contract to supply information and data feeds to us on a timely basis to allow businesses and citizens to complete transactions and obtain government information. We cannot assure that these data sources will continue to be available in the future. Government entities could terminate their contracts to provide data. Changes in regulations could mean that governments no longer collect some types of data or that the data is protected by more stringent privacy rules preventing uses now made of it. Moreover, our data sources are not always subject to exclusive agreements, so that data included in our services also may be included in those of our potential competitors. In addition, we depend upon the accuracy and reliability of government computer systems and data collection for the content distributed through our portals. The loss, unavailability, or inaccuracy of our data sources in the future, or the loss of our exclusive right to distribute some of the data sources, could harm our business, results of operations, cash flows, and financial condition.

Because we aggregate and distribute sometimes private and sensitive public information over the Internet, we may face potential liability for defamation, libel, negligence, invasion of privacy, copyright or trademark infringement, and other claims based on the nature and content of the material that is published on or distributed through our outsourced government portals. Most of the agreements through which we obtain consent to disseminate this information do not contain indemnity provisions in our favor. These types of claims have been brought, sometimes successfully, against online services and websites in the past. We cannot assure that our general liability or errors and omissions insurance will be adequate to indemnify us for all liability that may be imposed. Any liability that is not covered by our insurance or is in excess of our insurance coverage could severely harm our business operations and financial condition.

Because a large portion of our business relies on a contractual bidding process whose parameters are established by governments, the length of our sales cycles is uncertain and could lead to shortfalls in our financial results for a particular period and harm our financial condition.

Our dependence on a bidding process to initiate many new projects, the parameters of which are established by governments, results in uncertainty in our sales cycles because the duration and the procedures for each bidding process vary significantly according to each government entity's policies and procedures. The time between the date of initial contact with a government for a bid and the award of the bid may range from as little as 180 days to up to several years. The bidding process is subject to factors, over which we have little or no control, including:

- political acceptance of the concept of government agencies contracting with third parties to receive or distribute public information, which has been offered traditionally only by the government agencies and often without charge;
- the internal review process by the government agencies for bid acceptance;
- the need to reach a political accommodation among various interest groups;

- changes to the bidding procedure by the government agencies;
- changes to state legislation authorizing government's contracting with third parties to receive or distribute public information;
- changes in government administrations;
- the budgetary restrictions of government entities;
- the competition generated by the bidding process;
- the possibility of cancellation or delay by the government entities; and
- government's manner of drafting bid documents, which may partially, or not at all, utilize our method of providing eGovernment services.

We depend on the bidding process for a significant part of our business. Therefore, any material delay in the bidding process, changes to bidding practices and policies, the failure to receive the award of a bid, or the failure to execute a contract may disrupt our financial results for a particular period and harm our financial condition.

We may need more working capital to fund operations and expand our business, and any failure to obtain such needed working capital would adversely affect our business.

We believe that our current financial resources and cash generated from operations will be sufficient to meet our present working capital and capital expenditure requirements for at least the next 12 months. However, we may need to raise additional capital before this period ends to further:

- fund operations, if unforeseen costs or revenue shortfalls arise;
- support our expansion into other states and government agencies beyond what is contemplated in 2015 if unforeseen opportunities arise;
- expand our product and service offerings beyond what is contemplated in 2015 if unforeseen opportunities arise;
- respond to unforeseen competitive pressures; and
- acquire technologies beyond what is contemplated.

Our future liquidity and capital requirements will depend upon numerous factors, including the success of our existing and new service offerings and potentially competing technological and market developments. However, any projections of future cash flows are subject to substantial uncertainty. If current cash, lines of credit, and cash generated from operations are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity securities, issue debt securities, or draw on the unused portion of our line of credit. The sale of additional equity securities could result in dilution to our stockholders. From time to time, we expect to evaluate the acquisition of or investment in businesses and technologies that complement our various eGovernment businesses. Acquisitions or investments might affect our liquidity requirements or cause us to sell additional equity securities or issue debt securities. There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all. If adequate funds were not available on acceptable terms, our ability to develop or enhance our applications and services, take advantage of future opportunities, or respond to competitive pressures would be significantly limited. This limitation could harm our business, results of operations, cash flows, and financial condition.

The seasonality of use for some of our eGovernment services may harm our quarterly results.

The use of some of our eGovernment services is seasonal, particularly the accessing of motor vehicle driver history records, resulting in lower revenues from this service under existing portal contracts in the fourth quarter of each calendar year, due to the smaller number of business days in this quarter and a lower volume of transactions during the holiday periods.

Our quarterly results of operations may be volatile and difficult to predict. If our quarterly results of operations fail to meet the expectations of public market analysts or investors, the market price of our common stock may decrease significantly.

Our future revenues and results of operations may vary significantly from quarter to quarter due to a number of factors, many of which are outside of our control, and any of which may harm our business. These factors include:

- the commencement, completion, or termination of contracts during any particular quarter;
- the introduction of new eGovernment services by us or our competitors;
- technical difficulties or system downtime affecting the operation of our eGovernment services;

- the amount and timing of operating costs and capital expenditures relating to the expansion of our business operations and infrastructure;
- changes in economic conditions;
- the result of negative cash flows due to capital investments; and
- the incurrence of significant charges related to acquisitions.

Due to the factors noted above and the other factors described in these Risk Factors, our financial performance in a particular quarter may be lower than we anticipate and if we are unable to reduce spending in that quarter, our results of operations for that quarter may be harmed. One should not rely on quarter-to-quarter comparisons of our results of operations as an indication of future performance. It is possible that in some future periods our results of operations may be below the expectations of public market analysts and investors. If this occurs, the price of our common stock may decline.

We may be subject to intellectual property infringement claims, which are costly to defend and could limit our ability to use certain technologies in the future.

We may become subject to claims alleging infringement of third-party intellectual property rights. Our portal contracts require us to indemnify our government partners for infringing software we build or use. Any claims could subject us to costly litigation, and may require us to pay damages and develop non-infringing intellectual property or acquire licenses to the intellectual property that is the subject of the alleged infringement. Licenses for such intellectual property may not be available on acceptable terms or at all. Litigation regarding intellectual property rights is common in the Internet and software industries. We expect third-party infringement claims involving Internet technologies and software products and services to increase. If an infringement claim is filed against us, we may be prevented from using certain technologies and may incur significant costs resolving the claim. We cannot assure that our applications and services do not infringe on the intellectual property rights of third parties. In addition, we have agreed, and expect that we may agree in the future, to indemnify certain of our customers against claims that our services infringe upon the intellectual property rights of others. We could incur substantial costs in defending ourselves and our customers against infringement claims. In the event of a claim of infringement, we and our customers may be required to obtain one or more licenses from third parties. We cannot assure that we or our customers could obtain necessary licenses from third parties at a reasonable cost or at all.

We depend on technology licensed to us by third parties, and the loss of access to, or improper management of the licensing of this technology could delay implementation of our services or force us to pay higher license fees or fines.

We license numerous third-party technologies and applications that we incorporate into our existing service offerings, and on which, in the aggregate, we are substantially dependent. There can be no assurance that the licenses for such third-party technologies will not be terminated or that we will be able to license third-party technology and applications for future services. While we do not believe that one individual technology or application we license is material to our business, changes in or the loss of third party licenses could lead to a material increase in the costs of licensing, or to our products becoming inoperable or their performance being materially reduced. The result could be that we may need to incur additional development or procurement costs in an attempt to ensure continued performance of our services, and either the cost of such undertakings or the failure to successfully complete such undertakings could have a material adverse effect on our business, results of operations, cash flows, and financial condition. Additionally, because of the decentralized nature of our operations, licensing of third party technology can be complex and difficult to track and continually monitor. Our inability to do so could result in fines, an increase in licensing fees, or the temporary inability to utilize the third party technology until licensing issues are resolved.

We are subject to independent audits as requested by our government customers. Deficiencies in our performance under a government contract could result in contract termination, reputational damage, or financial penalties.

Each government entity with which we contract for outsourced portal services has the authority to require an independent audit of our performance and financial management of contracted operations in each respective state. The scope of audits could include inspections of income statements, balance sheets, fee structures, collections practices, service levels, security practices, and our compliance with contract provisions and applicable laws, regulations, and standards. We cannot assure that a future audit will not find any material performance deficiencies that would result in an adjustment to our revenues and result in financial penalties. Moreover, the consequent negative publicity could harm our reputation among other governments with which we would like to contract. All of these factors could harm our business, results of operations, cash flows, and financial condition.

A prolonged economic slowdown could harm our operations.

A prolonged economic slowdown or recession could materially impact our operations to the extent it results in reduced demand for Internet-based access to governmental services. In addition, it may hinder our efforts to obtain new business by distracting the attention of governments or impairing the ability of governments to hear or act upon our value proposition due to reduced personnel or turnover. These same factors may also jeopardize our renewal or rebid opportunities on existing contracts. If current market and economic conditions deteriorate, we may experience adverse impacts on our business, results of operations, cash flows, and financial condition.

Our cash could be adversely affected if any of the financial institutions in which we hold our cash fails or becomes subject to other adverse conditions in the financial or credit markets.

Our cash primarily includes cash on hand in the form of bank deposits. We maintain our cash with major financial institutions. Deposits with these financial institutions exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits. At December 31, 2014, the amount of cash covered by FDIC deposit insurance was $10.6 million, and $77.4 million of cash was above the FDIC deposit insurance limits. These balances could be affected if one or more of the financial institutions with which we deposit funds fails or becomes subject to other adverse conditions in the financial or credit markets. To date, we have experienced no loss or lack of access to our cash; however, we can provide no assurance that access to our cash will not be impacted or that we will not lose deposited funds in excess of FDIC insurance limits as a result of the failure or insolvency of any these financial institutions or adverse conditions in the financial and credit markets.

We may be unable to integrate new technologies and industry standards effectively, which may adversely affect our business and results of operations.

Our future success will depend on our ability to enhance and improve the responsiveness, functionality, and features of our services in accordance with industry standards and to address the increasingly sophisticated technological needs of our customers on a cost-effective and timely basis. Our ability to remain competitive will depend, in part, on our ability to:

- enhance and improve the responsiveness, functionality, and other features of the government portals we offer;
- continue to develop our technical expertise;
- develop and introduce new services, applications, and technology to meet changing customer needs and preferences; and
- influence and respond to emerging industry standards and other technological changes in a timely and cost-effective manner.

We cannot assure that we will be successful in responding to the above technological and industry challenges in a timely and cost-effective manner. If we are unable to integrate new technologies and industry standards effectively, our business could be harmed.

Our strategic alliances and potential acquisitions may entail numerous risks and uncertainties which could adversely affect our business and results of operations.

As part of our business strategy, we have made and may continue to enter into strategic alliances or to make acquisitions that we believe will complement our existing businesses, increase traffic to our government partners' sites, enhance our services, broaden our software and applications offerings or technological capabilities, or increase our profitability. Future alliances or acquisitions could present numerous risks and uncertainties, including:

- the inability to successfully market, distribute, deploy, and manage new products and services that we have limited or no experience in managing;
- the diversion of management's attention from our core business;
- risks associated with entering markets in which we have limited or no experience;
- adverse effects on existing business relationships with existing suppliers and customers;
- erosion of our brand equity in the eGovernment or financial markets;
- difficulties in the assimilation of operations, personnel, technologies, and information systems of the acquired companies;
- the risk that an acquired business will not perform as expected or will have profit margins significantly lower than ours;
- potential loss of key employees, particularly those of acquired businesses;
- potentially dilutive issuances of equity securities, which may be freely tradable in the public market;
- impairment, restructuring, and other charges related to goodwill and other long-lived intangible assets; and
- the incurrence of debt and related interest and other expenses.

We cannot assure that we will be able to successfully integrate products or technologies of strategic alliances or new businesses we may acquire in the future. We also may not realize cost efficiencies or synergies that we anticipate.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal administrative office occupies a total of approximately 35,000 square feet of leased space at 25501 West Valley Parkway, Suite 300, Olathe, Kansas 66061. All of our subsidiaries also lease their facilities. We do not own any real property and do not currently anticipate acquiring real property or buildings in the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

Litigation

We are involved from time to time in legal proceedings and litigation arising in the ordinary course of business. However, we are not currently a party to any material legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the NASDAQ Global Select Market under the symbol "EGOV." The following table shows the range of high and low sales prices reported on the NASDAQ Global Select Market for the periods indicated.

Fiscal Year Ended December 31, 2014	High	Low
First Quarter	$ 24.97	$ 17.81
Second Quarter	19.90	15.53
Third Quarter	19.40	15.00
Fourth Quarter	19.30	15.58

Fiscal Year Ended December 31, 2013	High	Low
First Quarter	$ 19.35	$ 15.62
Second Quarter	19.30	15.51
Third Quarter	24.15	16.68
Fourth Quarter	25.99	20.54

As of February 9, 2015, there were approximately 222 holders of record of shares of our common stock.

Dividend Policy

On October 27, 2014, our Board of Directors declared a special cash dividend of $0.50 per share, payable to stockholders of record as of November 7, 2014. The dividend, totaling approximately $33.0 million, was paid on November 20, 2014, out of our available cash.

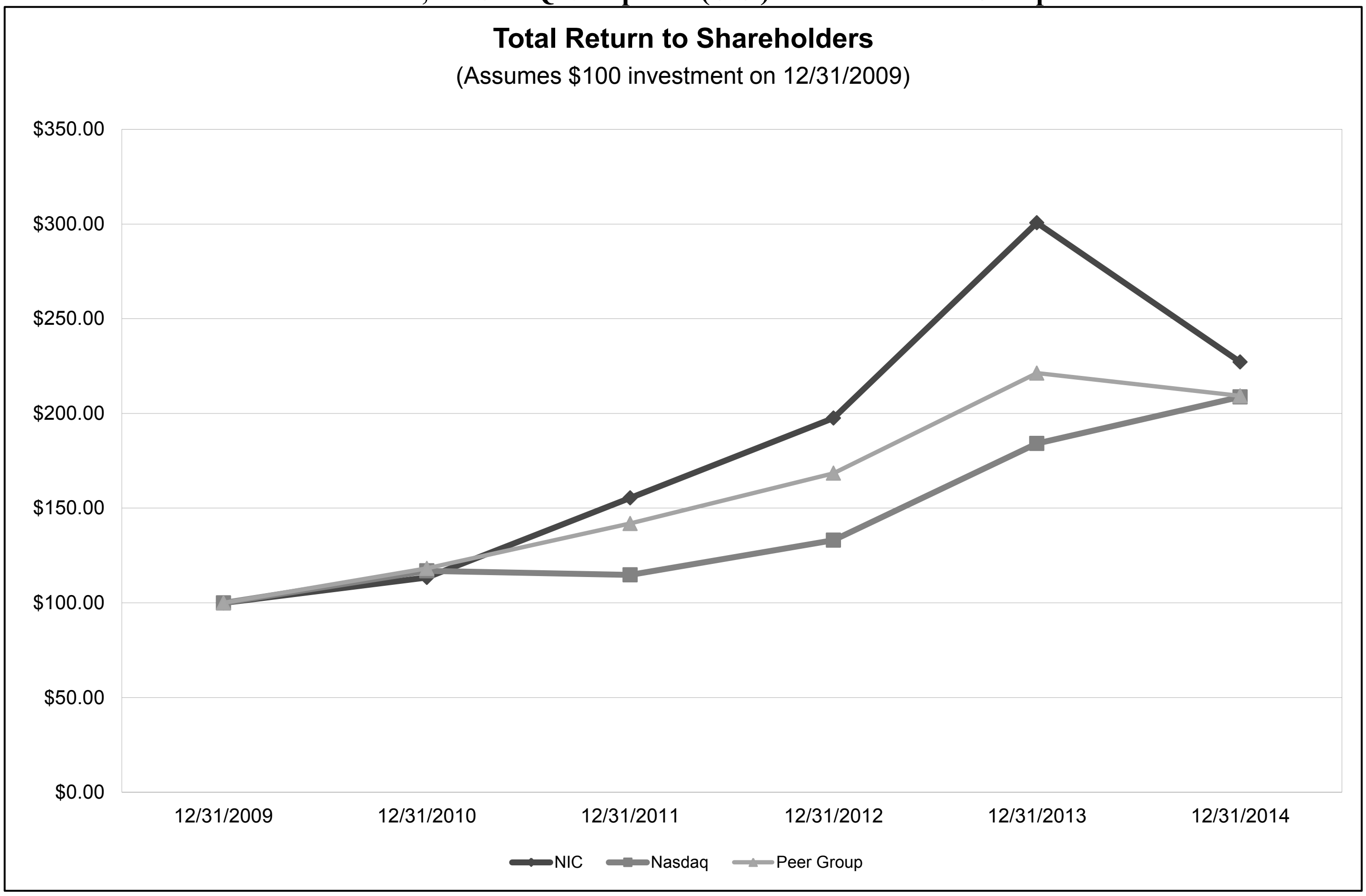
On October 28, 2013, our Board of Directors declared a special cash dividend of $0.35 per share, payable to stockholders of record as of November 8, 2013. The dividend, totaling approximately $23.0 million, was paid on January 2, 2014, out of our available cash.

Any future determination as to the payment of dividends will be made at the discretion of our Board of Directors and will depend on our operating results, financial condition, capital requirements, general business conditions and such other factors as our Board of Directors deems relevant.

Performance Graph

The performance graph below compares the annual change in our cumulative total stockholder return on our common stock during a period commencing on December 31, 2009, and ending on December 31, 2014 (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 our 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 December 31, 2009. On February 26, 2010, we paid a special cash dividend of $0.30 per share; on December 30, 2010, we paid a special cash dividend of $0.25 per share; on January 3, 2012, we paid a special cash dividend of $0.25 per share; on December 5, 2012, we paid a special cash dividend of $0.25 per share; on January 2, 2014, we paid a special cash dividend of $0.35 per share; and on November 20, 2014, we paid a special cash dividend of $0.50 per share, all of which are included in the presentation of our performance. We did not pay any other dividends on our common stock during the period commencing on December 31, 2009, and ending on December 31, 2014. The stock price performance on the graph below is not necessarily indicative of our future price performance.

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



Total Return Analysis	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
NIC Inc.	$ 100.00	$ 113.33	$ 155.35	$ 197.50	$ 300.60	$ 227.07
NASDAQ Composite	$ 100.00	$ 116.91	$ 114.81	$ 133.07	$ 184.06	$ 208.71
Peer Group	$ 100.00	$ 118.18	$ 141.91	$ 168.43	$ 221.26	$ 209.23

The Peer Group consists of five companies, each with a business focus similar to that of NIC. While not all of the companies provide services exclusively to governments, the services provided are similar to those we provide. The members of the Peer Group are as follows: Towers Watson & Co (TW), Accenture, Ltd. (ACN), International Business Machines Corp. (IBM), Maximus, Inc. (MMS) and ACI Worldwide, Inc. (ACIW). Watson Wyatt Worldwide, Inc. was included in the Peer Group until January 1, 2010, when it merged with Towers Perrin to form Towers Watson & Co (TW). Official Payments Holdings, Inc. (OPAY) was included in the Peer Group until November 5, 2013, when it was acquired by ACI Worldwide, Inc.

The performance graph and related text are being furnished to and not filed with the SEC, and will not be deemed to be "soliciting material" or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate such information by reference into such a filing.

Share Repurchases

During the fourth quarter of 2014, we acquired and cancelled shares of common stock surrendered by employees to pay income taxes due upon the vesting of restricted stock as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
October 24, 2014	700	$ 16.26	N/A	N/A
October 25, 2014	233	16.26	N/A	N/A
October 28, 2014	803	17.45	N/A	N/A
November 5, 2014	276	16.95	N/A	N/A
Total	2,012	16.82	N/A	N/A

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data set forth below should be read in conjunction with the Consolidated Financial Statements and related Notes, and "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this Form 10-K (amounts in thousands in the tables below, except per share data).

	Year Ended December 31,				
	2014	2013	2012	2011	2010
Consolidated Statement of Income Data:					
Total revenues	$ 272,097	$ 249,279	$ 210,172	$ 180,899	$ 161,534
Operating income before income taxes	63,014	52,559	43,176	38,470	29,385
Net income	39,058	32,038	26,339	22,942	18,363
Net income per share - basic	0.59	0.49	0.40	0.35	0.28
Net income per share - diluted	0.59	0.49	0.40	0.35	0.28

	December 31,				
	2014	2013	2012	2011	2010
Consolidated Balance Sheet Data:					
Total assets	$ 173,078	$ 179,974	$ 145,140	$ 144,354	$ 111,376
Long-term debt (includes current portion of notes payable/capital lease obligations)	-	-	-	-	-
Dividends declared per share:					
October 27, 2014	0.50	-	-	-	-
October 28, 2013	-	0.35	-	-	-
November 5, 2012	-	-	0.25	-	-
October 24, 2011	-	-	-	0.25	-
December 3, 2010	-	-	-	-	0.25
February 1, 2010	-	-	-	-	0.30
Total stockholders' equity	104,137	91,936	78,924	65,077	53,270

As further discussed in Note 8 in the Notes to Consolidated Financial Statements included in this Form 10-K, we declared a special cash dividend in October 2014 totaling approximately $33.0 million, which was paid out of our available cash in November 2014; we declared a special cash dividend in October 2013 totaling approximately $23.0 million, which was paid out of our available cash in January 2014; we declared a special cash dividend in November 2012 totaling approximately $16.3 million, which was paid out of our available cash in December 2012; we declared a special cash dividend in October 2011 totaling approximately $16.2 million, which was paid out of our available cash in January 2012; we declared and paid a special cash dividend totaling approximately $16.2 million out of our available cash in December 2010; and we declared and paid a special cash dividend totaling approximately $19.3 million out of our available cash in February 2010.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Caution about Forward-Looking Statements

Statements in this Annual Report on Form 10-K regarding NIC and its business, which are not current or historical facts, are "forward-looking statements" that involve risks and uncertainties. Forward-looking statements include, but are not limited to, *statements of plans and objectives, statements of future economic performance or financial projections, statements regarding the planned implementation of new portal contracts, statements of assumptions underlying such statements, and statements of the Company's or management's intentions, hopes, beliefs, expectations, or predictions of the future. For example, statements like we "expect," we "believe," we "plan," we "intend," or we "anticipate" are forward-looking statements. Investors should be aware that our actual operating results and financial performance may differ materially from our expressed expectations because of risks and uncertainties about the future including those risks discussed in this 2014 Annual Report on Form 10-K.*

There are a number of important factors that could cause actual results to differ materially from those suggested or indicated by such forward-looking statements. These include, among others, NIC's ability to successfully integrate into its operations recently awarded eGovernment contracts; NIC's ability to implement its new portal contracts in a timely and cost-effective manner; NIC's ability to successfully increase the adoption and use of eGovernment services; the possibility of reductions in fees or revenues as a result of budget deficits, government shutdowns, or changes in government policy; the success of the Company in renewing existing contracts and in signing contracts with new states and federal government agencies; continued favorable government legislation; NIC's ability to develop new services; existing states and agencies adopting those new services; acceptance of eGovernment services by businesses and citizens; competition; the possibility of security breaches or disruptions through cyber attacks or other events and any resulting liability; general economic conditions; and the other factors discussed under "CAUTIONS ABOUT FORWARD LOOKING STATEMENTS" in Part I and "RISK FACTORS" in Part I, Item 1A of this 2014 Annual Report on Form 10-K. Investors should read all of these discussions of risks carefully.

All forward-looking statements made in this Annual Report on Form 10-K speak only as of the date of this report. We will not necessarily update the information in this 2014 Annual Report on Form 10-K if any forward-looking statement later turns out to be inaccurate. Investors are cautioned not to put undue reliance on any forward-looking statement.

What We Do – An Executive Summary

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

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

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

Our objective is to strengthen our position as the leading provider of Internet-based eGovernment services. Key strategies to achieve this objective include:

- *Renew all current outsourced government portal contracts* – First and foremost, we will strive to obtain renewal of all currently profitable outsourced government portal contracts. As of December 31, 2014, there were 11 contracts under which we provide outsourced portal services or software development and services that have expiration dates within the 12-month period following December 31, 2014.

- *Win new portal contracts* – A key objective of ours is to win new portal contracts with state and federal government agencies. We continue to invest in business development and marketing efforts, including a combination of strategic advertising and public relations initiatives. We have responded to several active portal procurement opportunities and realized significant benefits from our investments, including contracts with new government partners in recent years. During the third quarter of 2014, we were awarded a master contract with the state of Louisiana Division of Administration, Office of Technology Services ("Louisiana Division") that creates a framework to provide certain eGovernment services for a pilot period. The pilot period commenced during the first quarter of 2015 and we anticipate it will conclude in approximately 12-18 months. Subsequent to the pilot period, the Louisiana Division has the option to receive enterprise-wide eGovernment services pursuant to the master contract. During the first quarter of 2014, we were awarded a three-year contract by the state of Connecticut, which includes an option for the government to extend the contract up to an additional three years. During the second quarter of 2013, we were awarded a five-year contract by the state of Wisconsin, which includes an option for the government to extend the contract up to an additional five years. During the fourth quarter of 2012, we entered into a five-year contract with the Commonwealth of Pennsylvania, which includes an option for the state to extend the contract up to an additional five years.

  Our goal is to continue expanding our number of government partners by leveraging our strong relationships with current government partners and our reputation for providing proven eGovernment services. We intend to continue marketing our services to new governments in state, local, and federal jurisdictions. Our expansion efforts include developing relationships and sponsors throughout an individual government entity, pursuing strategic technology alliances, making presentations at conferences of government executives with responsibility for information technology policy, and developing contacts with organizations that act as forums for discussions between these executives.

- *Increase transactional revenues from our existing government portals* – Part of our strategy is to increase transactional revenues from our existing government portals by building new applications and services, taking successful applications and services and implementing them in our other government portal states, and increasing the adoption of existing portal applications and services within each state where we operate. We intend to accomplish this with new service offerings, increased operational focus, and expanded marketing initiatives. In addition, we will work closely with the governance authority for each of our partner portals to evaluate the pricing of new and existing services to encourage higher usage and increased revenue streams. We plan to continue our development of new secure online transactional services that enable government agencies to interact more effectively and efficiently with businesses, citizens, and other government agencies through multiple online channels, including mobile. We will continue to work with government agencies, professional associations, and other organizations to better understand the current and future needs of our customers. We will continue to work with our government partners to create awareness of the online alternatives to traditional government interaction through initiatives such as informational brochures, government voicemail recordings, and inclusion of website information on government communication materials. In addition, we will continue to update our portals to highlight new government service information provided on the portals. We plan to work with professional associations to directly and indirectly communicate to their members the potential convenience, ease of use, and other benefits of the services our portals offer.

  In addition to overall portal revenue growth, which includes both organic revenue growth and growth from new portal contracts, an important financial metric that we use to gauge our success in increasing transactional revenues in our existing portal businesses is same state revenue growth. We define same state revenues as those from states in operation and generating self-funded revenues for two full periods.

  Our long-term goal is to grow same state revenues at least 8-10% per year. Same state portal revenues grew 8% in 2014 and 14% in 2013. Our same state revenue growth in 2014 was lower than our growth in 2013 primarily due to lower growth in same state Interactive Government Services or IGS (previously referred to as non-DMV), transaction-based revenues. IGS, transaction-based revenues consist of transaction fees generated by means other than from providing electronic access to motor vehicle driver history records, or DHR (previously referred to as DMV). As IGS, transaction-based revenues continue to become a larger component of overall portal revenues, our growth in same state IGS, transaction-based revenues becomes more important to our overall growth as a company. Same state IGS, transaction-based revenues grew 9% in 2014 compared to 27% in 2013. The higher same state IGS, transaction-based revenue growth rate in 2013 was primarily due to the deployment and increased adoption of key revenue generating services in certain portals, including a significant motor vehicle inspection service with the Texas Department of Public Safety ("DPS"), which was in operation for a full year in 2013 compared to only four months in 2012 following its launch in September 2012.

Growth in DHR transaction-based revenues is also an important factor in our goals for overall same state revenue growth. Historically, DHR price increases have been relatively infrequent, and our ability to grow same state DHR revenues has been limited, as such revenues have been driven by broader economic factors outside of our control. Absent DHR price increases, same state DHR revenue growth has historically ranged from flat to 2% per year. Same state DHR revenues increased by 7% in 2014 and increased by 5% in 2013. As further discussed below, the increase in the same state DHR transaction-based revenue growth rate in 2014 was mainly due to a price increase in one state portal that became effective in the third quarter of 2013, price increases in two other state portals that became effective in the second quarter of 2014, and higher transaction volumes across various portals.

- *Continue to grow profitability* – In addition to driving same state revenue growth, part of our strategy is to increase profitability by driving cost containment efforts throughout the Company and maintaining a lean organizational structure that fosters entrepreneurial decision-making and innovation, and accentuates the financial leverage of our business model.

  An important financial metric that we use to gauge our portal profitability is portal gross profit percentage, or gross profit rate, which is calculated by dividing portal gross profit (portal revenues minus cost of portal revenues, excluding depreciation and amortization) by portal revenues. Our portal gross profit rate was 39% in 2014, 37% in 2013 and 36% in 2012. We carefully monitor our portal gross profit percentage to strike the balance between generating a solid return for our stockholders and delivering value to our government partners through reinvestment in our portal operations (which we believe also benefits our stockholders). As further discussed below, the increase in the portal gross profit rate in 2014 was mainly due to the write-off in 2013 of accounts receivable totaling $5.1 million recorded in 2013 for amounts we elected not to pursue from the Commonwealth of Pennsylvania; and, to a lesser extent, start-up losses in 2013 from our newer Pennsylvania and Wisconsin portals.

  We also view selling & administrative expenses, expressed as a percentage of total consolidated revenues, to be an important indicator of the relative year-over-year growth in our corporate level expenses. Selling & administrative expenses as a percentage of total consolidated revenues were 14% for 2014, 15% for 2013 and 14% for 2012.

  Finally, our consolidated operating income margin (operating income before income taxes divided by total consolidated revenues) is an important measure of our overall profitability. This metric was 23% in 2014, 21% in 2013 and 20% in 2012. The increase in our 2014 consolidated operating income margin was primarily attributable to lower net costs related to the SEC matter, which was successfully concluded in December 2013, as further discussed below; an increase in portal gross profits, which was primarily driven by contributions from our newer Pennsylvania, Wisconsin and Connecticut portals; and an increase in software & services gross profits, due mainly to revenue growth from our contract with the FMCSA to operate the PSP and from various other software & services businesses, including payment processing.

Overview of Business Models and Revenue Recognition

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

Our outsourced portal businesses

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

- <u>IGS transaction-based</u>: transaction fees from interactive government services, referred to as IGS (previously referred to as non-DMV), are fees from sources other than electronic access to motor vehicle driver history records, for transactions conducted by business users and consumer users through our portals and are generally recurring. For a representative listing of the IGS applications we currently offer through our portals, refer to Part I, Item 1 in this Form 10-K.

- <u>DHR transaction-based</u>: transaction fees from driver history records, referred to as DHR (previously referred to as DMV), are fees for providing electronic access to motor vehicle driver history records from our state portals to data resellers, insurance companies, and other pre-authorized customers on behalf of our state partners, and are generally recurring.

- Portal software development: these are revenues from the performance of application development projects and other time and materials services for our government partners. While we actively market these services, they do not have the same degree of predictability as our transaction-based or portal management revenues and are not generally recurring. As a result, these revenues are excluded from our recurring portal revenue percentage.

- Portal management: these are revenues from the performance of fixed fee portal management services for our government partners in the states of Indiana, Delaware and Arizona and are generally recurring. Our Arizona portal contract expired on March 26, 2014 and we currently expect our Delaware contract to expire after a transition period ending March 31, 2015.

The highest volume, most commercially valuable service we offer is electronic access to DHR records. This service accounted for approximately 35%, 34% and 34% of our total consolidated revenues in 2014, 2013 and 2012, respectively. We believe that while this service will continue to be an important source of revenue, its contribution as a percentage of total consolidated revenues on an individual portal basis will decline modestly as other sources grow. LexisNexis Risk Solutions, which resells these records to the auto insurance industry, accounted for approximately 24%, 22% and 23% of total consolidated revenues in 2014, 2013 and 2012, respectively. In addition, we offer a service in several of our states for online motor vehicle registration and licensing. This service accounted for approximately 12%, 13% and 10% of our total consolidated revenues in 2014, 2013 and 2012, respectively.

In our outsourced portal businesses for 2014, IGS transaction-based revenues represented approximately 55% of portal revenues, DHR transaction-based revenues represented approximately 37%, portal software development revenues represented approximately 5% and portal management revenues represented approximately 3%. Approximately 76% of our transaction-based revenues related to business-to-government transactions and 24% related to citizen-to-government transactions.

Transaction-based revenues from our outsourced state portal business units are highly correlated to state population, but are also affected by pricing policies established by government entities for public records, the number and growth of commercial enterprises, and the government entity's development of policy and information technology infrastructure supporting electronic government.

LexisNexis Risk Solutions and other data resellers and companies who access DHR records have entered into contracts with the portals our subsidiaries operate to request these records from the various states with which we have contracts. Under the terms of these contracts, we provide data resellers with driver's license and traffic records that vary by contract, for fees per record requested. The fees charged to all entities that access DHR records are the same for records of a particular state. We typically collect the entire fee, of which a certain portion is remitted to the state by statute. These contracts are generally self-renewing until canceled by one side or the other, and generally may be terminated at any time after a 60-day notice. These contracts may be terminated immediately at the option of any party upon a material breach of the contract by the other party. Furthermore, these contracts are immediately terminable if the state statute allowing for the public release of these records is repealed.

We charge for electronic access to records on a per-record basis and, depending upon government policies, also on a fixed or sliding scale bulk basis. Our fees are set by negotiation with the government agencies that control the records and are typically approved by a government sanctioned oversight authority. Generally, our contracts provide that the amount of any fees we retain is set by governments to provide us with a reasonable return or profit. We have limited control over the level of fees we are permitted to retain. We recognize revenues from transactions (primarily transaction-based information access fees and filing fees) on an accrual basis net of the transaction fee due to the government, and we bill certain end-user customers, including high-volume DHR data resellers to the auto insurance industry, on a monthly basis. We typically receive a majority of payments via electronic funds transfer and credit/debit card within 25 days of billing and remit payment to governments within 30 to 45 days of the transaction. The costs that we pay state agencies for data access are accrued as accounts receivable and accounts payable at the time revenue from the access of public information is recognized. We typically must remit a certain amount or percentage of these fees to government agencies regardless of whether we ultimately collect the fees. The pricing of transactions varies by the type of transaction and by state.

We expense as incurred all employee costs to start up, operate, and maintain outsourced government portals as costs of performance under the contracts because, after the completion of a defined contract term, the government entity with which we contract typically receives a perpetual, royalty-free license to the applications we developed, except applications provided on a SaaS basis. Such costs are included in cost of portal revenues in the consolidated statements of income.

Our software & services businesses

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

Critical Accounting Policies

Many estimates and assumptions involved in the application of generally accepted accounting principles have a material impact on our reported financial condition and operating performance and on the comparability of such reported information over different reporting periods. A critical accounting policy is one which is both important to the portrayal of our financial condition and results of operations and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates and assumptions about the effect of matters that are inherently uncertain. Our significant accounting policies are described in Note 2 in the Notes to Consolidated Financial Statements included in this Form 10-K. We have identified the policies below as critical to our business operations and the understanding of our results of operations. Note that the preparation of our consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

Uncertain tax positions

The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous. We are also subject to periodic audits by government tax authorities of our income tax returns. We are required to make many subjective assumptions and judgments regarding our income tax exposures. Interpretations of and guidance surrounding income tax laws and regulations change over time. Changes in our subjective assumptions and judgments can materially affect amounts recognized in the consolidated balance sheets and statements of income. See Notes 2 and 9 in the Notes to Consolidated Financial Statements included in this Form 10-K for additional detail on our uncertain tax positions.

Deferred income taxes

We recognize deferred income taxes for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end based on enacted laws and statutory rates applicable in each tax jurisdiction to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. We are required to make many subjective assumptions and judgments in determining deferred income tax assets and liabilities. Changes in our assumptions and judgments can materially affect amounts recognized in the consolidated balance sheets and statements of income. For additional discussion of deferred income taxes, see Notes 2 and 9 in the Notes to Consolidated Financial Statements included in this Form 10-K.

Stock-based compensation

We measure stock-based compensation cost for service-based restricted stock awards at the grant date based on the calculated fair value of the award, and recognize an expense over the employee's requisite service period (generally the vesting period of the grant). We measure stock-based compensation cost for performance-based restricted stock awards at the date of grant, based on the fair value of shares expected to be earned at the end of the performance period, and recognize an expense over the performance period based upon the probable number of shares expected to vest. We also estimate and exclude compensation cost related to awards not expected to vest based upon estimated forfeitures. Measuring stock-based compensation cost of restricted stock awards requires judgment, including estimating the probable number of shares expected to vest. In addition, estimating the number of performance-based restricted stock awards expected to be earned is dependent on our expectations of future operating results over a specified performance period in relation to specified performance criteria. Changes in our subjective assumptions and judgments can materially affect amounts recognized in the consolidated balance sheets and statements of income. See Note 10 in the Notes to Consolidated Financial Statements included in this Form 10-K for additional detail on our stock-based compensation.

Financial Analysis of Years Ended December 31, 2014, 2013 and 2012

In this section, we are providing more detailed information about our operating results and changes in financial position over the past three years. This section should be read in conjunction with the Consolidated Financial Statements and related Notes included in this Form 10-K.

Due to the expiration of our contract with the Commonwealth of Virginia on August 31, 2013 and the expiration of our contract with the state of Arizona on March 26, 2014, the operating results for our legacy Virginia and Arizona portals have been removed from the same state category for the year ended December 31, 2014. Furthermore, our newer portal contracts with the states of Pennsylvania, Wisconsin and Connecticut have been excluded from the same state category for the year ended December 31, 2014, because they had not generated self-funded revenues for two full periods.

We reclassified certain income statement employee benefit-related expenses for the years ended December 31, 2013 and 2012 to conform to the new 2014 presentation. The reclassification resulted in a reduction of selling & administrative expenses of \$4.0 million and \$3.4 million for the years ended December 31, 2013 and 2012, respectively, and a corresponding increase in cost of portal revenues (\$3.9 million and \$3.3 million for the years ended December 31, 2013 and 2012, respectively) and cost of software & services revenues (\$0.1 million for each of the years ended December 31, 2013 and 2012). In addition, the reclassification resulted in a reduction of selling & administrative expenses as a percentage of total consolidated revenues of 1% and 2% for the years ended December 31, 2013 and 2012, respectively, and a corresponding decrease in portal gross profit percentage (2% for each of the years ended December 31, 2013 and 2012) and software & services gross profit percentage (1% and 2% for the years ended December 31, 2013 and 2012, respectively). The reclassification had no effect on total operating expenses, operating income, net income, earnings per share or cash flows.

Results of Operations

Key Financial Metrics	2014	2013	2012
Revenue growth - outsourced portals	9%	19%	17%
Same state revenue growth - outsourced portals	8%	14%	10%
Recurring portal revenue as a % of total portal revenues	95%	94%	92%
Gross profit % - outsourced portals	39%	37%	36%
Revenue growth - software & services	16%	20%	11%
Gross profit % - software & services	71%	68%	64%
Selling & administrative expenses as a % of total revenues	14%	15%	14%
Operating income margin % (operating income as a % of total revenues)	23%	21%	20%

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

Portal Revenues Analysis	2014	% Change	2013	% Change	2012
IGS transaction-based (formerly, Non-DMV)	$139,716	9%	$127,898	26%	$101,216
DHR transaction-based (formerly, DMV)	95,753	14%	83,671	18%	70,896
Portal software development	12,205	(8%)	13,309	(20%)	16,660
Portal management	8,070	(22%)	10,305	7%	9,643
Total	$255,744	9%	$235,183	19%	$198,415

Portal revenues in 2014 increased 9%, or approximately $20.6 million, over 2013. The increase was driven by an 8%, or approximately $16.9 million, increase in same state portal revenues (portals in operation and generating self-funded revenues for two full periods), and a 4%, or approximately $8.7 million, increase from our newer portals in Connecticut ($3.2 million), which began generating revenues in April 2014, Wisconsin ($3.1 million), which began generating revenues in September 2013 and Pennsylvania ($2.4 million), which began generating self-funded revenues in October 2013, as further discussed below. These increases were partially offset by a 3% decrease in revenues, or approximately $5.0 million, from our legacy Arizona and Virginia portals due to contract expirations, as further discussed above. Our 9% portal revenue growth in 2014 was lower than the 19% portal revenue growth we achieved in 2013 primarily due to IGS revenues from the motor vehicle inspection service with the Texas DPS, launched in September 2012, being included for full periods in 2014 and 2013.

Same state portal revenues in 2014 increased 8%, or approximately $16.9 million, over 2013 primarily due to higher revenues across several portals. Our 8% same state revenue growth in 2014 was lower than the 14% same state revenue growth we achieved in 2013 due mainly to lower growth in same state IGS transaction-based revenues in 2014. Same state IGS transaction-based revenues increased 9% in 2014 due mainly to higher revenues from our Texas, Colorado and Arkansas portals, which were driven by several key services, including vital record searches and professional license renewals in Texas, motor vehicle registrations in Colorado and payment processing in Arkansas. Same state IGS transaction-based revenue growth was 27% in 2013 due mainly to the motor vehicle inspection service with the Texas DPS, as further discussed above, and to a lesser extent, the deployment and increased adoption of key revenue generating services in other state portals. Same state DHR revenues grew 7% in 2014 compared to 5% in 2013. The increase in same state DHR revenues in 2014 was mainly due to a price increase in one state portal in the third quarter of 2013 and price increases in two other state portals in the second quarter of 2014, and to higher transaction volumes across various portals. Absent DHR price increases, same state DHR revenue growth has historically ranged from flat to 2% per year. Same state portal software development revenues decreased 4% in 2014, primarily due to higher project-based revenues in 2013 from our Texas and Montana portals, among others.

Portal revenues in 2013 increased 19%, or approximately $36.8 million, over 2012. Of this increase, 14%, or approximately $27.0 million, was attributable to an increase in same state portal revenues, and 5%, or approximately $9.8 million, was attributable to increased revenues totaling $11.8 million from our newer portals, including Pennsylvania ($6.6 million); Wisconsin ($1.4 million); Oregon ($1.8 million), which began generating revenues in June 2012; and Maryland ($2.0 million), which began generating revenues in May 2012; partially offset by a $2.0 million decrease in revenues from our legacy Virginia portal due to contract expiration, as further discussed above. As further discussed in Note 2 in the Notes to Consolidated Financial Statements in this Form 10-K, we elected not to pursue collection of approximately $5.1 million of outstanding accounts receivable from the Commonwealth of Pennsylvania for eGovernment services provided from January 1, 2013 to June 30, 2013, and recorded a non-cash pre-tax charge in cost of portal revenues of approximately $5.1 million (approximately $0.05 per share on an after-tax basis) in the third quarter of 2013 to write-off amounts due from the Commonwealth through June 30, 2013. We did not recognize revenue under the contract subsequent to June 30, 2013, until the contract became self-funded in October 2013.

Same state portal revenues in 2013 increased 14%, or approximately $27.0 million, over 2012 due to higher revenues from our Texas, New Jersey and Colorado portals, among others. Our same state revenue growth in 2013 was driven by higher same state IGS transaction-based revenue growth of 27% and, to a lesser extent, higher same state DHR transaction-based revenue growth of 5%, partially offset by a 20% decrease in same state portal software development revenues. The increase in same state IGS transaction-based revenues in 2013 was attributable to strong performance from several key applications, including the motor vehicle inspection service for the Texas DPS, as further discussed above, tax filings and motor vehicle registrations in New Jersey and Texas, and court record searches in Colorado. The increase in same state DHR transaction-based revenues in 2013 was mainly due to an increase in transaction volumes at our Texas portal, among others, and to a lesser extent, a DHR price increase at one state portal in the third quarter of 2013. Our same state portal software development revenue decreased 20% in 2013, primarily due to the expiration of certain Master Work Order projects in Texas on August 31, 2012, as previously disclosed.

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

Cost of Portal Revenues Analysis	2014	% Change	2013	% Change	2012
Fixed costs	$101,224	3%	$ 98,568	18%	$ 83,353
Variable costs	54,961	13%	48,439	11%	43,523
Total	$156,185	6%	$147,007	16%	$126,876

Cost of portal revenues in 2014 increased 6%, or approximately $9.2 million, over 2013 due mainly to a 7%, or approximately $10.8 million, increase in same state costs, and a 1%, or approximately $1.0 million, increase in costs from our newer portals in Wisconsin, Connecticut and Pennsylvania. These cost increases were partially offset by a 2% decrease in costs, or approximately $2.6 million, from our legacy Arizona and Virginia portals due to the contract expirations further discussed above and in Note 2 in the Notes to Consolidated Financial Statements in this Form 10-K. Our 6% cost of portal revenue growth in 2014 was lower than the 16% growth in 2013 due primarily to the $5.1 million accounts receivable write-off recorded in 2013 for amounts we elected not to pursue from the Commonwealth of Pennsylvania, as further discussed above.

The increase in same state cost of portal revenues in 2014 was partially attributable to higher variable fees to process credit/debit card transactions due to a change in the mix of payment card types for certain services in our Texas portal and higher IGS transaction volumes across several other portals, in addition to higher employee compensation and benefit costs, as well as development subcontracting and software maintenance costs across various portals. A significant percentage of our IGS transaction-based revenues are generated from online applications whereby users pay for information or transactions via credit/debit cards. We typically earn a percentage of the credit/debit card transaction amount, but also must pay an associated interchange fee to the bank that processes the credit/debit card transaction. We generally earn a lower incremental gross profit percentage on these transactions as compared to our DHR and other IGS transactions. However, we plan to continue to implement these services as they contribute favorably to our operating income growth.

Our portal gross profit percentage was 39% in 2014, up from 37% in 2013, due mainly to the $5.1 million accounts receivable write-off recorded in 2013 for amounts we elected not to pursue from the Commonwealth of Pennsylvania, as discussed above, and to a lesser extent to start-up losses in 2013 from our newer Pennsylvania and Wisconsin portals (collectively, $3.6 million).

Cost of portal revenues in 2013 increased 16%, or approximately $20.1 million, over 2012. Of this increase, 9%, or approximately $11.0 million, was attributable to an increase in same state costs, and 7%, or approximately $9.1 million, was attributable to cost increases of $10.1 million from our newer portals in Wisconsin, Oregon, Maryland and Pennsylvania, including a $5.1 million accounts receivable write-off for amounts we elected not to pursue from the Commonwealth of Pennsylvania, as further discussed above, partially offset by a $1.0 million decrease in costs from our legacy Virginia portal due to contract expiration, as further discussed above.

The increase in same state cost of portal revenues in 2013 was partially attributable to higher employee compensation and benefit costs across various portals and certain costs related to the motor vehicle inspection service as part of the Texas DPS. In addition, the increase in 2013 was partially attributable to an increase in variable costs to process credit/debit card transactions, due mainly to higher transaction volumes from our portals in Texas, New Jersey and Colorado, among others.

Our portal gross profit percentage was 37% in 2013, up from 36% in 2012, due mainly to higher same state revenue growth and higher revenues from our newer portals in Oregon and Maryland, partially offset by start-up losses from our Pennsylvania and Wisconsin portals (collectively, $3.6 million).

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

Software & Services Revenues Analysis	2014	% Change	2013	% Change	2012
NIC Technologies	$ 10,902	3%	$ 10,611	5%	$ 10,061
Other	5,451	56%	3,485	105%	1,697
Total	$ 16,353	16%	$ 14,096	20%	$ 11,758

Software & services revenues in 2014 and 2013 increased 16% and 20%, respectively, or approximately $2.3 million in each year, due mainly to higher revenues of approximately $1.1 million in both 2014 and 2013 from our contract with the FMCSA as a result of increased adoption of the PSP, and higher revenues in 2014 and 2013 from various other software & services businesses, including payment processing and a construction lien service in North Carolina that commenced in April 2013 (revenues from this service were approximately $1.6 million in 2014 compared to $1.2 million in 2013).

COST OF SOFTWARE & SERVICES REVENUES. Cost of software & services revenues increased 6%, or approximately $0.3 million, in 2014 due mainly to variable fees to process credit/debit card transactions for new payment processing applications. Cost of software & services revenues increased 8%, or approximately $0.3 million, in 2013 due mainly to the launch of the new construction lien service in North Carolina, as further discussed above.

Our software & services gross profit percentage in 2014, 2013 and 2012 was 71%, 68% and 64%, respectively. The increase in our gross profit percentage in 2014 was primarily due to higher revenues from the PSP and other payment processing services. Our software and services gross profit percentage increased in 2013 due mainly to higher revenues from the PSP and the construction lien service in North Carolina.

SELLING & ADMINISTRATIVE. As a percentage of total consolidated revenues, selling & administrative expenses were 14%, 15% and 14% in 2014, 2013 and 2012, respectively. Selling & administrative expenses in 2014 increased 6%, or approximately $2.1 million, over 2013. The increase was mainly due to (i) higher personnel and software maintenance costs to support and enhance corporate-wide information technology, security and portal operations as a result of our growth; (ii) higher executive management incentive compensation, due to our strong operating results in the current and prior year periods; and (iii) higher stock compensation expense for our non-employee board of directors. These cost increases were partially offset by a $4.0 million decrease in net costs related to the SEC matter, which was successfully concluded in December 2013, as further discussed in Item 3, Legal Proceedings, and Note 7 in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on February 27, 2014. Selling & administrative expenses in 2013 increased 25%, or approximately $7.5 million, over 2012. The increase was due mainly to (i) higher net costs related to the SEC matter; (ii) higher management incentive compensation as a result of our strong operating results in 2013; and (iii) higher personnel and software and maintenance costs to support and enhance our corporate-wide information technology and security infrastructure as a result of our growth.

In 2013 and 2012, we incurred approximately $12.8 million and $4.5 million, respectively, in legal fees and other third-party costs related to the SEC matter. These expenses were reduced by approximately $8.8 million and $4.0 million, respectively, of reimbursement from our directors' and officers' liability insurance carrier, resulting in a net expense of approximately $4.0 million and $0.5 million in 2013 and 2012. We did not incur any expenses related to the SEC matter in 2014.

DEPRECIATION & AMORTIZATION. As a percentage of total consolidated revenues, depreciation & amortization was 3% for all periods presented. Depreciation & amortization expense in 2014 increased 10%, or approximately $0.8 million, over 2013. This increase was primarily attributable to capital expenditures for our centralized hosting environment to support and enhance corporate-wide information technology and security infrastructure, and capital expenditures for new services across various portals, including our newer portals in Pennsylvania, Wisconsin and Connecticut. Depreciation & amortization expense in 2013 increased 28%, or approximately $1.8 million, over 2012. This increase was primarily attributable to capital expenditures to implement the motor vehicle inspection service for the Texas DPS as part of the DPS Direct suite of services, which launched in September 2012, and capital expenditures for our centralized hosting environment to support and enhance corporate-wide information technology and security infrastructure. We will continue to make key information technology infrastructure and security investments to support the long-term expansion of our portal business.

INCOME TAXES. Our effective tax rate was approximately 38% in 2014 and 39% in both 2013 and 2012. For the 2014 and 2013 tax years, we recognized a favorable benefit related to the federal research and development tax credit totaling approximately $0.4 million and $0.8 million, respectively.

Liquidity and Capital Resources

Operating activities

Net cash provided by operating activities was approximately $51.3 million in 2014 as compared to $40.9 million in 2013. The increase in cash flow from operations in 2014 was primarily the result of a year-over-year increase in accounts payable in 2014 (as opposed to a year-over-year decrease in accounts payable in 2013) due mainly to the timing of payments to our government partners, and a year-over-year increase in operating income, excluding non-cash charges for depreciation & amortization, the provision for losses on accounts receivable, stock-based compensation and deferred income taxes.

Net cash provided by operating activities was approximately $40.9 million in 2013 compared to $28.4 million in 2012. The increase in cash flow from operations in 2013 was primarily the result of a year-over-year increase in operating income, excluding non-cash charges for depreciation & amortization, the provision for losses on accounts receivable, including the write-off of $5.1 million in accounts receivable from Pennsylvania, and stock-based compensation, and a year-over-year increase in other long-term liabilities related to unrecognized tax benefits associated with changes in our state taxes, primarily due to a change in apportionment methodology for certain states.

Investing activities

Net cash used in investing activities of approximately $6.9 million and $8.2 million, respectively in 2014 and 2013 primarily consisted of $5.4 million and $6.7 million of capital expenditures, which were for fixed asset additions in our outsourced portal businesses including additional capital expenditures in our new state portals and in our centralized hosting environment to support and enhance corporate-wide information technology and security infrastructure, including Web servers, purchased software and office equipment.

Net cash used in investing activities of $13.5 million in 2012 primarily consisted of $12.8 million of capital expenditures which were for fixed asset additions and capital expenditures to implement the motor vehicle inspection service for the Texas DPS, and normal fixed asset additions in our outsourced portal businesses including additional capital expenditures in our new state portals and in our centralized hosting environment to support and enhance our corporate-wide information technology and security infrastructure, including Web servers, purchased software, and office equipment.

Furthermore, in 2014, 2013 and 2012, we capitalized approximately $1.5 million, $1.5 million and $0.7 million, respectively, of internal-use software development costs relating to the standardization of customer management, billing and payment processing systems that support our portal operations and accounting systems. The increase in software capitalization in 2013 reflects software development costs for certain centrally developed and standardized customer management, billing, and payment processing software applications that we are providing to an increasing number of our government partners on a SaaS basis.

Financing activities

Net cash used in financing activities of $30.7 million in 2014 reflects the payment of a $33.0 million special cash dividend, partially offset by $1.1 million in proceeds from our employee stock purchase program and tax deductions of approximately $1.2 million related to stock-based compensation (See Note 10 in the Notes to the Consolidated Financial Statements included in this Form 10-K).

Net cash used in financing activities of $20.8 million in 2013 reflects the classification of $23.0 million of our available cash as restricted to pay the special cash dividend we declared on October 28, 2013, which was paid on January 2, 2014. Financing activities in 2013 also reflect the receipt of $0.9 million from our employee stock purchase program and tax deductions of approximately $1.3 million related to stock-based compensation.

Net cash used in financing activities of $14.2 million in 2012 reflects the payment of a $16.3 million special cash dividend, partially offset by $0.8 million in proceeds from our employee stock purchase program and tax deductions of approximately $1.4 million related to stock-based compensation.

Liquidity

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

We believe our working capital and current ratio are important measures of our short-term liquidity. Working capital, defined as current assets minus current liabilities, increased to $93.9 million at December 31, 2014, from $79.4 million at December 31, 2013, primarily due to the increase in cash flows from operating activities in 2014, as further described above. Our current ratio, defined as current assets divided by current liabilities, was 2.5 and 2.0 at December 31, 2014 and 2013, respectively.

At December 31, 2014, our unrestricted cash balance was $88.0 million compared to $74.2 million at December 31, 2013. We believe that our currently available liquid resources and cash generated from operations will be sufficient to meet our operating requirements, capital expenditure requirements, current growth initiatives, and dividend payments (if any) for at least the next 12 months without the need of additional capital. We have a $10.0 million unsecured revolving credit facility with a bank that is available to finance working capital, issue letters of credit and finance general corporate purposes. The credit agreement also includes an accordion feature that allows us to increase the available capacity under the credit facility by an additional $40.0

million, for a total of up to $50.0 million, subject to securing additional commitments from the bank. We can obtain letters of credit in an aggregate amount of $5.0 million, which reduces the maximum amount available for borrowing under the facility. In total, we had $3.6 million in available capacity to issue additional letters of credit and $8.6 million of unused borrowing capacity at December 31, 2014 under the facility. We were in compliance with all of the financial covenants under the revolving credit facility at December 31, 2014.

We issue letters of credit mainly as collateral for certain office leases, and to a much lesser extent, as collateral for performance on one of our outsourced government portal contracts. These irrevocable letters of credit are generally in force for one year. Letters of credit may have an expiration date of up to one year beyond the expiration date of the credit agreement. We had unused outstanding letters of credit totaling approximately $1.4 million at December 31, 2014. We are not currently required to cash collateralize these letters of credit.

At December 31, 2014, we were bound by performance bond commitments totaling approximately $6.6 million on certain outsourced government portal contracts. We have never had any defaults resulting in draws on performance bonds. Had we been required to post 100% cash collateral at December 31, 2014 for the face value of all performance bonds, letters of credit, and our line of credit in conjunction with a corporate credit card agreement, unrestricted cash would have decreased by approximately $9.0 million and would have been classified as restricted cash.

We currently expect our capital expenditures to range from $6.0 million to $7.0 million in fiscal 2015, which we intend to fund from our cash flows from operations and existing cash reserves. This estimate includes capital expenditures for normal fixed asset additions in our outsourced portal businesses and in our centralized hosting environment to support and enhance corporate-wide information technology and security infrastructure, including Web servers, purchased software, and office equipment.

On October 27, 2014, we declared a $0.50 per share special cash dividend totaling approximately $33.0 million that was paid out of our available cash on November 20, 2014. On October 28, 2013, we declared a $0.35 per share special cash dividend totaling approximately $23.0 million that was paid out of our available cash on January 2, 2014. We do not believe these dividends will have a significant effect on our future liquidity needs.

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

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

Any projections of future earnings and cash flows are subject to substantial uncertainty. If our cash generated from operations and the unused portion of our line of credit is insufficient to satisfy our liquidity requirements, we may seek to sell additional equity securities or issue debt securities. The sale of additional equity securities could result in dilution to our stockholders. There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all.

Off-balance sheet arrangements and contractual obligations

We do not have off-balance sheet arrangements that are not recorded or disclosed in our financial statements. The following table sets forth our future contractual obligations and commercial commitments as of December 31, 2014 (in thousands):

		Payments Due by Period			
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Operating lease obligations	$ 14,961	$ 4,354	$ 6,659	$ 3,948	$ -
Income tax uncertainties	2,798	-	2,798	-	-
Long-term debt obligations	-	-	-	-	-
Capital lease obligations	-	-	-	-	-
Purchase obligations	-	-	-	-	-
Other long-term liabilities	-	-	-	-	-
Total contractual cash obligations	$ 17,759	$ 4,354	$ 9,457	$ 3,948	$ -

While we have significant operating lease commitments for office space, except for our headquarters those commitments are generally tied to the period of performance under related portal contracts.

We have income tax uncertainties of approximately $2.8 million at December 31, 2014. These obligations are classified as non-current on our consolidated balance sheet, as resolution is expected to take more than a year. We estimate that these matters could be resolved in one to three years as reflected in the table above. However, the ultimate timing of resolution is uncertain. See Notes 2 and 9 in the Notes to Consolidated Financial Statements included in this Form 10-K for further discussion on income taxes.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We currently have no principal amounts of indebtedness outstanding under our line of credit. Borrowings under our line of credit bear interest at a floating rate. Interest on amounts borrowed is payable at a base rate equal to the higher of the Federal Funds Rate plus 0.5% or the bank's prime rate.

We do not use derivative financial instruments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of NIC Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in stockholders' equity and cash flows present fairly, in all material respects, the financial position of NIC Inc. and its subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Kansas City, Missouri
February 24, 2015

NIC INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash	$ 87,983,398	$ 74,245,467
Cash restricted for payment of dividend	-	22,982,447
Trade accounts receivable, net (Note 2)	57,467,548	52,818,352
Deferred income taxes, net	1,039,138	1,037,888
Prepaid expenses & other current assets	11,501,338	11,568,395
Total current assets	157,991,422	162,652,549
Property and equipment, net	12,247,240	15,167,051
Intangible assets, net	2,393,704	1,864,297
Other assets	446,051	289,968
Total assets	$ 173,078,417	$ 179,973,865
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 41,402,523	$ 39,111,916
Accrued expenses	19,750,737	20,822,443
Dividend payable	-	22,982,447
Other current liabilities	2,902,879	347,743
Total current liabilities	64,056,139	83,264,549
Deferred income taxes, net	1,535,680	2,431,568
Other long-term liabilities	3,349,820	2,341,461
Total liabilities	68,941,639	88,037,578
Commitments and contingencies (Notes 2, 3, 6, 7 and 9)	-	-
Stockholders' equity:		
Common stock, $0.0001 par, 200,000,000 shares authorized, 65,303,205 and 64,992,587 shares issued and outstanding	6,531	6,500
Additional paid-in capital	94,689,650	88,396,700
Retained earnings	9,440,597	3,533,087
Total stockholders' equity	104,136,778	91,936,287
Total liabilities and stockholders' equity	$ 173,078,417	$ 179,973,865

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

NIC INC.
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2014	2013	2012
Revenues:			
Portal revenues	$ 255,743,418	$ 235,183,005	$ 198,414,662
Software & services revenues	16,353,153	14,095,660	11,757,514
Total revenues	272,096,571	249,278,665	210,172,176
Operating expenses:			
Cost of portal revenues, exclusive of depreciation & amortization (Note 2)	156,185,335	147,007,246	126,876,373
Cost of software & services revenues, exclusive of depreciation & amortization (Note 2)	4,783,606	4,498,233	4,181,801
Selling & administrative (Note 2)	38,936,541	36,881,346	29,419,911
Depreciation & amortization	9,177,018	8,333,089	6,518,532
Total operating expenses	209,082,500	196,719,914	166,996,617
Operating income before income taxes	63,014,071	52,558,751	43,175,559
Income tax provision	23,955,852	20,520,660	16,836,811
Net income	$ 39,058,219	$ 32,038,091	$ 26,338,748
Basic net income per share (Note 2)	$ 0.59	$ 0.49	$ 0.40
Diluted net income per share (Note 2)	$ 0.59	$ 0.49	$ 0.40
Weighted average shares outstanding:			
Basic	65,223,549	64,888,978	64,500,244
Diluted	65,277,758	64,954,366	64,564,664

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

NIC INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in	Retained Earnings	
	Shares	Amount	Capital	(Accumulated Deficit)	Total
Balance, January 1, 2012	64,178,101	$ 6,418	$ 96,799,434	$ (31,729,090)	$ 65,076,762
Net income	-	-	-	26,338,748	26,338,748
Dividends declared	-	-	(16,337,681)	-	(16,337,681)
Dividend equivalents on performance-based restricted stock awards	-	-	(97,070)	-	(97,070)
Restricted stock vestings	539,936	54	203,605	-	203,659
Shares surrendered and cancelled upon vesting of restricted stock to satisfy tax withholdings	(167,977)	(17)	(2,113,139)	-	(2,113,156)
Stock-based compensation	-	-	3,802,572	-	3,802,572
Tax deductions relating to stock-based compensation	-	-	1,351,115	-	1,351,115
Shares issuable in lieu of dividend payments on unvested performance-based restricted stock awards	-	-	(106,589)	-	(106,589)
Issuance of common stock under employee stock purchase plan	78,045	8	806,002	-	806,010
Balance, December 31, 2012	64,628,105	6,463	84,308,249	(5,390,342)	78,924,370
Net income	-	-	-	32,038,091	32,038,091
Dividends declared	-	-	-	(22,982,447)	(22,982,447)
Dividend equivalents on performance-based restricted stock awards	-	-	-	(132,215)	(132,215)
Dividend equivalents cancelled upon forfeiture of performance-based restricted stock awards	-	-	49,909	-	49,909
Restricted stock vestings	401,794	40	82,580	-	82,620
Shares surrendered and cancelled upon vesting of restricted stock to satisfy tax withholdings	(124,890)	(12)	(2,276,151)	-	(2,276,163)
Stock-based compensation	-	-	4,025,960	-	4,025,960
Tax deductions relating to stock-based compensation	-	-	1,302,005	-	1,302,005
Shares issuable in lieu of dividend payments on unvested performance-based restricted stock awards	-	-	(314)	-	(314)
Issuance of common stock under employee stock purchase plan	87,578	9	904,462	-	904,471
Balance, December 31, 2013	64,992,587	6,500	88,396,700	3,533,087	91,936,287
Net income	-	-	-	39,058,219	39,058,219
Dividends declared	-	-	-	(32,977,016)	(32,977,016)
Dividend equivalents on performance-based restricted stock awards	-	-	-	(173,693)	(173,693)
Dividend equivalents cancelled upon forfeiture of performance-based restricted stock awards	-	-	35,496	-	35,496
Restricted stock vestings	357,960	36	72,483	-	72,519
Shares surrendered and cancelled upon vesting of restricted stock to satisfy tax withholdings	(115,443)	(12)	(2,276,235)	-	(2,276,247)
Stock-based compensation	-	-	6,103,898	-	6,103,898
Tax deductions relating to stock-based compensation	-	-	1,184,860	-	1,184,860
Shares issuable in lieu of dividend payments on unvested performance-based restricted stock awards	-	-	65,678	-	65,678
Issuance of common stock under employee stock purchase plan	68,101	7	1,106,770	-	1,106,777
Balance, December 31, 2014	65,303,205	$ 6,531	$ 94,689,650	$ 9,440,597	$ 104,136,778

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

NIC INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net income	$ 39,058,219	$ 32,038,091	$ 26,338,748
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation & amortization	9,177,018	8,333,089	6,518,532
Provision for losses on accounts receivable (Note 2)	414,042	5,229,277	259,630
Stock-based compensation expense	6,103,898	4,025,960	3,802,572
Deferred income taxes	(2,461,240)	(1,069,988)	734,208
Loss on disposal of property and equipment	174,497	51,301	16,219
Changes in operating assets and liabilities:			
(Increase) in trade accounts receivable, net	(5,063,238)	(2,786,606)	(6,214,772)
(Increase) decrease in prepaid expenses & other current assets	1,631,159	(927,644)	(1,918,230)
(Increase) in other assets	(156,083)	(37,203)	(8,992)
Increase (decrease) in accounts payable	2,326,103	(4,502,022)	(1,374,212)
Increase (decrease) in accrued expenses	(3,450,041)	(586,798)	397,072
Increase in other current liabilities	2,627,655	222,786	101,795
Increase (decrease) in other long-term liabilities	900,344	863,096	(262,995)
Net cash provided by operating activities	51,282,333	40,853,339	28,389,575
Cash flows from investing activities:			
Purchases of property and equipment	(5,380,800)	(6,717,034)	(12,776,316)
Proceeds from sale of property and equipment	400	16,153	-
Capitalized internal use software development costs	(1,478,623)	(1,489,286)	(713,501)
Net cash used in investing activities	(6,859,023)	(8,190,167)	(13,489,817)
Cash flows from financing activities:			
Cash dividends on common stock	(32,977,016)	-	(16,337,681)
Cash restricted for payment of dividend	-	(22,982,447)	-
Proceeds from employee common stock purchases	1,106,777	904,471	806,010
Tax deductions related to stock-based compensation	1,184,860	1,302,005	1,351,115
Net cash used in financing activities	(30,685,379)	(20,775,971)	(14,180,556)
Net increase in cash and cash equivalents	13,737,931	11,887,201	719,202
Cash and cash equivalents, beginning of period	74,245,467	62,358,266	61,639,064
Cash and cash equivalents, end of period	$ 87,983,398	$ 74,245,467	$ 62,358,266
Other cash flow information:			
Non-cash investing activities:			
Capital expenditures accrued but not yet paid	$ 102,088	$ 185,001	$ 144,559
Cash payments:			
Income taxes paid	$ 25,059,316	$ 15,939,214	$ 14,107,555
Cash dividends on common stock previously restricted for payment of dividend	$ 22,982,447	$ -	$ 16,230,966

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

1. THE COMPANY

NIC Inc. (the "Company" or "NIC") is a leading provider of eGovernment services that helps governments use the Internet to reduce internal costs, increase efficiencies and provide a higher level of service to businesses and citizens. The Company accomplishes this currently through two channels: its primary outsourced portal businesses and its software & services businesses.

In its primary outsourced portal businesses, the Company generally designs, builds, and operates Internet-based portals on an enterprise-wide basis on behalf of state and local governments desiring to provide access to government information and to complete secure government-based transactions through multiple online channels, including mobile devices. These portals consist of websites and applications the Company has built that allow businesses and citizens to access government information online and complete transactions, such as applying for a permit, retrieving government records, or filing a government-mandated form or report. Operating under multiple-year contracts (see Note 3), NIC markets the services and solicits users to complete government-based transactions and to enter into subscriber contracts permitting users to access the portal and the government information contained therein in exchange for transactional and/or subscription user fees. The Company typically manages operations for each contractual relationship through separate local subsidiaries that operate as decentralized businesses with a high degree of autonomy. NIC's self-funded business model allows the Company to generate revenues by sharing in the fees the Company collects from eGovernment transactions. The Company's government partners benefit through reducing their financial and technology risks, increasing their operational efficiencies, and gaining a centralized, customer-focused presence on the Internet, while businesses and citizens receive a faster, more convenient, and more cost-effective means to interact with governments. The Company is typically responsible for funding up-front investment and ongoing operations and maintenance costs of the outsourced government portals.

The Company's software & services businesses primarily include its subsidiaries that provide software development and services, other than outsourced portal services, to state and local governments as well as federal agencies (see Note 3).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Company classifies its revenues and cost of revenues into two categories: (1) portal and (2) software & services. The portal category generally includes revenues and cost of revenues from the Company's subsidiaries operating outsourced portals on behalf of state and local governments. The software & services category primarily includes revenues and cost of revenues from the Company's subsidiaries that provide software development and services, other than outsourced portal services, to state and local governments as well as federal agencies. The primary categories of operating expenses include: cost of portal revenues, cost of software & services revenues, selling & administrative and depreciation & amortization. Cost of portal revenues consists of all direct costs associated with operating government portals on an outsourced basis including employee compensation and benefits (including stock-based compensation), provision for losses on accounts receivable, subcontractor labor costs, telecommunications, fees required to process credit/debit card and automated clearinghouse transactions, gains and losses on disposal of assets and all other costs associated with the provision of dedicated client service such as dedicated facilities. For the year ended December 31, 2013, cost of portal revenues also includes a non-cash pre-tax charge of approximately $5.1 million (approximately $0.05 per share on an after-tax basis) to write-off accounts receivable due from the Commonwealth of Pennsylvania for eGovernment services provided from January 1, 2013 through June 30, 2013, as further discussed below. Cost of software & services revenues consists of all direct project costs to provide software development and services such as employee compensation and benefits (including stock-based compensation), subcontractor labor costs, gains and losses on disposal of assets and all other direct project costs including hardware, software, materials, travel and other out-of-pocket expenses. Selling & administrative expenses consist primarily of corporate-level expenses relating to human resource management, administration, information technology, security, legal, finance and accounting, internal audit and all costs of non-customer service personnel from the Company's software & services businesses, including information systems and office rent. Selling & administrative expenses also consist of management incentive compensation, including stock-based compensation, and corporate-level expenses for market development, public relations and gains and losses on disposal of assets. For the years ended December 31, 2013 and 2012, selling & administrative expenses also include $4.0 million and $0.5 million, respectively, in legal fees and other third-party costs, net of directors' and officers' liability insurance received, incurred in connection with the previously disclosed SEC matter, which was successfully concluded in December 2013, as previously disclosed in prior filings with the Securities and Exchange Commission ("SEC").

The Company reclassified certain income statement employee benefit-related expenses for the years ended December 31, 2013 and 2012 to conform to the new 2014 presentation. The reclassification resulted in a reduction of selling & administrative expenses of $4.0 million and $3.4 million for the years ended December 31, 2013 and 2012, respectively, and a corresponding increase in cost of portal revenues ($3.9 million and $3.3 million for the years ended December 31, 2013 and 2012, respectively) and cost of software & services revenues ($0.1 million for each of the years ended December 31, 2013 and 2012). The reclassification had no effect on total operating expenses, operating income, net income, earnings per share or cash flows. Certain other income statement amounts for the years ended December 31, 2013 and 2012 have been reclassified to conform to the 2014 presentation.

Basis of consolidation

The accompanying consolidated financial statements consolidate the Company together with all of its direct and indirect wholly owned subsidiaries. All intercompany balances and transactions have been eliminated.

Cash and cash equivalents

Cash and cash equivalents primarily include cash on hand in the form of bank deposits. For purposes of the consolidated balance sheets and consolidated statements of cash flows, the Company considers all non-restricted highly liquid instruments purchased with an original maturity of one month or less to be cash equivalents.

Cash restricted for payment of dividend

Restricted cash represents cash which is restricted for use by NIC. On October 28, 2013, the Company's Board of Directors declared a special cash dividend of $0.35 per share, payable to stockholders of record as of November 8, 2013. The dividend, totaling approximately $23.0 million, was paid on January 2, 2014. Cash used to pay the special dividend was classified as restricted at December 31, 2013.

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.

As previously disclosed in prior filings with the SEC, in September 2013, the Company elected not to pursue collection of outstanding accounts receivable from the Commonwealth of Pennsylvania (the "Commonwealth") and recorded a non-cash pre-tax charge of approximately $5.1 million (approximately $0.05 per share on an after-tax basis) in the third quarter of 2013 to write-off amounts due from the Commonwealth through June 30, 2013. The charge is included in cost of portal revenues of the Company's consolidated statements of income for the year ended December 31, 2013. The Company continued to provide eGovernment services under the contract with the Commonwealth, but did not recognize revenues under the contract subsequent to June 30, 2013 until the contract became self-funded in October 2013.

The Company's allowance for doubtful accounts at December 31, 2014 and 2013 was $0.5 million and $0.6 million, respectively.

Property and equipment

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

The Company periodically evaluates the carrying value of property and equipment to be held and used when events and circumstances warrant such a review. The carrying value of property and equipment is considered impaired when the anticipated undiscounted cash flows from the asset is separately identifiable and 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 flows 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 material impairment losses on property and equipment during the periods presented.

Software development costs and intangible assets

The Company expenses as incurred all employee costs to start up, operate, and maintain government portals on an outsourced basis as costs of performance under the contracts because, after the completion of a defined contract term, the government entity with which the Company contracts typically receives a perpetual, royalty-free license to the applications the Company developed, excluding applications provided on a SaaS basis. Such costs are included in cost of portal revenues in the consolidated statements of income.

The Company accounts for the costs of developing internal use computer software in accordance with authoritative accounting guidance for internal use computer software, whereby certain costs of developing internal use computer software are capitalized and amortized over their estimated useful life. For internal use computer software, the estimated economic life is typically 36 months from the date the software is placed in production. At December 31, 2014 and 2013, such costs are included in intangible assets in the consolidated balance sheets.

The Company carries intangible assets at cost less accumulated amortization. Intangible assets are generally amortized on a straight-line basis over estimated economic lives of the respective assets. At each balance sheet date, or whenever events or changes in circumstances warrant, the Company assesses the carrying value of intangible assets for possible impairment based primarily on the ability to recover the balances from expected future cash flows on an undiscounted basis. If the sum of the expected future cash flows on an undiscounted basis were to be less than the carrying amount of the intangible asset, an impairment loss would be recognized for the amount by which the carrying value of the intangible asset exceeds its estimated fair value. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. The Company has not recorded any impairment losses on intangible assets during the periods presented.

Accrued expenses

As of each balance sheet date, 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 compensation and benefits (including incentive compensation, bonuses, vacation, health insurance and employer 401(k) contributions), third-party professional service fees, payment processing fees, and miscellaneous other accruals.

Revenue recognition

Portal revenues

The Company recognizes revenue from providing outsourced government portal services (primarily transaction-based information access fees and filing fees) net of the transaction fees due to the government when the services are provided at the time of the transactions. The fees that the Company must remit to state agencies for data access and other statutory fees are accrued as accounts payable when the services are provided at the time of the transactions. The Company must remit a certain amount or percentage of these fees to government agencies regardless of whether the Company ultimately collects the fees. As a result, trade accounts receivable and accounts payable reflect the gross amounts outstanding at the balance sheet dates.

Revenue from service contracts to provide portal consulting, application development, and management services to governments is recognized as the services are provided at rates provided for in the contract.

Amounts received prior to providing services are recorded as unearned revenue. At each balance sheet date, the Company makes a determination as to the portion of unearned revenue that will be earned within one year and records that amount in other current liabilities in the consolidated balance sheets. The remainder, if any, is recorded in other long-term liabilities. Unearned revenues at December 31, 2014 and 2013 were approximately $1.3 million and $0.3 million, respectively, and were recorded in other current liabilities in the consolidated balance sheets.

Software & services revenues

The Company's software & services revenues primarily include revenues from subsidiaries that provide software development and services, other than outsourced portal services, to state and local governments as well as federal agencies. NIC Technologies currently earns a significant portion of its revenues from its contract with the U.S. Department of Transportation, Federal Motor Carrier Safety Administration ("FMCSA") to develop and manage the FMCSA's Pre-Employment Screening Program ("PSP") for motor carriers nationwide, using a self-funded, transaction-based business model. NIC Technologies recognizes revenue from its contract with the FMCSA (primarily transaction-based information access fees) when the services are provided at the time of the transactions. NIC Technologies also earns a portion of its revenues from fixed fee and time and materials application development and outsourced maintenance contracts with other government agencies and recognizes revenues as the services are provided. Its contract with the state of Michigan contains a general fiscal funding clause. The Company recognizes revenue under this contract if the probability of cancellation is determined to be a remote contingency.

Stock-based compensation

The Company measures stock-based compensation cost for service-based restricted stock awards at the grant date based on the calculated fair value of the award, and recognizes an expense over the employee's requisite service period (generally the vesting period of the grant). The Company measures stock-based compensation cost for performance-based restricted stock awards at the date of grant, based on the fair value of shares expected to be earned at the end of the performance period, and recognizes an expense over the performance period based upon the probable number of shares expected to vest. The Company estimates and excludes compensation cost related to awards not expected to vest based upon estimated forfeitures (See Note 10).

Income taxes

The Company, along with its wholly owned subsidiaries, files a consolidated federal income tax return. Deferred income taxes are recognized for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end based on enacted laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amounts expected to be realized.

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

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.

Earnings per share

Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are considered participating securities and are included in the computation of earnings per share pursuant to the two-class method for all periods presented. The two-class method is an earnings allocation formula that treats a participating security as having rights to undistributed earnings that would otherwise have been available to common stockholders. The Company's service-based restricted stock awards contain non-forfeitable rights to dividends and are considered participating securities. Accordingly, service-based restricted stock awards were included in the calculation of earnings per share using the two-class method for all periods presented. Unvested service-based restricted shares totaled approximately 0.6 million, 0.7 million and 0.7 million, respectively, at December 31, 2014, 2013 and 2012. Basic earnings per share is calculated by first allocating earnings between common stockholders and participating securities. Earnings attributable to common stockholders are divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by giving effect to dilutive potential common shares outstanding during the period. The dilutive effect of shares related to the Company's employee stock purchase plan is determined based on the treasury stock method. The dilutive effect of service-based restricted stock awards is based on the more dilutive of the treasury stock method or the two-class method assuming a reallocation of undistributed earnings to common stockholders after considering the dilutive effect of potential common shares other than the participating unvested restricted stock awards. The dilutive effect of performance-based restricted stock awards is based on the treasury stock method.

The following table sets forth the computation of basic and diluted earnings per share:

	December 31,		
	2014	**2013**	**2012**
Numerator:			
Net income	$ 39,058,219	$ 32,038,091	$ 26,338,748
Less: Income allocated to participating securities	(368,668)	(325,182)	(299,518)
Net income available to common stockholders	$ 38,689,551	$ 31,712,909	$ 26,039,230
Denominator:			
Weighted average shares - basic	65,223,549	64,888,978	64,500,244
Performance-based restricted stock awards	54,209	65,388	64,420
Weighted average shares - diluted	65,277,758	64,954,366	64,564,664
Basic net income per share:			
Net income	$ 0.59	$ 0.49	$ 0.40
Diluted net income per share:			
Net income	$ 0.59	$ 0.49	$ 0.40

Concentration of credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and accounts receivable. The Company limits its exposure to credit loss by depositing its cash with high credit quality financial institutions. 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, 2014, the amount of cash covered by FDIC deposit insurance was approximately $10.6 million, and approximately $77.4 million of cash was above the FDIC deposit insurance limit. The Company performs ongoing credit evaluations of its customers and generally requires no collateral to secure accounts receivable.

Segment reporting

The Company reports segment information in accordance with authoritative accounting guidance for segment disclosures based upon the "management" approach, which designates the internal organization that is used by management for making operating decisions and assessing performance as the source of the Company's segments. Authoritative guidance for segment disclosures also requires disclosures about products and services and major customers (See Note 11).

Use of estimates

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

Recent accounting pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued new authoritative literature, Revenue from Contracts with Customers, as part of a joint effort by the FASB and the International Accounting Standards Board to enhance financial reporting by creating common revenue recognition guidance and thereby improve the consistency of requirements, comparability of practices and usefulness of disclosures. The new standard will supersede much of the existing authoritative literature for revenue recognition. The standard and related amendments will be effective for the Company for its annual reporting period beginning January 1, 2017, including interim periods within that reporting period. Early application is not permitted. Entities are allowed to transition to the new standard by either recasting prior periods presented or recognizing the cumulative effect of the change in accounting principle in beginning stockholders' equity. The Company is currently evaluating the newly issued guidance, including which transition approach will be applied and the estimated impact it will have on the Company's consolidated financial statements.

3. OUTSOURCED GOVERNMENT CONTRACTS

Outsourced portal contracts

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

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

Any renewal of these contracts beyond the initial term by the government is optional and a government may terminate its contract prior to the expiration date if the Company breaches a material contractual obligation and fails to cure such breach within a specified period or upon the occurrence of other events or circumstances specified in the contract. In addition, 18 contracts under which the Company provides outsourced portal services or software development and services can be terminated by the other party without cause on a specified period of notice. Collectively, revenues generated from these contracts represented 62% of the Company's total consolidated revenues for the year ended December 31, 2014. In the event that any of these contracts is terminated without cause, the terms of the respective contract may require the government to pay a fee to the Company in order to continue to use the Company's software in its portal. In addition, the loss of one or more of the Company's larger state portal partners, such as Alabama, Arkansas, Colorado, Indiana, Kentucky, New Jersey, Pennsylvania, Tennessee, Texas, or Utah, as a result of the expiration, termination or failure to renew the respective contract, if such partner is not replaced, could significantly reduce the Company's revenues and profitability. See the discussion below under "Expiring Contracts" regarding the expiration of the Company's contracts with the states of Arizona and Delaware.

Under a typical portal contract, the Company is required to fully indemnify its government clients against claims that the Company's services infringe upon the intellectual property rights of others and against claims arising from the Company's performance or the performance of the Company's subcontractors under the contract. At December 31, 2014, the Company was bound by performance bond commitments totaling approximately $6.6 million on certain outsourced portal contracts. The Company has never had any defaults resulting in draws on performance bonds (See Note 6).

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

NIC Portal Entity	Portal Website (State)	Year Services Commenced	Contract Expiration Date (Renewal Options Through)
Connecticut Interactive, LLC	www.ct.gov (Connecticut)	2014	1/9/2017 (1/9/2020)
Wisconsin Interactive Network, LLC	www.wisconsin.gov (Wisconsin)	2013	5/13/2018 (5/13/2023)
Pennsylvania Interactive, LLC	www.pa.gov (Pennsylvania)	2012	11/30/2017 (11/30/2022)
NICUSA, OR Division	www.oregon.gov (Oregon)	2011	11/22/2021
NICUSA, MD Division	www.maryland.gov (Maryland)	2011	8/10/2016 (8/10/2019)
Delaware Interactive, LLC	www.delaware.gov (Delaware)	2011	3/31/2015 (in transition period)
Mississippi Interactive, LLC	www.ms.gov (Mississippi)	2011	12/31/2015 (12/31/2021)
New Jersey Interactive, LLC	www.nj.gov (New Jersey)	2009	2/28/2015
Texas NICUSA, LLC	www.Texas.gov (Texas)	2009	8/31/2017 (8/31/2018)
West Virginia Interactive, LLC	www.WV.gov (West Virginia)	2007	12/31/2014 (services continue to be provided under the terms and conditions of the prior contract)
Vermont Information Consortium, LLC	www.Vermont.gov (Vermont)	2006	6/8/2016 (6/8/2019)
Colorado Interactive, LLC	www.Colorado.gov (Colorado)	2005	4/30/2019 (4/30/2023)
South Carolina Interactive, LLC	www.SC.gov (South Carolina)	2005	7/15/2019 (7/15/2021)
Kentucky Interactive, LLC	www.Kentucky.gov (Kentucky)	2003	8/31/2015
Alabama Interactive, LLC	www.Alabama.gov (Alabama)	2002	3/1/2016 (3/1/2017)
Rhode Island Interactive, LLC	www.RI.gov (Rhode Island)	2001	7/1/2017 (7/1/2019)
Oklahoma Interactive, LLC	www.OK.gov (Oklahoma)	2001	3/31/2015
Montana Interactive, LLC	www.MT.gov (Montana)	2001	12/31/2017 (12/31/2020)
NICUSA, TN Division	www.TN.gov (Tennessee)	2000	3/31/2016
Hawaii Information Consortium, LLC	www.eHawaii.gov (Hawaii)	2000	1/3/2016 (3-year renewal options)
Idaho Information Consortium, LLC	www.Idaho.gov (Idaho)	2000	6/30/2017
Utah Interactive, LLC	www.Utah.gov (Utah)	1999	6/5/2016 (6/5/2019)
Maine Information Network, LLC	www.Maine.gov (Maine)	1999	7/1/2016 (7/1/2018)
Arkansas Information Consortium, LLC	www.Arkansas.gov (Arkansas)	1997	6/30/2018
Iowa Interactive, LLC	www.Iowa.gov (Iowa)	1997	6/30/2016 (6/30/2020)
Indiana Interactive, LLC	www.IN.gov (Indiana)	1995	7/31/2016
Nebraska Interactive, LLC	www.Nebraska.gov (Nebraska)	1995	1/31/2016
Kansas Information Consortium, LLC	www.Kansas.gov (Kansas)	1992	12/31/2021 (annual 1-year renewal options)

During the first quarter of 2014, the Company was awarded a three-year contract by the state of Connecticut to manage its government portal, which includes renewal options for the government to extend the contract up to an additional three years. In addition, the Company was awarded a new five-year contract from the state of Colorado, which includes an option for the government to extend the contract up to an additional four years.

During the second quarter of 2014, the Company was awarded a new three-year contract by the state of Rhode Island, which includes renewal options for the government to extend the contract for two additional one-year periods. In addition, the Company was awarded a new two-year contract by the state of Iowa, which includes renewal options for the government to extend the contract for four additional one-year periods. The Company also received a one-year contract extension from the Commonwealth of Kentucky.

During the third quarter of 2014, the Company was awarded a new seven-year contract by the state of Kansas, which includes annual renewal options for the government to extend the contract for additional one-year periods. In addition, the Company executed a two-year contract extension with the state of Indiana. The Company was also awarded a new five-year contract by the state of South Carolina, which includes renewal options for the government to extend the contract up to an additional two years. The Company also executed an 18-month contract extension with the state of Tennessee.

During the fourth quarter of 2014, the Company executed a one-year contract extension with the state of Texas.

During the first quarter of 2015, the Company received a two-year contract extension from the state of Montana and a two-year contract extension from the state of Idaho. In addition, the Company executed a one-year contract extension with the state of Alabama.

Other outsourced state contracts

During the third quarter of 2014, the Company's subsidiary, Louisiana Interactive, LLC, signed a master contract with the state of Louisiana Division of Administration, Office of Technology Services ("Louisiana Division") that creates a framework to provide certain eGovernment services for a pilot period. The pilot period commenced during the first quarter of 2015 and the Company anticipates it will conclude in approximately 12-18 months. Subsequent to the pilot period, the Louisiana Division has the option to receive enterprise-wide eGovernment services pursuant to the master contract.

The Company's subsidiary, New Mexico Interactive, LLC, has a contract to manage eGovernment services for the New Mexico Motor Vehicle Division ("MVD") and its parent, the New Mexico Taxation and Revenue Department. During the third quarter of 2014, the Company was awarded a new two-year contract by the MVD to manage eGovernment services through June 30, 2016. The contract includes a renewal option for the government to extend the contract for two additional one-year periods.

During the third quarter of 2014, the Company's subsidiary, Virginia Interactive, LLC ("VI"), extended its agreement with the Virginia Department of Game and Inland Fisheries to provide eGovernment services through August 31, 2015. During the third quarter of 2014, VI extended its agreement with the Office of the Executive Secretary of the Supreme Court of Virginia to provide eGovernment services through August 31, 2015.

Outsourced federal contracts

NIC Technologies has a contract with the FMCSA to develop and manage the FMCSA's PSP for motor carriers nationwide, using the self-funded, transaction-based business model. During the first quarter of 2014, the FMCSA exercised a one-year renewal option for the PSP contract, extending its term through February 16, 2015. During the third quarter of 2014, the Company received a six-month contract extension from the FMCSA, extending the term of the PSP contract through August 16, 2015.

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

Expiring contracts

As of December 31, 2014, there were 11 contracts under which the Company provides outsourced portal services or software development and services that have expiration dates within the 12-month period following December 31, 2014. Collectively, revenues generated from these contracts represented 25% of the Company's total consolidated revenues for the year ended December 31, 2014. As described above, if a contract is not renewed after a defined term, the government partner would be entitled to take over the portal in place with no future obligation of the Company, except as otherwise provided in the contract and except for the services the Company provides on a SaaS basis, which would be available to the government agency on a fee-for-service basis.

During the first quarter of 2013, the Company's subsidiary, NICUSA, Inc. ("NICUSA"), chose not to respond to a request for proposal issued by the state of Arizona for a new contract. NICUSA provided transition services as required by the contract through March 26, 2014. The costs incurred in transitioning out of NICUSA's contract with the state of Arizona, including employee retention bonuses, operating lease termination costs, and fixed asset impairment, did not have a material impact on the Company's consolidated results of operations, cash flows, or financial condition. For the years ended December 31, 2014, 2013 and 2012 revenues from the legacy Arizona portal contract were approximately \$0.8 million, \$3.7 million, and \$3.8 million, respectively.

The Company's subsidiary, Delaware Interactive, LLC ("DI"), has a contract with the state of Delaware to manage the state's official government portal. Currently, the primary revenue source for DI under the contract is an annual portal management fee paid to DI by the state. During the second quarter of 2014, the state informed DI that due to fiscal constraints, it did not intend to renew its contact with DI when the contract term expired on September 30, 2014. However, during the third quarter of 2014, the Company received a six-month contract extension from the state of Delaware to provide transition services through March 31, 2015, which includes options for the government to extend the contract for additional three-month periods. The Company does not believe the expiration of its contract with the state of Delaware will have a material impact on the Company's consolidated results of operations, cash flows or financial condition. For the years ended December 31, 2014, 2013 and 2012 revenues from the

Delaware portal contract were approximately $2.4 million, $2.2 million, and $1.4 million, respectively.

4. INTANGIBLE ASSETS, NET

Intangible assets, net consisted of the following at December 31:

	December 31, 2014			December 31, 2013		
	Gross Carrying Value	Accumulated Amortization	Net Book Value	Gross Carrying Value	Accumulated Amortization	Net Book Value
Internal use capitalized software	$ 6,666,300	$ (4,272,596)	$ 2,393,704	$ 5,187,674	$ (3,323,377)	$ 1,864,297

Amortization expense for internal use capitalized software totaling approximately $1.0 million, $0.6 million and $0.6 million for the years ended December 31, 2014, 2013 and 2012, respectively, is included in depreciation & amortization in the consolidated statements of income. The total estimated intangible asset amortization expense in future years related to assets that have been released into production is as follows:

Fiscal Year	
2015	$ 908,625
2016	600,406
2017	152,096
	$ 1,661,127

5. PROPERTY AND EQUIPMENT, NET

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

	2014	2013
Equipment	$ 28,714,059	$ 26,917,914
Purchased software	10,972,449	9,782,079
Furniture and fixtures	4,924,108	4,410,355
Leasehold improvements	1,402,487	1,170,354
	46,013,103	42,280,702
Less accumulated depreciation	(33,765,863)	(27,113,651)
Property and equipment, net	$ 12,247,240	$ 15,167,051

Depreciation expense for the years ended December 31, 2014, 2013 and 2012 was $8.2 million, $7.7 million and $5.7 million, respectively.

6. DEBT OBLIGATIONS AND COLLATERAL REQUIREMENTS

In 2014, the Company entered into an amendment to extend its $10.0 million unsecured revolving credit agreement with a bank to May 1, 2016. This revolving credit facility is available to finance working capital, issue letters of credit and finance general corporate purposes. The Company can obtain letters of credit in an aggregate amount of $5.0 million, which reduces the maximum amount available for borrowing under the facility. Interest on amounts borrowed is payable at the bank's prime rate or a LIBOR rate plus a margin (as selected by the Company), in each case as defined in the agreement. That margin, and the fees on outstanding letters of credit are either 1.50% (if the Company's consolidated leverage ratio is less than or equal to 1.25:1) or 1.75% (if the Company's consolidated leverage ratio is greater than 1.25:1) of face value per annum.

The terms of the agreement provide for customary representations and warranties, affirmative and negative covenants and events of default. The amendment also continues to require the Company to maintain compliance with the following financial covenants (in each case, as defined in the agreement):

- Consolidated tangible net worth of at least $36 million (plus the amount of net proceeds from equity issued, or debt converted to equity, in each case after the date of the credit agreement); and
- Consolidated maximum leverage ratio of 1.5:1 (the ratio of total funded debt to EBITDA).

The Company was in compliance with each of these covenants at December 31, 2014. The Company issues letters of credit mainly as collateral for certain office leases, and to a much lesser extent, as collateral for performance on one of its outsourced government portal contracts. These irrevocable letters of credit are generally in force for one year. In total, the Company and its subsidiaries had unused outstanding letters of credit of approximately $1.4 million at December 31, 2014. The Company is not currently required to cash collateralize these letters of credit. The Company had $3.6 million in available capacity to issue additional letters of credit and $8.6 million of unused borrowing capacity at December 31, 2014 under the facility. Letters of credit may have an expiration date of up to one year beyond the expiration date of the credit agreement. The credit agreement also includes an accordion feature that will allow the Company to increase the available capacity under the credit agreement by an additional $40.0 million, for a total of up to $50.0 million, subject to securing additional commitments from the bank.

The Company has a $1.0 million line of credit with a bank in conjunction with a corporate credit card agreement.

At December 31, 2014, the Company was bound by performance bond commitments totaling approximately $6.6 million on certain outsourced government portal contracts. The Company has never had any defaults resulting in draws on performance bonds. Had the Company been required to post 100% cash collateral at December 31, 2014 for the face value of all performance bonds, letters of credit and its line of credit in conjunction with a corporate credit card agreement, unrestricted cash would have decreased by approximately $9.0 million and would have been classified as restricted cash.

7. COMMITMENTS AND CONTINGENCIES

Operating leases

The Company and its subsidiaries lease office space and certain equipment under noncancellable operating leases. Future minimum lease payments under all noncancellable operating leases at December 31, 2014 are as follows:

Fiscal Year	
2015	$ 4,353,511
2016	3,595,495
2017	3,063,107
2018	2,819,662
2019	1,128,677
Thereafter	516
Total minimum lease payments	$ 14,960,968

Rent expense for operating leases for the years ended December 31, 2014, 2013 and 2012 was approximately $4.3 million, $4.2 million, and $3.8 million, respectively.

Litigation

The Company is involved from time to time in legal proceedings and litigation arising in the ordinary course of business. However, the Company is not currently a party to any material legal proceedings.

8. STOCKHOLDERS' EQUITY

On October 27, 2014, the Company's Board of Directors declared a special cash dividend of $0.50 per share, payable to stockholders of record as of November 7, 2014. The dividend, totaling approximately $33.0 million, was paid on November 20, 2014 on 65,298,472 outstanding shares of common stock. A dividend equivalent of $0.50 per share was also paid simultaneously on 655,499 unvested shares of service-based restricted stock. The dividend was paid out of the Company's available cash.

On October 28, 2013, the Company's Board of Directors declared a special cash dividend of $0.35 per share, payable to stockholders of record as of November 8, 2013. The dividend, totaling approximately $23.0 million, was paid on January 2, 2014 on 64,987,854 outstanding shares of common stock. A dividend equivalent of $0.35 per share was also paid simultaneously on 676,281 unvested shares of service-based restricted stock. The dividend was paid out of the Company's available cash.

On November 5, 2012, the Company's Board of Directors declared a special cash dividend of $0.25 per share, payable to stockholders of record as of November 23, 2012. The dividend, totaling approximately $16.3 million, was paid on December 5, 2012 on 64,623,372 outstanding shares of common stock. A dividend equivalent of $0.25 per share was also paid simultaneously on 727,354 unvested shares of service-based restricted stock. The dividend was paid out of the Company's available cash.

In addition, holders of performance-based restricted stock accrued dividend equivalents, for each of the dividends declared noted above, that could be earned and become payable in the form of shares of common stock at the end of the respective performance period to the extent that the underlying shares of restricted stock were earned.

9. INCOME TAXES

The provision for income taxes consists of the following:

	Year Ended December 31,		
	2014	2013	2012
Current income taxes:			
Federal	$ 23,161,061	$ 18,436,209	$ 14,891,245
State	3,256,031	3,154,439	1,211,358
Total	26,417,092	21,590,648	16,102,603
Deferred income taxes:			
Federal	(2,295,450)	(1,111,536)	691,961
State	(165,790)	41,548	42,247
Total	(2,461,240)	(1,069,988)	734,208
Total income tax provision	$ 23,955,852	$ 20,520,660	$ 16,836,811

Deferred income taxes on the balance sheet result from temporary differences between the amount of assets and liabilities recognized for financial reporting and tax purposes. Significant components of the Company's deferred tax assets and liabilities were as follows at December 31:

	2014	2013
Deferred tax assets:		
Stock-based compensation	$ 1,836,673	$ 1,289,584
Amortization of internal use software development costs	1,755,520	1,461,246
Accrued vacation	854,463	762,293
Federal benefit of state uncertain tax positions	767,867	431,387
State net operating loss carryforwards	341,794	326,586
Deferred rent	224,187	233,923
Allowance for doubtful accounts	184,675	226,359
Amortization of software intangibles	-	638,894
Other	48,529	59,912
	6,013,708	5,430,184
Less: Valuation allowance	(332,863)	(310,369)
Total	5,680,845	5,119,815
Deferred tax liabilities:		
Depreciation & capitalized internal use software and development costs	(5,056,061)	(5,382,498)
Nonrecurring gain on acquisition of business	(1,121,326)	(1,130,997)
Total	(6,177,387)	(6,513,495)
Net deferred tax liability	$ (496,542)	$ (1,393,680)

The Company has identified certain estimated state net operating loss ("NOL") carryforwards that it might be unable to use. Based on a review of applicable state tax statutes, the Company concluded that there is substantial doubt it would be able to realize the full amount of certain estimated NOL carryforwards in states where the Company cannot file a consolidated income tax return or where future taxable income will not be sufficient to utilize the state NOL before it expires. As a result, the Company recorded a deferred tax asset valuation allowance totaling $0.3 million at both December 31, 2014 and 2013.

The Company's net deferred tax liability at December 31, 2014 is primarily attributable to differences between book and tax depreciation on property and equipment purchased during 2014 and 2013. The portion of the Company's deferred tax liability related to the nonrecurring gain on acquisition of business for certain assets acquired through the Company's wholly-owned subsidiary Texas NICUSA, LLC in 2009 was approximately $1.1 million at both December 31, 2014 and 2013.

See Note 10 for discussion of the accounting for income tax deductions relating to the vesting of restricted stock.

The following table reconciles the statutory federal income tax rate and the effective income tax rate indicated by the consolidated statements of income:

	Year Ended December 31,		
	2014	2013	2012
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes	2.2	3.2	1.0
Nondeductible expenses	1.2	1.4	2.5
Uncertain tax positions	1.1	1.2	0.3
Federal and state tax credits	(1.2)	(2.0)	-
Other	(0.3)	0.2	0.2
Effective federal and state income tax rate	38.0%	39.0%	39.0%

On December 19, 2014, the Tax Increase Prevention Act of 2014 (the "2014 Act") was signed into law. The 2014 Act retroactively extended the federal research and development credit under Internal Revenue Code Section 41 (which previously expired at the end of 2013). For the 2014 tax year, the Company recognized a favorable benefit related to the federal research and development tax credit totaling approximately $0.4 million, which was recognized by the Company in the fourth quarter of 2014, the period in which the legislation was enacted. On January 2, 2013, the American Taxpayer Relief Act of 2012 (the "2012 Act") was signed into law. The 2012 Act retroactively extended the federal research and development credit (which previously expired at the end of 2011) through the end of 2013. In accordance with authoritative accounting guidance, the Company recognized the impact of this legislation for the 2012 tax year in 2013, when the Act was signed into law. For the 2013 and 2012 tax years, the Company recognized a favorable benefit related to the federal research and development tax credit totaling approximately $0.8 million, which was recognized in 2013.

The following table provides a reconciliation of the beginning and ending amount of the consolidated liability for unrecognized income tax benefits (included in other long-term liabilities in the consolidated balance sheets) for the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Balance at January 1	$ 1,760,434	$ 688,575	$ 586,606
Additions for tax positions of current years	1,072,333	632,309	186,596
Additions for tax positions of prior years	112,459	439,550	262,865
Expiration of the statute of limitations	(126,918)	-	-
Reductions for tax positions of prior years	(20,637)	-	(347,492)
Balance at December 31	$ 2,797,671	$ 1,760,434	$ 688,575

At December 31, 2014, 2013 and 2012, there were approximately $2.0 million, $1.3 million and $0.5 million, respectively, of unrecognized tax benefits that if recognized would affect the annual effective tax rate. It is reasonably possible that events will occur during the next 12 months that would cause the total amount of unrecognized tax benefits to increase or decrease. However, the Company does not expect such increases or decreases to be material to its financial condition or results of operations.

The Company, along with its wholly owned subsidiaries, files a consolidated U.S. federal income tax return and separate income tax returns in many states throughout the U.S. The Company remains subject to U.S. federal examination for the tax years ended on or after December 31, 2011. State income tax returns are generally subject to examination for a period of three to five years after filing of the respective return.

The Company recognizes accrued interest and penalties associated with uncertain tax positions as part of income tax expense in the consolidated statements of income. At December 31, 2014, 2013 and 2012, accrued interest and penalty amounts were not material.

10. STOCK-BASED COMPENSATION AND EMPLOYEE BENEFIT PLANS

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

	Year Ended December 31,		
	2014	2013	2012
Cost of portal revenues, exclusive of depreciation & amortization	$ 1,311,827	$ 1,100,396	$ 997,340
Cost of software & services revenues, exclusive of depreciation & amortization	47,105	48,128	61,845
Selling & administrative	4,744,966	2,877,436	2,743,387
Stock-based compensation expense before income taxes	6,103,898	4,025,960	3,802,572
Income tax benefit	(2,320,499)	(1,571,867)	(1,482,857)
Net stock-based compensation expense	$ 3,783,399	$ 2,454,093	$ 2,319,715

Stock option and restricted stock plans

The Company has a formal stock-option and incentive plan (the "NIC plan") to provide for the granting of incentive stock options, non-qualified stock options, or restricted stock awards to encourage certain employees of the Company and its subsidiaries, and directors of the Company to participate in the ownership of the Company and to provide additional incentive for such employees and directors to promote the success of its business through sharing in the future growth of such business.

The NIC plan was amended and restated in May 2014. The May 2014 amendment and restatement, as approved by the Company's Board of Directors and stockholders, modified the NIC plan to increase the number of shares the Company is authorized to grant under the NIC plan from 14,286,754 to 15,825,223 common shares. At December 31, 2014, a total of 4,977,798 shares were available for future grants under the NIC plan. The Company did not grant any stock options in 2014, 2013, or 2012, and does not currently anticipate granting stock options in the future. Instead, the Company currently expects to grant only restricted stock awards.

<u>Restricted stock</u>

During 2014, the Board of Directors of the Company granted to certain management-level employees and executive officers, service-based restricted stock awards totaling 238,317 shares with a grant-date fair value totaling approximately $4.6 million. Such restricted stock awards vest beginning one year from the date of grant in annual installments of 25%. In addition, non-employee directors of the Company were granted service-based restricted stock awards totaling 39,560 shares with a grant-date fair value totaling approximately $0.7 million. Such restricted stock awards vest one year from the date of grant.

During 2014, the Board of Directors of the Company also granted to certain executive officers performance-based restricted stock awards pursuant to the terms of the Company's executive compensation program totaling 96,706 shares with a grant-date fair value totaling approximately $1.9 million, which represents the maximum number of shares able to be earned by the executive officers at the end of a three-year performance period ending December 31, 2016. The actual number of shares earned will be based on the Company's performance related to the following performance criteria over the performance period:

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

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

At December 31, 2014, the three-year performance period related to the performance-based restricted stock awards granted to certain executive officers on January 30, 2012 ended. Based on the Company's actual financial results from 2012 through 2014, 67,239 of the shares subject to the awards and 4,043 dividend shares were earned and vested on January 30, 2015.

At December 31, 2013, the three-year performance period related to the performance-based restricted stock awards granted to certain executive officers on March 7, 2011 ended. Based on the Company's actual financial results from 2011 through

2013, 85,365 of the shares subject to the awards and 4,350 dividend shares were earned and vested on March 7, 2014.

At December 31, 2012, the three-year performance period related to the performance-based restricted stock awards granted to certain executive officers on February 1, 2010 ended. Based on the Company's actual financial results from 2010 through 2012, 78,747 of the shares subject to the awards and 8,013 dividend shares were earned and vested on February 1, 2013.

A summary of restricted stock activity for the year ended December 31, 2014 is presented below:

	Restricted Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2014	1,043,816	$ 13.42
Granted	378,933	19.05
Vested	(357,960)	11.55
Canceled	(71,336)	12.89
Outstanding at December 31, 2014	993,453	16.28

The fair value of restricted stock vested during the years ended December 31, 2014, 2013 and 2012 was approximately $4.1 million, $3.5 million and $3.6 million, respectively. The weighted average grant date fair value per share of restricted stock granted during the years ended December 31, 2014, 2013 and 2012 was $19.05, $16.54 and $11.83, respectively. At December 31, 2014, the Company had approximately $7.9 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested restricted stock awards. The Company expects to recognize this cost over the next 2.3 years from December 31, 2014.

Income taxes

The Company is permitted to recognize a credit to additional paid-in capital for federal income tax deductions, or windfall tax benefits, resulting from the vesting of restricted stock if such windfall tax benefits reduce income taxes payable. Following the with-and-without approach for utilization of tax attributes, the Company increased additional paid-in capital for windfall tax benefits totaling approximately $1.2 million, $1.3 million and $1.4 million, respectively, during the years ended December 31, 2014, 2013 and 2012.

Earnings per share

In calculating diluted earnings per share, the assumed proceeds in the treasury stock calculation are adjusted for any restricted stock windfall tax benefits or shortfalls that would be credited or debited, respectively, to additional paid-in capital. Upon adoption of authoritative accounting guidance for share-based payments, the Company elected to exclude the impact of pro forma deferred tax assets (i.e., the windfall or shortfall that would be recognized in the financial statements upon exercise of an award) when calculating diluted earnings per share.

Employee stock purchase plan

In 1999, the Company's Board of Directors approved an employee stock purchase plan ("ESPP") intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code. A total of 2,321,688 shares of NIC common stock have been reserved for issuance under this plan. Terms of the plan permit eligible employees to purchase NIC common stock through payroll deductions up to the lesser of 15% of each employee's compensation or $25,000. Amounts deducted and accumulated by the participant are used to purchase shares of NIC's common stock at 85% of the lower of the fair value of the common stock at the beginning or the end of the offering period, as defined in the plan.

In the offering period commencing on April 1, 2013 and ending on March 31, 2014, 68,101 shares were purchased at a price of $16.25 per share, resulting in total cash proceeds to the Company of approximately $1.1 million. In the offering period commencing on April 1, 2012 and ending on March 31, 2013, 87,578 shares were purchased at a price of $10.33 per share, resulting in total cash proceeds to the Company of approximately $0.9 million. In the offering period commencing on April 1, 2011 and ending on March 31, 2012, 78,045 shares were purchased at a price of $10.33 per share, resulting in total cash proceeds to the Company of approximately $0.8 million. The next offering period under this plan commenced on April 1, 2014. The closing fair market value of NIC common stock on the first day of the current offering period was $19.80 per share.

The fair values of the offerings were estimated on the dates of grant using the Black-Scholes model using the assumptions in the following table.

	March 31, 2015 Offering	March 31, 2014 Offering	March 31, 2013 Offering
Risk-free interest rate	0.13%	0.14%	0.19%
Expected dividend yield	3.08%	3.73%	4.34%
Expected life	1.0 year	1.0 year	1.0 year
Expected stock price volatility	35.97%	28.84%	37.30%
Weighted average fair value of ESPP rights	$ 5.38	$ 4.59	$ 3.27

The Black-Scholes option-pricing model was not developed for use in valuing employee ESPP rights, but was developed for use in estimating the fair value of traded stock options that have no vesting restrictions and are fully transferable. In addition, it requires the use of subjective assumptions including expectations of future dividends and stock price volatility. Such assumptions are only used for making the required fair value estimate and should not be considered as indicators of future dividend policy or stock price appreciation, or should not be used to predict the value ultimately realized by employees who receive equity awards. Because changes in the subjective assumptions can materially affect the fair value estimate and because employee stock options have characteristics significantly different from those of traded options, the use of the Black-Scholes option-pricing model may not provide a reliable estimate of the fair value of employee ESPP rights.

Defined contribution 401(k) profit sharing plan

The Company and its subsidiaries sponsor a defined contribution 401(k) profit sharing plan. In accordance with the plan, all full-time employees are eligible immediately upon employment and non-full time employees are eligible upon reaching 1,000 hours of service in the relevant period. A discretionary match by the Company of an employee's contribution of up to 5% of base salary and a discretionary contribution may be made to the plan as determined by the Board of Directors. Expense related to Company matching contributions totaled approximately $2.1 million, $1.8 million and $1.7 million for the years ended December 31, 2014, 2013 and 2012, respectively.

11. REPORTABLE SEGMENTS AND RELATED INFORMATION

The Outsourced Portals segment is the Company's only reportable segment and generally includes the Company's subsidiaries operating outsourced state and local government portals and the corporate divisions that directly support portal operations. The Other Software & Services category primarily includes the Company's subsidiaries that provide software development and services, other than outsourced portal services, to state and local governments as well as federal agencies. Each of the Company's businesses within the Other Software & Services category is an operating segment and has been grouped together to form the Other Software & Services category, as none of the operating segments meets the quantitative threshold of a separately reportable segment. Unallocated corporate-level expenses are reported in the reconciliation of the segment totals to the related consolidated totals as "Other Reconciling Items." There have been no significant intersegment transactions for the periods reported. The summary of significant accounting policies applies to all reportable and operating segments.

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

The table below reflects summarized financial information for the Company's reportable and operating segments for the years ended December 31:

	Outsourced Portals	Other Software & Services	Other Reconciling Items	Consolidated Total
2014				
Revenues	$ 255,743,418	$ 16,353,153	$ -	$ 272,096,571
Costs & expenses	169,651,750	4,896,703	25,357,029	199,905,482
Depreciation & amortization	8,817,939	36,999	322,080	9,177,018
Operating income (loss) before income taxes	$ 77,273,729	$ 11,419,451	$ (25,679,109)	$ 63,014,071
2013				
Revenues	$ 235,183,005	$ 14,095,660	$ -	$ 249,278,665
Costs & expenses (1)	157,157,237	4,806,810	26,422,778	188,386,825
Depreciation & amortization	8,001,597	53,475	278,017	8,333,089
Operating income (loss) before income taxes	$ 70,024,171	$ 9,235,375	$ (26,700,795)	$ 52,558,751
2012				
Revenues	$ 198,414,662	$ 11,757,514	$ -	$ 210,172,176
Costs & expenses (1)	134,866,958	4,538,186	21,072,941	160,478,085
Depreciation & amortization	6,225,114	60,557	232,861	6,518,532
Operating income (loss) before income taxes	$ 57,322,590	$ 7,158,771	$ (21,305,802)	$ 43,175,559

(1) The Company reclassified certain income statement employee benefit-related expenses for the years ended December 31, 2013 and 2012 to conform to the new 2014 presentation. The reclassification resulted in a reduction of costs & expenses in Other Reconciling Items of $4.0 million and $3.4 million for the years ended December 31, 2013 and 2012, respectively, and a corresponding increase in costs & expenses in Outsourced Portals ($3.9 million and $3.3 million for the years ended December 31, 2013 and 2012, respectively) and Other Software & Services ($0.1 million for each of the years ended December 31, 2013 and 2012). See Note 2

The highest volume, most commercially valuable service the Company offers is access to motor vehicle driver history records (referred to as DHR) through the Company's outsourced government portals. This service accounted for approximately 35%, 34% and 34% of the Company's total consolidated revenues in 2014, 2013 and 2012, respectively. In addition, the Company offers a service in several states for online motor vehicle registration and licensing. This service accounted for approximately 12%, 13% and 10% of the Company's total consolidated revenues in 2014, 2013 and 2012, respectively. No other services accounted for 10% or more of the Company's total consolidated revenues for the years ended December 31, 2014, 2013 or 2012.

A primary source of revenue is derived from data resellers, who use the Company's government portals to access DHR records for the auto insurance industry. For the years ended December 31, 2014, 2013 and 2012, one of these data resellers accounted for approximately 24%, 22% and 23% of the Company's total consolidated revenues, respectively. At December 31, 2014 and 2013, this one data reseller accounted for approximately 24% and 23%, respectively, of the Company's accounts receivable.

For the years ended December 31, 2014, 2013 and 2012, the Company's Texas portal accounted for approximately 22%, 23% and 21% of the Company's total consolidated revenues, respectively. No other state portal contract accounted for more than 10% of the Company's total consolidated revenues for the years ended December 31, 2014, 2013 or 2012.

12. UNAUDITED QUARTERLY OPERATING RESULTS

The unaudited quarterly information below is subject to seasonal fluctuations resulting in lower portal revenues in the fourth quarter of each calendar year (on an individual portal basis, and excluding revenues from new outsourced government portal contracts awarded or acquired during the year), due to the lower number of business days in the quarter and a lower volume of business-to-government and citizen-to-government transactions during the holiday periods.

2014

	Three Months Ended				Year Ended
	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014	December 31, 2014
Revenues:					
Portal revenues	$ 61,482,452	$ 66,807,907	$ 65,304,664	$ 62,148,395	$ 255,743,418
Software & services revenues	3,915,233	4,345,879	4,222,534	3,869,507	16,353,153
Total revenues	65,397,685	71,153,786	69,527,198	66,017,902	272,096,571
Operating expenses:					
Cost of portal revenues, exclusive of depreciation & amortization (1)	37,559,503	39,550,094	39,090,865	39,984,873	156,185,335
Cost of software & services revenues, exclusive of depreciation & amortization (1)	993,324	1,244,843	1,287,083	1,258,356	4,783,606
Selling & administrative (1)	9,208,685	9,840,579	10,396,876	9,490,401	38,936,541
Depreciation & amortization	2,249,734	2,277,048	2,292,382	2,357,854	9,177,018
Total operating expenses	50,011,246	52,912,564	53,067,206	53,091,484	209,082,500
Operating income before income taxes	15,386,439	18,241,222	16,459,992	12,926,418	63,014,071
Income tax provision	6,010,054	7,213,057	6,098,567	4,634,174	23,955,852
Net income	$ 9,376,385	$ 11,028,165	$ 10,361,425	$ 8,292,244	$ 39,058,219
Basic net income per share	$ 0.14	$ 0.17	$ 0.16	$ 0.12	$ 0.59
Diluted net income per share	$ 0.14	$ 0.17	$ 0.16	$ 0.12	$ 0.59
Weighted average shares outstanding:					
Basic	65,056,725	65,244,575	65,287,702	65,301,797	65,223,549
Diluted	65,056,725	65,244,575	65,287,702	65,363,104	65,277,758

(1) The Company reclassified certain income statement employee benefit-related expenses for the three months ended March 31, 2014, June 30, 2014 and September 30, 2014 to conform to the new 2014 presentation. The reclassification resulted in a reduction of selling & administrative expenses of $1.1 million, $1.0 million and $1.0 million for the three months ended March 31, 2014, June 30, 2014 and September 30, 2014, respectively, and a corresponding increase in cost of portal revenues ($1.1 million, $1.0 million and $1.0 million for the three months ended March 31, 2014, June 30, 2014 and September 30, 2014, respectively). The reclassification had no effect on total operating expenses, operating income, net income, earnings per share or cash flows.

2013

	Three Months Ended				Year Ended
	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013	December 31, 2013
Revenues:				(1)	
Portal revenues	$ 58,042,459	$ 62,093,296	$ 57,721,350	$ 57,325,900	$ 235,183,005
Software & services revenues	3,182,291	3,844,035	3,608,409	3,460,925	14,095,660
Total revenues	61,224,750	65,937,331	61,329,759	60,786,825	249,278,665
Operating expenses:					
Cost of portal revenues, exclusive of depreciation & amortization (2)	33,812,184	35,938,386	40,640,470	36,616,206	147,007,246
Cost of software & services revenues, exclusive of depreciation & amortization (2)	1,143,373	1,227,673	936,416	1,190,771	4,498,233
Selling & administrative (2)	8,537,841	8,981,190	9,489,807	9,872,508	36,881,346
Depreciation & amortization	2,026,623	2,049,189	2,144,842	2,112,435	8,333,089
Total operating expenses	45,520,021	48,196,438	53,211,535	49,791,920	196,719,914
Operating income before income taxes	15,704,729	17,740,893	8,118,224	10,994,905	52,558,751
Income tax provision	5,747,849	6,933,086	3,025,500	4,814,225	20,520,660
Net income	$ 9,956,880	$ 10,807,807	$ 5,092,724	$ 6,180,680	$ 32,038,091
Basic net income per share	$ 0.15	$ 0.16	$ 0.08	$ 0.09	$ 0.49
Diluted net income per share	$ 0.15	$ 0.16	$ 0.08	$ 0.09	$ 0.49
Weighted average shares outstanding:					
Basic	64,709,515	64,889,767	64,961,138	64,991,597	64,888,978
Diluted	64,709,515	64,889,767	64,968,858	65,060,718	64,954,366

(1) The Company's higher effective tax rate in the fourth quarter of 2013 (44%) was driven primarily by changes in state taxes, including true-ups upon the filing of state returns in the fourth quarter of 2013, which lowered earnings per share by approximately $0.01.

(2) The Company reclassified certain income statement employee benefit-related expenses for the three months ended March 31, 2013, June 30, 2013, September 30, 2013, December 31, 2013 and the year ended December 31, 2013 to conform to the new 2014 presentation. The reclassification resulted in a reduction of selling & administrative expenses of $1.1 million, $1.1 million, $0.9 million, $1.0 million and $4.0 million for the three months ended March 31, 2013, June 30, 2013, September 30, 2013, and December 31, 2013, and the year ended December 31, 2013, respectively, and a corresponding increase in cost of portal revenues ($1.1 million, $1.1 million, $0.9 million, $1.0 million and $3.9 million for the three months ended March 31, 2013, June 30, 2013, September 30, 2013, and December 31, 2013, and the year ended December 31, 2013, respectively) and cost of software & services revenues ($0.1 million for the year ended December 31, 2013). The reclassification had no effect on total operating expenses, operating income, net income, earnings per share or cash flows.

13. SUBSEQUENT EVENT

One of the customers who does business with most of the Company's subsidiaries filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code on February 8, 2015. At December 31, 2014 and February 8, 2015, the Company had outstanding accounts receivable from this customer of approximately $1.4 million and $2.2 million, respectively, pursuant to what the Company believes are written executory contracts. As of the date of this filing, the Company is in the process of evaluating the collectability of its outstanding accounts receivable from this customer, and due to the preliminary nature of the assessment, is currently unable to estimate the amount or range of amounts, if any, that it may not be able to collect.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

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

Management's Report on Internal Control Over Financial Reporting – Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control – Integrated Framework,* our management concluded that our internal control over financial reporting was effective as of December 31, 2014.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2014 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Changes in Internal Control over Financial Reporting – As of the end of the period covered by this report, our management, including our principal executive officer and principal financial officer, concluded that there have been no changes in our internal control over financial reporting that occurred during our fourth fiscal quarter of 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information under "Election of Directors," "Executive Officers," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Structure and Practices of the Board of Directors – Corporate Governance Principles and Best Practices and Code of Business Conduct and Ethics, – Committees of the Board, – Nomination of Directors and – Involvement in Certain Legal Proceedings" set forth in the Company's definitive proxy statement related to its 2015 annual meeting of stockholders (the "Proxy Statement"), which will be filed with the SEC not later than 120 days after the end of the Company's fiscal year pursuant to Regulation 14A, is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information under "Executive Compensation," "Report of the Compensation Committee," "Compensation Discussion and Analysis," "Compensation Tables," "Compensation Committee Interlocks and Insider Participation," "Employment Agreements and Severance Payments," and "Structure and Practices of the Board of Directors – Committees of the Board" and "Director Compensation" set forth in the Proxy Statement, which will be filed with the SEC not later than 120 days after the end of the Company's fiscal year pursuant to Regulation 14A, is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information under "Security Ownership of Certain Beneficial Owners and Management" set forth in the Proxy Statement, which will be filed with the SEC not later than 120 days after the end of the Company's fiscal year pursuant to Regulation 14A, is incorporated herein by reference.

Equity Compensation Plan Information

The following table provides information regarding securities to be issued upon the exercise of outstanding options, warrants and rights and securities available for issuance under the Company's equity compensation plans as of December 31, 2014:

	A	B	C	
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights outstanding as of December 31, 2014	Weighted average exercise price of outstanding options, warrants and rights shown in Column A	Number of securities available for future issuance as of December 31, 2014	
Equity compensation plans approved by stockholders:				
Restricted stock awards	-	$ -	4,977,798	See Note (1)
Employee stock purchase plan	See Note (2)	See Note (2)	1,378,035	
Equity compensation plans not approved by stockholders	-	-	-	
Total	-	$ -	6,355,833	

(1) The amount shown excludes 993,453 shares subject to outstanding unvested restricted stock awards.

(2) March 31, 2014 was the purchase date of common stock for the most recently completed offering period under the Company's employee stock purchase plan. Therefore, as of such date, no purchase rights were outstanding. The purchase price for the offering period ended March 31, 2014, was $16.25 per share, and the total number of shares purchased was 68,101.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information under “Certain Relationships and Related Transactions”, “Election of Directors,” and “Structure and Practices of the Board of Directors – Independence” set forth in the Proxy Statement, which will be filed with the SEC not later than 120 days after the end of the Company’s fiscal year pursuant to Regulation 14A, is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information under “Ratification of Appointment of Independent Registered Public Accounting Firm” set forth in the Proxy Statement, which will be filed with the SEC not later than 120 days after the end of the Company’s fiscal year pursuant to Regulation 14A, is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

(1) Financial Statements.

The consolidated financial statements and related notes, together with the report of PricewaterhouseCoopers LLP, appear in Part II, Item 8, Consolidated Financial Statements and Supplementary Data of this Form 10-K.

(2) Financial Statement Schedules. All schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

(3) Exhibits. Pursuant to the rules and regulations of the Securities and Exchange Commission, we have filed or incorporated by reference the documents referenced below as exhibits to this Annual Report on Form 10-K. The documents include agreements to which the Company is a party or has a beneficial interest. The agreements have been filed to provide investors with information regarding their respective terms. The agreements are not intended to provide any other factual information about the Company or its business or operations. In particular, the assertions embodied in any representations, warranties and covenants contained in the agreements may be subject to qualifications with respect to knowledge and materiality different from those applicable to investors and may be qualified by information in confidential disclosure schedules not included with the exhibits. These disclosure schedules may contain information that modifies, qualifies and creates exceptions to the representations, warranties and covenants set forth in the agreements. Moreover, certain representations, warranties and covenants in the agreements may have been used for the purpose of allocating risk between the parties, rather than establishing matters as facts. In addition, information concerning the subject matter of the representations, warranties and covenants may have changed after the date of the respective agreement, which subsequent information may or may not be fully reflected in the Company’s public disclosures. Accordingly, investors should not rely on the representations, warranties and covenants in the agreements as characterizations of the actual state of facts about the Company or its business or operations on the date hereof.

The exhibits that are required to be filed or incorporated by reference herein are listed in the Exhibit Index below (following the signatures page of this report).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	NIC INC.
Date: February 24, 2015	By: /s/ Harry Herington
	Harry Herington, Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Harry Herington Harry Herington	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	February 24, 2015
/s/ Stephen M. Kovzan Stephen M. Kovzan	Chief Financial Officer (Principal Financial Officer)	February 24, 2015
/s/ Aimi Daughtery Aimi Daughtery	Chief Accounting Officer (Principal Accounting Officer)	February 24, 2015
Art N. Burtscher*	Lead Independent Director	
Daniel J. Evans*	Director	
Karen S. Evans*	Director	
Ross C. Hartley*	Director	
C. Brad Henry*	Director	
Alexander C. Kemper*	Director	
William M. Lyons*	Director	
Pete Wilson*	Director	

*By /s/ Harry Herington
Harry Herington
Attorney-in-fact
February 24, 2015

Exhibit Index

Exhibit Number	Description
3.1	Certificate of Incorporation of NIC Inc., a Delaware corporation (1)
3.2	Bylaws of NIC Inc., a Delaware corporation (2)
4.1	Reference is made to Exhibits 3.1 and 3.2
4.2	Specimen Stock Certificate of the registrant (3)
10.1	Registrant's 1999 Employee Stock Purchase Plan (4) **
10.2	Employment agreement between the Registrant and Harry Herington, dated February 5, 2013 (5) **
10.3	Employment agreement between the Registrant and William F. Bradley, dated February 5, 2013 (6) **
10.4	Employment agreement between the Registrant and Stephen M. Kovzan, dated February 5, 2013 (7) **
10.5	Employment agreement between the Registrant and Robert W. Knapp, dated February 5, 2013 (8) **
10.6	Employment agreement between the Registrant and Ron E. Thornburgh, dated February 5, 2013 (9) **
10.7	NIC Inc. 2014 Amended and Restated Stock Compensation Plan (10) **
10.8	Form of Restricted Stock Agreement for NIC Inc. 2014 Amended and Restated Stock Compensation Plan (11) **
10.9	Form of Stock Option Agreement for NIC Inc. 2014 Amended and Restated Stock Compensation Plan (12) **
10.10	NIC Inc. Compensation Program For Certain Executive Officers (13) **
10.11	NIC Inc. Management Annual Incentive Plan, as amended October 9, 2014 (14) **
10.12	Form of Performance-Based Restricted Stock Agreement under the NIC Inc. 2014 Amended and Restated Stock Compensation Plan (15) **
10.13	Form of Indemnification Agreement between the registrant and each of its executive officers and directors (16) **
10.14	Amendment to Registrant's 1999 Employee Stock Purchase Plan (17) **
10.15	NIC Sales Commission Bonus Plan, Senior Vice President of Business Development, as amended February 5, 2013 (18) **
10.16	NIC Profit Sharing and Incentive Program, Senior Vice President of Business Development, as amended October 9, 2014 (19) **
10.17	NIC Inc. Executive Incentive Plan (20) **
10.18	Amended and Restated Credit Agreement Dated as of August 6, 2014 between NIC Inc., as Borrower, and Bank of America, N.A., as Lender and L/C Issuer (21)
10.19	NIC Inc. 2006 Amended and Restated Stock Option and Incentive Plan, as amended (22) **
10.20	Form of Restricted Stock Agreement for NIC Inc. 2006 Amended and Restated Stock Option and Incentive Plan (23) **
10.21	Form of Stock Option Agreement for NIC Inc. 2006 Amended and Restated Stock Option and Incentive Plan (24) **
10.22	Form of Performance-Based Restricted Stock Agreement under the NIC Inc. 2006 Amended and Restated Stock Option and Incentive Plan, (25) **
21.1	Subsidiaries of the registrant
23.1	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm
24.1	Power of Attorney
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Section 906 Certifications of Chief Executive Officer and Chief Financial Officer
101	The following financial information from NIC Inc.'s Annual Report on Form 10-K for the year ended December 31, 2014, formatted in XBRL (Extensible Business Reporting Language) includes (i) Consolidated Balance Sheets at December 31, 2014 and December 31, 2013, (ii) Consolidated Statements of Income for the years ended December 31, 2014, 2013, and 2012 (iii) Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2014, 2013, and 2012 (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013, and 2012, and (v) the Notes to Consolidated Financial Statements (submitted electronically herewith).

(1) Incorporated by reference from Exhibit 3.2 to the Form 8-K (File No. 000-26621) filed with the SEC on May 11, 2009 and incorporated herein by reference.
(2) Incorporated by reference from Exhibit 3.3 to the Form 8-K (File No. 000-26621) filed with the SEC on May 11, 2009 and incorporated herein by reference.
(3) Incorporated by reference from Exhibit 4.3 to Amendment No. 1 to the Registration Statement on Form S-1, File No. 333-77939, filed with the SEC on June 18, 1999.
(4) Incorporated by reference from Exhibit 10.3 to the Registration Statement on Form S-1, File No. 333-77939, filed with the SEC on May 6, 1999, and incorporated herein by reference.
(5) Incorporated by reference to Exhibit 10.3 to the Form 10-K (File No. 000-26621) filed with the SEC on February 28, 2013.
(6) Incorporated by reference to Exhibit 10.4 to the Form 10-K (File No. 000-26621) filed with the SEC on February 28, 2013.
(7) Incorporated by reference to Exhibit 10.5 to the Form 10-K (File No. 000-26621) filed with the SEC on February 28, 2013.
(8) Incorporated by reference to Exhibit 10.6 to the Form 10-K (File No. 000-26621) filed with the SEC on February 28, 2013.
(9) Incorporated by reference to Exhibit 10.7 to the Form 10-K (File No. 000-26621) filed with the SEC on February 28, 2013.
(10) Incorporated by reference to Exhibit 10.1 to the Form 8-K (File No. 000-26621) filed with the SEC on May 8, 2014.
(11) Incorporated by reference to Exhibit 10.3 to the Form 8-K (File No. 000-26621) filed with the SEC on October 14, 2014.
(12) Incorporated by reference to Exhibit 10.5 to the Form 8-K (File No. 000-26621) filed with the SEC on October 14, 2014.

(13) Incorporated by reference to the Form 8-K (File No. 000-26621) filed with the SEC on March 6, 2008.
(14) Incorporated by reference to Exhibit 10.1 to the Form 8-K (File No. 000-26621) filed with the SEC on October 9, 2014.
(15) Incorporated by reference to Exhibit 10.4 to the Form 8-K (File No. 000-26621) filed with the SEC on October 9, 2014.
(16) Incorporated by reference to Exhibit 10.1 to the Form 8-K (File No. 000-26621) filed with the SEC on May 11, 2009.
(17) Incorporated by reference to Exhibit 10.1 to the Form 10-Q (File No. 000-26621) filed with the SEC on May 7, 2010.
(18) Incorporated by reference to Exhibit 10.24 to the Form 10-K (File No. 000-26621) filed with the SEC on February 28, 2013.
(19) Incorporated by reference to Exhibit 10.2 to the Form 8-K (File No. 000-26621) filed with the SEC on October 9, 2014.
(20) Incorporated by reference to Exhibit 10.1 to the Form 8-K (File No. 000-26621) filed with the SEC on May 2, 2012.
(21) Incorporated by reference to Exhibit 10.2 to the Form 10-Q (File No. 000-26621) filed with the SEC on August 7, 2014.
(22) Incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-8 (File No. 333-136016) filed with the SEC on July 25, 2006.
(23) Incorporated by reference to Exhibit 10.1 to the Form 10-Q (File No. 000-26621) filed with the SEC on November 7, 2007.
(24) Incorporated by reference to Exhibit 10.2 to the Form 10-Q (File No. 000-26621) filed with the SEC on November 7, 2007.
(25) Incorporated by reference to Exhibit 10.17 to the Form 10-K (File No. 000-26621) filed with the SEC on February 28, 2013.

** Management contracts and compensatory plans and arrangements required to be filed as Exhibits pursuant to Item 15(b) of this report.

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