



October 31, 2007

Colin Y. Tanaka  
State Procurement Office  
Kalanimoku Building  
1151 Punchbowl Street  
Room 416  
Honolulu, HI 96813

Re: RFP No. 08-011-SW Internet Portal Manager and Services Provider

Dear Mr. Tanaka:

Hawaii Information Consortium, LLC (HIC) respectfully submits for your consideration this response to the State of Hawaii's Request for Proposals for Internet Portal Manager and Services Provider. We stand ready and are eager to continue to assist the State in realizing its vision for online government by aggressively pursuing the State's eGovernment agenda. HIC shall comply with the requirements, provisions, terms and conditions specified in this RFP.

HIC, a wholly-owned subsidiary of NICUSA, Inc. (NIC), welcomes the opportunity to respond to this Request for Proposal (RFP) and applauds the State of Hawaii for its customer-focused approach to electronic government. The objectives and requirements provided in the RFP offer an excellent opportunity for Hawaii to further its legacy as a pioneer in the development of enterprise solutions that cross jurisdictional boundaries and enhance the customer experience for Hawaii constituents.

eGovernment in Hawaii is HIC's only business. Our focus is on delivering value-added eGovernment services that save money and increase efficiencies for the citizens, businesses and government of Hawaii. Since 1999, it has been our privilege to partner with Hawaii and to assist the State in becoming a national leader in these pursuits. Our experience in Hawaii is supplemented by the success of our affiliates in 19 other states under the corporate umbrella of NIC. We offer a talented, focused and energetic team already on the ground in Honolulu, as well as a wide range of expertise and an extensive library of proven eGovernment services through our corporate parent. We have carefully reviewed the bid and include several enhancements to our existing services as part of the new contract.

HIC does not intend to utilize any subcontractors in the performance of this contract.

I, Russell Castagnaro, General Manager, am duly authorized to legally bind HIC to the proposal and will serve as contact on all matters related to the RFP. Should you have any questions or need more information, please contact me directly at (808) 587-4215 or [russell@ehawaii.gov](mailto:russell@ehawaii.gov).

We firmly believe that the eGovernment progress already achieved in the State, combined with the experience of our NIC affiliates in other states that can be leveraged for Hawaii's benefit, positions us as the strongest possible eGovernment service provider for the State of Hawaii. We look forward to discussing our proposal to continue this partnership with you.

Thank you for considering HIC for this opportunity.

Sincerely,

Russell Castagnaro  
General Manager  
HIC

## ATTACHMENT 1

### INTERNET PORTAL MANAGER AND SERVICES PROVIDER RFP-08-011-SW

Procurement Officer  
State Procurement Office  
State of Hawaii  
Honolulu, Hawaii 96813

Dear Sir:

The undersigned has carefully read and understands the terms and conditions specified in the Special Provisions, the Scope of Work specified herein, the SPO General Provisions, dated 1/1/07, and the AG General Conditions, Form AG-008 Rev. 6/25/2007, although not physically attached but included by reference and made a part here of; and hereby submits the following offer to perform the work specified herein, all in accordance with the true intent and meaning thereof. The undersigned further understands and agrees that by submitting this offer, 1) he/she is declaring his/her offer is not in violation of Chapter 84, Hawaii Revised Statutes, concerning prohibited State contracts, and 2) he/she is certifying that the price(s) submitted was (were) independently arrived at without collusion.

The undersigned represents: (Check ☒ one only)

☒ A **Hawaii business** incorporated or organized under the laws of the State of Hawaii;  
**OR**

☐ A **Compliant Non-Hawaii business** not incorporated or organized under the laws of the State of Hawaii, is or shall be registered at the State of Hawaii Department of Commerce and Consumer Affairs Business Registration Division (DCCA-BREG) to do business in the State of Hawaii.

State of incorporation: \_\_\_\_\_

Offeror is:

☐ Sole Proprietor    ☐ Partnership    ☒ Corporation    ☐ Joint Venture  
☐ Other \_\_\_\_\_

Federal I.D. No.: 99-0344850

Hawaii General Excise Tax License I.D. No.: W20559458-01

Payment address (other than street address below): \_\_\_\_\_

City, State, Zip Code: \_\_\_\_\_

Business address (street address): 220 S. King St. Suite 2190

City, State, Zip Code: Honolulu, HI, 96813

Respectfully submitted:

Date: 10/31/2007

(x)

Authorized (Original) Signature

Telephone No.: 808-587-4222

Russell Castagnaro - General Manager

Fax No.: 808-587-4218

Name and Title (Please Type or Print)

E-mail Address:

russell@ehawaii.gov

\* Hawaii Information Consortium, LLC

Exact Legal Name of Company (Offeror)

\*If Offeror is a "dba" or a "division" of a corporation, furnish the exact legal name of the corporation under which the awarded contract will be executed:

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The following offer is hereby submitted for the INTERNET PORTAL MANAGER AND SERVICES PROVIDER:

Offeror Hawaii Information Consortium, LLC  
(Name of Company)

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## (1) EXECUTIVE SUMMARY

*Proposals shall contain an executive summary that provides an overview of the Proposal, highlighting the deliverables, benefits and proposed Portal Services.*

### **HIC RESPONSE:**

Hawaii Information Consortium, LLC (HIC) is honored to respond to this Request for Proposal (RFP) and applauds the State of Hawaii for its decision to continue its customer-focused approach to electronic government. The objectives stated in the RFP offer an excellent opportunity for Hawaii to further its legacy as a leader in the development of enterprise solutions that enhance the customer experience for Hawaii constituents.

To achieve the goals as stated in the RFP, the State of Hawaii will require the assistance of a private sector provider that is committed to helping the State meet its objectives. HIC is eager to continue and enhance its service to the State of Hawaii and deliver the following benefits as part of a new contract:

- **Commitment to Delivering on the State's Mission:** Through its long-term commitment to the State, HIC has become a valued State partner. As Hawaii's longtime provider of proven eGovernment services under a self-supporting funding approach, we understand better than any other provider the significance of:
  - Identifying and delivering diverse revenue streams to sustain self-supported eGovernment services;
  - Upholding rigorous standards for accessibility and user-friendly site and service design;
  - Implementing measurements for the value of services provided by the portal, including cost and productivity benefits for both State and constituent users;
  - Ongoing outreach to executive branch and cabinet officials as well as legislative, judicial and municipal government leaders;
  - Expanding the availability of municipal government services;
  - Maintaining data and system security and constituent privacy;
  - Increasing the use of new and existing services by delivering effective marketing and public relations programs; and
  - Continuing to introduce innovative technologies that enhance service delivery.

We are intimately aware of the importance of the goals expressed by the last two administrations, the legislature and department leaders. HIC is committed to the State's goal of continuing to advance Hawaii's cross-jurisdictional approach to eGovernment services and is prepared to execute solutions that meet those goals. We are also committed to the continued growth of the State's eGovernment platform by delivering best-in-class online solutions that benefit Hawaii's citizens, businesses, and the State enterprise.

- **A Highly Secure Infrastructure, Management and Development Practice:** Security has always been and continues to be a significant priority for HIC. Since the nature of cybercrime continues to evolve, our security program and forward-leaning posture has

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As a subsidiary of the  
world's largest  
provider of  
eGovernment  
services, HIC can tap  
the resources and  
collective knowledge  
of NIC for the benefit  
of the State of Hawaii

expanded to address the changing threats. Our proactive security approach includes working with our state partners to identify and implement internal policies, hardware and software solutions, and industry-leading audit features that mitigate the security risks state government portals encounter. As a subsidiary of a publicly traded company that processes credit card transactions, HIC is held to the high security standards required by both the Sarbanes-Oxley Act (SOX) and the Payment Card Industry's Data Security Standards (PCI DSS). As part of this new contract, HIC is scheduled to participate in Cybertrust's Security Management Program. This is an intense, invasive and arduous process that includes multiple components to measure our compliance with Cybertrust's essential security practices.

- **Experienced and Results-Driven Portal Leadership:** HIC offers a seasoned Honolulu-based management team to deliver the specific services required by this solicitation. The proposed General Manager (GM), Director of Operations (DOM) and Director of Development (DOD) all have current management positions maintaining the eHawaii.gov portal. All staff dedicated to eHawaii.gov are Hawaii residents and collectively have over 15 years of eGovernment management experience working with the State of Hawaii. Russell Castagnaro, General Manager, has first-hand experience working with all of eHawaii.gov's partners on a technical and management level – including business development, marketing, public relations, project management, and day-to-day management of the developers and marketing specialists who support the eHawaii.gov portal. Jing Xu, Director of Operations, is the lead project, marketing and customer service manager for HIC and serves as the development and design team liaison to agency partners as well as manager of all customer service and marketing initiatives for the State portal. Zheng Fang, Director of Development, is responsible for implementing and overseeing the processes and controls for software development, security and change management in compliance with SOX and PCI DSS.
- **Proven Ability to Deliver Ongoing Services:** No other private sector provider has access to such an expansive government-specific application and documentation repository as HIC. Leveraging software is more than just customizing code; it is about effectively using “know how” and expertise gained from 15 years of focusing exclusively on building effective eGovernment services. As an NIC subsidiary, HIC can tap the resources of the world's largest eGovernment services provider. As a result, we commit to delivering additional online services that exceed the State's specifications and enhance the ways in which constituents access Hawaii state government information online.
- **A Results-Oriented and Collaborative Vendor:** In its 15 years of specialized eGovernment experience, NIC has developed a business approach that emphasizes long-term mutually beneficial wins for its partnerships. Our relationships within Hawaii state government are true partnerships in which success is a shared goal. We have collaborated with dozens of agencies in the deployment of more than 50 online services. During the first three quarters of 2007 alone, HIC processed more than 300,000 transactions and collected more than \$230 million in statutory fees on behalf of the State.

We provide an overview below of our specific qualifications and experience that make HIC uniquely qualified to deliver on the services outlined in the RFP.

### **A Proven Partnership**

As a partner with the State for eight years, HIC has a proven track record of success in helping the State of Hawaii create a more cost effective, convenient and efficient delivery channel for government services. Hawaii constituents, government entities and third party experts have long recognized these achievements. Hawaii has received multiple awards for eGovernment excellence from the Center for Digital Government, the International Association of Commerce Administrators (IACA), NASPO Cronin Awards for Procurement Excellence and other independent government researchers. In this proposal, we are committed to continuing our track record of providing superior eGovernment services and customer service solutions that serve the public, government employees and state and local agencies in an efficient and cost-effective manner.

### **Local Management, Local Support, Local Focus**

HIC is based in the State of Hawaii and is 100% focused on the unique needs of Hawaii government. This key tenet of NIC's corporate philosophy allows the Hawaii portal management team to become part of the operating environment of Hawaii government instead of consisting of an array of disconnected consultants who fly in and out when the need arises.

HIC is also committed to maintaining our office in Honolulu for the life of the contract and to augmenting our staff with local resources. The State of Hawaii has always offered a deep and diverse skill base for specific portal positions, and we are committed to hiring locally.

### **Proven Marketing Expertise**

An eGovernment portal is only as effective as the effort to drive traffic to it. During its tenure as Portal Manager, HIC has worked closely with State of Hawaii government entities to design and implement portal-wide and application-specific marketing campaigns. In late 2006, HIC participated in a multi-year strategic planning process with the eHawaii.gov Board to document the goals of eHawaii.gov. Marketing was a core component of our plan and as a result, HIC provided a comprehensive 2007 eHawaii.gov marketing plan with a focus on building awareness of Hawaii's eGovernment services among core user groups.

HIC is constantly measuring its performance. Each month, HIC reports marketing results and metrics and presents new marketing ideas to the eHawaii.gov Board for approval. HIC works closely with our government partners to develop detailed communications, marketing, media outreach and promotional plans that support Hawaii eGovernment initiatives. At the national level, NIC's corporate team also works to promote Hawaii's eGovernment efforts by leveraging advertisements, white papers, speaking opportunities and media relations on behalf of the State.

### **Funding Model Experience**

HIC has been operating under a self-supporting model for the last eight years, and the model continues to deliver benefits, including frequent portal redesigns, major infrastructure upgrades, new services and security practices and procedures – all at no upfront cost to Hawaii taxpayers. As an NIC affiliate, HIC has the advantage of NIC's self-supporting eGovernment portal management expertise. NIC developed the nation's first self-supporting eGovernment portal in Kansas in 1992, and has adapted the funding model to deliver self-

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supporting services to 20 states. Leveraging the best practices of the other NIC portals allows HIC to responsibly and most effectively serve the State of Hawaii and its constituents.

HIC and NIC have reviewed the information related to the State's proposed financial and delivery model and are confident that we can effectively leverage the business approach envisioned by the State of Hawaii. Our ability to draw upon extensive software and personnel assets will allow us to meet the State's needs in a way that is better, faster, more effective and less expensive than any other funding option.

### **Expanding Services in the Future**

HIC has begun the project development process on a number of new services in support of Hawaii's agencies and constituents. In fact, during the past several months leading up to the re-bid period, HIC has continued to identify and develop new services on the State's behalf. In addition to the 18 services identified in Exhibit B of the RFP as planned and proposed, we also propose new services in Section 2.02.60 that have been extremely successful in other NIC affiliates and will deliver immediate benefits to Hawaii constituents. We look forward to growing portal services in collaboration with AHC.

### **Enterprise eGovernment Expertise**

HIC and NIC recognize that a successful eGovernment program involves much more than just effective technology. During the last eight years, HIC has demonstrated its ability to execute the many facets of eGovernment required to deliver a robust portal solution, including:

- |                                      |                             |
|--------------------------------------|-----------------------------|
| - Funding                            | - Training                  |
| - Policy & legal support             | - Customer service          |
| - Political advocacy                 | - Design                    |
| - Cross-jurisdictional collaboration | - Usability & accessibility |
| - Marketing                          | - Security                  |
| - Public relations                   | - Financial processing      |
| - Market research                    | - Technical infrastructure  |
| - Application development            | - Project management        |
| - Measurement & accountability       |                             |

No other private sector provider has mastered these essential elements of a successful enterprise eGovernment solution. HIC and NIC are confident in our ability to deliver the existing requirements as well as the new features under the business and delivery model requested by the State. Details of our proposed approach can be found in the following sections of our response.

HIC is proud of the results of our eight-year eGovernment partnership with the State and is eager to continue delivering benefits to Hawaii's constituents through this successful portal management partnership.

During the last eight years, HIC has proven its ability to execute the many facets of eGovernment required to deliver a robust portal solution



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## (2) BACKGROUND AND SCOPE OF WORK (SECTION 2)

### 2.01 PORTAL OVERVIEW AND HISTORY

- 2.01.1 *In 1999, the State initiated the Internet Portal project with the goal of redesigning the State's home page to have it serve as a web-based portal, or single access point, to electronically deliver services and information. To achieve this goal an RFP was issued for response from electronic business and Internet portal providers. In 2000, the State entered into a contract with the Hawaii Information Consortium (HIC) a subsidiary of the National Information Consortium (NIC). The contract called for HIC to develop the Internet Portal based on a customer-centric approach with a consistent user interface, and without increasing the tax burden on the residents and businesses of Hawaii. As part of this contract, initial investment capital for hardware, software, communications, facilities, and other related items were provided at no cost to the State by HIC.*
- 2.01.2 *Over the period of this contract, HIC redesigned and hosted the new home page and provided an integrated search engine. In partnership with the Portal Partners, it has developed and is continuing to develop Web applications to deliver information and services to the public. (These applications are listed in Exhibits A and B.) In addition, HIC has promoted the Portal to Government Agencies, private and public organizations, while providing reporting, user and performance statistics to the AHC.*
- 2.01.3 *The Portal is now a self-supporting and cost-effective Internet Portal that provides enhanced access to public information and services. The key components of the Portal system are a State 'home page' that is designed from a customer or citizen point of view, applications that support on-line processing of licenses, filings, permits, applications, renewals, and database searches, and presentation of information to citizens and businesses. It has been developed and operated without increased tax burden on the residents and businesses of Hawaii.*
- 2.01.4 *The current contract with HIC will end on Jan. 3, 2008, and the State desires to continue the existence of the Portal in its current or similar operational mode.*
- 2.01.5 *Over the course of the current contract, multiple applications or Portal Services have been developed by both HIC and Government Agencies and made accessible via the Portal. The Portal applications provide services and information at no cost or at a statutory or regulated fee, while others may be available for a convenience fee or subscription fee.*
- 2.01.6 *Examples of Portal Services that the Portal offers are: Annual Business Filings, New Business Registrations, Electronic Tax Filings, Camping Permits, Hunting and Fishing Licenses, Sex Offender Registry and Criminal History, Jury pool Information, and many more integrated Portal Services which are listed at the following URL - <http://www.hawaii.gov/portal/business/all.html>.*

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## 2.02 CONTRACTOR'S SCOPE OF WORK

*Unless otherwise stated in this Section 2.02, at no direct cost to the State or Portal Partners, the Contractor shall provide the following services:*

*Provide the Following Services*

2.02.1 (M) The Contractor shall continue operations of the existing Internet Portal for the Portal Partners. This includes day-to-day operations, maintenance and administration of all Internet Portal services. The Portal operates 24 hours per day every day of the year. Operations include customer service, facilities, hardware, networking, security, performance monitoring, and problem resolution. Maintenance includes keeping all off-the-shelf software on current releases and keeping the development environment on mainstream industry accepted standards. Administration includes all financial, record keeping, reporting and management aspects of the Portal.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

Since HIC is the current portal manager, if HIC is selected there will be no interruption of service or transition required to continue the operation of the existing Portal for the Portal Partners. HIC will continue to provide services in operations, maintenance and administration of financial and record keeping aspects of Hawaii.gov.

2.02.2 (M) The Contractor shall continue to work on Portal Services that are in the development or conceptual stage. The Contractor shall also work to expand the Portal Services by developing new and enhancing existing Portal Services. Work includes project management, design, programming, testing, deployment, documenting, and marketing. All work on Portal Services shall be done with the approval and input of the Portal Partners and oversight of the AHC. Exhibits A and B contain a list of Portal Services that are operational, in development or conceptual.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

2.02.3 (M) The Contractor shall adjust project schedules, if the priority for a Portal Service changes. Changes in priority shall be done with the approval and input of the AHC.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

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2.02.4 (M) The Contractor shall provide description of how it intends to work with the Portal Partners to develop strategies to increase public, business, and government use of the Portal.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

HIC works closely with State partners and the Access Hawaii Committee (AHC) to identify new government services that are good candidates for future eGovernment solutions and to promote these services to the user community. HIC, as the current portal manager, actively looks for new opportunities and strategies through several channels, including:

- Working with existing Portal Partners
- Recommendations from AHC
- Newspaper articles/ press releases from the agencies
- Actively reaching out to new Portal Partners
- Marketing education and research – outreach to media outlets and specific Hawaii associations including Chambers of Commerce, Kiwanis, Rotary, Lions Club and other industry associations
- Other NIC state portals (NIC Affiliates) – Utilizing the thousands of successful strategies, applications, plans and methodologies of other NIC state portals

Marketing and customer outreach to increase the public's and business's use of Hawaii.gov is a key component of our capabilities.

**Marketing**

Marketing is an essential component to the success of the Hawaii state portal. Marketing efforts begin before applications are ever developed and play a key role in the design of citizen and business applications.

HIC uses a variety of marketing strategies to drive adoption of State services. Many marketing efforts have been geared to business users, who realize significant savings in time and money by conducting government business via the Web. Marketing team members deliver the eHawaii.gov message to businesses through direct mailings, professional/business associations and trade publication collaboration. In addition, the marketing team works with state agencies to brand services and develop promotional/informational materials to help agencies promote their own Web services. To increase awareness of portal services to the general public, the marketing team has also worked with Portal Partners to develop public relations strategies, media outreach programs, and direct mail campaigns.

HIC's corporate parent, NIC, also supports eHawaii.gov's marketing initiatives by developing local and national media outreach programs to support portal services. In addition, NIC has featured Hawaii's eGovernment services and interviews with State leaders in numerous trade publications during the last eight years.

A final key to our outreach program is gathering customer metrics and agency feedback to ensure that we are constantly analyzing the results of our services, as well as improving our performance. To assist us in this effort, we will utilize the following strategies and

techniques:

- Tracking System – A suite of business processes is in place to assist the portal in tracking marketing effectiveness, customer service requests, providing change management processes and to provide a picture of our overall customer performance.
- Customer Surveys – HIC has expertise in a wide variety of research activities. Focus groups, telephone and mail surveys, online surveys, interviews and secondary research have been used successfully to uncover insights for building nuanced marketing plans.
- Customer Metrics – Customer metrics correspond to measuring how the eGovernment customers use the system. HIC maintains a comprehensive customer database which stores information about the customers' usage of eGovernment services. From this information, analysis such as the number of business/ services transactions by application and in total for the agency or the number of subscribers by type and the number of transactions each subscriber makes per application can be generated.
- Usage Metrics – Usage statistics includes reports generated from the Web servers' log files. Recorded in these logs is the information necessary to calculate hits, requests, and visits to various portions of the State Web site, including the number of visits to the site, visits to premium service areas, and the number of forms/reports requested by constituents. In addition to standard log file statistics, each of the eCommerce Web applications built by HIC includes transaction tracking that enables the creation of usage reports for each application as well as compiled across applications. HIC routinely measures usage and adoption rates of each eCommerce application, in partnership with the application's sponsoring agency.

A case study follows that demonstrates HIC's capabilities in analyzing opportunities, developing strategies and successfully implementing changes based on feedback gathered through multiple research channels. This type of research and analysis is critical to increasing the use of the portal.

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#### **CASE STUDY: FEE REDUCTION DRIVES HIGHER SERVICE ADOPTION (WWW.EHAWAII.GOV)**

##### **State of Hawaii Compliance Express Fee Drops 20 Percent**

Recently the State Procurement Office lowered the minimum requirements for procurements that need to comply with the State's strict procurement law. In an effort to lower barriers to usage, HIC lowered the annual registration fee by 20% for Hawaii Compliance Express (<http://vendors.ehawaii.gov>) effective July 1, 2007. The service now serves more than 1,600 vendors and over 530 procurement officers, increases of 160 percent and 25 percent respectively over the past year. The unique, innovative tool links three state agencies and one federal agency to simplify compliance procedures for vendors that want to contract with all state and county agencies. It condenses visits to those agencies multiple times each year into one quick online session.

Under the 20% fee reduction, vendors seeking to demonstrate compliance with the State of Hawaii can register or renew with Hawaii Compliance Express for an annual cost of \$12.00. The previous fee was \$15.00. The State also announced the service's selection for an award from an association of state procurement officers, its second award since launching in 2005.

"We're moving beyond simple automation of existing manual procedures," said Aaron Fujioka, administrator of the State Procurement Office for the State of Hawaii. "We're taking the next step in online services, using technology to create a one-stop shop that integrates multiple processes into a single 'visit' that makes doing business with the State and counties easier, faster and cheaper. Hawaii Compliance Express is a perfect example. It's easier and faster thanks to consolidating several key compliance steps. And the fee reduction means it's literally cheaper for businesses."

The National Association of State Procurement Officers awarded the Cronin Information Technology Award for the Hawaii Compliance Express program. The award recognizes innovative state procurement programs and promotes sharing of ideas between states. The association noted the program's integration of state agencies' processes, but was especially impressed with its intergovernmental inclusion of the federal Internal Revenue Service. The service also won an award from the International Association of Commercial Administrators in 2006.

Additionally, HIC's corporate parent, NIC, offers significant experience in the use of customer metrics and surveying to develop and implement services as a result of constituent demand. These efforts are illustrated in the case studies that follow.

#### **CASE STUDY: CONSTITUENT SURVEYS DRIVE ANALYSIS AND ACTION (WWW.MAINE.GOV)**

##### **State of Maine Vehicle Tag Renewal System is Enhanced Based on Constituent Feedback**

Following the successful launch of Maine's Rapid Renewal online vehicle tag renewal system (Rapid Renewal System), former Secretary of State Dan Gwadosky and NIC's portal management team developed a formal outreach program to gather feedback and consider improvements to the service. The team drew from an array of sources—including Webmaster feedback, push e-mail surveys to users who provided opt-in contact information and focus groups with citizens and local municipalities. The list of enhancements was analyzed and refined by the Secretary of State and the NIC team to meet the unique business rules of Maine.gov. The recommendations were then prioritized by citizen benefit, agency efficiencies gained and level of difficulty to implement. In some instances, significant changes were subject to additional analysis by a second round of focus groups to determine value and impact.

While some of the citizen recommendations were infeasible to implement due to legal and data collection requirements, several key enhancements were built into the next release of Rapid Renewal—including updated FAQs, a more explicit demonstration module and the ability to register multiple vehicles in a single online transaction.

Maine.gov's outreach to constituents continues through phone calls, e-mails and live help chats with users. On average, the State portal receives hundreds of suggestions each week, which creates an open feedback loop for ongoing enhancements.

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#### **CASE STUDY: USING FEEDBACK TO GENERATE NEW APPLICATION IDEAS (WWW.ALABAMA.GOV)**

##### **Alabama Portal Uses Feedback to Develop New Delivery Channel for Hunting & Fishing Licenses**

Objective: Reduce the administrative burden for Alabama's retail hunting & fishing license issuers to comply with state regulations and improve licensing performance, while enhancing the State's hunting and fishing record-keeping system.

Constituent Issue: Retail organizations throughout the State, especially Wal-Mart and Kmart, were required to deal with licensing regulation compliance, theft, loss and cumbersome paper reporting processes.

Process: Through conversations with Alabama.gov portal employees, the Alabama Department of Conservation and Natural Resources and employees in several Montgomery-area Wal-Mart stores, the need for a low-cost electronic hunting & fishing licensing system became apparent. The need existed at both the constituent and state levels.

Solution: The Alabama.gov portal team proposed a Web-based solution in which retailers are responsible for providing their own hardware (an Internet-capable computer and printer). Alabama Interactive developed the software program for use in the retail locations, agency offices and local licensing sites.

Implementation Methodology: Wal-Mart stores agreed to pilot the service in 15 stores prior to full implementation. The pilot stores tested the system for several months and provided detailed feedback through both focus groups and informal conversations with clerks using the system.

Feedback-Driven Enhancements: A detailed interactive tutorial for initial and refresher employee training was developed to address the questions from the pilot store employees.

Results of the new application:

- 1,413,775 licenses issued via NIC Point-of-Sale (POS) Solution since September 2003
- 161,102 issued through the home user interactive system (web-based)
- 95 Wal-Mart stores (100% adoption) currently using the system
- 28 Kmart stores (100% adoption) currently using the system
- 60 individual retailers
- 46 County Probates (69% adoption) use the Web-based solution
- 19 Department of Conservation Field Offices and State Parks

Wal-Mart has estimated an annual savings of more than 16,000 employee hours across its Alabama stores due to the improved reporting processes. The agency also estimates an annualized savings of more than \$200,000 in shipping, printing, reporting, document storage and staff hours.

*Provide Public Access and Presentation of the Portals' Content as Described Below*

2.02.5 (M) The Contractor shall make the Portal Services accessible via popular browsers such as Microsoft's Internet Explorer, Mozilla Firefox, and Netscape Navigator. Users shall not be required to download or add software to use the Portal Services. In addition, there should be a balance of size and complexity of web page graphics against the need to support customers with low speed access to the Internet.

#### **HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

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2.02.6 (M) The Contractor shall accommodate links to the web sites of all State and local government agencies and some Federal agencies as approved by the AHC. In addition, the Contractor shall accommodate links that highlight various aspects of Hawaii's history, culture, community, education, and business for site visitors from outside of the State.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

2.02.7 (MR) The Contractor shall provide tools to navigate and search the Portal that allow Portal visitors to easily find Portal Services and content.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

As the current Portal Manager, HIC recently deployed a folksonomy-based search tool that allows for services to be tagged and searched by those tags. HIC also maintains the Google search engine service for visitors to the State portal and regularly adjusts the system to provide the most accurate and relevant search results. The portal also has links for easy access to the most popular services and new services on the main portal.

The Google Search appliance provides the search functionality and delivers the same high-quality search results to state government Websites that millions of Google users search with every day. NIC has deployed enterprise Google technology in 16 states and supports more than 3.5 million state government Web pages utilizing Google's site search.

The Google search appliance offers end users of eHawaii.gov many of the same benefits they have come to expect from Google.com with specific enterprise enhancements that make search easy, useful and intuitive. NIC deploys the Google search appliance in a clustered environment with hardware fail-over architecture to protect the State from any search engine appliance hardware failures. Working with our Portal Partners, we have discovered that the Google search appliance in particular has the following specific features that benefit users of eHawaii.gov:

- Integration across all services: The system is configured to search all deployed government services and data, regardless of where they are hosted, how they were developed or who manages them
- Natural language "keyword" searches: Google's keyword search provides sorted responses to natural language queries (such as "information about registering my vehicle") with similar accuracy as pure natural language search engines
- Automatic spell-check: Google automatically suggests corrections with startling accuracy, even on company-specific words and phrases
- Google quality and ranking: Google factors in more than 100 variables for each query
- Dynamic page summaries: Judge the relevance of results more easily with dynamically generated snippets showing your query in the context of the page
- Results grouping: Navigate search results easily and clearly using intelligent grouping of

documents residing in the same narrow subdirectories

- Cached pages: View search results even when the sites are down via cached copies of pages included in the search results
- Highlighted query terms: Quickly find the most relevant section of a document using the highlighted query terms displayed on cached documents
- View as HTML: Display documents without needing the original client application of the file format thanks to automatic reformatting of more than 220 file formats into HTML
- Sort by date: Access time-sensitive information first via date sorting
- Ability to create individual agency search collections for additional granularity and customization requirements

HIC will continually work with the State to evaluate the search needs of users of eHawaii.gov and report to the State on the effectiveness of the Google search engine solution. If Google does not provide the level of service the State requires or there is another solution that will work better for the State, HIC will work with the State to make a recommendation for an alternate solution for the portal.

2.02.8 (MR) Consistent with the State web standards, the Contractor shall provide a Portal with a consistent user interface and a customer centric approach to presenting information. In addition, the Contractor shall provide improvements to the user interface based on technology and industry changes, or feedback from customers or Portal Partners. Since the individual Portal Partners' web sites are linked to the Portal and the Portal Partners still have control over the design and content of their own web sites, the Contractor must use their best efforts to blend with or provide guidance to the Portal Partners to provide consistent presentation, and methods for visitors to simply navigate and search the Portal.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

As the current Portal Manager, HIC proposes to continue to update, maintain and periodically redesign the high-level State Web portal, [www.eHawaii.gov](http://www.eHawaii.gov), to constantly promote the State and its services in the most usable and accessible manner. In addition to the enhanced search capabilities of the portal, HIC is also planning several upgrades to the portal infrastructure, including new hardware and software as a component of the business continuity plan.

HIC and its parent company NIC, have extensive experience working with partners to redesign and improve upon the intuitive design and continual content look and feel refresh processes. Instead of basing our methodology on unproven concepts, we incorporate real experience from multiple states and present a proven analysis approach below. Based upon our experience, NIC has proven examples of increased site access and usability as a direct result of a portal redesign and standardization. We present an example in the following case study.



#### **CASE STUDY: USING RESEARCH TO ENHANCE PORTAL DESIGN (WWW.UTAH.GOV)**

##### **Utah Uses Constituent Feedback for Portal Redesign**

In 2004, Utah.gov underwent an intense redesign to improve citizen usability. The NIC team in Salt Lake City employed several techniques during the research and requirements-gathering phases to ensure that the most usable layout and design components were implemented. The redesign was initiated with three citizen focus groups (selected randomly and consisting of a wide range of ages from with varying degrees of Internet experience) to determine the points of usability confusion with the current site.

The citizen groups were asked to test the navigation elements on the site while being observed by Utah.gov researchers. Navigation tests were given to identify navigation issues and determine the most logical primary navigation grouping. As a result of the user testing, it was determined that the navigation around "life events" already employed by Utah.gov was the best standard.

Among the other key findings from the research were:

- Most citizens visiting Utah.gov come to the site with a specific agenda. In these instances, strong primary navigation is imperative and must be easy to locate and logically grouped. To the focus groups, primary navigation was easiest to identify when it is located in the usual left hand side of the page and set apart by bold color.
- Fly-out menus were fundamental to navigation through the primary elements and citizens appreciated being able to click on the secondary menu items without moving to a separate Web page.
- Users were easily overwhelmed with too much content, or even worse, too many icons on the front page. The more icons and the more content on the front page, the more difficult it was for users to find what they were looking for and the more likely they were to give up and go elsewhere for information.
- Business users had an agenda different from citizens when using the site. They need to access different services and different information and wanted to have that specific information aggregated.
- The portal team worked closely with Utah CIO Val Oveson to review the key research findings and identify the enhancements to the site. Among the top priorities that were identified were:
- Make the primary navigation easy to discern and continue to use fly-out menus for the secondary navigation.
- Simplify the site through better content organization and judicious use of icons.
- Create a unique business portal to meet the specific needs of Utah's business users.

Once the project was implemented, two expert panels of graphic designers, Internet usability experts and programmers were convened to determine if the redesign objectives had been met. The group conducted blind surveys and then met twice to participate in open discussions about the new Utah.gov. The new site was also subjected to another round of citizen user testing prior to launch. In addition, eye-tracking studies were conducted to measure the effectiveness of the new design flow.

Finally, a cross-section of 40 state employees was split into two focus groups to review the new Utah.gov design. The employees were also given anonymous questionnaires to determine their understanding of the navigation elements and measure how well the key findings from the citizen's focus group had been addressed.

Overall, Utah.gov went through 12 design and testing iterations prior to launch—all due to feedback generated through the research process.

Should HIC be awarded the portal contract, we will continue to work with the State and Portal Partners to continually take a fresh look at Hawaii's Website, with a focus on improving and expanding the amount of information available and the manner in which it is delivered to the public. We will provide assistance to help state agencies achieve the vision and goal of a single point of entry portal with a common look and feel and easy-to-manage content system.

This activity will include evaluating individual Portal Partners' Websites that are linked to the Portal since Portal Partners still have control over the design and content of their own Websites. This situation is common across NIC's 20 portals and HIC will use our best practices to provide assistance and common Web objects that Portal Partners may use (banners, branding, standards, etc), work with existing designs and/or provide guidance to the Portal Partners for consistent presentation from the eHawaii.gov portal. It is very important that the end user feels they are browsing official Hawaii Websites regardless of whether they are on the main portal or Portal Partner sites.

HIC will work closely with state agencies and departments, Hawaii businesses and residents to create a portal with a Web-based user interface, contents and architecture that is easy to use and will foster repeat business from end users.

Below we briefly present our proposed approach to Web analysis and design for your consideration.

### **HIC Site Analysis and Redesign Approach**

HIC employs a two-tier approach to ensure compliance with the design standards and any other portal policies and standards. First, the HIC team does a thorough site evaluation and makes recommendations for a redesign. Concurrently, the HIC team provides site infrastructure recommendations that assist the State in achieving a portal structure that is comprehensive, well mapped and easily navigated.

Hawaii has expended many years of effort assembling the current content provided through the State's Web presence. HIC plans to improve upon the current success of the portal by applying techniques, technologies, standards and processes that we have used successfully in improving the Websites of many other state government partners. These partners have often experienced a boost in national recognition of their site after a redesign.

The design and architecture approaches HIC proposes are methodologies that have been researched, field-tested and implemented in many other states and are proven effective in providing an improved user experience.

Below we outline our enhanced site redesign process. HIC looks forward to working with the State to ensure that the portal user interface, navigation and enterprise content management comply with this policy.

### **Redesign Process**

HIC will abide by the following guiding principles when redesigning Hawaii's user interface for the portal system:

- **User Focus:** The citizen user as an owner of government, not just a customer of its services, is the first consideration when designing and implementing the portal. It is impossible to engineer an effective government Web portal without considering the individual user. Likewise, business users have special needs in accessing government information and are often the most frequent consumers of online services. These user groups and other special user groups must all be considered when redesigning the portal.
- **Usability:** Information posted on a Website serves no purpose if users cannot find it. Focusing on how users interact with a Website and discovering what information is most commonly sought should drive the creation of an appropriate and effective information architecture and navigation scheme. In particular, we focus on categorizing information in a logical manner that does not force citizen users or businesses to understand the intricacies of government. The objective of a highly usable State portal is to demystify the levels and classifications of government and provide multiple ways to easily access important information.
- **Accessibility:** To HIC, accessibility is by definition a category of usability—if the user interface is accessible, it is more usable for everyone. Accessible sites have a user

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interface that takes into account the needs of users with disabilities.

- Consistency: The portal will be implemented with consistent navigation and layout elements to promote an intuitive and seamless user experience. Consistency is core to usability and is also essential for site recognition and brand awareness.
- Cutting edge technology: As Web design technology evolves, so must the portal. HIC staff is skilled in understanding and implementing the latest technology to deliver a portal that meets or exceeds the latest trends in design and architecture, including Web 2.0 features, RSS feeds and CSS (cascading style sheet) layouts.

#### **Conform to all Hawaii Web Policies**

HIC will build a Web portal and user interface that complies with all of the State's guidelines for Web development and any standards for security, privacy, accessibility and usability. If awarded the contract, we look forward to continuing to provide input to the State as they refine their guidelines, standards and policies for eHawaii.gov.

HIC will also work with the State to make sure that the portal's content meets or exceeds the State's desired accessibility compliance. Our commitment to Section 508 and other accessibility issues concerning government Web sites is unchallenged. HIC's parent company, NIC, was instrumental in launching the first compliant State government Web site and remains focused in our approach to continue the effort. As active members of the W3C Education and Outreach Workgroup and two NASCIO Accessibility Boards, NIC continues to work on developing policies, outreach programs, business models, education and training in the area of accessibility.

#### *Provide High Quality Customer Service*

2.02.9 (MR) The Contractor shall provide a support framework for the Portal Partners in the event of problems or questions with the Portal. The support framework shall allow for Portal Partners to submit work requests and problem reports via phone or electronically. The support framework shall provide bidirectional communications between the Contractor and the Portal Partners allowing Portal Partners to see the status of their requests or to find the status of the Portal or specific Portal Services. The Contractor shall also provide bulletins and alerts for any planned maintenance or problems on the Portal. Response time for work requests and problems shall be executed according to the provisions defined in Service Level Agreements.

#### **HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

HIC currently operates a support model that meets the needs of the State and provides a solid foundation to manage the needs of Portal Partners. As a standard operating procedure, each project is designated with a project manager or a designated sole point of contact. In the case of an issue, Portal Partners can contact the project manager directly via phone and/or e-mail. E-mail and phone calls will be returned promptly according to any standards established in SLAs. Portal Partners can also use our Web-based trouble ticketing system, Mantis, to

submit questions, issues, change orders and/or work requests. Each project manager monitors his/her project queue, and provides answers or status to new or existing tickets. All responses and status changes automatically triggers e-mail update to the submitter of the issue.

In the event a problem is reported and the error is within HIC's ability to fix, necessary adjustments will be implemented in a timeframe that meets the SLA defined for the system affected. If the error is generated due to circumstances beyond HIC's control (e.g. an agency backend system failure), HIC's technical staff will notify the proper resources (e.g. agency personnel) via their preferred communication mechanism.

#### **Planned Maintenance Schedules**

Performing periodic maintenance, upgrades, patches, deployments and repairs without impacting daily operations is a critical component of a successful portal. HIC currently has and will continue to adopt and publish a scheduled maintenance process and notification policy for all externally facing Web content and services, applicable to those parties supporting this content and/or services including State partners. This process and policy could include the following requirements to be approved by the State:

- Advance notice of planned service requests to the State
- Maintenance window during off-hours as determined by portal statistics, when applicable
- Notification of maintenance to affected users
- Notification posting for the affected service or for the whole portal
- Notification to appropriate key customers (e.g. batch customers) via e-mail, if necessary
- Notification to key stakeholders following the completion of the scheduled maintenance window, including State partners and key customers, if necessary

2.02.10 (MR) The Contractor shall provide a Help Desk service for customers. The Help Desk service shall provide both on-line and telephone support. On-line help shall include FAQ's, context sensitive help, searchable help, live chat and help via email. At a minimum, telephone and live chat support shall be from 7:45 am to 4:30 pm Monday to Friday Hawaii Standard Time. Requests for help via email shall be answered within one (1) working day. Provisions defined in Service Level Agreements may supersede service conditions defined in this subsection.

#### **HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

An effective help desk is vital to the operation of the Hawaii State portal. When a customer encounters a question or problem using a service or Web site, assistance is only a phone call, live chat or e-mail response away. HIC is the current front line support for the State portal, and as such, HIC's customer service representatives are well versed in eHawaii.gov online services and are able to assist customers knowledgeably and quickly and/or able to direct people to the correct state agency for further information.

HIC current and proposed Help Desk for customers is comprised of direct support and indirect support. These components are introduced in the paragraphs that follow.

#### **Direct Telephone and E-mail Support**

HIC will provide telephone support to the end user, without additional charge to the State. We will provide a dedicated help desk that has both telephone and online Help Desk responsibilities and operates during standard business hours (7:45 AM to 4:30 PM Monday to Friday - Hawaii Standard Time). All questions and inquiries received via e-mail will be addressed within one (1) business day. HIC understands that any provisions defined in SLAs can supersede the conditions defined in this subsection.

Specifically, telephone and e-mail support includes:

- Live operators during working hours
- Review of telephone calls and e-mail logs to identify and rectify frequent inquiries
- Quick response times on all calls and e-mails
- Support of payment processing inquiries that might include step-by-step instructions for filling out forms or completing transactions, definitions of terms that clarify information the customer needs to provide transaction eligibility requirements, and special circumstances that require escalation to the agency or department directly
- Continual improvement of customer service, through usage reports and logs of telephone calls and e-mails, to improve services

#### **Indirect Telephone and E-mail Support**

Inquiries regarding issues and complaints outside of the portal's control (such as policy issues or inquiries about a service, product, or program not currently offered) will be directed to the appropriate State agency. When necessary, customers may be referred to department staff to resolve more complex questions.

#### **Online Help**

By providing online help through icons, page footers, live chat and other features, we can make great strides toward effectively managing the expectations of the users and lowering any inhibitions users may have when contacting the State. Offering User Help pervasively throughout the Web site will give users a sense of confidence. Once they use the help features, users will be confident that they can count on the State's site to facilitate the interaction they need or want. All along the way, help will be a simple click away.

#### **Live Chat Service**

HIC adapted live support technology for use on the portal – making Hawaii one of the first states to use a live chat feature on its portal to interact with users of its services. If selected, HIC will continue to bring cutting-edge customer service to the residents, visitors and businesses of Hawaii.

Live Chat is a secure, real-time customer assistance application that is modeled on Internet chat rooms and has been adapted for state government portals in most of the states managed by HIC's NIC affiliates. This service provides enhanced customer options to interact with the State while reducing phone calls to portal representatives. Additional efficiencies are

NIC has deployed  
Live Chat to  
supplement other  
online customer  
support and it has  
become one of the  
most popular  
choices for user  
interaction with the  
portals we manage

realized by allowing support staff to utilize prepared responses and “pushing” users to specific Web pages.

User testing and feedback is a significant value throughout the development process and afterward as the portal is continuously enhanced. Successful navigational experience and site functionality depends upon the inclusion of user feedback during the planning and prototyping stages and also throughout production. When potential users are consulted as we define our goals, organize our blueprints and implement our designs, the final product advances into a more prosperous audience-responsive environment.

Visitors to eHawaii.gov are encouraged to provide feedback via the online form at <http://www.ehawaii.gov/dakine/comment.html>, offering an opportunity for users to ask questions about or make suggestions for improvement to the portal. The feedback requests are analyzed periodically to assess customer satisfaction.

### **Google Search**

HIC proposes to continue to use its custom folksonomy-based search and Google search engine functionality for the State portal. To begin a search of Hawaii State government Web sites, the user simply types in one or more keywords and a list of results that most closely match the keywords are displayed.

### **Department of Commerce and Consumer Affairs (DCCA) Business Action Center Help Desk**

HIC has also created a separate online Help Desk for the DCCA’s Business Action Center (BAC). The BAC can provide help in a more official capacity to filers starting a new business or filing annual reports. HIC offers this additional feature to any high volume State partner.

2.02.11 (MR) *The Contractor shall offer customer satisfaction surveys to determine the level of acceptance, and ease of use of services. These surveys shall be distributed to the public users of these services, and to the State agencies that provide these services. The Offeror shall provide survey samples with this proposal if available.*

### ***HIC RESPONSE:***

Hawaii Information Consortium will comply with this requirement.

As the current Hawaii State portal manager, HIC has been conducting online surveys of customer satisfaction since November 2002. In 2007, HIC began surveying our state partners for satisfaction as well. Each year customer satisfaction results are reported to AHC.

This online survey service can be accessed by public users and State agencies from the Hawaii State portal. This online survey service allows users to rate the Portal from different factors, such as, easy of use, navigation and content and to provide general comments. A survey sample is shown in *Figure 2.02.11-1* below and represents the current survey that can be found at <http://www.ehawaii.gov/dakine/comment.html>.

The surveys have been extremely valuable in reviewing user satisfaction. As a result of the surveys, we have redesigned eHawaii.gov multiple times over HIC’s tenure as Portal

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Manager. The survey responses continue to show improvement and satisfaction with the portal as well diversification of the portal's appeal. Results from the surveys are included below. Note: the data from 2007 covers only the first half of 2007.

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FIGURE 2.02.11-1  
eHawaii.gov  
Customer Survey

### Feedback

Did you find what you were looking for? ☒ Yes ☐ No

If no, what were you looking for?

### Frequency

How often do you use eHawaiiGov?

Daily	Weekly	Monthly	Sometimes	My 1st Time
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

### Ease of Use

Overall, how easy or difficult is it to use this site?

1 - Very Easy	2	3	4	5 - Difficult
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

### Navigation

Can information be located quickly and easily?

1 - Very Easy	2	3	4	5 - Difficult
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

### Appearance

Do you find the layout, design, colors and presentation of content attractive and pleasing?

1 - Very Easy	2	3	4	5 - Difficult
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

### Content

Was the information adequate for your needs?

1 - Excellent	2	3	4	5 - Poor
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

How did you find out about us?

- |  |   |  |
|--|---|--|
| <input type="checkbox"/> Newspaper Article | <input type="checkbox"/> Direct Mail              | <input type="checkbox"/> Referred by friend or colleague |
| <input type="checkbox"/> Government Agency | <input type="checkbox"/> Conference or Trade Show | <input type="checkbox"/> Advertisement                   |
| <input type="checkbox"/> Television        | <input type="checkbox"/> AOL                      | <input type="checkbox"/> Link from another website       |
| <input type="checkbox"/> Radio             | <input type="checkbox"/> Search Engine            | <input type="checkbox"/> Other                           |

Would you use this online service again? ☒ Yes ☐ No

What other Hawaii government services would you like to see online?

Please add any additional comments or suggestions below:

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Over 80% of portal users have expressed that they believe the site is easy or very easy to use with 1 representing very easy and 5 being difficult.

**FIGURE 2.02.11-2**  
*Easy to Navigate*  
Survey Results  
(Rated on 1-5, with 1  
being Very Easy, 5  
being Difficult)

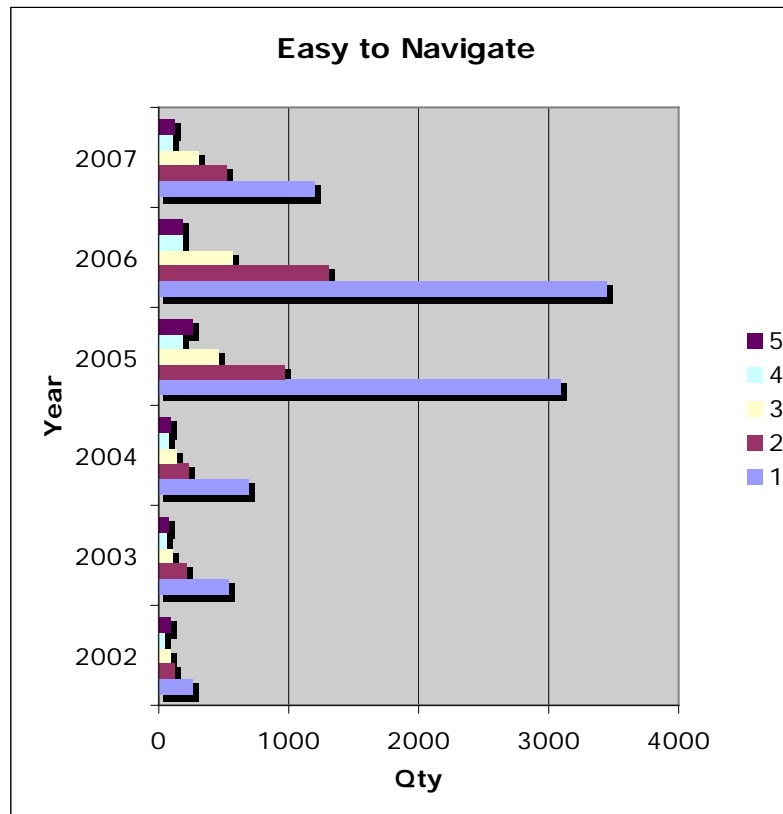
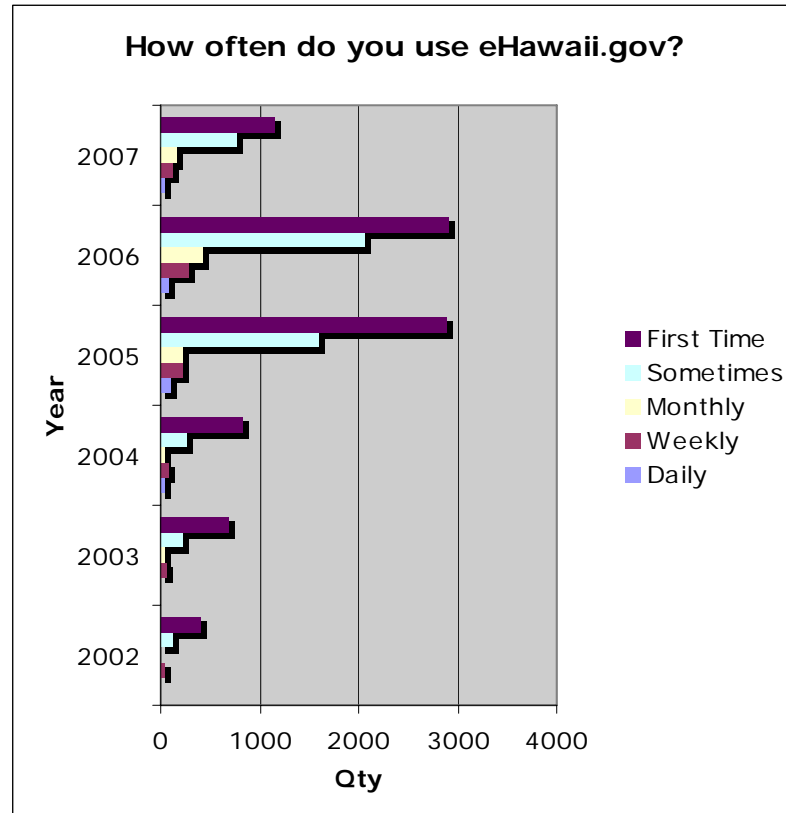


Figure 2.02.11-3 shows that over 85% of the portal's users are first time or infrequent users. This rate has been decreasing slightly year over year, but indicates continued growth.

**FIGURE 2.02.11-3**  
Survey results for  
how frequent user  
utilize the services of  
eHawaii.gov



As indicated in figure 2.02.11-4 over 80% of the portal users like the quality and appearance of the portal site and applications.

**FIGURE 2.02.11-4**  
*Quality of  
Appearance Survey  
Results (Rated on 1-  
5, with 1 being  
Excellent, 5 being  
Poor)*

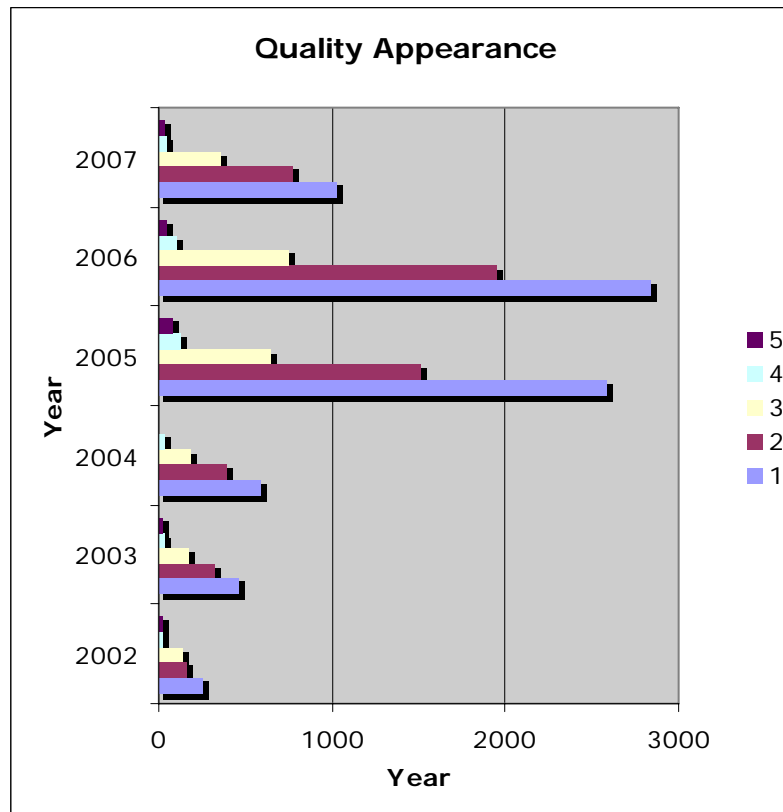
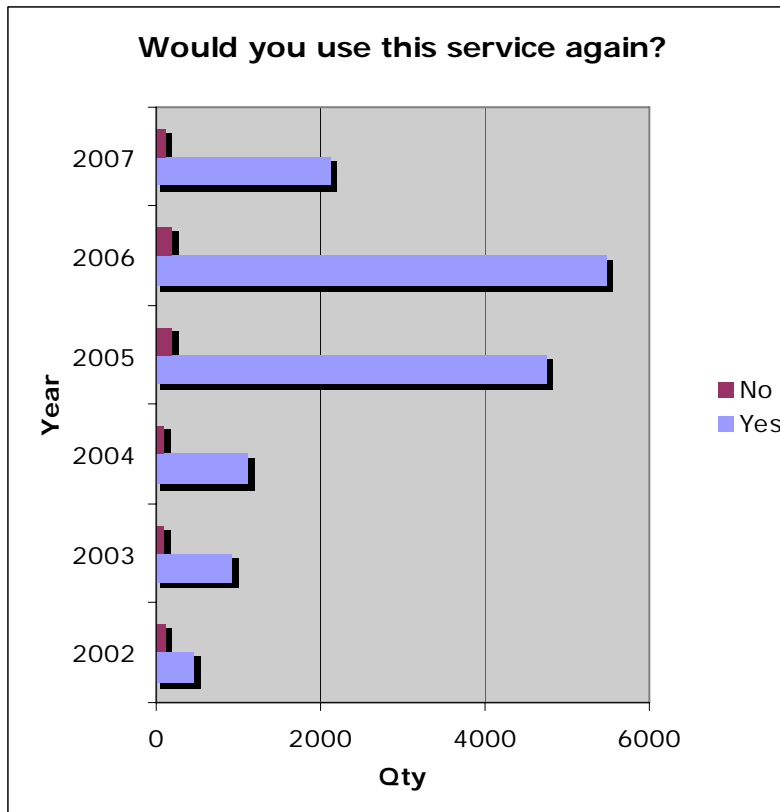
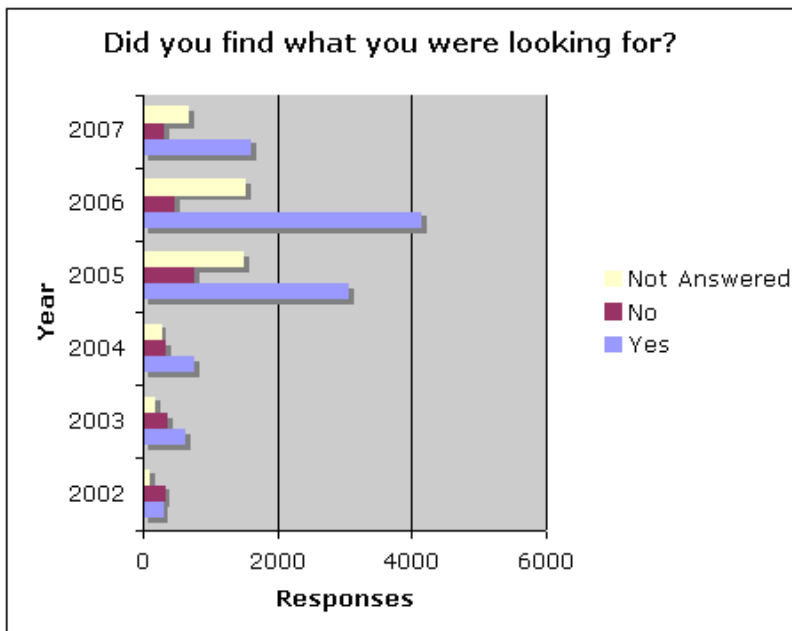


Figure 2.02.11-5 shows that over 95% of portal users would use the service again.

**FIGURE 2.02.11-5**  
*Would users use the service again Survey Results*



**FIGURE 2.02.11-6**  
*Effectiveness of site design survey results*



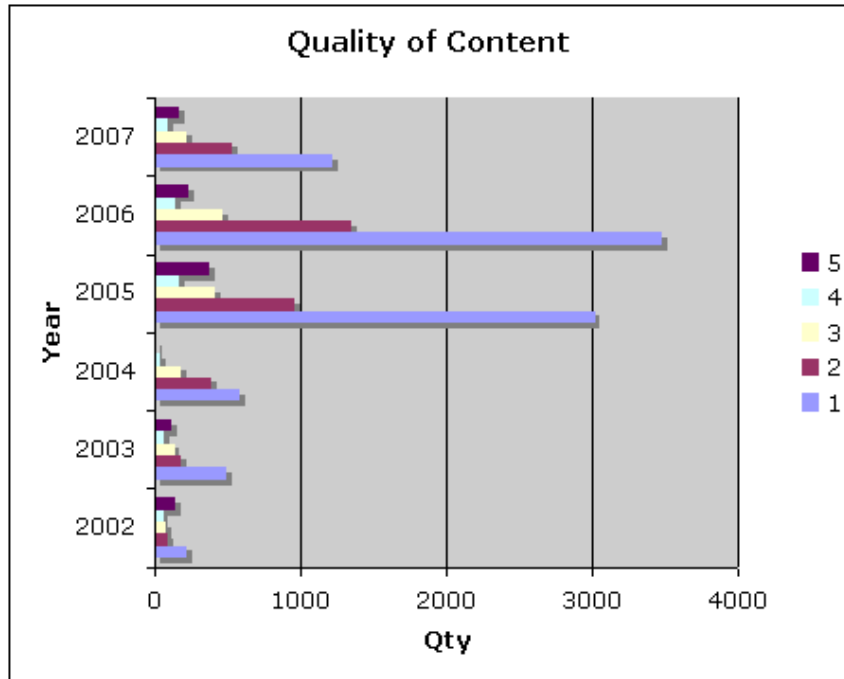
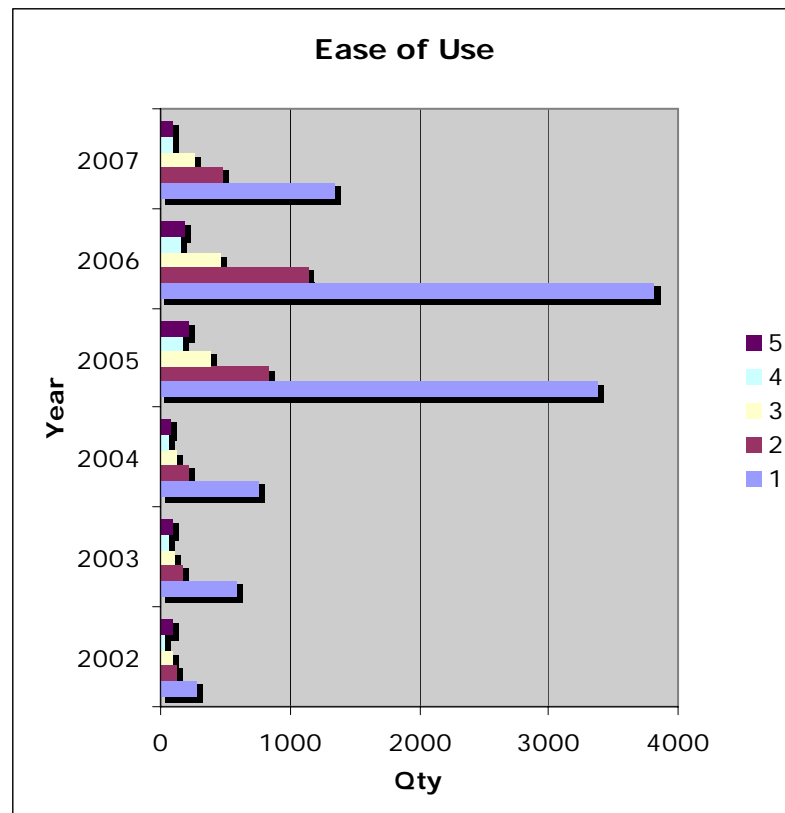


Figure 2.20.11-7 shows that over 78% of users say the quality of the content on the portal or service is very good or good.

**FIGURE 2.02.11-8**  
Ease of Use Survey  
Results (Rated on 1-  
5, with 1 being  
Excellent, 5 being  
Difficult)



2.02.12 (MR) *The Contractor shall provide training and reference materials for Portal Partners' staff.*

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

Over HIC's tenure as portal manager, portal staff have provided training sessions and created support materials for many State partners. While we strive to create intuitive, simple applications, there are occasions when more complexity is necessary. Training methods may include virtual training sessions (Webinars), Web-based tutorials and documentation, as well as in-person presentations and small group-trainings.

HIC has routinely provided training for Portal Partners for administration of service applications, through in-person meetings, as well as e-mail and telephone support.

**Application Training**

Training for Portal Partners will be provided for each application developed under this contract. Application training typically will cover the administrative functions of the service, such as transaction reports, reconciliation, payment credits and file transfers, as well as customer service issues, bug reporting, and use of any infrastructure tools. As previously stated, the specific content and format of the training will be customized to suit the application and needs of the agency.

Some examples of successful training sessions include the following:

- State and county buyers for Hawaii Compliance Express;
- Medical doctors, medical e4xaminers and coroners for Hawaii Electronic Death Record System;
- DCCA Business Registration Division (BREG) staff – Hawaii Business Express Training;
- DCCA insurance staff – Surety Submission Application

*Provide Consultation Services for Portal Process Improvements*

2.02.13 (MR) *The Contractor shall help Portal Partners understand how their processes and services could be improved and streamlined by deploying them as Portal Services. This should also include suggestions for incorporating technology including but not limited to website blogs, wikis, and a multi-channel approach for the Portal Services in the future. Further, the Contractor shall foster partnering and cooperation among Government Agencies for processes, services or information that cross jurisdictions and could be used in Portal Services that eliminate the need for customers to visit multiple agencies or provide the same information multiple times. The Contractor shall:*

- Locate and restructure duplicate or redundant information and Portal Services that are being delivered to overlapping customer bases;*
- Combine information into a single system to improve customer service and raise*

*program efficiency;*

*c) Foster a high degree of partnering by developing Portal Services between businesses and local and Federal government agencies;*

*d) Conduct executive and management education programs to disseminate information on innovative ways to use information technology to deliver government services;*

*e) Identify sources of consulting and technical assistance inside and outside government; and*

*f) Provide recommendations for marketing efforts to increase citizen use of the Portal applications.*

***HIC RESPONSE:***

Hawaii Information Consortium will comply with this requirement.

HIC, as the current Portal Manager, has successfully collaborated with state and county partners on more than 50 Web applications and assisted more partners with other services such as secure data transfer services and data sharing across agencies. However, eGovernment services are not limited to transactional and data sharing. HIC has and, upon award of the contract, will continue to work with partners to leverage open source tools and collaborative platforms (i.e. wikis, blogs, database platforms, etc.). HIC itself leverages many of these tools internally and has frequently presented related topics to the state Web Users Group (WUG). HIC works closely with the Department of Accounting and General Services (DAGS) Information and Communication Services Division on appropriate tools for State partners.

**Collaboration and innovation benefit our State partners.**

HIC has a proven track record on integrating services from different state and federal departments into one seamless application. We specialize in developing complex cross-boundary services that integrate multiple processes and levels of government into a seamless, user-friendly service. Many of these applications have received national and international awards. HIC, if selected by the State, will continue to look for integrated application opportunities that break down jurisdictional barriers. Examples of successful multi-jurisdiction applications that HIC has built for Hawaii include:

- **Hawaii Business Express** (<http://hbe.ehawaii.gov>) – New business filers can use a simple wizard interface to create new businesses in Hawaii. Forms are processed for the Department of Labor and Industrial Relations, Department of Commerce and Consumer Affairs (DCCA) Business Registration Division (BREG), Hawaii Department of Taxation (Tax) and the Internal Revenue Service. HBE has won two awards from the International Association of Commerce Administrators (IACA)
- **Professional and Vocational License Renewals** (<http://pvl.ehawaii.gov>) – Licensees who are required to submit proof of tax clearance, insurance and/or continuing education credits can submit their renewals online thanks to interfaces with DCCA Professional and Vocational Licensing Division (PVL), DCCA Insurance Division, Tax and education providers.

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- **Hawaii Compliance Express** (<http://vendors.ehawaii.gov>) – Vendors wishing to do business with government departments in the State of Hawaii are required to comply with procurement law. HCE is a registry allowing state vendors to prove compliance to buyers. HCE partners include the Hawaii State Procurement Office (SPO), DCCA BREG, Tax, DLIR and all state and county procurement staff. HCE has been honored with multiple awards including the 2006 Cronin IT Gold Award, IACA 2007 Merit Award and 2007 - Best Fit Integrators Award Program - “The Long Train Corporate Award”
- **Hawaii Electronic Death Record System (EDRS)** (<http://edrs.ehawaii.gov>) – EDRS is a complete end-to-end, Web-based system that connects mortuaries, funeral homes, medical certifiers, medical examiners, coroners, the Department of Health (DOH), and the Social Security Administration (SSA) electronically. It allows users from all parts of the death reporting process to complete their portion of the case online and utilizes the SSA’s Online Verification System (OVS) to verify the decedent’s information. EDRS replaced the Department of Health’s existing paper-based filing process, and shortened the duration between the actual time of death and the date the death is reported to the SSA. The timeliness and accuracy of the information obtained through EDRS helps both statistical reporting and monitoring of any epidemic easily and quickly. In its first year, EDRS is estimated to have saved the federal government over \$770,000 in benefits over-payments by reporting the fact of death to the social security administration in near real-time.

HIC will continue to look for innovative services to benefit Hawaii agencies and their constituents.

#### **Ongoing Peer Collaboration**

In addition to working cooperatively with government partners for mutual success, NIC has fostered a collaborative environment in which HIC and other NIC partner States can communicate and share ideas and best practices with each other.

In a typical portal where the State chooses to partner with an NIC affiliate, components of many successful self-supported services—including source code, policy language, marketing plans and communications materials—are shared and migrated to other partner States. This level of intergovernmental sharing allows HIC and its peer States to benefit from shared experiences and leverage existing eGovernment services instead of fully “re-creating the wheel”.

The most salient example of this cross-governmental sharing takes place at NIC’s annual eGovernment Leadership Summit. Held every year, these conferences gather State government leaders associated with eGovernment services from NIC partner States to attend two-day sessions to discuss best practices in the areas of marketing and adoption, cross-boundary services, innovative services and applications, State and local coordination and policy developments. The 2007 conference recently held in Portland, Oregon included more than 50 State government participants from 17 States and several nationally recognized third party association, media and think tank leaders. NIC will continue this one-of-a-kind peer forum to allow our partners to openly discuss eGovernment concepts and will continue to seek ways to encourage communication and exchange among our partners and leverage that



information to improve the performance of all of our State portal operations.

The eGovernment Leadership Summit is the only gathering of its kind that is focused exclusively on bringing together like-minded technology and policy leaders from across the country to collaborate on ways to improve the standard of eGovernment portals. Should HIC be awarded the privilege of continuing to work with the State, we look forward to including Hawaii's leaders in this annual event.

NIC also provides current partners with an intranet portal to interact with peers and NIC staff. NIC's partner portal is an online gathering place where eGovernment leaders can access relevant information about technology and online government. The site is frequently updated with a variety of postings, including news headlines, portal updates, industry trends, and commentary. In addition, the partner portal features eGovernment white papers, a listing of NIC partners across the country, RSS feeds and links to other noteworthy sites.

#### **NIC Services Database**

Understanding the advantages to leveraging existing code and business processes; HIC's parent company NIC built the NIC Services Database, which is an internal custom-developed Intranet and Internet tool for cataloging and searching the thousands of services developed by NIC for State portals and other technology projects. This comprehensive database contains relevant data for all current NIC-developed services and is updated with changes to existing applications, newly-launched services and services in-development on a monthly basis. All HIC employees and Portal Partners have access to this database.

The database contains wide-ranging information about the services, including contact information, project documentation, links, demo sites, launch dates, development platform, agencies, adoption, funding methods, timelines, best practices and more. NIC staff members are able to query the database and pull the relevant information and contacts for the domain expert to assist in scoping, pricing and developing similar services. They are also able to find an NIC contact responsible for the application that can provide additional information about the application and the process to build the application.

#### **Access to Industry eGovernment Experts**

In addition to the on-the-ground resources based in Honolulu, NIC also employs resources with hands-on policy and technical expertise that may be leveraged by Hawaii. The following table, *Figure 2.02.13-1*, outlines a sample of the types of corporate resources that may have specific expertise useful to Hawaii given the policy and technology requirements.

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**FIGURE 1.3.5.2-4**  
*NIC Corporate  
Resources*

Potential NIC Corporate Resources Available to Hawaii	
Name:	William "Brad" Bradley, Executive Vice President for Strategy, Policy and Legal
Function:	Policy Expertise
Relevant Previous Experience:	<ul style="list-style-type: none"> <li>Chief policy advocate across NIC states</li> <li>Legal expert who has worked with NIC states to develop specific eGovernment legislation</li> <li>Developed initial Kansas legislation enabling the portal to provide access to state information and services</li> <li>Original General Manager for the Indiana portal (1995 – 1998)</li> </ul>
Name:	Scott Somerhalder, Regional Manager
Function:	Policy and Domain Expertise
Relevant Previous Experience	<ul style="list-style-type: none"> <li>Current Regional Manager over Hawaii</li> <li>Previous General Manager for Idaho, Kentucky and Virginia state portals</li> <li>Experienced in funding strategies, vendor relationships and strategies for improving portal operating efficiencies</li> </ul>
Name:	Chris Neff, Vice President of Integrated Marketing
Function:	Marketing and Public Relations Expert
Relevant Previous Experience	<ul style="list-style-type: none"> <li>Has worked with all 20 NIC portals to brand, promote and market new services and applications</li> <li>Experienced focus group facilitator</li> <li>Developed marketing &amp; PR campaigns and conducted qualitative research for a wide range of clients in government, consumer products and commercial sectors during the last 16 years</li> <li>Held brand management positions at The Coca-Cola Company and MCI Communications</li> </ul>
Name:	Rob Harvey
Function:	Lead Security Analyst
Previous Experience:	<ul style="list-style-type: none"> <li>20+ years of security and technology leadership experience with Fortune 500 companies</li> <li>Obtained Certified Information Systems Security Professional (CISSP) certification</li> <li>Completed Cybertrust Certification program for certifying companies</li> </ul>
Name:	Phil Boedeker, Director of Project Management
Function:	Project Management
Previous Experience:	<ul style="list-style-type: none"> <li>Responsible for the management and delivery of corporate financial applications as well as other centralized services projects ranging from data center migrations to third party product integrations</li> <li>Well-versed in data modeling and database implementation for both transaction-based systems and data warehouses.</li> <li>Database experience in DB2, Oracle, Sybase</li> <li>Created and currently provides oversight of Project Management Office</li> </ul>
Name:	Andy Ford, Chief Architect
Function:	Software Development and Architecture

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**FIGURE 1.3.5.2-4**  
*NIC Corporate  
Resources*

Potential NIC Corporate Resources Available to Hawaii	
Previous Experience:	<ul style="list-style-type: none"> <li>NIC's .NET practice lead</li> <li>Responsible for the design, development, and support of reusable components across the various NIC in-house applications</li> <li>Experienced in object-oriented design principles and n-tier architectures</li> <li>Developed the original architecture and components for NIC's .NET portals in Kentucky and South Carolina</li> <li>Director of Development for the Kentucky portal</li> <li>Original developer of NIC's Payment Engine</li> <li>Possesses Microsoft .NET platform develop expertise including recent NIC projects that are .NET-based, written using Microsoft Visual Studio, SharePoint and SQL Server</li> <li>Possesses J2EE development expertise for Caucho, WebSphere, WebLogic and other environments</li> </ul>
Name:	Subbarao Bhumireddy, Senior Database Administrator
Function:	Database Design, Development, Tuning and Architecture
Previous Experience:	<ul style="list-style-type: none"> <li>Oracle Database Administrator with 14 years of experience</li> <li>Responsible for NIC's Oracle suite of products managed at the CDC</li> <li>Lead Oracle consultant for NIC for use by state portals</li> <li>Possesses training and experience with all Oracle tools and the most recent versions of the software products.</li> </ul>
Name:	Hillary Hartley, Design and Usability Expert
Function:	Responsible for recommending and executing the user interface strategies for specific applications and the overall branding, usability and design of official state Web sites.
Previous Experience:	<ul style="list-style-type: none"> <li>Designed, hand-coded and implemented graphics, HTML and JavaScript for NIC corporate Web site</li> <li>Led cross-functional team to develop and launch investor relations site with real-time stock quotes and SEC filings</li> <li>Conducts heuristic reviews of existing sites and create detailed improvement plans based on usability, accessibility and consistency</li> <li>Creates information architecture plans for sites undergoing a redesign or content overhaul</li> <li>Created original graphics and Web templates for several portal redesigns</li> </ul>

### Marketing Expertise

For an eGovernment portal to be effective there must be consistent marketing and public awareness efforts to inform users of available services. During its tenure as Portal Manager, HIC has worked closely with State of Hawaii government entities to provide recommendations, design and implement portal-wide and application-specific marketing campaigns. HIC's detailed approach to marketing is provided in our response to RFP Section 2.02.4

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*Be Responsible for all Facilities, Hardware, Software and Networking Requirements*

2.02.14 (M) *The Contractor shall work with ICSD if devices or software needs to be added to the State's infrastructure to service the needs of the Portal. The cost of these devices and software shall be borne by the Contractor. Offerors are encouraged to ask about specific interfaces and devices during the question and answer process of this bid solicitation to minimize any uncertainty when submitting their final proposal.*

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

2.02.15 (MR) *The Contractor shall provide and maintain the network link(s) from the State facility located at the Kalanimoku Building, 1151 Punchbowl Street, Honolulu, HI 96813, to the Contractor facilities and from the Contractor facilities to the Internet, including but not limited to leased circuits from telephone or cable companies at no cost to the Portal Partners. The Contractor must have its own connectivity to the Internet. As the Portal grows, the Contractor shall adjust the capacity of the network links. Proposals must describe how the Contractor will monitor and adjust the network capacity and handle bandwidth spikes.*

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

HIC currently provides and maintains network links from our facilities to the State facility and from our facility to the Internet.

HIC maintains the currently available and monitored fiber connection between HIC and the Kalanimoku Building. We are provisioned with 4.5Mbps network access through SystemMetrics, Hawaii's Tier 1 bandwidth provider, to the Internet. These connections are monitored 24x7 by SystemMetrics' NOC and HIC, and we maintain long-term statistical data to be able to predict our future needs. Our network monitoring system is already designed to notify us if capacity utilization gets greater than 80% and we can request temporary or permanent bandwidth capacity increases from SystemMetrics almost instantly if the demand necessitates that action.

2.02.16 (MR) *The Contractor shall provide facilities, hardware, software, and network links, and other related items to run the Portal at no cost to the Portal Partners.*

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

HIC has invested in and, if selected, will continue to provide at no cost an infrastructure that is designed to maximum up-time for eHawaii.gov eGovernment services. Dedicated servers host State Web applications, which interface with State back-end systems. A secure socket layer server (SSL) is used to encrypt all private information, such as customer credit card

transactions. HIC also enjoys excellent Internet bandwidth between HIC and the Internet (2 Mbps Ethernet) and between HIC and the State.

From our far-reaching experience in managing state government Web portals, the following design goals were established for the portal architecture:

- Security: This is arguably the most important goal when designing the infrastructure for a government portal. High security goes far beyond just specifying an appropriate firewall strategy. It includes complying with all state, federal and industry standards for security, including those standards that apply to managing electronic payments. The entire server network infrastructure should be designed to prevent intrusion and limit the capabilities of an intruder if a server has been compromised. Furthermore, proactive measures should be taken such as intrusion detection and protection to detect, report and dynamically respond to intrusion attempts.
- High-Availability: The mission-critical importance of government data and services mandates that the portal be online and available 24x7x365. All single-points of failure should be identified and removed from the server, application, network and power distribution architectures.
- Performance: The portal already generates a tremendous number of hits per year. It is expected that this volume will grow at an ever-increasing rate as new content and services are developed. The system must handle this load while maintaining very short response times.
- Scalability: A good architecture allows for future growth. Scalability strategies should allow for flexible scaling of individual functional divisions of the architecture. Moreover, scalability should be achieved in the most cost-effective manner.
- Manageability: The complexity of modern server infrastructures can be challenging. Appropriate technologies and tools will be employed to simplify and automate the management of the server and network infrastructure, specifically through the use of monitoring tools.

HIC will provide hosting features such as:

- 24x7x365 availability of services excluding scheduled maintenance and events outside the control of HIC
- A 24x7x365 security practice, including 3rd party monitoring and certification
- Redundant firewalls
- Three-tier architecture – Web, application and database servers
- High availability services such as load balancing and fail-over solutions
- Development environment that duplicates the production environment
- 24x7 environmental and physical monitoring, including performance data
- Comprehensive back-up and recovery and disaster recovery solutions

#### **Housing/Hosting**

HIC and our NIC affiliates have a long history of providing the infrastructure and services

HIC's data center  
provides enhanced  
protection from power  
failure, physical  
intrusion and network  
outages by extensive  
back-up power and  
cooling systems,  
multi-layered security  
and network  
redundancy and  
diversity

necessary to host State eGovernment portals with specific availability requirements. HIC is in the unique position of currently providing the facilities, hardware, software, network links and other related items to run the Hawaii portal and provide the services as outlined in this RFP. HIC will continue to provide the acquisition and maintenance of the hardware and software as well as any telecommunication connections between our servers and the State's servers to support agency eGovernment applications.

HIC hosts the Hawaii portal at HIC data center in Honolulu, which provides enhanced protection from physical intrusion and network outages. The data center is located at the Central Pacific Plaza and is only accessible to authorized personnel, who have their fingerprints registered with the biometric lock. The data center has a 4.5mbps Commercial Ethernet Circuit (equivalent bandwidth of 3 commercial T1 circuits), which is provided by SystemMetrics, to ensure dedicated high speed Internet connectivity to meet the Portal operational needs. Also, the data center is in close physical proximity and has high-speed interconnectivity through NGN (Next Generation Network) to the State's facility. The data center has dedicated cooling system and the temperature of the data center is monitored 24X7. This design enables the speed, reliability and performance necessary for mission-critical applications offered through Hawaii's eGovernment portal. This data center can provide adequate room for growth in the number and volume of the services provided by the portal with plenty of electrical power and related UPS capacity.

HIC can also offer the services of NIC's Centralized Data Center (CDC) for additional hosting services as necessary or desired. Located at the AT&T Data Center in Ashburn, VA, the CDC is the current hosting facility for several state portals managed by NIC and provides the capabilities for alternate processing and centralized services for all 20 NIC-partner portals. HIC uses the CDC for payment processing.

The NIC CDC hosting environment is recognized as a world-class hosting facility and meets or exceeds all the requirements outlined in this RFP and provides features such as:

- Class IV datacenter
- Physical security features, including man-traps, palm scans, and controlled access only to the client's own equipment
- Redundant power with diesel generator back-up, fire, smoke and water suppression and detection technology including state-of-the-art cooling and heating equipment
- 24x7x365 on-site physical security
- Redundant Internet connectivity with OC48 bandwidth
- Redundant firewalls, highly-available VPN service through a hardware concentrator
- Fully-redundant, fault tolerant internal network with a gigabit Ethernet backbone
- N-Tier portal architecture that segments components into VLANs
- High availability services such as load balancing, clustering and fail-over solutions
- Fault tolerant high-available network-attached storage centralized file server
- 24x7 environmental and physical monitoring including performance data

- Remote access through VPN connections
- Comprehensive back-up and recovery and disaster recovery solutions

2.02.17 (MR) The Contractor shall provide sufficient storage and storage management of Portal data, including provision to backup and restore unique information in the event of a hardware failure. The Contractor shall also provide for growth in storage, backup, and processing power with anticipated growth of the Portal. All hardware and software utilized in this Portal must be physically located at a location to be agreed upon by ICSD.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

**System Capacity**

HIC's high-performance, highly scalable server farm provides both high speed and solid fault tolerance. Our enterprise-class server system can be scaled to accommodate the growing demands of the State portal cost-effectively and with minimal impact on system services. Specifically, key criteria in handling capacity involve a combination of:

- Storage capacity
- ISP bandwidth capacity and scalability
- Firewall capacity (number of simultaneous connections allowed)
- Network device and cabling capacities
- Ability to load balance or cluster any device to reduce points of failures
- Data back-up and recovery processes

Our n-tier server architecture will give us the capability to upgrade the storage capacity, make patches, repair hardware or even re-partition a server without impacting the uptime of the system. During the contract term, we will work with the State to constantly monitor our system to make sure that it provides sufficient storage for the current needs and a plan for possible future scalability. We will continue re-evaluating the system architecture to handle future growth as the demands for the portal change.

**Backup and Restore Operations**

HIC has a state of the art backup system with a proven tried and tested backup policy. We use a 5Tb tape drive that auto-changes tapes. This automated system does a full backup monthly and an incremental backup nightly. If there are any errors with a backup, HIC staff are immediately notified. Quarterly backups are taken offsite to our safety deposit box at First Hawaiian Bank located across the street from our office. HIC keeps up with current best practices for the ever changing technical options with respect to backups and we utilize AIT tape technology for the portal. We also maintain live non-tape backups on our internal file server of mission critical data. Both our tape backup and live backup are designed to scale with future growth in services and storage demands.

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2.02.18 (MR) The Contractor shall provide all hardware, software, and personnel required to manage its platform. The Contractor shall also provide for the design and upgrade of its platform and software.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

As the current Hawaii State portal manager, HIC has provided and will continue to provide all hardware, software, and personnel required to manage the portal. HIC believes in a proactive approach to technology refreshment and has continually added new servers, software and more processing power, memory and storage capacity during the last seven years as the Hawaii State portal manager. HIC has also implemented an automated system update process to manage the version control for the operating systems that run the portal. HIC currently uses the following hardware and software in *Figure 2.02.18-1* that will be continually evaluated and refreshed during the contract period. This hardware and software does not list all of the centralized equipment at NIC's Central Data Center that NIC provides portals to run shared services such as payment processing.

**FIGURE 2.02.18-1**  
Portal Hardware and  
Software list

Hardware and Software List		
HARDWARE		
Server Model	Manufacturer/ Vendor	Quantity
PowerEdge 1750	DELL	2
PowerEdge 1800	DELL	1
Power Edge SC1425	DELL	4
PowerEdge 2550	DELL	2
Power Edge 2950	DELL	2
xSeries 346	IBM	2
Netra 105	Sun Microsystems	1
Network Device		
PIX E515 Firewall	CISCO	2
2600 Series Router	CISCO	2
Catalyst 2950	CISCO	2
Catalyst 3500 XL	CISCO	1
16 port Switched CDU	Server Technology	2
Backup Robot		
Qualstar TLS-4200	Qualstar	1
SOFTWARE		
Database		
Oracle 9i	Oracle	2
Oracle 9i Enterprise	Oracle	1
MySQL	MySQL	1
Backup		
Backup Express Edition	Oracle	1



2.02.19 (MR) *The Contractor shall provide a technology platform that has separate development, prototyping/testing, and production environments, and provides for versioning control. The Contractor shall also provide a technology platform that helps automate unit testing by the Contractor and eases the burden of testing on the Portal Partners.*

**HIC RESPONSE:**

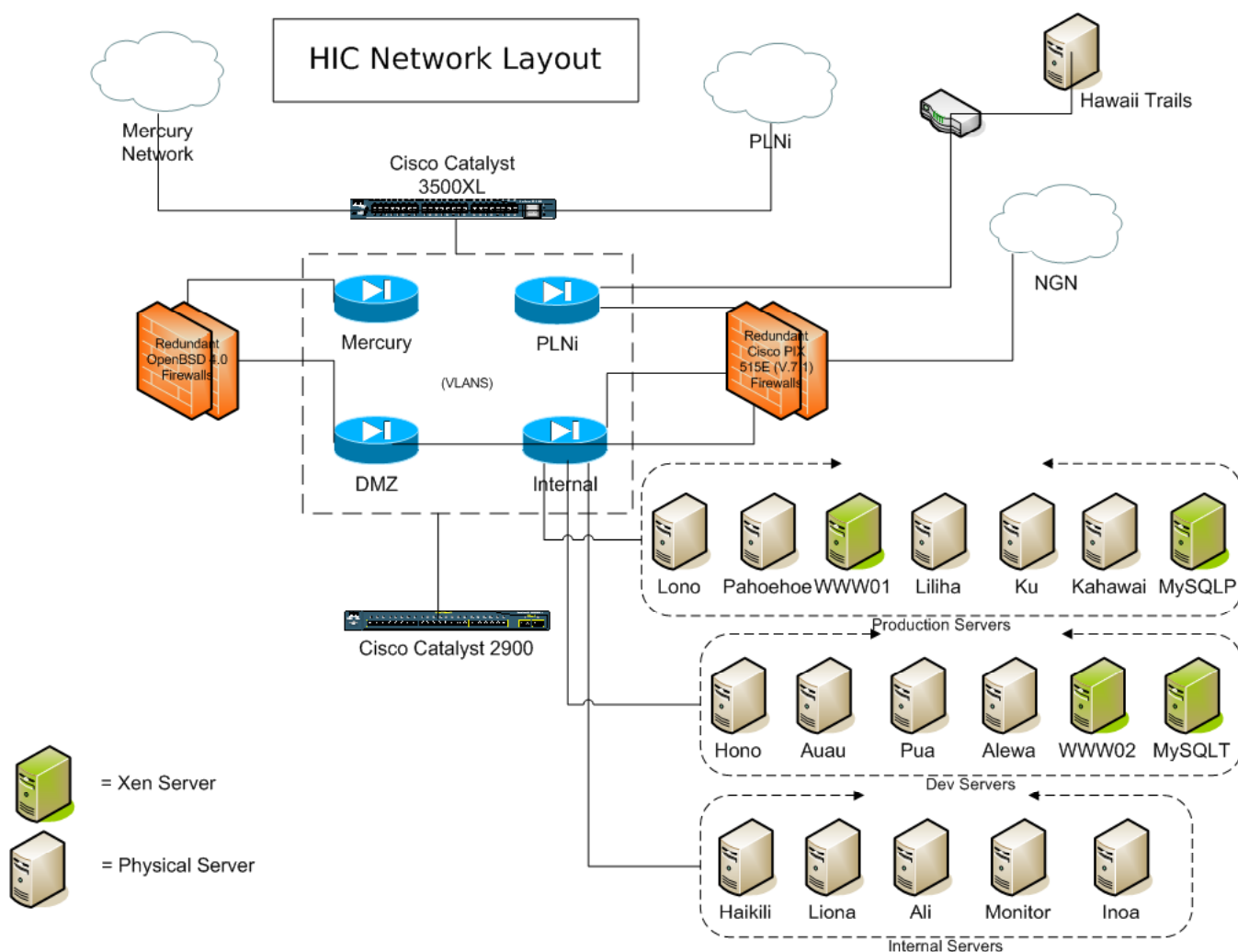
Hawaii Information Consortium will comply with this requirement.

HIC's current and proposed infrastructure has physically separate development, prototyping/testing and production environments. HIC uses CVS (concurrent version system) for the source code versioning control for all the applications developed by HIC.

HIC uses HttpUnit to conduct automated Web application functional testing. Also, as part of PCI DSS requirements, a merchant is required to be externally scanned by an approved security firm. HIC maintains a corporate agreement with SecurityMetrics to provide this scanning for all portals on a quarterly basis. This external scanning system checks for external vulnerabilities, such as exploits in server software, as well as performing basic penetration testing of Web applications.

Figure 2.02.19-1 provides a graphical representation of the current network layout. HIC will work to continually improve the network and its security capabilities through our ongoing commitment to the state and our commitment to ongoing compliance with the PCI DSS.

**FIGURE 2.02.19-1**  
HIC Network Layout



2.02.20 (MR) The Contractor shall provide a content management solution that allows Portal Partners to easily update Portal content. The Contractor shall provide assistance and/or training on the usage of the content management solution for Portal Partners.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

HIC recognizes the need for a content management tool and currently provides a tool for managing links on the portal and portal content. Recently, HIC also added a folksonomy-based search facility that allows users to tag pages with keywords for better searching. HIC will work with state webmasters to make changes to the existing system to make updating links more convenient within six months of the contract award.

DAGS ICSD currently hosts many department Web sites using an open source CMS named Plone. These sites are not currently a part of the portal; the portal provides links to those

department and agency sites. If the State would like HIC to host partner content in addition to the portal, HIC will collaborate with the Access Hawaii Committee, ICSD and other stakeholders to ensure that the State's CMS needs are fulfilled. If a more full-featured enterprise CMS than ICSD's hosted Plone solution is needed, HIC will make a recommendation to the State regarding the product, implementation approach and funding model within the first several months of the new contract. HIC has implemented a variety of Open Source and commercial CMS products in a number of the State portals we manage, including Plone, Magnolia, Drupal, Joomla, Microsoft CMS, Microsoft SharePoint, Fatwire, RedDot and CrownPeak. HIC has access to an extensive knowledge base including domain experts, documentation, design templates and best practices which we can use to assist in making recommendations to the State of Hawaii.

2.02.21 (MR) *The Contractor shall provide business continuity planning for system failures or facility problems or damage. The Contractor shall also provide redundant systems and facilities to cover problems ranging from minor hardware failure to catastrophic facilities damage. Planning and redundancy shall include network connectivity to the Portal Partners and the Internet.*

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

The portal is a primary method for disseminating information to the public. As such, it is critical that the portal return to operation as quickly as possible in the event of a failure.

As the current Portal Manager, HIC proposes to continue to update, maintain and periodically redesign the portal to constantly promote the State and its services. HIC is planning several upgrades to the portal infrastructure, including new hardware and software as a component of the portal's Business Continuity Plan.

HIC is in the midst of a system-wide upgrade to add redundancies to all systems as a part of our commitment to improving the portal and overall business continuity approach. Over the last year the portal has added failover to its load balancers and web servers. HIC is also proposing that over the next six months to implement new database servers with failover and all applications to be ported to the new servers.

HIC's current portal infrastructure and data center design provide a platform that can handle issues from minor hardware failures to catastrophic facility damage. This includes network redundancy for the connectivity from HIC to the Internet and to the Portal Partners systems.

HIC currently is currently in the process of creating Business Continuity Plans (BCPs) for all eHawaii.gov applications. HIC will work with the State after contract award to finalize and implement the State approved Business Continuity Plans for all applications. HIC will utilize the existing BCPs and HIC's corporate experience providing these services for 20 states to deploy, manage and maintain the BCPs for the portal.

**Successful Approaches**

HIC will utilize HIC's experience in other states to provide a customized Business Continuity

solution based on best practices and the unique requirements of Hawaii, the unique constraints that Hawaii's geography and the eGovernment services running on the Hawaii portal. HIC will continue to work with the State to manage and maintain policies and procedures addressing, at a minimum, the following issues:

- Contact information
- Process for declaring a disaster
- Escalation procedures
- Notification procedures
- Emergency procedures
- Building procedures and disaster plan
- Alternate office locations
- Alternate site locations
- On-site storage locations and procedures
- Off-site storage locations and procedures
- Back-up systems
- Business records/functionality
- Financial systems recovery procedures (including eCommerce)
- Hardware and software lists, configurations and versions
- Communications lines, documentation and recovery procedures
- Remote site hardware/software inventory
- System recovery procedures
- Testing the plan

The jointly developed BCPs will address all operational aspects of the portal. This includes processes for archiving and off-site storage of important electronic and paper-based documents. Furthermore, the plan should provide alternate working locations for portal staff if the primary office space would become unusable in the event of a disaster.

#### **Alternate Processing**

NIC has established multiple business relationships to provide alternative site locations for our state Portal Partners and HIC has entered into an agreement with another data center to provide alternate processing solutions for Hawaii's services.

HIC has successfully created BCPs for eHawaii.gov applications but has not included the details of those plans due to the sensitive information that they contain. HIC will provide the access to project BCPs at the State's request.

#### **Business Continuity Plan Team**

If a major incident/disaster occurs, the Business Continuity Plan Team (BCT) will be convened and the situation assessed. It will be the responsibility of this team to decide whether or not to implement the individual department/business unit Business Continuity

Plans. The format of the BCT is illustrated in the following diagram:

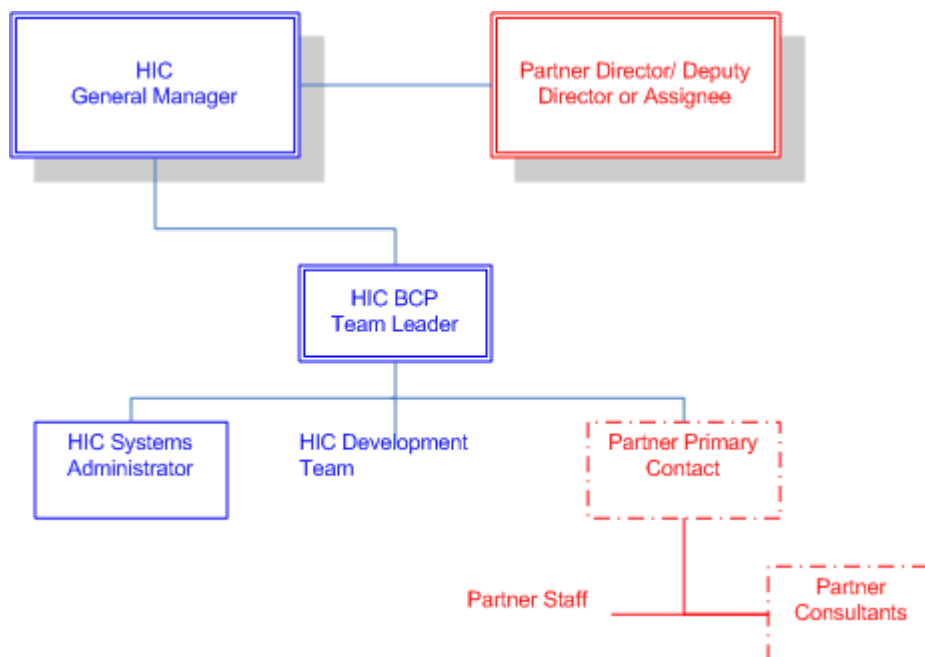


FIGURE 2.02.21-1  
Business Continuity  
Team Structure

This Business Continuity Plan (BCP) will be activated by the BCP Team Leader, as identified in the plan, when he/she receives instructions from the Operations Manager on the BCT.

When an emergency has been declared by the BCT, the BCP Team Leader will report directly to the HIC General Manager for the duration of the emergency. All ad hoc requests for decisions, assistance with facilities, acquiring outside services, etc. will be directed by the BCP Team Leader to the BCT.

It will be the BCP Team Leader's responsibility to contact all team members or their alternates and ensure that they convene at the Emergency Operations Center if necessary.

The BCP Team Leader will be responsible for the successful implementation of this plan.

*Develop Applications Facilitating Integration With State Systems*

2.02.22 (M) The Contractor is not responsible to host or operate any existing back-end applications that service the State's internal needs.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

2.02.23 (M) The Contractor shall not have direct, live access to the Portal Partner's back-end existing systems, without approval of the Portal Partner(s), the AHC and ICSD.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

2.02.24 (M) The Contractor shall adhere to all standards, policies, guidelines, and bulletins issued by ICSD.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

2.02.25 (MR) The Contractor shall develop, maintain and troubleshoot interfaces to transfer information bi-directionally between the Portal Partners systems and the Portal. Unless separately negotiated between the Portal Manager and a Portal Partner, any computer and/or communications hardware, software, or service required to implement these interfaces shall be at Contractor's expense, inclusive of all one-time and recurring costs. Installation of all hardware, software, and/or services for this interface shall be coordinated with and directed by State systems support and/or telecommunications staff.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

HIC, as the current Portal Manager, already has well established bi-directional data interfaces with many agencies. Bi-directional data interfaces are of vital importance because they allow for tighter integration leading to elimination of double and triple data entry, faster processing times and more perceived responsiveness to the public. HIC will continue to provide this service at our expense throughout the contract.

Many of our bi-directional data interfaces are listed below:

- Department of Commerce and Consumer Affairs
  - Business Registrations Division
  - Insurance Division
  - Professional and Vocational Licensing Division
  - Real Estate Division
  - Regulated Industries Complaints Office
- Department of Land and Natural Resources
  - Bureau of Conveyances
  - Department of Aquatic Resources

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– Division of Forestry and Wildlife

- Department of Public Safety
- Department of Health
- Department of Taxation
- Department of Labor and Industrial Relations
- Department of Budget and Finance
- Department of Transportation (Airports)
- Employer-Union Trust Fund
- Hawaii Criminal Justice Data Center
- Honolulu City and County
- Kauai County
- Hawaii State Judiciary
- Social Security Administration
- State Procurement Office
- Governor's Office
- Lt. Governor's Office

HIC and its NIC affiliates have a long history of creating hardware and software solutions that put government information and eCommerce at the public's fingertips. A strength of our development team is the ability to creatively interface with virtually any legacy system and provide reliable access to the information on that system. For example, sample interface options have included Web services, MQSeries, stored procedures, direct database access, APIs, and batch file processing. We are confident that most connectivity issues are well within our technical capabilities. In our experience developing Web interfaces to legacy systems, we have run across and successfully implemented solutions for such back-end systems as Oracle, DB2, VSAM, Informix, SQL Server, IBM CICS, WANG, Microsoft Access, FileNet, Paradox, Microsoft FoxPro, Microsoft SharePoint and others. This is not an exhaustive list, but it illustrates that we will successfully integrate a Web-based solution into virtually any type of back-end system.

If awarded the contract, HIC will continue to work with state and county partners for more and more complete integration to their back-end systems.

2.02.26 (MR) The Contractor shall provide any data conversion to port data from the Portal Partner's existing back-end systems or other data sources to the Portal. All such data conversion shall be done at Contractor's expense.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

As the portal manager, HIC will continue to work with state and county partners to provide data conversion activities to provide services through the portal. In many cases this will involve custom application code to be written by HIC staff, partner staff, consultants or some combination thereof. HIC will continue to port data from the format available to one appropriate for the portal in order to facilitate portal services. HIC has performed data conversion for many Portal Partners including the following applications:

- Professional and Vocational Licensing (PVL) Renewals
- Insurance License Renewals
- Unclaimed Property Search
- Tax License Search
- Tax Refund Search
- Insurance Continuing Education Reporting
- Hawaii Compliance Express
- PVL License Search
- HUI Express
- Insurance Surety Submittal
- Insurance Internet Filing Application
- Kalaiwa – Drivers Abstracts
- Judiciary Data Sharing

*Implement and Maintain Security Measures*

2.02.27 (MR) The Contractor shall provide security measures to protect information belonging to the Portal and the Portal Partners from unauthorized access, modification or deletion by:

- a) Maintaining documentation to describe the Contractor's approach to security as encompassed in this section;
- b) Providing the ability to execute secure, authenticated, two-way transactions;
- c) Implementing date-time stamp and an audit trail for identifying all network security breaches and attempted breaches;
- d) Prohibiting users from accessing data or computer facilities, unless such access were expressly approved by the participating Portal Partner and the Contractor;
- e) Maintaining and ensuring data integrity and users' confidentiality and privacy; securing and protecting confidential information, both business and personal;
- f) Addressing issues such as misuse or fraud including resolution options;
- g) Accommodating scheduled and unscheduled inspections, by State/County personnel or designees including law enforcement personnel, for risk assessment of network security;
- h) Ensuring implementation and maintenance of standard security guidelines,



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HIC's multi-layer  
security approach  
minimizes the  
opportunity for  
external,  
unauthorized users  
directly accessing  
any confidential data

*protocols and procedures;*

- i) Reporting any compromises of network security such as intrusions, denial of service, spoofing, etc.;*
- j) Maintaining logs of security items including but not limited to the following: users, dates involving criminal and/or non-criminal activities;*
- k) Ensuring transaction validation and security. The Contractor shall provide and document methodology which will include items such as personnel, hardware, software and procedures;*
- l) Ensuring compliance with the requirements above, the Contractor shall sponsor a mandatory annual security audit by an external organization to be approved by the AHC. The audit fees shall be paid by the Contractor;*
- m) Protecting against identity theft and abide by all State and Federal laws regarding identify theft;*
- n) Complying with the Payment Card Industry (PCI) Compliance, with a minimum of Level 4; and*
- o) Complying with the Payment Card Industry (PCI) Data Security Standard (DSS) requirements.*

***HIC RESPONSE:***

Hawaii Information Consortium will comply with this requirement.

The security and integrity of the State of Hawaii's information is the highest priority because, as the State is aware, nothing will dampen constituents' enthusiasm for and confidence in eGovernment more quickly than a security breach. As such, we value our partners' trust and handle their information with the utmost care. As the portal manager for Hawaii and in conjunction with our NIC affiliates in 19 other states, we take rigorous steps to safeguard information according to established security standards and procedures, and we are unrelenting in our continual assessment and implementation of new technology for protecting information.

HIC understands the critical importance of providing the highest level of data security in its management of the State portal. For the past 15 years, the NIC team has been working with government partners and trusted private sector security technology and process leaders to mitigate the risk that state data is compromised. No other vendor has our specific expertise and experience protecting state information.

Effectively managing user identities and their access to enterprise resources has become a critical requirement for today's government solutions. Government is increasing the number of customers, employees, partners and suppliers that are allowed access to critical information resources, yet at the same time the sensitive data contained therein must be adequately protected. The challenge is to open the enterprise to new uses while simultaneously ensuring that its information assets remain secure.

HIC's multi-layer security approach mitigates the risk that there is an opportunity for external, unauthorized users to directly access a database that contains confidential data. Multi-layer security includes multiple firewalls (between the Internet and the portal, as well as between the portal and any backend databases), application access/authentication systems,

HIC shall not have any ownership of state data at any time—all applications launched through the portal that provide access to state data will require the execution of a service level agreement with the relevant agency

use of highly restricted database accounts that allow access to only the bare minimum dataset needed to fulfill the transaction, and intrusion detection systems to monitor the entire infrastructure. By employing multi-layer security and rigorous application design that permits access only to the data required, the state portal infrastructure reduces the likelihood of an unauthorized, effective penetration into a database.

HIC has designed and deployed comprehensive security programs using a combination of hardware devices (screening routers), specialized application servers (firewalls and intrusion detection systems) and enforceable policies (establishing policies and procedures and “hardening” the default configurations of servers to meet the number of possible scenarios in which the State’s portal will operate).

Our goals include:

- Providing protection against intentional or unintentional attempts to alter data in an unauthorized manner while in storage, during processing or while in transit, and to ensure the system performs its intended function in an unimpaired manner
- Protecting against intentional or unintentional attempts to perform unauthorized reads covering data in storage, during processing and while in transit
- Developing processes to protect against intentional or unintentional attempts to perform unauthorized deletion of data, or cause a denial of service or data accessibility
- Ensuring accountability by tracing actions uniquely to a specific entity. This provides non-repudiation, deterrence, fault isolation, intrusion detection and prevention and after-action recovery and legal action
- Providing assurance that the security goals (integrity, availability, confidentiality and accountability) have been met by our implementation
- Promoting full compliance with state Information Technology Standards, specifically those relating to security
- Promoting and maintaining staff awareness of the security needs of the State’s information by conducting ongoing security training

In 2005, NIC also completed a year-long initiative to meet and exceed the security requirements set out by the Payment Card Industry’s Data Security Standards (“PCI DSS”). To satisfy both Sarbanes Oxley (SOX) and the PCI DSS, NIC retained an independent security firm certified by the Payment Card Industry (PCI) to conduct routine network scans of all portal operations to monitor our compliance with both SOX and the PCI DSS. To date, all NIC portals remain compliant with both SOX and the PCI DSS. To further bolster our SOX and PCI DSS compliance, NIC conducts regular internal audits of all HIC staff and services for SOX and PCI DSS requirements and to identify any vulnerabilities or weaknesses requiring remediation each year.

In addition to quarterly PCI/DSS audits and annual accounting audits, NIC has entered into an enterprise-wide alliance with Cybertrust, a leading provider of managed security services. Cybertrust and NIC partner to maintain a stringent and proactive security posture for HIC. HIC will go through Cybertrust’s Security Management Program, which is based on Cybertrust’s essential security practices. This is a very intense, invasive and arduous process

that includes multiple components to measure our compliance with Cybertrust's essential security practices. It is a year-long process, and once certification is obtained, it remains in place for two years, however, the monitoring by Cybertrust continues even after the security certification is obtained. After two years, the portal will again go through the rigorous certification process.

HIC looks forward to continuing to work with the State on identification and implementation of best practices to secure the State portal from unauthorized access or intrusion. We present detailed components of our security approach in the sections that follow. HIC will work with the State to refine these approaches to meet the needs of Hawaii.

#### **Maintaining Documentation**

HIC maintains a wiki with all security, personnel, operational and business related policies and guidelines. The wiki is available for viewing by all AHC members, but is not publicly available.

#### **Portal Policies**

Only public information that is legally and ethically distributable, as determined by the State or department that is the legal custodian of the respective data, will be included on the portal. HIC shall not have any ownership of State data at any time. All applications launched through the portal that provide access to state data will require the execution of a service level agreement with the relevant agency. These agreements spell out what information will be accessed, how it will be accessed and provided to the public, and what, if any, special authentication or security requirements must be satisfied by the individual customers to qualify for access. These agreements will comply with privacy policies established by the state agency and will be in accordance with state and federal law. Once an agreement has been reached, we will develop the application to the agency's standards and requirements.

In some situations, in which data fields are required for an application, we may view some confidential information while working with the department. All HIC portal employees are required to execute a Confidentiality and Non-disclosure Agreement and complete a criminal and credit background check upon hire. Furthermore, our employees will satisfy any and all privacy and confidentiality requirements the State and agency may demand prior to beginning work.

We have found that in many cases, information that may be public to certain individuals or organizations may be deemed confidential to the general public. HIC has developed Information Sensitivity Guidelines to assist staff in maintaining data privacy. We will work with the State to put both technical and administrative measures in place to restrict access to these types of information applications and satisfy the agency's confidentiality requirements. For example, we can require requesters of certain types of information to prove and certify by signature and other methods of authentication, such as Public Key Infrastructure (PKI) or SecureID technology, that they are allowed access to it under law or regulation.

If selected, HIC will continue to work with the State to make sure that all privacy policy statements are appropriately displayed, kept current on the portal Web pages and enforced.

#### **Data Security**

HIC takes all commercially reasonable efforts to protect data against identity theft and abide

Except when  
mandated by law,  
no customer  
transaction logs  
and/or personal  
information is  
released to anyone  
except the  
appropriate state  
authority or  
authorized person(s)

by all State and Federal laws regarding security and privacy. Data security includes policies for security administration that assure all necessary security activity is logged, reported, reviewed and appropriately escalated when necessary on a regular basis to identify and resolve incidents that involve successful unauthorized electronic access to eHawaii.gov. HIC continually tests and monitors portal operations to protect the State's and its constituents' data assets. All data related to a confirmed breach is retained for research and investigation, and then captured in a report illustrating what traffic, including application type (such as "ftp attempt," "Telnet attempt," etc.) attempted the breach. HIC also permanently logs all transactions involving fees.

HIC's standard security implementations restrict the users' ability to connect to any system that is maintained behind the firewall. Therefore, no user coming to the State's Web site actually connects to any system inside the firewall. In other words, a user's specific session exists only between the firewall and that user while the rest of the connectivity needed to fulfill the request takes place separately and within the safe haven of a secured environment. This approach mitigates the risk that the user will actually log on and connect to a computer on the state network.

HIC uses LDAP as a centralized access control point. Any new user has to sign up for an LDAP account at the HIC signup application. As one of the required fields of the sign-up form, the new user is required to input the contact person, usually the project manager of a Portal Partner. HIC has implemented workflow for approval of the new account and associated permissions. The new user and permission(s) will allow the new account to access only the data and/or computer facilities to perform the required function. HIC activates the new account only after approval from the HIC project manager, Director of Development, Director of Operations or General Manager.

#### Data Center Security

HIC has designed other portal security plans with measures designed to mitigate the risk of unauthorized physical access to equipment, facilities, material, information and documents, and to safeguard them against espionage, sabotage, damage, tampering, theft and other covert or overt acts. HIC utilizes facilities that provide suitable physical surroundings to protect equipment against man-made and natural hazards. Suitable environmental and physical controls are regularly reviewed for their proper function, taking into consideration:

- Access to facilities
- Site identification
- Physical security
- Personnel health and safety
- Environmental threat protection
- External penetration deterrence

Appropriate physical security and access control measures are commonly implemented in our facilities. Access is restricted to individuals who have been authorized to gain such access, and is monitored for unauthorized access to portal assets. HIC implements mechanisms similar to our firewall approach in assuring only authorized access is permitted into the

facilities hosting the portal. This includes storing the portal equipment in a biometrically secured server room that is monitored 24x7x365. Access to this room for approved non-HIC staff requires an escort by HIC staff that is authorized for data center access.

#### **Staff Training/Education**

HIC continuously trains its staff and subcontractors on security requirements and protocols. Our technical developers continuously receive training on best practices for coding Web applications and maintaining every project's infrastructure in a secure manner. This routine training includes several elements:

- Coding standards and secure coding principles
- Common vulnerabilities for both the development language and operating environment
- Robust security architecture
- Proper methods of handling attempted breaches, including issue resolution, forensic research, and the development of new best practices

Also, key personnel are trained on data breach notification procedures in addition to incident handling and response.

#### **Tracking Emerging Vulnerabilities and Best Practices**

HIC constantly tracks and monitors information on emerging vulnerabilities from sites such as the Open Web Application Security Project (OWASP) (<http://www.owasp.org/index.jsp>), the SANS Institute, and its Security Consensus Operational Readiness Evaluation (SCORE) (<http://www.sans.org/score/>), as well as security Web sites, listservs and industry Web sites for the hardware and software tools that are utilized in the infrastructure. When any NIC portal team discovers a potential threat or vulnerability, it is securely broadcast to the technology and management leadership across NIC and proper action is taken to remedy the situation. The ability to have hundreds of technical staff monitoring the ever-changing world of Web application security allows NIC to provide a highly secure infrastructure for all NIC-managed projects including eHawaii.gov.

Furthermore, Cybertrust is assisting NIC's internal security team by immediately notifying us of major security threats and providing regular updates on less significant threats. Less significant threats are also independently tracked by the HIC security team using Cybertrust's comprehensive secure Web portal.

#### **Automated Application Scanning for Known Vulnerabilities**

In addition to routine security scans, HIC utilizes software tools to automate the process of scanning for known vulnerabilities and potential security issues within Web applications. Scanning applications for common vulnerabilities during the testing phase of a new application and after any modifications to an application combined with the continuous screening of applications deployed in production allow HIC to proactively maintain a secure environment.

HIC utilizes Watchfire AppScan, which is a leading Web application security testing suite. AppScan performs in-depth penetration testing against Web applications within the system infrastructure and identifies vulnerabilities. Significant vulnerabilities that are identified are

promptly remediated.

HIC will maintain the privacy and security of all personal user information transmitted to the site, data stored within the system and any data generated through processing. We will put both technical and administrative measures in place to provide access to these types of information applications and satisfy each agency's confidentiality requirements. At times, policy may require requesters of certain types of information to prove and certify by signature and other methods that they are allowed access to the information under law or regulation.

#### **Secure, Authenticated Transactions**

In addition to general storage and access security measures for system data, the site's architecture and implementation offer secured two-way transactions for conducting business with the State of Hawaii. The site will offer the ability to conduct transactions through a 256-bit Secure Sockets Layer (SSL) Server. This technology uses the public-and-private key encryption system from RSA, which also includes the use of a digital certificate authentication of the network server. HIC has experience offering a variety of authentication solutions, such as directory services, network generated user names and passwords, digital signatures and SecurID technology, and we can work with agencies to offer sufficient levels of authentication and security.

- **In Transit:** Hawaii applications use Secure Sockets Layer (SSL) encryption of all sensitive information transmitted between the site and site users. SSL is a widely accepted encryption protocol and encrypts the exchange between the user's Web browser and the Web site to mitigate the risk of unauthorized viewing or tampering of sensitive information. For cases when it became necessary to construct a secure connection between the State site and its users, HIC's architecture has made use of other technology including VPNs, Secure File Transfer (SFTP), Unison real-time file system replication and secure database replication. This includes compliance with Engineering Task Force (IETF) standard protocols for encryption and key management (IPSEC/IKE), DES and Triple DES for data encryption, and SHA-1 and MD5 for data authentication. Also, encryption keys are updated often, ensuring maximum security and providing Perfect Forward Secrecy, so older encryption keys cannot be used to decipher more recent communications.
- **In Storage:** HIC's robust security solution provides for the highest level of protection for confidential data in storage. All sensitive data is encrypted in storage and HIC follows the PCI DSS for storage of all eCommerce transactions. HIC uses Cisco PIX firewall technology to mitigate the risk that unauthorized outside users cannot access the confidential data directly. Our applications use robust authentication systems and protect that authentication to minimize the opportunity for intruders to gain access to login information. Our security policies and protocols, combined with our intrusion detection methods, ensure that State information is protected.

#### **Integrity of Data**

Data integrity in a transaction environment is the assurance that the data received is the same as the data that was generated. This is a fundamental element to the technology of digital

certificates and the processing of digital signatures.

One of the most important requirements for the implementation of electronic government is the need to provide security and trust in the various transactions involved. However, the many different transactions involved in an electronic government solution require a wide variety of security levels. It is important when evaluating a particular transaction to recognize this and review the various alternatives available.

#### **Fraud and Misuse**

It has been our experience that records made available through an eGovernment site are more secure and offer greater opportunity for enforcement than most traditional methods of distribution. Each value and service record retrieved through the site is logged and requires authentication of a username and password unique to the user. Typically, the username and password are issued as the result of the execution of a Use Agreement with the site.

HIC's information services' security administration function assures that necessary security activity is logged, reported, reviewed, and appropriately escalated when necessary on a regular basis, to identify and resolve incidents involving confirmed unauthorized activity as defined in our contract. HIC follows a strict escalation process for all incidents that are in compliance with PCI and SOX guidelines and have been approved by the State, HIC legal counsel and NIC's Chief Security Officer. We will continually test and monitor site operations to mitigate the risk that the State's data assets will be exposed.

State site management implements controls to ensure that successful unauthorized electronic accesses to the portal as defined in our contract are resolved and the cause investigated to mitigate the risk of any recurrence. This is enabled by a problem management system that records and tracks the status of all incidents through resolution.

HIC staff is trained in accordance with the appropriate data confidentiality policies that are relevant to the information systems development, implementation or modification project being performed.

As part of a new security service to detect fraud and misuse, HIC will work with third party credit card processors to determine the validity of transactions for the purpose of fraud detection. For example, using this method, a customer paying transaction fees with a credit card not in the customer's name or with a mismatched address would be flagged for manual review and possible legal action.

#### **Data Audit Features, Logging and Reporting to AHC**

HIC currently provides robust audit features to log, time stamp, report, review and appropriately escalate when necessary all necessary security activity on a regular basis. HIC will track security-related issues in the current issue tracking system (Mantis). Security events will be posted by the System Administrator or member of the management team and reported to the AHC at each AHC meeting.

All system clocks are synchronized in real time via the standard Network Time Protocol (NTP) to ensure accurate time stamping. Every transaction user who wants to gain access to any value-added service or application containing sensitive information via the portal will have an account on the server or will be verified via a credit card. For specific services, such

HIC currently provides  
robust audit features  
that assure all security  
activity is logged, time  
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escalated on a regular  
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resolve incidents  
involving unauthorized  
activity



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as electronic access to driver histories, the user must log into the appropriate server before access is granted. This login procedure is saved to a log file as is the user's activity with the service and stored to a non-alterable medium. This allows the portal manager to retrieve all activity on a particular service at a later date should the State request it.

HIC utilizes Syslog as computer system management and security auditing system. All significant system events are sent from each server hosted by HIC to the Syslog database.

HIC has implemented a Web-based application to allow events to be viewed online and a sample of its capability is shown in *Figure 2.02.27-1* below.

**FIGURE 2.02.27-1**  
Sample of Event  
Display System

device	component	eventClass	summary	firstTime	lastTime	count
seentry.ahawaii.gov	PIX-session	Unknown	Inbound TCP connection denied from 211.181.65.10/2051 to 64.75.210.254/4899 flags SYN on	2007/10/05 16:16:36.000	2007/10/05 16:16:45.000	3
seentry.ahawaii.gov	PIX-session	Unknown	Deny inbound UDP from 68.191.176.68/4260 to 64.75.210.254/1434 on interface outside	2007/10/05 16:03:21.000	2007/10/05 16:03:21.000	1
seentry.ahawaii.gov	PIX-session	Unknown	Deny inbound UDP from 202.98.223.67/1035 to 64.75.210.254/1434 on interface outside	2007/10/05 14:57:58.000	2007/10/05 14:57:58.000	1
seentry.ahawaii.gov	PIX-session	Unknown	Deny inbound icmp src outside:64.75.170.96 dst outside:64.75.210.254 (type 8, code 0)	2007/10/05 16:33:23.000	2007/10/06 13:21:40.000	11
lilaha.ahawaii.gov	sm-msp-queue	Unknown	I96NDFB1024460: disconnect: open("/dev/null") failed: Permission denied	2007/10/06 13:16:00.000	2007/10/06 13:16:00.000	1
seentry.ahawaii.gov	PIX-session	Unknown	Deny inbound icmp src outside:4.255.205.185 dst outside:64.75.210.254 (type 8, code 0)	2007/10/06 12:53:01.000	2007/10/06 12:53:03.000	2
lilaha.ahawaii.gov	sm-msp-queue	Unknown	I96NDFB1023224: disconnect: open("/dev/null") failed: Permission denied	2007/10/06 12:16:00.000	2007/10/06 12:16:00.000	1
seentry.ahawaii.gov	PIX-session	Unknown	Deny inbound icmp src outside:64.75.134.3 dst outside:64.75.210.254 (type 8, code 0)	2007/10/05 18:50:18.000	2007/10/06 12:04:42.000	8
auau.ahawaii.gov	sshd	Unknown	pam_ldap: error trying to bind as user "uid=zheng.ou=People,dc=Hawaii Information"	2007/10/06 11:34:36.000	2007/10/06 11:34:41.000	2
auau.ahawaii.gov	sudo	Unknown	pam_ldap: error trying to bind as user "uid=zheng.ou=People,dc=Hawaii Information"	2007/10/06 11:23:35.000	2007/10/06 11:23:35.000	1

### Security Audits

HIC performs internal and independent third-party security audits to test the implemented security model against the latest known vulnerabilities and threats. The internal security audits include:

- Internal and external audits for compliance with SOX security related policies
- Internal and external audits for compliance with the PCI DSS
- Web application vulnerability scanning

HIC has contracted with SecurityMetrics to perform quarterly security audits at HIC's expense. The results are reported to HIC's financial institutions. HIC proposes to continue to use SecurityMetrics to meet the annual security audit requirement.

### Accommodating Scheduled and Unscheduled Inspections

As the Portal Manager, HIC has always been open to inspections, scheduled or unscheduled. Once the Inspection personnel have been properly authenticated and all proper security procedures are followed, HIC will work with the inspector to complete the assessment.

HIC will continue to make our personnel and facilities available for inspections by authorized



individuals if awarded the contract for Portal Manager.

**Payment Card Industry Data Security Standard (PCI DSS) Compliance**

In 2005, NIC also completed a year-long initiative to meet and exceed the security requirements set out by the PCI. To satisfy both SOX and the PCI DSS, NIC retained an independent security firm certified by the PCI to conduct routine network scans of all portal operations to monitor our compliance with both SOX and the PCI DSS. To date, all NIC portals remain compliant with both SOX and the PCI DSS.

HIC meets Level 3 merchant PCI DSS compliance. HIC's security policy documents the procedures for the current portal contract and are well beyond the requirements for PCI DSS and SOX compliance showcasing HIC's commitment to the security of the Hawaii portal and its data.

*Maintain Adequate Staffing*

2.02.28 (M) The Contractor shall be responsible for all required costs attributable to its officers and employees, including but not limited to: worker's compensation premiums and deductibles, unemployment compensation tax withholding contributions, tax withholding contributions, and similar items.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

2.02.29 (M) The Contractor shall have the sole responsibility for the hiring, recruitment, management, training, and firing of the Contractor's employees. The Contractor shall disclose the names and positions of its officers and employees to the AHC. The Contractor shall provide information on employees and officers as requested of any audit activity or report.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

2.02.30 (M) The Contractor shall ensure that all employees, consultants and external staff that work on the Portal have signed general and specific Portal Partner confidentiality and privacy statements to protect confidential data.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

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2.02.31 (MR) Offerors shall describe their procedure for conducting employee background checks, including but not limited to financial or criminal history. As warranted by any specific services to be developed under this Contract, the Contractor shall agree to undergo employee background checks, as determined by the Portal Partner.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

HIC and our parent company NIC have implemented a variety of measures to protect the State, including screening of new employee hires as well as periodic checks of existing employees.

Before hiring, a prospective employee's employment history is scrutinized and references are thoroughly checked to verify employment history. Each applicant for employment at HIC must also submit to a comprehensive criminal and credit history background check by an independent third party screening firm. Existing employees undergo a criminal history and credit check every five years.

HIC understands that if warranted by any specific services to be developed under this Contract, HIC shall agree to undergo additional employee background checks, as determined by the Portal Partner for that service.

2.02.32 (MR) The Contractor shall recruit, hire, retain and train qualified and sufficient personnel to design, develop, deploy, document, operate, maintain, host, support, and market the Portal and its Services. The Contractor personnel shall also provide all necessary customer support to customers and Portal Partners.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

In addition to the professionalism and expertise that set our staff apart, we have an unequalled commitment to the partners we serve and to the quality of our work. We only hire individuals with proven track records or demonstrated potential. We strive through competitive salaries, excellent benefit programs and stringent hiring practices, to recruit and retain personnel who focus full-time on portal services for the State of Hawaii.

HIC will provide all necessary customer support and has provided details of our proposed customer service plan in our response to RFP Section 2.02.10.

The organization chart that follows as *Figure 2.02.32-1*, illustrates HIC's management, supervisory and key employees by name and function. For key personnel, included is a description of previous experience similar to requirements detailed in the RFP in *Figure 2.02.32-2*.

## HAWAII INFORMATION CONSORTIUM LLC

FIGURE 2.02.32-1  
Hawaii Information  
Consortium  
Organization Structure

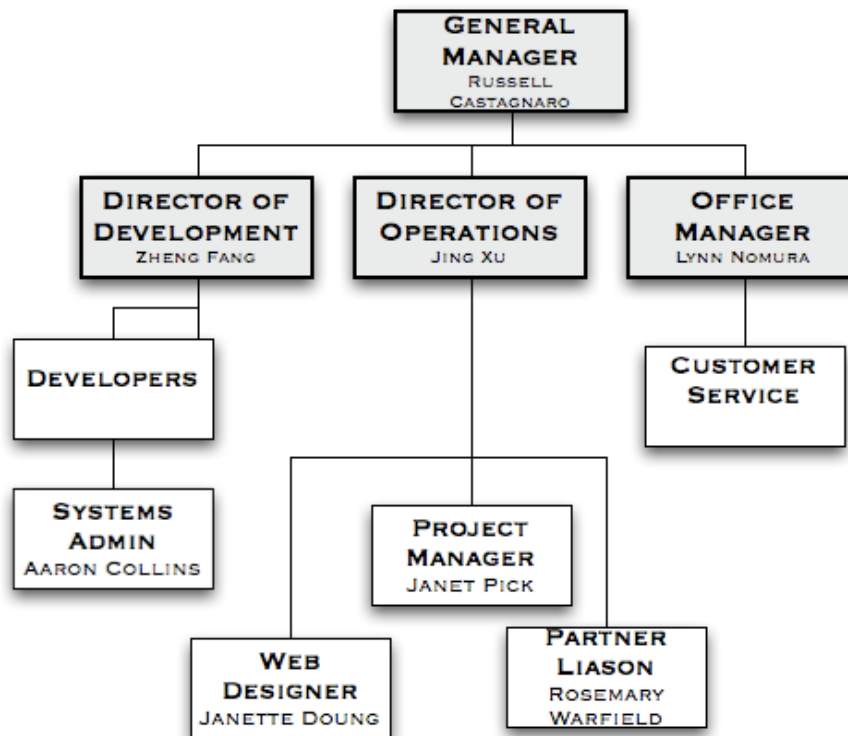


FIGURE 2.02.32-2  
HIC's Key Management  
Descriptions

Key Management Descriptions	
General Manager (GM)	
<b>Name:</b>	Russell Castagnaro
<b>Function:</b>	Russell Castagnaro is the General Manager of Hawaii Information Consortium, LLC., the State's current contracted eGovernment solution provider. Russell is responsible for business development including the creation of strategy and programs that drive HIC's development and marketing efforts for the State's Internet portal eHawaii.gov. He leads a team of developers and marketing specialists focused on introducing opportunities for state agencies, boards, associations and all channels of communications, which enable HIC and the State to effectively reach citizens and businesses via the Internet.

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FIGURE 2.02.32-2  
HIC's Key Management  
Descriptions

Key Management Descriptions	
<b>Previous Experience:</b>	<ul style="list-style-type: none"> <li>• Current HIC General Manager, responsible for the Hawaii Portal</li> <li>• Former Director of Development for HIC</li> <li>• Previous work experience in Internet and eCommerce fields</li> </ul>
<b>Director of Development (DOD)</b>	
<b>Name:</b>	Zheng Fang
<b>Function:</b>	Zheng Fang is the Director of Development and responsible for managing the technical development of all business applications for HIC, the State's current contracted e-government solution provider. Mr. Fang is responsible for developing HIC's technology policies to ensure business strategies for the State's portal and agencies will succeed. He leads a team of talented developers eager to facilitate the State's goal of efficiently and securely reaching citizens and businesses via the Internet.
<b>Previous Experience:</b>	<ul style="list-style-type: none"> <li>• Director of Development for HIC</li> <li>• Previous work history as a DBA and programmer</li> <li>• Oversees all development for the eHawaii.gov portal</li> </ul>
<b>Director of Operations</b>	
<b>Name:</b>	Jing Xu
<b>Function:</b>	Jing Xu is the Director of Operations for HIC. Mr. Xu understands marketing and government processes and is able to provide agencies with business process analyses in order to revise their own processes for online transactions. He manages several projects as an agency-partner liaison to the HIC development team and provides marketing and promotional services on behalf of the State portal and the HIC Portal Partners. Mr. Xu also oversees all customer service activities for the portal.
<b>Previous Experience:</b>	<ul style="list-style-type: none"> <li>• Current Director of Operations</li> <li>• Submitted and won government industry awards for eHawaii.gov</li> <li>• Previous work experience with eCommerce, CRM and other IT fields</li> </ul>

#### Implement Technology Best Practices

2.02.33 (MR) The Contractor shall follow professional practices, including the development of project plans, requirements documentation, design documentation, test data and test procedures. All development projects shall have separate development, test, and production environments. The Contractor shall describe in their proposals what methodologies and best practices that they adhere to.

#### HIC RESPONSE:

Hawaii Information Consortium will comply with this requirement.

During the past eight years as the Portal Manager for Hawaii, HIC's project management methodology has evolved to deliver best-in-class services with a thorough and rigorous process of collecting requirements, creating business and technical specifications and building and testing solutions to ensure the delivery of quality applications and Web sites. Adherence to solid project management practices ensures that all phases of the application development lifecycle are performed successfully.

HIC's approach to project development and implementation is characterized by careful planning and documentation, responsiveness and rapid development cycles, continual internal

monitoring and communications among our staff, with our government partners, and, in some cases, customers of the portal. HIC advocates adherence to a structured project management and communication process, which should be applied to both application development and major Web design projects.

HIC has developed and will continue to refine its approach to project management based upon the often unique needs of the State of Hawaii. Our dedication solely to Hawaii government partners has provided HIC with unmatched qualifications, experience and references to apply to the scope of services outlined by the State. Moreover, we continue to remain in the forefront of eGovernment by implementing a continuous improvement philosophy that promotes forward-thinking every day, from every employee. We outline features of our project management approach below, including how HIC will manage specific projects, ensure completion and accomplish required objectives.

#### **Effective Implementation of Proven Services**

A unique feature of our project management approach is our ability to draw upon past projects and services that have been deployed in other NIC states. Accelerating effective service delivery is more than solely about code reuse. HIC also leverages effective Web designs, project documentation, business logic and extensive application documentation to focus on timely delivery of services.

#### **Project Prioritization and Scheduling**

As the current Portal Manager, HIC has worked with AHC to establish a process for management and administration for ongoing portal services. If selected, HIC will continue to work closely with AHC to plan and prioritize projects to be developed by the portal, including the integration of applications, and establishment of fees. To facilitate communication, HIC will establish an Access Hawaii Committee Web site ([ahc.ehawaii.gov/](http://ahc.ehawaii.gov/)) that provides information about eHawaii.gov services, the process for initiating new projects, and resources related to marketing and project processes. HIC's NIC affiliates have used this approach with great success in other states.

HIC works in conjunction with State agencies to identify services that, when Web-enabled, can provide maximum benefit to agencies and their constituents by increasing accessibility to requested information and services. Project opportunities may be initiated in a variety of ways ranging from agency request to customer demand. Opportunities are initially discussed between the agency and HIC to determine potential benefits to the agency and its customers as well as technical feasibility.

On an ongoing basis, the Access Hawaii Committee will provide guidance to determine which projects will be pursued based on HIC recommendations, an assessment of the requirements and preferences of the State agency and end users, as well as the availability of portal resources. All projects will undergo a prioritization process in order to be placed into the development queue and scheduled. New projects will be evaluated first by the HIC project manager, assigned an initial priority ranking and documented through a standardized project prioritization document. This proposed prioritization will be presented to the Access Hawaii Committee for review and discussion. The Board will have the opportunity to adjust the priority ranking or to authorize the project to proceed at the proposed ranking.

HIC, with oversight from the Access Hawaii Committee, will schedule approved projects into a development queue, and develop approximate timelines for project development and delivery. Project scheduling may shift based on agency readiness (for example, the readiness of a back-end database or available database connectivity procedures), the addition of higher priority projects to the queue or changes in project scope. Changes to the scope of a project will be analyzed and go through a formal change control procedure. Significant changes in project scope may require a re-evaluation of the project prioritization by the Access Hawaii Committee.

The comprehensive portal project queue will be shared with the Access Hawaii Committee and ICSD staff on a regular basis through the General Manager's reports to the Access Hawaii Committee.

### **Project Management Methodology**

HIC's project lifecycle is founded on four concepts:

1. Project teams that include State participation approve advancement of projects into subsequent phases of development
2. Use of cross-functional core teams to integrate multidisciplinary viewpoints into software/site development or enhancement and to assign "cradle-to-grave" ownership and delivery responsibilities to a project
3. Develop software/sites or enhancements in a phased approach that includes gates and gate review/sign-off checkpoints throughout the cycle for continual quality assurance.
4. Conduct application security reviews to identify potential software vulnerabilities

This project management approach and development lifecycle allow us to control the quality of our work and effectively integrate the State into all major areas of the decision-making process (including technology change management, feature validation / verification and risk management). Other benefits of our development process are:

- Better management visibility and control over project pipeline
- Reduction in overall development time (concept to production) by providing clear organizational direction and focus, and reducing re-definition and re-work
- Improved cross-project integration
- Facilitated technology planning and integration
- Increased accuracy and predictability of delivery timeframe
- Accurate cost estimates for time and materials projects
- Improved design quality

### **Rapid Application Development**

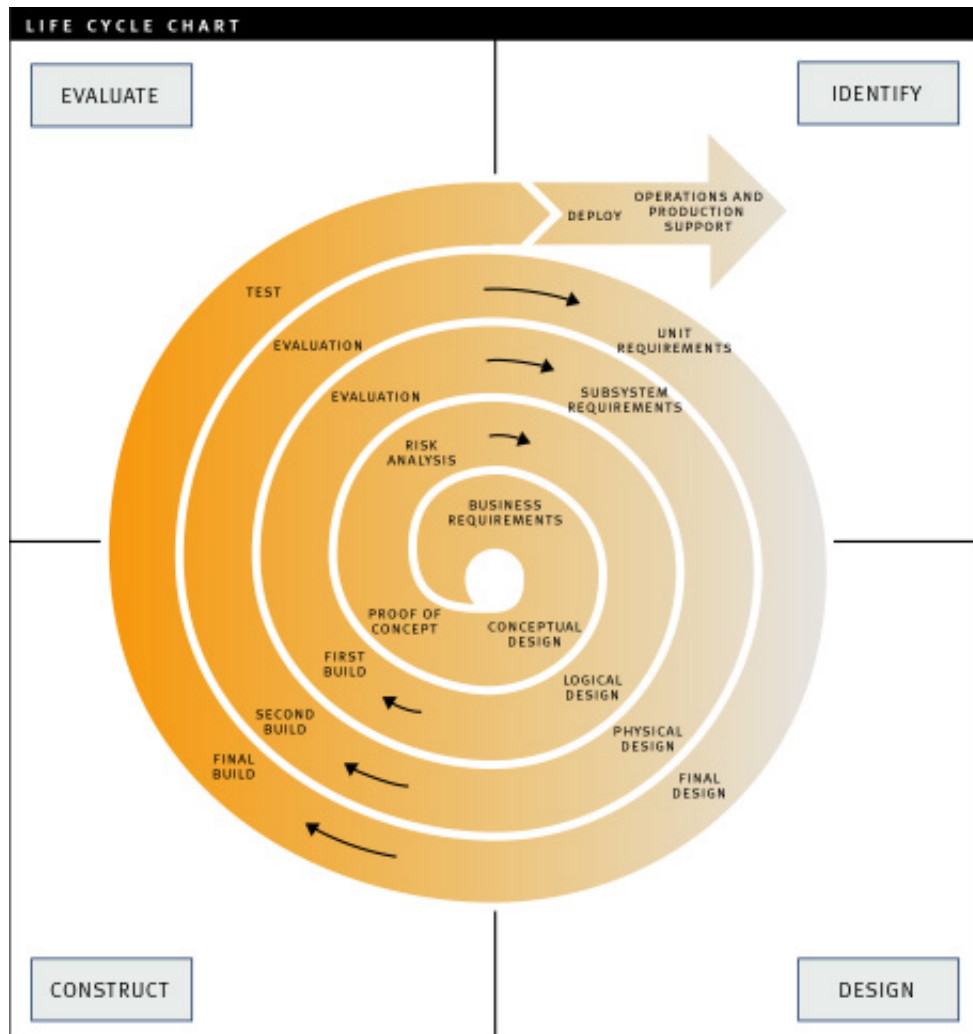
For application development projects, HIC will use a rapid application methodology built around a spiral model for application development (as pioneered by Muench, et al.) and adapted by the Project Management Institute. The methodology consists of four cycles operating through four quadrants as shown in *Figure 2.02.30-1* below. These cycles include:

- In the proof-of-concept cycle, we capture business requirements, define goals for proof-

of-concept, produce conceptual system design, design and construct the proof-of-concept, conduct risk analysis and make recommendations.

- In the first build cycle, we derive system requirements, define goals for the first build, produce the logical system design, design and construct the first build, produce system test plans, evaluate the first build and make recommendations.
- In the second build cycle, we derive subsystem requirements, define goals for the second build, produce the physical design, construct the second build, produce system test plans, evaluate the second build and make recommendations.
- In final build cycle, we complete unit requirements, final design, construct the final build, perform unit, subsystem, system and acceptance tests and ultimately transition the system to production.

**FIGURE 2.02.30-1**  
Software  
Development  
Lifecycle



### Project Management Phases

The project lifecycle is designed with consistency, management control and timely delivery in mind. The typical phases for application development are outlined below. Web site design and other types of projects will have some variation in these phases. For example, in a Web site design project, Phase III is typically Site Architecture instead of System Specifications. The seven phases that comprise the application development project management methodology include:

<b>PHASE I</b>	Project Exploration
<b>PHASE II</b>	Project Definition/Functional Requirements
<b>PHASE III</b>	System Specifications
<b>PHASE IV</b>	Design
<b>PHASE V</b>	Development
<b>PHASE VI</b>	Testing
<b>PHASE VII</b>	Implementation

Each phase includes defined criteria to advance the delivery of the project from the specification stage to implementation. The management process will allow for regulation of phase milestones throughout the project lifecycle.

### Descriptions of the Project Phases and Deliverables

Figure 2.02.30-2 summarizes each project management phase, its objectives and deliverables produced by phase. State sign-off/checkpoints are at the end of each phase.

PHASE	OBJECTIVES	DELIVERABLES
1. Project Exploration	<ul style="list-style-type: none"><li>Develop a clear vision of the agency's needs and the specific features necessary to validate, at a high level, the feasibility of technology (either within the organization or from potential third parties) for meeting those requirements.</li><li>Establish funding model.</li></ul>	<ul style="list-style-type: none"><li>None</li></ul>

FIGURE 2.02.30-2  
Phases, Objectives,  
Deliverables Chart



Due: Oct 31, 2007

**FIGURE 2.02.30-2**  
*Phases, Objectives,  
Deliverables Chart*

PHASE	OBJECTIVES	DELIVERABLES
<b>2. Project Definition/Functional Requirements</b>	<ul style="list-style-type: none"> <li>Develop specific functional requirements and scope of work for the project.</li> <li>Evaluate benefits and resource requirements to assign a priority ranking for Board approval.</li> <li>Develop Statement of Work, including cost quote if applicable.</li> <li>When applicable, prepare Service Level Agreement for Board approval.</li> <li>Assess options for a high-level design that meets customer needs, financial guidelines, and is technically feasible</li> <li>Develop a customer support approach</li> <li>Define third-party relationships, if necessary, to build and deploy the service</li> <li>Assess the extent to which legal and regulatory issues will influence feature design, introduction and use</li> <li>Develop an initial project timeline</li> </ul>	<ul style="list-style-type: none"> <li>Project Prioritization and Board approval</li> <li>Statement of Work and sign-off</li> <li>Service Level Agreement with signatures and Board approval</li> </ul>
<b>3. System Specifications</b>	<ul style="list-style-type: none"> <li>Define specific technical requirements, including language and database establishment</li> <li>Develop data integration processes with the agency</li> <li>Define administrative features</li> <li>Define the user paths through the application (flow)</li> <li>Define user interface requirements and screen-by-screen interface specifications</li> </ul>	<ul style="list-style-type: none"> <li>Application flow diagram</li> <li>System Specifications</li> <li>Sign-off on system specifications</li> </ul>
<b>4. Design</b>	<ul style="list-style-type: none"> <li>Develop HTML prototype of user interface</li> <li>Create any necessary graphics and branding</li> <li>User testing of prototype if applicable</li> </ul>	<ul style="list-style-type: none"> <li>HTML prototype and sign-off</li> </ul>
<b>5. Development</b>	<ul style="list-style-type: none"> <li>Design, develop, and test components of system in alignment with the functional and technical specifications</li> <li>Write test plan, develop test cases, and conduct system integration tests that ensure the feature and its support processes will meet expectations</li> <li>Develop training plans as needed and conduct initial training to support agency testing</li> <li>Manage third-party relationships for time, quality, and cost of deliverables to the project plan, if necessary</li> <li>Manage change requests and monitor project scope/budget as applicable</li> </ul>	<ul style="list-style-type: none"> <li>Test plan</li> <li>Training plan</li> <li>Change requests and sign-off, if applicable</li> </ul>

**FIGURE 2.02.30-2**  
*Phases, Objectives,  
Deliverables Chart*

PHASE	OBJECTIVES	DELIVERABLES
<b>6. Testing</b>	<ul style="list-style-type: none"> <li>▪ Portal testing of application, including quality assurance testing, accessibility testing, payment flow testing</li> <li>▪ Agency testing of application with following objectives: <ul style="list-style-type: none"> <li>○ Test that the product meets all the requirements and specifications as set forth in the specifications (quality assurance)</li> <li>○ Test that the product meets the agency's needs</li> </ul> </li> <li>▪ Test the application and its delivery and support processes in increasingly real-world (eventually beta testing) environments</li> <li>▪ Develop Marketing Plan and peripherals, if applicable</li> <li>▪ Conduct application security testing</li> </ul>	<ul style="list-style-type: none"> <li>▪ Agency acceptance sign-off</li> <li>▪ Beta release</li> <li>▪ Marketing and promotional plan and sign-off</li> </ul>
<b>7. Implementation/ General Availability</b>	<ul style="list-style-type: none"> <li>▪ Complete the transition of the application and its support processes to operation</li> <li>▪ Verify release meets agency expectations</li> <li>▪ Implement training plan</li> <li>▪ Verify operating objectives met (costs, timelines, etc.)</li> <li>▪ Gather lessons learned and feed into process improvement</li> <li>▪ Finalize maintenance/support plan</li> <li>▪ Deliver Final Project Statement, a summary of the project including timeline with actual delivery dates, and actual costs/value of services provided by the portal</li> </ul>	<ul style="list-style-type: none"> <li>▪ Deployment sign-off</li> <li>▪ System in production</li> <li>▪ Implement training plan</li> <li>▪ Final Project Statement</li> </ul>

### Quality Assurance

HIC's quality assurance strategy focuses on continually evaluating a project for compliance – not only to stated requirements, deliverables and procedures – but to further recommend improved procedures and standards. All of HIC's staff is involved in quality assurance for all eGovernment services. The team consists of the General Manager, the Director of Development, the Director of Operations, and development, design, project management and customer service staff members.

Quality assurance functions are coordinated by the project manager for each service. HIC will conduct periodic audits and reviews of the processes, application or activity related to each service. The project manager also tracks end-user requests via HIC's Mantis issue tracking system for process improvements and/or repeated usability and technical issues. The quality assurance team will be responsible for evaluating services for NACHA compliance, PCI DSS compliance, security, ADA and Rehabilitation Act compliance, and State Web Standards and policy compliance. At the completion of each project, prior to final deployment, the QA team will perform a final audit/review and report the findings to the project manager so that any issues can be corrected as necessary.

## System Testing

An important part of the development process is working with agencies to ensure that our development efforts result in systems and applications that work properly, meet the functional and business requirements of the agency and are useful to the end user.

When we begin work on a project, the first step is always to work with the agency to define the functional and processing requirements – what data should be collected, what results should be produced and what processing should occur. These specifics vary with each project. For example, some projects are straightforward and require little analysis (i.e., professional license lookup), while others require complex input and/or processing with different outputs sent to different entities, such as a tax payment where the tax must be computed from data entered and the payment collected. Regardless of the project's size, we will work with the appropriate agencies to determine their goals and needs and, where appropriate, work with the potential users to incorporate their input into the process.

Once the functionality is defined and documented, each function will be identified and evaluated. A test plan will be created for each of these functions along with an overall testing strategy. The majority of the functional tests will be black box tests that will evaluate the functionality of the application. White box testing (testing against the system implementation) will also be used, but will generally be done internally and will not be part of formal acceptance testing. *Figure 2.02.30-3* provides examples of elements for a sample test plan for a license renewal project.

*FIGURE 2.02.30-3 Sample Test Plan Elements for a License Renewal*

Category	Description	Procedure	Expected Results
Application Functionality	Customer can navigate through the system and renew their license	<ul style="list-style-type: none"> <li>Have a user input simple orders</li> <li>Complete a single license renewal with no contact information changes</li> <li>Complete a single license renewal with contact information changes</li> </ul>	<ul style="list-style-type: none"> <li>The fields are logically arranged for order entry</li> <li>Instructions are clear and concise</li> <li>Renewal transaction is loaded into the system for processing and the data is successfully exchanged with the responsible agency</li> <li>Sensitive personal information is truncated and/or encrypted</li> </ul>
Interface – Standards Compliance	Web user interfaces must comply with portal standards and State policy requirements	<ul style="list-style-type: none"> <li>Manual review by portal staff</li> <li>Provide instructions or demonstration to customer on how these requirements are met by the application</li> </ul>	<ul style="list-style-type: none"> <li>The system user interface complies with State Web accessibility policy and uses standard portal template</li> <li>meets checklist of requirements</li> </ul>
Interface – Order Entry	When selection is made the appropriate screen is presented	<ul style="list-style-type: none"> <li>Test ordering functionality of the system starting at initial screen</li> </ul>	<ul style="list-style-type: none"> <li>Page controls should open pages as described in specifications</li> </ul>

Category	Description	Procedure	Expected Results
Credit Card Information	Verify data capture of credit card information	<ul style="list-style-type: none"> <li>Confirm accurate data capture of credit card information provided via third party merchant services</li> <li>Confirm access to credit card validation and approval system</li> <li>Enter one or more orders using credit card payment information.</li> <li>Confirm system requires user to input mandatory data</li> <li>Confirm results of data returned from third party merchant service</li> <li>Confirm functionality of reset</li> </ul>	<ul style="list-style-type: none"> <li>Provided access to credit card validation and approval system</li> <li>Allow entry of credit card data</li> <li>System should require minimum data entered for credit card data, else provide warning message</li> <li>Sensitive card holder data is truncated and encrypted</li> <li>Service complies with PCI DSS</li> </ul>
Business Rules & Error Messages	Verify business rules are applied properly and display of proper error messages	<ul style="list-style-type: none"> <li>Confirm accurate data required</li> <li>Attempt to complete license renewal process and do not follow instructions (for example, enter less than 12 continuing education hours)</li> </ul>	<ul style="list-style-type: none"> <li>Display error message regarding the application's requirements.</li> </ul>

While the HIC developers and project team will conduct various tests throughout the development process and will participate in final testing with the agency, the final approval of testing and system sign-off must come from the agency.

With every project we undertake, we expect to work closely with our Portal Partners to develop functional requirements for the project before any development begins. However, our experience is that these requirements often change once development and testing begin. Consequently, the process of defining functionality and acceptance tests needs to be flexible. As new requirements are determined, they will be added to the documented specifications through a change management process and appropriate tests and adjustments to timelines, and costs if appropriate, will be determined. These tests will become part of the overall testing plan and will need to be satisfied before final approval of the project is given.

Key domain experts from the affected agencies will perform testing as members of the project team. Throughout the process, HIC and key State domain experts will evaluate each delivery milestone to ensure that the agency's needs are met by performing the defined test cases. The participating agency will sign off on all test plans and initial requirements.

#### **Acceptance Testing Verification and Validation**

HIC's quality assurance process is designed to make sure that a released product meets all defined requirements and test cases, as well as satisfying the customer's needs. HIC will rigorously define all requirements and develop test plan/cases and work with the State to determine satisfaction criteria on multiple fronts. First, our Web site design and user interface design teams are well versed in providing user-centric designs that meet the customers' needs and are easy to use. Second, the HIC project team will address the customer needs up front by involving key domain experts as part of the project specification phase of our application development methodology, developing prototypes where required and completing detailed work flow and system diagrams prior to beginning development.

Lastly, our user acceptance testing phase may include walking the customer through the finalized product, allowing them to perform all test cases as outlined in the test plan for the project.

HIC will work with the project teams at the beginning of the project to prototype, document and walk through all customer needs and issues. The information gathered will go into the project requirements and design documents during the project specification phase. Requirements will be included in a test plan. HIC and the project teams will evaluate the project to verify that it meets all stated specifications and validations during the testing phase.

### **Risk Management**

Risk is defined as any event that may negatively impact achieving the deployment milestones, reduce the value of the site/application or produce adverse consequences for the State, citizen users, business users or HIC.

HIC will identify, analyze and prioritize risks, and develop associated mitigation strategies by assessing for potential risks in four areas:

- Product Risk: The risk that the solution was conceived or developed without taking the end users requirements into consideration or that a solution would be inadequate for the necessary tasks. This includes design risk, development risk and implementation risk.
- Management Risk: The risk that the agency does not have management buy-in to see the project to completion or that the team does not have the capabilities or subject matter expertise to execute the project. This includes planning risk, investment risk and process risk.
- Organizational Risk: The risk that the organization would be affected by the deployment of the service. For example, a solution that replaces a manual process with an online process that may not be adopted by the agency staff or user group and therefore affects the organization's operations. This includes resources risk, acquisition risk, and stakeholder risk.
- Business Risk: The risk that the system does not provide the business organization with the necessary management information or that financial exposure would be caused by the new system processes such as a project that is developed to improve or replace an internal process but is not operated correctly due to complexity or lack of staff commitment or training. This includes reporting risk, payment risk and credit risk.

Risks and mitigation to risks will be discussed during the Exploration and Project Definition Phases of the project, and critical risk mitigation strategies will be documented in the Statement of Work for review and acceptance by the Portal Partner, if necessary.

### **Application Maintenance**

HIC will provide application management and maintenance as defined within the Statement of Work for the project. Maintenance may include providing the merchant services for the application (if applicable), responding to and researching reported issues with the application (break/fix) and implementation of approved project improvement plans. HIC will also continuously monitor the application for proper performance and security.

All maintenance requests that are considered changes to the system will be administered

using the following change management procedure.

### **Change Management**

Managing change/enhancement requests and bug reporting are critical to the success of the eGovernment deployment. While some changes are inevitable and may produce an improved result or fix an error in operation, changes to the scope of a project may present risk to successful delivery of a task. HIC has experience managing a multitude of State services and has developed a comprehensive change management process to control, evaluate and manage changes, bugs and enhancements to a project.

The change request process will be completed by both HIC and the State Portal Partner and will do the following:

- Identify the change or new requirement
- Provide the reason for the change
- Detail the expected benefit of the change
- Offer a rationale for the change

HIC will evaluate the change and will:

- Evaluate scope of change, including resource requirements
- Determine impact on external systems and other projects
- Evaluate probable schedule changes
- Give an overall assessment/recommendation on the change

HIC will communicate with affected stakeholders any change that impacts system features. All change requests are acceptance tested by HIC staff and Portal Partners prior to implementation.

All State employees who interact with the application will be responsible for following the defined procedures for support, as well as reporting bugs and other information to the project manager in the manner specified. The State will complete and sign the necessary change order form and will evaluate all proposed changes with HIC staff. Domain experts must also participate in acceptance testing of requested changes.

### **Project Management Staff**

HIC has dedicated project managers who are experienced in working with State of Hawaii agencies, have developed excellent working relationships with agency staff, and are trained in the HIC project management methodology. All project management is performed under the oversight of the HIC Director of Operations.

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*Interact Effectively with State*

- 2.02.34 (M) *The Contractor shall work with the AHC to prioritize new Portal Services. The Contractor shall notify the AHC of Portal Services that are in conceptual development and those for which scope of works are in progress. For the benefit of the Portal Partners, the AHC shall have the option to re-prioritize the work by the Contractor for Portal Services and to negotiate target completion dates.*

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

- 2.02.35 (MR) *The Offeror shall provide a template SLA in their proposal addressing, at minimum, the following points:*
- a) *The Contractor's methodology for interacting with Government Agencies in the creation, operation, maintenance and troubleshooting of Portal Services;*
  - b) *The Services or transactions to be implemented on-line;*
  - c) *The statutory or other regulated fees to be collected by the Contractor on behalf of the Portal Partner;*
  - d) *Any reimbursement of a Portal Partner by the Contractor for costs incurred in providing data needed to offer on-line Services;*
  - e) *The level of services the Contractor is providing including, but not limited to, the availability of Services and expected outages, whether the on-line Service is to be physically hosted by the Contractor or by the Portal Partner, response time to Service interruptions, response time to critical and non-critical problems, escalation process, system monitoring and program resolution, and reporting of the aforementioned items;*
  - f) *How the Contractor will deliver on those promises;*
  - g) *Who will measure delivery, and how;*
  - h) *What happens if the Contractor fails to deliver as promised; and*
  - i) *How the SLA will change over time.*

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

As the current Portal Manager, HIC has successfully utilized the SLA model for Hawaii and its agencies. We will work with the State to determine an effective and efficient SLA process for both existing and new services.

HIC recommends that there is an SLA with each of the Departments and a project specific Statement of Work (SOW) in place for each of the points defined above. The following SLA and SOW templates highlight our commitment to providing the best possible services to Portal Partners.

# SERVICE LEVEL AGREEMENT

FOR

<AGENCY NAME>

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## INTRODUCTION

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“EHawaii.gov” is the Internet portal through which the State electronically provides public information, access to public information, and access to premium services.

HAWAII INFORMATION CONSORTIUM, INC. (“HIC”) has been contracted by the State of Hawaii (“State”) to serve as the manager of “EHawaii.gov.”

The purpose of this agreement is to serve as a memorandum of understanding with respect to the implementation of “EHawaii.gov” for <Agency Name> (“AGENCY”).

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## WHAT HIC WILL DO FOR THE AGENCY

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This document is subordinate to the requirements stated in: (1) Request For Proposal No. 99-00, Electronic Business and Internet Portal Provider, advertised on September 22, 1999, including all addenda; (2) HIC’s Proposal submitted on November 19, 1999 in response to Request For Proposal No. 99-00; and (3) the Contract For Portal Manager Services between the State of Hawaii and HIC, dated December 29, 1999 and effective January 3, 2000, as the same is amended from time to time. In the event of a conflict between the provisions in this Service Level Agreement and the foregoing documents, the provisions of the foregoing documents shall control.

Among the responsibilities, duties, and obligations of HIC in these documents are certain tasks, functions and services that HIC has agreed to provide to each agency seeking to implement web applications on EHawaii.gov, that is, to create web applications by which to provide public information, access to public information, and access to premium services. HIC has agreed to provide these tasks, functions and services at little or no cost to each agency.

HIC will coordinate and work with the AGENCY similar to how a web-hosting provider would work with its customer. Just as customers would use a web hosting provider’s resources to publish and disseminate their information, the AGENCY may use HIC to obtain management, programming, financial, technical, and marketing resources to help the AGENCY develop, state, host, and promote expanded citizen access to existing information or transactions without expense to the AGENCY [RFP at section 4.01.d].

A list of some of these tasks, functions and services is attached as attachment “A.” Since this list is not intended to be exhaustive, if an agency requires tasks, functions and services not listed on attachment “A,” an inquiry should be issued to HIC and the Access Hawaii Committee.

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**IMPLEMENTING WEB APPLICATIONS ON EHAWAII.GOV**

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To initiate the implementation of a web application on EHawaii.gov, the AGENCY must work with HIC to prepare a Statement of Work document for the web application. Since the Statement of Work is the document that describes the purpose and scope of the proposed web application, the Department is strongly encouraged to collaborate with HIC on this document. Statements of Work so developed are subject to approval by the Access Hawaii Committee.

Generally, this Statement of Work document should set forth the following:

1. A clear and detailed statement of the AGENCY's expectations for web applications developed by HIC, including but not limited to:
  - a. a description of the agency level functional and design requirements;
  - b. user interface requirements;
  - c. operational flowcharts;
  - d. software descriptions;
  - e. network accessibility information;
  - f. interactive elements;
  - g. information-capturing capabilities;
  - h. browser and platform compatibilities;
  - i. e-commerce requirements;
  - j. audio/video format requirements;
  - k. linking structures;
  - l. database seeding requirements;
  - m. applicable standards (e.g., HTML, XML, etc.);
  - n. screen and file layouts;
  - o. security requirements;
  - p. general "look and feel" elements;
  - q. accessibility requirements;
  - r. performance requirements; and
  - s. copyright and ownership issues.
2. A clear and detailed statement of the work or deliverables to be provided by HIC and the AGENCY for each application to be developed;
3. The applicable timetable for all work and deliverables, if appropriate.

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**COLLABORATION**

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Successful development of a functional web application will require collaboration between HIC and the AGENCY. Both HIC and the AGENCY agree to assist each other in understanding, documenting, and implementing the Statement of Work.

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**FINAL APPROVAL OF WEB APPLICATIONS**

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Final approval of any web application developed by HIC, including the decision to publish the web application, rests with the AGENCY.

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**CONFLICTS**

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In the event of a conflict between HIC and the AGENCY, the parties shall first attempt to resolve and otherwise work out the conflicts. In the event the parties are unable to resolve the conflict, the matter shall be brought to the Access Hawaii Committee.

Understood and agreed.

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Russell Castagnaro  
General Manager  
Hawaii Information Consortium                      Date:

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Department Director  
Title  
Department    Date:

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## ATTACHMENT A

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### **Introduction.**

HIC has agreed to perform certain tasks, functions, and services for each AGENCY seeking to create web applications by which to provide public information, access to public information, and access to premium services. HIC has agreed to provide these tasks, functions and services at little or no cost to each AGENCY.

This document lists some of these tasks, functions and services. Since this list is not intended to be exhaustive, if a AGENCY requires tasks, functions and services not listed on Attachment A, an inquiry should be issued to HIC and the Access Hawaii Committee.

### **General Description of EHawaii.gov.**

EHawaii.Gov is an internet portal, that is, a web-based front-end by which a person can gain access to public information and services (e.g. themes, functions, organizations, events, services, transactions), using guidebooks, icons, directories, tutorials and other tools.

The portal makes it easier and more convenient for businesses and citizens to navigate, locate, evaluate, select, retrieve and manage public information resources, services and programs on the Internet, to communicate with selected agency officials, and to utilize a variety of electronic transactions offered online by state government. [RFP at section 5.04.c]

For actual and prospective visitors to our State, EHawaii.gov acts as a reference and referral service, providing online tools that make it easy for the public to receive information from the State via the Internet. For example, EHawaii.gov will provide links to existing information and websites that highlight various aspects of Hawaii's history, culture, religions, government, travel, recreation, community and economic life. [RFP at section 5.06.a].

### **What is the difference between the State's original Internet home page and EHawaii.gov?**

The State's distributed web enterprise is based more upon agency organization than by functions. For instance, if a business wanted to know which forms it must complete to do business in the State, the business would be required to access the various websites for several different government agencies.

In contrast, EHawaii.gov is organized and based on a 'citizen centric' approach. Thus, using the example above, EHawaii.gov will have a single web link that will provide easy central access to the requested information that would otherwise require interaction across multiple agencies and even different levels or branches of government. [RFP at section 5.04.d].

## What will HIC do to assist State Agencies?

**Provide a Consistent User Interface.** HIC will develop a user interface that is consistent across all services. This user interface will be widely accessible, facilitate ease of learning and use.

**Ensure Accessibility Via Popular Browsers.** HIC will ensure that EHawaii.gov is accessible via popular browsers such as Microsoft's Internet Explorer and Mozilla's Firefox

**Coordinate On an Inter-governmental basis.** HIC will work closely with other levels of government, federal and local, to aggregate services or information in an integrated way with State online content.

**Provide Search engine integration.** HIC will ensure that search engines will integrate across both EHawaii.gov and agency websites when appropriate.

**Facilitate Access to Existing websites.** HIC will provide guidance on what types of directories or tools for navigation should be implemented to make existing state information and access to new data and services more user-friendly, cohesive, and understandable. Individual state agencies will still have control over the design and content of their on websites, but EHawaii.gov will be linked, and provide an easy to use front-end to the many websites and web-based information sources that already exist. HIC will work closely with state agencies upon request to help ensure that all state agency's web pages use the same types of methods for navigation, searching, and presentation of information

**Provide customer service help.** HIC will provide customer service help to users of EHawaii.gov services, both online help capability and telephone support. HIC will also provide a help desk that will meet the needs of non-subscribers as well as Subscribers without additional charge to users as agreed to in the Statement of Work for each application.

**Provide Training and Reference Materials.** HIC will provide training and reference material for distribution to current and potential users, and government information providers as agreed to in the Statement of Work for each application.

**Conduct customer satisfaction surveys.** HIC will periodically conduct customer satisfaction surveys and for determining the level of use, acceptance, and ease of use of services.

**Provide security and authentication services.** HIC will provide the following security and authentication services:

Provide the ability to execute secure, authenticated, two-way transactions;

## HIC SERVICE LEVEL AGREEMENT

Implement date-time stamp and an audit trail for identifying all network security breaches and attempted breaches;

Prohibit users from accessing data or computer facilities unless such access were expressly approved by the participating agency and HIC;

Maintain and ensure data integrity and users ' confidentiality and privacy;

Address issues such as misuse or fraud including resolution options;

Accommodate scheduled and unscheduled inspections, by State personnel or designees including law enforcement personnel, for risk assessment of network security;

Ensure implementation and maintenance of standard security guidelines, protocols and procedures;

Report any compromises of network security such as intrusions, denial of service, spoofing, etc. to the Access Hawaii Committee;

Maintain logs documenting items including but not limited to the following: users, dates and times of access, applications accessed, etc.;

Ensure full cooperation with law enforcement agencies in cases of security breaches involving criminal and/or non-criminal activities;

Provide activity/performance reports including but not limited to: types of transactions, transaction volumes, response time, web page hits, etc.;

Ensure transaction validation and security;

Ensure that HIC's employees or contractors involved in any activity relating to this project undergo background checks including but not limited to financial and criminal history;

Provide redundancy of systems to ensure continuous availability of services to all users;

Comply with reporting requirements.

**Provide integration with back-end systems.** HIC will integrate/interface to existing back-end legacy databases and other data sources in the State to extract the appropriate data for EHawaii.gov services. Any computer and/or communications hardware, software, or service required to implement this interface shall be at HIC ' s expense, inclusive of all one-time and recurring costs. Installation of all hardware, software, and/or services for this

interface shall be coordinated with and directed by State systems support and/or telecommunications staff.

HIC will perform any data conversion that may be required in sorting the data from the State's existing back-end legacy systems or other data sources to EHawaii.gov. All such data conversion shall be done at HIC's expense.

But note, however, that HIC will not manage or host the existing back-end legacy systems or other data sources that already service the State's applications. Moreover, there will usually be no direct access to the State's existing back-end legacy systems and other data sources through the EHawaii.gov Internet portal and website, or a dedicated, live, connection between them unless required and explicitly agreed to in an application's Statement of Work.

**Provide a Data Repository.** HIC will provide for the storage and the storage management of essential data being made accessible to the public including provision for backup copies of the data so that reconstruction of lost data does not involve the use of original data sets. HIC will accommodate growth in data sets added to the data repository. All hardware and software utilized in this project must be physically located in Hawaii at a location to be agreed to by HIC and the Access Hawaii Committee.

**Provide for Performance Monitoring and Problem Resolution.** HIC will provide performance monitoring and problem resolution. In addition, HIC will regularly perform normal and preventive maintenance, which maintenance will be performed at times that will not adversely affect daily operations.

HIC will respond to system malfunctions, security breaches and diagnose problems with the network, hardware or software within four (4) hours of failure, as well as interface with and consult hardware and software vendors to identify and correct problems.

HIC will provide for a back-up system that will take over in the event the hardware or software fails.

**Gather performance statistics.** HIC will develop EHawaii.gov so that it will gather performance statistics as well as statistics on user access.

**Platform Access.** If a state agency decides that direct access to its platform is desirable, and such access is approved by the Access Hawaii Committee as required, then HIC will provide access through the State's wide area network. Any devices added to the State's wide area network must be approved and coordinated by ICSD.

Any time direct access to a state agency is made available, HIC will utilize appropriate hardware and software, compatible with agency operating environments, to enable interactive exchange and adhere to all standards, policies, guidelines and bulletins issued by the applicable agency.



**Comply with Applicable Laws on Non-discrimination.** HIC will comply with all applicable federal and state laws prohibiting discrimination against any person on the grounds of race, color, national origin, religion, creed, sex, age, sexual orientation, marital status, handicap, or arrest and court records in employment and any condition of employment with HIC or in participation in the benefits of any program or activity funded in whole or in part by the State.

**Assist in Process Improvement.** HIC will assist agencies in understanding how processes and services can be improved and streamlined by deploying them as web applications, and in fostering partnering and cooperation among agencies that deliver services via EHawaii.gov. This assistance will include proposed processes and plans for:

- Locating and re-structuring duplicate or redundant information and services that are being delivered to overlapping customer bases;

- Combining information into a single system to improve customer service and raise program efficiency;

- Fostering a high degree of partnering that would plan and develop online services among agencies and between government and HIC;

- Conducting executive and management education programs to disseminate information on innovative ways to use information technology to deliver government services; and

- Identifying for agencies sources of consulting and technical assistance inside and outside government.

# STATEMENT OF WORK

<AGENCY NAME>

---

<APPLICATION NAME>

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## HAWAII INFORMATION CONSORTIUM

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### OVERVIEW

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This Statement of Work (SOW) document identifies the responsibilities between the State of Hawaii, <Agency Name, Division Name> (AGENCY) and the Hawaii Information Consortium, LLC. (HIC) as the selected vendor providing Internet Portal services for the State of Hawaii. This document is subordinate to the requirements stated in RFP 99-00, Electronic Business and Internet Portal Provider, HIC's Proposal and the contract between the State of Hawaii and HIC dated January 3, 2008.

This Statement of Work covers general topics that deal with a proposed Online Auction System.

---

### SERVICE LEVEL AGREEMENT

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This Statement of Work is subordinate to the Service Level Agreement (SLA) between the State of Hawaii, < AGENCY>, and HIC signed and dated on January 3, 2008. This SOW is subject to all terms and conditions thereof unless specifically designated as exceptions in this document.

---

### PURPOSE STATEMENT

---

<description>

The system should allow public to

- <list items>

The system should also include an administrative module, which would allow AGENCY personnel to

- <list items>

This system will improve the accessibility and efficiency of the existing auction process. It will also provide a convenient 24/7/365 means for public to bid and complete transactions with AGENCY.

---

### REGISTER FEE, TRANSACTION FEE, OR NO FEE

---

<fee information>

Any costs incurred by HIC associated with charge-back, cancelled or insufficient payments will be invoiced to the AGENCY or deducted from future payments.

---

### OVERVIEW OF CURRENT PROCESS

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<overview>

---

### SCOPE STATEMENT

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<scope>

Detailed requirements for these functions will be defined during a series of meetings to be held with AGENCY staff to discuss and document the required functionality of the system. The deliverable from those meetings will be a detailed Design Specification showing each screen of the application and describing its functionality.

---

#### DELIVERY

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The application will be deemed completed and delivered on the date the application is installed into HIC's production environment. "Production environment" shall mean the technical environment and configuration in which HIC's existing online applications are operated and managed independently from HIC's testing and development environment. Either written notice of application acceptance by AGENCY, or written notice of the specifications that the application does not meet must be received by HIC within seven working days of delivery of the application. If such notice is not received within seven working days the application is deemed accepted. "Live" use of the application constitutes acceptance under this Statement of Work.

---

#### PROJECT DEVELOPMENT COSTS

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This system will be developed at no cost to the AGENCY.

OR

The development cost of this project is broken down below. Final payment will be due 30 days after the system acceptance and launch. Net amount will be equal to Total from Phase 3 minus any costs incurred in providing data needed to offer on-line Services from the AGENCY

Development Position	Phase 0	Phase 1	Phase 2	Phase 3	Total
Estimated Cost:	\$			\$	\$

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#### RISK ASSESSMENT

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<political risks>  
<operational risks>  
<financial risks>

---

#### DELIVERABLES

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Deliverables include:

- Statement of Work
- Design Specification document
- Functional prototype for testing
- Completed application

- One training session for agency personnel

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### SCHEDULE ESTIMATES

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The project will be carried out according to the following Milestone Schedule, which has been agreed upon by HIC and AGENCY. It is understood that these are estimated milestones, and may be changed due to accommodate new requirements of AGENCY or HIC, or to comply with guidance received by HIC from the Access Hawaii Committee.

\* To be determined after detailed design specification.

Milestone Schedule		
Est. Date	Project Tasks Phase I	Deliverable
TBD*	Project Start	Signed SOW
	Functional Definition	
	Technical Specification	
	- Prototype creation, review & revision	
	- Write Phase I design specification document	Spec Document
	- Complete database design and system architecture design	
	Application Development	
	- Application development	
	- Test data received from AGENCY	
	Beta Testing & Revisions	
	Acceptance Testing & Revisions	
	Migration & Launch	Phase I Application Launched

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### MAINTENANCE AND SUPPORT

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After the application is delivered, as defined above, HIC will provide support for the proper installation and ongoing general operation of the current release of the application. HIC shall use reasonable effort to provide troubleshooting to correct errors in the application reported by AGENCY.

Upon receipt of notice of an error, HIC will assign a priority level as determined by the AGENCY to the error according to the following criteria:

- Priority A – An error that results in the application being substantially or completely nonfunctional or inoperative.
- Priority B – An error that results in the application operating or performing other than as represented in the Design Specification, but which does not have a material adverse impact on the performance of the application.

HIC will make reasonable efforts to correct the error or provide a work-around solution for each priority level and, if a work-around is the immediate solution, will make reasonable efforts to provide a final resolution of the error.

Maintenance and Support as described herein does not include software modifications or additions that materially change the utility, efficiency, functional capability, or application of the software.

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#### **24 X 7 TECH SUPPORT**

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HIC servers and various file transfer operations are constantly monitored for seamless operation 24x7x365 days a year using NAGIOS network monitoring software. The software checks the status of HTTP, SSL and FTP services every three minutes. If there is a problem, the software is programmed to automatically send an e-mail to the Systems Administrator's and Director of Development's cellular telephone. The Systems Administrator and/or Director of Development would then respond as appropriate to the problem. There are numerous additional scripts that are also programmed to e-mail the HIC DOD if the file transfer operations are not handled in the proper fashion.

If the problem is not able to be solved by the Director of Development within six hours (on business days), the HIC Director of Development will notify the HIC General Manager, who in turn will notify ICSD and the State. If the site goes down a message will be posted by HIC to notify business entities that the site is temporarily down.

If a problem arises that is not covered under the aforementioned explanation, The HIC Director of Development is available 24 hours a day on Cellular telephone at 542-1227 or 741-1669.

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#### **SOFTWARE MODIFICATIONS AND ENHANCEMENTS**

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At AGENCY's request, HIC will consider developing modifications or additions that materially change the utility, efficiency, functional capability, or application of the software ("Enhancements") at such charge and on such schedule as the parties may mutually agree in writing. Such modifications or additions will be undertaken on a project basis, subject to review and approval of the Access Hawaii Committee.

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#### **RESPONSIBILITIES OF THE AGENCY**

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AGENCY will designate a Project Manager with responsibility and authority for review and approval of deliverables under this SOW.

In order to accomplish the tasks outlined in this SOW and provide the deliverables in accordance with the project plan and timeline, HIC will require the following from AGENCY by the agreed upon dates. If AGENCY does not provide any of these items by the required date, delivery dates for HIC deliverables will be revised accordingly. HIC will not be held responsible for delays in the timetable due to unavailability of data or resources from AGENCY.

- AGENCY will provide timely authorization for the project and for each approval required during the project
- AGENCY will provide written functional requirements for all system components

- AGENCY agrees to designate content-knowledgeable reviewer(s) to review each deliverable prior to acceptance to ensure that acceptance represents an informed commitment.
- AGENCY will provide knowledge transfer of necessary IT knowledge, environment and business processes. Verbal walkthroughs and documentation will satisfy this responsibility.
- AGENCY will provide content information to be presented on the website.

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#### **RESPONSIBILITIES OF THE HAWAII INFORMATION CONSORTIUM**

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HIC will provide a Project Manager to serve as the primary point of contact and coordination with the AGENCY project team. The HIC project manager will provide all the HIC deliverables, detailed above and will:

- Provide Day-to-day management of the project work plan
- Host periodic team meetings to review the status of project activities against the plan
- Provide Project Plan Updates - ongoing, as required
- Provide Executive Briefings - ongoing, as required

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#### **TERM OF AGREEMENT**

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This Agreement shall be effective as of date of signing by both parties and shall remain in full force and effect until xxx

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#### **SOFTWARE DEVELOPMENT PROCESS**

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The following outline explains the steps in the HIC software development process that will be followed during the course of this project.

##### **STAGE 1 – PROJECT DEFINITION- GATHER INFO**

- Gather information on agency business practices
- Gather information on end user needs and preferences
- Gather information on existing information systems used
- Document the agency's functional requirements of the proposed web system

##### **STAGE 2 – PROTOTYPE and SPECIFICATION**

- Design the user interface
- Develop a prototype that simulates the flow and functionality of the proposed application
- Review the prototype with partner and make changes as necessary
- Write a specification document
- Obtain agency signoff prior to Application Development

##### **STAGE 3 - APPLICATION DEVELOPMENT**

- Create system design
- Code the application
- Write technical documentation as needed
- Test in conjunction with agency



- Obtain agency signoff prior to Roll-Out

#### STAGE 4 – ROLL-OUT (in conjunction with agency if applicable)

- Press releases
- Marketing materials

#### STAGE 5 - APPLICATION MAINTENANCE

- Enable online feedback
- Manage & respond to customer feedback
- Plan for new versions

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### CHANGE PROCESS

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The scope of work as specified in this document shall not change except where approved using the following process:

#### Prior to Software Delivery:

- The HIC project manager reviews an issue and determines that the resolution will lead to a change in scope, defined as a change that will impact cost, schedule or staffing.
- The proposed change is documented in a scope change order, including the impact on schedule, cost and staffing.
- The scope change order is reviewed by the AGENCY project manager for approval.
- The scope change order is reviewed by HIC and/or the Access Hawaii Committee and is approved upon signature by the HIC General Manager.

At this point, the change order becomes an addendum to the Statement of Work.

#### After Software Delivery:

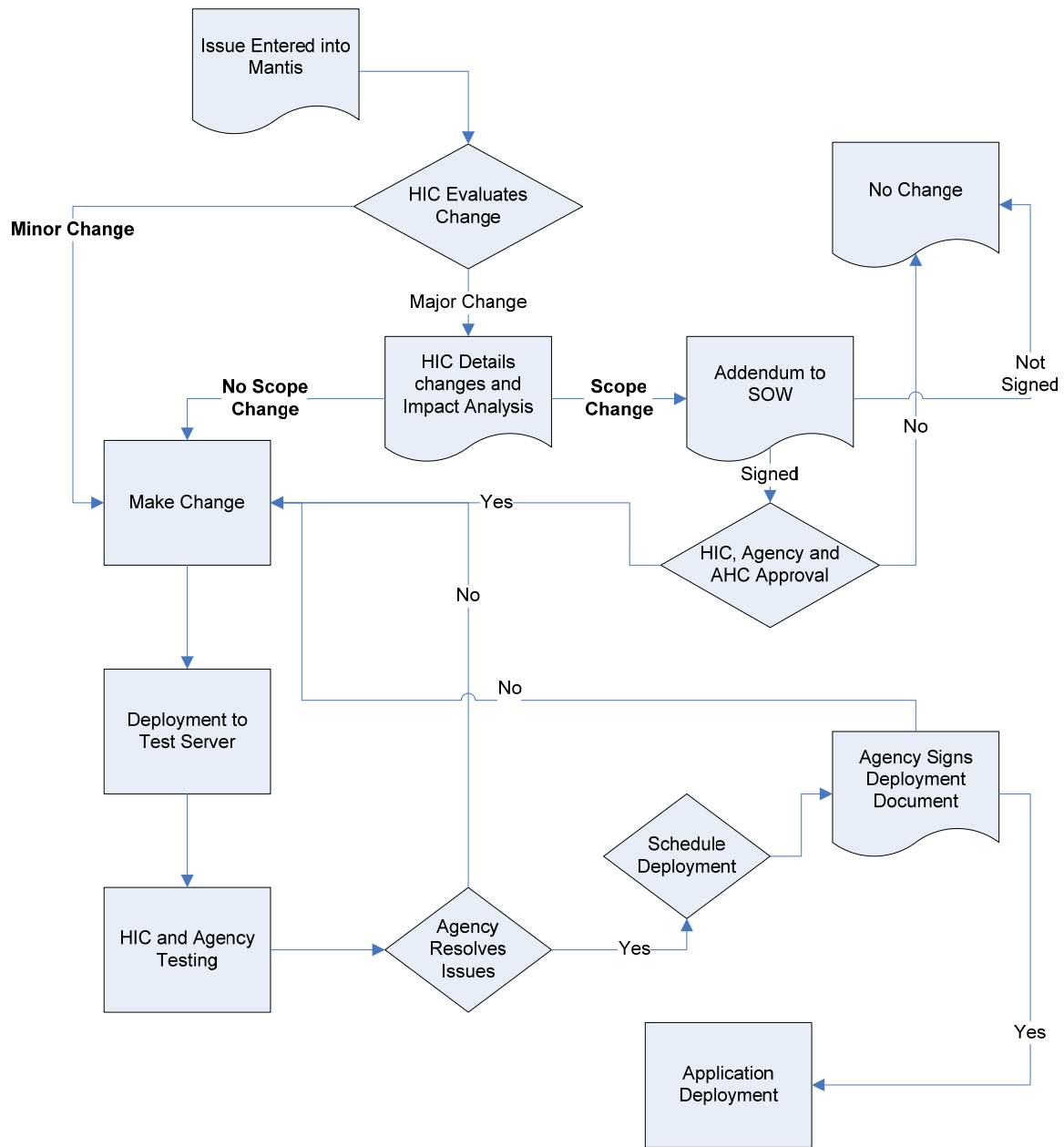
Maintenance: After the application is launched, for maintenance issues or to report an error the requestor will call HIC at 808-587-4220. Maintenance includes graphical changes, addition or re-wording of text, change in a link, or other changes that do not materially change the utility, efficiency, functional capability, or application of the software. For significant maintenance efforts, the requestor will submit a written change request. HIC will then evaluate the change request, seek additional information if necessary, and prioritize it in consideration of other ongoing development projects with the approval of the Access Hawaii Committee. . For routine maintenance, or if a proposed change was directly related to an oversight on HIC's part, or the application did not function properly there would be no estimated cost to the requesting party.

Software Modifications and Enhancements: For software modifications or additions that materially change the utility, efficiency, functional capability, or application of the software the requestor will submit a written change request. HIC will then evaluate the change request, seek additional information if necessary, and prioritize it in consideration of other ongoing development projects with the approval of the Access Hawaii Committee.

Next, HIC will provide a response to the requestor via email or fax. The response will describe the exact change, estimated completion date, and the estimated resources required. If the requested change requires an unusually high level of HIC resources, or is significantly outside the scope of portal services that HIC normally provides, an estimated cost may be calculated. The estimated cost may be charged to the department upon the approval from the Access Hawaii Committee and the Agency. The Access Hawaii Committee will

also prioritize the requested change with HIC's other activities. A workflow diagram of the change process is shown below:

# HIC Change Management Work Flow



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## STAKEHOLDERS

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<AGENCY NAME>

Address Info,  
Honolulu, HI 96819

**Hawaii Information Consortium, LLC.**

220 South King St.  
Suite 2190  
Honolulu, HI 96813

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## CHAIN OF COMMAND

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**Agency Name,**

TBD, Administrator

**HIC**

Russell Castagnaro, General Manager

Jing Xu, Director of Operations

Zheng Fang, Director of Development

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**SIGN OFF**

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I, the undersigned, have the authority to make binding decisions on behalf of my respective agency/department regarding projects in collaboration with HIC.

I also have the authority to allocate agency/department resources towards the above-described project.

I have read the above document and understand all implications thereof. Any future changes to this Statement of Work will be made through a formal request to the HIC General Manager.

By signing, I acknowledge that the project described herein has received any required legal reviews and is in compliance with current State of Hawaii statutes and administrative rules.

Date:

---

TBD  
Administrator  
AGENCY

---

Russell Castagnaro  
General Manager  
Hawaii Information Consortium, LLC.

2.02.36 (MR) The Contractor shall negotiate individual SLAs with each Portal Partner that wants a Portal Service or Portal Services. The individual SLAs shall include service requirements beyond the scope of the Master SLA (i.e., response time of Service transactions; enhancements to the service levels defined in the Master SLA, etc). It shall be the obligation of the participating Portal Partner and the Contractor to address in an individual SLA all issues particular to the Portal Partner, including but not limited to, any privacy/confidentiality issues and any statutory or regulatory issues affecting the Portal Partner's use of the Portal. Offerors should provide an example template of their SLA and procedure for modification.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

Under the current portal contract, project-specific service requirements are documented within the SOW for that project, and there is a Departmental SLA that serves as the Master SLA. Each SOW for a Portal Partner becomes, in effect, an addendum to the Master SLA.

HIC agrees to negotiate individual SLAs with each Portal Partner that wants a Portal Service or Portal Services. Please refer to our response to RFP Section 2.02.35 for the sample of portal service specific SOW with the partner.

2.02.37 (MR) The Contractor shall initiate a Statement of Work for each Portal Service for submission and approval by the AHC. In addition to the Statement of Work, the Contractor shall abide by the terms and conditions defined in SLAs issued on behalf of either the State or Portal Partners. As each Statement of Work is completed, the new Portal Service will be added to the SLAs and any specific conditions noted, including the priority in the business continuity plan.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

As discussed in our response to RFP Section 2.03.35, HIC will negotiate a SLA with each Department that wishes to work with the portal and then negotiate a SOW between the specific Portal Partner and HIC to cover the details of the project and requirements from Portal Partner. Templates for the SLA and SOW can be found in our response to RFP Section 2.02.35.

2.02.38 (MR) The Contractor shall negotiate a Master Service Level Agreement with the AHC, which shall be deemed to incorporate and be subject to the Contract, the RFP and any addenda, and the successful Proposal. All Service Level Agreements are subject to the prior approval of the Contract Administrator and no work shall be done under any Service Level Agreement without such prior approval. To the extent required by law, the implementation of the Portal by any Portal Partner and of any Service Level Agreement (SLA) shall be subject to the review and prior approval of the Contract Administrator and the AHC.

Due: Oct 31, 2007

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**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

HIC understands and accepts the need for a Master Service Level Agreement with the AHC, which shall be incorporated into the overall structure of the contract as outlined in Addendum C.

HIC will work with the Contract Administrator and AHC to ensure that all SLAs are formally approved prior to the start of any work being performed. Please see our response to RFP Section 2.02.35 for SLA and SOW templates.

*Ensure Compliance with all Statutory /Legal Requirements*

2.02.39 (M) The Contractor shall comply with all relevant County, State and Federal statutes, rules and regulations applicable to assuring privacy and confidentiality. Any special rules must be included in the SLA by the Portal Partners.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

2.02.40 (M) The Contractor shall not have to publicly disclose company financial records relating to operating costs and profits. However, certain financial records such as monthly income statements and balance sheets may be required to be disclosed to the AHC. Records provided to the AHC are government records subject to public disclosure pursuant to the State public records law, chapter 92F, HRS.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

2.02.41 (M) The Contractor shall disclose all SLAs, Statements of Work, and Compensation Agreements to the AHC.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

2.02.42 (M) The Contractor shall allow the License and the Software (see 2.06.2) to be used by the Portal Partners and Government Agencies that are covered by SLAs with the Contractor.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

Due: Oct 31, 2007

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- 2.02.43 (M) The Contractor shall deposit on a quarterly basis, the most recent version of all Portal applicable source code and documentation in escrow or in a secure safe deposit lock box with a Hawaii-based neutral third party (the "Escrow Agent") to be mutually agreed upon by the Contractor and the AHC. Over the term of the contract, the Contractor will have the authority to remove superseded source code and documentation. The source code and documentation shall be delivered to the AHC by the Escrow Agent in the event the Contractor: (i) is declared insolvent through bankruptcy proceedings, (ii) is unable to perform its obligations to the Portal Partners under the Contract, (iii) and the AHC and the Contractor agree to discontinue the Contract, or (iv) as otherwise provided in its agreement with the Escrow Agent.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

- 2.02.44 (M) The Contractor shall provide the AHC with an executed copy of the software escrow agreement between the Contractor and the Escrow Agent. The Contractor will notify the AHC in writing of any amendments to such agreements, any change in Escrow Agent, or of any replacement or successor escrow arrangements. The Escrow Agent will provide written notification to the Contract Administrator, at least semiannually, detailing all account activity during the previous period.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

- 2.02.45 (M) The Contractor shall not copyright or obtain ownership of Portal trademarks, trade names, logos and other identifiers, Internet uniform resource locators, Internet addresses or e-mail addresses obtained or developed pursuant to this Contract. All Portal trademarks, trade names, logos and other identifiers, Internet uniform resource locators, Internet addresses or e-mail addresses shall be the property of the State and transferable to the Portal Partners at the end of the Contract.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

- 2.02.46 (M) The Contractor shall not have sole right to develop web Services for Government Agencies. Nothing in this RFP shall be deemed to require any Government Agency to enter into a SLA or Statement of Work with the Contractor and nothing in this RFP shall be deemed to limit access to Public Information to access via the Portal. Information contained in this RFP, including but not limited to in this section regarding possible Services that could be developed and offered through the Portal, are by way of example only and shall not be deemed as a representation by the State that any particular application or Service will be offered through the Portal. The AHC will strongly encourage



Due: Oct 31, 2007

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*all Government Agencies to participate in the use of the Contractor's services.*

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

*Ensure Compliance with ICSD Standards and Policies*

2.02.47 (M) All services shall be performed in accordance with ICSD standards and policies. These standards and policies can be found at:  
[http://www4.hawaii.gov/dags/icsd/ppmo/StdWeb\\_Pages/Stdload.htm](http://www4.hawaii.gov/dags/icsd/ppmo/StdWeb_Pages/Stdload.htm). Contractor shall work with ICSD on developing any additional standards that the Contractor believes are appropriate to successfully run the Portal. The Contractor shall document all systems analysis and programming activities. Copies of all such work shall be available for inspection by the AHC before such programs are implemented.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

*Expedite Portal Related Services*

2.02.48 (MR) Where a Portal Partner needs a Portal Service worked on immediately or completed in a time-frame that the Contractor's staff cannot meet due to workload, the Contractor may subcontract work. The Contractor shall be paid on an hourly rate for such services as discussed in Section 6.02.1. This is intended for work on the Portal only and cannot be used for Portal Services required by Portal Partners. All such time and material work must be approved by the AHC.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

As the current Portal Manager, HIC understands well the State's need and agency demand for additional application development and Web services that the portal staff can not meet due to workloads or that do not fit the transaction based funding model. Examples of these types of projects could include needs analysis research, user testing and research, database development, graphics/Web site design, Web site maintenance and development of Web applications such as database searches, dynamic Web sites and other non-transaction based services. We are prepared to offer and expand the availability of these services under a time and materials (T&M) funding model.

The terms of the RFP allow a great degree of flexibility for HIC to meet the needs of state agencies and to function as an effective resource for Web site and Web application development expertise for the State. The ability to perform time and materials work will streamline and expedite the development process for agencies, since they will not have to go

through an RFP process for time and materials services available through HIC.

HIC has effectively completed many contracts for Web sites and application development during our tenure as Portal Manager. A sampling of our completed Time and Materials projects includes:

- Hawaii Electronic Death Record System (EDRS)
- PVL Surety submittals
- Commercial Marine Fishing Licensing System
- Real Estate Continuing Education
- Insurance Rate e-Filings

We look forward to expanding this list of services if we are awarded the Portal Manager contract.

### **Project Management Process for Time and Materials Projects**

HIC has proven project management processes that will be applied to time and materials work to ensure that we meet our timelines within the proposed SOW budget. Through our experience in providing time and materials contracted services to the State, we have developed and refined a project management process that works well for this funding model and in this environment. Time and materials funded projects will follow the general project management process already outlined; however these projects may differ in some ways due to the variation in funding model. An overview of the Time & Materials project management process is provided below.

HIC will assign a project manager to each project, under the oversight of the Director of Operations. As needed, technical development and design resources will also be assigned to the project. The project manager assigned to these projects will be experienced in time and materials project management and trained in the HIC project management process.

The HIC project manager will work with the partner agency to determine the goals, requirements, and scope of services being requested and will discuss available options and methods for meeting the agency's needs, keeping budgetary constraints in mind. HIC will prepare a Statement of Work, summarizing the project and the scope of services to be provided, the responsibilities of HIC and the agency, the estimated hours and cost of the project, as well as approximate start and end dates. Once both parties have approved the Statement of Work, HIC will add the project to the schedule and start working on the next phase of the project (e.g., detailed specifications or Web site architecture).

### **Project Phases:**

Project Definition Phase: HIC and the partner agency develop specific requirements and scope of work for the project. HIC provides a Statement of Work including a cost estimate based upon HIC's understanding of the project scope prior to development of the system specifications. This phase ends with approval by both parties of the Statement of Work.

System Specifications/Architecture Phase: For application development projects, HIC will work with the partner to develop detailed system specifications, including feature requirements, administrative functions, screen-by-screen inputs and system logic. For Web

site design projects, HIC will work with the agency to develop a detailed site architecture that provides a framework and organizational structure for all of the content that will be included in the Web site. The system specifications document will include a revised project timeline and cost estimate. This phase ends with Agency approval of the specification or architecture document.

Design Phase: HIC's design team will develop necessary graphics and prepare the user interface or design template. For Web applications, the deliverable will be a complete HTML user interface prototype that the agency can click through to view all text and input fields, and get a sense of the application flow. For Web design projects, the deliverable will be a design template to show the graphics, layout and look and feel that will be used for the site. This phase ends with agency approval of the prototype or design template.

Development Phase: HIC will develop the application or Web site according to the approved specifications and designs. The HIC project manager will provide status updates to the agency and will coordinate communications and change requests.

Testing Phase: HIC and the partner will test the application or Web site thoroughly following established testing procedures. For Web applications, HIC will work with the partner to create a Test Plan for review prior to beginning testing. Testing will include technical functionality, security, accessibility and standards compliance, code review, and quality assurance. The agency will also be provided access to the development site in order to conduct acceptance testing. Bug reports and change requests will be coordinated by the HIC project manager via issue tracking software (Mantis). This phase ends with acceptance by the agency and authorization to deploy the application or Web site.

Deployment Phase: Upon approval, HIC will deploy the application or Web site. The HIC project manager will continue to coordinate communications, track bug reports and change requests and monitor the ongoing application security scanning and performance monitoring. Documentation typically completed for a time and materials project will include:

- Statement of Work (including cost quote and approximate start and completion dates)
- System specifications and/or Web site architecture
- Agency approval of specifications
- Agency approval of site design template (if applicable)
- Agency approval of application user interface/prototype (if applicable)
- System Test Plan (if applicable)
- Agency final approval of system/site

Marketing: For time and materials funded projects, marketing services are available if desired by the agency. If the agency opts for marketing services, they will be described in the Statement of Work, which will include a cost estimate for the marketing services.

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*Implement a Timely Start-Up Strategy*

2.02.49 (MR) *The Contractor shall establish an office in Honolulu, with at least one (1) full time project manager, no later than four (4) weeks after award of Contract. A clear statement of the Offeror's willingness to comply with this requirement is also required in its proposal.*

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

HIC has already established an office at 220 S King St, Suite 2190, Honolulu, HI. HIC proposes to continue to utilize this office which is staffed with a full time project manager (HIC General Manager) as well as 11 other HIC staff members fully dedicated to providing eGovernment services to the State of Hawaii.

2.02.50 (MR) *The Offeror shall provide in its proposal a project plan to migrate to the Contract showing all phases for the migration to the Contract. This plan cannot exceed the one (1) year transition period from the old to the Contract. This project plan shall identify tasks, responsible parties, milestones, and activity durations. It shall also indicate the approximate length of time required after the Contract award date, before Portal Services could be supplied via the Portal. The Contractor shall maintain this plan during the transition to the Contract and provide copies to the AHC at scheduled meetings. As part of this project plan, proposals must describe an acceptance-testing plan and procedure to be used for the cutover of Portal Services, prior to the release of the production systems.*

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

Because HIC is the current Portal Manager, there will be no transition required. We will be able to immediately begin deploying new services under the contract. Thus, we do not describe our migration plan, testing procedures and documentation or include a timeline and other requested elements of a transition project plan. HIC will be able to operate with 100% of the current services supported beginning day one of the new contract. As mentioned in previous responses, HIC is in the process of upgrading its systems to provide full failover of services as part of our Business Continuity Plan and commitment to providing the best service to Hawaii. This includes failover for all production systems. Alternate web servers, database servers and firewalls will be procured and placed into production over the next year if we are awarded this contract.

2.02.51 (MR) *The Offeror shall provide in their proposals specific plans to adjust for unexpected work or resource loads in the start-up including but not limited to the provision of an adequate number and proficiency of staff.*

**HIC RESPONSE:**

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Hawaii Information Consortium will comply with this requirement.

Because HIC is the current Portal Manager and has an existing team on the ground in Honolulu running the current portal, there will be no extra resource load as a result of winning the contract. Under the self-funding business model, HIC will continue to work with the State to adjust portal resource levels that are consistent based upon a number of factors, including scope of work, time and material projects and overall portal revenue.

HIC also has access to NIC's professional services division, which consists of management and technical resources that perform on a time and materials-basis across NIC's state partnerships. HIC will work with the State to ensure that its staffing level meets the needs for portal operations through the transaction-based model and has additional resources available to perform work that comes through the time and materials process.

*Provide Management and Administration Services*

2.02.52 (MR) *The Contractor shall provide management and administration services to ensure that the Portal operates 24 hours per day every day of the year. Administrative services include the planning, design, marketing, and business management activities that would be carried out by the Contractor to successfully operate and grow the Portal. It also involves managing and maintaining a successful self-supporting Portal. Proposals must describe how management and administrative services will be provided.*

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

HIC offers the following services on a daily basis as the Portal Manager. It is our goal to ensure the State's standards, objectives and requirements are exceeded and that the State of Hawaii can continue its excellence in eGovernment.

**Web Site and Application Development**

HIC has a team of dedicated and talented eGovernment Web application developers. Rapid, effective development and deployment is critical to the partnership's operations and successful implementation of the self-supported model. Resource and cost overruns are not covered by taxpayer dollars, and as the private sector partner, HIC earns nothing until applications are approved by Portal Partners, launched into the production environment, and are used by businesses and citizens. This provides fertile ground for a partnership whose highest priority is being responsive to agency needs while exceeding citizens' expectations. During our tenure as the Portal Manager, HIC has delivered more than 50 applications for multiple agencies. If selected, we will continue to introduce quality applications that have been proven in other states and will be specifically customized to meet the State of Hawaii's unique operating requirements.

**Web Site and Application Maintenance**

A portion of the HIC technical team's effort is devoted to ongoing maintenance of the State's

Web applications. This includes modifications to existing services by agency request or, when necessitated, by changes in back-end systems; legislative changes; application upgrades to improve performance; enhancements to the upper-level portal pages; and updates to the overall Web portal. HIC's dedicated development team ensures that applications are maintained and enhanced on a timely basis and in a manner consistent with the State's expectations.

### **Web Site and Application Hosting**

HIC has invested in an infrastructure that provides maximum up-time for eHawaii.gov eGovernment services. Dedicated servers host the eHawaii.gov portal and Web applications. The Web applications interface with back-end systems (including oracle, mysql, Web services etc.). A secure socket layer server (SSL) is used to encrypt private information, such as customer credit card transactions. HIC also leverages excellent Internet bandwidth between HIC and the Internet (2 Mbps Ethernet) and between HIC and the State (500 Kbps). This connectivity is reviewed on a quarterly basis and is upgraded as the need arises.

HIC will provide hosting features such as:

- 24x7x365 security, including 3rd party monitoring and certification
- Redundant Internet connectivity
- Redundant firewalls
- Three-tier Web, application and database servers
- High availability services such as load balancing and fail-over solutions
- Development environment that mimics the production solution
- 24x7 environmental and physical monitoring including performance data
- Comprehensive back-up and recovery and disaster recovery solutions

### **Marketing**

HIC uses a variety of marketing strategies to drive adoption of State services. Many marketing efforts have been geared to business users, who realize significant savings in time and money by conducting government business via the Web. Marketing team members deliver the eHawaii.gov message to businesses through trade shows, direct mailings, professional/business associations and trade publication advertising. In addition, the marketing team works with partners to brand services and develop promotional materials and information to help agencies promote their own Web services. To increase awareness of portal services to the general public, the marketing team has also worked with partners to develop public relations strategies, media outreach programs, and direct mail campaigns.

HIC's corporate parent also supports eHawaii.gov's marketing initiatives by developing local and national media outreach programs to support portal services. In addition, NIC has featured Hawaii's eGovernment services and interviews with State leaders in numerous trade publications during the last eight years.

### **Customer Service**

An effective Help Desk is vital to the operation of the Hawaii State portal. When a customer encounters a question or problem using a service or Web site, assistance is only a phone call,

live chat or e-mail response away. HIC is the front line support for the State portal – as such, HIC’s customer service representatives are well versed in eHawaii.gov online services, know how to direct people to the correct partner and are able to assist customers knowledgeably and quickly.

HIC adapted live chat technology for use on the portal to interact with users of its services. If selected, HIC will continue to bring cutting-edge customer service to the residents and businesses of Hawaii.

#### **Payment Portal and Account Management**

Because the portal is transaction-based, some services involve the collection of statutory and/or other fees from users. Statutory fees collected through the portal are remitted to the agency on a regularly scheduled basis along with a report detailing transaction activity.

HIC currently maintains more than 350 subscription accounts on behalf of the State; there are over 1450 unique logins associated with these accounts. On a monthly basis HIC bills each customer for any services used, and HIC assumes the burden of collection. Statutory fees are remitted to the agency as scheduled, regardless of whether HIC has collected from the customer. In the first three quarters of 2007 alone, HIC processed more than 300,000 transactions and collected more than \$230 million in statutory fees on behalf of the State.

#### **Portal Development and Maintenance**

As the Portal Manager, HIC proposes to continue to update, maintain and periodically redesign the high-level State Web portal, [www.Hawaii.gov](http://www.Hawaii.gov) and [www.eHawaii.gov](http://www.eHawaii.gov), to constantly promote the State and its services in the most usable and accessible manner. HIC also maintains the Google search engine, folksonomy-based search engine services for visitors to the State portal and regularly adjusts the system to provide the most accurate and relevant search results.

As a partner with the State since 1999, HIC has a proven track record of helping the State of Hawaii deliver more than 50 specific eGovernment services that have transformed “in line” processes to “online” services and extended the hours of government to 24x7x365. Our proposal to the State promises that we will continue to manage and market the award-winning solutions that constitute the eHawaii.gov Web portal. In addition, we are committed to extending our record of success in developing innovative new services that serve the public, government employees and State and local agencies in a more efficient and cost-effective manner.

*Provide Financial, Records, Auditing, and Reporting Information Financial*

2.02.53

*(M) The Contractor shall recover, deliver, and disburse statutory fees collected on behalf of the Portal Partners as agreed by the Contractor and Portal Partner and approved by the AHC. Subscribers will be required to execute a contract for services and can be charged an annual fee for the convenience of monthly billing. The Contractor will have an initial opportunity to collect State statutory fees from users before paying it to the State. The Contractor guarantees the collection of such statutory fees to the State.*

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

2.02.54 (M) The Contractor shall establish one or more accounts in Hawaii financial institutions, which are federally insured for deposit of revenue from Portal operations and shall furnish the AHC with the names of the institutions, the account numbers, and the names of those persons having signatory authority.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement. HIC already has the appropriate accounts established as the current portal provider.

2.02.55 (M) The Offeror shall provide via the proposal a 5-year pro-forma income and cash flow statement based on experience with similar projects of the same scope and magnitude. This pro-forma should include sources and amounts of capital infusion, revenues and expenses that support the Offeror's commitment to the Portal.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

HIC has provided a 5-year pro-forma statement that demonstrates our ongoing commitment to Hawaii. This statement is built from our experience working as the current Portal Manager and our company's experience delivering similar services for 19 other states.

During the first three years of the Hawaii portal, HIC invested significantly more in portal services than we generated in transaction revenues on both a yearly and cumulative basis. We continue to recoup our initial investment on a cumulative basis. On a yearly basis, we first achieved positive net income in 2003. Our overall goal for the next five years is to work with the AHC to increase total revenues year over year as well as and total investment in the Hawaii.gov operation, while generating an appropriate return or margin. We look forward to working with AHC to increase gross margins to a level that will allow the portal to continue its growth of eGovernment and receive a margin reflective of that investment and value.

HIC's total revenues and cost of revenues are reported to AHC each month in the GM report. Total revenues are comprised of convenience fees, monthly account fees and processing fees that cover financial processing costs for credits cards and ACHs. Operating expenses, including capital infusions, and income are also reviewed by AHC each month to ensure that HIC has ample resources and investments to achieve its objectives.



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	2008	2009	2010	2010	2012
<b>Total Revenues</b>	3,028,793	3,331,672	3,664,839	4,031,323	4,434,456
<b>Cost of Revenues</b>	-845,048	-929,552	-1,022,507	-1,124,758	-1,237,234
<b>Gross Margin</b>	2,183,745	2,402,120	2,642,332	2,906,565	3,197,221
<b>Operating Expenses</b>	-2,031,575	-2,234,732	-2,458,205	-2,704,026	-2,974,428
<b>Income (Loss) from operations</b>	152,171	167,388	184,127	202,539	222,793

2.02.56 (M) The Contractor shall submit a budget plan for the operation of the Portal within 30 days of the commencement of this contract.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement. Under the current contract HIC has provided an annual budget plan for the operation of the portal and will provide one within 30 days if awarded this contract.

2.02.57 (MR) The Contractor shall provide free services at no cost to Portal users. Free services will be funded from the Contractor's portion of the fee-based services. The development, operation and maintenance of free services shall be handled with the same professionalism and level of support as fee-based services. Prioritization of tasks associated with free services will be subject to the approval of the AHC. For more information on free services, see Section 5, Business/Management/Cost Model.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

One of the core tenets of a successful self-supported model is that applications and services which cannot fund the portal should be subsidized by the model. HIC evaluates applications with an enterprise perspective in mind, instead of being based solely upon return-on-investment (ROI) of that specific service. HIC considers the overall value the application delivers to constituents, the government partner and the portal. In many instances, this will mean that the portal will develop services without charging either the agency or citizen end users. While these so-called free services will not grow "bottom line" monetary ROI, they fulfill the State's mission of providing in-demand services and bring new users to the portal, which fosters return visits and helps to drive overall adoption of eGovernment services. Creating services at no cost to the State creates a win-win-win scenario in which constituents, State government and the portal itself will benefit.

HIC has developed 18 free public applications, which are listed below. For these applications, the cost of development is borne entirely through the self-supporting model.

HIC builds the services without charging either the agency or the end users. These services increase traffic to the portal and enhance the adoption of existing fee-based applications. State partners also benefit when customers can locate the information they need quickly, without the need to phone or e-mail multiple agencies. Public safety can also be promoted through services such as the sex offender search to assist families in locating registered sex offenders throughout the community. In an effort to continue serving our partners with the same professionalism and level of support they have come to expect, a project manager has been assigned with the core responsibility of managing these free service applications.

- Business and License Complaints History Search
- Business Name Search
- Calendar Meeting Announcements
- Find a PVL Licensee
- Find Sex Offenders
- Governor's Office Online Schedule Planner
- Insurance Agent CE Status
- Insurance CE Providers and Courses Search
- Insurance Information Submittal
- Insurance Licensee Search
- Int. Airport Flight Info - Honolulu
- Jury pool Information
- Lt. Governor's Office Online Schedule Planner
- Tax License Search
- Track Your Tax Refund Status
- Unclaimed Property Search
- Officer Name Search
- Unemployment Insurance Wage Reporting

HIC also maintains a free-of-charge secure data interface which state agencies leverage to exchange data with non-government organizations, vendors and other jurisdictions. There are 16 data interfaces currently that involve the following agencies:

- The State Judiciary
- City and County of Honolulu Department of Technology
- Honolulu Police Department
- Hawaii Criminal Justice Data Center
- First, Second, Third and Fourth Judiciary Districts
- Hawaii Public Safety
- Hawaii Employees Retirement System

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- Budget and Finance
- Governor's Office
- Lt Governor's Office

2.02.58 (MR) The Offeror shall document any suggested cost items in the proposals for consideration to become the State's responsibility.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

There are no aspects of this proposal that require expenditures by the State of Hawaii. Should some requirements (i.e. legislative requirements, policy changes, etc.) in the future require a significant investment that would negatively impact HIC's ability to support the portal, the General Manager and Access Hawaii Committee would negotiate adjustments to fees, or any cost sharing between the State and HIC. Depending on the final solution selected by AHC and the state agencies, one exception could be the content management system. Should the AHC and ICSD determine that they would like the Portal Manager to host an Enterprise (state wide) Content Management System (CMS), instead of a CMS solution that simply manages portal content and approved links, this may require some cost sharing between HIC and the State to cover the cost of licensing, hardware and associated staff required to provide state wide service.

HIC's sister portal affiliates in other states have implemented enterprise content management using a number of funding models – some states have covered CMS under the transaction-based model, while others have elected to pay appropriated dollars for certain or all aspects of CMS. The final funding model is dependent upon a variety of factors, including complexity of the solution, other state priorities to be covered by transactions, number of participating agencies and the breakdown of scope between the State and the Portal Partner. Other examples of future state requirements that that could require some funding from the state include: Identity management, Public Key Infrastructure and Authentication Services and state wide e-mail services.

2.02.59 (MR) The Contractor shall recover statutory fees on behalf of the Portal Partners and pass these through to the respective Portal Partner. The Portal Partners and the AHC shall approve all funds handling procedures. Unless stated otherwise in a SLA, all moneys collected on behalf of a Portal Partner shall be delivered by the Contractor to the Portal Partner within one (1) week. If Electronic Fund Transfer (EFT) is available, the Contractor shall deposit all moneys collected on behalf of a Portal Partner into a designated bank account within twenty-four (24) hours following the effective receipt of those moneys by the Contractor. Deposits made via EFT must use the automated clearinghouse (ACH) credit method. The ACH file format must be approved and tested by the Portal Partner before it is implemented. The Contractor must send the specific Portal Partner a detailed transaction report along with a detailed revenue report for financial reconciliation. The

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*Contractor will keep, maintain and be a custodian of all Portal financial and operational records. Proposals must describe the Offeror's procedures for billing, collections, on-line credit card acceptance, electronic check acceptance, and the issuance of payments and refunds. The Offeror also must describe in their proposals all other fiscal activities necessary to operate a financially sound Portal.*

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

HIC already complies with this requirement through the Federal ACH network. Currently all partners, unless otherwise specified in an SLA, SOW or SOW addendum are paid on the third business day after the last day of the pay period (identified below) by paper check or EFT depending on the partner's preference and capability. Disbursements are accompanied by the agreed upon fiscal report(s) for the payment period.

PAYMENT PERIODS
1st to the 7th
8th to the 14 <sup>th</sup>
15th to the 21 <sup>st</sup>
22nd to the 28 <sup>th</sup>
29th to month end

**Payment Processing Experience**

Currently, NIC provides electronic payment processing for 20 State portals. Many of these States have been processing payments with NIC for more than a decade. In 2006, NIC State portals processed more than \$1.5 billion dollars in payments and are on pace for \$4 billion in payments in 2007. As the Hawaii Portal Manager, HIC has processed over \$230 million dollars for the State this year from Jan 1, 2007 to September 31, 2007. This experience has allowed HIC to develop a system of operational best practices that encompass the full lifecycle of payments, from origination to disbursement. These practices allow HIC to deliver payment solutions that function correctly and according to standards, integrating efficiently with State, as well as industry standard accounting and audit processes.

**Payment Methods**

HIC supports a number of different payment methods. The primary payment types utilized for eGovernment transactions are Credit Card, ACH Debit (also sometimes referred to as eCheck), and customer invoicing. Not all payment methods are appropriate for all types of transactions. HIC works with Portal Partners to ensure that the proper payment methods are offered for each service.

**Credit Card Processing**

Credit cards are well suited for Internet payments because they allow the merchant to obtain a real-time authorization, which validates that the card is in good standing and has the adequate funds available. After service is delivered for a transaction, the transaction is placed into a settlement batch for final processing. This batch is then sent to the processing network for

settlement. Once the batch is settled, funds from the transaction are sent directly to the merchant.

Credit cards also provide a number of fraud prevention features that HIC's payment solution fully supports. This includes address verification (AVS), where the user's address information is validated against the billing address of the card holder. HIC is also implementing support for the Card Security Code (CSC), which is a three-digit number, printed on the actual credit card that helps ensure that the card holder has physical access to the credit card. The credit card industry is constantly working on new methods to make online credit card transactions safer. Accordingly, HIC will work to implement new fraud prevention technologies as they become available.

### **ACH Processing**

The ACH network provides a quick and effective way of moving money from one bank account to another. The customer provides their bank routing and account number, and this information is placed into an ACH file for processing. These files are processed nightly and the funds are typically deposited the following day. Processing charges are a fixed amount per transaction, unlike credit cards, which charge a percentage per transaction for processing payments. This makes ACH debits a desirable method for processing large payments, as illustrated by the numbers of existing eHawaii.gov customers who pay State Tax payments, Unemployment Insurance, Property Tax and Renewal fee Payments with this method.

Unlike credit cards, there are limited methods to perform a real time authorization check to ensure that a customer's bank account is in good standing and has sufficient funds. On the contrary, the merchant often does not know whether the account number provided actually exists until after the merchant receives the money. This can lead to a high return rate, which can present operational challenges. There are a number of third-party check validation services available, such as NIC's partner ECHO, that assist in the validation of check payments.

HIC has established banking services with a local Hawaiian bank, Central Pacific Bank, in order to process payments and disburse collected funds as quickly as possible.

Because ACH transactions have limited facility for real time authorization, there will always be returned transactions. The most common cause for ACH returns is typographical errors. HIC, in accordance with NACHA guidelines, requires double entry of routing and account numbers to reduce this risk. The next most common cause is ACH debit locks on corporate accounts. Debit locks are put in place as security features by some banks at their customer's request. HIC is working with its partner, ECHO, on approaches to minimize these returns. Finally, some customers simply forget their payment and dispute the debit. All told, the ACH return rate that HIC has realized over the last seven years is less than 2%.

In most cases, by mutual agreement with each Portal Partner, we deduct the ACH return amount for a given payment period from the paid transactions for the payment period before disbursing funds to the Portal Partner. In some cases, the Portal Partner has other restrictions and the funds are handled according to their requirements.

### **Monthly Accounts/Invoice Processing**

The third major payment method is the most traditional in its approach of billing customers

for their online service usage on a monthly basis. This payment method is best suited for high volume, low transaction amount business-to-government services such as, driver records, criminal histories, business filings and annual renewals. For these services, it is inefficient for a customer to enter payment information for each transaction. Additionally, processing fees associated with processing each transaction individually may be prohibitive. Therefore, the customer establishes an account through a monthly account process and receives an invoice for their total online services usage at the end of each month. Typically the customer then pays by an automatic debit via credit card or a bank account. Customers sometimes have the option to remit payment by paper check. In this case, credit card payments, ACH Debit or paper checks received are processed for the entire invoice amount at the end of each month.

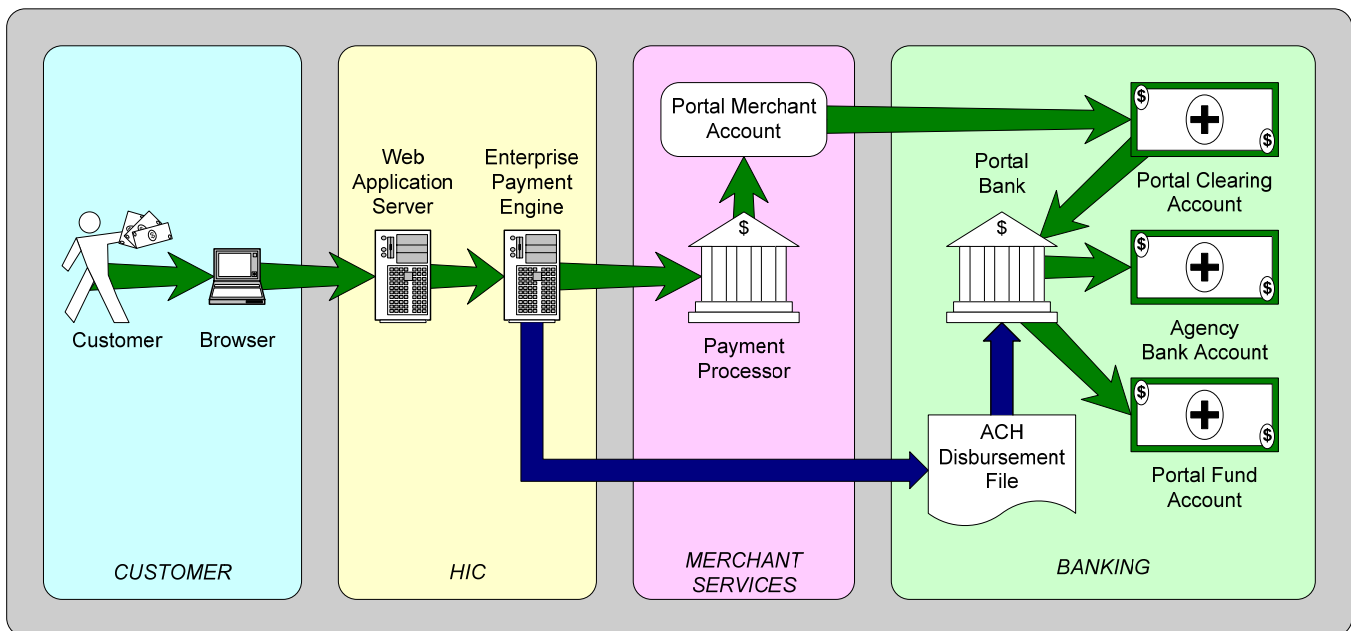
### Flow of Funds Process

In working with 20 State government portals, NIC has seen a wide variety of requirements for how payments are processed and how funds from those transactions are routed to various government and/or portal bank accounts. In every case, NIC has been able to implement a process that complied with the preferences and requirements of our State partners. HIC has leveraged this expertise in enterprise payment processing to process over \$230 million dollars for its Portal Partners in the first three quarters of 2007.

### Portal Merchant Account

HIC maintains a merchant account for processing all payments. This account is used as a clearing account. Once funds are cleared and not returned due to inaccurate account information, the funds are distributed to individual government accounts using a secondary disbursement process. This model is presented in *Figure 2.02.59-1*.

FIGURE 2.02.59-1 Funds-Flow Process



If the authorization succeeds, the Web application processes the transaction, and then notifies the portal's enterprise Payment Engine to capture the appropriate amount of funds. Once again, the Payment Engine interacts with the payment processor to initiate capture of the payment, utilizing either in a real-time or batch process.

The processor then picks up the settlement batches and interacts with the necessary financial networks to debit the correct amount from each customer account. When these batches settle, funds are deposited into the portal clearing account.

For Portal Partners who opt to receive ACH disbursement of monies collected, HIC initiates a secondary disbursement process to move funds to the correct agency accounts on the agreed to timeframe with that Portal Partner. Most Portal Partners require paper checks, which are issued on the third business day after the payment period agreed to.

### **Portal Fees**

Portal fees fall into two categories, convenience and processing fees. Together these comprise the administrative fees associated with an application. HIC and the Portal Partner mutually agree to administrative fees.

- Convenience fees are the fees collected by the portal manager to support the portal.
- Processing fees typically cover merchant processing, fulfillment and related costs.

HIC is extremely flexible in the way it can collect fees. Almost every possible approach is currently used and is determined by the Portal Partner. Examples include:

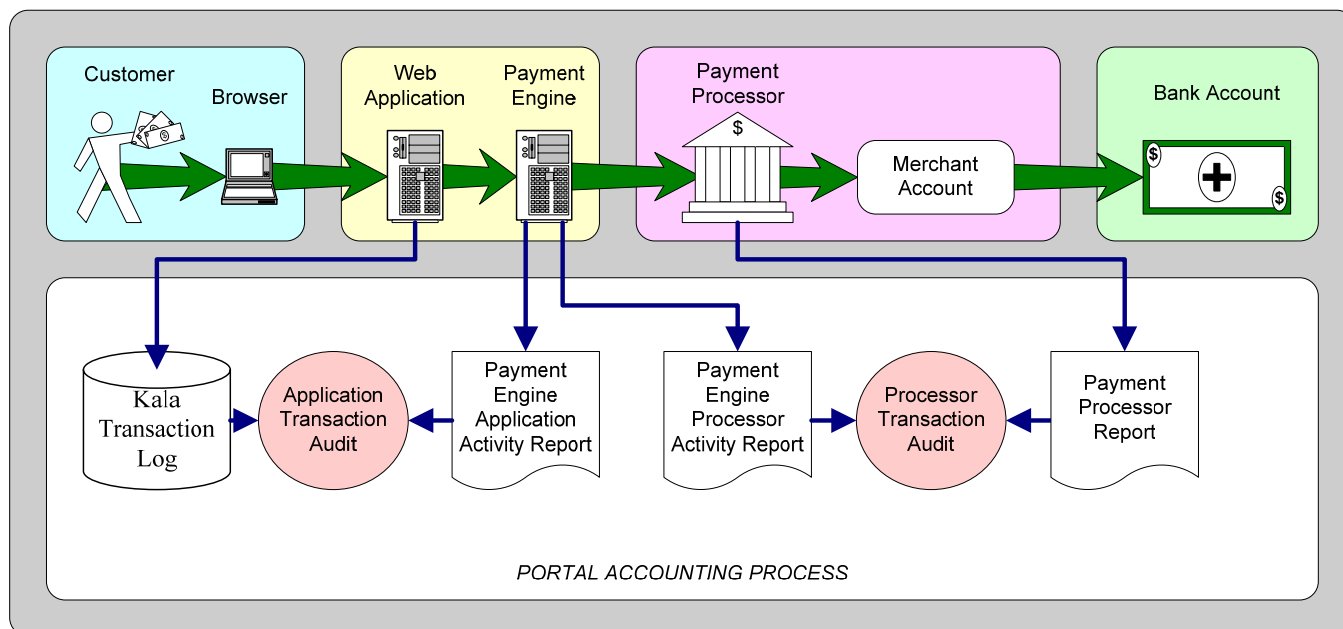
- Fees added on to each transaction, full agency fee disbursed to Portal Partner (Electronic Tax Filings, eCrim, Big Island Camping)
- No fees added to transaction, fees deducted from Portal Partner fee amount (HBE BREG forms, PVL Renewals)
- No fees added to transaction, fees invoiced to agency (Kauai Property Tax and Sewer payments)
- Part of the fees are added on to the transaction and kept by HIC. Part of the fees are invoiced to the Portal Partner. The full statutory fee is still disbursed to Portal Partner. (HUI express)

### **Audit Process**

It's not enough for a payment solution to just function correctly. The State must be able to prove that the payment process is working correctly through various audit mechanisms. To ensure that payments are processed correctly, audit points are identified throughout the payment lifecycle. The portal Payment Engine serves as the authoritative data source for all payment transactions. Accordingly, payment origination mechanisms such as Web applications are audited against the Payment Engine record of transactions. Then the settlement and disbursement of funds is audited against the Payment Engine data. This ensures that the payment has been accounted for throughout each step of its processing.

Two audits are performed internally by HIC to ensure data integrity. These are illustrated in *Figure 2.02.59-2*.

FIGURE 2.02.59-2 Portal Audit Processes



HIC Web applications, as a rule, use a single payment processing application (Kala) which maintains its own record of each transaction it processes. (Note: Three older, point-to-point transactional applications do not use Kala. These applications are scheduled for updates in 2008.) By auditing the transaction details recorded by the Kala with the payment records in the Payment Engine, HIC validates that the Web application and Payment Engine are in complete agreement on what transactions were processed for a given service over a specific time frame.

The second audit point is to compare the payment processors transaction record against the data recorded in the Payment Engine. Communication problems and processor maintenance can sometimes interrupt transaction processing and prevent the Payment Engine from receiving a successful payment confirmation from the processor even though the payment succeeded at the processor level. To prevent this loss of integrity, an audit is performed on the amount and status of each payment originated through a particular payment processor.

The remaining audit points involve reconciling agency and State records against the transaction records stored in Kala. The first of these agency-to-portal audit points involves tying the delivery of service to the actual payment from the customer. Most payments deliver service by updating agency backend systems to reflect the receipt of payment. For example, a Web application could update a mainframe used to track tax payments to record the payment as received. Beyond just recording payments, Web applications often trigger other business events when a payment is made, such as renewing a professional license or issuing a permit. By auditing the record of payments in the Payment Engine with the outcome in the backend system ensures that customers have received service when they paid, and that service was not delivered when a payment was not collected.

The Portal Partner using a transaction report performs the backend audit. The report is the



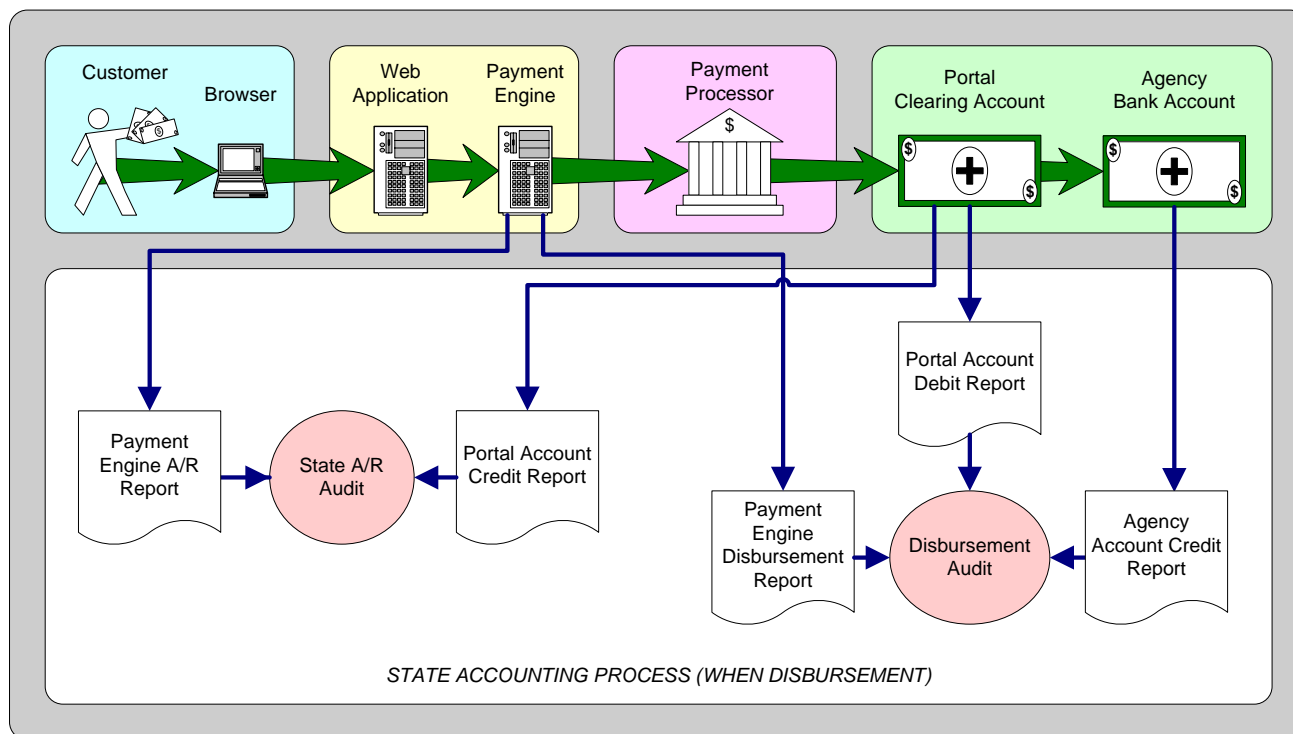
result of a collaborative effort between HIC and the Portal Partner. Very often this audit is a manual process where backend totals are compared to a summary report generated for an application by the Payment Engine. If the backend system can be programmed to generate and transfer a transaction detail report, this audit can be automated and performed at a detail level on a daily basis.

The remaining audit checks vary slightly based on how the Portal Partner is receiving funds. The ability to perform this audit in an automated fashion is dependent on the ability of the Portal Partner to receive account deposit information electronically. If this information is not available electronically, a manual audit can be performed against reports generated by Kala and/or the Payment Engine.

When utilizing a secondary disbursement process (EFT), the receipt of funds still must be audited against settlement information. But additional audit points are added to ensure the integrity of the disbursement process. These audit points are shown in *Figure 2.02.59-3*.

The final audit points validate the secondary disbursement process. There are actually two audit checks that need to be made. The first audit check is to validate that the funds that should have been disbursed, as recorded by the Payment Engine, actually were disbursed to target accounts. This check is performed by comparing deposits into each target bank accounts against the details provided in the Payment Engine's disbursement report. Lastly, the total amount debited from the portal clearing account is compared to the total amount disbursed to all target accounts. These checks verify that all funds have been transferred correctly and that no funds have leaked from the process.

FIGURE 2.02.59-3 State Accounting Process for Disbursement



### Reporting

HIC develops transaction, fiscal and other required reports according to the Portal Partner's needs. These reports are included in the specifications document for each application.

### Compliance and Certification

HIC operates PCI DSS compliant systems and processes. Compliance activities include, but are not limited to the following:

- Performing periodic self-evaluation surveys
- Undergoing quarterly perimeter security scans from an approved security firm
- Ensuring that data retention and logging comply with PCI requirements
- Ensuring that in-house applications involved in the collection of payments adhere to PCI standards
- Utilizing key management processes which provide split-knowledge and dual-control
- Rigorous application testing during application development and as part of the production release process

PCI is currently in the process of revising the DSS standards. NIC is closely monitoring standards to stay ahead of any significant changes to the compliance requirements. As draft standards become available, NIC will collaborate with Hawaii to implement and audit compliance with the new standards.

2.02.60 (MR) The Contractor shall raise and expend capital to continue the operation of the existing Portal Services and to add new Portal Services. This includes obtaining facilities, hardware, and software and all other infrastructure. There will be a one year transition from the current to new Contractor. The compensation agreements with Government Agencies are pre-existing, but may be renegotiated, by mutual agreement. A portion of the fees to be charged by the State or its agents for electronic access or filings will go to the Contractor, as agreed in the Scope of Work or Compensation Agreement and approved by the AHC or its designee. Proposals shall describe how the Offeror will fund, develop, and maintain a financial self-supporting Portal.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

Because HIC is the current Portal Manager, there will be no need for a transition if HIC is awarded the contract. If necessary, HIC will meet with all existing Portal Partners to revise existing Service Level Agreements and associated Statements of Work before April 1, 2008.

As detailed in our response to RFP Section 5.05, HIC is extremely flexible in how it funds, develops and maintains a financial self-supporting portal. HIC will continue to be as flexible as possible and work with our Portal Partners and the AHC on future approaches.

Portal fees fall into three categories, convenience and processing fees. Together these comprise the administrative fees associated with an application. HIC and the Portal Partner mutually agree to administrative fees.

- Convenience fees are the fees collected by the portal manager to support the portal.
- Monthly account fees are collected by the portal manager from high-volume portal services users.
- Processing fees typically cover merchant processing, fulfillment and related costs.

HIC is extremely flexible in the way it can collect fees. Almost every possible approach is currently used and is determined by the partner. Examples include:

- Fees added on to each transaction, full agency fee disbursed to the Portal Partner (Electronic Tax Filings, eCrim, Big Island Camping)
- No fees added to transaction, fees deducted from Portal Partner fee amount (HBE BREG forms, PVL Renewals)
- No fees added to transaction, fees invoiced to agency (Kauai Property Tax and Sewer payments)
- Part of the fees are added on to the transaction and kept by HIC and part of the fees are invoiced to the Portal Partner. The full statutory fee is still disbursed to Portal Partner (HUI express)

As an eGovernment leader, Hawaii has successfully transformed government activities into eGovernment services. At the same time, we believe that the State has only scratched the surface of what can be delivered and we are excited to offer a wide range of ambitious solutions that could deliver immediate and lasting benefits to the State and its constituents. We plan to deploy new eGovernment services with our current staff under the transaction-

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based, self-funded portal services model. We have listed several potential new applications below.

This list represents a small sampling of what HIC can provide through the State's proposed self-supporting model. We look forward to working with the State to develop these and other services that can expand Hawaii's eGovernment initiative. Continuing to grow the number of services that the portal provides has proven to be the surest way to maintain a self funded state portal.

### VALIDATE

<b>DESCRIPTION:</b>	<p>Val/Date is a service provided to businesses that is intended to prevent identity fraud. The service works by verifying the identity information provided by an individual through a simple and expedient interface that follows these steps:</p> <ul style="list-style-type: none"> <li>Step 1. The business requests that the individual provide a valid driver license or ID.</li> <li>Step 2. The business logs onto the Val/Date system</li> <li>Step 3. The business enters the individual's name, driver license number and DOB.</li> <li>Step 4. The information is compared to the information on file with the State</li> <li>Step 5. The result is returned – "Match" or "No Match"</li> </ul> <p>The optional Photo- Val/Date service provides the driver license photo of the customer in addition to the match/no match response.</p> <p>Val/Date can also be enhanced to provide additional information to help prevent identity fraud. For example, Val/Date can indicate how many times an individual has been queried through the system in a 48 hour (or other) time period. This is especially helpful in preventing a criminal from attempting to cash fraudulent checks with multiple businesses.</p>
<b>POTENTIAL CUSTOMERS:</b>	<ul style="list-style-type: none"> <li>Banks / Credit Unions</li> <li>Check Cashing Stores</li> <li>Payday Loan Stores</li> <li>Liquor Stores</li> <li>Casinos</li> <li>Any business that accepts checks</li> <li>Any business that needs to validate the identity of individuals</li> </ul>
<b>BENEFITS:</b>	<p>Val/Date:</p> <ul style="list-style-type: none"> <li>Protects citizens from identity theft</li> <li>Protects businesses from losing money due to identity theft</li> <li>Generates additional revenue for the State</li> <li>Prevents minors from using fraudulent IDs</li> <li>Ensures DPPA compliance</li> </ul>
<b>FUNDING MODEL:</b>	Transaction Based Self-Funding
<b>SAMPLE URL:</b>	<a href="https://secure.utah.gov/dlvalidate/">https://secure.utah.gov/dlvalidate/</a>

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### TEMPORARY VEHICLE REGISTRATION PERMITS

<b>DESCRIPTION:</b>	The online temporary registration permit service allows dealers to create, reissue and void temporary registration permits for recently purchased vehicles. The service also allows for real-time vehicle identification number and temporary permit search, accessible to the State Police for the purposes of public safety and law enforcement.
<b>POTENTIAL CUSTOMERS:</b>	<ul style="list-style-type: none"> <li>▪ Hawaii Auto Dealers</li> <li>▪ Hawaii Law Enforcement Community</li> <li>▪ Hawaii Rental Car Companies</li> </ul>
<b>BENEFITS:</b>	<ul style="list-style-type: none"> <li>▪ Enhanced audit capabilities for temporary tags</li> <li>▪ Improved access for public safety and law enforcement</li> <li>▪ Security for vehicle owners and dealers</li> <li>▪ Less risk of theft or loss by the dealers and constituents</li> </ul>
<b>FUNDING MODEL:</b>	Transaction Based Self-Funding
<b>SAMPLE URL:</b>	<a href="http://app.mt.gov/walkthrough/trp/index.html">http://app.mt.gov/walkthrough/trp/index.html</a>

### VEHICLE TITLE ELIEN SYSTEM

<b>DESCRIPTION:</b>	The Vehicle Title eLien System will allow vehicle lien holders, typically financial institutions, to release a lien or add a new lien by electronically reporting this change to the State and receiving confirmation back from the State that includes the status of the transaction and all necessary title information, if applicable. Transactions may include a single vehicle lien or a file with many liens.
<b>POTENTIAL CUSTOMERS:</b>	<ul style="list-style-type: none"> <li>▪ Financial Institutions</li> <li>▪ Automotive and Marine Dealerships</li> <li>▪ Other Lien Holders</li> </ul>
<b>BENEFITS:</b>	<ul style="list-style-type: none"> <li>▪ Reduced paper processing for motor vehicle agency and financial institutions;</li> <li>▪ Reduced processing time for vehicle agency and financial institutions;</li> <li>▪ Decreased loss of revenue for financial institutions;</li> <li>▪ Improved access to lien and title records for financial institutions.</li> </ul>
<b>FUNDING MODEL:</b>	To be determined
<b>SAMPLE URL:</b>	In development in Utah and Montana. No public URL exists.

### INSPECTION STATION INTERNET SERVICE

<b>DESCRIPTION:</b>	<p>In many states, vehicle registrations are dependent upon a vehicle first passing an inspection at a licensed inspection station. The vehicle owner is required to supply the inspection results to the Motor Vehicle office, which requires multiple stops to renew a vehicle. The online inspection system changes what used to be a multiple-stop hindrance to a "one-stop" easy transaction.</p> <p>The online system is open only to registered inspection station users and allows the results of inspections to be sent directly to the State through a secured Web interface.</p>
<b>POTENTIAL CUSTOMERS:</b>	<ul style="list-style-type: none"> <li>▪ Registered and certified inspection stations</li> <li>▪ Vehicle owners</li> </ul>

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<b>BENEFITS:</b>	<ul style="list-style-type: none"> <li>▪ Simple, Web-based application</li> <li>▪ Eliminates the need to carry and manage safety inspection certificate inventory</li> <li>▪ Real-time updates and announcements</li> <li>▪ Benefits to the State</li> <li>▪ Real time data capture for all safety inspections</li> <li>▪ Simple, real-time management of station and technician authorizations</li> <li>▪ Real-time data available to State for accident investigations and reports</li> <li>▪ Ability to audit the safety inspection program participants</li> <li>▪ Ability to quantify the benefits of the safety inspection program</li> </ul>
<b>FUNDING MODEL:</b>	Transaction Based Self-Funding
<b>SAMPLE URL:</b>	<a href="http://safetyinspections.utah.gov">http://safetyinspections.utah.gov</a>

### UNIFORM COMMERCIAL CODE (UCC) APPLIACTIONS

<b>DESCRIPTION:</b>	<p>As the State's sole central recording office, the Department of Land and Natural Resources (DLNR) Bureau of Conveyances' responsibility is to maintain an accurate, timely and permanent record system for title to real property and for Uniform Commercial Code (UCC) filings. The BOC examines, records, indexes, and microfilms more than bureau processes some 1200 regular system and Land Court documents and maps per business day. In addition, the BOC issues Land Court Certificates of Title, certificate copies of matters of record, and conducts UCC research requests. Hawaii is the only state that has a single statewide recording office.</p> <p>Today, all of the BOC's filings are submitted in paper form to the BOC office in Honolulu where they are manually reviewed by staff, scanned and indexed. This manual handling costs taxpayers thousands of dollars because of overtime pay to employees who must do much of the processing within a 24-hour legally mandated deadline for recording documents.</p>
<b>POTENTIAL CUSTOMERS:</b>	<ul style="list-style-type: none"> <li>▪ Financial Institutions</li> <li>▪ Real Estate businesses</li> <li>▪ National UCC Search Companies</li> </ul>
<b>BENEFITS:</b>	<ul style="list-style-type: none"> <li>▪ Electronic</li> <li>▪ Convenient access</li> <li>▪ Ease of use through</li> <li>▪ Expedited refunds</li> <li>▪ Convenient, multiple payment methods</li> </ul>
<b>FUNDING MODEL:</b>	Transaction Based and Free Services offered via Self-Funding
<b>SAMPLE URL:</b>	<ul style="list-style-type: none"> <li>▪ <a href="https://www.ark.org/sos/ucc/">https://www.ark.org/sos/ucc/</a></li> <li>▪ <a href="https://www.accessidaho.org/secure/sos/liens/search.html?SearchSitteraction=premium">https://www.accessidaho.org/secure/sos/liens/search.html?SearchSitteraction=premium</a></li> <li>▪ <a href="http://www.in.gov/ai/demoz/sos/ucc-bulk/">http://www.in.gov/ai/demoz/sos/ucc-bulk/</a></li> <li>▪ <a href="https://www.accesskansas.org/uccsearch/index.html">https://www.accesskansas.org/uccsearch/index.html</a></li> <li>▪ <a href="http://www.nol.org/demo/ucc/">http://www.nol.org/demo/ucc/</a></li> </ul>

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### STATEWIDE CAMPGROUND RESERVATIONS - ONLINE AND AGENCY COUNTER SERVICES

<b>DESCRIPTION:</b>	<p>The online campground reservation system allows for citizens and visitors to search availability reserve a specific campsite throughout the state and make payment. This system is also expandable for agency and agent use. All reservations are processed through a single front-end/back-end system and payment engine, and include a robust database administrative tool for the agency.</p> <p>The County of Hawaii already leverages HIC for campground reservations, but a statewide solution is one of the most requested applications by portal users.</p>
<b>POTENTIAL CUSTOMERS:</b>	<ul style="list-style-type: none"><li>▪ Any person(s) wishing to make a campground reservation</li><li>▪ Agency staff</li><li>▪ Agents</li></ul>
<b>BENEFITS:</b>	<ul style="list-style-type: none"><li>▪ Convenience to campers</li><li>▪ Expedited service to campers</li><li>▪ Greater efficiencies for agency and agents</li><li>▪ Cost savings to the agency and agents</li></ul>
<b>FUNDING MODEL:</b>	Transaction Based Self-Funding
<b>SAMPLE URL:</b>	<a href="https://eservices.iowa.gov/iowaparks/">https://eservices.iowa.gov/iowaparks/</a> <a href="http://www.ehawaii.gov/Hawaii_County/camping/exe/camp.cgi">http://www.ehawaii.gov/Hawaii_County/camping/exe/camp.cgi</a>

### LEGISLATIVE TRACKING SERVICES

<b>DESCRIPTION:</b>	Legislative tracking solutions help constituents follow legislative activity, track specific legislation and receive daily e-mail updates on the status of legislation.
<b>POTENTIAL CUSTOMERS:</b>	<ul style="list-style-type: none"><li>▪ Citizens</li><li>▪ Businesses</li><li>▪ Lobbyists</li><li>▪ Special interest groups</li><li>▪ Agencies</li></ul>
<b>BENEFITS:</b>	<ul style="list-style-type: none"><li>▪ Enhanced open government</li><li>▪ Convenience to users</li><li>▪ Improved educational opportunity</li><li>▪ Enhanced search technology</li></ul>
<b>FUNDING MODEL:</b>	Subscription and Free Services offered via Self-Funding
<b>SAMPLE URL:</b>	<ul style="list-style-type: none"><li>▪ Indiana Bill Watch: <a href="http://www.in.gov/apps/lisa/session/billwatch">http://www.in.gov/apps/lisa/session/billwatch</a></li><li>▪ Virginia's Citizen Bill Tracking: <a href="http://www.virginia.gov/liab/citizen.htm">http://www.virginia.gov/liab/citizen.htm</a></li><li>▪ Kentucky's Bill Watch: <a href="http://www.virginia.gov/liab/citizen.htm">http://www.virginia.gov/liab/citizen.htm</a></li></ul>

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### COURT RECORD SERVICES

<b>DESCRIPTION:</b>	With these online services, citizens can search court databases, obtain case summaries, request other official documents, and process court fines and fees.
<b>POTENTIAL CUSTOMERS:</b>	<ul style="list-style-type: none"><li>▪ Constituents requiring Court documents</li><li>▪ Constituents required to pay a court fine or fee</li></ul>
<b>BENEFITS:</b>	<ul style="list-style-type: none"><li>▪ Convenience</li><li>▪ Ensured compliance with the law</li><li>▪ Access to state-wide courts</li><li>▪ Efficiency for the State</li></ul>
<b>FUNDING MODEL:</b>	Transaction Based Self-Funding
<b>SAMPLE URL:</b>	<ul style="list-style-type: none"><li>▪ Nebraska's court record search service: <a href="http://www.nebraska.gov/justice">http://www.nebraska.gov/justice</a></li></ul>

### LIQUOR LABEL REGISTRATION AND RENEWAL

<b>DESCRIPTION:</b>	<p>The Alcoholic Beverage Label Registration service automates new liquor licensing, renewals of existing licenses and labels, and price reporting for alcoholic beverage products transported in the United States.</p> <p>Alcoholic beverage manufacturers, breweries and wineries are required to register their brands in those states that they transport alcoholic beverages, and state registration requirements vary. Currently, only three states provide the ease and efficiency of an electronic process.</p> <p>The service includes new label registration and existing label renewals. This system could also be expanded to include a suite of online services for the spirits industry that encompass electronic new liquor licensing, license renewals, and price reporting for products.</p>
<b>POTENTIAL CUSTOMERS:</b>	<ul style="list-style-type: none"><li>▪ Liquor Manufactures</li><li>▪ Liquor Distributors</li><li>▪ Liquor Suppliers</li></ul>
<b>BENEFITS:</b>	<ul style="list-style-type: none"><li>▪ Convenience</li><li>▪ Ensured compliance with regulation</li><li>▪ Expedited filing and brand approval</li><li>▪ Variety of Payment Methods</li><li>▪ Improved regulatory activities for the agency</li><li>▪ Efficient business processing for the agency</li></ul>
<b>FUNDING MODEL:</b>	Transaction Based Self-Funding
<b>SAMPLE URL:</b>	<a href="https://www.ri.gov/DBR/liquor/login.php">https://www.ri.gov/DBR/liquor/login.php</a>

*Records*

2.02.61

*(M) The Contractor shall make all Contractor documents and records pertaining to operation of the Portal available for inspection, auditing, and copying by the AHC, or other authorized representatives designated by the AHC, at any reasonable time. The Contractor's corporate records as it relates to the cost of running the Portal remain*



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*property of the corporation and are not subject to public inspections. This does not include fee compensation agreements with the Portal Partners as this shall be public information. Monthly income statements and balance sheets for the Portal will be provided to the AHC by the Contractor. To the extent an audit report disclosed any discrepancies in the Contractor's charges, billings, or financial records, and following a period for review and verification of the amount by the Contractor, the Contractor will adjust the payment as soon as reasonably possible, but not to exceed 90 days. The Contractor shall cooperate to assure that verification is completed in a timely manner. The Contractor also agrees to make other changes requested by the State, which is agreed to by the Contractor and the AHC, to comply with recommendations resulting from any audit. Any such audit will be performed by a competent and reputable Certified Public Accountant licensed in Hawaii.*

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

2.02.62 (M) The Contractor shall have an accounting system to include a numbered chart of accounts, books of original entry of all transactions, appropriate subsidiary ledgers, a general ledger, which includes to-date postings and an audit trail through financial statements. Such books may either be maintained on paper or on computer with appropriate backup.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

*Auditing*

2.02.63 (M) The Contractor must comply with all applicable State audit requirements. The Contractor shall select an independent auditor to audit, at Contractor's expense, the Contractor's books and records on an annual basis. Contractor's selection of an auditor shall be subject to the prior approval of the AHC, such approval not to be unreasonably withheld. The Contractor shall make such books and records available at the site of its local presence.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

2.02.64 (M) Audits may be conducted during regular workdays for State agencies and between the hours of 7:45 a.m. and 4:30 p.m. (Monday-Friday) during the contract period or any renewal term of the Contract and for a period of two (2) years after expiration of the Contract or any renewal period.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

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*Reporting*

2.02.65 (M) *The Contractor shall report activities to the AHC as follows:*

- a) *Within 120 days after the close of the Contractor's fiscal year, the Contractor shall submit to the State an annual financial report and audit. These reports must be certified by an independent certified public accountant (selected by the Contractor) who may be the accountant or a member of the firm of accountants who regularly audit the books and accounts of the Contractor. The submitted audit information must include, but is not limited to, the audited financial statements, auditor opinions, reports on internal control, findings and recommendations and management letters. In addition, the Contractor is subject to any further audit and review determined necessary by the State after furnishing reasonable notice to the Contractor;*
- b) *Develop and regularly update, in cooperation with the Portal Partners, a draft Portal strategic plan for presentation to the AHC on at least an annual basis;*
- c) *Report to the AHC on a periodic basis concerning potential new Portal Services and related issues. The Contractor will strive to improve access to, and the utility of the Public Information and Portal Services available through the Portal by exploring and recommending ways to;*
  - i *Expand the amount and kind of Portal Services and information available;*
  - ii *Increase the utility of the Public Information presented, the Portal Services available, and the form in which both are provided;*
  - iii *Expand the base of users who access the Portal Services and Public Information;*
  - iv *Improve public and business access to Portal Services and Public Information by implementing improvements in technology of the Contractor and Portal Partners;*
  - v *Increase the effectiveness and resources of the Portal; and*
  - vi *Redesign and maintain the State website and the agreed upon Portal pages.*
- d) *The Contractor shall measure Customer satisfaction including Web surveys and report the results to the AHC on a schedule to be agreed to by the AHC and the Contractor but no less than on a semi-annual basis; and*
- e) *The Contractor will measure and report to the AHC on growth trends and usage of the Portal, as well as hits, access, transactions and other performance measures or metrics as mutually agreed upon by the AHC and the Contractor. Working in cooperation with the AHC, the Contractor will submit the details of these performance measurements for inclusion as part of a master SLA for the Portal or for inclusion as part of the SLAs for specific Portal Services;*

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

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2.02.66 (M) The Contractor shall provide the reports of activities on a quarterly basis, or as otherwise required by SLAs. These reports shall include, but not be limited to: application inventory; future application project plans; on-going application project status; financials; transaction count statistics, web page statistics; customer satisfaction reports; incident reports; and marketing reports. On a quarterly basis, the Contractor shall also provide copies of agency SLAs, statements of work, and fee-based Service agreements.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

2.02.67 (M) The Contractor shall provide to the AHC management reports as the AHC may reasonably request. These reports shall include, but not be limited to activity/performance reports including types of transactions, transaction volumes, response time, web page hits, etc.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

2.02.68 (M) The Contractor shall provide an annual security audit report as identified in subsection 2.02.27(I)

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

2.02.69 (M) The AHC and the Contractor will jointly develop reporting requirements, reporting format, and transmittal schedule of reports. These reports shall include, but not be limited to, financial reports, progress reports and report detailing ongoing analyses of operations. Reports describing the Portal's future needs, fiscal projections and other relevant forward-looking reports must be submitted at least monthly to the AHC.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

2.02.70 (M) The Contractor must draft and submit to the Contract Administrator an annual report to the Legislature. This report must be submitted to the Legislature no later than 20 days before the commencement of each Legislative Session, which usually begins on the third Wednesday of January. The report must include, but is not limited to, a description of the activities and status of the Portal operations, a complete list of Portal Services, and the amounts charged for fee based Portal Services.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

2.02.71 (M) A detailed accounting of revenues and expenses shall be submitted quarterly to the AHC and shall include, but not be limited to, the cost of obtaining data from the custodial agency and cost of operations. The Contractor shall maintain all such records for no less than five (5) years after termination of any contract related to the Portal.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

*Perform System Monitoring and Problem Resolution*

2.02.72 (MR) The Contractor shall provide performance monitoring and problem resolution. Plans for regularly performing normal and preventive maintenance must be addressed. Maintenance shall be performed at times that will not adversely affect daily operations.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

As stated earlier, HIC has both availability monitoring and long term statistical usage monitoring. HIC is committed to providing a network and server performance measuring solution that meets all of the Web site monitoring needs of the State. Our emergency monitoring is done both locally at HIC office and also remotely at our parent company on the mainland.

HIC designs Web applications to notify technical staff upon generation of errors and/or failure. In the event that a service fails our monitoring system triggers a business continuity plan. Applications automatically notify HIC technical staff via e-mail or pager when a major error has occurred. The system first sends a page to the systems administrator. If the problem is not resolved in 15 minutes after the notice is received by the systems administrator, it is then escalated to the Director of Development and finally to the General Manager.

HIC will use the above technologies and ongoing system testing to create an environment in which HIC can monitor and measure the end-to-end performance experienced by customers using the system. The solution will provide specific management of Internet services such as those required for the State site. Specifically the proposed monitoring and measuring services will:

- Manage Internet services for Web hosting, e-mail hosting, eCommerce, and Internet access through measurements of Internet protocols such as HTTP, HTTPS, SMTP, POP3, DNS, FTP, ICMP, NNTP, RADIUS and WAP
- Provide real-time monitoring via fixed or dynamic thresholds, which use time-dependent

baselines for alarming

- Provide logfile and process monitoring and corrective actions for leading firewalls, Web, and proxy servers

In order to minimize peak downtime HIC will schedule its preventive maintenance during the lowest usage hours generally Saturday or Sunday between 1-2am (The maintenance window has historically been set using the Web statistic usage reports).

2.02.73 (MR) *The Offeror shall provide in the Proposal a description of how it will respond to system malfunctions, security breaches and diagnose and solve problems with the network, hardware or software. Proposals must describe the plan to be provided to the State, which would include identifying the team responsible to resolve problems, a description of their actions, and the approach to that resolution. The Proposals must also describe the procedures for interfacing and consulting with hardware and software vendors to identify and correct problems.*

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

HIC takes a proactive approach to managing the portal. Effective management of the software, servers and network is critical to the portal's success. Part of the day-to-day and even minute-to-minute management of the portal includes knowing when events are developing that may lead to service interruptions. Each server will have programs that constantly monitor status and escalate issues appropriately if there is a problem.

HIC monitors critical systems and network devices and gathers performance data. In addition, HIC will monitor the health of critical systems, notifying technical staff of performance issues 24 hours per day, following the Business Continuity Plan (BCP) escalation procedures. HIC has provided a brief sampling of our BCP in our response to 2.02.21. These plans outline the team responsible to resolve the problems, a description of their actions and the approach to that resolution. HIC can provide the State with actual BCPs for eHawaii.gov services at the State's request. HIC will record system health status changes and report this information to authorized individuals according to agreed processes.

HIC also designs Web applications to notify technical staff upon generation of errors and/or failure. Critical applications automatically notify HIC technical staff via e-mail and pager when a major error has occurred.

HIC has an internal outage reporting policy in the BCP, which requires staff to promptly notify appropriate Portal Partners and subscribers of a substantive service outage or problem. Upon resolution of the problem or outage, HIC notifies Portal Partners and subscribers that the problem has been resolved.

**Security Breaches**

HIC's information services' security administration function assures that necessary security activity is logged, reported, reviewed, and appropriately escalated when necessary on a regular basis, to identify and resolve incidents involving confirmed unauthorized activity as

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defined in our contract. HIC follows a strict escalation process for all incidents that are in compliance with PCI and SOX guidelines and have been approved by the State, HIC legal council and NIC's Chief Security Officer. We will continually test and monitor site operations to mitigate the risk that the State's data assets will be exposed.

HIC currently provides robust audit features to log, time stamp, report, review and appropriately escalate when necessary all necessary security activity on a regular basis. HIC will track security-related issues in the current issue tracking system (Mantis). Security events will be posted by the System Administrator or member of the management team and reported to the AHC at each AHC meeting.

HIC utilizes SysLogs as computer system management and security auditing system. All significant system events are sent from each server hosted by HIC to the Syslog database.

As previously described, HIC has implemented a Web-based application to allow events to be viewed online and a sample of its capability is shown in *Figure 2.02.73-1* below.

**FIGURE 2.02.73-1**  
Sample of Event  
Display System

device	component	eventClass	summary	firstTime	lastTime	count
senry.ehawaii.gov	PIX-session	Unknown	Inbound TCP connection denied from 211.191.65.10/2051 to 64.75.210.254/4899 flags SYN on	2007/10/05 16:16:36.000	2007/10/05 16:16:45.000	3
senry.ehawaii.gov	PIX-session	Unknown	Deny inbound UDP from 60.191.176.68/4260 to 64.75.210.254/1434 on interface outside	2007/10/05 16:03:21.000	2007/10/05 16:03:21.000	1
senry.ehawaii.gov	PIX-session	Unknown	Deny inbound UDP from 202.98.223.67/1035 to 64.75.210.254/1434 on interface outside	2007/10/05 14:57:58.000	2007/10/05 14:57:58.000	1
senry.ehawaii.gov	PIX-session	Unknown	Deny inbound icmp src outside:64.75.170.96 dst outside:64.75.210.254 (type 8, code 0)	2007/10/05 16:33:23.000	2007/10/06 13:21:40.000	11
liha.ehawaii.gov	sm-msp-queue	Unknown	I96MDFB1024460: disconnect: open("/dev/null") failed: Permission denied	2007/10/06 13:16:00.000	2007/10/06 13:16:00.000	1
senry.ehawaii.gov	PIX-session	Unknown	Deny inbound icmp src outside:4.255.205.185 dst outside:64.75.210.254 (type 8, code 0)	2007/10/06 12:53:01.000	2007/10/06 12:53:03.000	2
liha.ehawaii.gov	sm-msp-queue	Unknown	I96MDFB1023224: disconnect: open("/dev/null") failed: Permission denied	2007/10/06 12:16:00.000	2007/10/06 12:16:00.000	1
senry.ehawaii.gov	PIX-session	Unknown	Deny inbound icmp src outside:64.75.134.3 dst outside:64.75.210.254 (type 8, code 0)	2007/10/05 18:50:18.000	2007/10/06 12:04:42.000	8
auau.ehawaii.gov	sshd	Unknown	pam_ldap: error trying to bind as user "uid=zhang,ou=People,dc=Hawaii Information"	2007/10/06 11:34:36.000	2007/10/06 11:34:41.000	2
auau.ehawaii.gov	sudo	Unknown	pam_ldap: error trying to bind as user "uid=zhang,ou=People,dc=Hawaii Information"	2007/10/06 11:23:35.000	2007/10/06 11:23:35.000	1

### Issue Reporting

In the case of an issue, Portal Partners can contact the project manager directly via phone and/or e-mail. E-mail and phone calls will be returned promptly. Portal Partners can also use our Web-based trouble ticketing system, Mantis, to submit questions, issues, change orders and work requests. Each project manager monitors his/her project queue, and provides answers or status to new or existing tickets. All responses and status changes automatically triggers e-mail update to the submitter of the issue.

If the error is within HIC's ability to fix, necessary adjustments will be implemented in a timeframe that meets the SLA defined for the system affected. If the error is generated due to circumstances beyond HIC's control (e.g. an agency backend failure), HIC's technical staff will notify the proper resources (e.g. agency personnel) via their preferred communication

mechanism.

### **Interface with Hardware and Software Vendors**

HIC will retain hardware and software maintenance and support contracts on mission-critical systems and software overseen by HIC and associated with portal operations. Per each maintenance agreement, vendors will guarantee standard response times to identify and correct problems.

### **Partner Portal**

HIC is currently in the process of designing a partner portal that will provide quick access to things like system status, where the HIC administrators report on any current outages as well as the planned resolution and estimated downtime. Through this portal we will also make usage statistics available for partner reporting. Finally this portal will give the links to the HIC policies for our business continuity plan and our contact escalation tree. These policies contain vendor support account information and contact list.

2.02.74 (MR) The Offeror shall provide in the Proposal a description of the failover system that will take over in the event the hardware or software fails.

#### **HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

HIC has implemented a failover system that consists of redundant firewalls, load balancers and Web application servers. The failover is transparent and automated in the event the hardware or software failure occurs to a firewall or load balancer. Currently, some of Web applications have been deployed on two production servers. The failover for these Web applications is also automated, and services will not be interrupted in the event one of the Web servers fails. HIC is in the process of re-deploying every Web application hosted on the Portal to at least two production servers.

2.02.75 (MR) The Offeror shall provide in the Proposal a description of the Offeror's disaster recovery strategy. The strategy must be viable and tested and include description of details such as secondary sites, offsite backup, tested recovery plan, etc.

#### **HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

HIC looks forward to working with the State develop a customized approach to disaster recovery should we be awarded the contract. The customized disaster recovery plan will have six major objectives:

1. Establish and define responsibilities
2. Define procedures for recovery of operation
3. Define mission critical systems

4. Limit magnitude of loss
5. Minimize extent of interruption
6. Define alternatives for continuation of services

Ownership and overall responsibility of the plan will be the responsibility of the HIC staff. This plan will be reviewed and updated periodically or whenever a significant event occurs that would affect the policies and procedures for the disaster recovery.

HIC will work with the State to manage and maintain policies and procedures addressing at a minimum the following issues:

- Contact information
- Process for declaring a disaster
- Escalation procedures
- Notification procedures
- Emergency procedures
- Building procedures and disaster plan
- Alternate office locations
- Alternate site locations
- On-site storage locations and procedures
- Off-site storage locations and procedures
- Back-up systems
- Business records/functionality
- Financial systems recovery procedures (including eCommerce)
- Hardware and software lists, configurations and versions
- Communications lines, documentation and recovery procedures
- Remote site hardware/software inventory
- System recovery procedures
- Testing the plan

HIC understands the concerns voiced by the State and city government during the period immediately following Sept 11, 2001 and has committed to keeping Hawaii's services hosted in Hawaii. HIC has established business relationships to provide a secondary site location. HIC recommends SystemMetrics Corporation, the largest co-location integrator in the State of Hawaii with a 70+ cabinet footprint in a Class A data center, as the vendor to provide the secondary site. The data center can provide:

- Massive Tier 1 Bandwidth (155Mbps and higher)
- Closed Cabinet Cage or Private Suites
- 24X7X365 Security
- Biometric Hand Geometry Readers



- Laser based early smoke detection system coupled with ionic point detection is installed to provide very early warning
- UPS Power With Backup Power Generator
- Multiple Levels of Access Control
- Installation Support & Remote-Hands Service
- On-Site Customer Workbench
- Customer Network Connectivity & Applications Monitoring

With the AHC's approval, HIC will have its servers (database, Web, mail and load balance servers) installed on a secure rack in the data center. The infrastructure deployed at the secondary site will be synchronized with their counter parts hosted at the main site. When there is a declared disaster and the primary platform fails, the disaster recovery procedures are followed and the traffic is routed to the secondary site until the primary site is functional. Once the primary site is functional, the systems re-synchronize and the traffic is routed back to the primary location. This approach is attractive because it gives HIC the capability to continue providing the portal services within a matter of hours instead of days. HIC will document the process and methodology for hot-site switch-over prior to the production launch of the system. HIC will work with the State to document disaster recovery processes and interdependencies between the portal and the State systems.

As the current Hawaii State portal manager, HIC has been conducting full weekly backups on tape and storing in a safety deposit box at the headquarter building of First Hawaiian Bank. The retention period of a back up tape in the safety deposit box is three months and will be reused after that period.

## 2.03 USE OF PORTAL SERVICES

2.03.1 *(M) Access to Public Information or Portal Services via the Portal shall not be mandatory on the part of any business or person and nothing in this RFP shall be construed to represent that use of the Portal is mandatory, unless it is a statutory requirement. However, for mandatory electronic filings imposed by the State, the AHC shall determine if the use of Portal Services are required.*

### **HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

2.03.2 *(M) While utilization of the Portal by Government Agencies will be voluntary and based on SLAs between Contractor and individual agencies, the AHC will work to promote and strongly encourage the participation and cooperation by all agencies.*

### **HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

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## **2.04 TERM OF CONTRACT**

2.04.1 (M) The Contract shall be for a period of five (5) years beginning approximately on January 4, 2008. Unless terminated, the Contract may be extended by the State for an indefinite number of thirty-six month periods or portions thereof, without re-bidding upon mutual consent in writing at least ninety (90) calendar days prior to the expiration date. If the option to extend is mutually agreed upon, the Contractor shall be required to execute a supplement to the Contract for each thirty-six month periods or portions thereof.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

2.04.2 (M) When the interests of the State or the Contractor so require, the State or the Contractor may terminate the Contract for convenience by providing twelve (12) months prior written notice to the contracted parties.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

## **2.05 CHANGES IN PORTAL**

2.05.1 (M) The Contractor will provide to the AHC at least forty five (45) days prior written notice of a planned material change in Portal operations.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

2.05.2 (M) A planned material change in Portal operations cannot be made by the Contractor without the prior written consent of the AHC. A "material change" includes, but is not limited to, a change which is substantial and which increases response time to inquiries, adds to the complexity or Portal use, which materially changes the 'look and feel' of the website, diminishes Portal Services provided to users, or results in a comparable impact on operations noticeable to public and the Portal Partners.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

2.05.3 (M) Portal operations and development shall be in accordance with this Contract, the RFP, including all attachments and addenda; the RFP; and the Contractor's Proposal.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

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## **2.06 TRANSITION TO A NEW CONTRACT**

- 2.06.1 *(M) Upon termination or expiration of the Contract, the Portal must remain operational during any transition period. Upon termination or expiration, all records applicable to a Portal Partner, including working papers and all documentation, must be delivered immediately to the ICSD and will become the property of the Portal Partner if not already such, as indicated in Section 2.09 Intellectual Property Rights. Proposals must describe the process that would be used to facilitate a smooth transition.*

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

- 2.06.2 *(M) Provide to the AHC upon completion of the term of the Contract, at no cost, and without additional terms or conditions, a complete copy, together with any software updates or upgrades made by the Contractor, of all applicable and Portal software (hereinafter collectively the "Software") developed and implemented either by the Contractor or by any of all of its affiliate portal companies, if applicable. The Contractor shall also include with the Software complete documentation and source code. The State shall be granted a perpetual for-use-only license (hereinafter collectively the "License") the Software including rights to modify the code and application, as the State deems appropriate. This provision does not apply to off-the-shelf software or documentation created by third parties and purchased by the Contractor, if applicable. The Software shall be delivered to the State no later than the end of the term of the Contract unless otherwise agreed to mutually by the parties to this Contract. This provision also remains in effect for any additional software created by the Contractor or an affiliate portal company, if applicable, implemented on the Portal during any subsequent contract extension, amendment or renewal period.*

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

## **2.07 TERMINATION OF CONTRACT**

- 2.07.1 *(M) If the Agreement is terminated by the State "for cause", or by the Contractor for reasons identified in Section 9.26 and 9.27 prior to the end of the initial contract term, or any subsequent supplemental term, or by the Contractor without cause, the AHC shall be entitled to the License and the Software at the time termination is effective. If the Agreement is terminated by the AHC without cause, the AHC reserves the right to negotiate terms for licensure of the Software. The AHC reserves the right to acquire the Contractor's equipment at fair market value at the termination of this Contract.*

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

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## **2.08 STATE OF HAWAII'S RESPONSIBILITIES**

- 2.08.1 *The State has established the AHC, which is the governing body that provides oversight and guidance for the Portal Services provided by the Contractor. The AHC includes representatives from various Government Agencies who meet on a regular basis to discuss issues relating to the Portal.*
- 2.08.2 *The Comptroller serves as the chairperson of the committee. The AHC meets on a regular schedule to address issues related to and to promote the purposes of the Portal. The Contractor will be required to attend certain meetings to provide reports on the Portal activities and discuss direction with the AHC. The AHC may seek input from end-users in order to promote the purposes of the Portal.*
- 2.08.3 *The AHC will establish priorities and policies to approve or disapprove SLAs.*
- 2.08.4 *The AHC will assist in determining the equitable distribution of Portal development services among all Government Agencies.*
- 2.08.5 *The AHC will review and approve recommended fees to be assessed to users for fee based Services including the compensation provided to the Contractor.*
- 2.08.6 *The AHC will review reports provided by the Contractor, define roles and responsibilities of various parties, assess customer satisfaction, assist in decision-making, and strategic planning in the areas of system operation and performance, services, revenue generation, etc.*
- 2.08.7 *Routine contract administrative activities will be implemented through the AHC. Final statutory and decision making authority for the contract resides with the Contract Administrator.*
- 2.08.8 *While the use of this Contract is not mandatory, all Government Agencies will be encouraged to participate in the use of this Contract.*

## **2.09 INTELLECTUAL PROPERTY RIGHTS**

- 2.09.1 *(M) Application source code, documentation and all files developed by the Contractor for use or application to the Portal, together, with all updates and revisions shall be the intellectual and tangible property of the Contractor. The State shall have a nonexclusive and perpetual license to such application source code, documentation and files, together with all updates and revisions. Source code and documentation for programming and software shall be either escrowed with the Escrow Agent at the expense of the Contractor, or secured in a lock box. If escrowed, conditions for its release (such as business failure, contract termination or disaster recovery) shall be specified in an escrow agreement, the form of which must be agreed upon by the State. If a lock box is used, the name of the Contract Administrator or his designee shall be authorized with access to the lock box. Updates to such source code and documentation shall be escrowed, owned and licensed as stated above.*

**HIC RESPONSE:**

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Hawaii Information Consortium will comply with this requirement.

**2.10 CONTINUATION OF OPERATIONS DURING TRANSITION  
PERIOD**

2.10.1 *(M) If for any reason the Contract shall be terminated or upon expiration of the Contract without extension, or at the end of any extension, the Contractor shall, at the option of the State, continue to operate under the Contract as Contractor in accordance with all terms and conditions of the Contract, together with any amendments or modifications in existence at such time, for a period of up to twelve (12) months from the time of expiration or notification of termination from the State to the Contractor. The intent of this provision is to insure continuation of Portal operations while a successor Contractor is chosen and installed. The State shall notify the Contractor at the earliest possible opportunity but in any event, no later than the date of notification of termination, or the notifications dates set forth, whichever is earlier that it shall continue operations and the duration of time for such continuation.*

***HIC RESPONSE:***

Hawaii Information Consortium will comply with this requirement.

### (3) TECHNICAL (SECTION 3)

#### **3.01 NETWORK REQUIREMENTS**

3.01.1 *(M) For connectivity to the State's network, the Contractor will be allowed to terminate their communication link at the Kalanimoku State Office Building, 1151 Punchbowl Street, basement, Honolulu, HI 96813.*

***HIC RESPONSE:***

Hawaii Information Consortium will comply with this requirement.

3.01.2 *(M) The State will accept the following interfaces for this connection:*

- i. PVC connection to an existing frame relay DS-3 link;*
- ii. Dedicated T-1 or frame relay link; or*
- iii. 10/100/1000 Ethernet connection.*

***HIC RESPONSE:***

Hawaii Information Consortium will comply with this requirement.

## (4) REFERENCES/EXPERIENCE (SECTION 4)

### 4.01 EXPERIENCE

4.01.1 (MR) Offeror shall have experience in managing, staffing, and hosting similar Portals. These Portals shall be of approximately the same scope and size, contracting with government entities similar to the State. Describe your company's experience providing similar services as required in this RFP.

#### *HIC RESPONSE:*

Hawaii Information Consortium will comply with this requirement.

Hawaii Information Consortium's (HIC) sole focus is on delivering value-added eGovernment services. Since 1999, it has been our privilege to partner with Hawaii and to assist the State in becoming a national leader in these pursuits. HIC is confident we can continue to help the State deliver eGovernment results to its citizens, businesses, government employees and agencies in a more efficient and cost-effective manner than any other vendor or team of vendors. We offer a talented team already on the ground in Honolulu as well as a wide range of expertise and an extensive library of proven eGovernment services.

eHawaii.gov, under the management of HIC, has successfully won numerous awards.



#### **2002 Digital State Survey**

Electronic Commerce & Business Regulation - 3rd place



#### **May 2006 (IACA) International Association of Commercial Administrators Win-Win Award - Hawaii Compliance Express**

Hawaii Compliance Express uniquely fit IACA's "Partnering for Peak Performance" annual conference theme because it links three state agencies, one federal agency, and thousands of vendors who do business with Hawaii state and county governments. The award was presented to representatives of the State of Hawaii at the IACA annual conference in Lake Tahoe on May 16.

No other state has an online method of complying with state procurement regulations that spans local, state, and federal agencies. Hawaii Compliance Express revolutionizes business-to-government interaction by improving efficiencies for state agencies, businesses, and government buyers.



#### **August 2006 (NASPO) National Association of State Purchasing Officials IT Gold Medal Recipient**

##### **Hawaii Compliance Express**

The annual NASPO Cronin Awards for Procurement Excellence program seeks to recognize outstanding public procurement initiatives and promote the adoption of these ideas and practices throughout the states. Hawaii received the highest honor, the gold medal, for this illustrious award.



#### **May 2007 (IACA) Merit Award**

##### **Hawaii Business Express**

The Department of Commerce and Consumer Affairs' (DCCA) Business Registration Division (BREG) received top honors for its online government services. The International Association of Commercial Administrators (IACA) awarded the State with first place for the 2007 Merit Award for having the best navigable business registration website.

The award recognizes online business registration websites in four categories: consistent navigability, logical categorizations, ADA compliance and appearance. Hawaii received the highest cumulative score among other states, provinces, territories and countries.



## **2007 DIGITAL GOVERNMENT ACHIEVEMENT AWARDS: Government-to-Government Category**

### **Hawaii Electronic Death Registration System (EDRS)**

Hawaii Electronic Death Registration System is a web application that allows users to create, refer, assign, reject, sign, certify, and review a death case depending on the user's role. It follows closely with the national standard created by National Association for Public Health Statistics and Information Systems (NAPHSIS) and the death reporting process in Hawaii. It is a user friendly, intuitive application, which has been overwhelmingly accepted by the death reporting community in Hawaii (Funeral Homes, Medical Certifiers, Examiners and Doctors). It also includes third-party integration with the Medical Examiner's office medical information system. Hawaii EDRS makes more efficient use of participants' time, improves accuracy in death reporting and results in a savings of millions of dollars for the Social Security Administration.

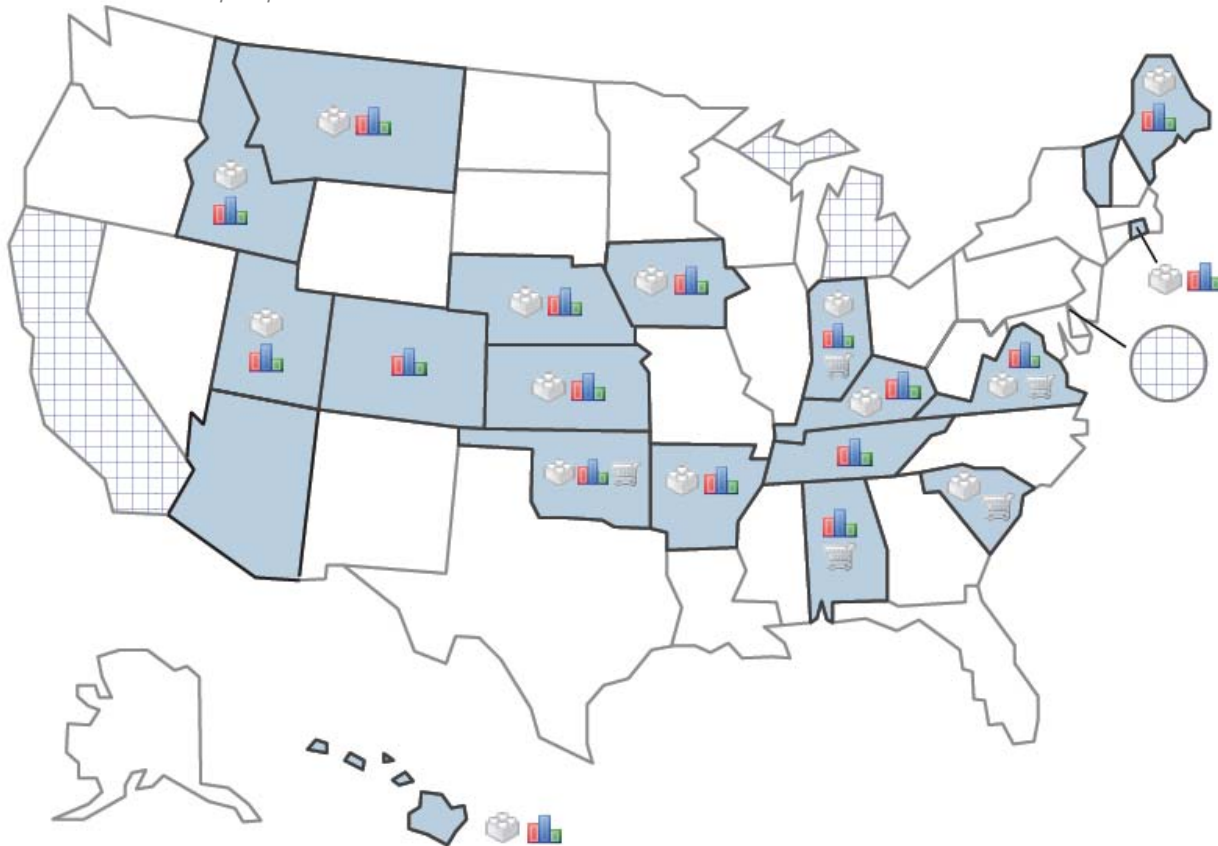
Our experience in the State is supplemented by the success of HIC's peer affiliates in 19 other states under the corporate umbrella of NIC. NIC is the industry leader in building and managing specialized eGovernment portals. During its 15-year history of delivering online government services, NIC has had the opportunity to partner with the world's largest group of satisfied government partners and built the most expansive portfolio of proven eGovernment applications, including:

- 20 enterprise state portals under long-term management
- Over 2,600 eGovernment-specific relationships with federal, state, and local government agencies
- A growing software library of more than 3,600 installed eGovernment services
- Proven expertise in a wide range of eGovernment funding approaches, including multiple successful portal implementations using the business model Hawaii is requesting
- Robust operating platforms that processed more than 123 million online transactions on behalf of our government partners in 2006

NIC has demonstrated its ability to guide, build and manage successful enterprise-wide eGovernment portals – of similar scope and size to that sought by Hawaii – that effectively incorporate infrastructure services, application development and enhancement, design, marketing, and customer service components. The map below (*Figure 4.01.1-1*) illustrates each of NIC's federal, state and local partnerships.



**FIGURE 4.01.1-1**  
*NIC Partnership Map*



-  **State Portals & Services**  
Development and management of official state government Web sites
-  **Local Government Portals & Services**  
Development and management of official local government Web sites
-  **Vertical Government Portals**  
Development and management of official multi-jurisdictional government Web sites and services
-  **Point-of-Purchase eGovernment Systems**  
Development and management of official government services that are offered at consumer and business locations.
-  **eGovernment Software & Services**  
Document management systems, electronic filing services, ethics compliance portals, and eGovernment application development

One of the most significant benefits of teaming with HIC is the opportunity to take advantage of the wealth of expertise derived from NIC's existing state and local partnerships. Our government partners have realized the advantage of sharing software applications, project documentation and policy experience among all NIC portals. This is a unique feature of the NIC business model – no other provider has a similar multi-state software exchange platform for such a comprehensive spectrum of resident- and business-focused eGovernment applications.

HIC believes that to create a truly efficient portal program, a partner needs to leverage the software code, project plans and documentation and business processes from other state portals. HIC's Honolulu-based team will be complemented by our extended family of more than 300 specialists from NIC that span other state government portals. This wealth of experience and depth of talent in eGovernment is unmatched by any other vendor. Additionally, code and relevant project documentation from services developed by other NIC portals are available to HIC staff for adaptation to Hawaii's needs.

NIC has been able to provide a high level of software, component and process reusability as a key element in NIC's application software design process. Portal applications need to be built according to each agency's unique specifications and must run efficiently and flawlessly. Through the implementation of an object-oriented library of reusable code objects, the development time of applications is significantly reduced and reliability is improved. Because applications share the same common foundational design patterns and code elements, reliability and maintainability are increased and it takes fewer resources to maintain, support and enhance existing applications.

All of NIC's current partner states participate in and use NIC's code library, which contains code, frameworks, modules, objects and application best practices developed for the specific platforms that our NIC partner states have required. With thousands of installed eGovernment services that run on different platforms and use varied architectures, we can support Hawaii's rapid expansion of online services by leveraging the world's largest library of eGovernment code objects. Our expansive code library and application development expertise allows us to accelerate service delivery in our partner states. Thanks to code reuse, business logic, application documentation and a focus on timely delivery of services, HIC will continue to be able to launch eGovernment services for Hawaii at a very rapid pace.

NIC's collaborative approach has allowed us to work with the public and private sector to identify needs and build many of the nation's most innovative eGovernment services for our state partners. We specialize in developing complex cross-boundary services that integrate multiple processes and levels of government into a seamless and user-friendly single service. Multi-board professional licensing systems, statewide tax payment Web sites, and construction lien management services are among the innovative applications we have launched in several of our state portals.

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4.01.2 (MR) Offeror shall have a minimum of three (3) years experience providing Internet Contractor services for government entities.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

Hawaii Information Consortium (HIC) exceeds the required minimum of three years experience providing Internet Contractor services for government entities. HIC has been providing the requested Internet Contractor services for government entities since its formation in 1999, when the State of Hawaii selected HIC to develop the State's official Web portal through the self-supporting business model. Further, HIC's parent organization, NIC, has been providing electronic government services since 1992. As a partner with HIC, the State of Hawaii will be able to draw on the collective experience of all of HIC's sister affiliates. A list of each of these affiliates, along with the state in which the affiliate contracts to manage the state Internet portal and the launch date for these services, follows as *Figure 4.01.2-1*.

**FIGURE 4.01.2-1**  
NIC State Partnership  
Listing and Launch Date

State	NIC Affiliate	Launch Date
Alabama	Alabama Interactive, LLC	July 2002
Arizona	Arizona Interactive, LLC	In development
Arkansas	Arkansas Information Consortium, LLC	July 1997
Colorado	Colorado Interactive, LLC	October 2005
Idaho	Idaho Information Consortium, LLC	May 2000
Indiana	Indiana Interactive, LLC	December 1995
Iowa	Iowa Interactive, LLC	November 1997
Kansas	Kansas Information Consortium Merger Company, LLC	February 1992
Kentucky	Interactive, LLC	September 2003
Maine	Maine Information Network, LLC	August 1999
Montana	Montana Interactive, LLC	May 2001
Nebraska	Nebraska Interactive, LLC	March 1995

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Oklahoma	Oklahoma Division	October 2001
Rhode Island	Rhode Island Interactive, LLC	December 2001
South Carolina	South Carolina Interactive, LLC	November 2005
Tennessee	Tennessee Division	April 2001
Utah	Utah Interactive, LLC	May 1999
Vermont	Vermont Interactive, LLC	November 2006
Virginia	Virginia Interactive, LLC	March 1998

#### 4.02 REFERENCES

4.02.1 *(MR) The Offeror shall provide at least one (1) reference where similar services in scope to the requirements of this RFP have been provided. Additional references may be submitted, if available. For each reference, the Offeror shall provide the names of individuals who can be contacted, the position of these individuals, addresses, and current telephone numbers. The Offeror is responsible to assure reference information is current and accurate. At minimum, the State will evaluate the following:*

- a. *Customer agency and public satisfaction;*
- b. *Management capabilities including problem resolution;*
- c. *Development capabilities; and*
- d. *Personnel retention.*

#### **HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

Since its inception in 1999, Hawaii Information Consortium's (HIC) sole focus has been on assisting the State with its eGovernment program, through its role as the Hawaii Internet Portal Manager. We feel strongly that one of our most important success metrics is partner satisfaction. As such, we have provided reference information from some of our government partners from within the State of Hawaii in the table that follows as *Figure 4.02.1-1*.

Due: Oct 31, 2007

<p>Nathan Kim Hawaii Judiciary Chief Court Administrator</p> <p>808-538-5714 <a href="mailto:Nathan.H.Kim@courts.state.hi.us">Nathan.H.Kim@courts.state.hi.us</a></p> <p>1111 Alakea St 6th Floor Honolulu HI 96813</p>	<p>Larry Reifurth Department of Commerce and Consumer Affairs Director</p> <p>808-586-2849 <a href="mailto:Lawrence.M.Reifurth@dcca.hawaii.gov">Lawrence.M.Reifurth@dcca.hawaii.gov</a></p> <p>335 Merchant Street 3rd Floor Honolulu HI 96813</p>
<p>Liane M. Moriyama Administrator Hawaii Criminal Justice Data Center</p> <p>808-587-3110 <a href="mailto:lmoriyam@hcjdc.hawaii.gov">lmoriyam@hcjdc.hawaii.gov</a></p> <p>Department of the Attorney General Kekuanao'a Building, Room 101 456 South King St. Honolulu HI 98613</p>	<p>Russ Saito Comptroller</p> <p>808-586-0400 <a href="mailto:russ.k.saito@hawaii.gov">russ.k.saito@hawaii.gov</a></p>

In addition to the references provided from within Hawaii, we have included references with contact names and contact information for 18 other states for which NIC subsidiaries operate self-supported eGovernment portals, presented as *Figure 4.02.1-2* that follows. NIC has not included reference information for the State of Arizona since this contracts was recently awarded and the project is still in the initial stages after award. HIC encourages the evaluation committee to contact each of NIC's government partners to understand how the HIC/NIC customized project approach has delivered results for similar enterprise-wide portal implementations.

<p><b>ALABAMA / <a href="http://www.Alabama.gov">www.Alabama.gov</a></b> Jim Burns Chief Information Officer</p> <p>(334) 242-3433 (334) 242-3999 fax <a href="mailto:jim.burns@isd.alabama.gov">jim.burns@isd.alabama.gov</a></p> <p>Folsom Administration Building 64 N. Union Street, Suite 200 Montgomery, AL 36130</p>	<p><b>ARKANSAS / <a href="http://www.Arkansas.gov">www.Arkansas.gov</a></b> Peggy Gram Chief Deputy Secretary of State</p> <p>(501) 682-3453 (501) 682-3510 fax <a href="mailto:peggy.gram@sos.arkansas.gov">peggy.gram@sos.arkansas.gov</a></p> <p>Office of the Secretary of State State Capitol, Room 256 Little Rock, AR 72201</p>
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Due: Oct 31, 2007

<b>COLORADO / <a href="http://www.Colorado.gov">www.Colorado.gov</a></b> Gregg Rippy Executive Director Statewide Internet Portal Authority  (303) 866-3992 (303) 866-3995 fax <a href="mailto:grippy@www.colorado.gov">grippy@www.colorado.gov</a>  633 17th Street South Suite 1610 Denver, CO 80202	<b>IDAHO / <a href="http://www.Idaho.gov">www.Idaho.gov</a></b> Bill Farnsworth Chairman Access Idaho Committee  (208) 332-1876 (208) 332-1884 fax <a href="mailto:bfarnsworth@adm.idaho.gov">bfarnsworth@adm.idaho.gov</a>  650 W State Street, Room 100 P.O. Box 83720 Boise, ID 83720-0042
<b>INDIANA / <a href="http://www.IN.gov">www.IN.gov</a></b> Chris Cotterill Director IN.gov Portal  (317) 234-3842 (317) 232-0748 fax <a href="mailto:ccotterill@iot.IN.gov">ccotterill@iot.IN.gov</a>  Indiana Government Center North 100 North Senate Ave., Room N551 Indianapolis, IN 46204	<b>IOWA / <a href="http://www.Iowa.gov">www.Iowa.gov</a></b> John Gillispie Chief Operating Officer Information Technology Department  (515) 281- 5061 (515) 281-6137 fax <a href="mailto:john.gillespie@iowa.gov">john.gillespie@iowa.gov</a>  Hoover Building Level B Des Moines, IA 50319
<b>KANSAS / <a href="http://www.Kansas.gov">www.Kansas.gov</a></b> Ron Thornburgh Secretary of State  (785) 296-4564 (785) 368-8033 fax <a href="mailto:rnt@kssos.org">rnt@kssos.org</a>  Memorial Hall 120 SW 10th Ave. Topeka, KS 66612-1594	<b>KENTUCKY / <a href="http://www.Kentucky.gov">www.Kentucky.gov</a></b> Mark Rutledge Commissioner of Technology  (502) 564-8986 (502) 696-5178 fax <a href="mailto:mark.rutledge@ky.gov">mark.rutledge@ky.gov</a>  702 Capitol Avenue Suite 258 Frankfort, KY 40601
<b>MAINE / <a href="http://www.Maine.gov">www.Maine.gov</a></b> Matthew Dunlap Secretary of State  (207) 626-8406 (207) 287-8598 fax <a href="mailto:matthew.dunlap@maine.gov">matthew.dunlap@maine.gov</a>  148 State House Station Augusta, ME 04333	<b>MONTANA / <a href="http://www.mt.gov">www.mt.gov</a></b> Audrey Hinman Chief, IT Services Bureau Department of Administration  (406) 444-1635 (406) 444-2701 fax <a href="mailto:ahinman@mt.gov">ahinman@mt.gov</a>  Weinstein Building 101 N. Rodney, Suite 2 Helena, MT 59620

Due: Oct 31, 2007

<b>NEBRASKA / <a href="http://www.Nebraska.gov">www.Nebraska.gov</a></b> John Gale Nebraska Secretary of State  (402) 471-2554 (402) 471-3237 fax <a href="mailto:John.Gale@sos.ne.gov">John.Gale@sos.ne.gov</a>  State Capitol Suite 2300 Lincoln, NE 68508	<b>OKLAHOMA / <a href="http://www.OK.gov">www.OK.gov</a></b> Joseph M. Fleckinger Deputy Director of Information Technology  (405) 522-4026 (405) 522-3042 fax <a href="mailto:joe.fleckinger@osf.ok.gov">joe.fleckinger@osf.ok.gov</a>  Oklahoma Office of State Finance 2209 N. Central Oklahoma City, OK 73125
<b>RHODE ISLAND / <a href="http://www.RI.gov">www.RI.gov</a></b> Howard Boksenbaum Chief Library Officer Office of Library and Information Services  (401) 222-3153 (401) 222-4195 fax <a href="mailto:howardbm@olis.ri.gov">howardbm@olis.ri.gov</a>  RI Department of Administration One Capitol Hill, 2nd Floor Providence, RI 02908-5803	<b>SO. CAROLINA / <a href="http://www.sc.gov">www.sc.gov</a></b> Jim Bryant, Ph.D Chief Information Officer  (803) 896-0222 (803) 896-0092 fax <a href="mailto:jabryant@cio.sc.gov">jabryant@cio.sc.gov</a>  4430 Broad River Road Columbia, SC 29210
<b>TENNESSEE / <a href="http://www.Tennessee.gov">www.Tennessee.gov</a></b> Chris Yeiser State Portal Manager Office for Information Resources  (615) 741-5144 (615) 741-4589fax <a href="mailto:chris.yeiser@state.tn.us">chris.yeiser@state.tn.us</a>  312 8th Ave. North Tennessee Towers, Suite 1800 Nashville, TN 37243	<b>UTAH / <a href="http://www.Utah.gov">www.Utah.gov</a></b> Dave Fletcher Director Information Technology Services  (801) 538-3476 (801) 538-3844 fax <a href="mailto:dfletcher@utah.gov">dfletcher@utah.gov</a>  6100 State Office Building Salt Lake City, UT 84114
<b>VERMONT / <a href="http://www.Vermont.gov">www.Vermont.gov</a></b> Thomas Murray Chief Information Officer  (802) 828-4141 (802) 828-3398 fax <a href="mailto:thomas.murray@state.vt.us">thomas.murray@state.vt.us</a>  133 State Street, 5th Floor Montpelier, VT 05633	<b>VIRGINIA / <a href="http://www.Virginia.gov">www.Virginia.gov</a></b> Hal Hughey Service Outreach Virginia Information Technologies Agency  (804) 371-5785 (804) 343-9048 fax <a href="mailto:hal.hughey@vita.virginia.gov">hal.hughey@vita.virginia.gov</a>  110 South 7th Street 3rd Floor, Room 3027 Richmond, VA 23219

#### 4.03 FINANCIALS

4.03.1 (MR) Offeror shall provide evidence of financial stability and capability to fund all costs associated with the Portal throughout the term of the Contract. This information will be used in the RFP evaluation process, to ensure completeness and accuracy. (NOTE: This information is for evaluation purposes only. It will be held in confidence to the extent that law allows.) Information required is the latest two (2) years' audited annual financial statements including:

- a. Total Revenue;
- b. Net Income;
- c. Total Assets; and
- d. Cash Flow.

##### **HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

Hawaii Information Consortium, LLC (HIC) is a financially strong and stable company. HIC is a wholly-owned subsidiary of NICUSA, Inc. (NICUSA). NICUSA is a wholly-owned subsidiary of NIC Inc. (NIC), a publicly-traded company (NASDAQ: EGOV). Although HIC is a legal entity separate from both NICUSA and NIC, we have elected to speak to NIC's financial stability as the parent organization of HIC.

NIC is a financially sound and profitable public corporation. The company's financial strength is evidenced by several factors, most notably a strong balance sheet, zero debt, high level of liquidity and long-term history of growth. NIC's strong balance sheet features the following metrics at June 30, 2007:

- Total assets of \$98.8 million and shareholders equity of \$59.6 million
- Current assets totaling \$78.4 million and current liabilities of \$38.0 million, resulting in working capital of \$40.4 million and a solid current ratio of 2.1
- No debt and \$43.2 million of cash and marketable securities

As further evidence of NIC's financial strength, the Company paid a special cash dividend of \$0.75 per share, totaling approximately \$46.7 million, in February 2007 out of its available cash and marketable securities.

Because NIC is a public company, its consolidated financial statements are independently audited and are public documents. NIC's quarterly and annual filings with the SEC can be found at <http://www.nicusa.com/html/info/investor/reports.html> or [www.SEC.gov](http://www.SEC.gov).

NIC Inc.'s Dun & Bradstreet D-U-N-S number is: 07-081-6710. Dun & Bradstreet's most recent evaluation of NIC Inc.—dated June 14, 2007—included a 5A1 rating for NIC. This rating reflects NIC's financial stability and is the highest rating available.

As a public company, NIC is subject to Section 404 of the Sarbanes-Oxley Act of 2002 ("SOX"), which relates to internal controls over financial reporting. NIC's internal controls penetrate to the operating unit level, including HIC. As noted on pages 69 and 70 of NIC's Annual Report on Form 10-K for the year ended December 31, 2006 included in this



document, NIC received an unqualified report from its independent auditors, PricewaterhouseCoopers LLP, relating to its internal controls as well as its consolidated financial statements for the three years ended December 31, 2006—representing NIC’s most recent, audited consolidated financial statements. NIC has always received an unqualified (i.e., clean) audit opinion on its consolidated financial statements from its independent auditors.

Per the requirement of RFP, HIC has included its two most recent fiscal years of audited financial statements which include the requested information, demonstrating HIC has the requisite financial standing to deliver eGovernment services through the “self-supported” model. NIC’s and HIC’s audited financial statements are included immediately following this section.

**Hawaii Information  
Consortium, LLC**  
Financial Statements  
For The Years Ended  
December 31, 2006 and 2005

**Hawaii Information Consortium, LLC**  
**Index**  
**December 31, 2006 and 2005**

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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 deficit and of cash flows present fairly, in all material respects, the financial position of Hawaii Information Consortium, LLC at December 31, 2006 and 2005 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 audit 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*

July 17, 2007

**Hawaii Information Consortium, LLC**  
**Balance Sheets**  
**December 31, 2006 and 2005**

<b>Assets</b>	<b>2006</b>	<b>2005</b>
Current assets		
Cash	\$ 9,486,231	\$ 5,903,497
Trade accounts receivable net of allowance for doubtful accounts of \$0 and \$65,492	4,369,852	2,529,116
Prepaid expenses	<u>16,626</u>	<u>21,899</u>
Total current assets	13,872,709	8,454,512
Property and equipment, net	33,056	39,422
Deferred income taxes	207,350	310,058
Other assets	<u>6,632</u>	<u>6,632</u>
Total assets	<u>\$ 14,119,747</u>	<u>\$ 8,810,624</u>
<b>Liabilities and Member's Deficit</b>		
Current liabilities		
Accounts payable	\$ 12,761,257	\$ 6,988,984
Accrued expenses	35,608	28,629
Due to affiliated companies	<u>1,687,089</u>	<u>2,316,787</u>
Total current liabilities	<u>14,483,954</u>	<u>9,334,400</u>
Commitments and contingencies (Notes 2 and 6)	-	-
Member's deficit		
Member's equity, 100 units outstanding	1,000	1,000
Accumulated deficit	<u>(365,207)</u>	<u>(524,776)</u>
Total member's deficit	<u>(364,207)</u>	<u>(523,776)</u>
Total liabilities and member's deficit	<u>\$ 14,119,747</u>	<u>\$ 8,810,624</u>

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

**Hawaii Information Consortium, LLC**  
**Statements of Income**  
**For The Years Ended December 31, 2006 and 2005**

	<b>2006</b>	<b>2005</b>
Revenues	\$ 2,431,151	\$ 2,108,254
Cost of portal revenues (Notes 2 and 7)	<u>2,251,110</u>	<u>1,679,899</u>
Operating income	180,041	428,355
Interest income	<u>82,236</u>	<u>-</u>
Income before income taxes	262,277	428,355
Income tax expense		
Current	-	-
Deferred	<u>102,708</u>	<u>167,744</u>
Net income	<u>\$ 159,569</u>	<u>\$ 260,611</u>

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

**Hawaii Information Consortium, LLC**  
**Statements of Changes in Member's Deficit**  
**For The Years Ended December 31, 2006 and 2005**

	<u>Member's Equity</u>		<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Unit</u>	<u>Amount</u>		
<b>Balance, January 1, 2005</b>	100	\$ 1,000	\$ (785,387)	\$ (784,387)
Net income	-	-	260,611	260,611
<b>Balance, December 31, 2005</b>	100	1,000	(524,776)	(523,776)
Net income	-	-	159,569	159,569
<b>Balance, December 31, 2006</b>	100	\$ 1,000	\$ (365,207)	\$ (364,207)

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

**Hawaii Information Consortium, LLC**  
**Statements of Cash Flows**  
**For The Years Ended December 31, 2006 and 2005**

	<b>2006</b>	<b>2005</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 159,569	\$ 260,611
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	20,042	19,073
Deferred income taxes	102,708	167,744
Allowance for doubtful accounts	(65,492)	65,492
Changes in operating assets and liabilities:		
(Increase) in trade accounts receivable	(1,775,244)	(1,680,020)
(Increase) decrease in prepaid expenses	5,273	(17,593)
Increase in accounts payable	5,772,273	4,399,541
Increase in accrued expenses	6,979	11,362
	<u>4,226,108</u>	<u>3,226,210</u>
<b>Net cash provided by operating activities</b>		
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	<u>(13,676)</u>	<u>(23,610)</u>
	<u>(13,676)</u>	<u>(23,610)</u>
<b>Net cash used in investing activities</b>		
<b>Cash flows from financing activities</b>		
Advances from (payments to) affiliated companies, net	<u>(629,698)</u>	<u>306,953</u>
	<u>(629,698)</u>	<u>306,953</u>
<b>Net cash provided by (used in) financing activities</b>		
<b>Net increase in cash</b>	<b>3,582,734</b>	<b>3,509,553</b>
<b>Cash, beginning of year</b>	<b>5,903,497</b>	<b>2,393,944</b>
<b>Cash, end of year</b>	<b>\$ 9,486,231</b>	<b>\$ 5,903,497</b>

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



**Hawaii Information Consortium, LLC**  
**Notes to Financial Statements**  
**December 31, 2006 and 2005**

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**1. 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 online. The Company is an indirect 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 the State's government portal that will provide electronic transactions and expanded access to government information. During 2006, the Company entered into a one-year contract extension with the State, extending the contract to January 2008. Under the contract, the Company funded initial development and ongoing operational costs. 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 paid to the Company.

**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 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 results of operations 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 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 has not recorded any provisions for impairment of property and equipment. There is considerable judgment necessary to determine future cash flows and, accordingly, actual results could vary significantly from such estimates.

**Revenue Recognition**

The Company recognizes revenue from providing outsourced 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. 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 payable reflect the gross amounts outstanding at the balance sheet dates.

**Hawaii Information Consortium, LLC**  
**Notes to Financial Statements**  
**December 31, 2006 and 2005**

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**Cost of Portal Revenues**

The Company expenses as incurred the employee costs to start up, 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, telecommunications, data processing, maintenance, and all other costs associated with the provision of dedicated client service such as office facilities.

**Stock-based Compensation**

Prior to January 1, 2006, NIC accounted for its stock-based compensation plans using the intrinsic value method in accordance with Accounting Principles Board Opinion ("APB") No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Accordingly, no compensation expense was recognized if the exercise price of a stock option equaled or exceeded the market price of the underlying stock on the date of grant. Effective January 1, 2006, NIC adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123(R) (revised 2004), *Share-Based Payment*, which establishes the accounting for equity instruments exchanged for employee services. Under the provisions of SFAS No. 123(R), stock-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as expense over the employee's requisite service period (generally the vesting period of the grant).

NIC elected to adopt the modified prospective application transition method as provided by SFAS No. 123(R) and, accordingly, financial statement amounts for years ended prior to January 1, 2006 have not been restated to reflect the fair value method of expensing stock-based compensation. For vested stock-based awards that were outstanding on January 1, 2006, NIC was not required to record any additional compensation expense. Unvested stock-based awards that were outstanding on January 1, 2006 will be charged to expense over the remaining vesting period, without any changes in measurement. For all new stock-based awards that are granted or modified after January 1, 2006, NIC will use SFAS No. 123(R)'s measurement model, expense recognition and settlement provisions.

Eligible employees of the Company participate in NIC's common stock option and restricted stock plan and stock purchase plan. For the year ended December 31, 2006, the Company recognized approximately \$29,000 in stock-based compensation expense pursuant to the provisions of SFAS No. 123(R), which has been included in cost of portal revenues in the Company's statement 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. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. NIC, along with its subsidiaries, files a consolidated federal income tax return. The provision for income taxes is allocated to NIC's subsidiaries as if they filed a separate federal return.

**Hawaii Information Consortium, LLC**  
**Notes to Financial Statements**  
**December 31, 2006 and 2005**

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**Indemnification**

Interpretation No. 45 of the Financial Accounting Standards Board, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, sets forth the disclosure requirements for most guarantees and clarifies that companies recognize an initial liability for the fair value of the obligations assumed. 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, at December 31, 2006 and 2005, the Company had not accrued any liability on the aforementioned indemnification obligations.

**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.

**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. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral to secure accounts receivable.

The highest volume, most commercially valuable service the Company offers is access to motor vehicle records (referred to as DMV) through the portal. This service accounted for approximately 29% and 30% of the Company's revenues in 2006 and 2005, 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, 2006 and 2005, the Company derived 28% and 30%, respectively, of its revenues from one data reseller.

**4. Property and Equipment**

Property and equipment consisted of the following:

	<u>December 31,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>	<u>Useful Lives</u>
Purchased software	\$ 81,647	\$ 111,204	3 years
Furniture and fixtures	41,280	41,280	8 years
Equipment	102,068	197,617	3-5 years
	<u>224,995</u>	<u>350,101</u>	
Less accumulated depreciation	<u>(191,939)</u>	<u>(310,679)</u>	
	<u>\$ 33,056</u>	<u>\$ 39,422</u>	

Depreciation expense for the years ended December 31, 2006 and 2005 was \$20,042 and \$19,073, respectively.

**Hawaii Information Consortium, LLC**  
**Notes to Financial Statements**  
**December 31, 2006 and 2005**

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**5. Income Taxes**

At December 31, 2006 and 2005, deferred tax assets resulted primarily from net operating loss ("NOL") carryforwards generated in 2002 and prior, in addition to differences between book and tax depreciation, stock-based compensation, and accrued but unused employee vacation. The Company believes it is more likely than not it will generate sufficient taxable income from future operations to fully utilize the NOL carryforward prior to its expiration. Consequently, the Company has not provided a valuation allowance for these deferred tax assets.

**6. Operating Leases**

The Company leases its office space under an operating lease. The future minimum lease payments under this noncancelable operating lease total approximately \$108,000 in 2007 and \$93,000 in 2008. Total rent expense for the years ended December 31, 2006 and 2005 was approximately \$103,000 and \$69,000, respectively.

**7. Related Party Transactions**

The balance due to affiliated companies was \$1,687,089 and \$2,316,787 at December 31, 2006 and 2005, respectively. The advances are non-interest bearing and are due on demand.

The Company receives certain general and administrative services from NIC and its affiliates. Such services are performed on a centralized basis, benefit multiple affiliates and include executive and operations management, technical consultation, human resources, 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 2006 and 2005, the Company recognized approximately \$333,000 and \$287,000 in expense related to these services, which is included in cost of portal revenues in the statements of income.

**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, 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 the NIC Board of Directors. Expense related to Company matching contributions totaled approximately \$19,000 and \$16,000 for the years ended December 31, 2006 and 2005, respectively. No discretionary contributions were made for the years ended December 31, 2006 and 2005.

Eligible employees of the Company may also participate in NIC's employee common stock option and restricted stock option plan and stock purchase plans.

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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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## FORM 10-K

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(Mark One)

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

**For the fiscal year ended December 31, 2006**

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

**For the transaction period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 000-26621**

### NIC INC.

*(Exact name of registrant as specified in its charter)*

**Colorado**

*(State or other jurisdiction of  
incorporation or organization)*

**52-2077581**

*(I.R.S. Employer  
Identification No.)*

**10540 South Ridgeview Road, Olathe, Kansas 66061**

*(Address of principal executive office, including Zip Code)*

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

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, no 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 a 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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, 2006, was approximately \$279,903,000 (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 5% 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 is not necessarily a conclusive determination for other purposes.

On February 28, 2007, 61,705,650 shares of the registrant's common stock, no 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 Shareholders to be held in 2007 are incorporated by reference into Part III of this Form 10-K.

Except as otherwise stated, the information contained in this Form 10-K is as of February 28, 2007.

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## PART I

### CAUTIONS ABOUT FORWARD LOOKING STATEMENTS

“Safe Harbor” statement under the Private Securities Litigation Reform Act of 1995: Statements in this Annual Report on Form 10-K regarding NIC and its business, which are not historical facts, are “forward-looking statements” that involve risks and uncertainties. Certain matters discussed in this report may constitute forward-looking statements within the meaning of the federal securities laws that inherently include certain risks and uncertainties. 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. In addition, 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. Management continuously updates and revises these estimates and assumptions based on actual conditions experienced. However, it is not practicable to publish all revisions and, as a result, 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 12, the other specific risk factors discussed on pages 12 to 24, and commitments and contingencies described in Notes 2, 3, 7, 8 and 14 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 Web site address is [www.nicusa.com](http://www.nicusa.com). Through this Web site, we make available, free of charge, on the Investor Relations section of our Web site (<http://www.nicusa.com/html/info/investor/edgar.php>) 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, 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 Web site other reports filed with the SEC under the Exchange Act, including our proxy statements and reports filed by officers and directors under Section 16(a) of that Act. We do not intend for information contained in our Web site 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 100F 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 Web site (<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,” “our,” and “us” to refer to NIC and its subsidiaries. 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 Web site outsourced to NIC. We also use the term “partner” to refer to our government clients, with which we have contractual relationships for eGovernment services.

## ITEM 1. BUSINESS

### Business Overview

NIC is a provider of eGovernment services that helps governments use the Internet to reduce costs and provide a higher level of service to businesses and citizens. We accomplish this currently through two divisions: our portal outsourcing businesses and our software & services businesses. In our primary portal outsourcing business, we enter into long-term contracts with governments to design, build and operate Web-based portals on

their behalf. These portals consist of Web sites and applications we have built that allow businesses and citizens to access government information online and complete transactions, including applying for a permit, retrieving driver's license records or filing a government-mandated form or report. Our self-funding business model allows us to reduce our government partners' financial and technology risks and generate revenues by sharing in the fees we collect from eGovernment transactions. Our government partners benefit through 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.

Currently, we have contracts to provide portal outsourcing services to nineteen states, of which eighteen are serviced under our self-funding business model. We typically enter into three- to five-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. We intend to increase our revenues by signing long-term portal contracts with new government partners and by delivering new services to a growing number of government entities within our existing contractual relationships.

Our software & services businesses primarily include our UCC and corporate filings software development and ethics & elections businesses. Our UCC and corporate filings software development business, NIC Conquest, is a provider of software applications and services for electronic filings and document management solutions for governments. This business focuses on Secretaries of State, whose offices are state governments' principal agencies for UCC and corporate filings. Currently, this business is primarily engaged in servicing its contract with the California Secretary of State and is not actively marketing its applications and services in respect of new engagements. Our ethics & elections business, NIC Technologies, designs and develops online campaign expenditure and ethics compliance systems for federal and state government agencies. Currently, our ethics & elections business is primarily engaged in servicing its contracts with the Federal Election Commission and the State of Michigan.

## **Segment Information**

Our two reportable segments consist of our portal outsourcing segment and software & services segment. The portal outsourcing segment includes our subsidiaries that operate outsourced government portals and the corporate divisions that support portal operations. The software & services segment primarily includes our UCC and corporate filings software development and ethics & elections businesses. For additional information relating to our reportable segments, refer to Note 12 in the Notes to Consolidated Financial Statements included in this Form 10-K.

## **Industry Background**

### *The market for government-to-business and government-to-citizen 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 and citizens they regulate. These transactions and exchanges include driver's license 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 large amounts of scarce staff resources. Transactions and information requests are often made in person or by mail and are processed manually, increasing the potential for errors and the need for numerous revisions and follow-ups. Even newer methods, including telephone response systems, tape exchanges and dial-up computer networks, 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, waiting for answers by



telephone or waiting for responses by mail. 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. 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 millions of people worldwide to share information, communicate and conduct business electronically. According to eMarketer estimates, one billion people worldwide had Internet access in 2006 and nearly 250 million households had access to broadband services. Within this audience, the Computer Industry Almanac reports that approximately 845 million people use the Internet on a regular basis.

Penetration of personal computers also continues to rise. According to Forrester Research, the number of personal computers in use globally will double by 2010 to 1.3 billion units. Mature markets including in North America, Europe, and Asia-Pacific will have added 150 million new PCs by the end of this decade, while emerging markets will have increased personal computer penetration by 566 million units.

Access to high-speed Internet services provides users with a more responsive Web browsing experience. Nielsen/NetRatings reported that 77% of active Internet users in the United States had broadband access as of October 2006. According to Scarborough Research, broadband access across the U.S. has reached critical mass and is having a clear impact on user behavior. Broadband consumers tend to have high speed Web access virtually 24 hours a day and seven days a week - at work, at home and increasingly across an array of portable devices such as laptops, PDAs and mobile phones. While only about 9% of adults in the United States report spending 20 hours or more a week on the Internet, this number nearly doubles to 17% among those with broadband access at home.

The volume of electronic commerce has grown in parallel with the Internet itself. According to ComScore Networks, the total value of non-travel eCommerce spending in the United States surpassed \$102 billion in 2006, up 24 percent from 2005.

Similar growth trends are seen for eGovernment. Research firm Input predicts that spending on state and local government information technology outsourcing will grow to \$20 billion by 2010.

#### *Emergence of the Internet as a medium for eGovernment*

The growing 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 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 or special purpose dial-up computer connections.

#### *Challenges to the implementation of eGovernment services*

Despite the potential benefits of eGovernment, barriers to creating successful Internet-based services occasionally 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 financial, operational and technology risks of moving from older, established technologies to rapidly evolving Internet technologies;

- 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; and
- the intense competition for qualified technical personnel.

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 a marketing function to ensure that services are designed to meet the needs of businesses and citizens and that they are aware of their availability; and
- 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.

We believe traditional private sector services generally do not address the unique needs of 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 that may not adequately balance the responsiveness to change of a successful Internet business with the longer time horizons and extended commitment periods of government projects.

### **What We Provide to Governments**

In our core portal outsourcing segment, we provide Internet-based eGovernment services that 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 develop, build and operate portals for our government partners that are designed to meet their needs as well as those of the businesses and citizens they serve. Our portals are designed to create a single point of presence on the Internet that allows businesses and citizens to reach the Web site of every government agency in a specific jurisdiction from one online location. We employ a common look and feel in the Web sites of all government agencies associated with our government portals and make them useful, appealing and easy to use. In addition to developing and managing the government portal, we develop applications that, in one location on the Internet, allow businesses and citizens to complete processes that have traditionally required separate offline interaction with several different government agencies. These applications also permit businesses and citizens to conduct transactions with government agencies and to obtain information 24 hours per day and seven days per week. We also help our government partners to 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-funding 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. 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. We are also able to provide specific fee-based application and portal outsourcing solutions to governments who cannot or do not wish to pursue a self-funding 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 political 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 would observe in their own actions.

### **Government Contracts**

#### *Our portal outsourcing businesses*

Through our portal outsourcing businesses, we currently have contracts with 22 state and local government agencies. At December 31, 2006, we provided outsourced government portal services through the following portals:

<b>Government Entity</b>	<b>Year Services Commenced</b>	<b>Web Address</b>
Vermont	2006	<a href="http://www.Vermont.gov">www.Vermont.gov</a>
Colorado	2005	<a href="http://www.Colorado.gov">www.Colorado.gov</a>
South Carolina	2005	<a href="http://www.SC.gov">www.SC.gov</a>
Kentucky	2003	<a href="http://www.Kentucky.gov">www.Kentucky.gov</a>
Alabama	2002	<a href="http://www.Alabama.gov">www.Alabama.gov</a>
Des Moines, Iowa	2002	<a href="http://www.DMgov.com">www.DMgov.com</a>
Iowa State County Treasurers Association	2002	<a href="http://www.IowaTreasurers.org">www.IowaTreasurers.org</a>
Rhode Island	2001	<a href="http://www.RI.gov">www.RI.gov</a>
Oklahoma	2001	<a href="http://www.OK.gov">www.OK.gov</a>
Montana	2001	<a href="http://www.MT.gov">www.MT.gov</a>
Tennessee	2000	<a href="http://www.Tennessee.gov">www.Tennessee.gov</a>
Hawaii	2000	<a href="http://www.Hawaii.gov">www.Hawaii.gov</a>
Idaho	2000	<a href="http://www.Idaho.gov">www.Idaho.gov</a>
Utah	1999	<a href="http://www.Utah.gov">www.Utah.gov</a>
Maine	1999	<a href="http://www.Maine.gov">www.Maine.gov</a>
Arkansas	1997	<a href="http://www.Arkansas.gov">www.Arkansas.gov</a>
Indianapolis and Marion County, Indiana	1997	<a href="http://www.CivicNet.net">www.CivicNet.net</a>
Iowa	1997	<a href="http://www.Iowa.gov">www.Iowa.gov</a>
Virginia	1997	<a href="http://www.Virginia.gov">www.Virginia.gov</a>
Indiana	1995	<a href="http://www.IN.gov">www.IN.gov</a>
Nebraska	1995	<a href="http://www.Nebraska.gov">www.Nebraska.gov</a>
Kansas	1992	<a href="http://www.Kansas.gov">www.Kansas.gov</a>

Our government portals operate under separate contracts that generally have an initial term of three to five years. Under a typical self-funding 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 citizens;
- it advocates the use of the portal for all commercially valuable applications in order to support the operation and expansion of the portal;
- it sponsors access to agencies for the purpose of 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 establishes a policy-making and fee approval board, 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;
- bear the risk of collecting transaction fees; and
- have an independent audit conducted upon that government's request.

We typically own all the software we develop under our government portal contracts. After completion of the initial contract term, our government partners typically receive a perpetual, royalty-free license to use the software only in their own portals.

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 board for approval.

#### *Our software & services businesses*

##### UCC and corporate filings software development

Our UCC and corporate filings software development business, NIC Conquest, focuses on secretaries of state, whose offices are state governments' principal agencies for corporate filings. We have installed Uniform Commercial Code ("UCC") and/or business entity software applications for Web-enabling the back-office systems and processes for business-to-government filings with the following states: California, Arkansas, Indiana, Montana, Oklahoma, South Dakota and Texas.

##### Ethics & elections

Our ethics & elections business, NIC Technologies, designs and develops online campaign expenditure and ethics compliance systems for federal and state government agencies. Our current government clients include the Federal Election Commission ([www.FEC.gov](http://www.FEC.gov)) and the state of Michigan. We have also installed filing systems in several other governments including Arkansas, California, Hawaii, Illinois, Louisiana, Oklahoma, Texas and British Columbia.

## Our Portal Service Offerings

We work with our government partners to develop, manage and enhance a comprehensive, Internet-based portal to deliver eGovernment services to their constituents. Our portals are designed to provide user-friendly and convenient 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. Some of the online services we currently offer in different jurisdictions include:

Product or Service	Description	Primary Users
Driver's License Records Retrieval	For those legally authorized businesses, this service offers controlled instant look-up of driving 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
BillWatch (Lobbyist in a Box)	Allows the user to monitor state legislative activity. Users can tag bills by key word or bill number, and BillWatch will send an e-mail when a change occurs in the status of the bill. Legislative activity can be monitored via wireless access.	Attorneys, lobbyists
Health Professional License Services	Allows users to search databases on several health professions to verify license status.	Hospitals, clinics, health insurers, citizens
Secretary of State 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
Professional License Renewal	Permits professionals to renew their licenses on line using a credit card.	Attorneys, doctors, nurses, architects and other licensed professionals
Driver's License Renewal	Permits citizens to renew their driver's license on line using a credit card.	Citizens
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
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
Hunting and Fishing Licenses	Permits citizens to obtain and pay for outdoor recreation licenses over the Internet.	Citizens
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

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. In the majority of the portals we operate, customer service representatives are available 24 hours a day, seven days a week.

## Revenues

In our outsourced portal businesses, we currently derive revenue from two main sources: transaction-based fees and fees for application development and portal management.

In most of our outsourced portal businesses, our revenues are generated from transactions, which generally include the collection of transaction-based and subscription fees from users. The highest volume, most commercially valuable service we offer is access to motor vehicle records through our insurance industry records exchange network. This service accounted for approximately 63% of our portal revenues in 2004, 62% in 2005 and 59% in 2006. ChoicePoint, which resells these records to the auto insurance industry, accounted for approximately 46% of portal revenues in 2004, 46% in 2005 and 47% in 2006. In 2006, transaction-based revenues accounted for approximately 92% of our outsourced portal revenues. Fees for application development and portal management accounted for approximately 8% of our outsourced portal revenues.

## Sales and Marketing

We have two primary sales and marketing goals:

- to develop new sources of revenue through new government relationships; and
- to retain and grow our revenue streams from existing 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 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 marketing efforts on key government decision makers through the use of print media and corporate communications.

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 Internet 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 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. Each of our outsourced portal businesses has a director of marketing and additional marketing staff that meet regularly with government, business and consumer representatives to discuss potential new services. We also promote the use of existing services to existing and new customers through speaking engagements and targeted advertising to organizations for professionals, including lawyers, bankers and insurance agents that 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 14 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. 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, database design, Web site administration and Web page development. 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 and 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 on our standard technical framework, and there is frequent communication and cooperation, which ensures that our government partners can make use of the most advanced eGovernment services we have developed throughout our organization.

Most of our portals and applications are physically hosted in each jurisdiction in which we operate on servers that we own or lease. 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 thorough 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. We expect that commercially licensed technology will continue to be available at reasonable costs.

## Competition

We believe that the principal factors upon which our businesses compete are:

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

We believe we compete favorably with respect to the above-listed factors. In most cases, the principal substitute for our services is a government-designed and managed service that integrates 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 piece of their business and market shares. Examples of companies that may compete and/or currently compete with us are the following:

- large systems integrators, including CGI AMS and SAIC;
- traditional software applications developers, including Microsoft and Oracle; and
- traditional consulting firms, including IBM Global Services, BearingPoint, and Accenture.

## Employees

As of December 31, 2006, we had 339 full-time employees, of which 56 were working in corporate operations, 270 were in our outsourced portal businesses and 13 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. From time to time, we also employ independent contractors to support our application development, marketing, sales and support and administrative organizations. 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

*The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. 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.*

***Our UCC and corporate filings software development business has incurred losses under its fixed-fee contracts in the past, and our results of operations could be harmed if the costs that this business incurs to meet contractual commitments exceed our current estimates.***

Our UCC and corporate filings software development business, NIC Conquest, develops and delivers applications, typically for a fixed development fee, that improve the back-office administration of government records and better enable electronic filing and distribution of business entity and UCC records for secretaries of state. This business recognizes revenues on the percentage-of-completion method of accounting utilizing costs incurred to date as compared to the estimated total costs for each contract. This method is used because management considers expended costs to be the best available measure of progress on our fixed-price contracts and results in our recognizing contract revenues over the contract term in proportion to our incurrence of contract costs. The earnings or losses recognized on individual contracts are based on estimates of contract revenues and



costs. Contract losses are recognized in full when determined, and contract profit estimates are adjusted based on ongoing reviews of contract profitability. Actual results could differ from estimated amounts and could result in a reduction or elimination of previously recognized earnings. In certain circumstances, such adjustments could be significant.

In the fourth quarter of 1998, we determined that the balance of revenues remaining to be recognized under our existing contractual obligations was not expected to cover anticipated costs of developing and implementing the related applications. Estimated costs in excess of fixed contract prices of \$1.3 million for completing these applications were expensed under the percentage-of-completion method of accounting in the fourth quarter of 1998. We accrued additional anticipated losses of \$1.1 million in 1999, \$1.4 million in 2000, and \$6.0 million in 2001 based on revised estimates relating to our then-existing contracts. In 2002, we accrued approximately \$3.5 million in anticipated losses due to cost overruns on contracts in Arkansas, Minnesota and Oklahoma. We have fulfilled all obligations under our contracts with the states of Minnesota and Oklahoma, and the Arkansas system is currently in the maintenance phase. As recently as the first quarter of 2005, we recorded a \$5.0 million charge due to anticipated cost overruns on our contract with the California Secretary of State, as further discussed in Note 2 in the Notes to Consolidated Financial Statements included in this Form 10-K. In June 2006, the California Secretary of State officially accepted the UCC system, which also commenced the maintenance and operations phase of the contract. However, it is possible that our costs will similarly exceed revenues in the future, as a result of unforeseen difficulties in the creation of an application called for in the contract, unforeseen challenges in ensuring compatibility with existing systems, rising development, subcontractor and personnel costs, delays in completing the contract, or other reasons. If this occurs, our results of operations, financial condition and cash flows could be seriously harmed.

***We depend on other contractors and subcontractors in connection with our performance under our UCC and corporate filings software development engagement with the California Secretary of State. If these parties fail to satisfy their obligations to us or the California Secretary of State, or if we are unable to maintain these relationships, our operating results and business prospects could be adversely affected.***

A significant portion of the work we are obligated to deliver to the California Secretary of State is performed by subcontractors. There is a risk that the California Secretary of State or we may have disputes with our subcontractors arising from, among other things, the quality and timeliness of work performed by the subcontractors and customer concerns about the subcontractors. Disputes with subcontractors or the California Secretary of State could lead to legal disputes and 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 deliver on a timely basis the agreed-upon supplies and/or perform 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 and have an adverse effect on our business prospects, financial condition, and on our ability to compete for future contracts and orders.

***We have incurred significant net losses in the past, and may do so again in the future.***

We expanded rapidly following our initial public offering in July 1999 and incurred substantial net losses through mid-2002 primarily as a result of our acquired software & services businesses. We incurred net losses of approximately \$10.7 million for the year ended December 31, 1999, \$40.3 million for the year ended December 31, 2000, \$77.4 million for the year ended December 31, 2001 and \$7.6 million for the year ended December 31, 2002. However, as part of a broad strategic refocusing of the Company on our profitable core outsourced portal business during 2002, we exited our eProcurement business, NIC Commerce, decided to wind down our transportation business, IDT, and restructured the other software & services businesses in an effort to accelerate our path to profitability. As a result, the Company became profitable in the second half of 2002 and has been profitable since that time with the exception of the first quarter of 2005, as a result of the \$5.0 million charge we recorded on our UCC and corporate filings software development engagement with the California Secretary of State, our only remaining legacy contract from this business. Further, even though we were profitable in 2006, we may not be able to sustain or increase profitability on a quarterly or annual basis thereafter. We will need to generate significantly higher revenues while containing costs and operating expenses if we are to achieve growing profitability. We cannot be certain that our revenues will continue to grow or that we will ever achieve sufficient revenues to remain profitable on a long-term, sustained basis.

***We may be unable to generate sufficient taxable income from future operations to fully utilize our significant tax net operating loss carryforwards.***

We have a recent history of unprofitable operations primarily due to operating losses incurred in the software & services companies we have acquired since September 1999, as further discussed above. These losses have generated significant federal tax net operating losses, or NOLs. We had available at December 31, 2006, total NOL carryforwards for federal tax purposes of approximately \$39.3 million that will expire in the years 2020 (\$1.9 million), 2021 (\$27.1 million) and 2022 (\$10.3 million), respectively. For the year ended December 31, 2006 total net deferred tax assets, including NOL carryforwards, comprised approximately 16% of our total assets. We became profitable in the second half of 2002 and have been profitable since that time with the exception of the first quarter of 2005, as further discussed above. Further, even though we expect to be profitable and generate taxable income in 2007 and beyond, we may not be able to sustain the necessary levels of taxable income to fully utilize our significant NOL carryforwards prior to expiration. There is considerable management judgment necessary to determine future taxable income, and accordingly, actual results could vary significantly from such estimates. Accordingly, the recorded amount of the deferred tax assets considered realizable could be reduced in the near term if estimates of future taxable income during the carryforward periods are reduced. If this occurs, our results of operations, financial condition and cash flows could be seriously harmed.

***If our competitors are more successful in attracting and retaining customers and users, then our revenues and profits could decline.***

The principal substitute for our services is a government-designed and managed service that integrates 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 piece of their business and market shares. 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 margins or loss of market share resulting from increased competition, our business and financial condition may be adversely affected.

***Because we have portal outsourcing contracts with a limited number of governments, the termination of certain of these contracts may harm our business.***

Currently, the majority of our revenues are derived from the operation of our outsourced portal businesses. We have master portal contracts with 22 state and local governments. These contracts typically have initial terms of three to five years with optional renewal periods of one to five years. However, any renewal is optional and a government may terminate its contract prior to the expiration date upon specific cause events that are not cured within a specified period or, in some cases, upon passing legislation. Additionally, some of the contracts under which we provide portal management and software development services can be terminated without cause on a specified period of notice. The loss of one or more of our larger state portal partners, such as Indiana, Virginia, Tennessee, Utah or Colorado, if not replaced, could dramatically reduce our revenues. If these revenue shortfalls occur, our business 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.

***We may face damage to our professional reputation if our partners are not satisfied with our services.***

We depend to a large extent on our relationships with our government partners, our reputation for high quality professional services and commitment to preserving public trust to attract and retain customers. As a result, if one of our government partners is not satisfied with our services, it may be more damaging in our business than in other businesses.

***Because we have certain portal outsourcing contracts that contain performance bond requirements and/or indemnification provisions against claims arising from our performance, we may suffer monetary or reputational damages if we fail to meet our contractual obligations.***

We are bound by performance bond commitments on certain portal outsourcing 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 affect on our business prospects, financial condition, and on our ability to compete for future portal outsourcing contracts. Further, under certain of our portal outsourcing 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 or our performance or our subcontractors' performance gives rise to claims, we could be subject to legal liability, monetary damages and loss of customer relationships.

***We may be unable to obtain future contracts through the request for proposal process.***

A high percentage of our current revenues is derived from contracts with governments and government agencies that operate under special rules that apply to government purchasing. Where this process applies, there are special rules that typically require open bidding by possible service providers like us against a list of requirements established by governments under existing or specially-created procedures. To respond successfully to these requests for proposals, commonly known as RFPs, we must estimate accurately our cost structure for servicing a proposed contract, the time required to establish operations for the proposed client and the likely terms of any other proposals submitted. We also must assemble and submit a large volume of information within the strict time schedule mandated by an RFP. Whether or not we are able to respond successfully to RFPs in the future will significantly impact our business. We cannot guarantee that we will win any bids in the future through the RFP process, or that any winning bids will ultimately result in contracts. Therefore, our business, results of operations and financial condition would be harmed if we fail to obtain profitable future contracts through the RFP process.

***We may be unable to sustain the usage levels of current services that provide a significant percentage of our revenues.***

We obtain a high proportion of our revenues from a limited number of services. Transaction-based fees charged for access to motor vehicle records accounted for over 59% of our portal revenues for the year ended December 31, 2006 and are expected to continue to account for a significant portion of our revenues in the near future. Regulatory changes or the development of alternative information sources, such as credit scoring, could materially reduce our revenues from this service. A reduction in revenues from currently popular services would harm our business, results of operations and financial condition.

***If our potential customers are not willing to switch to or adopt our online government portals and other electronic services, our growth and revenues will be limited.***

The failure to generate a large customer base would harm our growth and revenues. This failure could occur for several reasons. Our future revenues and profits depend upon the widespread acceptance and use of the Internet as an effective medium for accessing public information, particularly as a medium for government filings. We cannot assure that customer acceptance and use of the Internet will continue to grow. Additionally, we face intense competition in all sectors of our business. As a result, our efforts to create a larger customer base may be more difficult than expected even if we are perceived to offer services superior to those of our competitors. Further, because the government-to-citizen and government-to-business portal access and electronic filing market is relatively new, potential customers in this market may be confused or uncertain about the relative merits of each eGovernment application and of which application to adopt, if any. Confusion and uncertainty in the marketplace may inhibit customers from adopting our applications, which could harm our business, results of operations and financial condition.

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

Under the terms of our self-funded outsourced portal government contracts, we remit a portion of the fees we collect to state agencies. 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. Our business, results of operations 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.

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

Although the majority of our portal revenues are derived from fees we charge to users for transactions conducted through our portals, approximately 8% of our portal revenues in 2006 were derived from software development or portal management services paid directly to us by governments on a time-and-materials or fixed fee basis. In the event of budget deficits, our government clients may be required to curtail discretionary spending on such projects and our portal revenues could be harmed.

***Because a major portion of our current revenues is generated from a small number of users, the loss of any of these users may harm our business and financial condition.***

A significant portion of our revenues is derived from data resellers' use of our portals to access motor vehicle records for sale to the automobile insurance industry. For the year ended December 31, 2006, one of these data resellers, ChoicePoint, accounted for approximately 47% of our portal revenues. It is possible that these users will develop alternative data sources or new business processes that would materially diminish their use of our portals. The loss of all or a substantial portion of business from any of these entities would harm our business, results of operations and financial condition.

***We may lose the right to the content distributed through our outsourced portals, which is provided to us entirely by government entities.***

We do not own or create the content 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 are dependent upon the accuracy and reliability of government computer systems and data collection for the content of our portals. The loss or the unavailability 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 and financial condition.

***The growth in our revenues may be limited by the number of governments that choose to provide eGovernment services and to adopt 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 to provide eGovernment services on behalf of those governments to complete transactions and distribute public information electronically. The growth in our revenues largely depends on government entities adopting our public/private model. We cannot assure that government entities will choose to provide eGovernment services at all, or that they will not provide such services themselves without private assistance or adopting our model. 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.

***Our business with various government entities often requires specific government legislation to be passed for us to initiate and maintain our government contracts.***

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 often necessary for governments to draft and adopt specific legislation before the government can circulate an RFP to which we can respond. Furthermore, the maintenance of our government contracts requires the continued acceptance of 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. 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 and financial condition. The repeal or modification of any enabling legislation would also harm our business, results of 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 can lead to shortfalls in revenues.***

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

***The seasonality of use for some of our eGovernment services may harm our fourth quarter results of each calendar year.***

The use of some of our eGovernment services is seasonal, particularly the accessing of drivers' records, resulting in lower revenues from this service 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 period. As a result, seasonality could cause our quarterly results to fluctuate, which could harm our business, results of operations and financial condition.



***We may need more working capital to fund operations and expand our business.***

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

- fund operations, including the costs to fund our legacy contract with the California Secretary of State and subcontractors on that project;
- collateralize letters of credit, which we are required to post as collateral for performance on certain of our outsourced government portal contracts and as collateral for certain performance bonds;
- support our expansion into other states and government agencies beyond what is contemplated in 2007 if unforeseen opportunities arise;
- expand our product and service offerings beyond what is contemplated in 2007 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 increase our working capital line of credit. The sale of additional equity securities could result in dilution to the Company's shareholders. 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 impact the Company's liquidity requirements or cause the Company 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 the Company, 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 and financial condition.

***Our acquisitions and strategic alliances entail numerous risks and uncertainties.***

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

- difficulties in the assimilation of operations, personnel, technologies and information systems of the acquired companies;
- 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;
- the risk that an acquired business will not perform as expected;
- risks associated with entering markets in which we have limited or no experience;
- potential loss of key employees, particularly those of our acquired businesses;
- adverse effects on existing business relationships with existing suppliers and customers;
- potentially dilutive issuances of equity securities, which may be freely tradable in the public market;
- erosion of our brand equity in the eGovernment or financial markets;
- impairment, restructuring and other charges; and
- the incurrence of debt or other expenses related to goodwill and other intangible assets.

We cannot be sure that any acquisitions we may announce will ultimately close. Moreover, even after we close such transactions, we cannot assure that we will be able to successfully integrate the new businesses or any other businesses, products or technologies we may acquire in the future. For example, in the third and fourth quarters of 2001, we recorded impairment losses totaling \$37.0 million and \$12.5 million, respectively, relating to our NIC Commerce, NIC Technologies and NIC Conquest businesses, all of which were acquired since the third quarter of 1999. Also, in the third quarter of 2000 and the fourth quarter of 2001, we recorded restructuring charges totaling \$0.7 million and \$0.4 million, respectively, relating to our NIC Commerce and NIC Technologies businesses. Additionally, in the second quarter of 2002, we recorded a \$1.3 million impairment loss relating to our IDT business, which was acquired in October 2000, and an impairment loss totaling \$3.0 million relating to our AOL business.

***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 incurrence of significant charges related to our UCC and corporate filings software development business, which has incurred significant losses under its fixed-fee contracts in the past, particularly under our contract with the California Secretary of State;
- 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 Internet generally or 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;
- 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, our revenues 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.

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

We regard our copyrights, patents, trademarks, trade dress, trade secrets, and similar intellectual property as important to our success. We rely on a combination of nondisclosure and other contractual arrangements with governments, our employees and third parties, 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.

***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. 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 generally grant our customers fully paid licenses to use the software and applications we develop for use in their portals. If customers elect to terminate our contracts and manage portal operations internally, our revenues and profits could decline.***

After termination of our contracts, it is possible that governments and their successors and affiliates may use their right of use license rights to the software programs and other applications we have developed for them in the operation of their portals to operate the portals themselves. This could adversely affect our revenues and profits. Additionally, they may inadvertently allow our intellectual property or other information to fall into the hands of third parties, including our competitors.

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

We license numerous third-party technologies and applications that we incorporate into our existing service offerings, 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, with the result 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 and financial condition.

***If we fail to coordinate or expand our operational procedures and controls, we may not effectively manage our growth.***

Our growth rate may increase rapidly in response to the 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. We intend to plan for the acceptance of new bids by a number of governmental entities so that we may be ready to begin operations as soon as possible after acceptance of a bid. Additionally, we plan to continue our expansion of eGovernment services into new government markets. As part of this growth plan, we must implement new operational procedures and controls to expand, train and manage our employees and to coordinate the operations of our various subsidiaries. If we cannot manage the growth of our government portals, staff, software installation and maintenance teams, offices and operations, our business may be harmed.



***We may be unable to hire, integrate or retain qualified personnel.***

The growth in our business has resulted in an increase in the responsibilities for both existing and new management personnel. Some of our personnel are presently serving in more than one executive capacity. The loss of any of our executives could harm our business. In addition, we expect that we will need to hire additional personnel in all areas throughout 2007, including general managers for new operations in jurisdictions in which we 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.

***To be successful, we must develop and market comprehensive, efficient, cost-effective and secure electronic access to public information and new services.***

Our success depends in part upon our ability to attract a greater number of Internet users to access public information electronically by delivering a comprehensive composite of public information and an efficient, cost effective and secure method of electronic access and transactions. Moreover, in order to increase revenues in the future, we must continue to develop services that businesses and citizens will find valuable, and there is no guarantee that we will be able to do so. If we are unable to develop services that allow us to attract, retain and expand our current user base, our revenues and future results of operations may be harmed. We cannot assure that the services we offer will appeal to a sufficient number of Internet users to generate continued revenue growth. Our ability to attract Internet users to our government portals depends on several factors, including:

- the comprehensiveness of public records available through our government portals;
- the perceived efficiency and cost-effectiveness of accessing public records electronically;
- the effectiveness of security measures;
- the increased usage and continued reliability of the Internet; and
- the user acceptance of our online applications and services.

***We are subject to independent audits 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. The scope of audits could include inspections of income statements, balance sheets, fee structures, collections practices, service levels and our compliance with 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 and financial condition.

***We may be unable to integrate new technologies and industry standards effectively.***

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.

***We depend on the increasing use of the Internet and on the growth of online government information systems. If the use of the Internet and eGovernment information systems does not grow as anticipated, our business will be seriously harmed.***

Our business depends on the increased acceptance and use of the Internet as a medium for accessing public information and completing government filings. Rapid growth in the use of the Internet is a relatively recent phenomenon. As a result, acceptance and use may not continue to develop at historical rates and a sufficiently broad base of individual and business customers may not adopt or continue to use the Internet as a medium for accessing government portals and other online services. Demand and market acceptance for recently introduced services over the Internet are subject to a high level of uncertainty, and there exist few proven services.

Our business would be seriously harmed if:

- use of the Internet and other online services does not continue to increase or increases more slowly than expected; or
- the technology underlying the Internet and other online services does not effectively support any expansion that may occur.

***If the Internet infrastructure fails to develop or be adequately maintained, our business would be harmed because users may not be able to access our government portals.***

The Internet has experienced, and is expected to continue to experience, significant growth in the number of users and amount of traffic. If the Web continues to experience increased numbers of users, frequency of use or increased bandwidth requirements, the Internet infrastructure may not be able to support these increased demands or perform reliably. The Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure, and could face such outages and delays in the future. These outages and delays could reduce the level of Internet usage and traffic on our government portals. Such outages and delays would also hinder our customers' ability to complete eGovernment transactions. In addition, the Internet could lose its viability due to delays in the development or adoption of new standards and protocols to handle increased levels of activity or due to increased governmental regulation. If the Internet infrastructure is not adequately developed or maintained, use of our government portals and our government-to-citizen and government-to-business services may be reduced.

Our success depends on the increase in Internet usage generally and in particular as a means to access public information electronically. This in part requires the development and maintenance of the Internet infrastructure. If this infrastructure fails to develop or be adequately maintained, our business would be harmed because users may not be able to access our government portals. Among other things, this development and maintenance will require a reliable network backbone with the necessary speed, data capacity, security and timely development of complementary products for providing reliable Internet access and services.

***We may be held liable for content that we obtain from government agencies.***

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 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 Web sites 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.

***Concerns over transactional security may hinder the growth of our business.***

A significant barrier to electronic commerce is the secure transmission of confidential information over public networks. Any breach in our security could expose us to a risk of loss or litigation and possible liability. We rely on encryption and authentication technology licensed from third parties to provide secure transmission of confidential information. As a result of advances in computer capabilities, new discoveries in the field of cryptography or other developments, a compromise or breach of the algorithms we use to protect customer transaction data may occur. Because we provide information released from various government entities, we may represent an attractive target for security breaches.

A compromise of our security or a perceived compromise of our security could severely harm our business. A party who is able to circumvent our security measures could misappropriate proprietary information, including customer credit card information, or cause interruptions or direct damage to our government portals. Also, should hackers obtain sensitive data and information, or create bugs or viruses in an attempt to sabotage the functionality of our applications and services, we may receive negative publicity, incur liability to our customers or lose the confidence of the governments with which we contract, any of which may cause the termination or modification of our government contracts. In December 2005, a security breach occurred which allowed an unauthorized party to gain access to the State of Rhode Island's official Web site (which we operate through a contract between our New England Interactive, LLC subsidiary and the State of Rhode Island) and obtain personal information, including full credit card numbers for 4,117 credit cards, that was stored in one of the portal's servers. For additional information on this matter, refer to the Company's Form 8-K filed with the SEC on January 30, 2006.

We may be required to expend significant capital and other resources to protect against the threat of security breaches or to alleviate problems caused by these breaches. However, protection may not be available at a reasonable price or at all.

***Our systems may fail or limit user traffic.***

Most of our communications hardware and computer hardware operations for delivering our eGovernment services are located individually in each state or city where we provide those services. We cannot assure that during the occurrence of fire, floods, earthquakes, power loss, telecommunications failures, break-ins and similar events that the modem banks and direct dial-up connections we have to serve as back-up systems will not prevent damage to our systems or cause interruptions to our services. Computer viruses, electronic break-ins or other similar disruptive problems could cause users to stop visiting our government portals and could cause our partners to terminate agreements with us. If any of these circumstances occurred, our business could be harmed. 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 government portals must accommodate a high volume of traffic and deliver frequently updated information. These government portals may experience interruptions due to any failure or delay by government agencies in the transmission or receipt of this information. Due to holidays and technical problems with state computer systems, our Web sites have experienced slower response times or decreased traffic in the past and may experience the same incidents in the future. In addition, our users depend on Internet service providers, online service providers and other Web site operators for access to our government portals and other online government-to-citizen and government-to-business services. Many of these providers and operators have experienced significant outages in the past due to system failures unrelated to our systems, holidays and heavy user traffic, and could experience the same outages, delays and other difficulties in the future. Any of these system failures could harm our business, results of operations and financial condition.

***Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses.***

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations and NASDAQ Global Select Market rules, are creating uncertainty for 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 high standards of corporate governance and public disclosure. As a result, our efforts to comply with evolving laws, regulations and standards have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In particular, our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal control over financial reporting and our independent registered public accounting firm's audit of that assessment has required the commitment of significant financial and managerial resources. Further, our board members, chief executive officer and chief financial officer 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 related to practice, our reputation may be harmed.

***The National Information Consortium Voting Trust owns a significant amount of our common stock, which may impede attempts to replace or remove our board or management.***

As of December 31, 2006, The National Information Consortium Voting Trust owned approximately 35% of our outstanding common stock. This concentration of ownership may have the effect of delaying or preventing a change in control or changes in management, or limiting the ability of other shareholders to approve or disapprove transactions that they may deem in their best interest.

***The shares owned by the National Information Consortium Voting Trust are available for sale on the open market. The resale of these securities might adversely affect our stock price.***

We have on file with the SEC an effective registration statement for the resale of the shares owned by the National Information Consortium Voting Trust. This trust will be permitted to sell its registered shares in the open market from time to time without advance notice to us or to the market and without limitations on volume.

Sales of substantial amounts of shares of our common stock in the public market, or the perception that those sales may occur, could cause the market price of our common stock to decline or make it more difficult for us to sell equity securities in the future at a time and a price that we consider appropriate.

## **ITEM 2. PROPERTIES**

Our principal administrative office occupies a total of approximately 9,000 square feet of leased space at 10540 South Ridgeview Road, Olathe, Kansas 66061. All of our subsidiaries also lease their facilities. We do not anticipate acquiring property or buildings in the foreseeable future.

## **ITEM 3. LEGAL PROCEEDINGS**

None.

## **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of the shareholders during the fourth quarter of fiscal 2006.

## PART II

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

Our stock trades on the NASDAQ Global Select Market under the symbol "EGOV." The following table shows the range of high and low closing sales prices reported on the NASDAQ Global Select Market for the periods indicated. On February 28, 2007, the closing price of our common stock was \$5.29.

<u>Fiscal Year Ended December 31, 2005</u>	<u>High</u>	<u>Low</u>
First Quarter . . . . .	\$5.28	\$4.34
Second Quarter . . . . .	\$4.72	\$4.21
Third Quarter . . . . .	\$6.55	\$4.67
Fourth Quarter . . . . .	\$6.43	\$5.60

<u>Fiscal Year Ended December 31, 2006</u>	<u>High</u>	<u>Low</u>
First Quarter . . . . .	\$6.53	\$5.64
Second Quarter . . . . .	\$7.43	\$6.02
Third Quarter . . . . .	\$6.48	\$4.99
Fourth Quarter . . . . .	\$5.73	\$4.47

As of February 28, 2007, there were approximately 285 holders of record of shares of our common stock.

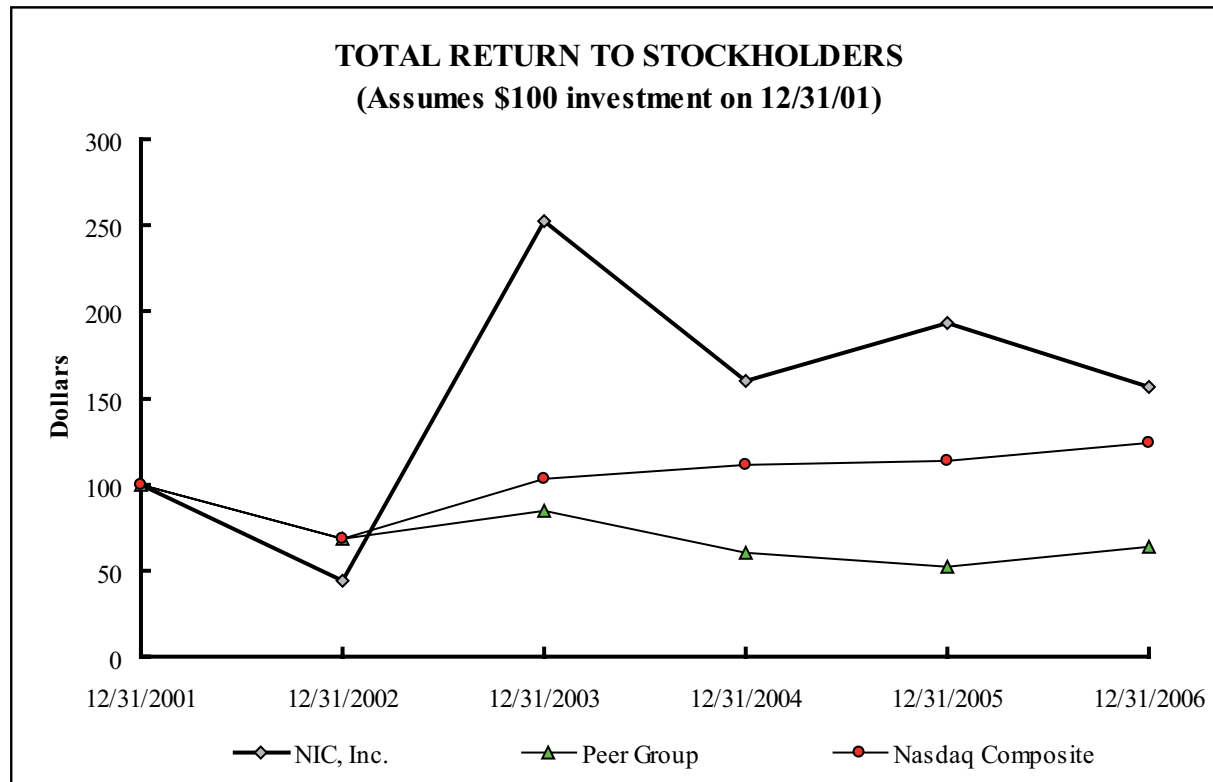
#### Dividend Policy

Within the last two years, we have not declared or paid any cash dividends on shares of our common stock. However, on January 29, 2007, our Board of Directors declared a special cash dividend of \$0.75 per share, payable to shareholders of record as of February 12, 2007. The dividend, totaling approximately \$46.7 million, was paid on February 20, 2007 out of the Company's available cash and marketable securities. 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 the Board of Directors deems relevant.

#### Performance Graph

The performance graph below compares the annual change in our cumulative total shareholder return on our common stock during a period commencing on December 31, 2001, and ending on December 31, 2006 (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, 2001. It should be noted that we did not paid any dividends on our common stock during the period commencing on December 31, 2001, and ending on December 31, 2006, and no dividends are included in the presentation of our performance. 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 a Peer Group**



Total Return Analysis	12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005	12/31/2006
NIC Inc. ....	\$100.00	\$44.34	\$252.52	\$159.75	\$193.71	\$156.29
Peer Group ....	\$100.00	\$68.47	\$ 84.38	\$ 60.34	\$ 52.68	\$ 63.49
Nasdaq Composite .....	\$100.00	\$68.47	\$102.72	\$111.54	\$113.07	\$123.84

The Peer Group consists of seven companies, each of whose business focus is 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: PEC Solutions, Inc. (PECS), Bearing Point, Inc. (BE) (formerly known as KPMG Consulting, Inc. (KCIN)), Accenture, Ltd. (ACN), International Business Machines Corp. (IBM), Maximus, Inc. (MMS), American Management Systems, Inc. (AMSY) and Official Payments Corporation (OPAY). Bearing Point, Inc. began trading publicly on February 8, 2001, and Accenture, Ltd. began trading publicly on July 18, 2001. Official Payments Corporation was included until May 31, 2002, when, as a result of the merger with Tier Technologies, it was no longer a member of the Peer Group. American Management Systems, Inc. was included until May 3, 2004, when, as a result of the merger with CGI Group, Inc., it was no longer a member of the Peer Group. PEC Solutions, Inc. was included until April 26, 2005, when, as a result of its merger with a subsidiary of Nortel Networks, Inc., it was no longer a member of the Peer Group.

#### ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated 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.

From September 1999 through October 2000, we acquired four companies and formed one business alliance that comprised the majority of our software & services businesses. Throughout this period of rapid expansion, and through the first half of 2002, we incurred substantial operating and net losses primarily as a result of these businesses. Included in results of operations for 2002 were substantial charges relating to the amortization of



intangible assets and goodwill arising from the acquisition of these businesses and formation of this business alliance. In addition, over the past several years, these businesses have undergone substantial organizational restructurings and consolidations and have incurred significant impairment losses, restructuring charges and contract losses. In 2002, we recorded impairment losses totaling \$4.3 million relating to our AOL and IDT businesses.

In 2002, we recorded \$3.5 million in anticipated losses under NIC Conquest's existing fixed fee contracts. Additionally, as further discussed in Note 2 in the Notes to Consolidated Financial Statements included in this Form 10-K, we recorded a \$5.0 million charge for the anticipated contract loss under our contract with the California Secretary of State in the first quarter of 2005. We also incurred substantial non-operating losses in 2002 from our equity method investments in affiliates and joint ventures totaling \$1.2 million. We currently hold no such investments accounted for under the equity method.

As part of a broad strategic refocusing of the Company on our profitable core outsourced portal business in mid-2002, we exited our eProcurement business, decided to wind down our transportation businesses and restructured the other software & services businesses in an effort to accelerate our path to profitability. The results of operations of our eProcurement business, NIC Commerce, have been classified as discontinued operations for all periods presented below. Loss from discontinued operations for 2002 totaled \$2.0 million. We became profitable in the second half of 2002 and have been profitable since that time, with the exception of the first quarter of 2005, as a result of the \$5.0 million charge we recorded on our software & services engagement with the California Secretary of State, as discussed above. We expect the Company to continue to be profitable and have focused the business on operations we believe have demonstrable ability to produce positive net income and sustainable cash flow in the future. However, any projections of future results of operations and cash flows are subject to substantial uncertainty.

	Year Ended December 31,				
	2002	2003	2004	2005	2006
<b>Consolidated Statement of Operations Data:</b>					
		(in thousands, except per share data)			
Total revenues . . . . .	\$47,545	\$50,831	\$55,762	\$ 59,243	\$ 71,376
Operating income (loss) . . . . .	(7,930)	7,338	11,800	10,191	16,148
Income (loss) from continuing operations . . . . .	(5,575)	6,328	7,105	6,363	10,739
Net income (loss) . . . . .	(7,610)	6,328	7,105	6,363	10,739
Income (loss) per share from continuing operations – basic . . . . .	(0.10)	0.11	0.12	0.11	0.17
Income (loss) per share from continuing operations – diluted . . . . .	(0.10)	0.11	0.12	0.10	0.17
Net income (loss) per share – basic . . . . .	(0.13)	0.11	0.12	0.11	0.17
Net income (loss) per share – diluted . . . . .	(0.13)	0.11	0.12	0.10	0.17

	December 31,				
	2002	2003	2004	2005	2006
<b>Consolidated Balance Sheet Data:</b>					
		(in thousands)			
Total assets . . . . .	\$74,456	\$85,740	\$93,071	\$117,845	\$140,134
Long-term debt (includes current portion of notes payable/capital lease obligations) . . . . .	533	363	—	—	—
Total shareholders' equity . . . . .	55,056	63,164	72,260	85,168	99,254

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

### **Caution about Forward-Looking Statements**

This Form 10-K includes “forward-looking” statements about future financial results, future business changes and other events that haven’t yet occurred. For example, statements like we “expect,” we “believe,” we “plan,” we “intend” or we “anticipate” are forward-looking statements. Investors should be aware that 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. In addition, we will not necessarily update the information in this Form 10-K if any forward-looking statement later turns out to be inaccurate. Details about risks affecting various aspects of our business are discussed throughout this Form 10-K. Investors should read all of these risks carefully.

### **What We Do – An Executive Summary**

We are a leading provider of eGovernment services that help governments use the Internet to reduce costs and provide a higher level of service to businesses and citizens. We accomplish this currently through two divisions: our core portal outsourcing businesses and our software & services businesses.

In our core business, portal outsourcing, we enter into contracts primarily with state governments and design, build and operate Web-based portals on their behalf. We enter into long-term contracts, typically three to five years, and manage operations for each government partner through separate subsidiaries that operate as decentralized businesses with a high degree of autonomy. Our portals consist of Web sites and applications that we build, which allow businesses and citizens to access government information online and complete transactions, including applying for a permit, retrieving driver’s license records or filing a 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 operational costs of the government portals. Our unique self-funding business model allows us to reduce our government partners’ financial and technology risks and obtain revenues by sharing in the fees generated from eGovernment services. Our clients benefit because they gain a centralized, customer-focused presence on the Internet. 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 transaction and data access services we provide and the division of revenues between the Company and the government agency. The government must approve prices and revenue sharing agreements. We generally own all the applications developed under these contracts. After completion of a defined contract term, the government agency typically receives a perpetual, royalty-free license to the applications for use only. If our contract were not renewed after a defined term, the government agency would be entitled to take over the portal in place with no future obligation of the Company. In some cases, we enter into contracts to provide consulting, development and management services to government portals in exchange for an agreed-upon fee.

Currently, we have contracts to provide portal outsourcing services for nineteen states, eighteen of which operate under our self-funding business model. Our closest competitors operate no more than one state portal each. We also provide portal outsourcing services to three local governments.

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. In the history of our company, we have not lost a contract renewal opportunity or re-bid process and are very proud of our highly reference-able list of government partners.
- *Win new portal contracts* – A key objective of the Company in 2007 is to accelerate new state portal contract wins, as further discussed below. We plan to accomplish this by making incremental expenditures in the areas of business development and marketing, through a combination of additional sales personnel, strategic advertising and public relations initiatives. We also intend to increase 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. 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* - We intend 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. We will accomplish this with new service offerings, increased operational focus and expanded marketing initiatives. In addition, we will work closely with the governance entities in 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 online transactional services that enable government agencies to interact more effectively and efficiently with businesses, citizens and other government agencies. 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 Web site 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 contract wins, 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. Prior to July 1, 2006, we defined same state revenues as those from states in operation and generating DMV revenues for two full years. DMV revenues are transaction fees that we earn from the sale of driver history records through the portals we operate. Our Indiana portal subsidiary signed a new long-term contract with the state of Indiana that commenced on July 1, 2006. The new contract is based on a funding model that includes recurring fixed monthly fees for baseline services and primarily project-based pricing for variable services. Historically, the majority of revenues under this contract were DMV and non-DMV transaction-based. Under the new contract, the majority of revenues will be classified as portal management. Because the majority of revenues from the new Indiana contract are generally recurring, we will continue to include Indiana portal revenues in the calculation of same state revenue growth even though we no longer earn DMV transaction-based revenues under the contract.

Our long-term goal is to grow same state revenues 10-15% per year, absent online DMV record price increases. Same state portal revenues grew 10% in 2006, 17% in 2005 and 20% in 2004. Our same state revenue growth in 2006 was lower than our growth in prior years primarily due to decreases in same state DMV and non-DMV transaction based revenue growth. In 2004, same state DMV revenues grew by 14% primarily due to modest online DMV record price increases in two of our portal states in late 2003 and two portal states in late 2004. In 2005, same state DMV revenues grew by 9% primarily due to the DMV price increases in two of our portal states in late 2004. In 2006, same state DMV

revenues grew by 3%, excluding Indiana from the calculation, and were not impacted by DMV price increases. Historically, DMV price increases have been relatively infrequent, and our ability to grow same state DMV revenues has been limited, as such revenues have been driven by broader economic factors outside of our control. Absent DMV price increases, same state DMV revenues have historically grown at a rate of 1% to 3% per year.

An important component of same state revenue growth is the growth in non-DMV transaction revenues, which are transaction fees generated by other means than from the sale of DMV records, for transactions conducted primarily by business users and, to a lesser extent, consumer users through our portals. In 2006, same state non-DMV revenues grew 27%, excluding Indiana from the calculation, down from 41% in 2005 and 39% in 2004. We are able to grow non-DMV revenues by continually deploying new revenue generating applications and by driving adoption of existing applications within our existing portal businesses. We believe the key factor in organically growing our revenues is to continually focus on driving adoption, and on implementation of new non-DMV revenue generating applications. We expect same state non-DMV transaction growth to range from 25% to 30% in 2007.

- *Continue to grow profitability* - In addition to driving same state revenue growth, we will continue 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 strong 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) by portal revenues. Our long-term outlook is for our portal gross profit rate to be in the 45-50% range. Our portal gross profit rate was 47% in 2006, down from 49% in 2005 and 2004. The decrease in 2006 was partially attributable to additional personnel in several of our portals due to our continued growth and reinvestment in our core business, coupled with mid-year 2006 non-executive salary increases across all portals that were in addition to normal annual increases, in an effort to better align our employee compensation structure with the general market. Also contributing to this decrease was an increase in bank fees. A growing percentage of our non-DMV transaction-based revenues are generated from online applications whereby users pay for information or transactions via credit cards. We typically earn a percentage of the credit card transaction amount, but also must pay an associated fee to the bank that processes the credit card transaction. We earn a lower gross profit percentage on these transactions as compared to our other non-DMV applications. However, we anticipate these revenues and the associated bank fees will continue to increase in the future, as these transactions contribute favorably to our operating income growth. We carefully monitor our portal gross profit percentage to strike the balance between generating a solid return for our shareholders and delivering value to our government partners through reinvestment in our portal operations. We expect our portal gross profit percentage to range from 45% to 47% in 2007.

We also view selling & administrative costs, expressed as a percentage of portal revenue, to be an important indicator of the relative year-over-year growth in our corporate level expenses. Selling & administrative costs as a percentage of portal revenue were 22% in 2006, 22% in 2005 and 25% in 2004. In 2007, we expect selling & administrative costs as a percentage of portal revenue to range from 28% to 29%, as we plan to spend an additional \$4 million to \$6 million (in addition to normal annual increases in selling & administrative costs) on business development, marketing and operations in an effort to accelerate new state portal contract wins and non-DMV revenue growth.

Finally, our consolidated operating margin (operating income or loss divided by portal revenues) is an important measure of our overall profitability. This metric increased to 23%, up from 18% in 2005 and down slightly from 24% in 2004. The decrease in 2005 was mainly due to the effect of the adjustment under percentage of completion accounting recorded in the first quarter of 2005 relating to our contract with the California Secretary of State, which resulted in a \$3.5 million reduction in software & services revenues in 2005 as further discussed below.

## 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 government portals on an outsourced basis. The software & services category includes revenues and cost of revenues primarily from our UCC and corporate filings and ethics & elections businesses. We currently derive revenue from two main sources: transaction-based fees and fees for application development. Each of these revenue types and the corresponding business models are further described below.

### *Our portal outsourcing businesses*

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

- DMV transaction-based: these are transaction fees from the sale of electronic access to driver history records, referred to as DMV 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.
- Non-DMV transaction-based: these are transaction fees from sources other than the sale of DMV records, for transactions conducted by business users and consumer users through our portals, and are generally recurring. For a representative listing of non-DMV services we currently offer through our portals, refer to Part I, Item 1 in this Form 10-K.
- Software development & portal management: these are fees from the performance of software development projects and other time and materials or fixed fee services for our government partners. While we actively market portal software development services, they do not have the same degree of predictability as our transaction-based revenues.

The highest volume, most commercially valuable service we offer is electronic access to DMV records through our insurance industry records exchange network. This service accounted for approximately 59% of our portal revenues in 2006, 62% in 2005 and 63% in 2004. We believe that while this application will continue to be an important source of revenue, its contribution as a percentage of total revenues on an individual portal basis will decline modestly as other sources grow. ChoicePoint, which resells these records to the auto insurance industry, accounted for approximately 47% of portal revenues in 2006 and 46% in 2005 and 2004.

In our outsourced portal businesses for 2006, DMV transaction-based revenues represented approximately 59% of portal revenues, non-DMV transaction-based revenues represented approximately 33%, and software development & portal management represented 8%. We expect software development & portal management revenues as a percentage of total portal revenues to increase modestly in 2007 due to our new Indiana portal contract, as further discussed above. Approximately 90% of our transaction-based revenues related to business-to-government transactions, while the remaining 10% related to citizen-to-government transactions.

Transaction-based revenues from our outsourced state portal business units are highly correlated to 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.

ChoicePoint and other data resellers and companies who access DMV records electronically through our insurance industry records exchange network have entered into contracts with the portals our subsidiaries operate to request these records from the states of Alabama, Arkansas, Colorado, Hawaii, Idaho, Indiana, Iowa, Kansas, Kentucky, Maine, Montana, Nebraska, Oklahoma, Rhode Island, South Carolina, Tennessee, Utah and Virginia. Under the terms of these contracts, we provide data resellers with driver's license and traffic records that vary by contract, for fees that currently range from \$2.00 to \$18.00 per record requested. The fees charged to all entities that access DMV 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 60-days 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 body. 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 end-user customers primarily on a monthly basis. We typically receive a majority of payments via electronic funds transfer and credit 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 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 entities with which we contract typically receive a perpetual, royalty-free license to the applications we developed. Such costs are included in cost of portal revenues in the consolidated statements of income.

#### *Our software & services businesses*

##### UCC and corporate filings

Our UCC and corporate filings software development business derives the majority of its revenues from fixed-price application development contracts and recognizes revenues on the percentage of completion method. At December 31, 2006, this business was primarily engaged in servicing its contract with the California Secretary of State, as further discussed below, and no longer markets its applications and services in respect of new engagements.

##### Ethics & elections

Our ethics & elections business derives the majority of its revenues from time and materials application development and maintenance outsourcing contracts and recognizes revenues as services are provided. At December 31, 2006, our ethics & elections business was primarily engaged in servicing its contracts with the Federal Election Commission and the state of Michigan.

#### **Critical Accounting Policies**

Many estimates and assumptions involved in the application of generally accepted accounting principles have a material impact on 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 the Company's 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 to 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.

Management has discussed the development and selection of the critical accounting policies described below with the Audit Committee of the Board of Directors, and the Audit Committee has reviewed the Company's disclosure relating to it in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

#### *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 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 amount expected to be realized.

We have a history of unprofitable operations prior to 2003 primarily due to operating losses incurred in our software & services businesses. These losses generated significant federal tax net operating losses, or NOLs. We had available at December 31, 2006, total NOL carryforwards for federal tax purposes of approximately \$39.3 million that will expire in the years 2020 (\$1.9 million), 2021 (\$27.1 million) and 2022 (\$10.3 million), respectively. We became profitable in the second half of 2002. We expect the Company to continue to be profitable and generate taxable income, and have focused the business on operations that have demonstrable ability to produce positive taxable income and sustainable cash flow in the future. We believe it is more likely than not that we will generate sufficient taxable income from future operations to fully utilize the NOL carryforwards prior to expiration. Based on our current projections, we expect to fully utilize the NOL carryforwards by the end of 2009. The recorded amount of the deferred tax assets considered realizable could be reduced in the near term if estimates of future taxable income during the carryforward periods are reduced. There is considerable management judgment necessary to determine future taxable income, and accordingly, actual results could vary significantly from such estimates. For additional discussion of deferred income taxes, see Note 10 to the Notes to Consolidated Financial Statements included in this Form 10-K. For the years ended December 31, 2006 and 2005, total net deferred tax assets, including NOL carryforwards, comprised approximately 16% and 25%, respectively, of our total assets.

#### *Application development contracts*

Our UCC and corporate filings software development business, NIC Conquest, derives the majority of its revenues from fixed-price application development contracts and recognizes revenues on the percentage of completion method, utilizing costs incurred to date as compared to the estimated total costs for each contract. This method is used because management considers expended costs to be the best available measure of progress on our fixed-price contracts and results in our recognizing contract revenues over the contract term in proportion to our incurrence of contract costs. The earnings or losses recognized on individual contracts are based on management's estimates of contract revenues and costs. Contract losses are recognized in full when determined, and contract profit estimates are adjusted based on ongoing reviews of contract profitability. Use of the percentage of completion method requires that management be able to reasonably estimate total contract costs and costs to complete at each reporting date. We continuously review and reassess our estimates of contract profitability.

Our UCC and corporate filings software development business has incurred substantial losses under its fixed-price contracts primarily due to cost overruns. As recently as the first quarter of 2005, we recorded a \$5.0 million charge due to anticipated cost overruns on our contract with the California Secretary of State (as further discussed below and in Note 2 to the Notes to Consolidated Financial Statements included in this Form 10-K). In June 2006, the California Secretary of State officially accepted the UCC system, which also commenced the maintenance and operations phase of the contract. However, it is possible that our costs will similarly exceed revenues in the future, as a result of unforeseen difficulties such as rising development, subcontractor and personnel costs or other reasons. If this occurs, the Company's results of operations, financial condition and cash flows could be adversely affected. Because of the inherent uncertainties in estimating the costs of completion, it is at least reasonably possible that our estimates will change in the near term.



## **Financial Analysis of Years Ended December 31, 2006, 2005 and 2004**

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.

### *First Quarter 2005 Charge – California Secretary of State Contract*

Results of operations for the year ended December 31, 2005 include a \$5.0 million charge we recorded on our software & services engagement with the California Secretary of State (the “California SOS”) in the first quarter of 2005, as further discussed in Note 2 in the Notes to Consolidated Financial Statements included in this Form 10-K. Prior to the first quarter of 2005, key elements of our obligations under the California SOS contract were subcontracted to various third parties under fixed price contracts. At the end of the first quarter of 2005, as a result of system delivery issues and the concern over the ability of one of the two remaining subcontractors to meet the criteria set forth by the California SOS, we determined we would assume the lead project manager role on the contract, which was previously performed by this subcontractor. As a result of this change, we further evaluated the status of the project and concluded that a further modification to the management and oversight structure of the project was necessary to improve performance under the contract and that additional internal project management and technical personnel would be required on the engagement. We also reevaluated the expected completion date of the project, which was previously estimated to be in the first quarter of 2006, and determined to revise the estimated completion date to the end of 2006. As a result of our decision to commit these additional resources and the extension of the expected project completion date, we recorded a \$5.0 million adjustment under percentage of completion accounting in the first quarter of 2005, as we expected to incur a loss of approximately \$4.2 million on this project, instead of a previously projected profit of approximately \$1.0 million.

The adjustment in our consolidated statement of income for the year ended December 31, 2005 resulted in a reduction of software & services revenues of approximately \$3.5 million and an increase in cost of software & services revenues of approximately \$1.5 million. The adjustment in our consolidated balance sheet was a reduction in unbilled revenues of approximately \$3.5 million and an increase in application development contracts (a current liability) of approximately \$1.5 million.

In March 2006, we entered into an amendment to our contract with the California SOS. Among other changes, the amendment reduced the aggregate contract value from approximately \$25 million to approximately \$19 million, and released us from the obligation to deliver the business filings, or BE, portion of the project, except for maintenance of hardware and delivery of BE images as expressly set forth in the amendment. The amendment also set forth the final criteria in order for the California SOS to accept the Uniform Commercial Code, or UCC, portion of the project and move it into the maintenance and operations phase.

As a result of the amendment, we recorded an adjustment under percentage of completion accounting in the first quarter of 2006. The adjustment in our consolidated statement of income for the year ended December 31, 2006 resulted in a reduction of software & services revenues of approximately \$2.1 million and a reduction of cost of software & services revenues of approximately \$2.1 million. The adjustment in our consolidated balance sheet was a reduction in unbilled revenues of approximately \$2.1 million, a reduction of accrued liabilities of approximately \$1.6 million, and a reduction of application development contracts of approximately \$0.5 million. This adjustment did not affect operating income, net income or earnings per share.

In June 2006, the California SOS officially accepted the UCC portion of the project, which also commenced the 42-month maintenance and operations phase.

We regularly review our cost estimates to complete and do not currently believe our estimated contract loss will exceed the \$4.2 million estimate established in the first quarter of 2005. However, because of the inherent uncertainties surrounding the ultimate outcome of subcontract negotiations between our subcontractors and us as a result of the amendment, it is at least reasonably possible that our estimate will change in the near term. Further, it is possible that we will similarly incur cost overruns in the future as we have in the past as a result of unforeseen difficulties such as rising development, subcontractor and personnel costs or other reasons. If this occurs, our results of operations, financial condition and cash flows could be adversely affected.

At December 31, 2006, our corporate filings software & services business was primarily engaged in servicing the maintenance and operations obligation under its contract with the California SOS. This business is not marketing its applications and services for new engagements.

#### *Stock-Based Compensation*

In December 2004, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 123R (revised 2004), “Share-Based Payment,” that requires companies to expense the grant-date fair value of stock options and other equity-based compensation issued to employees. SFAS No. 123R eliminates the use of the intrinsic value method prescribed in Accounting Principles Board Opinion (“APB”) No. 25, “Accounting for Stock Issued to Employees,” that we used to account for our stock-based compensation plans prior to January 1, 2006.

Effective January 1, 2006, we adopted the provisions of SFAS No. 123R using the modified prospective application transition method, which did not require us to restate our financial statements prior to the effective date of SFAS No. 123R. For vested stock option awards that were outstanding on January 1, 2006, the modified prospective application transition method did not require us to record any additional compensation expense. For unvested stock option awards that were outstanding on January 1, 2006, awards that were previously included as part of the pro forma net income and earnings per share calculations of SFAS No. 123 will be charged to expense over the remaining vesting period, without any changes in measurement. For all new equity-based awards that are granted or modified after January 1, 2006, we will use SFAS No. 123R’s measurement model, expense recognition, and settlement provisions.

Prior to the adoption of SFAS No. 123R, we did not recognize stock-based compensation expense if the exercise price of stock options granted to employees or nonemployee directors was greater than or equal to the price of our common stock on the grant date. In addition, we did not recognize stock-based compensation expense for shares issued under our employee stock purchase plan. Beginning January 1, 2006 with the adoption of SFAS No. 123R, we began recognizing stock-based compensation expense for the cost of stock options, restricted stock awards and shares issued under our employee stock purchase plan. The following table presents stock-based compensation expense included in our consolidated statement of income for the year ended December 31, 2006 (in thousands):

	<b>Year Ended December 31, 2006</b>
Cost of portal revenues, exclusive of depreciation & amortization . . . . .	\$ 346
Cost of software & services revenues, exclusive of depreciation and amortization . . . . .	19
Selling & administrative . . . . .	966
Stock-based compensation expense before income taxes . . . . .	1,331
Income tax benefit . . . . .	(520)
Net stock-based compensation expense . . . . .	<u>\$ 811</u>

As of December 31, 2006, there was approximately \$0.8 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested stock options and approximately \$2.3 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested restricted stock awards. We expect to recognize the cost related to stock options over a weighted-average period of 1.4 years and the cost related to restricted stock awards over the next 3.6 years. We did not grant any stock options during the year-ended December 31, 2006, and do not currently anticipate granting stock options in the future. Instead, the Company expects to grant only restricted stock awards.

On October 26, 2005, our Board of Directors approved the acceleration of vesting of all unvested options to purchase common stock of the Company that had an exercise price that was greater than the market price on that date. The closing price of our common stock on the NASDAQ Global Select Market on October 26, 2005 was \$5.63 per share. As a condition of the acceleration and to prevent unintended personal benefit, the Company’s directors, executive officers and employees must refrain from selling common stock acquired upon the exercise of accelerated options until the original vesting date or, if earlier, termination of employment with or service to

the Company. All other terms and conditions applicable to such options, including exercise prices, remained unchanged. This action resulted in the accelerated vesting of options to purchase 163,873 shares of common stock of the Company, or approximately six percent of the total of all then-outstanding Company options.

We accelerated the vesting of these options because we believed it was in the best interest of our shareholders to reduce future compensation expense that we would otherwise have been required to report in our statement of income upon adoption of SFAS No. 123R in the first quarter of 2006. Further, because the options had exercise prices in excess of the then-current market price, they were viewed to have limited economic value and were not achieving their objective of incentive compensation and retention. As a result of the vesting acceleration, approximately \$0.5 million in aggregate future expense was eliminated.

We believe that equity-based compensation, particularly restricted stock awards, will continue to play an important role in supporting employee retention and providing individuals with long-term incentives to meet Company goals. For additional information regarding our adoption of SFAS No. 123R, see Note 11 in the Notes to Consolidated Financial Statements included in this Form 10-K.

## Results of Operations

Key Financial Metrics	2006	2005	2004
Revenue growth – outsourced portals . . . . .	21%	19%	21%
Same state revenue growth – outsourced portals . . . . .	10%	17%	20%
Recurring portal revenue % . . . . .	95%	96%	93%
Gross profit % - outsourced portals . . . . .	47%	49%	49%
Selling & administrative expenses as % of portal revenues . . . . .	22%	22%	25%
Operating income margin % (operating income as a % of portal revenues) . . . . .	23%	18%	24%

**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 Revenue Analysis	2006	Increase from 2005	2005	Increase/ (Decrease) from 2004	2004
DMV transaction-based . . . . .	\$41,247	16%	\$35,630	17%	\$30,498
Non-DMV transaction-based . . . . .	23,165	15%	20,145	37%	14,656
Software development & portal management . . . . .	5,597	167%	2,100	(38%)	3,390
Total . . . . .	<u>\$70,009</u>	21%	<u>\$57,875</u>	19%	<u>\$48,544</u>

Portal revenues for 2006 increased 21%, or approximately \$12.1 million, over 2005. Of this increase, 10%, or approximately \$5.6 million, was attributable to an increase in same state portal revenues (outsourced portals in operation and generating recurring revenues for two full years) and 11%, or approximately \$6.5 million, was primarily attributable to our newer portals in South Carolina (\$1.5 million), which began to generate DMV revenues in June 2005, and Colorado (\$5.0 million), which began to generate DMV revenues in October 2005.

Our Indiana portal subsidiary signed a new long-term contract with the state of Indiana that commenced on July 1, 2006. The new contract is based on a funding model that includes recurring fixed monthly fees for baseline services and primarily project-based pricing for variable services. Historically, the majority of revenues under this contract were DMV and non-DMV transaction-based. Under the new contract, the majority of revenues will be classified as portal management. Prior to July 1, 2006, we defined same state revenues as those from states in operation and generating DMV revenues for two full years. Because the majority of revenues from the new Indiana contract are generally recurring, we have continued to include Indiana portal revenues in the calculation of same state revenue growth even though we no longer earn DMV transaction-based revenues under the contract. Same state portal revenues in 2006 increased 10% over 2005 primarily due to increased transaction revenues from our Montana, Oklahoma, Tennessee, Utah and Virginia portals, among others.



Excluding Indiana, same state portal revenues in 2006 increased 11%, or approximately \$5.1 million, over 2005, with same state DMV transaction-based revenues increasing 3%, or approximately \$0.9 million, and same state non-DMV transaction-based revenues increasing 27%, or approximately \$3.8 million (primarily due to the addition of several new revenue generating applications in existing portals). Our same state revenue growth in current year was lower than the 17% growth we achieved in 2005 primarily due to decreases in same state DMV and non-DMV transaction-based revenue growth. Excluding Indiana, same state DMV revenue growth in 2006 was 3% compared to 9% in 2005. The higher growth in 2005 was primarily due to the effect of modest DMV price increases in two of our larger portal states in late 2004. Absent DMV price increases, same state DMV revenues have historically grown at a rate of 1% to 3% per year. Same state non-DMV transaction based revenue growth was 41% in 2005. We expect same state non-DMV transaction growth to range from 25% to 30% in 2007.

Portal revenues for 2005 increased 19%, or approximately \$9.3 million, over 2004. Of this increase, 16%, or approximately \$7.9 million, was attributable to an increase in same state portal revenues and 5%, or approximately \$2.2 million, was primarily attributable to our newer portals in South Carolina (\$1.4 million) and Colorado (\$1.1 million). Revenues related to our Vermont and New Hampshire portals, from which we primarily earned software development and portal management revenues, decreased by approximately \$0.3 million in 2005. Increases in same state and new portal revenues were partially offset by a \$0.8 million decrease in revenues from our local portal business, due to the wind down of certain of our less profitable local portals. In the first quarter of 2005, the Company ceased providing portal outsourcing services to Kent County, Michigan and the City of Tampa, Florida. Currently, the only local portals the Company services are those located in states where we operate an official state government portal.

Same state portal revenues in 2005 increased 17%, or approximately \$7.9 million, over 2004 primarily as a result of increased transaction revenues from our Tennessee, Indiana, Arkansas, Oklahoma and Kansas portals, among others. Same state DMV transaction-based revenues increased 9%, or approximately \$2.7 million, in 2005 due mainly to price increases in two of our larger portal states in late 2004. Same state non-DMV transaction-based revenues increased 41%, or approximately \$5.8 million, in 2005 due to the addition of several new revenue generating applications in existing portals. Partially offsetting these increases was a 25%, or approximately \$0.6 million, decrease in same state software development & portal management revenues due to our focus on recurring non-DMV transaction-based revenues, rather than on less predictable time and materials software development projects.

**COST OF PORTAL REVENUES.** Cost of portal revenues in 2006 increased 26%, or approximately \$7.8 million, over 2005. Of this increase, 17%, or approximately \$5.1 million, was attributable to an increase in same state cost of portal revenues, and 9%, or approximately \$2.7 million, was primarily attributable to our newer state portal businesses in South Carolina and Colorado. Cost of portal revenues in 2006 includes approximately \$0.3 million in stock-based compensation expense, as further discussed above and in Note 11 in the Notes to Consolidated Financial Statements included in this Form 10-K.

The increase in same state cost of portal revenues in 2006 was partially attributable to additional personnel in several of our portals due to our continued growth and reinvestment in our core business, coupled with mid-year 2006 non-executive salary increases across all portals that were in addition to normal annual increases, in an effort to better align our employee compensation structure with the general market. Also contributing to this increase was an increase in bank fees. A growing percentage of our non-DMV transaction-based revenues are generated from online applications whereby users pay for information or transactions via credit cards. We typically earn a percentage of the credit card transaction amount, but also must pay an associated fee to the bank that processes the credit card transaction. We earn a lower gross profit percentage on these transactions as compared to our other non-DMV applications. However, we anticipate these revenues and the associated bank fees will continue to increase in the future, as these transactions contribute favorably to our operating income growth.

Our portal gross profit percentage in 2006 was 47% compared to 49% in 2005, with cost of portal revenues growing at a higher rate than portal revenues in 2006, as further discussed above. We carefully monitor our portal gross profit percentage to strike the balance between generating a solid return for our shareholders and delivering value to our government partners through reinvestment in our portal operations. We expect our portal gross profit percentage to range from 45% to 47% in 2007.

Cost of portal revenues in 2005 increased 18%, or approximately \$4.6 million, over 2004. Of this increase, 18%, or approximately \$4.6 million, was attributable to an increase in same state cost of portal revenues, and 5%, or approximately \$1.2 million, was primarily attributable to new state portal businesses in South Carolina and Colorado. These increases were offset by a 5%, or \$1.2 million, decrease in operating expenses from our local portals as a result of the wind down of certain of our unprofitable local portal businesses. Same state cost of portal revenues in 2005 increased 20%, or approximately \$4.6 million, primarily as a result of the addition of personnel in several of our portals due to our continued growth and reinvestment in our core business. Also contributing to the increase in same state cost of portal revenues was an increase in bank fees, for reasons discussed above. Our portal gross profit percentage was 49% in 2005 and 2004.

**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.

<b>Software &amp; Services Revenue Analysis</b>	<b>2006</b>	<b>Increase/ (decrease) from 2005</b>	<b>2005</b>	<b>Decrease from 2004</b>	<b>2004</b>
UCC & corporate filings software development . . . . .	\$ (883)	34%	\$(1,328)	(131%)	\$4,264
Ethics & elections . . . . .	1,847	(18%)	2,245	—	2,247
Other . . . . .	403	(11%)	451	(36%)	707
Total . . . . .	<u>\$1,367</u>	—	<u>\$ 1,368</u>	(81%)	<u>\$7,218</u>

Software & services revenues in 2006 and 2005 primarily reflect revenue adjustments under percentage of completion accounting relating to our contract with the California Secretary of State, as further discussed above and in Note 2 in the Notes to Consolidated Financial Statements included in this Form 10-K. We recognize revenue on our contract with the California Secretary of State using the percentage of completion method as we make progress, utilizing costs incurred to date as compared to the estimated total cost for the contract.

**COST OF SOFTWARE & SERVICES REVENUES.** Cost of software & services revenues in 2006 and 2005 primarily reflects expense adjustments under percentage of completion accounting relating to our contract with the California Secretary of State as further discussed above and in Note 2 in the Notes to Consolidated Financial Statements included in this Form 10-K. Cost of software & services revenues in 2006 includes approximately \$19,000 in stock-based compensation expense, as further discussed above.

**SELLING & ADMINISTRATIVE.** Selling & administrative expenses in 2006 increased 21%, or approximately \$2.7 million, over 2005. The increase in selling & administrative expenses was mostly attributable to additional personnel across our corporate-level divisions, coupled with mid-year 2006 non-executive salary increases across all corporate-level divisions that were in addition to normal annual increases, in an effort to better align our employee compensation structure with the general market. Our corporate-level headcount increased by approximately 30% in 2006, as we have added personnel to support and enhance corporate-wide information technology security and portal operations, in addition to sales & marketing and growth initiatives. In addition, selling & administrative expenses in 2006 include approximately \$1.0 million in stock-based compensation expense, as further discussed above and in Note 11 in the Notes to Consolidated Financial Statements included in this Form 10-K. As a percentage of portal revenues, selling & administrative expenses were 22% in 2006, 22% in 2005 and 25% in 2004. We expect selling & administrative costs as a percentage of portal revenue to range from 28% to 29% in 2007, as we plan to spend an additional \$4 million to \$6 million (in addition to normal annual increases in selling & administrative costs) on business development, marketing and operations in an effort to accelerate new state portal contract wins and non-DMV revenue growth.

**INTEREST INCOME.** Interest income reflects interest earned on our investable cash and marketable securities portfolio. In 2005, we began investing our excess cash in short-term marketable debt securities, consisting primarily of auction rate government-backed obligations. Our marketable securities portfolio totaled \$45.0 million at December 31, 2006, up significantly from \$20.5 million at December 31, 2005. Higher short-term interest rates also contributed to the increase in interest income earned on these investments in 2006. As further discussed in Note 14 in the Notes to Consolidated Financial Statements included in this Form 10-K, on January 29, 2007, our Board of Directors declared a special cash dividend of \$0.75 per share, payable to shareholders of record as of February 12, 2007. The dividend, totaling approximately \$46.7 million, was paid on February 20, 2007 out

of our available cash and marketable securities. As a result of this dividend, we expect interest income to decrease significantly in 2007, as our average investable cash and marketable securities balance will be significantly lower in 2007 as compared to 2006.

**INCOME TAXES.** Our effective tax rate was approximately 42% in 2006, 42% in 2005 and 40% in 2004. Our income tax provision for 2006 reflects the increase of a valuation allowance totaling approximately \$177,000 for state income tax loss carryforwards that we may be unable to use, as further discussed in Note 10 in the Notes to Consolidated Financial Statements included in this Form 10-K. Prospectively, we expect our effective tax rate to be between 40% and 42%.

### **Liquidity and Capital Resources**

Net cash provided by operating activities was \$25.7 million in 2006 compared to \$21.3 million in 2005. The increase in cash flow from operations was primarily the result of a year-over-year increase in operating income, excluding non-cash charges for depreciation & amortization and stock-based compensation, and the adjustments under percentage of completion accounting recorded in the current and prior year periods on our contract with the California SOS, which did not affect operating cash flow.

The increases in accounts receivable and accounts payable in 2006 were primarily attributable to an increase in fourth quarter tax payment processing from tax filing applications across our portal businesses, most notably in Hawaii (\$3.3 million increase in accounts receivable and \$7.2 million increase in accounts payable). Such tax payments are frequently made via ACH or credit cards at the end of the year, whereby we do not receive payment until after year-end. The majority of these tax receipts were remitted to our government partners in early January 2007. The increases in accounts receivable and accounts payable were also attributable to the general increase in revenues across our portal businesses in 2006.

The decrease in unbilled revenues in 2006 was primarily due to the first quarter 2006 adjustment under percentage of completion accounting relating to our contract with the California SOS that reduced unbilled revenues by approximately \$2.1 million. Additionally, in June 2006, the California SOS officially accepted the UCC portion of the project, at which time approximately \$1.5 million in milestone payments under the contract became due to us, thus reducing unbilled revenues.

The decrease in accrued expenses in 2006 was primarily due to the first quarter 2006 adjustment under percentage of completion accounting relating to our contract with the California SOS that reduced accrued liabilities by approximately \$1.6 million.

Net cash provided by operating activities was \$21.2 million in 2005 compared to \$14.6 million in 2004. This improvement was partially the result of a year-over-year increase in operating income, excluding non-cash charges and the \$5.0 million adjustment on our contract with the California Secretary of State recorded under percentage of completion accounting, which did not affect operating cash flow in 2005. The effect of the adjustment relating to the California Secretary of State contract on our consolidated balance sheet in 2005 was a reduction in unbilled revenues of approximately \$3.5 million and an increase in application development contracts (a current liability) of approximately \$1.5 million.

The increases in accounts receivable and payable in 2005 were partially attributable to a general increase in revenues across our portal businesses in 2005, including our South Carolina and Colorado portals (combined \$2.1 million increase in accounts receivable and \$1.9 million increase in accounts payable), which began to generate DMV revenues in June 2005 and October 2005, respectively. In addition, our Virginia portal entered into a contract amendment in late 2005 that required it to become the primary depositor of customer remittances, whereas customer remittances were previously deposited directly with the state. This change contributed to a \$1.8 million increase in accounts receivable and a corresponding increase in accounts payable in 2005. Further, several of our state portals experienced an increase in fourth quarter tax payment processing from tax filing applications, including Idaho (\$1.4 million increase in accounts receivable and \$0.7 million increase in accounts payable) and Hawaii (\$2.9 million increase in accounts payable), among others.

We had a history of unprofitable operations prior to 2003 primarily due to operating losses incurred in our software & services businesses. These losses generated significant federal and state tax net operating losses, or NOLs, as further discussed above. As a result of our NOL carryforwards, we are not currently paying federal

income taxes, with the exception of minimal amounts relating to alternative minimum tax, and are only paying minimal amounts of state income taxes in certain states. This positively impacts our operating cash flow and will continue to positively impact our operating cash flow during the NOL carryforward periods. Based on our current projections, we expect to fully utilize our federal NOL carryforwards by the end of 2009. For the years ended December 31, 2006, 2005 and 2004, combined federal and state income tax payments totaled approximately \$0.4 million, \$0.5 million and \$0.5 million, respectively.

We recognize revenue primarily from providing outsourced government portal services net of the transaction fees due to the government when the services are provided. The fees that we must remit to the government are accrued as accounts payable and accounts receivable at the time services are provided. As a result, trade accounts payable and accounts receivable reflect the gross amounts outstanding at the balance sheet dates. Gross billings for the three months ended December 31, 2006 and 2005 were approximately \$196.9 million and \$152.5 million, respectively. The Company calculates days sales outstanding by dividing trade accounts receivable at the balance sheet date by gross billings for the period and multiplying the resulting quotient by the number of days in that period. Days sales outstanding for each of the three-month periods ended December 31, 2006 and 2005 was 13.

We believe that working capital is an important measure of our short-term liquidity. Working capital, defined as current assets minus current liabilities, increased to \$73.0 million at December 31, 2006, from \$51.2 million at December 31, 2005. Our current ratio, defined as current assets divided by current liabilities, at December 31, 2006 was 2.8 compared to 2.6 at December 31, 2005. The increase in our working capital was primarily attributable to an increase in total cash and marketable securities as a result of the increase in our operating cash flow in 2006.

Cash used in investing activities in 2006 primarily reflects \$24.5 million in purchases of marketable debt securities in an effort to increase the investment income from our growing cash reserves, and \$2.6 million of capital expenditures, which were primarily for normal fixed asset additions in our outsourced portal business, including Web servers, purchased software and office furniture and equipment, in addition to corporate-wide spending on information technology security.

Cash used in investing activities in 2005 primarily reflects \$20.5 million in net purchases of marketable debt securities in an effort to increase the investment income from our growing cash reserves, and \$2.3 million of capital expenditures, which were for our new South Carolina and Colorado portals (approximately \$0.9 million), in addition to normal fixed asset additions in our other outsourced portal business, including Web servers, purchased software and office furniture and equipment. Investing activities in 2005 also reflect a \$3.0 million reduction in our cash collateral requirements under the financing arrangement that covered all of the Company's then-outstanding letters of credit (as further discussed in Note 7 in the Notes to Consolidated Financial Statements included in this Form 10-K).

Investing activities in 2004 reflect \$1.2 million in capital expenditures, which were partially offset by the maturity of marketable securities and proceeds from the sale of our minority investment in E-Filing (as further discussed in Note 6 in the Notes to Consolidated Financial Statements included in this Form 10-K), and a \$2.4 million reduction in our cash collateral requirements under the financing arrangement that covered all of the Company's then-outstanding letters of credit, term note payable, and working capital line of credit. Capital expenditures in 2004 were mainly attributable to computer equipment purchases relating to our move to a new data center for company-wide hosting and disaster recovery purposes, in addition to normal fixed asset additions in our portal business.

Financing activities in 2006 primarily reflect \$1.2 million in proceeds from the exercise of employee stock options and \$0.2 million in proceeds from our employee stock purchase program. Although we cannot predict the annual amount of proceeds we expect to receive from employee stock options in the future, we expect that our employees will continue to exercise vested stock options that have intrinsic value. At December 31, 2006, approximately 0.9 million employee stock options were exercisable at a weighted average exercise price of \$4.35 per share. The closing price of our common stock on December 29, 2006 was \$4.97 per share.

Financing activities in 2005 reflects \$4.6 million in proceeds from the exercise of employee stock options and \$0.1 million in proceeds from our employee stock purchase program.



Financing activities in 2004 reflect \$1.2 million in proceeds from the exercise of employee stock options and \$0.1 million in proceeds from our employee stock purchase program. In addition, we paid off a term note payable that was used to finance the purchase of certain hardware and software components for our discontinued eProcurement business.

At December 31, 2006, our total cash and marketable securities balance was \$81.8 million compared to \$57.4 million at December 31, 2005. 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 special dividend payments for at least the next twelve months without the need of additional capital. On January 29, 2007, our Board of Directors declared a special cash dividend of \$0.75 per share, payable to shareholders of record as of February 12, 2007. The dividend, totaling approximately \$46.7 million, was paid on February 20, 2007 out of the Company's available cash and marketable securities. We do not believe this dividend will have a significant effect on our future liquidity. However, we may need to raise additional capital within the next twelve months to further:

- fund operations if unforeseen costs arise, including the costs to fund our contract with the California Secretary of State and subcontractors on that project;
- collateralize letters of credit, which we are required to post as collateral for performance on certain of our outsourced government portal contracts, as collateral for certain performance bonds, and as collateral for certain office leases;
- 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, marketable securities and cash generated from operations are 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 the Company's shareholders. There can be no assurance that financing will be available in amounts or on terms acceptable to the Company, if at all.

We issue letters of credit as collateral for performance on certain of our outsourced government portal contracts, as collateral for certain performance bonds and as collateral for certain office leases. These irrevocable letters of credit are generally in force for one year, for which we pay bank fees of approximately 1.25% to 1.75% of face value per annum. We had unused outstanding letters of credit totaling approximately \$1.3 million at December 31, 2006 and \$5.4 million at December 31, 2005. We are not currently required to cash collateralize these letters of credit. Our collateral requirements have eased over time as we have continued to operate profitably and grow our earnings. However, even though we expect to be profitable in fiscal 2007 and beyond, we may not be able to sustain or increase profitability on a quarterly or annual basis. We will need to generate sufficient revenues while containing costs and operating expenses if we are to achieve sustained profitability. If we are not able to sustain profitability, our cash collateral requirements may increase. Had we been required to post 100% cash collateral at December 31, 2006 for the face value of all performance bonds (which are partially supported by letters of credit) and our line of credit in conjunction with a corporate credit card agreement, unrestricted cash would have decreased and restricted cash would have increased by approximately \$3.3 million.

At December 31, 2006, we were bound by performance bond commitments totaling approximately \$2.3 million on certain government portal outsourcing contracts. These performance bonds are collateralized by a \$1 million letter of credit. In the second quarter of 2006, the California SOS officially accepted the UCC portion of the project, at which time we were relieved of our obligation to provide a \$5 million performance bond. The official elimination of the bond requirement took place in the third quarter of 2006, at which time our letter of credit collateral requirement to secure the remaining \$2.3 million in outstanding portal performance bonds was reduced to \$1 million. We have never had any defaults resulting in draws on performance bonds or letters of credit.

We do not have off-balance sheet arrangements or significant exposures to liabilities that are not recorded or disclosed in our financial statements. While we have significant operating lease commitments for office space, those commitments are generally tied to the period of performance under related contracts. The following table sets forth our future contractual obligations and commercial commitments as of December 31, 2006 (in thousands):

<u>Contractual Obligations</u>	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>More than 5 years</u>
Operating lease obligations . . . . .	\$3,762	\$1,304	\$1,817	\$641	\$—
Long-term debt obligations . . . . .	—	—	—	—	—
Capital lease obligations . . . . .	—	—	—	—	—
Purchase obligations . . . . .	—	—	—	—	—
Other long-term liabilities . . . . .	—	—	—	—	—
Total contractual cash obligations . . . . .	<u>\$3,762</u>	<u>\$1,304</u>	<u>\$1,817</u>	<u>\$641</u>	<u>\$—</u>

## Recent Accounting Pronouncements

### *Quantifying Financial Statement Errors*

In September 2006, the staff of the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin (“SAB”) No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.” SAB No. 108 was issued in order to eliminate the diversity in practice surrounding how public companies quantify financial statement misstatements. We applied the provisions of SAB No. 108 to our fiscal year ended December 31, 2006 using the cumulative effect transition method, as further discussed in Note 2 in the Notes to Consolidated Financial Statements in this Form 10-K.

### *Accounting for Uncertainty in Income Taxes*

In July 2006, the FASB issued FASB Interpretation (“FIN”) 48, “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109.” FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity’s financial statements. We will be required to adopt FIN 48 in the first quarter of 2007. We are currently evaluating the requirements of FIN 48 and have not yet determined the impact on our consolidated financial statements.

### *Fair Value Measurements*

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements,” which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. We will be required to adopt this standard in the first quarter of 2008. We are currently evaluating the requirements of SFAS No. 157 and have not yet determined the impact on our consolidated financial statements.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

**INTEREST RATE RISK.** Our exposure to market risk for changes in interest rates relates to the increase or decrease in the amount of interest income we can earn on our short-term investments in marketable debt securities and cash balances. Because our investments are in short-term, investment-grade, interest-bearing marketable securities, we are exposed to minimal risk on the principal of those investments. We limit our exposure to credit loss by depositing our cash with high credit quality financial institutions. We enhance the safety and preservation of our invested principal funds by attempting to limit default risk, market risk and investment risk. We do not use derivative financial instruments. A 10% change in interest rates would not have a material effect on our financial condition, results of operations or cash flows.

**ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA****NIC INC.  
CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2005	2006
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents . . . . .	\$ 36,901,409	\$ 36,744,872
Marketable securities . . . . .	20,500,000	45,008,431
Trade accounts receivable . . . . .	22,269,136	28,729,038
Unbilled revenues . . . . .	2,197,713	1,068,940
Deferred income taxes . . . . .	421,609	711,015
Prepaid expenses & other current assets . . . . .	1,631,894	1,644,816
Total current assets . . . . .	83,921,761	113,907,112
Property and equipment, net . . . . .	3,327,185	3,790,490
Unbilled revenues . . . . .	1,395,086	—
Deferred income taxes . . . . .	28,916,194	22,013,248
Other assets . . . . .	285,222	423,597
Total assets . . . . .	<u>\$ 117,845,448</u>	<u>\$ 140,134,447</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable . . . . .	\$ 24,457,902	\$ 34,201,937
Accrued expenses . . . . .	6,642,581	5,911,197
Application development contracts . . . . .	1,260,631	512,618
Other current liabilities . . . . .	316,730	254,510
Total current liabilities . . . . .	32,677,844	40,880,262
Commitments and contingencies (Notes 2, 3, 7, 8 and 14) . . . . .	—	—
Shareholders' equity:		
Common stock, no par, 200,000,000 shares authorized 61,073,505 and 61,573,900 shares issued and outstanding . . . . .	—	—
Additional paid-in capital . . . . .	207,444,750	210,210,393
Accumulated deficit . . . . .	(122,093,098)	(110,788,533)
	85,351,652	99,421,860
Less treasury stock . . . . .	(184,048)	(167,675)
Total shareholders' equity . . . . .	85,167,604	99,254,185
Total liabilities and shareholders' equity . . . . .	<u>\$ 117,845,448</u>	<u>\$ 140,134,447</u>

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

**NIC INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**

	Year Ended December 31,		
	2004	2005	2006
Revenues:			
Portal revenues . . . . .	\$48,543,779	\$57,875,067	\$70,008,598
Software & services revenues . . . . .	<u>7,217,975</u>	<u>1,367,546</u>	<u>1,367,248</u>
Total revenues . . . . .	<u>55,761,754</u>	<u>59,242,613</u>	<u>71,375,846</u>
Operating expenses:			
Cost of portal revenues, exclusive of depreciation & amortization . . . . .	24,866,146	29,448,091	37,249,358
Cost of software & services revenues, exclusive of depreciation & amortization . . . . .	5,583,248	5,348,438	596,279
Selling & administrative . . . . .	12,017,576	12,651,948	15,341,777
Depreciation & amortization . . . . .	<u>1,495,252</u>	<u>1,602,879</u>	<u>2,040,398</u>
Total operating expenses . . . . .	<u>43,962,222</u>	<u>49,051,356</u>	<u>55,227,812</u>
Operating income . . . . .	<u>11,799,532</u>	<u>10,191,257</u>	<u>16,148,034</u>
Other income (expense):			
Interest income . . . . .	116,037	704,614	2,401,504
Interest expense . . . . .	(10,852)	—	—
Equity in net loss of affiliates . . . . .	(109,061)	—	(96,954)
Other income (expense), net . . . . .	<u>13,906</u>	<u>(2,971)</u>	<u>(35,187)</u>
Total other income . . . . .	<u>10,030</u>	<u>701,643</u>	<u>2,269,363</u>
Income before income taxes . . . . .	<u>11,809,562</u>	<u>10,892,900</u>	<u>18,417,397</u>
Income tax provision . . . . .	<u>4,704,901</u>	<u>4,529,824</u>	<u>7,678,396</u>
Net income . . . . .	<u>\$ 7,104,661</u>	<u>\$ 6,363,076</u>	<u>\$10,739,001</u>
Basic net income per share . . . . .	<u>\$ 0.12</u>	<u>\$ 0.11</u>	<u>\$ 0.17</u>
Diluted net income per share . . . . .	<u>\$ 0.12</u>	<u>\$ 0.10</u>	<u>\$ 0.17</u>
Weighted average shares outstanding			
Basic . . . . .	<u>58,988,456</u>	<u>60,078,841</u>	<u>61,408,552</u>
Diluted . . . . .	<u>60,877,294</u>	<u>61,093,788</u>	<u>61,763,093</u>

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



**NIC INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

	<b>Common Stock</b>		<b>Additional</b>	<b>Accumulated</b>	<b>Accumulated</b>	<b>Treasury</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Paid-in Capital</b>	<b>Deficit</b>	<b>Other Comprehensive Income (Loss)</b>	<b>Stock</b>	
<b>Balance, January 1, 2004</b> .....	58,715,672	\$—	\$198,929,405	\$(135,560,835)	\$(480)	\$(204,497)	\$63,163,593
Net income .....	—	—	—	7,104,661	—	—	7,104,661
Stock options exercised .....	505,378	—	1,186,391	—	—	—	1,186,391
Issuance of common stock under employee stock purchase plan ....	80,325	—	116,746	—	—	—	116,746
Tax deductions relating to stock options ...	—	—	688,604	—	—	—	688,604
Unrealized holding gain on marketable securities .....	—	—	—	—	480	—	480
<b>Balance, December 31, 2004</b> .....	59,301,375	—	200,921,146	(128,456,174)	—	(204,497)	72,260,475
Net income .....	—	—	—	6,363,076	—	—	6,363,076
Retirement of treasury stock .....	—	—	(20,449)	—	—	20,449	—
Stock options exercised .....	1,742,099	—	4,640,928	—	—	—	4,640,928
Issuance of common stock under employee stock purchase plan ....	30,031	—	121,761	—	—	—	121,761
Tax deductions relating to stock options ...	—	—	1,781,364	—	—	—	1,781,364
<b>Balance, December 31, 2005</b> .....	61,073,505	—	207,444,750	(122,093,098)	—	(184,048)	85,167,604
Cumulative effect of SAB No. 108 (Note 2) .....	—	—	—	565,564	—	—	565,564
Net income .....	—	—	—	10,739,001	—	—	10,739,001
Sale of treasury stock ....	11,154	—	50,004	—	—	16,373	66,377
Stock options exercised .....	448,898	—	1,226,638	—	—	—	1,226,638
Stock-based compensation ....	—	—	1,331,603	—	—	—	1,331,603
Issuance of common stock under employee stock purchase plan ....	40,343	—	157,398	—	—	—	157,398
<b>Balance, December 31, 2006</b> .....	<u>61,573,900</u>	<u>\$—</u>	<u>\$210,210,393</u>	<u>\$(110,788,533)</u>	<u>\$ —</u>	<u>\$(167,675)</u>	<u>\$99,254,185</u>

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

**NIC INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2004	2005	2006
Cash flows from operating activities:			
Net income . . . . .	\$ 7,104,661	\$ 6,363,076	\$ 10,739,001
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation & amortization . . . . .	1,495,252	1,602,879	2,040,398
Stock-based compensation expense . . . . .	—	—	1,331,603
Loss on asset disposals . . . . .	—	—	35,187
Accretion of discount on marketable securities . . . . .	—	—	(8,431)
Application development contracts . . . . .	(464,654)	1,260,631	(748,013)
Deferred income taxes . . . . .	4,330,885	4,150,803	7,179,104
Equity in net loss of affiliates . . . . .	109,061	—	96,954
Changes in operating assets and liabilities, net of effects of acquisitions:			
(Increase) decrease in trade accounts receivable . . . . .	261,348	(4,659,030)	(6,486,896)
Decrease in unbilled revenues . . . . .	2,598,668	2,211,223	2,523,859
(Increase) decrease in prepaid expenses & other current assets . . . . .	43,672	(320,014)	46,588
Decrease in other assets . . . . .	23,313	50,473	19,117
Increase (decrease) in accounts payable . . . . .	(1,951,482)	10,064,135	9,744,035
Increase (decrease) in accrued expenses . . . . .	1,020,798	376,804	(731,384)
Increase (decrease) in other current liabilities . . . . .	(7,060)	165,426	(62,220)
Net cash provided by operating activities . . . . .	<u>14,564,462</u>	<u>21,266,406</u>	<u>25,718,902</u>
Cash flows from investing activities:			
Purchases of property and equipment . . . . .	(1,189,336)	(2,327,360)	(2,584,948)
Capitalized internal use software development costs . . . . .	—	(68,994)	(239,492)
Purchases of marketable securities . . . . .	—	(35,500,000)	(24,500,000)
Maturities of marketable securities . . . . .	250,000	15,000,000	—
Cash and cash equivalents - restricted . . . . .	2,363,033	3,000,000	—
Proceeds from sale of affiliate . . . . .	300,005	—	—
Net cash provided by (used in) investing activities . . . . .	<u>1,723,702</u>	<u>(19,896,354)</u>	<u>(27,324,440)</u>
Cash flows from financing activities:			
Payments on notes payable . . . . .	(363,033)	—	—
Proceeds from sale of treasury stock . . . . .	—	—	64,965
Proceeds from employee common stock purchases . . . . .	116,746	121,761	157,398
Proceeds from exercise of employee stock options . . . . .	1,186,391	4,640,928	1,226,638
Net cash provided by financing activities . . . . .	<u>940,104</u>	<u>4,762,689</u>	<u>1,449,001</u>
Net increase (decrease) in cash and cash equivalents . . . . .	17,228,268	6,132,741	(156,537)
Cash and cash equivalents, beginning of year . . . . .	<u>13,540,400</u>	<u>30,768,668</u>	<u>36,901,409</u>
Cash and cash equivalents, end of year . . . . .	<u>\$30,768,668</u>	<u>\$ 36,901,409</u>	<u>\$ 36,744,872</u>
Other cash flow information:			
Interest paid . . . . .	<u>\$ 10,852</u>	<u>\$ —</u>	<u>\$ —</u>
Income taxes paid . . . . .	<u>\$ 465,172</u>	<u>\$ 450,745</u>	<u>\$ 373,793</u>

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

**NIC INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. THE COMPANY**

NIC Inc. (the “Company” or “NIC”), formerly National Information Consortium, Inc., is a provider of eGovernment services that helps governments use the Internet to reduce costs and provide a higher level of service to businesses and citizens. The Company accomplishes this currently through two divisions: its primary portal outsourcing businesses and its software & services businesses.

In its primary portal outsourcing business, the Company designs, builds and operates Internet-based portals on behalf of state and local governments desiring to provide access to government information and to complete government-based transactions online. These portals consist of Web sites and applications the Company has built that allow businesses and citizens to access government information online and complete transactions, including applying for a permit, retrieving driver’s license 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 manages operations for each contractual relationship through separate local subsidiaries that operate as decentralized businesses with a high degree of autonomy. NIC’s self-funding business model allows the Company to reduce its government partners’ financial and technology risks and generate revenues by sharing in the fees the Company collects from eGovernment transactions. The Company’s government partners benefit through 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 operational costs of the government portals.

The Company’s software & services businesses primarily include its Uniform Commercial Code (“UCC”) and corporate filings software development business and its ethics & elections business. The Company’s UCC and corporate filings software development business, NIC Conquest, is a provider of software applications and services for electronic filings and document management solutions for governments. This business focuses on Secretaries of State, whose offices are state governments’ principal agencies for UCC and corporate filings. Currently, NIC Conquest is primarily engaged in servicing its contract with the California Secretary of State and is not actively marketing its applications and services in respect of new engagements. The Company’s ethics & elections business, NIC Technologies, designs and develops online campaign expenditure and ethics compliance systems for federal and state government agencies. Currently, NIC Technologies is primarily engaged in servicing its contracts with the Federal Election Commission and the State of Michigan.

**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 includes revenues from the Company’s subsidiaries operating government portals under long-term contracts on an outsourced basis. The software & services category includes revenues primarily from the Company’s software & services businesses. 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 consist of all direct costs associated with operating government portals on an outsourced basis including employee compensation, telecommunications, credit card merchant fees, and all other costs associated with the provision of dedicated client service such as dedicated facilities. Cost of software & services revenues consist of all direct project costs to provide software development and services such as employee compensation, subcontractor labor costs, and all other direct project costs including hardware, software, materials, travel and other out-of-pocket expenses. Selling & administrative costs consist primarily of corporate-level expenses relating to human resource management, administration, information technology, legal and finance, and all costs of non-customer service personnel from the Company’s software & services businesses, including information systems and office rent. Selling & administrative costs also consist of corporate-level expenses for market development and public relations.

The Company's consolidated statements of cash flows for the years ended December 31, 2004 and 2005 present changes in restricted cash as an investing activity. Changes in restricted cash have previously been presented as a financing activity.

#### *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 and money market funds. 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.

#### *Marketable securities*

The Company's marketable securities at December 31, 2005 and 2006 were classified as available-for-sale and consisted of short-term auction rate securities, flex term notes and corporate debt securities. These investments are stated at fair value with any unrealized holding gains or losses included as a component of shareholders' equity as accumulated other comprehensive income or loss until realized. The cost of securities sold is based on the specific identification method. The fair values of the Company's marketable securities are based on quoted market prices at the reporting date. See Note 4.

#### *Unbilled revenues*

Unbilled revenues consist of revenues earned in excess of billings under long-term application development contracts accounted for under the percentage of completion method relating to the Company's UCC and corporate filings software development business and revenues earned in excess of billings relating to the Company's ethics & elections and portal businesses. Unbilled revenues arise when revenues have been recorded but the amounts cannot currently be billed under the terms of the contracts. Such amounts are recoverable from customers upon various measures of performance including, among others, achievement of certain milestones and completion of services during a specified period.

At each balance sheet date, the Company makes a determination as to the portion of the unbilled receivable relating to the Company's long-term application development contracts that will be collected within one year and records that amount as a current asset in the consolidated balance sheets. The remainder of the receivable, if any, is classified as a long-term asset. All unbilled revenues relating to the Company's ethics & elections and portal businesses are collectible within one year of the balance sheet dates and have been classified as a current asset.

Unbilled revenues relating to the Company's contract with the California Secretary of State at December 31, 2005 and 2006 were \$3.4 million and \$0.5 million. Unbilled revenues relating to the Company's ethics & election business at December 31, 2005 and 2006 were \$0.2 million and \$0. Unbilled revenues relating to the Company's portal businesses at December 31, 2005 and 2006 were \$0 and \$0.6 million.

#### *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 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 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 has not recorded any 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 entities with which the Company contracts typically receive a perpetual, royalty-free license to the applications the Company developed. 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 the American Institute of Certified Public Accountants Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" and Emerging Issues Task Force ("EITF") Issue 00-2, "Accounting for Website Development Costs." Costs capitalized pursuant to EITF Issue 00-2 would be included as part of the total of internal use software development costs capitalized pursuant to SOP 98-1.

The net carrying value of intangible assets at December 31, 2005 and 2006 was approximately \$0.1 million and \$0.3 million and was included in other long-term assets in the consolidated balance sheets. At December 31, 2006, intangible assets consisted of capitalized internal use software development costs, and are being amortized over a three-year period. Accumulated amortization at December 31, 2006 totaled approximately \$8,000.

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. There is considerable management judgment necessary to determine future cash flows, and accordingly, actual results could vary significantly from such estimates. The Company has not recorded any impairment losses on intangible assets during the periods presented.

#### *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. The 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. 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.

##### Software & services revenues

The Company's UCC and corporate filings software development business recognizes revenues from fixed-fee, long-term application development contracts on the percentage of completion method, utilizing costs incurred to date as compared to the estimated total costs for each contract, following the guidance outlined in Alternative B as set forth in paragraph .81 of SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." The Company primarily includes internal labor and subcontractor labor costs in actual and estimated total costs for purposes of determining the percentage of completion for each contract. The

Company also includes costs for hardware and software provided directly to the customer as part of the system and other direct project costs such as travel in actual and estimated total costs, but does not include such costs for determining the percentage of completion for each contract. The Company recognizes revenue and expenses for such costs with no associated profit margin. Contract revenues and estimated costs to complete are adjusted to reflect change orders when approved by the customer and the Company regarding both scope and price. Revenues and profits from these contracts are based on the Company's estimates to complete and are reviewed periodically, with adjustments recorded in the period in which the revisions are made. Any anticipated contract losses are charged to operations as soon as determinable.

In 2001, NICUSA and the Company's NIC Conquest subsidiary were awarded a five-year, \$25 million contract by the California Secretary of State (the "California SOS") to develop and implement a comprehensive information management and filing system. Revenues are recognized on the contract using the percentage of completion method utilizing costs incurred to date as compared to the estimated costs for the contract, as further described above. The Company believes costs incurred are a more representative measure of project progress than either the completion of billing or significant project milestones, as most of the significant milestone payments under this contract are concentrated toward the latter half of the project and do not appropriately reflect project progress and project costs incurred, especially in between milestone payment dates.

The contract contains early termination clauses that give the California SOS the right to terminate early including, among others, termination for non-appropriation of funds and termination for convenience. Such early termination clauses are generally standard in most government contracts and are not unique to the Company's contract with the California SOS. However, in the event the contract is terminated for non-appropriation of funds, the Company would be required to take back any affected goods furnished under the contract and to relieve the California SOS of any further obligations therefrom. The Company does not recognize revenues in excess of what has been appropriated for the project. If the contract is terminated for the convenience of the State, the parties are to negotiate a settlement, which the Company believes would include billed and unbilled receivables for goods, manufacturing materials and/or services performed or delivered under the contract.

Prior to the first quarter of 2005, key elements of the Company's obligations under the California SOS contract were subcontracted to various third parties under fixed price contracts. At the end of the first quarter of 2005, as a result of system delivery issues and the concern over the ability of one of the two remaining subcontractors to meet the criteria set forth by the California SOS, the Company determined it would assume the lead project manager role on the contract, which was previously performed by this subcontractor. As a result of this change, the Company further evaluated the status of the project and concluded that a further modification to the management and oversight structure of the project was necessary to improve performance under the contract and that additional internal project management and technical personnel would be required on the engagement. The Company also reevaluated the expected completion date of the project, which was previously estimated to be in the first quarter of 2006, and determined to revise the estimated completion date to the end of 2006. As a result of the Company's decision to commit these additional resources and the extension of the expected project completion date, the Company recorded a \$5.0 million adjustment under percentage of completion accounting in the first quarter of 2005, as the Company expected to incur a loss of approximately \$4.2 million on this project, instead of a previously projected profit of approximately \$1.0 million.

The adjustment in the Company's consolidated statement of income for the year ended December 31, 2005 resulted in a reduction of software & services revenues of approximately \$3.5 million and an increase in cost of software & services revenues of approximately \$1.5 million. The adjustment in the Company's consolidated balance sheet was a reduction in unbilled revenues of approximately \$3.5 million and an increase in application development contracts (a current liability) of approximately \$1.5 million.

In March 2006, the Company and the California SOS entered into an amendment (the "Amendment") to the California Business Programs Automation Agreement (the "Agreement"). Among other changes to the Agreement, the Amendment reduced the aggregate contract value to approximately \$19 million and released the Company from the obligation to deliver the business filings, or BE, portion of the project, except for maintenance of hardware and delivery of BE images as expressly set forth in the Amendment. The Amendment also set forth the final criteria in order for the California SOS to accept the UCC portion of the project and move it into the maintenance and operations phase.



As a result of the Amendment, the Company recorded an adjustment under percentage of completion accounting in the first quarter of 2006. The adjustment in the Company's consolidated statement of income for the year ended December 31, 2006 resulted in a reduction of software & services revenues of approximately \$2.1 million and a reduction of cost of software & services revenues of approximately \$2.1 million. The adjustment in the Company's consolidated balance sheet was a reduction in unbilled revenues of approximately \$2.1 million, a reduction of accrued liabilities of approximately \$1.6 million, and a reduction of application development contracts of approximately \$0.5 million. This adjustment did not affect operating income, net income or earnings per share.

In June 2006, the California SOS officially accepted the UCC portion of the project, which also commenced the 42-month maintenance and operations phase. Upon acceptance, the Company was relieved of its obligation to provide a \$5 million performance bond to the California SOS. The bond was collateralized by a \$5 million letter of credit. Also upon acceptance, approximately \$1.5 million in milestone payments became due to the Company, thus reducing unbilled revenues.

The Company regularly reviews its cost estimates to complete and does not currently believe its estimated contract loss will exceed the \$4.2 million estimate established in the first quarter of 2005. However, because of the inherent uncertainties surrounding the ultimate outcome of subcontract negotiations between the Company and its subcontractors as a result of the Amendment, it is at least reasonably possible that the estimate will change in the near term. Further, it is possible that the Company will similarly incur cost overruns in the future as it has in the past as a result of unforeseen difficulties such as rising development, subcontractor and personnel costs or other reasons. If this occurs, the Company's results of operations, financial condition and cash flows could be adversely affected.

At December 31, 2006, the Company's UCC and corporate filings software development business was primarily engaged in servicing the maintenance and operations obligation under its contract with the California SOS. This software & services business is not marketing its applications and services for new engagements.

The Company's ethics & elections business recognizes revenues from professional services as the services are provided. This business has entered into contracts with the state of Michigan and the Federal Election Commission that contain general fiscal funding clauses. The Company recognizes revenue under these contracts if the probability of cancellation is determined to be a remote contingency.

#### *Stock-based compensation*

Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123R (revised 2004), "Share-Based Payment," which establishes the accounting for equity instruments exchanged for employee services. Prior to January 1, 2006, the Company accounted for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The Company also followed the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." See Note 11.

#### *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.

#### *Comprehensive income*

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

### *Earnings per share*

Basic earnings per share are calculated on the basis of the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated on the basis of the weighted average number of common shares outstanding during the period and common stock equivalents that would arise from the exercise of stock options or the issuance of restricted stock awards to employees and nonemployee directors using the treasury stock method. The following table sets forth the computation of basic and diluted earnings per share:

	Year ended December 31,		
	2004	2005	2006
Numerator:			
Net income . . . . .	\$ 7,104,661	\$ 6,363,076	\$ 10,739,001
Denominator:			
Weighted average shares – basic . . . . .	58,988,456	60,078,841	61,408,552
Stock options and restricted stock awards . . . . .	1,888,838	1,014,947	354,541
Weighted average shares – diluted . . . . .	60,877,294	61,093,788	61,763,093
Basic net income per share . . . . .	\$ 0.12	\$ 0.11	\$ 0.17
Diluted net income per share . . . . .	\$ 0.12	\$ 0.10	\$ 0.17

Outstanding stock options totaling 0.7 million, 0.6 million and 0.3 million common shares during the years ended December 31, 2004, 2005 and 2006, respectively, were not included in the computation of diluted weighted average shares outstanding because their exercise prices were in excess of the average stock price of the Company during the periods.

### *Concentration of credit risk*

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities and accounts receivable. The Company limits its exposure to credit loss by depositing its cash with high credit quality financial institutions. The Company is subject to concentrations of credit risk and interest rate risk related to its short-term marketable securities. The Company's credit risk is managed by limiting the amount of investments placed with any one issuer, investing primarily in government-backed debt instruments with maturities of less than one year. 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 SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 uses 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. SFAS No. 131 also requires disclosures about products and services and major customers. See Note 12.

### *Quantifying Financial Statement Errors*

In September 2006, the staff of the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB No. 108 was issued in order to eliminate the diversity in practice surrounding how public companies quantify financial statement misstatements.

Traditionally, there have been two widely-recognized methods for quantifying the effects of financial statement misstatements: the "roll-over" method and the "iron curtain" method. The roll-over method focuses primarily on the impact of a misstatement on the income statement—including the reversing effect of prior year misstatements—but its use can lead to the accumulation of misstatements in the balance sheet. The iron-curtain method, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement. Prior to application of the guidance in SAB No. 108, the Company used the roll-over method for quantifying financial statement misstatements.



In SAB No. 108, the SEC staff established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the Company's financial statements and the related financial statement disclosures. This model is commonly referred to as a "dual approach" because it requires quantification of errors under both the iron curtain and the roll-over methods.

SAB No. 108 permits public companies to initially apply its provisions either by (i) restating prior financial statements as if the dual approach had always been applied or (ii) recording the cumulative effect of initially applying the dual approach as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings (accumulated deficit). The Company elected to record the effects of applying SAB No. 108 using the cumulative effect transition method.

The following table summarizes the effects (up to January 1, 2006) of applying the guidance in SAB No. 108:

	<b>Period in which the Misstatement Originated (1)</b>	<b>Adjustment Recorded as of January 1, 2006</b>
	<b>Cumulative Effect Prior to January 1, 2004</b>	
Deferred income taxes (2) .....	\$565,564	\$565,564
Net loss (3) .....	\$565,564	
Accumulated deficit (4) .....		\$565,564

- (1) The Company previously quantified this error under the roll-over method and concluded that it was immaterial.
- (2) The Company did not record tax net operating loss carryforwards acquired upon the acquisition of SDR Technologies in 2000, resulting in an overstatement of goodwill and an understatement of deferred tax assets by \$565,564. The tax benefits of the net operating loss carryforwards were subsequently realized. As a result of the misstatement, the Company overstated its net loss in 2001 by overstating its impairment loss when it determined that the goodwill and other acquired intangible assets related to the SDR Technologies acquisition were impaired.
- (3) Represents the overstatement of the Company's net loss resulting from this misstatement.
- (4) Represents the decrease in accumulated deficit recorded as of January 1, 2006 to record the initial application of SAB No. 108.

#### *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 July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation ("FIN") 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. The Company will be required to adopt FIN 48 in the first quarter of 2007. The Company is currently evaluating the requirements of FIN 48 and has not yet determined the impact on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. The Company will be required to adopt this standard in the first quarter of 2008. The Company is currently evaluating the requirements of SFAS No. 157 and has not yet determined the impact on its consolidated financial statements.

### 3. OUTSOURCED GOVERNMENT PORTAL CONTRACTS

The Company's outsourced government portal contracts generally have an initial term of three to five years with provisions for renewals for various periods at the option of the government. The Company's primary business obligation under these contracts is to design, build and operate Internet-based portals 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 must approve prices and revenue sharing agreements.

The Company is typically responsible for funding up front investment and ongoing operational costs of the government portals, and generally owns all the applications developed under these contracts. After completion of a defined contract term, the government agency typically receives a perpetual, royalty-free license to the applications for use only. If the Company's contract were not renewed after a defined term, the government agency would be entitled to take over the portal in place with no future obligation of the Company.

At December 31, 2006, the Company was bound by performance bond commitments totaling approximately \$2.3 million on certain portal outsourcing contracts. 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.

The following is a summary of the Company's nineteen outsourced state government portal contracts at December 31, 2006:

<u>NIC Subsidiary</u>	<u>Portal Web Site (State)</u>	<u>Year Services Commenced</u>	<u>Contract Expiration Date (Renewal Options Through)</u>
Vermont Information Consortium	www.Vermont.gov (Vermont)	2006	10/15/2009 (10/14/2012)
Colorado Interactive	www.Colorado.gov (Colorado)	2005	5/19/2010 (5/19/2014)
South Carolina Interactive	www.SC.gov (South Carolina)	2005	7/15/2007 (7/15/2009)
Kentucky Interactive	www.Kentucky.gov (Kentucky)	2003	1/31/2009 (1/31/2013)
Alabama Interactive	www.Alabama.gov (Alabama)	2002	10/31/2007 (10/31/2010)
Maine Information Network	www.RI.gov (Rhode Island)	2001	6/18/2007 (6/18/2011)
NICUSA	www.OK.gov (Oklahoma)	2001	6/30/2007 (6/30/2009)
Montana Interactive	www.MT.gov (Montana)	2001	12/31/2010
NICUSA	www.Tennessee.gov (Tennessee)	2000	8/27/2010
Hawaii Information Consortium	www.Hawaii.gov (Hawaii)	2000	1/3/2008
Idaho Information Consortium	www.Idaho.gov (Idaho)	2000	3/31/2008
Utah Interactive	www.Utah.gov (Utah)	1999	5/6/2009
Maine Information Network	www.Maine.gov (Maine)	1999	1/14/2008
Arkansas Information Consortium	www.Arkansas.gov (Arkansas)	1997	6/30/2008
Iowa Interactive	www.Iowa.gov (Iowa)	1997	3/31/2011 (3/31/2012)
Virginia Interactive	www.Virginia.gov (Virginia)	1997	8/31/2012
Indiana Interactive	www.IN.gov (Indiana)	1995	6/30/2010 (6/30/2014)
Nebraska Interactive	www.Nebraska.gov (Nebraska)	1995	1/31/2009 (1/31/2010)
Kansas Information Consortium	www.Kansas.gov (Kansas)	1992	12/31/2007 (12/31/2009)

During the first quarter of 2006, the Company signed a new five-year contract with the state of Iowa, which includes an option to extend the contract for an additional one-year renewal term, and was granted a five-year contract renewal from the state of Virginia. The Company also received a four-year contract extension from the state of Montana.

During the second quarter of 2006, the Company was granted a one-year contract renewal from the State of Oklahoma, and a contract extension from the state of Maine, which extended the contract expiration date to January 2008. Also during the second quarter of 2006, the Company signed a new long-term contract with the state of Indiana that commenced on July 1, 2006. The contract includes an initial four-year term and renewal options that run through June 2014. The new contract is based on a funding model that includes recurring fixed monthly fees for baseline services and primarily project-based pricing for variable services. Historically, the majority of revenues under this contract were DMV and non-DMV transaction-based. In addition, during the second quarter of 2006, the state of Rhode Island elected to rebid its portal services contract and therefore extended the initial term of the contract with the Company by one year to allow time for the rebid process to occur. The extension is subject to being superceded if the State elects to renew the present contract, or terminated early if the state elects a different portal provider.

During the fourth quarter of 2006, the Company entered into a three-year contract with the state of Vermont, which includes an option to extend the contract for an additional three-year renewal term. In addition, the Company received a contract extension from the state of Utah, which extended the contract expiration date to May 2009, and a one-year contract extension from the state of Hawaii.

In February 2007, the Company received a one-year contract extension from the State of Idaho, which extended the contract expiration date to March 2008.

#### 4. MARKETABLE SECURITIES

The fair value of marketable securities was as follows at December 31:

	<u>2005</u>	<u>2006</u>
Auction rate securities . . . . .	\$ 20,500,000	\$35,900,000
Flex term notes . . . . .	—	6,000,000
Corporate debt securities . . . . .	—	3,108,431
	<u>\$ 20,500,000</u>	<u>\$45,008,431</u>

All marketable securities at December 31, 2005 and 2006 mature within one year. Gross realized gains and losses and unrealized holding gains and losses for each of the periods presented were not significant.

#### 5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2005</u>	<u>2006</u>
Furniture and fixtures . . . . .	\$ 1,436,369	\$ 1,553,015
Equipment . . . . .	9,425,099	8,475,076
Purchased software . . . . .	2,641,654	2,731,689
Leasehold improvements . . . . .	300,141	398,862
	13,803,263	13,158,642
Less accumulated depreciation . . . . .	(10,476,078)	(9,368,152)
	<u>\$ 3,327,185</u>	<u>\$ 3,790,490</u>

Depreciation expense for the years ended December 31, 2004, 2005 and 2006, was \$1,438,253, \$1,602,879 and \$2,032,456, respectively.

#### 6. INVESTMENTS IN AFFILIATES AND JOINT VENTURES

In March 2000, NIC made a \$5 million cash investment in E-Filing.com, Inc. ("E-Filing"), a provider of online filing applications for legal services, giving NIC ownership of 21% of E-Filing, a non-public company. The investment was accounted for under the equity method. In May 2004, E-Filing repurchased the Company's ownership interest in E-Filing for approximately \$0.5 million, which approximated the carrying value of the Company's investment at the date of the repurchase. The Company received approximately \$0.3 million in cash

and a \$0.2 million subordinated promissory note with principal plus 5% interest payable annually in three equal installments on each of the first, second and third anniversary dates of the issuance of the note. The Company had no investment balance remaining in E-Filing after the repurchase. During 2006, the Company wrote off the remaining balance of the promissory note (\$96,954) due to E-Filing's deteriorated financial condition, and recorded the loss in equity in net loss of affiliates in the consolidated statement of income.

In October 2000, NIC made an initial \$0.5 million cash investment in e-Government Solutions Limited ("eGS"), a private joint venture giving NIC initial ownership of 40% of the ordinary shares of eGS. The purpose of the eGS joint venture, based in London, England, was to deliver eGovernment services throughout Western Europe, with initial efforts to focus on the United Kingdom. In September 2001, the joint venture agreement was modified and reduced NIC's obligation to make future cash contributions to the joint venture and gave NIC ownership of 47% of the ordinary shares of eGS. In December 2002, the joint venture agreement was again modified and, among other changes, eliminated NIC's obligation to make future cash contributions to the joint venture, reduced NIC's ownership to 20% and eliminated NIC's participation on the board of directors. The investment had been accounted for under the equity method. As a result of the modification to the joint venture agreement in December 2002, the Company began to account for its investment in eGS under the cost method and had no investment balance remaining in eGS after the modification. NIC's cash contributions since the inception of the joint venture have totaled approximately \$1.0 million. At December 31, 2006, the Company's ownership interest in eGS was approximately 14%.

## **7. DEBT OBLIGATIONS AND COLLATERAL REQUIREMENTS**

The Company issues letters of credit as collateral for performance on certain of its outsourced government portal contracts, as collateral for certain performance bonds and as collateral for certain office leases. These irrevocable letters of credit are generally in force for one year, for which the Company pays bank fees of approximately 1.25% to 1.75% of face value per annum. In total, the Company and its subsidiaries had unused outstanding letters of credit of approximately \$5.4 million and \$1.3 million at December 31, 2005 and 2006, respectively.

The Company had a \$0.5 million working capital line of credit, which was unused at December 31, 2005. The Company no longer maintains the line of credit as of December 31, 2006.

At December 31, 2004, the Company had pledged \$3.0 million of its cash as collateral under the financing arrangement that covered the Company's outstanding letters of credit and working capital line of credit, and had given the issuing bank a security interest in certain of its accounts receivable and other assets. The Company had classified cash used for collateral purposes as restricted in its consolidated balance sheets. In April 2005, the Company's collateral requirements under this banking agreement were eliminated, and the Company is no longer required to collateralize letters of credit.

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

In August 2001, the Company borrowed \$1.0 million from a bank in the form of a promissory note payable to finance the purchase of certain hardware and software components for its discontinued eProcurement business. In 2004, the Company paid off the note in full.

## 8. 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, 2006 are as follows:

	<u>Fiscal Year</u>	
2007	.....	\$1,304,467
2008	.....	984,686
2009	.....	832,531
2010	.....	582,573
2011	.....	58,918
Thereafter	.....	—

Rent expense for operating leases for the years ended December 31, 2004, 2005 and 2006 was approximately \$1.5 million, \$1.5 million and \$1.8 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 involved with any legal proceedings.

## 9. SHAREHOLDERS' EQUITY

### *Common stock*

On June 30, 1998, the Company and the National Information Consortium Voting Trust (the "Voting Trust") consisting of all the Company's then current shareholders entered into a stock purchase agreement for the Company's shareholders to sell a 25% interest in the Company to an investment management firm. The Company did not receive any of the proceeds from the sale. Under the Voting Trust agreement, two principal shareholders have the right to vote all of the Voting Trust's common shares and to sell all or any part of such shares. In 2003, the Voting Trust distributed 5% of its shares of NIC common stock to its members. In 2005, the Voting Trust distributed 10% of its shares of NIC common stock to its members. In 2006, the Voting Trust sold approximately 2.1 million shares of NIC common stock in the open market. At December 31, 2005 and 2006, the Voting Trust held approximately 23.5 million shares and 21.4 million shares of NIC common stock.

### *Common stock transactions and additional paid-in capital*

As a condition of separation and severance from the Company in the second quarter of 2002, a former executive had the right to request the Company to repurchase all of the shares of the Company's common stock, totaling 149,488 shares, beneficially owned by the former executive that were held of record in the Voting Trust for \$1.44 per share. In October 2002, the former executive exercised this right and caused the Company to repurchase his Voting Trust units for \$215,260. The shares of NIC common stock represented by the Voting Trust Units have been recorded as treasury stock in the consolidated balance sheets. In 2003, the Voting Trust distributed 5% of its shares of NIC common stock to its members. This affected 7,474 shares of NIC common stock held by the Company as treasury stock. The Company retired these shares in 2003, which had an assigned value of \$10,763. At December 31, 2004, the Company had 142,014 shares remaining in treasury stock. In 2005, the Voting Trust distributed 10% of its shares of NIC common stock to its members. This affected 14,201 shares of NIC common stock held by the Company as treasury stock. The Company retired these shares in February 2005, which had an assigned value of \$20,449, and had 127,813 shares remaining in treasury stock at December 31, 2005. In 2006, the Voting Trust sold approximately 2.1 million shares of NIC common stock in the open market. This affected 11,154 shares of NIC common stock held by the Company as treasury stock. The Company received \$64,965 in proceeds

from the sale. These shares had an assigned value of \$16,373, which was credited to treasury stock, with the remaining \$50,004 credited directly to additional paid-in capital. At December 31, 2006, the Company had 116,441 shares remaining in treasury stock.

During 2004 and 2005, certain employees of the Company exercised non-qualified stock options. As a result, the Company received federal income tax deductions, or windfall tax benefits. The tax benefit for the deductions of \$688,604 for 2004 and \$1,781,364 for 2005 increased deferred tax assets and was credited directly to additional paid-in capital. See Note 11 for additional discussion of 2006 income tax deductions relating to the exercise of non-qualified stock options.

## 10. INCOME TAXES

The provision for income taxes consists of the following:

	Year Ended December 31,		
	2004	2005	2006
Current income taxes:			
Federal .....	\$ 238,731	\$ 127,122	\$ 185,944
State .....	135,285	251,899	313,348
Total .....	<u>374,016</u>	<u>379,021</u>	<u>499,292</u>
Deferred income taxes:			
Federal .....	3,650,706	3,481,568	6,083,043
State .....	680,179	669,235	1,096,061
Total .....	<u>4,330,885</u>	<u>4,150,803</u>	<u>7,179,104</u>
Total income tax provision .....	<u>\$4,704,901</u>	<u>\$4,529,824</u>	<u>\$7,678,396</u>

Significant components of the Company's deferred tax assets and liabilities were as follows at December 31:

	2005	2006
Deferred tax assets:		
Net operating loss carryforwards .....	\$20,551,079	\$15,950,998
Amortization and impairment of purchase accounting goodwill and software intangibles .....	7,756,085	6,870,635
Capital losses on sale of affiliates .....	3,792,358	3,830,703
Investment in affiliate .....	548,780	548,780
Stock-based compensation pursuant to SFAS No. 123R .....	—	519,732
Accrued contract expenses under percentage of completion accounting .....	903,038	251,343
Application development contract loss .....	490,385	199,408
Other .....	348,663	—
	<u>34,390,388</u>	<u>28,171,599</u>
Less: Valuation allowance .....	<u>(4,824,524)</u>	<u>(5,040,010)</u>
Total .....	<u>29,565,864</u>	<u>23,131,589</u>
Deferred tax liabilities:		
Depreciation & capitalized software development costs .....	(228,061)	(243,632)
Other .....	—	(163,694)
Total .....	<u>(228,061)</u>	<u>(407,326)</u>
Net deferred tax asset .....	<u>\$29,337,803</u>	<u>\$22,724,263</u>

For federal income tax purposes, the Company had available at December 31, 2006, total net operating loss ("NOL") carryforwards of approximately \$39.3 million that will expire in 2020 (\$1.9 million), 2021 (\$27.1 million) and 2022 (\$10.3 million). The Company believes it is more likely than not it will generate sufficient taxable income from future operations to fully utilize its federal NOL carryforwards prior to expiration. The amount of the deferred tax asset considered realizable relating to these NOL's could be reduced in the near term if estimates of future taxable income during the carryforward periods are reduced.



A portion of the Company's total deferred tax asset valuation allowance relates to estimated state NOL carryforwards. In 2003, the Company identified certain estimated state NOL carryforwards that it had previously recognized 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. As a result, the Company recorded a deferred tax asset valuation allowance totaling \$483,386. In 2006, the Company increased its valuation allowance by \$177,141 for additional state NOL carryforwards that the Company may be unable to use.

A portion of the Company's total deferred tax valuation allowance at December 31, 2005 totaling \$3,792,358 related to capital losses realized on certain of the Company's previous equity method investments, and \$548,780 related to an expected capital loss on the Company's investment in its European joint venture, eGS. At present, there is substantial doubt about the Company's ability to generate capital gains in the future. The Company increased the valuation allowance relating to certain of these investments by \$38,345 in 2006.

As further discussed in Note 2, the Company did not initially record tax net operating loss carryforwards acquired upon the acquisition of SDR Technologies in 2000, resulting in an understatement of deferred tax assets by \$565,564. The Company recorded a \$565,564 increase to deferred tax assets with an offsetting decrease to accumulated deficit as of January 1, 2006 to reflect the initial application of SAB No. 108. The table above reflects this adjustment in the balance of net operating loss carryforwards at December 31, 2006.

See Notes 9 and 11 for discussion of the accounting for income tax deductions relating to the exercise of non-qualified stock options.

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

	Year Ended December 31,		
	2004	2005	2006
Effective federal and state income tax rate .....	39.8%	41.6%	41.7%
State income taxes .....	(4.5)	(5.5)	(4.8)
Valuation allowance .....	(0.4)	—	(1.0)
Other .....	0.1	(1.1)	(0.9)
Statutory federal income tax rate .....	<u>35.0%</u>	<u>35.0%</u>	<u>35.0%</u>

## 11. STOCK-BASED COMPENSATION AND EMPLOYEE BENEFIT PLANS

Prior to January 1, 2006, the Company accounted for its stock-based compensation plans using the intrinsic value method in accordance with Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, no compensation expense was recognized if the exercise price of a stock option equaled or exceeded the market price of the underlying stock on the date of grant. However, stock-based compensation has been included in prior period pro-forma disclosures in the financial statement footnotes as required under SFAS No. 123, "Accounting for Stock-Based Compensation," which was amended by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure."

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123R (revised 2004), "Share-Based Payment," which establishes the accounting for equity instruments exchanged for employee services. Under the provisions of SFAS No. 123R, stock-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as expense over the employee's requisite service period (generally the vesting period of the grant).

The Company elected to adopt the modified prospective application transition method as provided by SFAS No. 123R and, accordingly, financial statement amounts for the years ended December 31, 2004 and 2005 have not been restated to reflect the fair value method of expensing stock-based compensation. For vested stock-based awards that were outstanding on January 1, 2006, the Company was not required to record any additional compensation expense. For unvested stock-based awards that were outstanding on January 1, 2006, awards that were previously included as part of the pro-forma net income and earnings per share calculations of SFAS No. 123 will be charged to expense over the remaining vesting period, without any changes in measurement. For

all new stock-based awards that are granted or modified after January 1, 2006, the Company will use SFAS No. 123R's measurement model, expense recognition and settlement provisions. Upon adoption of SFAS No. 123R, the Company discontinued its historical accounting practice of recognizing forfeitures when they occurred and now estimates compensation cost related to awards not expected to vest.

The following table illustrates the effect on net income and net income per share for the years ended December 31, 2004 and 2005 had the Company applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation:

	<u>2004</u>	<u>2005</u>
Net income, as reported . . . . .	\$ 7,104,661	\$ 6,363,076
Add: Stock-based employee compensation included in reported net income, net of related tax effects . . . . .	—	—
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects . . . . .	(1,813,608)	(1,087,336)
Pro forma net income . . . . .	<u>\$ 5,291,053</u>	<u>\$ 5,275,740</u>
Basic net income per share, as reported . . . . .	<u>\$ 0.12</u>	<u>\$ 0.11</u>
Diluted net income per share, as reported . . . . .	<u>\$ 0.12</u>	<u>\$ 0.10</u>
Basic net income per share, pro forma . . . . .	<u>\$ 0.09</u>	<u>\$ 0.09</u>
Diluted net income per share, pro forma . . . . .	<u>\$ 0.09</u>	<u>\$ 0.09</u>

The fair value of each option grant was determined using the Black-Scholes option-pricing model. The following assumptions were applied in determining pro forma compensation cost for the years ended December 31, 2004 and 2005:

	<u>2004</u>	<u>2005</u>
Risk-free interest rate . . . . .	3.16%	3.90%
Expected dividend yield . . . . .	0.00	0.00
Expected option life . . . . .	4.0 years	3.2 years
Expected stock price volatility . . . . .	68%	53%
Fair value of options granted . . . . .	\$ 2.95	\$ 2.10

The Black-Scholes option-pricing model was not developed for use in valuing employee stock options, but was developed for use in estimating the fair value of traded 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 stock options.

For purposes of this pro forma disclosure, the estimated fair value of options was amortized to expense over the option vesting periods. Such pro forma impact on net income and basic and diluted net income per share is not necessarily indicative of future effects on net income or earnings per share.

In 2004 and 2005, all options were granted with exercise prices equal to the market price of the Company's common stock on the grant dates.

On October 26, 2005, the Board of Directors of the Company approved the accelerated vesting of all unvested options to purchase common stock of the Company that had an exercise price that was greater than the market price on that date. The closing price of the Company's common stock on October 26, 2005 was \$5.63 per share. As a condition of the acceleration and to prevent unintended personal benefit, the Company's Directors, executive officers and employees must refrain from selling common stock acquired upon the exercise of accelerated options until the original vesting date or, if earlier, termination of employment with or service to the Company. All other terms and conditions applicable to such options, including exercise prices, remain unchanged. This action



resulted in the accelerated vesting of options to purchase 163,873 shares of common stock of the Company, or approximately six percent of the total of all then outstanding Company options. Of this amount, 142,500 options had been granted to either directors or executive officers of the Company.

The Company accelerated the vesting of these options because it believed it was in the best interest of its shareholders to reduce future compensation expense that the Company would otherwise have been required to report in its statement of income upon adoption of SFAS No. 123R in the first quarter of 2006. Further, because the options had exercise prices in excess of the then-current market price, they were viewed to have limited economic value and were not achieving their objective of incentive compensation and retention. As a result of the vesting acceleration, approximately \$0.5 million in aggregate future expense was eliminated. The vesting acceleration did not result in compensation expense in the Company's statement of income, but is reflected as additional stock-based employee compensation expense in the calculation of 2005 pro forma earnings above.

The following table presents stock-based compensation expense included in the Company's consolidated statement of income for the year ended December 31, 2006 pursuant to the provisions of SFAS No. 123R:

	<b>Year Ended December 31, 2006</b>
Cost of portal revenues, exclusive of depreciation & amortization . . . . .	\$ 346,392
Cost of software & services revenues, exclusive of depreciation and amortization . . . . .	19,051
Selling & administrative . . . . .	966,160
Stock-based compensation expense before income taxes . . . . .	1,331,603
Income tax benefit . . . . .	(519,732)
Net stock-based compensation expense . . . . .	<u>\$ 811,871</u>

#### *Stock option and restricted stock plans*

The Company has two formal stock-option and incentive plans (the "NIC" plan and the "SDR" 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 the future growth of such business.

The NIC plan was adopted in May 1998, amended in November 1998 and May 1999, revised in August 1999, and amended and restated in May 2004 and May 2006. The May 2006 amendment and restatement, as approved by the Company's Board of Directors and shareholders, modified the NIC plan to allow for the granting of restricted stock awards in addition to stock options. Under the NIC plan, the Company is authorized to grant stock options and restricted stock awards for up to 9,286,754 common shares. At December 31, 2006, a total of 1,203,878 shares were available for future grants under the NIC plan. There have been no option repricings under the NIC plan.

The SDR plan was adopted in May 2000 in conjunction with NIC's acquisition of SDR Technologies. Under the SDR plan, the Company is authorized to grant options for up to 229,965 common shares. No options that are in addition to those granted upon the close of the SDR acquisition will be granted under the SDR plan. There have been no option repricings under the SDR plan.

Stock options are generally exercisable one year from date of grant in cumulative annual installments of 25% and expire five years after the grant date. The Company did not grant any stock options during the year-ended December 31, 2006, and does not currently anticipate granting stock options in the future. Instead, the Company expects to grant only restricted stock awards, as further discussed below.

### *Stock options*

Summary stock option activity for the year ended December 31, 2006 is presented below:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding, January 1 .....	2,179,802	\$4.07		
Granted .....	—	—		
Exercised .....	(448,898)	\$2.73		
Expired .....	(142,021)	\$6.62		
Canceled .....	<u>(33,250)</u>	\$5.48		
Outstanding, December 31 .....	1,555,633	\$4.19	2.2	\$ 1,206,000
Exercisable, December 31 .....	920,009	\$4.35	2.0	\$ 566,000

The aggregate intrinsic value of options exercised during the years ended December 31, 2004, 2005 and 2006 was approximately \$1.7 million, \$4.5 million and \$1.5 million, respectively. Cash proceeds from the exercise of employee stock options for the years ended December 31, 2004, 2005 and 2006 were approximately \$1.2 million, \$4.6 million and \$1.2 million, respectively.

As of December 31, 2006, there was approximately \$0.8 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested stock options. The Company expects to recognize this cost over a weighted-average period of 1.4 years.

### *Restricted stock*

The Company began granting shares of restricted stock awards in the second quarter of 2006. Grants of restricted stock vest one year from the date of grant in cumulative annual installments of 25%. Restricted stock is valued at the date of grant, based on the closing market price of the Company's common stock, and expensed using the straight-line method over the requisite service period.

Summary restricted stock activity for the year ended December 31, 2006 is presented below:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Nonvested at January 1, 2006 .....	—	—
Granted .....	603,654	\$5.70
Vested .....	—	—
Expired .....	—	—
Canceled .....	<u>(8,169)</u>	\$5.68
Nonvested at December 31, 2006 .....	<u>595,485</u>	\$5.70

At December 31, 2006, the Company had approximately \$2.3 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 3.6 years.

### *Income taxes*

During 2004 and 2005, certain employees of the Company exercised non-qualified stock options. As a result, the Company received federal income tax deductions, or windfall tax benefits. The tax benefit for the deductions of approximately \$0.7 million for 2004 and \$1.8 million for 2005 increased deferred tax assets and was credited directly to additional paid-in capital.

Under the guidance of footnote 82 of paragraph A94 of SFAS No. 123R, the Company is not permitted to recognize a credit to additional paid-in capital for windfall tax benefits unless such windfall tax benefits reduce income taxes payable. Since the Company is not currently paying federal income taxes (with the exception of federal alternative minimum tax), such windfall tax benefits generally increase the Company's tax net operating loss carryforwards. Following the with-and-without approach for utilization of tax attributes, which results in windfall tax benefits being utilized after utilization of available tax net operating loss carryforwards to offset current year taxable income, the Company did not record an increase to deferred tax assets with an offsetting increase to additional paid-in capital for the windfall tax benefit of approximately \$0.6 million relating to the exercise of non-qualified stock options during the year ended December 31, 2006.

Paragraph 81 of SFAS No. 123R indicates that for purposes of calculating the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of SFAS No. 123R (i.e., the pool of additional paid-in capital, or the "APIC pool"), the Company shall include the net excess tax benefits that would have qualified as such had the entity adopted SFAS No. 123 for recognition purposes. The Company elected to use the alternative transition method described in FASB Staff Position No. FAS 123(R)-3 (the "short cut method") for calculating the APIC pool upon adoption of SFAS No. 123R, and determined it had no such pool available.

#### *Earnings per share*

In calculating diluted earnings per share under SFAS No. 128, "Earnings Per Share," the assumed proceeds in the treasury stock calculation are adjusted for any stock option windfall tax benefits or shortfalls that would be credited or debited, respectively, to additional paid-in capital. Upon adoption of SFAS No. 123R using the modified prospective application transition method, 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 15% of each employee's compensation. 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, 2003 and ending on March 31, 2004, 80,325 shares were purchased at a price of \$1.45 per share, resulting in total cash proceeds to the Company of approximately \$117,000. In the offering period commencing on April 1, 2004 and ending on March 31, 2005, 30,031 shares were purchased at a price of \$4.055 per share, resulting in total cash proceeds to the Company of approximately \$122,000. In the offering period commencing on April 1, 2005 and ending on March 31, 2006, 40,343 shares were purchased at a price of \$3.9015 per share, resulting in total cash proceeds to the Company of approximately \$157,000. The next offering period under this plan commenced on April 1, 2006. The closing fair market value of NIC common stock on the first day of the current offering period was \$6.10 per share.

Included in the Company's stock-based compensation expense for the year ended December 31, 2006 is a portion of the cost (approximately \$41,000) relating to the ESPP offering period ending on March 31, 2007, and a portion of the cost (approximately \$12,000) relating to the ESPP offering period that ended on March 31, 2006.

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.

	<b>March 31, 2007 Offering</b>	<b>March 31, 2006 Offering</b>
Risk-free interest rate . . . . .	4.77%	3.31%
Expected dividend yield . . . . .	0.00%	0.00%
Expected life . . . . .	1.0 year	1.0 year
Expected stock price volatility . . . . .	30%	30%
Weighted average fair value of ESPP rights . . . . .	\$ 1.60	\$ 1.18

#### *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. 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 the Board of Directors. Expense related to Company matching contributions totaled approximately \$0.2 million, \$0.5 million and \$0.5 million for the years ended December 31, 2004, 2005 and 2006, respectively.

## **12. REPORTABLE SEGMENTS AND RELATED INFORMATION**

The Company's two reportable segments consist of its Outsourced Portal businesses and Software & Services businesses. The Outsourced Portals segment includes the Company's subsidiaries operating outsourced government portals and the corporate divisions that directly support portal operations. The Software & Services segment primarily includes the Company's UCC and corporate filings software development business (NIC Conquest) and ethics & elections filings business (NIC Technologies). Each of the Company's Software & Services businesses is an operating segment and has been aggregated to form the Software & Services 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 segments.

The measure of profitability by which management evaluates the performance of its segments and allocates resources to them is operating income (loss). Segment asset 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 segments for the years ended December 31:

	<b>Outsourced Portals</b>	<b>Software &amp; Services</b>	<b>Other Reconciling Items</b>	<b>Consolidated Total</b>
<b>2004</b>				
Revenues . . . . .	\$48,543,779	\$ 7,217,975	\$ —	\$55,761,754
Costs & expenses . . . . .	28,025,072	6,013,539	8,428,359	42,466,970
Depreciation & amortization . . . . .	1,195,485	215,001	84,766	1,495,252
Operating income (loss) . . . . .	<u>\$19,323,222</u>	<u>\$ 989,435</u>	<u>\$ (8,513,125)</u>	<u>\$11,799,532</u>
<b>2005</b>				
Revenues . . . . .	\$57,875,067	\$ 1,367,546	\$ —	\$59,242,613
Costs & expenses . . . . .	31,980,570	5,779,628	9,688,279	47,448,477
Depreciation & amortization . . . . .	1,376,673	140,900	85,306	1,602,879
Operating income (loss) . . . . .	<u>\$24,517,824</u>	<u>\$ (4,552,982)</u>	<u>\$ (9,773,585)</u>	<u>\$10,191,257</u>
<b>2006</b>				
Revenues . . . . .	\$70,008,598	\$ 1,367,248	\$ —	\$71,375,846
Costs & expenses . . . . .	40,433,646	1,169,498	11,584,270	53,187,414
Depreciation & amortization . . . . .	1,863,437	65,131	111,830	2,040,398
Operating income (loss) . . . . .	<u>\$27,711,515</u>	<u>\$ 132,619</u>	<u>\$ (11,696,100)</u>	<u>\$16,148,034</u>

The following is a reconciliation of total segment operating income to total consolidated income before income taxes for the years ended December 31:

	<b>2004</b>	<b>2005</b>	<b>2006</b>
Total operating income for reportable segments . . . . .	\$11,799,532	\$10,191,257	\$16,148,034
Interest income . . . . .	116,037	704,614	2,401,504
Interest expense . . . . .	(10,852)	—	—
Equity in net loss of affiliates . . . . .	(109,061)	—	(96,954)
Other income (expense), net . . . . .	13,906	(2,971)	(35,187)
Income before income taxes . . . . .	<u>\$11,809,562</u>	<u>\$10,892,900</u>	<u>\$18,417,397</u>

The highest volume, most commercially valuable service the Company offers is access to motor vehicle records through the Company's outsourced government portals, referred to as DMV records. This service accounted for approximately 63%, 62% and 59% of the Company's portal revenues in 2004, 2005 and 2006, respectively.

A primary source of revenue is derived from data resellers, who use the Company's government portals to access DMV records for sale to the auto insurance industry. For the year ended December 31, 2004, one of these data resellers accounted for approximately 46% of the Company's portal revenues and 40% of the Company's total revenues. For the year ended December 31, 2005, one of these data resellers accounted for approximately 46% of the Company's portal revenues and 45% of the Company's total revenues. For the year ended December 31, 2006, one of these data resellers accounted for approximately 47% of the Company's portal revenues and 47% of the Company's total revenues. At December 31, 2006, this one data reseller accounted for approximately 37% of the Company's accounts receivable.

For the year ended December 31, 2004, the Company's Indiana, Virginia and Utah portals accounted for approximately 15%, 10% and 10%, respectively, of the Company's portal revenues and 13%, 9% and 9%, respectively, of the Company's consolidated revenues. For the year ended December 31, 2005, the Company's Indiana portal accounted for approximately 16% of the Company's portal revenues and 15% of the Company's consolidated revenues. For the year ended December 31, 2006, the Company's Indiana portal accounted for approximately 14% of the Company's portal revenues and 13% of the Company's consolidated revenues.

For the year ended December 31, 2004, revenues from the Company's UCC and corporate filings software development contract with the California Secretary of State accounted for approximately 56% of the Company's software & services revenues and 7% of the Company's total revenues. For the years ended December 31, 2005 and 2006, revenues from this contract were negative (\$1,425,000) and negative (\$940,000) as a result of adjustments under percentage of completion accounting as further discussed in Note 2.

### **13. RELATED PARTY TRANSACTIONS**

The Company rented an aircraft on an hourly basis from a company that is owned by two shareholders/directors of the Company at costs that the Company believes are reasonable compared to similar services provided by third parties. One of these directors is the current Chairman and Chief Executive Officer of the Company. In 2004 and 2005, payments made to this company totaled approximately \$0.4 million and \$0.1 million, respectively. No payments were made to this company in 2006.

### **14. SUBSEQUENT EVENTS**

On January 29, 2007, the Company's Board of Directors declared a special cash dividend of \$0.75 per share, payable to shareholders of record as of February 12, 2007. The dividend, totaling approximately \$46.7 million, was paid on February 20, 2007 out of the Company's available cash and marketable securities. The Company has made a preliminary determination that the dividend will result in a partial return of capital to shareholders, with the balance being taxable to shareholders as a qualified dividend. The exact amount of the return of capital is dependent on the earnings of the Company, computed on a tax basis, through the end of its 2007 fiscal year.

## 15. 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, due to the smaller number of business days in the quarter and a lower volume of business-to-government and citizen-to-government transactions during the holiday periods. For additional information on significant items affecting the quarterly results for the periods presented, refer to Notes 2 and 11 above.

### 2005

	Three Months Ended				Year Ended
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005	December 31, 2005
Revenues:					
Portal revenues . . . . .	\$ 13,661,349	\$14,385,538	\$ 14,637,038	\$15,191,142	\$57,875,067
Software & services revenues . . . .	(2,380,836)	1,230,792	1,321,373	1,196,217	1,367,546
Total revenues . . . . .	<u>11,280,513</u>	<u>15,616,330</u>	<u>15,958,411</u>	<u>16,387,359</u>	<u>59,242,613</u>
Operating expenses:					
Cost of portal revenues, exclusive of depreciation & amortization . . . . .	6,714,542	7,093,241	7,620,286	8,020,022	29,448,091
Cost of software & services revenues, exclusive of depreciation & amortization . . . . .	2,377,532	947,805	1,117,002	906,099	5,348,438
Selling & administrative . . . . .	3,282,582	3,276,607	2,947,635	3,145,124	12,651,948
Depreciation & amortization . . . .	351,521	368,089	421,806	461,463	1,602,879
Total operating expenses . . . . .	<u>12,726,177</u>	<u>11,685,742</u>	<u>12,106,729</u>	<u>12,532,708</u>	<u>49,051,356</u>
Operating income (loss) . . . . .	<u>(1,445,664)</u>	<u>3,930,588</u>	<u>3,851,682</u>	<u>3,854,651</u>	<u>10,191,257</u>
Other income (expense):					
Interest income . . . . .	81,406	154,480	196,948	271,780	704,614
Other income (expense), net. . . . .	(3,439)	538	(570)	500	(2,971)
Total other income (expense) . . . . .	<u>77,967</u>	<u>155,018</u>	<u>196,378</u>	<u>272,280</u>	<u>701,643</u>
Income (loss) before taxes . . . . .	<u>(1,367,697)</u>	<u>4,085,606</u>	<u>4,048,060</u>	<u>4,126,931</u>	<u>10,892,900</u>
Income tax (benefit) provision . . . .	<u>(471,067)</u>	<u>1,616,175</u>	<u>1,660,609</u>	<u>1,724,107</u>	<u>4,529,824</u>
Net income (loss) . . . . .	<u>\$ (896,630)</u>	<u>\$ 2,469,431</u>	<u>\$ 2,387,451</u>	<u>\$ 2,402,824</u>	<u>\$ 6,363,076</u>
Basic net income (loss) per share: . . .	<u>\$ (0.02)</u>	<u>\$ 0.04</u>	<u>\$ 0.04</u>	<u>\$ 0.04</u>	<u>\$ 0.11</u>
Diluted net income (loss) per share . .	<u>\$ (0.02)</u>	<u>\$ 0.04</u>	<u>\$ 0.04</u>	<u>\$ 0.04</u>	<u>\$ 0.10</u>
Weighted average shares outstanding:					
Basic . . . . .	<u>59,401,799</u>	<u>59,832,421</u>	<u>60,271,210</u>	<u>60,792,538</u>	<u>60,078,841</u>
Diluted . . . . .	<u>59,401,799</u>	<u>60,794,518</u>	<u>61,226,623</u>	<u>61,660,168</u>	<u>61,093,788</u>



2006

	Three Months Ended				Year Ended
	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006	December 31, 2006
Revenues:					
Portal revenues . . . . .	\$16,988,892	\$17,793,833	\$17,214,120	\$18,011,753	\$ 70,008,598
Software & services revenues . .	(1,241,425)	967,731	821,175	819,767	1,367,248
Total revenues . . . . .	<u>15,747,467</u>	<u>18,761,564</u>	<u>18,035,295</u>	<u>18,831,520</u>	<u>71,375,846</u>
Operating expenses:					
Cost of portal revenues, exclusive of depreciation & amortization . . . . .	8,276,575	8,930,990	9,477,909	10,563,884	37,249,358
Cost of software & services revenues, exclusive of depreciation & amortization . . . . .	(1,329,170)	766,123	565,448	593,878	596,279
Selling & administrative . . . . .	3,428,499	3,559,951	3,915,668	4,437,659	15,341,777
Depreciation & amortization . . .	504,590	525,452	501,381	508,975	2,040,398
Total operating expenses . . .	<u>10,880,494</u>	<u>13,782,516</u>	<u>14,460,406</u>	<u>16,104,396</u>	<u>55,227,812</u>
Operating income . . . . .	<u>4,866,973</u>	<u>4,979,048</u>	<u>3,574,889</u>	<u>2,727,124</u>	<u>16,148,034</u>
Other income (expense):					
Interest income . . . . .	379,740	498,347	665,655	857,762	2,401,504
Equity in net loss of affiliates . .	(96,954)	—	—	—	(96,954)
Other income (expense), net. . . .	300	—	(49,185)	13,698	(35,187)
Total other income (expense) . . . . .	<u>283,086</u>	<u>498,347</u>	<u>616,470</u>	<u>871,460</u>	<u>2,269,363</u>
Income before taxes . . . . .	5,150,059	5,477,395	4,191,359	3,598,584	18,417,397
Income tax provision . . . . .	2,231,509	2,232,378	1,732,560	1,481,949	7,678,396
Net income . . . . .	<u>\$ 2,918,550</u>	<u>\$ 3,245,017</u>	<u>\$ 2,458,799</u>	<u>\$ 2,116,635</u>	<u>\$ 10,739,001</u>
Basic net income per share: . . . . .	<u>\$ 0.05</u>	<u>\$ 0.05</u>	<u>\$ 0.04</u>	<u>\$ 0.03</u>	<u>\$ 0.17</u>
Diluted net income per share . . . . .	<u>\$ 0.05</u>	<u>\$ 0.05</u>	<u>\$ 0.04</u>	<u>\$ 0.03</u>	<u>\$ 0.17</u>
Weighted average shares outstanding:					
Basic . . . . .	<u>61,139,586</u>	<u>61,380,512</u>	<u>61,535,607</u>	<u>61,572,351</u>	<u>61,408,552</u>
Diluted . . . . .	<u>61,606,781</u>	<u>61,838,566</u>	<u>61,798,252</u>	<u>61,802,623</u>	<u>61,763,093</u>



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have completed integrated audits of NIC Inc.'s consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

### CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a) present fairly, in all material respects, the financial position of NIC Inc. and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements 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.

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation in 2006.

### INTERNAL CONTROL OVER FINANCIAL REPORTING

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides 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  
March 13, 2007

## **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 a set of disclosure controls and procedures designed to ensure that material information required to be disclosed in its filings under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission'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 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 defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Annual Report on Form 10-K.

**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 Rules 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 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, 2006. Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

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.

**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 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 AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information regarding directors of the Company and the executive officers of the Company will be set forth in the Company's proxy statement related to its 2007 annual meeting of shareholders (the "Proxy Statement") and is incorporated herein by reference since such Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the end of the Company's fiscal year pursuant to regulation 14A. Information required by Item 405 of Regulation S-K will be set forth in the Proxy Statement and is incorporated herein by reference.

### ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to Proxy Statement, since such Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the end of the Company's fiscal year pursuant to Regulation 14A.

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

The information required by this item is incorporated herein by reference to the Proxy Statement, since such Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the end of the Company's fiscal year pursuant to Regulation 14A.

The following table shows the Company's common stock authorized for issuance under the Company's equity compensation plans as of December 31, 2006:

Plan Category	A Number of securities to be issued upon exercise of outstanding options, warrants and rights outstanding as of December 31, 2006	B Weighted average exercise price of outstanding options, warrants and rights shown in Column A	C Number of securities available for issuance as of December 31, 2006
Equity compensation plans approved by shareholders			
• Stock options . . . . .	1,555,633	\$4.19	
• Restricted stock . . . . .	595,485	—	
Total . . . . .	2,151,118		1,203,878
Employee stock purchase plan . . . . .	See Note (1)	See Note (1)	2,089,754
Equity compensation plans not approved by shareholders (2) . . . . .	14,683	\$2.03	2,399

- (1) March 31, 2006 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, 2006 was \$3.9015 per share, and the total number of shares purchased was 40,343.
- (2) In connection with the Company's acquisition of SDR Technologies, Inc. in May 2000, the Company adopted the 1999 Stock Option Plan of SDR Technologies, Inc (the "SDR Plan"). Options to purchase 229,965 shares were granted in connection with the acquisition of SDR. However, no options in addition to those granted at the close of the SDR transaction will be granted under this plan. The SDR Plan is administered by the Compensation Committee of the Company's Board of Directors.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

To the extent applicable, the information required by this item is incorporated herein by reference to the Proxy Statement, since such Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the end of the Company's fiscal year pursuant to Regulation 14A.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this item is incorporated herein by reference to the Proxy Statement, since such Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the end of the Company's fiscal year pursuant to Regulation 14A.

## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

Index To Consolidated Financial Statements:	Page
Consolidated Balance Sheets . . . . .	43
Consolidated Statements of Income. . . . .	44
Consolidated Statements of Changes in Shareholders' Equity . . . . .	45
Consolidated Statements of Cash Flows . . . . .	46
Notes to Consolidated Financial Statements . . . . .	47
Report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm. . . . .	69

All schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

Exhibit Number	Description
3.1	Articles of Incorporation of the registrant(1)
3.2	Bylaws of the registrant(1)
3.3	Articles of Amendment to Articles of Incorporation of the registrant(7)
4.1	Reference is made to Exhibits 3.1 and 3.2(1)
4.2	Investor Rights Agreement dated June 30, 1998(1)
4.3	Investors' Rights Agreement, dated January 12, 2000(2)
4.4	Specimen Stock Certificate of the registrant(1)
9.1	Voting Trust Agreement between Jeffery S. Fraser and Ross C. Hartley and certain Holders of Shares of National Information Consortium, Inc. dated June 30, 1998 and form of the voting trust certificate(1)
10.1	Form of Indemnification Agreement between the registrant and each of its executive officers and directors(1)
10.2	Registrant's 1998 Stock Option Plan, as amended and restated(1)
10.3	Registrant's 1999 Employee Stock Purchase Plan(1)
10.4	Employment Agreement between the registrant and Jeffery S. Fraser dated July 1, 1998(1)
10.5	Employment Agreement between the registrant and William F. Bradley, Jr. dated July 24, 1998(1)
10.6	Employment Agreement between the registrant and Samuel R. Somerhalder dated July 24, 1998(1)
10.7	Employment Agreement between the registrant and Harry H. Herington dated July 24, 1998(1)
10.8	Employment Agreement between the registrant and Joseph Nemelka, dated July 24, 1998(2)
10.9	Employment Agreement between the registrant and James B. Dodd dated January 1, 1999(1)
10.10	Employment Agreement between the registrant and Ray G. Coutermarsh dated February 1, 2000(2)
10.11	Employment Agreement between the registrant and Terrence Parker dated November 9, 1999(2)
10.12	Contract for Network Manager Services between the Information Network of Kansas and Kansas Information Consortium, Inc. dated December 18, 1991 with addenda dated October 15, 1992, August 19, 1993, May 26, 1995 and June 13, 1996 and amendment on March 2, 1998(1)
10.13	Contract for Network Manager Services between the State of Indiana by and through the Intelenet Commission and Indian@ Interactive, Inc., dated July 18, 1995(1)
10.14	Services Contract by and between National Information Consortium, U.S.A. and the GeorgiaNet Authority, an agency of the State of Georgia, dated September 15, 1996(1)
10.15	Contract for Network Manager between Information Network of Arkansas by and through the Information Network of Arkansas Board and Arkansas Information Consortium, Inc. dated July 2, 1997(1)
10.16	Contract for Network Manager Services between the Nebraska State Records Board on behalf of the State of Nebraska and Nebrask@ Interactive, Inc. dated December 3, 1997 with addendum No. 1 dated as of the same date(1)

Exhibit Number	Description
10.17	Contract for Network Manager Services between the Commonwealth of Virginia by and through the Virginia Information Providers Network Authority and Virginia Interactive, LLC dated January 15, 1998(1)
10.18	Contract for Network Manager Services between Iowa Interactive, Inc. and the State of Iowa by and through Information Technology Services dated April 23, 1998 with letter addendum dated August 7, 1998(1)
10.19	Contract for Network Manager Services between the Consolidated City of Indianapolis and Marion County by and through the Enhanced Access Board of Marion County and City-County Interactive, LLC dated August 31, 1998 with addendum dated as of the same date(1)
10.20	State of Maine Contract for Special Services with New England Interactive, Inc. dated April 14, 1999(1)
10.21	State of Idaho Contract for Electronic Business and portal Services with the Idaho Department of Administration and other Public Agencies, dated December 7, 1999(2)
10.22	State of Hawaii Contract for Special Services with the State of Hawaii, dated December 29, 1999(2)
10.23	Employment Agreement between the registrant and Kevin C. Childress dated May 16, 1999(1)
10.24	Sublease for the registrant's offices at 12 Corporate Woods, Overland Park dated May 14, 1999, and First Sublease Modification Agreement dated December 15, 1999, and Lease for the same address dated January 15, 1995 with First Lease Modification dated October 30, 1996(1)
10.25	Agreement between Equifax Services and Nebrask@ Online dated March 25, 1996(1)
10.26	Agreement between ChoicePoint and the Information Network of Kansas dated September 1, 1997(1)
10.27	Agreement between Equifax/ChoicePoint and the Information Network of Arkansas dated September 2, 1997(1)
10.28	Agreement between Equifax Systems, Inc. and Access Indian@ Information Network dated November 14, 1995(1)
10.29	Contract for Network Manager Services between the State of Utah and Utah Interactive, Inc. dated as of May 7, 1999(1)
10.30	Asset Purchase Agreement between the registrant and Electric Press, Inc, for the acquisition of eFed, a division of Electric Press, Inc., dated as of September 15, 1999(2)
10.31	Contribution Agreement between the registrant and Conquest Softworks, LLC, dated as of January 12, 2000 Agreement(2)
10.32	Agreement and Plan of Reorganization and Merger between the registrant and SDR Technologies, Inc., dated as of February 16, 2000(2)
10.33	Amended and Restated Agreement and Plan of Reorganization and Merger, dated as of May 5, 2000, as amended, by and among the registrant, SDR Acquisition Corp., a California corporation and a wholly owned subsidiary of the registrant, and SDR Technologies, Inc.(3)
10.34	Registrant's 1999 Stock Option Plan of SDR Technologies, Inc.(4)
10.35	Agreement and Plan of Merger, dated as of September 8, 2000, by and among the registrant, Cherry Hills Acquisition Sub, Inc., a Colorado corporation and wholly owned subsidiary of the registrant, and Intelligent Decision Technologies, Ltd.(5)
10.36	Employment agreement between the Registrant and William F. Bradley, dated September 1, 2000(5)
10.37	Employment agreement between the Registrant and Samuel R. Somerhalder, dated September 1, 2000(5)
10.38	Employment agreement between the Registrant and Harry H. Herington, dated September 1, 2000(5)
10.39	Employment agreement between the Registrant and Joseph Nemelka, dated September 1, 2000(5)
10.40	Employment agreement between the Registrant and James B. Dodd, dated September 1, 2000(5)
10.41	Employment agreement between the Registrant and Ray G. Coutermarsh, dated September 1, 2000(5)
10.42	Employment agreement between the Registrant and Pradeep K. Agarwal, dated September 1, 2000(5)
10.43	Employment agreement between the Registrant and Kevin C. Childress, dated September 1, 2000(5)
10.44	Employment agreement between the Registrant and Stephen M. Kovzan, dated September 1, 2000(5)
10.45	Contract Between the State of Tennessee, Department of Finance and Administration and National Information Consortium USA, Inc., dated August 28, 2000(5)



<b>Exhibit Number</b>	<b>Description</b>
10.46	Self Funded Electronic Government Services Term Contract between the Department of Administration of the State of Montana and National Information Consortium USA, Inc., doing business in Montana through the subsidiary Montana Interactive, Inc., dated December 21, 2000(5)
10.47	Business Programs Automation Agreement, dated September 6, 2001, between National Information USA, Inc. and the State of California(6)
10.48	Employment agreement between the Registrant and Eric J. Bur dated April 1, 2001 (8)
10.49	Employment agreement between the Registrant and Richard L. Brown, dated March 1, 1999(9)
10.50	Amendment to Contract No. 00SA420104, SSD SOS 0010, California Business Programs Automation Project, dated March 13, 2006, between NICUSA, Inc. and the State of California, Secretary of State
10.51	Registrant's 2006 Amended and Restated Stock Option and Incentive Plan (10)
21.1	Subsidiaries of the registrant
23.1	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accountants
31.1	Certification of Chairman of the Board and 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 Chairman of the Board and Chief Executive Officer and Chief Financial Officer furnished in accordance with Securities Act Release 33-8212

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- (1) Incorporated by reference to Registration Statement on Form S-1, File No. 333-77939
  - (2) Incorporated by reference to Registration Statement on Form S-1, File No. 333-30872
  - (3) Incorporated by reference to Form 8-K filed with the SEC on May 26, 2000
  - (4) Incorporated by reference to Registration Statement on Form S-8, File No. 333-37000
  - (5) Incorporated by reference to Form 10-K filed with the SEC on April 2, 2001
  - (6) Incorporated by reference to Form 10-Q filed with the SEC on November 14, 2001
  - (7) Incorporated by reference to Form 10-Q filed with the SEC on May 14, 2002
  - (8) Incorporated by reference to Form 10-K filed with the SEC on March 25, 2002
  - (9) Incorporated by reference to Form 10-K filed with the SEC on March 12, 2004
  - (10) Incorporate by reference to Registration Statement on Form S-8, File No. 333-136016



## 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, on March 15, 2007.

### NIC INC.

By: /s/JEFFERY S. FRASER

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/JEFFERY S. FRASER	<i>Chairman of the Board and Chief Executive Officer (Principal Executive Officer)</i>	March 15, 2007
/s/ERIC J. BUR	<i>Chief Financial Officer (Principal Financial Officer)</i>	March 15, 2007
/s/STEPHEN M. KOVZAN	<i>Vice President, Financial Operations Chief Accounting Officer (Principal Accounting Officer)</i>	March 15, 2007
/s/HARRY H. HERINGTON	<i>President and Director</i>	March 15, 2007
/s/JOHN L. BUNCE, JR.	<i>Director</i>	March 15, 2007
/s/ART N. BURTSCHER	<i>Director</i>	March 15, 2007
/s/DANIEL J. EVANS	<i>Director</i>	March 15, 2007
/s/ROSS C. HARTLEY	<i>Director</i>	March 15, 2007
/s/PETE WILSON	<i>Director</i>	March 15, 2007

## SUBSIDIARIES OF THE REGISTRANT

<u>NAME OF SUBSIDIARY</u>	<u>JURISDICTION OF INCORPORATION</u>
1. NICUSA, Inc.*	Kansas, U.S.
2. Kansas Information Consortium, Inc.**	Kansas, U.S.
3. Indiana Interactive, LLC**	Indiana, U.S.
4. Arkansas Information Consortium, LLC**	Arkansas, U.S.
5. Nebraska Interactive, LLC**	Nebraska, U.S.
6. Virginia Interactive, LLC**	Virginia, U.S.
7. Iowa Interactive, LLC**	Iowa, U.S.
8. Montana Interactive, LLC**	Montana, U.S.
9. Maine Information Network, LLC**	Maine, U.S.
10. Utah Interactive, LLC**	Utah, U.S.
11. Hawaii Information Consortium, LLC**	Hawaii, U.S.
12. Idaho Information Consortium, LLC**	Idaho, U.S.
13. NIC Commerce, LLC**	Colorado, U.S.
14. NIC Conquest, LLC**	Colorado, U.S.
15. National Information Consortium Technologies, LLC**	California, U.S.
16. Intelligent Decision Technologies, LLC**	Colorado, U.S.
17. National Online Registries, LLC**	Colorado, U.S.
18. Bay Area Interactive, LLC**	California, U.S.
19. Florida Information Consortium, Inc.**	Florida, U.S.
20. Michigan Local Interactive, LLC**	Michigan, U.S.
21. Texas Local Interactive, LLC**	Texas, U.S.
22. Alabama Interactive, LLC**	Alabama, U.S.
23. NIC European Business Limited*	London, England
24. Kentucky Interactive, LLC**	Kentucky, U.S.
25. NIC Solutions, LLC**	Colorado, U.S.
26. National Retail Registries, LLC**	Colorado, U.S.
27. South Carolina Interactive, LLC**	South Carolina, U.S.
28. Colorado Interactive, LLC**	Colorado, U.S.
29. Vermont Information Consortium, LLC**	Vermont, U.S.

\*Wholly-owned subsidiary of NIC Inc.

\*\*Wholly-owned subsidiary of NICUSA, Inc.

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-83171, 333-136016 and 333-37000) and Form S-3 (No. 333-129024) of NIC Inc. of our report dated March 13, 2007 relating to the financial statements, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

Kansas City, Missouri  
March 15, 2007

# CERTIFICATION

I, Jeffery S. Fraser, certify that:

1. I have reviewed this Annual Report on Form 10-K of NIC Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2007

/s/ JEFFERY S. FRASER

JEFFERY S. FRASER

*Chairman of the Board and*

*Chief Executive Officer*

### CERTIFICATION

I, Eric J. Bur, certify that

1. I have reviewed this Annual Report on Form 10-K of NIC Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2007

/s/ ERIC J. BUR

ERIC J. BUR

*Chief Financial Officer*

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned Chairman of the Board and Chief Executive Officer and Chief Financial Officer of NIC Inc. (the “Company”) each hereby certifies, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) the Annual Report on Form 10-K of the Company for the year ended December 31, 2006 (the “Report”) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 15, 2007

/s/ JEFFERY S. FRASER

JEFFERY S. FRASER

*Chairman of the Board and  
Chief Executive Officer*

/s/ ERIC J. BUR

ERIC J. BUR

*Chief Financial Officer*

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certification “accompanies” the Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-K, irrespective of any general incorporation language contained in such filing).

#### **4.04 RESUMES / BACKGROUND CHECKS**

4.04.1 *(MR) The Offeror shall provide resumes for each staff member responsible for design, implementation, project management, or other positions relative to the requirements of the RFP. Resumes will include education, experience, license, and/or certifications of each individual. In the event of a change of a staff member during the Contract term, the submission of a new resume is required. Any such change is subject to the prior approval of the State, such approval not to be unreasonably withheld.*

***HIC RESPONSE:***

Hawaii Information Consortium will comply with this requirement.

HIC has provided staff resumes for each member of its staff immediately following this section. All resumes are updated and current to reflect each employee's prior education and experience. HIC currently employs the following staff positions: General Manager, Director of Operations, Director of Development, Web designer, office manager, customer support staff, two project managers, systems administrator and four developers. In a field as dynamic as the technology industry, it is vital that our staff hold the most recent certifications and, through continuing education, stay abreast of the most recent advances in the technological field. With the educational background, training and experience of our staff, HIC ensures the project team will stay on the cutting edge of the latest advances in technology. All current HIC employees have passed our background check screening process required by the Sarbanes Oxley Act.

## Resume: Russell Castagnaro, President and General Manager

### PROFESSIONAL EXPERIENCE

Hawaii Information Consortium, LLC (NICUSA, Inc.) | November 2006 – Present

#### President and General Manager

- Lead and develop strategic planning process for HIC, Hawaii.gov portal and HIC
- Act as a liaison between NIC, HIC staff, the Access Hawaii Committee and State of Hawaii agencies
- Ensure Hawaii.gov brand is proliferated in order to establish user base to enhance State of Hawaii government efficiencies and effectiveness, as well as HIC and NIC revenue opportunity
- Assist in the development and ensure compliance with State of Hawaii IT policies and standards
- Assist in the development and ensure compliance with NIC policies and standards
- Provide leadership to HIC staff, including performing staff evaluations, goal development and tracking and mentoring
- Develop and implement project management and other key operational processes
- Develop and maintain exceptional customer service policies and methods
- Develop HIC Annual Report to the State of Hawaii Legislature
- Ensure profitability of HIC in order to sustain the Network Manager for Hawaii

Hawaii Information Consortium, LLC (NICUSA, Inc.) | August 2004 – October 2006

#### Director of Operations

- Manage state agency relationships and projects
- Develop and implement project management methodology
- Develop and implement marketing strategy for alabama.gov portal and eGovernment services
- Ensure compliance with State of Hawaii, NIC and federal policies
- Develop and implement highly effective customer service method
- Directly supervise project management and customer service staff
- Ensure proper billing of customers and agency partners

Hawaii Information Consortium, LLC (NICUSA, Inc.) | September 2003 – August 2004

#### Director of Development

- Manage infrastructure of eHawaii.gov
- Manage engineering staff.
- Assist in project management for key applications
- Ensure compliance with State of Hawaii, NIC and federal policies
- Ensure 24x7 uptime with all eGovernment services
- Collaborate with partners and partner IT staff to define integration points for services

SyncTank Solutions, Inc | August 1999 – September 2003

#### Chief Mentor

- Provided customer service for complex Internet and e-commerce products and services
- Entered, maintained and updated customer information
- Processed incoming customer requests as they relate to services
- Provided problem resolution responded to inquiries and made adjustments as necessary
- Conducted agency/user surveys and made recommendation to the marketing team for improvements of products and services

### EDUCATION

Master of Science - University of North Dakota

Bachelor of Science - Emory University



Due: Oct 31, 2007

## Resume: Jing Xu, Director of Portal Operations

### PROFESSIONAL EXPERIENCE

Hawaii Information Consortium, LLC (NICUSA, Inc.) | January 2006 – Present

#### Director of Portal Operations

- Managed production of print and online marketing materials
- Attended state governing committee meeting to give monthly portal report
- Worked with state agencies to develop project specifications
- Managed eGovernment projects
- Ensured proper reporting and billing of agency partners
- Developed and executed strategic marketing plan of portal and applications to achieve 30% increase in revenue
- Submitted and won government industry awards
- Managed resources in project management, marketing, and development
- Maintained strong ongoing relationship with agency partners
- Planned annual portal operation budget and marketing activities

#### Project Manager

- Learned and mastered multiple award-winning web applications in a short period of time
- Successfully managed and supported agencies with multiple statewide online systems
- Managed full system implement cycles from designing to implementation
- Maintained strong professionalism throughout all government interactions
- Worked closely with development team on scheduling and project status
- Trained end users on new or existing applications

Inovaware Corporations | August 2002 – December 2005

#### Professional Services Consultant – Billing/CRM Systems Analyst

- Gathered system requirements and understood current business process and needs
- Created current process flow diagrams and requirement documentations
- Created a detailed project plan to assign development tasks and to manage project schedule
- Acted as a liaison between the customer and the development team to best translate business needs to technical requirements
- Participated in the contract negotiation and the creation of the Statement of Work
- Configured services and ratings to fully utilize billing system capabilities and to meet business requirements
- Conducted module and system testing on the customization items
- Conducted Program Acceptance Testing, end user training and production support

Accenture Ltd. | February 2001 – October 2001

#### Analyst

Meadow Gold Hawaii Inc | March 2000 – May 2000

#### MIS Intern – Technical Support

### EDUCATION

University of Hawaii at Manoa - Bachelor of Business Administration – Management Information Systems

### COMPUTER SKILLS

Enterprise / eCommerce Software

- BroadVision 5.5, Sandlot EclipseNet 4.0, PRISM, Resolve, MS SQL Server 2000, Oracle 8i & 9i

Programming Languages

- HTML, ASP, JSP, JavaScript, VB Script, Visual Basic, SQL, Java, C ++

### LANGUAGE SKILLS

- Mandarin – Native Level, Shanghainese – Native Level, English – Native Level, Japanese - Beginner

## Resume: Zheng Fang, Director of Development

### PROFESSIONAL EXPERIENCE

Hawaii Information Consortium, LLC (NICUSA, Inc.) | September 2005 – Present

#### Director of Development

- Responsible for all technology aspects in developing and operating the Hawaii state portal ([www.ehawaii.gov](http://www.ehawaii.gov)).
- Managed a team of 6 developing e-commerce applications utilizing the state-of-the art web application development framework.
- Streamlined development, test and deployment process.
- Designed and developed the new Hawaii state portal.

#### Application Developer

- Designed, developed and maintained multi-tier web-based e-commerce applications for the Hawaii state portal ([www.ehawaii.gov](http://www.ehawaii.gov)).
- Maintained and integrated in-house system to meet business needs.
- Provided technical guidance in development of system specifications.
- Designed database schemas, created store procedures, triggers, and functions for Oracle.
- Wrote and maintained batch processing procedures and integrated with legacy system.
- Created deployment scripts for automating applications deployment.
- Provided training for end users and QA testing.

Ohana Learning Company | October 2000 – October 2001

#### Web Application Engineer

- Designed and developed web-based client/server applications.
- Designed database schema and implemented in MS SQL and MySQL.
- Working experience of database administration (MS SQL 2000, MySQL).
- Developed system specifications.
- Provided QA testing.

University of Hawaii | August 1994 – October 2000

#### Research Assistant - Programmer

Japan Agency for Marine-Earth Science and Technology | August 1993 – August 1994

#### Visiting Scientist

### EDUCATION

Hawaii Pacific University – Master of Science – Information Science

Ocean University of Qingdao – Master of Science – Physical Oceanography

Ocean University of Qingdao – Bachelor of Science – Applied Math

### TECHNICAL SKILLS

- Programming Language - Java, PERL, ASP, Visual Basic, C++, Java Servlet, JSP, JSTL, AJAX, XML/XSLT, XML Schema/DTD, SOAP, UDDI, DHTML, HTML, CSS, JavaScript
- Technology: Struts, Spring Framework, .Net Framework, ODBC, ADO, JDBC, Ant, CVS
- Operating System: Solaris UNIX, SuSe Linux, Red Hat, Windows (95/98/2000/XP), MSDOS
- Database: Oracle (9i, 10g), MS SQL, MySQL, mSQL, Access
- Web Server: Apache, IIS, Tomcat, JRun

Due: Oct 31, 2007

## Resume: Aaron Collins, Systems Engineer – Security Engineer

### PROFESSIONAL EXPERIENCE

Hawaii Information Consortium, LLC (NICUSA, Inc.) | April 2005 – Present

#### Systems Engineer – Security Engineer

- Makes sure the state portal is up and running at all times utilizing high uptime/availability techniques.
- Research and implement new technologies, design migration plans and propose budget requirements.
- Designed and implemented company wide SSO (Same Sign On) implementation including services such as Samba, Mail, Apache, Tomcat, PAM, bug tracking, SUDO, Monitoring, Reporting, CVS, FTP.
- Developed and maintained company LDAP implementation with redundancy and load balancing to unify company's non-consumer services.
- QA and deployed apps through development release cycle. ( Release Engineer )
- Implemented company monitoring and notification system to guarantee high uptime of all services.
- Secured entire company network and infrastructure.
- Developed and implemented company Security Policy and Disaster Recovery Policy to meet Sarbanes Oxley (SOX) and PCI DSS compliance.
- Contributed to OpenSource project dedicated to LDAP management. (phpQladmin)
- Performed bi-monthly secure audits of internal and external networks.
- Configured and locked down Cisco Pix Firewalls (515e), Catalyst switches and 2600 series router.
- Wrote company documentation on Maintenance, Upgrades and Installations for company infrastructure to allow others to perform my duties in case of my absence.
- Wrote white papers on enterprise security for securing other state portals.
- Designed and implemented custom high availability load balancers (OpenBSD with CARP).
- Configured and Managed F5 Big IP load balancers for other state portals.
- Built Web Server clusters/clones for high availability.

University of Hawaii | October 2004 – August 2005

#### Student Developer

The Solution | July 2003 – September 2004

#### Independent Contractor – Fast Signs

Development Guru | February 2003 – June 2003

#### On Site Consultant – Long Beach VA Credit Union

- Maintained all networks servers with the highest uptime possible while insuring the security that a Credit Union requires.
- On call 24/7 for system emergencies.
- Responsible for trouble shooting all system issues.

GTC Telecom | August 2001 – December 2002

#### Lead Internet Infrastructure Administrator

Darcis Telecom | March 2001 – July 2001

#### Network Administrator

FastQ Communications | February 1999 – August 1999

#### Technical Support

Fast Signs | July 1998 – September 2000

#### Network Administrator

### CERTIFICATIONS

A+, hardware repair, CNA, Certified Novel Administration, Currently working on Java2 Certification

## Resume: Sebastien How, Developer

### PROFESSIONAL EXPERIENCE

Hawaii Information Consortium, LLC (NICUSA, Inc.)

#### Developer

- Develop and maintain Web applications using the spring framework, Java, Hibernate and other web technologies
- Used Java to integrate legacy 3270 applications into new services.

IBM

#### Software Distribution Queue Coordinator

- Used SMS and Tivoli to achieve an installation success rate of over 99% on 150,000+ client endpoints.
- Used Perl, shell & SQL to quickly gather information and to create reports
- Wrote and updated documentation, procedures and guidelines
- Coordinated distribution requests with available workforce, to achieve on time delivery of software and rapid resolution of problems
- Provided 24/7 on call support for all SMS accounts
- Contacted customers and attended meetings to resolve conflicts and issues about requests
- Provided training in various accounts and tools to other team members

Vibac/Vifan

#### Contract Computer Technician

- Troubleshoot and repaired computer systems, hardware and peripherals
- Upgraded and migrated user's computers, implementing custom workstation configurations
- Supported users on computer systems

Information & Computer Science Department of UH Manoa

#### Software Developer of CLEW\*

- Designed and wrote the CLEW Job Posting Module, a Java based web application, in a team effort.
- Implemented the Sorting mechanisms for the CLEW Issue system.
- Participated in design sessions and code reviews

\* The CLEW system is a Java Web Application framework that allows the creation of a department website. It is used and developed by the University of Hawaii's Information and Computer Science Department (<http://www.ics.hawaii.edu>).

William S. Richardson School of Law

#### Microcomputer Specialist / System Administrator

- Provided help desk support for software applications, operating systems and hardware issues
- Instructed Students, Faculty and Staff in the use of equipment and software
- Wrote scripts and other helper programs for web server
- Setup and maintain Ethernet and wireless network of 150+ computers
- Updated and added new content for Law Library and Law school website

### EDUCATION

Bachelor of Science – Computer Science

University of Hawaii

### TECHNICAL EXPERTISE

- Programming Languages: Java, C/C++, Perl, SQL, HTML/CSS.
- Software: Eclipse; Visual Studio; JUnit; HttpUnit; Ant; Tomcat; Apache; Struts; CVS; Adobe Photoshop; Dreamweaver; Oracle 9i; Microsoft SMS; Active Directory; Tivoli; Altiris Console; Maya;
- Hardware: PC's, laptops, workstations, peripherals, networked printers, Ethernet LAN, wireless LAN.
- Operating Systems: Microsoft Windows 2003/XP/2K/NT/98/95/3.xx, DOS; Linux.

Due: Oct 31, 2007

## Resume: Ernest Criss, Developer

### PROFESSIONAL EXPERIENCE

Hawaii Information Consortium, LLC (NICUSA, Inc.) | July 2006 – Present

#### Java Developer

- Develops Web Based E-Government applications
- Develops reports utilizing Business Intelligence tools such as Jasper Reports and Eclipse based Business Intelligence Reporting Tool(BIRT)

Wincubic.Com | January 2005 – July 2006

#### Web Developer

- Maintained Coldfusion 5 based Japanese focused website and Content Management System.
- Created PHP5 based E-Commerce site for purchasing magazine subscriptions.
- Complete rewrite of website and Content Management System from Coldfusion 5/SQL Server/Windows 2000 based system to PHP5/PostgreSQL/Linux based system.

University of Hawaii at Manoa | January 2003 – January 2005

#### Student Computer Programmer IV

- Created PHP and Perl based database driven web applications.
- Developed command line utilities in Perl that interfaced with the University's Database and LDAP systems.

Total Resource Management Kapolei | November 2001 – August 2002

#### J2EE Programmer - Internship

- Designed and developed a J2EE based restaurant search, wireless web portal, capable of being accessed by several platforms including: Desktops, PDA's, and WAP enabled cell phones

Leeward Community College Pearl City | January 2001 –May 2003

#### Computer Programming Tutor

- Tutored Computer Science students to have a better understanding of web technologies including Java, HTML and Javascript as well as the C++, QBASIC, and Visual Basic programming languages.

### EDUCATION

Information and Computer Science

University of Hawaii

Information and Computer Science

Leeward Community College

### TECHNICAL EXPERTISE

- Language: PHP4/PHP5, Perl, C#, C/C++, Java, JSP, Coldfusion, Visual Basic, HTML, CSS, Javascript, XML, XSLT, SQL, Regular Expressions
- Frameworks: ASP.NET, Apache Struts, Spring Framework, Hibernate, Ant, JUnit, Prado, Fusebox
- Concepts: Object Oriented Programming, Aspect Oriented Programming, Object Relational Mapping, Unit Testing, Design Patterns, Best Practices, Multi-threaded Programming, Network Programming, Refactoring, Collaborative Development
- Software: MySQL, PostgreSQL, Oracle, SQL Server, Visual Studio, Eclipse, Netbeans, LDAP, CVS, Macromedia Dreamweaver
- Systems: Windows 9.x/XP, Mac OSX, Linux, Unix

## Resume: Vincent Glasolli, Database Administrator

### PROFESSIONAL EXPERIENCE

Hawaii Information Consortium, LLC (NICUSA, Inc.) | 2007 – Present

#### Database Administrator

- Analysis of existing architecture to determine impact of requested changes
- Establish backup and recovery methodologies including implementation.
- Migration of production databases to test and development instances.
- Understanding of iStudio and Interconnect for data transfer between disparate systems.
- Training of junior DBA's

Independent Consultant | 2004 – 2007

#### Database Architect

- Worked for different clients in the Honolulu area on different projects.
- Determined process failures and achieve solutions.
- Increased system use and customer satisfaction by designing workflow systems (reports, processes and documentation) and creating specialized client training.
- Established network of experts from each key business line to boost efficiency. Build reports, queries and forms using SQL, PL/SQL, Forms, Reports, Developer, Discoverer, and Viewlet Builder.

SofTec Solutions, Inc. | 2000 – 2004

#### Practice Director working on-site as Project Manager

- Los Alamos National Laboratories: Technical Lead responsible for design, development, testing, training, and documenting requirements for the Department of Energy including custom forms and reports.
- Bechtel Nevada at Nevada Test Site: Project Manager for team of 10 in addition to being the technical Lead for a team of 4. Technical Architect responsible for database administration and design. Wrote technical specifications, reviewed coding and documentation for accuracy and consistency, instructed client on new functionality and the use of SQL, and taught a formal UNIX class. Delivered on time and under budget. No other Federal site accomplished this goal.
- Digital Lighthouse: Project Manager and Database Administrator for a team of seven. Responsible for creation of the project plan, establishment of business functionality, reengineering of client business processes, design of their new chart of account structure, sizing and installation of the database structures, procedures for backup and upgrade maintenance, coordination of team responsibilities, client training and managing client expectations. Installation included web servers and form servers using java applets. Trained a functional consultant to perform database implementation and maintenance processes.

Computer Associates | 1995 – 2000

#### Senior Consultant

Oracle Corporation | 1994 – 1995

#### Senior Principal Consultant

### EDUCATION

University of Texas - Master of Science – Computer Science

University of Texas - Bachelor of Science – Computer Science

### TECHNICAL EXPERTISE AND CERTIFICATIONS

- Oracle RDBMS 10g, 9iAS, 8i, 8, 7, SQL\*Plus, PL/SQL, RPT, SQL\*Net, Developer/2000 (Forms 2.3, 3.0, 4.0/4.5, 6i, Reports 2.0/2.5, 6i, SQL\*ReportWriter), Oracle Financials (Workflow, Application Object Library, Projects, Project Contracts, General Ledger, Purchasing, Payables, Inventory, Fixed Assets, Receivables, Order Entry), Application Object Library, Informix, Pro\*C, Pro\*Fortran, C, Pascal, Prolog, COBOL, Fortran, Assembler
- Oracle 6 Certified Database Administrator (DBA) by Oracle Corporation, El Paso, Texas, 1989
- Oracle Certified Professional 10g by Oracle Corporation, Honolulu, Hawaii, 2007
- Cisco Java Programmer Certified, by Cisco Corporation, Honolulu, Hawaii, 2007

Due: Oct 31, 2007

## Resume: Rosie Warfield, Partner Relations Manager

### PROFESSIONAL EXPERIENCE

Hawaii Information Consortium, LLC (NICUSA, Inc.) | September 2007 – Present

#### Partner Relations Manager

- Responsible for managing 17 internet applications.
- Contacting state partners once per month to make sure systems are operating as desired.
- Seeking out new portal opportunities with existing and new state agencies.
- Assisting web designer with portal redesign.
- Coordinating between development staff and state agencies.
- Tracking progress of requested changes and giving status updates to partners.
- Performing customer service duties as listed below and other duties as requested.

Hawaii Information Consortium, LLC (NICUSA, Inc.) | October 2005 – September 2007

#### Customer Service Administrator – Administrative Assistant

- Answered all emails, phone calls to the help desk, live chats, and walk ins for over 45 internet applications.
- Responsible for providing excellent customer service related to navigation and use of website, billing, and general inquiries regarding state services and agencies.
- Responsible for reporting and tracking the progress of any website errors or bugs.
- Created and administered customer subscriber accounts.
- Submitted bills and expense reports each week to corporate office.
- Assisted the office manager with administrative duties as requested.

Legal Aid Society of Hawaii | September 2005 – September 2006

- Met and gave legal counsel and advice to both phone and walk in clients.
- Legal advice given consisted of four areas: Housing, Consumer, Family, and Public Benefits law for the State of Hawaii.
- Intake: Screened all potential clients to see if they were eligible for further free legal service during the initial meeting. If eligible, referred them to for further services with our legal staff. If ineligible, provided counsel and advice and brochures or directed to another agency.
- Center for Equal Justice advocate. Provided services to clients including drafting court documents in any of the above court matters, including but not limited to: Restraining orders, divorce answers, and cease contact letters to creditors.
- Assisted clients with disabilities and language barriers in filling out forms.
- Acted as an intermediary between clients and third parties in disputes.
- Responsible for creating 4 new brochures and updating over 20 existing brochures related to various legal matters.

### EDUCATION

Eastern Washington University - Bachelor of Science – Criminal Justice (Summa Cum Laude)

Spokane Community College - Associate of Art

Due: Oct 31, 2007

## Resume: Janette Duong, Creative Content Specialist

### PROFESSIONAL EXPERIENCE

Hawaii Information Consortium, LLC (NICUSA, Inc.) | January 2007 – Present

#### Creative Content Specialist

- Design and develop application mockups
- Work with programmers to ensure site's functionality
- Design marketing and brand identity materials
- Test applications

LavaNet | May 2006 – January 2007

#### Creative Director – Project Manager

- Designed and develop websites from conception to completion
- Wrote proposals and meet with prospective clients
- Managed each project to ensure they are on budget and launched within estimated timeframe
- Point-of-contact for all projects
- Arranged staff meetings to keep development team updated
- Worked with programmers to ensure site's functionality
- Trained assistant in use of Photoshop & Dreamweaver

Team Vision – Revacomm

#### Freelance

- Organized photo library
- Performed miscellaneous design tasks
- HTML coding for the American Savings Bank website (asbhawaii.com)
- Maintained architectural structure

Digital Mediums, LLC | April 2004 – October 2004

#### Lead Designer

- Performed lead role in the design and production of print, identity, multimedia, web design and web applications
- Designed and coded websites based on client's requirements and successfully met strict deadlines
- Worked with programmers to ensure site's functionality
- Designed information architecture and user interface for on-screen applications
- Re-designed websites around PHP codes
- Updated information and graphics on current sites
- Trained designers in use of Photoshop & Dreamweaver
- Demonstrated ability to learn and use new technology

National Foreign Language Resource Center | September 2003 – January 2004

#### Web Designer

- Re-designed online language sites for Chinese, Japanese, & French
- Re-designed forums by working around ColdFusion codes
- Managed forums
- Maintained student accounts and classlists
- Designed Chinese exercises for interactive learning
- Incorporated Flash into various exercises for optimized online learning

### EDUCATION

University of Hawaii at Manoa - Graphic Design (attending)



## Resume: Janet Yee Pick, Project Manager

### PROFESSIONAL EXPERIENCE

Hawaii Information Consortium, LLC (NICUSA, Inc.) | January 2007 – Present

#### Project Manager

- Perform day-to-day management of all phases of the project including requirements gathering, design, development, test, and deployment
- Create and maintain Statement of Work and System Design Specification documents, including technical requirements, based on scope of work requested by government partners
- Work with Creative and Development teams to define/implement application user interface and functionality
- Establish and manage project milestones based on the design and scope of work
- Work closely with development staff assigned to projects
- Manage client relationship with State agency partners
- Report project status to the State agency involved and the HIC General Manager
- Drive/resolve issues as they arise
- Work with Marketing team to develop strategies to increase interactive sales
- Work with Creative team to produce print and online Public Relations materials including brochures, newsletters, press releases, and articles

Motorola Inc. – Cellular Networks | September 2001 – September 2006

#### Senior Staff Software Engineer

- Subsystem Test Lead for several CDMA features; leading a team of 2-4 subsystem test engineers
- CDMA-wide Test Lead for several CDMA features; leading a team of 10-14 subsystem and system test engineers from different organizations at different locations worldwide
- Facilitated weekly test team meeting accommodating different time zones including international zones
- Communicated frequently with feature manager to provide project risk analysis and status
- Reported project status to Program Management Office
- Created and managed test schedules for all functional areas
- Developed and reviewed estimates for the project's effort
- Managed relationships and coordinate work between different teams at different locations around the world
- Performed day-to-day management of all phases of the project including requirements gathering, design, development, test, and deployment
- Measured and monitor progress at clearly defined points in the process to ensure the project is delivered on time, and that it meets or exceeds expectations
- Balanced scope, schedule, budget, quality, and risks
- Drive/resolve issues across the organizations
- Determined Test Strategy and create and maintain Test Design Specification document
- Managed system lab resources
- Delivered extensive training program to new test engineers on our process, tools, and resources
- Successfully able to telecommute and meet or beat deadlines and keep abreast of all issues

Motorola Inc. – Cellular Infrastructure Group | January 1998 – December 2000

#### Software Test Engineer

- Regression and performance testing
- Documented the regression test process
- Installed software on a Dual Node PUMA system
- Performed Year 2000 Compliance testing
- Analyzed requirements, create test designs and scripts, and execute tests for new cellular infrastructure features
- Led a team of 2 to 4 subsystem test engineers to test a product in time for system testing
- Reviewed Subsystem Test Process/Procedure changes and provide feedback for improvement
- Interviewed/mentored/trained new employees

### EDUCATION

Bachelor of Science – Computer Engineering  
University of Michigan

## Resume: Lynn Nomura, Office Manager

### PROFESSIONAL EXPERIENCE

Hawaii Information Consortium, LLC (NICUSA, Inc.) | February 2006 – Present

#### Office Manager

- Provide administrative support to entire office.
- Responsible for accounts payable, accounts receivable & collections, banking & daily reconciliations, monthly and weekly fiscal reporting, light human resources, providing and supervising customer service, maintaining and ordering of office supply inventory.
- Perform other duties as assigned.

Island Title Corporation | September 2003 – February 2006

#### Executive Assistant to the President & CEO – Administration Manager

- Supervised receptionist, administrative assistant and in-house representative from Courier Corporation
- Posted all mail
- Facilitated travel accommodations and supply requisition company-wide
- Tracked documents and checks
- Located and picked up lost documents
- Reviewed all mail and distributed to appropriate parties
- Coordinated with building management to maintain office and coordinated site moves for the company
- Dealt with vendors, fire inspectors, and did cost analyses for various purchases and services

#### Executive Assistant to President & CEO

- Provided executive and administrative support to the President & CEO.
- Scheduled all personal and professional appointments, personal book-keeping and banking, ran errands, and payment of all bills.
- Filed, corresponded, handled complaints, took minutes for the Executive Management team and Board of Directors; and arranged travel accommodations.
- Prepared documents for Board meetings and presentations.
- Back up supervisor for receptionist, reception relief duties, and mail processing and distribution.

Hawaii Cimm's Inc. d.b.a. Burger King | June 2000 – June 2001

#### Office Manager – Executive Assistant

- Supervised 7 Maintenance & 8 Distribution staff.
- Assisted Managing Director with correspondence & filing, creating documents & spreadsheets for analysis, community service, light marketing & public relations, and employee evaluations.
- Reception duties, daily sales reports, processing mail & invoices for payment, maintaining petty cash checking account, processing of WOTC credits, handling all customer service & complaints, ordering & maintaining supply inventory & uniforms for 27 restaurants & office, ordering, maintaining & booking for airline and car rental accounts.
- Coordinated Kapolei Grand Opening in 3 weeks, and company Christmas Party in 4 weeks.

Pacific Harley-Davidson | April 1999 – June 2000

#### Mail Order Specialist – Accounting Assistant

### EDUCATION

Kapiolani Community College - General Studies

Windward Community College - General Studies

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## Resume: Will Johnston, Developer

### PROFESSIONAL EXPERIENCE

Hawaii Information Consortium, LLC (NICUSA, Inc.) | July 2005 – Present

#### Lead Developer

- Develops Web Based E-Government applications
- Responsible for deployment methodology of the portal's applications
- Specifies Unit testing criteria for all applications
- Provides architecture support for application development

Pang's Nursery - Kahalu'u, Hawaii | September 2003 – June 2005

#### Independent Contractor

- Provided executive and administrative support to the President & CEO.
- Transitioned business accounting system to QuickBooks Premier.
- Created a Win32/MFC application to integrate QuickBooks with barcoding software.
- Streamlined many business processes related to recordkeeping and reporting.

Novel Systems / Sony Semiconductor - Tokyo and Kokubu, Japan | 2002-2003

#### Independent Contractor

- Improved the performance of Oracle EBS business applications running on HP/UX.
- Diagnosed and corrected inefficiencies in Java servlets and JSP components.
- Developed utilities in Java, SQL and Perl to collect performance data.
- Created reusable Java components to integrate Oracle with legacy systems and supporting applications.
- Authored a Java GUI application to compare cloned Oracle databases.

VerticalNet - Palo Alto, CA | March 2001 – April 2001

#### Independent Contractor

- Short-term contract to update Java-based product installers before a critical release.
- Provided documentation and training for a new employee.

eCircles.com - San Mateo, CA | November 1999 – February 2001

#### Operations Engineer

NetGravity - San Mateo, CA | April 1999 – November 1999

#### Independent Contractor

SRI International - Menlo Park, CA | November 1998 – April 1999

#### Independent Contractor

The Clorox Company - Oakland, CA | March 1998 – November 1998

#### Independent Contractor

NASA Ames Research Center - Mountain View, CA (1997 – 1998)

#### Systems Administrator

Department of Computer Science - University of California, Riverside (1996 – 1997)

#### Systems Administrator

### EDUCATION

University of California, Riverside - Bachelor of Science, Biochemistry

## (5) BUSINESS/MANAGEMENT MODEL (SECTION 5)

5.01 (M) All fees assessed to Portal users for Portal Services shall be subject to approval by the AHC.  
(This provision does not apply to financial service fees such as credit card fees, eCheck fees, etc.)  
All fees shall be reviewed periodically by the Portal Partners and the AHC, and adjusted after review and on mutual agreement of the Contractor, the Portal Partners and the AHC. The AHC will review and approve any and all Portal charges for fairness, reasonableness, and appropriateness in furthering the goals of this Contract. Charges include fees and costs for work done on a time and material basis. The Contractor may at any time recommend changes to the AHC. In establishing Portal charges the AHC shall also consider the following factors:

- a ) A commitment to the public policy requirement to provide electronic access to public records at the most reasonable rate possible and to improve government services to its citizens and businesses by providing Portal Services online;
- b ) That the charges may be adjusted to permit funding of special projects and enhancement of public service;
- c ) The entrepreneurial and start-up nature of the business and attendant risk of capital for the Contractor and the need to earn a reasonable profit on Portal operations;
- d ) The need to invest in the reasonable expansion, maintenance and improvement to online Portal transactions and information services; and

### **HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

5.02 Any other reasonable factors that in the opinion of the AHC should be considered.

### **HIC RESPONSE:**

As has been mentioned earlier, HIC provides service to our partners by tightly integrating our services into the State's systems and work flow. In many cases our data sharing interfaces make doing business with the State possible. HIC has proven it is committed to its Hawaii partners repeatedly by moving forward with projects that were in the best interest of the state, although not necessarily in the best interest of HIC financially. The high percentage of free and potentially cost prohibitive projects for other technology companies that HIC has delivered or agreed to develop showcases our commitment to the State of Hawaii.

In many cases, HIC has delivered on opportunities to interface with other Portal Partners on projects for the benefit of the public – but without direct benefit to the portal. Examples of these projects include:

- PVL Contractor Renewals (interfaces with PVL, the Department of Taxation and Insurance)
- Hawaii Compliance Express (DCCA BREG, Department of Labor and Industrial Relations, IRS, Dept of Taxation)
- HUI Express (Department of Labor and Industrial Relations, ICSD)

HIC is proud of this track record of doing the right thing in order to best serve the State of

Hawaii, even in situations in which no portal revenue resulted from our efforts.

*5.03 (MR) The Contract also allows for work to be done on a time and material basis and for charges at an hourly rate. See Section 6.02.*

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

HIC understands some Portal Partners may elect to engage HIC for time and materials projects at an hourly rate. HIC has provided our rates for time and materials work under our response to Section 6.02.

As the current Portal Manager, HIC understands well the State's need and agency demand for Internet application development services and consulting throughout the contract period. Examples of these types of projects could include needs analysis research, user testing and research, database development, graphics/Web site design, Web site maintenance and development of Web applications such as database searches, dynamic Web sites and other non-transaction based services. We are prepared to offer and expand the availability of these services under a time and materials funding model.

The terms of the RFP allow a great degree of flexibility for HIC to meet the needs of state agencies and to function as an effective resource for Web site and Web application development expertise for the State. The ability to perform time and materials work will also streamline and expedite the development process for agencies, since they will not have to go through an RFP process for time and materials services available through HIC.

HIC has effectively completed many contracts for Web sites and application development during our tenure as Portal Manager. A sampling of our completed Time and Materials projects includes:

- Hawaii Electronic Death Record System (EDRS)
- PVL Surety submittals
- Commercial Marine Fishing Licensing System
- Real Estate Continuing Education
- Insurance Rate e-Filings

We look forward to expanding this list of services if we are awarded the Portal Manager contract.

*5.04 When a Government Agency becomes a Portal Partner, there is an understanding that their costs or the costs passed to the public for Portal Services will be less than the costs for running their own individual Portal and services. Further, there is an understanding by Portal Partners that Portal*

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*Services produce cost savings in their organizations. As a group there is also an understanding by the Portal Partners that free Portal Services can be made available from the total cost savings leveraged from the shared Portal. As part of this understanding, no single Portal Partner is supporting free Portal Services.*

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

5.05 (MR) Using these understandings, the Contractor shall set fees in relation to the cost of developing and maintaining the Portal Service along with a shared cost for running the Portal. These fees shall be negotiated with the Portal Partner with the cost savings and benefits explained to the satisfaction of the Portal Partner. Offerors must propose their cost models with variations as they feel are beneficial to the Contract.

e ) (MR) The Contractor shall generate revenue to run the Portal by charging fees for some of its Portal Services. The Portal must be self-supporting with the Contractor receiving its primary compensation from these fees. Revenues generated through these fees shall financially support all facets of the Portal including free Portal Services. The current Portal uses convenience fees, fee sharing and subscription fees, but Offerors may add other fee mechanisms to their proposals. The type of and amount of the fee will be negotiated with the Portal Partner requesting a Portal Service and approved by the AHC. Exhibit A contains a list of existing services, and Exhibit B contains a list of Portal Services that are planned and proposed. The listing in Exhibit B is for illustrative purposes only and does not, and shall not be deemed to represent any guarantee by the State or any Portal Partner regarding the viability of these Portal Services. Offerors are encouraged to respond in their proposal with additional ideas or Portal Services that they feel should be explored for development via the Portal.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

eHawaii.gov is currently operated without the direct appropriation of any tax dollars. Many of the services and information available through eHawaii.gov are provided to the public at no charge. HIC expects to continue this trend of building free services in parallel with premium (for fee) services.

Primary funding for the portal comes from modest transaction costs or additional portal fees for a select set of enhanced or value-added services. These fees support the portal's Web development, maintenance, hosting and marketing costs.

Under the self-supporting model, multiple revenue sources are identified and established by the AHC to fund the enterprise portal initiative. Typically, the initial infrastructure and ongoing portal services are funded by four buckets of revenue categories:

- Transaction fees paid by agencies
- Additional portal fees paid by end users of services
- Monthly account fees
- Time and materials upon State approval

HIC is committed to transaction fees as the primary funding mechanism for the requirements presented by the State of Hawaii. HIC is also confident in our ability to provide time and materials services as well as other funding mechanisms should the need arise. We are confident that the services available in Hawaii will provide ample volume and approved revenue to deliver on the State's requirements and produce ongoing results. We will seek ways to build the revenue base through a diverse set of monthly account and other services. We provide a detailed description of each revenue source below.

#### **Transaction Fees**

The State of Hawaii has set the strategic direction to encourage adoption of eGovernment services in order to increase operational efficiency and effectiveness for Hawaii State agencies. The State recognizes that when services are put online, cost savings result for the agency. These cost savings are generally in excess of any transaction fee that may be charged by the Portal Manager. Therefore, many agencies are able to absorb a nominal transaction fee, payable to the Portal Manager, for the provision of the online service. The transaction fee model allows the Portal Partner to retain or bill the agency monthly for the transactions and use that revenue to support the application and utilize whatever is left over for funding new services. This model has been utilized to successfully implement a majority of the funded services of eHawaii.gov.

#### **Additional Portal Fees**

In a minority of Hawaii eGovernment services, additional portal fees in excess of statutory fees are charged to end users to provide value-added online delivery of services. While rare, we have found that some services may not support the transaction fee model in which the State agency is able to absorb a transaction fee. The success of services like Hawaii's eCrim, Hawaii Compliance Express, and the experiences of other self-supported states have proven that some users are willing and able to pay an additional portal fee for faster and easier access to government information and services. We are committed to continuing to fund the portal primarily through agency-funded transaction fees, and there may be some services that support an additional portal fee borne by the end user without having negative impact to the constituent or user adoption.

#### **Monthly Account Fees**

Monthly account fees are collected to support the costs of administering HIC subscriber accounts for frequent users who desire a single statement for transactions with all agencies (HIC subscribers). Monthly accounts are also used to track authorized users for specific services, such as electronic access to driver records. In this case, all users of the service must be in compliance with the partner's requirements and must have a signed form on file.

The monthly account fee approach eliminates the need for multiple monthly bills for individual transactions with different agencies. The monthly account allows authorized users to view aggregated account activity, manage multiple users on the account, code transactions in a naming convention that matches the customer's internal billing system and store information for future sessions to avoid duplicative data entry – while receiving a single monthly bill for all activity during the month.

The experience of HIC has shown that high renewal rates among monthly account holders

and year-over-year increases in the number of monthly accounts should be expected. HIC currently manages more than 350 subscriber accounts.

#### Time and Materials

Some agencies may select to engage HIC in time and materials projects for services that do not support an additional fee or an agency-funded transaction fee, or may not have enough impact to be considered a free service offering. In these cases, time and materials projects may suit an agency's needs. In certain instances, we also may charge agencies on a subscription or other basis for specific services over and above the requested self-supported portal services (for example; Web site maintenance, third-party application hosting, etc.).

Because HIC currently manages eHawaii.gov services under this model, we are confident that we can continue this partnership with the State of Hawaii to deliver all requested services without the use of appropriated dollars and rely on a diverse mix of agency-funded transaction fees, additional portal fees, monthly account services and time and materials revenue. It has always been our practice to accept upfront financial risk for the portal project and to be compensated through ongoing performance. HIC is committed to continue primarily using transaction-based self-funding if awarded the contract, and will seek ways to build the revenue base through an assorted set of applications.



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## (6) COSTS (SECTION 6)

### 6.01 RATE STRUCTURE

6.01.1 (MR) *The Contractor may not charge more than the applicable statutory or regulatory fees for providing a service in its usual form.*

#### **HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

HIC understands and will not charge more than the applicable statutory or regulatory fees for providing a service in its usual form. HIC will work with the State and AHC to determine the appropriate fee to charge for a service when HIC provides a service through new channels or forms such as online and over the phone or for services that do not have a usual form (new bulk data searches, etc) or a statutory or regulatory fee. When appropriate, HIC will conduct research on fee structures of similar services in other states for the State to use in its decision-making process.

6.01.2 (MR) *In addition to the fee set by the Portal Partner, the Contractor may charge a Convenience Fee for government services provided via the Portal. An explanation of the process of arriving at a Convenience Fee and the elements that comprise the Convenience Fee shall be submitted with the Proposal. Possible considerations for the determination of a Convenience Fee would include but not be limited to an estimation of the development and maintenance cost to be recovered, the time frame for such recovery, and any provisions that might be developed to re-evaluate the level of the Convenience Fee after initial development costs have been recovered.*

#### **HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

Under the self-supporting model, perhaps the most important aspect of minimizing costs to the public is the process of and experience in setting fees for commercially-valuable services. HIC will present the recommended fee structure as part of the project initiation process. When considering transaction fees, it is important to thoroughly research and analyze customer perceptions of the price-value relationship for the proposed service as well as how a variance in price will influence demand and adoption. If a service is “priced out of the market” in comparison to the value it offers, customers will not use it, the State will not realize any benefit and the portal manager will not recoup its investment.

It is the portal manager’s job to answer what customers really want to know: "What's in it for me?" Whether they are buying DVDs on the Internet or conducting business online with state government, customers look for perceived value (whether measurable, functional or performance-based) relative to alternatives in order to justify a purchase. By setting a fee at a specific level, certain buyers will find the offering attractive and others will not. The

available market potential is then defined by the set of potential customers who find the offering attractive at a given price point.

With customer needs defined through exhaustive market research, HIC creates portal content, services and recommends pricing to the State that provides the highest possible value to users of the State's services. Some factors in determining a fee are objective such as the cost to create and maintain the service and others are subjective such as the willingness of a user to pay a certain fee and whether the service should be subsidized by other convenience fees.

The following is a list of some of the factors that go into determining a convenience fee for each service:

1. Cost for HIC to create, operate and maintain the service – This factor varies greatly depending on the type of service. If an application requires an IVR system that charges a fee per minute for use, it will be more expensive than a service that is Web only. HIC evaluates the level of effort to develop the service, as well as known operating and support costs when determining fees.
2. Transaction volumes – For a convenience fee to recover the costs of deploying and maintaining a service there is a relationship between volume and fee. In most cases services that have higher levels of transaction volumes will have lower overall convenience fees.
3. Opportunity cost of the existing process – What costs are likely to be incurred by a customer using the existing process to perform this task? An excellent example is Hawaii Compliance Express. Users would otherwise be required to obtain a Certificate of Good Standing from DCCA BREG (\$7.50), State of Hawaii Department of Tax Clearance (a visit to the tax office, with associated waiting), Department of Labor and Industrial Relations Tax Clearance (a visit to another state office), and the Internal Revenue Service Tax Clearance (yet another office and more waiting), finally delivering the proof of clearances to the State or county buyer. This process would have to be followed up on award and before issuance of final payment for most state or county agencies. Instead users of HCE pay \$12.00 per year. The system was developed, with integration to all partners at no cost to the State in less than 9 months.
4. What the market will bear for the convenience – Does the service add so much value those customers would willingly pay more? Most Department of Taxation filings have a \$2.50 convenience fee associated with them. Filers can submit forms and payments up until 11:59PM on the day of a deadline. Convenience fees are commonly used in eCommerce for services such as purchasing tickets by phone or the Web, accessing fund via an automated teller machine, or making a phone payment for a mortgage or credit card account.
5. Market research – What have other jurisdictions/states charged for a similar service? This is where HIC's NIC affiliates in 19 other states provide Hawaii with access to comparative online service pricing.
6. Customer displacement – Some partners are motivated by displacing customers who would otherwise fill their offices and bog down their staff. The actual savings to the

agency may be difficult or impossible to determine for a number of reasons, however the need to reduce the number of customers at the office is clear. PVL Contractor Renewals, Motor Vehicle Renewals and Bureau of Conveyance documents are excellent examples of this.

7. Ability/ willingness of the Portal Partner to pay transaction fees – Some Portal Partners simply do not have the authority or budget to pay for transaction fees. This may be a result of legislative rules, budgetary concerns, or other reasons.
8. Transaction volume – Will the application have a high enough potential market and adoption to make a good business case.
9. Public good – In some cases, the development an operation of a service will never be able to be covered by an application without excessive fees. HIC, the Portal Partner and the AHC proceed with the understanding that the service is such a benefit for the Portal Partner and the public that it should be developed anyway. The fees associated with the application are set to offset variable costs associated with the application to the greatest extent possible.

## **6.02 CONSULTING AND DEVELOPMENT SERVICES HOURLY RATES**

6.02.1 *(MR) Unless otherwise allowed, Portal Partners may desire to use the Contractor for other related development work. Responses to this RFP must include hourly rates by job specialty for use by Portal Partners for Internet application development services and consulting throughout the Contract period. The hourly rates should be a fully burdened rate that includes labor, per diem, travel, overhead, and any other costs related to the service. The specific rate (within a range) charged the Portal Partner for each proposed contracted service would be lowest rate shown unless justified in writing and approved by the Portal Partner.*

### **HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

HIC has provided our hourly rates by job specialty for use by Portal Partners for Internet application development services and consulting in *Figure 6.02.1-1* below. The rates are fully burdened and include labor, per diem, travel, overhead and any other costs related to the service.

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**FIGURE 6.01.1-1**  
*HIC Labor categories  
and rates*

Job Specialty	Hourly Rate
General Manager	\$240.00
Software Architect	\$120.00
Senior Project Manager	\$120.00
Project Manager	\$80.00
Senior Business Analyst	\$100.00
Business Analyst	\$70.00
Senior Developer	\$100.00
Developer	\$80.00
Web/Creative Designer	\$60.00
Print Designer	\$75.00
Marketing Executive	\$80.00
Marketing Associate	\$50.00
Financial Management/Billing Specialist/Support Staff	\$70.00
Database Administrator	\$100.00
Security Administrator	\$100.00
Systems Administrator	\$100.00

### 6.03 ADMINISTRATIVE FEES PAID TO THE STATE

6.03.1 (M) *The Contractor shall be assessed a monthly fee to cover administrative and operational overhead costs for the State to manage and oversee the Portal. These fees shall fund a State program manager ("PM") position and associated support. It shall also allow for studies of portal direction and services as the portal technology life cycle changes, develops, or matures.*

#### **HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

According to the answer to question #56 of Addendum C of the RFP, HIC is following the State's instructions and proposing two scenarios for the State program manager (PM) position and its funding. The first scenario includes a State-employed PM position that is funded from the portal's total revenues. The second excludes the State-employed PM, but recommends that HIC increase its investment to include a dedicated portal employee that will perform similar duties of the State PM.

#### **Scenario 1 (PM funded via portal revenues):**

HIC funds the PM through fees received by the portal. HIC will work with the AHC to determine how the position is paid for, method of payment and controls in place to manage any potential conflicts with a vendor paying a state employee's salary. Based on our understanding, the State-employed PM would meet the following requirements and duties.

Position Requirements:

- High-level State position reporting directly to AHC
- Experience working with department heads in state and county government
- Previous working relationships with cabinet officials and leaders from the executive, legislative and judicial branches
- Experience in working with private industry/ government partnerships
- Preferably, a good understanding of the self-supporting model

**PM duties:**

- Manage communications with the Access Hawaii Committee:
  - Advocate for project approval (with GM and partner) to AHC
  - Work with Portal Manager on state wide strategies to more effectively expand and promote portal service availability
- Active recruitment of new partners and advocacy of new partner projects
- Provide an alternate method of initial inquest for interested new partners
- The State PM needs to be available during off hours (weekends, nights) in the even of a problem
- Meet with GM and Project Managers at least once a week.
- Research eGovernment trends and future opportunities
- Travel to eGovernment trade shows for speaking, learning and partnership opportunities
- Quarterly reports to the AHC on Portal Oversight

**Advantages:**

- A full-time State PM should be able to approach prospective Portal Partners more easily and provide a higher level of comfort to agencies not already comfortable with the model.
- The State PM may streamline the approval process for new projects if he or she is given the ability by the board to approve new services and fees in between monthly AHC meetings.
- The State PM, who is fully dedicated to the portal on a day to day basis, may increase the number of services deployed because the State will have increased focus on the portal and its services instead of gathering the AHC together once a month.

**Disadvantages:**

- The AHC may find it difficult to acquire State approval for another FTE and the necessary budget approval for the position. Directing the monies to a special fund for this purpose may require new legislation and/or legislative approval.
- The management of the effectiveness and quality of the employee may be difficult to quantify since they are paid by via portal revenues but managed by the state.
- The PM may duplicate much of the work done by the Portal Manager Partner Liaison. Both positions will be necessary because the Portal Manager must be in close contact with current and prospective partners.

- With several individuals (General Manager, State PM and Partner Liaison) potentially contacting partners, there may be added confusion. Potential partners may become frustrated and there may be breaks in the current communication process.
- Most importantly, this flat monthly fee may negatively impact the number and variety of services and the number and quality of Contractor resources available to the State because of the decrease in overall portal revenues. The monthly fee will be a necessary expense, and thus, will limit HIC's nimbleness in terms of providing new services and investing in new technology.

**Scenario 2 (no state PM, but position staffed out of the portal):**

HIC currently employs a Partner Liaison on a part-time basis. To respond to the State's desire to conduct research, identify new opportunities and improve communication, we recommend that HIC expand that role to a full-time position at no additional expense to the state. If pursued, the portal employee would meet the following profile and fulfill the following responsibilities.

**Partner/AHC Liaison (Program Manager Position)**

- Manage communications with the Access Hawaii Committee:
  - Deliver Portal Reports to AHC members on a regular basis
  - Advocate for project approval (with GM and partner) to AHC
- Work with Portal Manager on statewide strategies
- Actively initiate conversations with new state and county partners
- Contact all existing partners on a regular basis to review satisfaction
- Research eGovernment trends and future opportunities
- Travel to eGovernment trade shows for speaking, learning and partnership opportunities
- Provide quarterly reports to the AHC on Portal Oversight Metrics

**Disadvantages:**

- The State exerts less control over an HIC employee, who will not directly report to the State.
- Some agencies may find it easier to approach a state employee than someone who works for the private sector partner
- Direct project oversight might be managed differently with a state PM outside the portal

**Advantages:**

- As an HIC employee, the Partner Liaison will be on call for emergencies 24/7.
- Because HIC is increasing its FTE investment, then no new legislation or special funds needed. Rather, HIC would simply have to gain approval from AHC.
- HIC will allow AHC to interview the candidate and make sure the proper resource is performing these duties.
- State partners would have a clear understanding of who their primary point of contact is. Instead of multiple parties making commitments and pursuing different agendas, there

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would be a single contact who would be able to make commitments on behalf of the private sector partner.

- Most important, HIC and the AHC would collaborate to determine the most effective use of portal revenues based on factors, such as a need for a one-time investment in technology, instead of pre-determining each month that the flat fee should go to fund a State PM. This pre-determined fee may hamstring HIC's ability to react to changing technology requirements.

6.03.2 (M) The PM shall be classified as a State employee, under the direction of the AHC. The Contract Administrator has the authority to assign some or all of the duties to the PM. The PM's office shall be on State premises, not at the Contractor's office.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

6.03.3 (M) The PM shall work with the Contractor to ensure that the Contract is being appropriately implemented. The PM shall interface with the AHC to assist the AHC in performing its duties.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

6.03.4 (M) The Contractor shall not be assessed these administrative fees until a notice is given by the AHC. This notice shall be provided no less than 60 days prior to the assessment of these fees. The intention of the AHC is to establish this position as a fully established State position, and to also establish a special fund for the collection of fees.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

6.03.5 (M) It is anticipated that these fees shall be approximately \$8,000 per month, which includes salary, benefits, and an operational budget. It is also anticipated that annual increases of no more than 5% will be assessed. The State shall determine the monthly amount and percent increase per year, based on the specific nature of services required.

**HIC RESPONSE:**

Hawaii Information Consortium will comply with this requirement.

## (7) EXCEPTIONS AND CONFIDENTIAL INFORMATION (SECTION 7)

*HIC RESPONSE:*

HIC is not taking any exceptions to the requirements of the RFP as amended by Addendum C to the RFP dated October 1, 2007.

HIC is not declaring any information in this proposal to be confidential to HIC.



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## (8) SUBMITTALS IN RESPONSE TO SECTION 9 SPECIAL PROVISIONS (SECTION 9)

### 9.01 SCOPE

9.01.1 All services shall be in accordance with these Special Provisions, the attached Scope of Work, the SPO General Provisions, dated 1/1/07, and the AG General Conditions, Form AG-008 Rev. 6/25/2007, although may not be physically attached but are included by reference and available at the SPO District Offices on Oahu, Hawaii, Maui and Kauai, and on the SPO website:  
[http://www4.hawaii.gov/bidappsgeneral\\_terms.cfm](http://www4.hawaii.gov/bidappsgeneral_terms.cfm).

A SPO Vendor List will be issued as a result of an award made for this RFP. Government Agencies may utilize these services as directed by their respective CPOs on an "as-needed" basis during the term of the contract.

### 9.02 OFFEROR QUALIFICATIONS

9.02.1 Offeror is advised that if awarded a contract under this solicitation, Offeror shall, upon award of the contract, furnish proof of compliance with the requirements of section 103D-310(c), HRS:

1. Chapter 237, tax clearance;
2. Chapter 383, unemployment insurance;
3. Chapter 386, workers' compensation;
4. Chapter 392, temporary disability insurance;
5. Chapter 393, prepaid health care; and
6. Chapter 103D-310(c), Certificate of Good Standing (COGS) for entities doing business in the State.

Refer to SPO General Provisions, Section 26 for instructions on furnishing the documents that are acceptable to the State as proof of compliance with the above-mentioned requirements.

### 9.03 CONTRACT ADMINISTRATOR

9.03.1 For purposes of this contract, Ms. Sharon Wong, ICSD Data Processing Systems Manager, or her authorized representative, is designated the Contract Administrator.

### 9.04 OVERVIEW OF THE RFP PROCESS

9.04.1 The RFP is issued pursuant to Subchapter 6 of HAR Chapter 3-122, implementing HRS Section 103D-303.

9.04.2 The procurement process begins with the issuance of the RFP and the formal response to written questions or inquiries regarding the RFP. Changes to the RFP will be made only by Addendum.

9.04.3 Proposals shall not be opened publicly, but shall be opened in the presence of State procurement officials. The register of Proposals and Offerors' proposals shall be open to public inspection after posting of the award.

9.04.4 All Proposals and other material submitted by Offerors become the property of the State and may be returned only at the State's option.

9.04.5 The Procurement Officer, or an evaluation committee selected by the Procurement Officer, shall evaluate the Proposals in accordance with the evaluation criteria in Section Eight. The Proposals shall be classified initially as acceptable, potentially acceptable, or unacceptable.

9.04.6 Proposals may be accepted on evaluation without discussion. However, if deemed necessary, prior to entering into discussions, Oral Presentations may be requested. A "priority list" of responsible Offerors submitting acceptable and potentially acceptable Proposals shall be generated. If more than three responses to this RFP are being evaluated, the priority list shall be limited to the three responsible Offerors who submitted the highest-ranked Proposals. The objective of these discussions is to clarify

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issues regarding the Offeror's proposal before the BAFO is tendered.

9.04.7 If during discussions there is a need for any substantial clarification or change in the RFP, the RFP shall be amended by an addendum to incorporate such clarification or change. Addenda to the RFP shall be distributed only to priority listed Offerors who submit acceptable or potentially acceptable Proposals.

9.04.8 Following any discussions, Priority Listed Offerors will be invited to submit their BAFO, if required. The Procurement Officer or an evaluation committee reserves the right to have additional rounds of discussions with the top three (3) Priority Listed Offerors prior to the submission of the BAFO.

9.04.9 The date and time for Priority Listed Offerors to submit their BAFO, if any, is indicated in Section 1.04, RFP Schedule and Significant Dates. If a Priority Listed Offeror does not submit a notice of withdrawal or a BAFO, the Priority Listed Offeror's immediate previous offer shall be construed as its BAFO.

9.04.10 After receipt and evaluation of the BAFOs in accordance with the evaluation criteria in Section Eight, the Procurement Officer or an evaluation committee will make its recommendation. The Procurement Officer will award the Contract to the Offeror whose proposal is determined to be the most advantageous to the State taking into consideration the evaluation factors set forth in Section Eight.

9.04.11 The contents of any Proposal shall not be disclosed during the review, evaluation, discussion, or negotiation process. Once award notice is posted, all Proposals, successful and unsuccessful, become available for public inspection. Those sections that the Offeror and the State agree are confidential and/or proprietary should be identified by the Offerors and shall be excluded from access as allowed by law.

9.04.12 The Procurement Officer or an evaluation committee reserves the right to determine what is in the best interests of the State for purposes of reviewing and evaluating Proposals submitted in response to the RFP. The Procurement Officer or an evaluation committee will conduct a comprehensive, fair and impartial evaluation of Proposals received in response to the RFP.

9.04.13 The RFP, any addenda issued, and the successful Offeror's Proposal shall become a part of the Contract. All Proposals shall become the property of the State.

#### 9.05 REQUIRED REVIEW

9.05.1 Offeror shall carefully review this solicitation for defects and questionable or objectionable matter. Comments concerning defects and questionable or objectionable matter must be made in writing and should be received by the Procurement Officer stated on the RFP cover page prior to the deadline for written questions as stated in the RFP Section 1.03, RFP Schedule and Significant Dates. This will allow issuance of any necessary amendments to the RFP. It will help prevent the opening of a defective solicitation and exposure of Offeror's Proposal upon which award could not be made. Any exception taken to the terms, conditions, specifications, or other requirements listed herein, must be listed in the Exceptions section of the Offeror's Proposal, if the exception is unresolved by the Proposal due date.

#### 9.06 QUESTIONS PRIOR TO OPENING OF PROPOSALS

9.06.1 All questions must be submitted in writing and directed to the Procurement Officer, SPO as directed below.

Faxed questions must be sent to:

(808) 586-0570, Attn: Mr. Colin Tanaka

The State will respond to written questions by the date indicated in Section One, 1.03 RFP Schedule and Significant Dates, or as amended.

#### 9.07 PROPOSAL AS PART OF THE CONTRACT

9.07.1 This RFP and all or part of the successful Proposal shall be incorporated into the Contract.

#### 9.08 BIDDER'S CONFERENCE AND SUBMISSION OF PROPOSAL

9.08.1 A pre-proposal conference will be held on September 11, 2007 at 9:00 a.m., HST, in the Kalanimoku Building, 1151 Punchbowl Street, Room 322B, Honolulu, Hawaii 96813. The pre-proposal

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conference is not mandatory; however, Offeror's are encouraged to attend to gain a better understanding of the Portal and the work to be performed under the Contract.

9.08.2 Offerors are advised that anything discussed at the pre-proposal conference does not change any part of this solicitation. All changes and/or clarifications to this solicitation shall be done in the form of an addendum.

#### 9.08.3 Submission of Proposal

The Offerors's Proposal shall be submitted and received electronically through the HePS. This electronically submitted Proposal shall be considered the "Original." "Original" Proposals received outside the HePS shall not be considered for award. To register for HePS through the system manager, Sicomnet, refer to the SPO website: [www.spo.hawaii.gov](http://www.spo.hawaii.gov). Click on the Hawaii Electronic System (HePS), then, HePS Vendor Vendor Registration Walk Through Instructions and HePS VENDOR REGISTRATION.

Offeror shall submit only (1) Proposal per submittal. Alternate Proposals, whether submitted separately or inclusively within one Proposal, will not be accepted.

Submission of a Proposal shall constitute an incontrovertible representation by the Offeror that the RFP documents are sufficient in scope and detail to indicate and convey reasonable understanding of all terms and conditions of performance of the work.

Before submitting a Proposal, each Offeror must:

(1) Examine the solicitation documents thoroughly. Solicitation documents include this RFP, any attachments, and any other relevant documents.

(2) Become familiar with State, local, and federal laws, statutes, ordinances, rules, and regulations that may in any manner affect cost, progress, or performance of the work.

#### 9.09 PROPOSAL PREPARATION

9.09.1 OFFER FORM, page OF-1. See Attachment 1. Proposals shall be submitted using Offeror's exact legal name as registered with the Department of Commerce and Consumer Affairs, if applicable; and to indicate exact legal name in the appropriate spaces on Offer Form page OF-1. Failure to do so may delay proper execution of the Contract.

9.09.2 The authorized signature on the first page of the Offer Form shall be an original signature in ink, which shall be required before an award, if any, can be made.

9.09.3 Offer Guaranty. An offer guaranty is NOT required for this RFP.

9.09.4 Tax Liability. Work to be performed under this solicitation is a business activity taxable under Chapter 237, HRS, and vendors are advised that they are liable for the Hawaii GET at the current (i.e., 4.5%) rate. If, however, an Offeror is a person exempt by the HRS from paying the GET and therefore not liable for the taxes on this solicitation, Offeror shall state its tax exempt status and cite the HRS chapter or section allowing the exemption.

9.09.5 Proposal Copies to be Submitted. Eight (8) copies of the Proposal are required. The eight (8) copies shall be copies of the "Original," clearly marked "copy 1 of 8 copies."

Proposal copies shall be submitted and received at the SPO, Kalanimoku Building, 1151 Punchbowl Street, Room 416, Honolulu, Hawaii 96813, within two (2) business days after the date and time set for electronic submittal and receipt of the Proposal. Timely receipt of copies of Proposals shall be evidenced by the date and time registered by the SPO time stamp clock.

9.09.6 In addition to the Original and copies of the Proposal, Offeror will submit on a CD an electronic copy of the Proposal in Microsoft Word and PDF formats with the Proposal copies.

9.09.7 Costs for developing the Proposal are solely the responsibility of the Offeror, whether or not any award results from this solicitation. The State will not reimburse such costs.

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9.09.8 All Proposals become the property of the State.

9.09.9 Copies of documents transmitted by Offerors via facsimile machines shall be limited to the modifications or withdrawal of an offer pursuant to sections 3-122-108 and 3-122-28, HAR, respectively.

#### 9.10 ECONOMY OF PRESENTATION

9.10.1 Proposals shall be prepared in a straightforward and concise manner, in a format that is reasonably consistent and appropriate for the purpose. Emphasis will be on completeness and clarity and content.

If any additional information is required by the State regarding any aspects of the Offeror's Proposal, it shall be provided within four (4) business days.

#### 9.11 ORAL PRESENTATION

9.11.1 Respondents to this RFP may be required to make an oral presentation of their respective Proposals to ensure thorough, mutual understanding. The State in its sole discretion may schedule the time and location for these presentations (if required), normally within the timeframe indicated in Section 1.04.

#### 9.12 ADDITIONAL TERMS AND CONDITIONS

9.12.1 The State reserves the right to add terms and conditions during the contract negotiations. These terms and conditions will be within the scope of the RFP and will not affect the Proposal evaluation.

#### 9.13 INSURANCE REQUIREMENTS

9.13.1 The Contractor shall maintain in full force and effect during the life of this contract, liability and property damage insurance to protect the Contractor and his subcontractors, if any, from claims for damages for personal injury, accidental death and property damage which may arise from operations under this Contract, whether such operations be by the Contractor, a subcontractor or anyone directly or indirectly employed by either of them. If any subcontractor is involved in the performance of the Contract, the insurance policy or policies shall name the subcontractor as additional insured.

9.13.2 As an alternative to the Contractor providing insurance to cover operations performed by a subcontractor and naming the subcontractor as additional insured, Contractor may require subcontractor to provide its own insurance, which meets the requirements herein. It is understood that a subcontractor's insurance policy or policies are in addition to the Contractor's own policy or policies

9.13.3 Policies shall provide, or be endorsed to provide, all required coverage. Prior to beginning any work, or within two (2) weeks after notification of award, whichever is earlier, the Contractor must provide certificate(s) or certified endorsement(s), as applicable, of the insurance required. There will be no exceptions to this requirement. Failure to provide the proof of insurance as required may, at the State's option, result in rejection of the Proposal and/or cancellation of the Contract. No work under this Contract shall commence until evidence of all required insurance is provided to the State.

9.13.4 By requiring insurance herein, the State does not represent that coverage and limits will necessarily be adequate to protect the Contractor and such coverage and limits shall not be deemed as a limitation on the Contractor's liabilities under the indemnities granted to the State.

9.13.5 The following minimum insurance coverage(s) and limit(s) shall be provided by the Contractor, including its subcontractor(s) where appropriate:

a. Public Liability (occurrence form), \$500,000 combined single limit per occurrence for bodily injury and property damage;

b. Worker's Compensation Insurance coverage in amounts as required by statute on all employees;

c. Automobile Liability including non-owned and hired ---\$1,000,000.00;

d. Commercial General Liability (CGL) and Umbrella Liability Insurance including contractual liability and personal injury --- \$1,000,000.00. Contractor shall maintain CGL and, if necessary, commercial umbrella or excess liability with a limit of not less than \$1,000,000.00 each occurrence. The Schedule of Underlying

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*Insurance in the Umbrella Policy shall include the CGL, the auto policy and the Employer's Liability Policy;*

*e. Comprehensive Crime having at least the following coverages: employee dishonesty (blanket coverage), forgery, theft (inside and outside), wire transfer fraud, computer fraud or theft --- \$1,000,000.00;*

*f. Computer Hardware and Software, including mechanical breakdown and extra expense. Limits should be consistent with valuation of hardware, software, and time required to restore operations;*

*g. General comprehensive liability insurance policy in the amount of at least \$1,000,000; and*

*h. Fidelity bond in the amount of at least \$200,000 per employee.*

*9.13.6 Prior to performing any work related to the Contract, Contractor must provide a performance bond in an amount not less than \$500,000.00 covering its obligations to collect statutory or regulated fees or charges owed to the State under the Contract or any SLA.*

*9.13.7 Each insurance policy required by this contract, including a subcontractor's policy, shall contain the following clauses:*

*a. "This insurance shall not be canceled, limited in scope of coverage or non-renewed until after 30 days written notice has been given to the State of Hawaii, Department of Accounting and General Services, State Procurement Office, P. O. Box 119, Honolulu, Hawaii 96810-0119."*

*b. "The State of Hawaii is added as an additional insured with respect to operations performed for the State of Hawaii."*

*c. "It is agreed that any insurance maintained by the State of Hawaii will apply in excess of, and not contribute with, insurance provided by this policy."*

*9.13.8 The minimum insurance required shall be in full compliance with the Hawaii Insurance Code throughout the entire term of the Contract, including supplemental agreements.*

*9.13.9 Upon Contractor's execution of the Contract, the Contractor agrees to deposit with the State certificate(s) of insurance necessary to satisfy the State that the insurance provisions of this contract have been complied with and to keep such insurance in effect and the certificate(s) therefore on deposit with the State during the entire term of this Contract, including those of its subcontractor(s), where appropriate. Upon request by the State, Contractor shall be responsible for furnishing a copy of the policy or policies.*

*9.13.10 Failure of the Contractor to provide and keep in force such insurance shall be regarded as material default under this Contract, entitling the State to exercise any or all of the remedies provided in this Contract for a default of the Contractor.*

*9.13.11 The procuring of such required insurance shall not be construed to limit Contractor's liability hereunder nor to fulfill the indemnification provisions and requirements of this Contract. Notwithstanding said policy or policies of insurance, Contractor shall be obliged for the full and total amount of any damage, injury, or loss caused by negligence or neglect connected with this Contract.*

#### *9.14 CONTRACT EXECUTION*

*9.14.1 Successful Offeror receiving award shall enter into the State's formal written Contract.*

*9.14.2 No work is to be undertaken by the Contractor prior to the contract commencement date. The State is not liable for any work, contract, costs, expenses, loss of profits, or any damages whatsoever incurred by the Contractor prior to the official starting date.*

*9.14.3 If an option to extend is mutually agreed upon, the Contractor shall be required to execute a supplemental agreement to the Contract for the additional extension period(s).*

*9.14.4 The Contractor or the State may terminate the extended Contract at any time without cause upon twelve (12) months prior written notice.*

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9.15 PAYMENT AND AWARD

9.15.1 *The Contractor will be paid based on the guidelines described in Section Five – Business/Management/Cost Model and Section 6 – Costs.*

9.15.2 *Method of Award. The award will be made to the responsive, responsible Offeror whose Proposal is determined to provide the best value to the State based on the evaluation criteria and meeting the posting requirements. All Offerors will be notified in writing of the award decision.*

9.15.3 *The Contract award will be made in the best interest of the State. Part or all of this RFP and the successful Proposal will be incorporated into and form the Contract.*

9.15.4 *Responsibility of Lowest Responsive Offeror. Reference §3-122-112, HAR, Responsibility of Offerors. If compliance documents have not been submitted to the SPO prior to award, the awarded Offeror shall produce documents to the Procurement Officer to demonstrate compliance with this section.*

*Hawaii Compliance Express. Refer to Section 26 of the SPO General Provisions. Vendors may choose to use the Hawaii Compliance Express (HCE) which allows businesses to register online through a simple wizard interface at <http://vendors.ehawaii.gov> to acquire a "Certificate of Vendor Compliance." The HCE provides current compliance status as of the issuance date. The "Certificate of Vendor Compliance" indicating that a vendor's status is compliant with the requirements of Chapter 103D-310(c), HRS, shall be accepted for both contracting and final payment purposes. Vendors that elect to use the new HCE will be required to pay an annual fee of \$12.00 to the Hawaii Information Consortium, LLC (HIC). Vendors choosing not to participate in the HCE program will be required to provide the paper certificates as instructed in the referenced SPO General Provisions, Section 26.*

9.15.5 *Final Payment Requirements. Unless registered in the HCE, in addition to the tax clearance certificate, an original "Certification of Compliance for Final Payment" (SPO Form-22), attached, will be required for final payment. A copy of the Form is also available at [www.spo.hawaii.gov](http://www.spo.hawaii.gov). Select "Forms for Vendors/Contractors" from the Procurement of Goods, Services, & Construction - Chapter 103D, HRS, menu.*

9.16 INSPECTION AND MODIFICATION - REIMBURSEMENT FOR UNACCEPTABLE DELIVERABLES

9.16.1 *The Contractor is responsible for the completion of all work set out in the Contract. All work is subject to inspection, evaluation, and approval by the Contract Administrator. The State may employ all reasonable means to ensure that the work is progressing and being performed in compliance with the Contract. Should the Contract Administrator determine that the corrections or modifications are necessary in order to accomplish its intent, the Contract Administrator may direct the Contractor to make such changes.*

9.16.2 *Substantial failure of the Contractor to perform the Contract may cause the State to terminate the Contract. In this event, the State may require the Contractor to reimburse the monies paid (based on the identified portion of unacceptable work received) and may seek associated damages.*

9.17 ACCEPTABLE EMPLOYEES

9.17.1 *Contractor shall provide employees experienced in and qualified to perform specified tasks. Unless waived by the State, the Contractor and the State will jointly agree upon those employees who are to perform services under this Agreement. In any event, the State shall be the sole judge of employee performance. If, for any reason, the State deems any contract employee's performance is unsatisfactory, the Contractor shall upon written or verbal request by the State, immediately remove such employee. The Contractor shall replace such employee within twenty four (24) hours of notification unless a different time frame is agreed upon. Failure to provide experienced and qualified employees acceptable to the State may be cause for immediate termination of the Contract.*

9.18 PATENT AND COPYRIGHT INDEMNIFICATION

9.18.1 *The Contractor shall indemnify and hold the State harmless and shall defend at its own expense*

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any action brought against the State based upon a claim of infringement of a United States patent, copyright, trade secret, or trademark arising out of or related to the Contractor's actions related to the Portal. The Contractor will pay all damages and costs finally awarded and attributable to such claim, but such defense and payments are conditioned on the following: (i) that Contractor shall be notified promptly in writing by the State or any notice of such claim; (ii) that the State may select at its own expense advisory counsel; and (iii) that the State shall cooperate with Contractor in a reasonable way to facilitate settlement of defense of any claim or suit.

9.18.2 The Contractor warrants that its proposed operation of the Portal does not and shall not infringe on the United States patent, copyright, trademark or trade secret right of any person or entity. The State shall be provided with prompt notice of any such claim of infringement and the Contractor shall have the exclusive right to defend or settle such claim at the Contractor's option subject to State approval, which shall not be unreasonably withheld. The State shall cooperate with the Contractor in its defense or settlement of such claim at no expense and no liability to the State. The Contractor is not responsible for the content of information or links furnished by the state or any entity hereunder to the Contractor.

9.18.3 Should the Portal, or any part thereof, become, or in Contractor's opinion be likely to become, the subject of a claim of infringement in a way to require the Contractor to indemnify the State pursuant to subsection (a), the State shall permit the Contractor, at its option and expense, either to procure for the State the right to continue operating the Portal, or to replace or modify any infringing aspect so that it becomes non-infringing. Upon failure to do either, the State may terminate the Contract immediately and pursue any legal remedies available.

#### 9.19 MARKETING

9.19.1 It is recognized that the Contractor and its affiliated companies, if any, could intend to use its experience with the State, Counties, the AHC and data custodians as a marketing tool with third parties. It is agreed that the Contractor may make references to and use the Government Agencies as references. If the Contractor intends to claim that the Government Agencies "endorse" the Contractor or use the State seal, the AHC or Portal logo or claim representations made by the Government Agencies, all such material must be submitted to the AHC for review and approval prior to use by the Contractor.

#### 9.20 LIABILITY

9.20.1 The State, its agents, and employees shall not be legally responsible for errors due to problems caused by the Contractor's actions or intentional omissions in operation of the Portal.

9.20.2 The Contractor agrees for itself, its agents, employees, and assigns to hold harmless, indemnify and defend the State, its agents and employees from any actions arising out of the Contractor's failure to perform under the terms of the Contract.

9.20.3 The Contractor agrees that it has no right of subrogation or contribution from the State for any judgment rendered against the Contractor to the extent such judgment results from the Contractor's failure to perform under the terms of this Contract.

#### 9.21 PROTEST

9.21.1 A protest shall be submitted in writing within five (5) working days after the aggrieved person knows or should have known of the facts giving rise thereto; provided that a protest based upon the content of the solicitation shall be submitted in writing prior to the date set for receipt of offers. Further, provided that a protest of an award or proposed award shall be submitted within five (5) working days after the posting of the notice of award of the contract as described herein.

The notice of award resulting from this solicitation shall be posted on the SPO Website:  
<http://www.hawaii.gov/spo2/source/>. Vendors are advised to check this site for the award notice.

9.21.2 Any protest pursuant to HRS Section 103D-701, and HAR Section 3-126-3, shall be submitted in writing to the Procurement Officer, State Procurement Office, Kalanimoku Building, 1151 Punchbowl Street, Room 416, Honolulu, Hawaii 96813 or P.O. Box 119, Honolulu, Hawaii 96810-0119.

#### 9.22 TERMINATION OF CONTRACT

9.22.1 *The State or the Contractor shall have the right to terminate the Contract for cause, subject to cure, by providing written notice of termination to the Contractor or the State, respectively. Such notice shall specify the time, specific provision of the Contract or "for cause" reason that gives rise to the termination and shall specify reasonable appropriate action that can be taken by the Contractor or the State to avoid termination of the Contract. The State and the Contractor shall provide a period of up to sixty (60) days, unless otherwise specified in the Contract, for the Contractor or the State to cure breaches and deficiencies of its performance obligations under the Contract. The State may terminate the Contract at any time, if directed to do so by statute or court order.*

#### 9.23 TERMINATION FOR CAUSE

9.23.1 *The phrase "for cause" by the State shall include but not be limited to:*

- a. Any material breach or evasion by the Contractor of the terms or conditions of the Contract and its amendments, if any; or,*
- b. Substantial cessation of Portal Services by the Contractor; or,*
- c. Fraud, misappropriation, embezzlement, malfeasance, significant misfeasance, or illegal conduct by the Contractor, its employees, agents, officers, or directors; or,*
- d. Dissolution of the Contractor or forfeiture of its company existence; or,*
- e. Amendment of the State's enabling authority making the Portal substantially impractical; or*
- f. An adverse judicial decision by a court of competent jurisdiction, which has the effect of rendering Portal operations no longer feasible; or*
- g. Insolvency of the Contractor; or,*
- h. Material breach of an SLA; or,*
- i. Negligent disclosure of any confidential information; or*
- j. Legislation materially alters the ability of the Contractor to operate the Portal; or*
- k. All applicable provisions of the RFP.*

#### 9.24 ADDITIONS, AMENDMENTS AND CLARIFICATIONS TO THE SPO General Provisions, dated 1/1/07

9.24.1 *Additions to the SPO General Provisions, dated 1/1/07:*

9.24.1.1 *Year 2000 Compliance. All appropriate hardware, software, and systems utilized for the work specified herein shall be year 2000 compliant.*

9.24.2 *Amendments to the SPO General Provisions, dated 1/1/07:*

9.24.3 *Clarifications to the SPO General Provisions, dated 1/1/07:*

9.24.3.1 *Subsection 2.8 Certification of Offeror Concerning Wages, Hours and Working Conditions of Employees Supplying Services. Section 103-55, HRS, amended by Act 149, SLH 1999, now applies to service contracts in excess of \$25,000 and also excludes professional personnel.*

#### **HIC RESPONSE:**

Hawaii Information Consortium will comply with these requirements in Section 9 of the RFP as amended by Addendum C to the RFP dated October 1, 2007.