

June 19, 2009

Dear clients and colleagues,

Few weeks ago, we added NIC to our list of portfolio holdings. Among our IT securities, NIC is probably the company that offers the best growth opportunity when looking at the next 2 to 5 years. It is well managed and financially secure. Here is a snapshot of the company:

NIC Inc. (\$7.00)

Founded in 1991, NIC is the leading provider of outsourced e-Government portals. The company builds and manages official government websites and e-Government services for 23 states and hundreds of local governments in the U.S. As of today, it provides e-Government services to 97 million people in the U.S. NIC's portal outsourcing is a unique business model that delivers government and agencies an attractive value proposition. NIC provides all financial support for developing, implementing and operating these web-based portals, allowing governments to offer reliable websites at no cost for taxpayers. The portals give businesses and individuals the opportunity to access important government information and utilize a full range of online services. NIC's revenue stream comes from the fees generated from the online transactions and subscriptions.

Target Market Size

The e-Government portals' estimated market size could be valued anywhere between \$500M to \$1,000M and is growing fast (this market size range excludes all government level portal and foreign opportunities).

Competitive advantages

NIC has a unique model and a strong track record in winning contracts. It enjoys a dominant market position with almost no direct competitor. Its closest competitor, BearingPoint, filed for Chapter 11 back in February. Other state governments that run their portal internally should be viewed as participants or indirect competitors. Other large players such as IBM have limited presence in this niche.

Growth strategy

The company can expand its operations by winning the remainder 27 state government portals. The current economic condition has considerably reduced governments' ability to correctly fund their IT needs. Thus, it makes perfect sense for them to outsource their web-based portal. NIC can also grow by winning federal contracts, by growing internationally or by developing new applications. Organic growth is expected to be in the high double-digit mark.

Risk

Risks include: a lower-than-expected RFP activity, renewals of contract at less favourable conditions and negative publicity in the event of a security breach.

Investment Theme

Government budgets are tight and more resources are allocated to healthcare and education leaving IT departments under-funded and ineffective. The portals outsourcing trend is not about to slow. As technologies continue to advance, citizens and businesses' needs and willingness to use broader online services will increase. NIC has the expertise to fully exploit this market.

Valuation

Based on a WACC of 8.5% and a terminal growth of 5%, our target price is \$12 for an expected return of 70%.

Regards,

The Global Alpha team