Hawaii Information Consortium, LLC

Financial Statements
December 31, 2011 and 2010

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Report of Independent Auditors

To the Board of Directors of
Hawaii Information Consortium, LLC

In our opinion, the accompanying balance sheets and the related statements of income, of changes in member's equity (deficit) and of cash flows present fairly, in all material respects, the financial position of Hawaii Information Consortium, LLC (the "Company") at December 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

April 30, 2012

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Hawaii Information Consortium, LLC
Balance Sheets
December 31, 2011 and 2010

	2011	2010
Assets		
Current assets		
Cash	$ 3,352,085	$ 3,561,098
Trade accounts receivable, net	3,815,312	1,337,820
Prepaid expenses and other current assets	53,895	68,238
Deferred income taxes	13,338	10,225
Total current assets	7,234,630	4,977,381
Property and equipment, net	300,204	36,948
Deferred income taxes, net	-	18,456
Other assets	13,049	15,981
Total assets	$ 7,547,883	$ 5,048,766
Liabilities and Member's Equity (Deficit)		
Current liabilities		
Accounts payable	$ 7,335,893	$ 5,364,527
Accrued expenses	136,000	96,490
Deferred rent	2,231	6,421
Total current liabilities	7,474,124	5,467,438
Deferred rent	16,611	-
Deferred income taxes, net	85,890	-
Other long-term liabilities (Notes 2 and 5)	6,948	3,176
Total liabilities	7,583,573	5,470,614
Commitments and contingencies (Notes 2 and 6)	-	-
Member's equity (deficit)		
Member's equity, 100 units outstanding	1,000	1,000
Accumulated earnings	134,909	320,744
Due from affiliated companies	(171,599)	(743,592)
Total member's equity (deficit)	(35,690)	(421,848)
Total liabilities and member's equity (deficit)	$ 7,547,883	$ 5,048,766

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

Hawaii Information Consortium, LLC
Statements of Income
Years Ended December 31, 2011 and 2010

	2011	2010
Revenues	$ 5,259,727	$ 4,158,662
Cost of portal revenues (Notes 2, 7 and 8)	4,682,687	3,770,478
Operating income	577,040	388,184
Loss on disposal of assets	-	(6,221)
Income before income taxes	577,040	381,963
Income tax expense (benefit)		
Current	140,028	158,992
Deferred	83,792	(14,224)
Net income	$ 353,220	$ 237,195

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

Hawaii Information Consortium, LLC
Statements of Changes in Member's Equity (Deficit)
Years Ended December 31, 2011 and 2010

	Member's Equity Unit	Member's Equity Amount	Accumulated Earnings	Due From Affiliated Companies	Total
Balances at January 1, 2010	100	$ 1,000	$ 83,549	$ -	$ 84,549
Increase in due from affiliated companies (Note 7)	-	-	-	(743,592)	(743,592)
Net income	-	-	237,195	-	237,195
Balances at December 31, 2010	100	1,000	320,744	(743,592)	(421,848)
Decrease in due from affiliated companies (Note 7)	-	-	-	32,938	32,938
Noncash dividend declared (Note 7)	-	-	(539,055)	539,055	-
Net income	-	-	353,220	-	353,220
Balances at December 31, 2011	100	$ 1,000	$ 134,909	$ (171,599)	$ (35,690)

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

Hawaii Information Consortium, LLC
Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Net income	$ 353,220	$ 237,195
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	67,058	28,789
Loss on disposal of assets	-	6,221
Deferred income taxes	83,792	(14,224)
Changes in operating assets and liabilities:		
(Increase) decrease in trade accounts receivable, net	(2,477,492)	3,659,011
(Increase) decrease in prepaid expenses and other current assets	14,343	(3,444)
Decrease in other assets	2,932	-
Increase (decrease) in accounts payable	1,971,366	(9,842,270)
Increase (decrease) in accrued expenses	39,510	(4,457)
Increase (decrease) in deferred rent	12,421	(7,902)
Increase in other long-term liabilities	3,772	3,176
Net cash provided by (used in) operating activities	70,922	(5,937,905)
Cash flows from investing activities		
Purchases of property and equipment	(330,314)	(20,590)
Advances from (payments to) affiliated companies, net	50,379	(727,968)
Net cash used in investing activities	(279,935)	(748,558)
Cash flows from financing activities		
Payments to affiliated companies, net	-	(1,874,505)
Net cash used in financing activities	-	(1,874,505)
Net decrease in cash	(209,013)	(8,560,968)
Cash		
Beginning of year	3,561,098	12,122,066
End of year	$ 3,352,085	$ 3,561,098
Other cash flow information:		
Noncash dividend declared	$ 539,055	$ -

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

1. The Company and Basis of Presentation

The Company

Hawaii Information Consortium, LLC, formerly Hawaii Information Consortium, Inc. (the "Company"), was incorporated on October 15, 1999 to design, build and operate an Internet-based portal for the state of Hawaii (the "State") that allows businesses and citizens to complete transactions and obtain government information via the Internet. The Company is a wholly owned subsidiary of NICUSA, Inc. ("NICUSA"). NICUSA is a wholly owned subsidiary of NIC Inc. ("NIC").

On January 3, 2000, the Company entered into a three-year contract, with two two-year renewal periods, with the State to develop and operate applications for the State portal. Under the contract, the Company funded initial development and ongoing operational costs of the portal. Upon the completion of the initial contract term in January 2003, the State became entitled to a perpetual for use only license for the applications the Company developed, with no additional compensation due to the Company. The current contract runs through January 3, 2013, and includes unlimited renewal options under which the State can extend the contract for additional three-year terms.

Basis of Presentation

Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 presentation.

2. Summary of Significant Accounting Policies

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the statements of income for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and 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 assets are reviewed in total, since the uses of certain assets are provided free of charge for the benefit of the State's portal. The carrying value of property and equipment is considered impaired when the anticipated undiscounted cash flows from the assets are less than the carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the assets. Fair value is determined primarily using the anticipated cash 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 impairment losses on property and equipment during 2011 or 2010. There is considerable judgment necessary to determine future cash flows and, accordingly, actual results could vary significantly from such fair value estimates.

Deferred Rent

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

Revenue Recognition

The Company recognizes revenue from providing outsourced government portal services (primarily transaction-based fees) net of the transaction fees due to the government when the services are provided. Revenues from application development services provided to the State are recognized as the services are provided at rates agreed to between the parties. For the years ended December 31, 2011 and 2010, gross revenues were $9,738,865 and $7,773,357, respectively, and transaction fees paid to the government were $4,479,138 and $3,614,695, respectively. In connection with the revenues generated under the contract with the State, the Company is entitled to retain any revenues remaining after payment of all network operating expenses, statutory fees for retrieval of public information and various other expenses. The transaction fees that the Company must remit to state agencies for data access and other statutory fees are accrued as accounts payable at the time services are provided and must be remitted regardless of whether the Company ultimately collects the fees from its customers. As a result, trade accounts receivable and accounts payable reflect the gross amounts outstanding at the balance sheet dates.

Effective March 1, 2011, in connection with the revenues generated under the contract with the State, the Company must pay the State $8,000 per month. For the year ended December 31, 2011, payments made to the State under this arrangement totaled $80,000 and are included in cost of portal revenues in the statement of income.

Cost of Portal Revenues

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

Stock-Based Compensation

The Company measures stock-based compensation cost at the grant date, based on the calculated fair value of the award, and recognizes an expense over the employee's requisite service period (generally the vesting period of the grant). The Company estimates compensation cost related to awards not expected to vest.

Eligible employees of the Company participate in NIC's stock option and restricted stock plan and stock purchase plan. For the years ended December 31, 2011 and 2010, the Company recognized approximately $52,000 and $58,000, respectively, in stock-based compensation expense, which has been included in cost of portal revenues in the statements of income.

Income Taxes

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

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

Fair Value of Financial Instruments
The carrying value of the Company's accounts receivable and accounts payable approximate fair value.

Indemnification
Under the Company's contract with the State, the Company has agreed to fully indemnify the State against third party claims that the Company's services infringe upon the intellectual property rights of others and against claims arising from the Company's performance or the performance of the Company's subcontractors under the contract. The Company has not experienced such claims. Accordingly, the Company had not accrued any liability on the aforementioned indemnification obligations at the balance sheet dates.

Under the terms of the contract with the State, the Company is bound by a performance bond commitment totaling $500,000. The Company has never had any defaults resulting in draws on the performance bond.

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.

Subsequent Event
The Company has performed an evaluation of subsequent events through April 30, 2012.

3. 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 and monitoring the financial stability of those institutions. During November 2010, the Federal Deposit Insurance Corporation ("FDIC") adopted a final rule to implement Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which provides temporary unlimited deposit insurance coverage for noninterest bearing commercial checking accounts at all FDIC-insured depository institutions effective December 31, 2010 through December 31, 2012. At December 31, 2011, the Company's cash was held entirely in domestic noninterest bearing commercial checking accounts. The Company performs ongoing credit evaluations of its customers and generally requires no collateral to secure accounts receivable. At both December 31, 2011 and 2010, the Company's allowance for doubtful accounts was $5,000. Due to the high credit worthiness of the Company's customers, consisting mainly of data resellers, the Company considers the remaining accounts receivable to be fully collectible. The Company has not experienced any significant credit losses for the periods reported.

The Company provides an online renewal service for professional and vocational licenses issued by the state of Hawaii. This service accounted for approximately 20% and 27% of the Company's revenues in 2011 and 2010, respectively. In addition, the Company offers access to driver history records (referred to as DMV) through the portal. This service accounted for approximately 16% and 21% of the Company's revenues in 2011 and 2010, respectively. The Company also provides an online service for payment of excise taxes. This service accounted for approximately 12% and 13% of the Company's revenues in 2011 and 2010, respectively.

A primary source of revenue is derived from data resellers, who use the portal to access DMV records for sale to the auto insurance industry. For the year ended December 31, 2011, the Company derived 10% of its revenues from one data reseller. For the year ended December 31, 2010, the Company derived 14% and 13%, of its revenues from two data resellers.

4. Property and Equipment

Property and equipment consisted of the following:

	2011	2010	Useful Lives
Furniture and fixtures	$ 46,790	$ 11,289	8 years
Equipment	143,290	92,008	3–5 years
Purchased software	220,324	80,572	3 years
Leasehold improvements	-	3,478	Lesser of 5 years or term of lease
	410,404	187,347	
Less accumulated depreciation	(110,200)	(150,399)	
	$ 300,204	$ 36,948	

Depreciation expense for the years ended December 31, 2011 and 2010 was $67,058 and $28,789, respectively.

5. Income Taxes

At December 31, 2011 and 2010, deferred tax assets and liabilities resulted primarily from differences between book and tax depreciation, deferred rent, allowance for doubtful accounts, stock-based compensation and accrued but unused employee vacation expense.

A reconciliation of the beginning and ending amount of the liability for unrecognized income tax benefits (included in other long-term liabilities in the balance sheets) for the years ended December 31, 2011 and 2010 is as follows:

	2011	2010
Balances at beginning of year	$ 3,176	$ -
Additions for tax positions of prior years	1,726	1,960
Additions for tax positions of current year	2,046	1,216
Balances at end of year	$ 6,948	$ 3,176

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

The Company recognizes accrued interest and penalties associated with uncertain tax positions as part of income tax expense in the statements of income. At December 31, 2011 and 2010, accrued interest and penalty amounts were not material.

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

6. Operating Leases

The Company leases its office space and certain equipment under noncancelable operating leases. The future minimum lease payments under all noncancelable operating leases at December 31, 2011 are as follows:

Fiscal Years		
2012	$	78,024
2013		78,182
2014		80,242
2015		82,555
2016		56,223
	$	375,226

Operating lease expense for the years ended December 31, 2011 and 2010 was approximately $79,000 and $66,000, respectively.

In June 2011, the Company entered into a lease for office space through August 2016 with varying annual rent amounts ranging from approximately $75,000 to $84,000. The Company has a right to terminate the lease after 48 months by providing the landlord written notice 180 eighty days prior to the cancellation date. The Company will incur a cancellation fee equivalent to the sum of the following: the unamortized cost of the tenant improvements, the free base rent and commission, legal fees and three months of gross rent.

7. Related Party Transactions

Amounts due from affiliated companies at December 31, 2011 and 2010 consist primarily of cash advanced to affiliates and reduced by the payment of taxes and operating expenses paid by the affiliates on behalf of the Company and by dividends declared. Management believes that the receivable from affiliates will likely not be settled in the ordinary course of business and, as a result, has classified the receivable from affiliates as contra-equity within member's equity (deficit) on the balance sheets at December 31, 2011 and 2010.

On June 1, 2011, the Company declared a $539,055 noncash dividend to NICUSA. As a result of the dividend, the Company relieved NICUSA of $539,055 in amounts due from affiliated companies during 2011 and treated this item as a dividend distribution. No dividends were declared or distributed in 2010.

The Company receives certain general and administrative services from NIC and its affiliates. Such services are performed on a centralized basis, benefit all affiliates and include, among others, executive and operations management, technical consultation, human resource management, information technology, security, legal, accounting support and payroll processing. NIC charges the Company for such services based on an allocation methodology which NIC management believes fairly allocates amounts based on benefits received. In 2011 and 2010, the Company recognized approximately $789,000 and $756,000, respectively, in expense related to these services, which is included in cost of portal revenues in the statements of income.

The Company's ultimate parent company, NIC Inc., maintains an unsecured revolving credit agreement, which is available to finance working capital, issue letters of credit, and finance general corporate purposes. The Company has guaranteed the obligations of NIC Inc. in connection with this credit agreement.

8. Employee Benefit Plans

The Company, in conjunction with affiliated companies, sponsors a defined contribution 401(k) profit sharing plan. In accordance with the plan, substantially all full-time employees are eligible immediately upon employment. A discretionary match of up to 5% of an employee's salary and a discretionary contribution may be made to the plan as determined by NIC's Board of Directors. Expense related to Company matching contributions totaled approximately $57,000 and $40,000 for the years ended December 31, 2011 and 2010, respectively. No discretionary contributions were made for the years ended December 31, 2011 or 2010.

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