



A BOLD NEW AIM

Human understanding

National Research Corporation introduces NRC Health
2016 ANNUAL REPORT | 2017 PROXY STATEMENT

nrc
HEALTH

Company Profile

A company can be described in a variety of ways including the industry it serves, its product, service, or even size. However, at its core, every organization is a collection of its associates. Listed below is who we are.

Abbey Hipple	Casey Hodgins	Helen Hrdy	Judy Radford	Mary Tellis-Nayak	Sara Pickrel
Ada Hui	Cassie DiClemente	Ian Miller	Julie Diaz	Matt Dahlke	Sara Winchell
Adam Benash	Cathy Diven	Ilze Young	Justin Burns	Max Wyrick	Sarah Digman
Adam Harris	Chanda Medeiros	Immaculata Sam	Justin Kubick	Megan Charko	Sarah Fryda
Aislinn Reeder	Chris Burkholder	Jacie Zoerb	Justin Meaney	Megan Trowbridge	Sarah Lindstrand
Alaia Holmes	Chrissy Barnhardt	Jack Thelen	Justin Schuerman	Mel Kamm	Sarah Wetzel
Alayna Kost	Christian Habib	Jackie Cech	Kade Mohrman	Melanie Jameson	Sarvesh Khosla
Alena Rusetskaya	Christina Padanilam	Jackie Sommer	Kaitlin Overfield-Newman	Melissa Cummings	Scott Brester
Alex Gallichotte	Christy Michel	Jackie Stevens	Karen Hecimovic	Melissa Zwiener	Scott Emery
Alex Koester	Cindy Ballow	Jade Chong	Karen Robertus	Micaela Puente	Scott Logan
Alex Pavlik	CJ Adamson	Jake Daniel	Karen Wilken	Michaela Brazington	Sean Swanson
Alexis Lafleur	Claire Uryasz	Jake Mastera	Karima Kassam	Micheal Thompson	Shannon Hasemann
Alicia Dittenber	Cody O'Grady	Jake Stephens	Karrie Vincenzini	Michelle Bachman	Shannon Hayes
Alicia Weixelman	Colleen Selvage	Jake Tegler	Kathryn Peisert	Michelle Folken	Shannon McCann
Aliya Garza	Connie Pautz	James Newton	Kathy Anstine	Michelle Hildenbrand	Sheri Life
Allison Thomas	Connie White	James Tobey	Kathy Carroll	Michelle Ostia	Sheryl Pietzyk
Amanda Beardslay	Corey Matejka	Jamie Jorgenson	Katie Charles	Michelle Peters	Sheyma Salem
Amanda Loseke	Corry Caouette	Janae Spiker	Katie Hunke	Mike Bisenius	Shilpa Patel
Amanda Menke	Courtney Nitzel	Janet Carlson	Katie Johnson	Mike Hays	Sina Attaie
Amber Steffen	Courtney Nore	Jared Chulufas	Katie Skrivanek	Mike Koh	Sonia Jacobs
Amina Robi	Cydnee Rand	Jason Douros	Katrina Lupsiakova	Mike Vaughn	Spencer Krull
Amy Oltman	Dan Biggs	Jason Messerli	Kayla Wagner	Mitch May	Stacey Kermmoade
Ana Munoz	Dana Kearse	Jason Newton	Keith Wysocki	Molly Gottschalk	Stacy O'Brian
Andrew Carlson	Dana Petersen	Jason Rau	Kelli Woods	Molly Gruener	Steph Mosley
Andrew Ibbotson	Dana Svehla	Jason Stolberg	Kelly Dunn	Molly Murphy	Stephanie Kinsey
Andy Essink	Daniel Coca	Jason Thomas	Kelly Slama	Nate Heard	Stephanie Kolbo
Andy Gerch	Daniella Barron	Jason Zulkoski	Kelsey Cook	Nate Hoppe	Stephen Busch
Andy Glenn	Dara Wells	Jay Burt	Kelsey Watson	Nate Lawrence	Steve Barton
Andy Lambert	Dave Gilsdorf	Jay Smith	Ken Cousino	Nathan Schmitz	Steve Jackson
Anita Yu	Dave Hansen	Jeff Bogner	Kerrie Waybright	Nick Brandt	Steve Kepler
Anna Bates	David Houdek	Jeff Freygang	Kevin Karas	Nick Fontana	Sudha Daggumati
Anne Loethen	DeAnn Stephan	Jeff Gill	Kim Clouston	Nick Harpster	TaLissa Payne
Annie Krein	Deb Weyers	Jen Volland	Kim Houle	Nicolle Jungers	Tanner Wilkinson
Anthony Flores	Deborah Hinds	Jennifer Therrien	Kim Jones	Nikki Paulk	Tara Duggar
Anthony Leetch	Debra Wetzel	Jennifer Barnason	Kirsten Hattan	Nikki Winterstien	Tawna Schwarz
April Schulz	Denise Arhacon	Jennifer Kimmons	Kody Hayes	Pam Luciano	Taylor Simones
Ari Wait	Devan Lorenson	Jennifer Nguyen	Kori Stanosheck	Pamela Hill	Ted Smidberg
Ashlee Deeds	Don Mayhew	Jennifer Joseph	Kristin Larson	Pamela Nelson	Teresa Costello-Raddatz
Ashley Thiemann	Dorothy Hu	Jenny Brunke	Kristine German	Pat Dabney	Tessa Kurtenbach
Ashtyn Bax	Doug Burton	Jenny Gierhan	Kylee Gries	Paul Cooper	Tiffany Ryck
Asya Petrosyan	Drew Oliver	Jenny Grant	LaDonna Humphrey	Paul Sanny	Tim Butler
Aubrey Paulsen	Drew Powell	Jenny Jones	Lanny Boswell	Pete Kostelnick	Tim Collins
Aulii Reyes	Drew Soukup	Jenny Wieseler	Laura Allen	Phoebe Hui-Lawton	Tim Cook
Bailey Mahlberg	Dustin Bruce	Jeremy Nelson	Laura Olinger	Rachael Boone	Tim Gerken
Bailey Wood	Dwight Dean	Jess Arter	Lauri Dettmer	Rachael Beavers	Tim Ottersburg
Becki Hoppes	Echo Alexander	Jessica Hesse	Laurie McCall	Rachel Simants	Tim Washburn
Beki Ferguson	Elizabeth Sisney	Jessica Meis	Lauryn Dermit	Rachel Sullivan	Tina Singh
Ben Allemann	Ellie Phillips	Jhordan Elsberry	Leah Everson	Rachel Wilbern	TJ Ehlers
Billy Welch	Emily Barker	Jim Millar	Liliya Bulchenko	Rana Schreiber	Todd Jarchow
BJ Choi	Emily Karnish	Joe Colasurdo	Linda Magin	Randi Miller	Tony Reinke
Bobbie Paulk	Emily Lichter	Joe Kizer	Linda Stacy	Raquel Smith	Toya Gorley
Bonny Robley	Emily Schweitzer	Joe McTaggart	Lindsay Laug	Rebecca Christie	Tracy Hanger
Brad Jacox	Emma Newcomb	Joe Zigetma	Lindsey Akiyama	Renee Hauser	Travis Ficken
Brad Lowe	Eric Barsalou	Joel Steuben	Lindsey Bradley	Rich Carter	Trevor Heidinger
Brandon Hurley	Erica McClurg	John Dorn	Lindsey Hand	Rich Kortum	Tyler Burbach
Brandon Steffens	Erika Newmyer	John Palmer	Lisa Minchow	Richard Lierman	Valerie Schwarting
BreAnna Pendergast	Erin Brodhagen	Johnny Dingwerth	Lisa Stolzenburg	Rob Wirth	Vanessa Jones
Bret Hermesen	Erin Cerretta	Jon Caniglia	Liz Case	Robin Brester	Vicki Vopalensky
Brett Sullivan	Erin Hobelman	Jon Hanseling	Lizzy Bales	Rojean Clifton	Vivian Tellis-Nayak
Brian Wynne	Evan Killham	Jon Richards	Logan Donahoo	Ron Clarkin	Warren Wunderlich
Bridget Matthiessen	Giana Rada	Jon Tanner	Logan Schweitzer	Roxana Novoa	Wes Miller
Britt Hayes	Gidon Margolin	Jon Young	Lynn Phillips	Ruta Jaudegis	Whit Lanier
Brooke Jensen	Glenn Kramer	Jona Raasch	Maggie Essink	Ryan Bondegard	Will Landers
Bryan Christiancy	Greg Humlicek	Jordan Handley	Maggie Pope	Ryan Donohue	William England
Bryant McCann	Greg Ludvik	Jordan Rewolinski	Marc Coker	Ryan Real	William Palensky
Cally Ideus	Gunter Voelker	Josh Hardy	Marci Vander Tuig	Ryan Stoner	Zach Bogart
Candis Hager	Hali Clark	Josh Nelson	Marie Hall	Sally Henry	Zach Griffin
Carissa Hager	Hannah Eisert	Josh Rector	Mark McDonald	Sam Areman	Zach Zobel
Carla Steadman	Hannah Skiff	Josh Sexson	Martha Daniel	Sam Peterson	Zak Arushanov
Carly Carlson	Heidi Muhle	Josh Willey	Mary Ann Castillo	Santosh Doodi	
Carrie Merry	Heidi Peirce	Josh Winder	Mary Shaw	Sara Bennett	

Annual Meeting

The annual meeting of shareholders will be held on May 9, 2017, 3:00 p.m. (local time) at the Embassy Suites, 1040 P Street, Lincoln, Nebraska 68508.

Dear Owners:

Since its origination about 20 years ago, “Nothing about me without me” opened the door for individuals’ participation in their own care decisions and started the journey towards patient engagement. While progress has been measurable, to reach our desired destiny of a fully engaged population, the dialogue must dramatically evolve.

Most would agree that today our conversations remain far too clinical, largely superficial, and focused on the here and now. Our profession provides the most personal of services, yet we have totally inadequate knowledge about the human beings we serve. While we go to heroic levels for the slightest clinical improvement and at great costs, we have simply missed the economics and power of human understanding as *the* driver of better outcomes.

Human understanding can—and should—only be achieved one person at a time. Meaningful and personalized. No generic generalizations. No percentiles. N = 1.

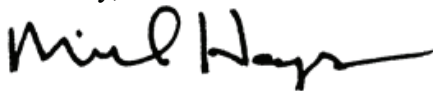
Once mastered, the benefits are endless—a diagnosis richly enhanced with more insight on activities of daily living; treatment compliance ensured once the real fears are uncovered; life dreams pointed to the right (not best) care options.

Beyond patients, mastering human understanding can address many hurdles we face in healthcare, including reestablishing the joy in work for all in the healthcare work force. The power of human understanding of a patient is no different than meaningful and personalized human understanding of a coworker.

National Research Corporation has long been known for uncovering consumers’ attitudes, preferences, and behaviors, as well as improving the patient experience. Your Company has now broadened its cause by committing ourselves to a bold new aim. We believe *all* care is delivered better the more we understand.

Introducing NRC Health—human understanding.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Hays". The signature is fluid and cursive, with a long horizontal stroke at the end.

Michael D. Hays
Fellow Owner

This page intentionally left blank

NATIONAL RESEARCH CORPORATION
D/B/A NRC Health

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held May 9, 2017

To the Shareholders of
National Research Corporation:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of National Research Corporation will be held on Tuesday, May 9, 2017, at 3:00 P.M., local time, at the Embassy Suites hotel located at 1040 P Street, Lincoln, Nebraska 68508, for the following purposes:

1. To elect two directors to hold office until the 2020 annual meeting of shareholders and until their successors are duly elected and qualified.
2. To ratify the appointment of KPMG LLP as our independent registered public accounting firm for 2017.
3. To conduct an advisory vote to approve the compensation of our named executive officers as disclosed in the accompanying proxy statement.
4. To conduct an advisory vote on the frequency of the advisory shareholder vote on the compensation of our named executive officers.
5. To consider and act upon such other business as may properly come before the meeting or any adjournment or postponement thereof.

The close of business on March 14, 2017, has been fixed as the record date for the determination of shareholders entitled to notice of, and to vote at, the meeting and any adjournment or postponement thereof.

A proxy for the meeting and a proxy statement are enclosed herewith.

By Order of the Board of Directors
NATIONAL RESEARCH CORPORATION

Kevin R. Karas
Secretary

Lincoln, Nebraska
April 3, 2017

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting To Be Held on May 9, 2017. The National Research Corporation proxy statement for the 2017 Annual Meeting of Shareholders and the 2016 Annual Report to Shareholders are available at <https://www.rdgir.com/national-research-corporation>.

YOUR VOTE IS IMPORTANT NO MATTER HOW LARGE OR SMALL YOUR HOLDINGS MAY BE. TO ASSURE YOUR REPRESENTATION AT THE MEETING, PLEASE DATE THE ENCLOSED PROXY, WHICH IS SOLICITED BY THE BOARD OF DIRECTORS, SIGN EXACTLY AS YOUR NAME APPEARS THEREON AND RETURN IMMEDIATELY.

This page intentionally left blank

NATIONAL RESEARCH CORPORATION
D/B/A NRC Health
1245 Q Street
Lincoln, Nebraska 68508

PROXY STATEMENT
FOR
ANNUAL MEETING OF SHAREHOLDERS
To Be Held May 9, 2017

This proxy statement is being furnished to shareholders by the Board of Directors (the “Board”) of National Research Corporation, doing business as NRC Health (the “Company”), beginning on or about April 3, 2017, in connection with a solicitation of proxies by the Board for use at the Annual Meeting of Shareholders to be held on Tuesday, May 9, 2017, at 3:00 P.M., local time, at the Embassy Suites hotel located at 1040 P Street, Lincoln, Nebraska 68508, and all adjournments or postponements thereof (the “Annual Meeting”) for the purposes set forth in the attached Notice of Annual Meeting of Shareholders.

Execution of a proxy given in response to this solicitation will not affect a shareholder’s right to attend the Annual Meeting and to vote in person. Presence at the Annual Meeting of a shareholder who has signed a proxy does not in itself revoke a proxy. Any shareholder giving a proxy may revoke it at any time before it is exercised by giving notice thereof to the Company in writing or in open meeting.

A proxy, in the enclosed form, which is properly executed, duly returned to the Company and not revoked, will be voted in accordance with the instructions contained therein. The shares represented by executed but unmarked proxies will be voted as follows:

- FOR the two persons nominated for election as directors referred to herein;
- FOR the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for 2017;
- FOR the advisory vote to approve the compensation of the individuals named in the Summary Compensation Table set forth below in this proxy statement (such group of individuals are sometimes referred to as our named executive officers);
- FOR submitting the advisory vote on the compensation of our named executive officers to our shareholders EVERY YEAR; and
- On such other business or matters which may properly come before the Annual Meeting in accordance with the best judgment of the persons named as proxies in the enclosed form of proxy.

Other than the election of two directors, the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for 2017, the advisory vote to approve the compensation of our named executive officers and the advisory vote on the frequency of the advisory shareholder vote on the compensation of our named executive officers, the Board has no knowledge of any matters to be presented for action by the shareholders at the Annual Meeting.

Only holders of record of the Company's class A common stock and class B common stock (sometimes referred to collectively as the "Common Stock") at the close of business on March 14, 2017 (the "Record Date") are entitled to vote at the Annual Meeting. On that date, the Company had outstanding and entitled to vote: (a) 20,913,343 shares of class A common stock, each of which is entitled to one-one-hundredth ($1/100^{\text{th}}$) of one vote per share, with an aggregate of 209,133.43 votes; and (b) 3,543,463 shares of class B common stock, each of which is entitled to one vote per share, with an aggregate of 3,543,463 votes. The presence of a majority of the votes entitled to be cast shall constitute a quorum for the purpose of transacting business at the Annual Meeting. Abstentions and broker non-votes will be counted as present in determining whether there is a quorum.

ELECTION OF DIRECTORS

The Company's By-Laws provide that the directors shall be divided into three classes, with staggered terms of three years each. At the Annual Meeting, the shareholders will elect two directors to hold office until the 2020 annual meeting of shareholders and until their successors are duly elected and qualified. Unless shareholders otherwise specify, the shares represented by the proxies received will be voted in favor of the election as directors of the two persons named as nominees herein. The Board has no reason to believe that the listed nominees will be unable or unwilling to serve as directors if elected. However, in the event that any nominee should be unable to serve or for good cause will not serve, the shares represented by proxies received will be voted for another nominee selected by the Board. Each director will be elected by a plurality of the votes cast at the Annual Meeting (assuming a quorum is present). Consequently, any shares not voted at the Annual Meeting, whether due to abstentions, broker non-votes or otherwise, will have no impact on the election of the directors. Votes will be tabulated by an inspector of elections appointed by the Board. Shares of the Company's class A common stock and class B common stock vote together as a single class on the election of directors.

The following sets forth certain information, as of March 14, 2017, about the Board's nominees for election at the Annual Meeting and each director of the Company whose term will continue after the Annual Meeting.

Nominees for Election at the Annual Meeting

Terms expiring at the 2020 Annual Meeting

JoAnn M. Martin, 62, has served as a director of the Company since June 2001. Ms. Martin was elected President and Chief Executive Officer of Ameritas Life Insurance Corp., an insurance and financial services company, in July 2005. From April 2003 to July 2005, she served Ameritas Life Insurance Corp. as President and Chief Operating Officer. Prior thereto, Ms. Martin served as Senior Vice President and Chief Financial Officer of Ameritas for more than the last five years. In April 2009, Ms. Martin was elected President and Chief Executive Officer of Ameritas Holding Company and Ameritas Mutual Holding Company (previously named UNIFI Mutual Holding Company), where she had served as Executive Vice President and Chief Financial Officer for more than the last five years. Ms. Martin has served as an officer of Ameritas and/or its affiliates since 1988. Ms. Martin also serves as a director of Ameritas Life Insurance Corp. Separate Accounts (since 2003). Ms. Martin's financial background as a certified public accountant and as the former Chief Financial Officer and current President and Chief Executive Officer of a mutual insurance holding company, as well as her past leadership experiences as a director of the Omaha Branch of the Federal Reserve Bank of Kansas City and other organizations, led to the conclusion that she should serve as a director of the Company.

Barbara J. Mowry, 69, has served as a director of the Company since May 2014. Ms. Mowry founded, and is currently the Chief Executive Officer of, GoreCreek Advisors, a management consulting firm. Prior to founding GoreCreek Advisors, Ms. Mowry served as Senior Vice President - Data Integration of Oracle Corporation, an industry leading software, hardware and services company, from January 2010 through March 2011, and as President and Chief Executive Officer of Silver Creek Systems, Inc., a data quality solutions software company, from January 2003 to December 2009. Ms. Mowry served as a director of Axion Health (from 2012 to 2014) and the Federal Reserve Bank of Kansas City (from 2012 to 2014) where she was Chair of the Board from 2013 to 2014. Ms. Mowry also serves as a director of several not-for-profit organizations, including the Kauffman Foundation (since 2013), the University of Minnesota Executive Committee, Carlson School of Management and the Board of Overseers (since 2004), the Colorado Innovation Network (since 2013) and the National Association of Corporate Directors Colorado Chapter where she is a Leadership Fellow. Ms. Mowry previously served

as a director of Gaiam, Inc. (from 1999 to 2013), Real Goods Solar, Inc. (from 2008 to 2013) and the Denver Branch of the Federal Reserve Bank of Kansas City (from 2008 to 2011). Ms. Mowry's financial background as a former President and Chief Executive Officer of several companies, a former member of the audit and compensation committees of the boards of directors of Gaiam, Inc. and Real Goods Solar, Inc. and as the current Chief Executive Officer of GoreCreek Advisors, led to the conclusion that she should serve as a director of the Company.

THE BOARD RECOMMENDS THE FOREGOING NOMINEES FOR ELECTION AS DIRECTORS AND URGES EACH SHAREHOLDER TO VOTE "FOR" SUCH NOMINEES. SHARES OF THE COMPANY'S COMMON STOCK REPRESENTED BY EXECUTED BUT UNMARKED PROXIES WILL BE VOTED "FOR" SUCH NOMINEES.

Directors Continuing in Office

Terms expiring at the 2018 Annual Meeting

Michael D. Hays, 62, has served as Chief Executive Officer and a director since he founded the Company in 1981. He also served as President of the Company from 1981 to 2004 and from July 2008 to July 2011. Prior to founding the Company, Mr. Hays served for seven years as a Vice President and a director of SRI Research Center, Inc. (n/k/a the Gallup Organization). Mr. Hays' background as founder of the Company, and his long and successful tenure as Chief Executive Officer and a director, led to the conclusion that he should serve as a director of the Company.

John N. Nunnally, 64, has served as a director of the Company since December 1997. Mr. Nunnally is a retired Group President from McKesson Corporation, a leader in pharmaceutical distribution and healthcare information technology. During his 28-year career at McKesson, Mr. Nunnally served in a variety of other positions including, Vice President of Strategic Planning and Business Development, Vice President and General Manager of the Amherst Product Group and Vice President of Sales-Decision Support. These responsibilities included leading several business units, including one with over \$360 million in annual revenue. In addition, he was involved in managing a number of mergers and acquisitions. Mr. Nunnally also serves as an adjunct professor at the University of Massachusetts, School of Nursing, advising students and faculty on matters pertaining to healthcare information technology. These experiences and Mr. Nunnally's expertise as a professional and educator in the field of healthcare information technology led to the conclusion that he should serve as a director of the Company.

Terms expiring at the 2019 Annual Meeting

Donald M. Berwick, 70, has served as a director of the Company since October 2015. Dr. Berwick is the former President and Chief Executive Officer of the Institute for Healthcare Improvement, which he co-founded and led for almost 20 years, and where he now serves as President Emeritus and Senior Fellow. He is also currently a Lecturer in the Department of Health Care Policy at Harvard Medical School. From July 2010 to December 2011, Dr. Berwick served as the Administrator of the Centers for Medicare and Medicaid Services as an appointee of President Barack Obama. Dr. Berwick previously served on the faculty of the Harvard Medical School and the Harvard School of Public Health (from 1974 to 2010). He was also vice chair of the U.S. Preventive Services Task Force (from 1990 to 1995), the first "Independent Member" of the Board of Trustees of the American Hospital Association (from 1996 to 1999) and the chair of the National Advisory Council of the Agency for Healthcare Research and Quality (from 1995 to 1999). Dr. Berwick's expertise as a professional, administrator, lecturer and educator in the field of healthcare led to the conclusion that he should serve as a director of the Company.

Gail L. Warden, 78, has served as a director of the Company since January 2005. Mr. Warden is currently President Emeritus of Detroit-based Henry Ford Health System, where he served as President and Chief Executive Officer from 1988 until 2003. Prior to this role, Mr. Warden served as President and Chief Executive Officer of Group Health Cooperative of Puget Sound, as well as Executive Vice President of the American Hospital Association. Mr. Warden serves as Chairman to several national healthcare committees and as a board member to many other healthcare related committees and institutions. Mr. Warden's extensive experience in the healthcare industry and the many leadership roles he has held with healthcare enterprises, including serving as the president and chief executive officer of a large integrated health system for 15 years, and industry organizations led to the conclusion that he should serve as a director of the Company.

CORPORATE GOVERNANCE

Independent Directors and Annual Meeting Attendance

Of the six directors currently serving on the Board, the Board has determined that Donald M. Berwick, JoAnn M. Martin, Barbara J. Mowry, John N. Nunnally and Gail L. Warden are “independent directors” as that term is defined in the listing standards of The NASDAQ Stock Market.

Directors are expected to attend the Company’s annual meeting of shareholders each year. Other than Dr. Berwick, each of the directors attended the Company’s 2016 annual meeting of shareholders.

Currently, the Company does not have a chairman and the Board does not have a policy on whether the roles of chief executive officer and chairman should be separate. The Board has, however, designated a lead director since 2007, with Ms. Martin serving as the lead director from 2007 until May 2012 and Mr. Nunnally serving as the lead director since May 2012. The Board believes its current leadership structure is appropriate at this time since it establishes the Company’s chief executive officer as the primary executive leader with one vision and eliminates ambiguity as to who has primary responsibility for the Company’s performance.

The lead director is an independent director who is appointed by the independent directors and who works closely with the chief executive officer. In addition to serving as the principal liaison between the independent directors and the chief executive officer in matters relating to the Board as a whole, the primary responsibilities of the lead director are as follows:

- Preside at all meetings of the Board at which the chief executive officer is not present, including any executive sessions of the independent directors, and establish agendas for such executive sessions in consultation with the other directors and the chief executive officer;
- Advise the chief executive officer as to the quality, quantity, and timeliness of the flow of information from management that is necessary for the independent directors to effectively perform their duties;
- Have the authority to call meetings of the independent directors as appropriate; and
- Be available to act as the spokesperson for the Company if the chief executive officer is unable to act as the spokesperson.

Committees

The Board held four meetings in 2016. During 2016, each of the directors, other than Mr. Warden, attended all of the meetings of the Board and all of the meetings held by all committees of the Board on which such director served during 2016.

The Board has a standing Audit Committee, Compensation Committee, Nominating Committee, Strategic Planning Committee and Leadership Development Committee. Each of these committees has the responsibilities set forth in formal written charters adopted by the Board. The Company makes available copies of each of these charters free of charge on its website located at www.nrchealth.com. Other than the text of the charters, the Company is not including the information contained on or available through its website as a part of, or incorporating such information by reference into, this proxy statement.

The Audit Committee’s primary function is to assist the Board in fulfilling its oversight responsibilities by overseeing the Company’s systems of internal controls regarding finance, accounting,

legal compliance and ethics that management and the Board have established; the Company's accounting and financial reporting processes; and the audits of the financial statements of the Company. The Audit Committee presently consists of JoAnn M. Martin (Chairperson), Barbara J. Mowry, John N. Nunnelly and Gail L. Warden, each of whom meets the independence standards of the NASDAQ Stock Market and the Securities and Exchange Commission for audit committee members. The Board has determined that JoAnn M. Martin qualifies as an "audit committee financial expert," as that term is defined by the Securities and Exchange Commission, because she has the requisite attributes through, among other things, education and experience as a president, chief financial officer and certified public accountant. The Audit Committee held five meetings in 2016.

The Compensation Committee determines compensation programs for the Company's executive officers, reviews management's recommendations as to the compensation to be paid to other key personnel and administers the Company's equity-based compensation plans. The Compensation Committee presently consists of Barbara J. Mowry (Chairperson), John N. Nunnelly and Gail L. Warden, each of whom meets the independence standards of the NASDAQ Stock Market and the Securities and Exchange Commission for compensation committee members. The Compensation Committee held four meetings in 2016. In 2015, management of the Company engaged Aon Hewitt, a nationally recognized compensation consultant, to assist the Company in its review of its compensation and benefits programs, including the competitiveness of pay levels, executive compensation design issues, market trends and technical considerations.

The Nominating Committee presently consists of Donald M. Berwick (Chairperson), Barbara J. Mowry, John N. Nunnelly and Gail L. Warden, each of whom meets the independence standards of The NASDAQ Stock Market for nominating committee members. The Nominating Committee's primary functions are to: (1) recommend persons to be selected by the Board as nominees for election as directors and (2) recommend persons to be elected to fill any vacancies on the Board. The Nominating Committee did not hold any meetings in 2016.

The Strategic Planning Committee assists the Board in reviewing and, as necessary, altering, the Company's strategic plan, reviewing industry trends and their effects, if any, on the Company and assessing the Company's products, services and offerings and the viability of such portfolio in meeting the needs of the markets that the Company serves. John N. Nunnelly (Chairperson), Donald M. Berwick, JoAnn M. Martin, Barbara J. Mowry and Gail L. Warden are the current members of the Strategic Planning Committee. The Strategic Planning Committee held one meeting in 2016.

The Leadership Development Committee assists the Board in reviewing the Company's strategy to attract, develop and retain its associates. The Leadership Development Committee presently consists of Gail L. Warden (Chairperson), Donald M. Berwick, JoAnn M. Martin and John N. Nunnelly. The Leadership Development Committee did not hold any meetings in 2016.

Board Oversight of Risk

The full Board is responsible for the oversight of the Company's operational and strategic risk management process. The Board relies on its Audit Committee to address significant financial risk exposures facing the Company and the steps management has taken to monitor, control and report such exposures, with appropriate reporting of these risks to be made to the full Board. The Board relies on its Compensation Committee to address significant risk exposures facing the Company with respect to compensation, with appropriate reporting of these risks to be made to the full Board. The Board's role in the Company's risk oversight has not affected the Board's leadership structure.

Nominations of Directors

The Nominating Committee will consider persons recommended by shareholders to become nominees for election as directors. Recommendations for consideration by the Nominating Committee should be sent to the Secretary of the Company in writing together with appropriate biographical information concerning each proposed nominee. The Company's By-Laws also set forth certain requirements for shareholders wishing to nominate director candidates directly for consideration by the shareholders. With respect to an election of directors to be held at an annual meeting, a shareholder must, among other things, give notice of intent to make such a nomination to the Secretary of the Company not less than 60 days or more than 90 days prior to the second Wednesday in the month of April.

In identifying and evaluating nominees for director, the Nominating Committee seeks to ensure that the Board possesses, in the aggregate, the strategic, managerial and financial skills and experience necessary to fulfill its duties and to achieve its objectives, and seeks to ensure that the Board is comprised of directors who have broad and diverse backgrounds, possessing knowledge in areas that are of importance to the Company. The Nominating Committee looks at each nominee on a case-by-case basis regardless of who recommended the nominee. In looking at the qualifications of each candidate to determine if their election would further the goals described above, the Nominating Committee takes into account all factors it considers appropriate, which may include strength of character, mature judgment, career specialization, relevant technical skills or financial acumen, diversity of viewpoint and industry knowledge. In addition, the Board and the Nominating Committee believe that the following specific qualities and skills are necessary for all directors to possess:

- A director must display high personal and professional ethics, integrity and values.
- A director must have the ability to exercise sound business judgment.
- A director must be accomplished in his or her respective field, with broad experience at the administrative and/or policy-making level in business, government, education, technology or public interest.
- A director must have relevant expertise and experience, and be able to offer advice and guidance based on that expertise and experience.
- A director must be independent of any particular constituency, be able to represent all shareholders of the Company and be committed to enhancing long-term shareholder value.
- A director must have sufficient time available to devote to activities of the Board and to enhance his or her knowledge of the Company's business.

The Board also believes the following qualities or skills are necessary for one or more directors to possess:

- At least one independent director must have the requisite experience and expertise to be designated as an "audit committee financial expert," as defined by applicable rules of the Securities and Exchange Commission, and have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the member's financial sophistication, as required by the rules of NASDAQ.

- One or more of the directors generally must be active or former executive officers of public or private companies or leaders of major complex organizations, including commercial, scientific, government, educational and other similar institutions.

As noted above, in identifying and evaluating nominees for director, the Nominating Committee seeks to ensure that, among other things, the Board is comprised of directors who have broad and diverse backgrounds, because the Board believes that directors should be selected so that the Board is a diverse body. The Nominating Committee implements this policy by considering how potential directors' backgrounds would contribute to the diversity of the Board. As part of its annual self-evaluation, the Nominating Committee assesses the effectiveness of its efforts to attain diversity by considering whether it has an appropriate process for identifying and selecting director candidates.

Transactions with Related Persons

Except as otherwise disclosed in this section, we had no related person transactions during 2016, and none are currently proposed, in which we were a participant and in which any related person had a direct or indirect material interest. Our Board has adopted written policies and procedures regarding related person transactions. For purposes of these policies and procedures:

- A "related person" means any of our directors, executive officers, nominees for director, any holder of 5% or more of the common stock or any of their immediate family members; and
- A "related person transaction" generally is a transaction (including any indebtedness or a guarantee of indebtedness) in which we were or are to be a participant and the amount involved exceeds \$120,000, and in which a related person had or will have a direct or indirect material interest.

Each of our executive officers, directors or nominees for director is required to disclose to the Audit Committee certain information relating to related person transactions for review, approval or ratification by the Audit Committee. Disclosure to the Audit Committee should occur before, if possible, or as soon as practicable after the related person transaction is effected, but in any event as soon as practicable after the executive officer, director or nominee for director becomes aware of the related person transaction. The Audit Committee's decision whether or not to approve or ratify a related person transaction is to be made in light of the Audit Committee's determination that consummation of the transaction is not or was not contrary to our best interests. Any related person transaction must be disclosed to the full Board.

Ms. Martin, a director of the Company, serves as President and Chief Executive Officer of Ameritas Life Insurance Corp. In connection with the Company's regular assessment of its insurance-based associate benefits and the costs associated therewith, which is conducted by an independent insurance broker, in 2007 the Company began purchasing dental insurance for certain of its associates from Ameritas Life Insurance Corp. and, in 2009, the Company also began purchasing vision insurance for certain of its associates from Ameritas Life Insurance Corp. The total value of these purchases, which were conducted in arms' length transactions and approved by the Audit Committee pursuant to our related person transaction policies and procedures, were \$232,000 in 2016 and \$227,000 in 2015.

Mr. Hays, the Chief Executive Officer, majority shareholder and director of the Company, is an owner of 14% of the equity interest of Nebraska Global Investment Company LLC ("Nebraska Global"). The Company, directly or indirectly through its former subsidiary Customer-Connect LLC, purchased certain services from Nebraska Global, primarily consisting of software development services. The total value of these purchases, which were conducted in arms' length transactions and approved by the Audit

Committee pursuant to our related person transaction policies and procedures, were \$488,000 in 2016 and \$440,000 in 2015.

Communications with the Board of Directors

Shareholders may communicate with the Board by writing to NRC Health, Board of Directors (or, at the shareholder's option, to a specific director), c/o Kevin R. Karas, Secretary, 1245 Q Street, Lincoln, Nebraska 68508. The Secretary will ensure that the communication is delivered to the Board or the specified director, as the case may be.

2016 DIRECTOR COMPENSATION

Directors who are executive officers of the Company receive no compensation for service as members of either the Board or committees thereof. From January 1, 2016 to June 30, 2016, directors who were not executive officers of the Company were compensated as follows: an annual retainer of \$50,000 for the lead director and \$25,000 for each other director, a fee of \$1,000 for each Board meeting attended, a fee of \$1,000 for each Audit Committee meeting attended (\$1,500 per meeting for the chairperson of the Audit Committee) and a fee of \$750 for each Compensation Committee, Nominating Committee and/or Strategic Planning Committee meeting attended (\$1,000 per meeting for the chairperson of each such committee). Based on, among other things, a review of best practices in director compensation, the Board modified the director compensation structure from a meeting-based structure to a fixed-fee based structure effective July 1, 2016. Accordingly, from and after July 1, 2016, directors who are not executive officers of the Company are compensated as follows: an annual fixed fee of \$75,000 for the lead director and \$50,000 for each other director. Directors are also reimbursed for out-of-pocket expenses associated with attending meetings of the Board and committees thereof. Ms. Martin served as the Company's lead director from 2007 to May 2012, and Mr. Nunnelly has served as the Company's lead director since May 2012.

Pursuant to the National Research Corporation 2004 Non-Employee Director Stock Plan, each director who is not an associate (i.e., employee) of the Company also receives an annual grant of an option to purchase 36,000 shares of our class A common stock and 6,000 shares of our class B common stock on the date of each annual meeting of shareholders. The options have an exercise price equal to the fair market value of the class A common stock and class B common stock, as applicable, on the date of grant and vest one year after the grant date.

The following table sets forth information regarding the compensation received by each of the Company's directors during 2016:

<u>Name</u>	<u>Fees Earned or Paid in Cash</u>	<u>Option Awards⁽¹⁾</u>	<u>Total</u>
Donald M. Berwick	\$41,000	\$138,240	\$179,240
JoAnn M. Martin	\$47,000	\$138,240	\$185,240
Barbara J. Mowry	\$46,750	\$138,240	\$184,990
John N. Nunnelly	\$71,500	\$138,240	\$209,740
Gail L. Warden	\$45,250	\$138,240	\$183,490

¹ Represents the aggregate grant date fair value of option awards granted during the year, computed in accordance with FASB ASC Topic 718. See Note 7 to the Company's Consolidated Financial Statements included in its Annual Report on Form 10-K for the years ended December 31, 2016, December 31, 2015, and December 31, 2014, for a discussion of assumptions made in the valuation of share-based compensation. As of December 31, 2016, the outstanding option awards for each director were as follows: Dr. Berwick – 72,000 options for class A common stock and 12,000 options for class B common stock; Ms. Martin – 229,800 options for class A common stock and 30,000 options for class B common stock; Ms. Mowry – 144,000 options for class A common stock and 24,000 options for class B common stock; Mr. Nunnelly – 288,000 options for class A common stock and 42,000 options for class B common stock; Mr. Warden – 324,000 options for class A common stock and 54,000 options for class B common stock.

REPORT OF THE AUDIT COMMITTEE

In accordance with its written charter, the Audit Committee's primary function is to assist the Board in fulfilling its oversight responsibilities by overseeing the Company's systems of internal controls regarding finance, accounting, legal compliance and ethics that management and the Board have established; the Company's accounting and financial reporting processes; and the audits of the financial statements of the Company.

In fulfilling its responsibilities, the Audit Committee has reviewed and discussed the audited financial statements contained in the 2016 Annual Report on Form 10-K with the Company's management and independent registered public accounting firm. Management is responsible for the financial statements and the reporting process, including the system of internal controls. The independent registered public accounting firm is responsible for expressing an opinion on the audited financial statements in conformity with U.S. generally accepted accounting principles and assessing the effectiveness of the Company's internal control over financial reporting.

The Audit Committee discussed with the independent registered public accounting firm matters required to be discussed by Public Company Accounting Oversight Board Auditing Standard No. 16, "Communications with Audit Committees; Related Amendments to PCAOB Standards; and Transitional Amendments to AU Sec. 380." In addition, the Company's independent registered public accounting firm provided to the Audit Committee the written disclosures and the letter required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm's communications with the Audit Committee concerning independence, and the Audit Committee discussed with the independent registered public accounting firm the firm's independence. The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent registered public accounting firm on a case-by-case basis. The Audit Committee has considered whether the provision of the services relating to the *Audit-Related Fees*, *Tax Fees* and *All Other Fees* set forth in "Miscellaneous – Independent Registered Public Accounting Firm" was compatible with maintaining the independence of the independent registered public accounting firm and determined that such services did not adversely affect the independence of the firm.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board (and the Board has approved) that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, for filing with the Securities and Exchange Commission.

This report shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, and shall not otherwise be deemed filed under such Acts.

AUDIT COMMITTEE

JoAnn M. Martin, Chairperson
Barbara J. Mowry
John N. Nunnally
Gail L. Warden

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding the beneficial ownership of the Company's class A common stock and class B common stock as of the Record Date (i.e., March 14, 2017) by: (1) each director and director nominee; (2) each of the executive officers named in the Summary Compensation Table; (3) all of the directors, director nominees and executive officers as a group; and (4) each person or entity known to the Company to be the beneficial owner of more than 5% of either class of the Common Stock. Except as otherwise indicated in the footnotes, each of the holders listed below has sole voting and investment power over the shares beneficially owned. As of the Record Date, there were 20,913,343 shares of class A common stock and 3,543,463 shares of class B common stock outstanding.

Name of Beneficial Owner	Shares Beneficially Owned			
	Class A Common Stock		Class B Common Stock	
	Shares	%	Shares	%
Directors and Executive Officers				
Michael D. Hays ⁽¹⁾	5,489,916 ⁽²⁾⁽⁴⁾	26.1%	1,975,833 ⁽³⁾⁽⁵⁾	55.7%
Steven D. Jackson	125,983 ⁽⁴⁾	*	20,997 ⁽⁵⁾	*
Kevin R. Karas	40,208 ⁽⁴⁾	*	6,755 ⁽⁵⁾	*
Donald M. Berwick	72,000 ⁽⁴⁾	*	12,000 ⁽⁵⁾	*
JoAnn M. Martin	396,048 ⁽⁴⁾	1.9%	61,733 ⁽⁵⁾	1.7%
Barbara J. Mowry	144,000 ⁽⁴⁾	*	24,000 ⁽⁵⁾	*
John N. Nunnally	316,700 ⁽⁴⁾	1.5%	45,900 ⁽⁵⁾	1.3%
Gail L. Warden	384,671 ⁽⁴⁾	1.8%	64,263 ⁽⁵⁾	1.8%
All directors, nominees and executive officers as a group (eight persons)	6,969,526 ⁽⁴⁾	31.5%	2,211,481 ⁽⁵⁾	59.6%
Other Holders				
Michael and Karen Hays Grandchildren's Trust dated March 9, 2009 and Kent E. Endacott, as the Special Holdings Direction Advisor under this Trust ⁽⁶⁾	5,765,900	27.6%	125,355	3.5%
Conestoga Capital Advisors LLC ⁽⁷⁾	0	*	232,953	6.6%
Kayne Anderson Rudnick Investment Management LLC ⁽⁸⁾	1,350,222	6.5%	0	*

* Denotes less than 1%.

⁽¹⁾ The address of Mr. Hays is 1245 Q Street, Lincoln, Nebraska 68508.

⁽²⁾ Includes 5,850,871 shares of class A common pledged as security and 139,045 shares of class A common stock held by Mr. Hays' wife. Mr. Hays disclaims beneficial ownership of the shares held by his wife.

⁽³⁾ Includes 1,975,696 shares of class B common stock pledged as security and 137 shares of class B common stock held by Mr. Hays' wife. Mr. Hays disclaims beneficial ownership of the shares held by his wife.

⁽⁴⁾ Includes shares of class A common stock that may be purchased under stock options which are currently exercisable or exercisable within 60 days of March 14, 2017, as follows: Dr. Berwick, 72,000 shares; Mr. Hays, 100,917 shares; Mr. Jackson, 0 shares; Mr. Karas, 26,403 shares; Ms. Martin, 229,800 shares; Mr. Nunnally, 288,000 shares; Mr. Warden, 324,000 shares; Ms. Mowry, 144,000 shares; and all directors, nominees and executive officers as a group, 1,185,120 shares.

- (5) Includes shares of class B common stock that may be purchased under stock options which are currently exercisable or exercisable within 60 days of March 14, 2017, as follows: Dr. Berwick, 12,000 shares; Mr. Hays, 2,491 shares; Mr. Jackson, 0 shares; Mr. Karas, 4,400 shares; Ms. Martin, 30,000 shares; Mr. Nunnally, 42,000 shares; Mr. Warden, 54,000 shares; Ms. Mowry, 24,000 shares; and all directors, nominees and executive officers as a group, 168,891 shares.
- (6) The trustee of this Trust is Bessemer Trust Company of Delaware, N.A. and its address is 1007 N. Orange Street, Suite 1450, Wilmington, Delaware 19801. The address of the Special Holdings Direction Advisor for this Trust is c/o Woods & Aitken LLP, 301 South 13th Street, Suite 500, Lincoln, Nebraska 68508.
- (7) The number of shares owned set forth above in the table is as of or about December 31, 2016 as reported by Conestoga Capital Advisors LLC in its amended Schedule 13G filed with the Securities and Exchange Commission. The address for this shareholder is 550 E. Swedesford Rd. Suite 120 Wayne, Pennsylvania 19087. This shareholder reports sole dispositive power with respect to all of these shares but sole voting power only over 205,773 of these shares.
- (8) The number of shares owned set forth above in the table is as of or about December 31, 2016 as reported by Kayne Anderson Rudnick Investment Management LLC in its Schedule 13G filed with the Securities and Exchange Commission. The address for this shareholder is 1800 Avenue of the Stars, 2nd Floor, Los Angeles, California 90067. This shareholder reports sole voting and dispositive power with respect to 303,508 of these shares and shared voting and dispositive power with respect to 1,046,714 of these shares.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors, executive officers and any owner of greater than 10% of the Company's Common Stock to file reports with the Securities and Exchange Commission concerning their ownership of the Company's Common Stock. Based solely upon information provided to the Company by individual directors and executive officers, the Company believes that, during the fiscal year ended December 31, 2016, all of its directors and executive officers and owners of greater than 10% of the Company's Common Stock complied with the Section 16(a) filing requirements.

**RATIFICATION OF THE APPOINTMENT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee has appointed KPMG LLP to serve as our independent registered public accounting firm for the year ending December 31, 2017.

We are asking our shareholders to ratify the appointment of KPMG LLP as our independent registered public accounting firm. Although ratification is not required, our Board is submitting the appointment of KPMG LLP to our shareholders for ratification because we value our shareholders' views on our independent auditors and as a matter of good corporate practice. In the event that our shareholders fail to ratify the appointment, the Audit Committee will consider it as a direction to consider the appointment of a different firm. Even if the appointment is ratified, the Audit Committee in its discretion may select a different independent auditor at any time if it determines that such a change would be in the best interests of the Company and our shareholders.

Representatives of KPMG LLP are expected to be present at the Annual Meeting with the opportunity to make a statement if they so desire. Such representatives are also expected to be available to respond to appropriate questions.

Assuming a quorum is present at the Annual Meeting, the number of votes cast for the ratification of the Audit Committee's appointment of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2017 must exceed the number of votes cast against it. Abstentions and broker non-votes will be counted as present in determining whether there is a quorum; however, they will not constitute a vote "for" or "against" ratification and will be disregarded in the calculation of votes cast. A broker non-vote occurs when a broker submits a proxy card with respect to shares that the broker holds on behalf of another person but declines to vote on a particular matter, either because the broker elects not to exercise its discretionary authority to vote on the matter or does not have authority to vote on the matter. Shares of the Company's class A common stock and class B common stock vote together as a single class on this matter.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM. SHARES OF THE COMPANY'S COMMON STOCK REPRESENTED BY EXECUTED BUT UNMARKED PROXIES WILL BE VOTED "FOR" RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

COMPENSATION DISCUSSION AND ANALYSIS

The following discussion and analysis relates to the compensation of the individuals named in the Summary Compensation Table, a group we refer to as our “named executive officers.” In this discussion, the terms “we,” “our,” “us” or similar terms refer to the Company.

Overview of Executive Compensation Philosophy

We recognize the importance of maintaining sound principles for the development and administration of our executive compensation and benefit programs. Specifically, we design our executive compensation and benefit programs to advance the following core principles:

- We strive to compensate our executive officers at competitive levels to ensure that we attract and retain a highly competent, committed management team.
- We provide our executive officers with the opportunity to earn competitive pay as measured against comparable companies.
- We link our executive officers’ compensation, particularly annual cash bonuses, to established Company financial performance goals.

We believe that a focus on these principles will benefit us and, ultimately, our shareholders in the long term by ensuring that we can attract and retain highly-qualified executive officers who are committed to our long-term success.

Role of the Compensation Committee

The Board appoints the Compensation Committee, which consists entirely of directors who are “outside directors” for purposes of Section 162(m) of the Internal Revenue Code and “non-employee directors” for purposes of the Securities Exchange Act of 1934. The following individuals are members of the Compensation Committee:

- Barbara J. Mowry (Chairperson)
- John N. Nunnally
- Gail L. Warden

The Compensation Committee determines compensation programs for our executive officers or recommends such programs to the full Board for approval. The Committee also reviews management’s recommendations as to the compensation to be paid to other key personnel and administers our equity-based compensation plans. Periodically, the Compensation Committee reviews and determines our compensation and benefit programs, with the objective of ensuring the executive compensation and benefits programs are consistent with our compensation philosophy. At the time of such reviews, our management has engaged a nationally recognized compensation consultant.

Consistent with this practice, in late 2015, when determining compensation for 2016, the Compensation Committee engaged Aon Hewitt to review our compensation and benefit programs before determining compensation for 2016. Prior to its engagement of Aon Hewitt in connection with its determination of 2016 compensation, our most recent review of our compensation and benefit programs had been conducted in October 2011. In connection with its engagement of Aon Hewitt in 2015, the

Compensation Committee evaluated the independence from management of Aon Hewitt and the individual representatives of Aon Hewitt who served as the Compensation Committee's consultants in light of the factors required by the NASDAQ Stock Market. As part of its evaluation, the Compensation Committee considered the fact that management had separately engaged Aon Hewitt to provide certain risk and benefits consulting services in 2015, but the Compensation Committee concluded that, due to Aon Hewitt's policies and procedures ensuring independence and the small amount of Aon Hewitt's revenues represented by its engagement, Aon Hewitt's work did not raise a conflict of interest impairing Aon Hewitt's ability to provide independent advice to the Compensation Committee regarding executive compensation matters.

Our management instructed Aon Hewitt to conduct a comprehensive review of our total compensation program for our named executive officers, benchmarking the base salary, target annual cash incentive compensation, long-term incentive compensation, and total target direct compensation that we offer our named executive officers. Aon Hewitt worked with our management to update the group of companies that we had used during the previous major review of our compensation and benefit programs in 2011 to ensure that the companies included in the group in 2015 were of comparable size, industry and type to our company or were companies with which we compete. Annual revenues of the comparison companies ranged from approximately \$28.5 million to approximately \$752.6 million, with median revenues of approximately \$199.3 million.

The companies selected for our review of compensation in 2015 were the following:

- Advisory Board Company
- Athenahealth, Inc.
- Bio Telemetry, Inc.
- Castlight Health, Inc.
- Cartesian, Inc. (f/k/a The Management Network Group, Inc.)
- Computer Programs & Systems, Inc.
- Forrester Research, Inc.
- Franklin Covey Co.
- Healthstream, Inc.
- Hooper Holmes, Inc.
- Landauer, Inc.
- Mattersight Corp.
- Medidata Solutions, Inc.
- Merge Healthcare, Inc.
- Press Ganey Holdings, Inc.
- RCM Technologies, Inc.

We refer to these companies as "comparable companies." In determining compensation levels for our named executive officers in 2016, our Compensation Committee reviewed the comparable company data to the extent the data reflected positions similar to those held by our named executive officers. Our Compensation Committee considered these data and other information provided by Aon Hewitt to assess our competitive position with respect to the following components of compensation:

- Base salary;
- Annual cash incentive compensation; and
- Long-term equity incentive compensation.

The Compensation Committee did not engage Aon Hewitt or any other compensation consultant to provide advice concerning executive officer or director compensation during 2016.

One objective of the Compensation Committee in setting compensation for our executive officers other than our Chief Executive Officer is to establish base salary at a competitive level compared with comparable companies to attract and retain highly-qualified individuals. The Compensation Committee's considerations in setting our Chief Executive Officer's base salary are described below. For our executive officers other than our Chief Executive Officer, we consider base salary to be at a "competitive level" if it is within 20% above or below the median level paid by comparable companies to similarly situated executives. However, the Compensation Committee may pay base salaries that are more than 20% above or below the median level paid by comparable companies based on its evaluation of individual factors relative to a named executive officer. The Compensation Committee also considers individual performance, level of responsibility, skills and experience, and internal comparisons among executive officers in determining base salary levels. Based on comparable company information and these other considerations, the Compensation Committee resets executive salary levels at the time of each significant compensation review, which levels are then generally adjusted only to reflect changes in responsibilities or comparable company data.

The Compensation Committee administers our annual cash incentive program and long-term equity incentive plans and approves all awards made under the program and plans. For annual and long-term incentives, the Compensation Committee considers internal comparisons and other existing compensation awards or arrangements in making compensation decisions and recommendations. In its decision-making process, the Compensation Committee receives and considers the recommendations of our Chief Executive Officer as to executive compensation programs for all of the other officers. In its decision-making process for the long-term incentives for our executive officers, the Compensation Committee considers relevant factors, including our performance and relative shareholder return and the awards given to the executive officer in past years. The Compensation Committee makes its decisions regarding general program adjustments to future base salaries, annual incentives and long-term incentives concurrently with its assessment of the executive officers' performance. Adjustments generally become effective in January of each year.

In fulfilling its objectives as described above, the Compensation Committee took the following steps in determining 2016 compensation levels for our named executive officers:

- Referred to the comparative company data provided in 2015 by Aon Hewitt;
- Reviewed the performance of our Chief Executive Officer and determined his total compensation;
- Reviewed the performance of our other executive officers and other key associates (i.e., employees) with assistance from our Chief Executive Officer; and
- Determined total compensation for our named executive officers based on the 2015 compensation review, recommendations by our Chief Executive Officer (as to the other officers) and the Compensation Committee's review of the officers' performance.

2016 Say on Pay Vote

In May 2016 (after the 2016 executive compensation actions described in this Compensation Discussion and Analysis had taken place), we held our annual advisory shareholder vote on the compensation of our named executive officers at our annual shareholders' meeting, and, consistent with the recommendation of the Board, our shareholders approved our executive compensation, with more than 99% of votes cast in favor. Consistent with this strong vote of shareholder approval, we have not undertaken any material changes to our executive compensation programs in response to the outcome of the vote.

Total Compensation

We intend to continue our strategy of compensating our executive officers at competitive levels through programs that emphasize performance-based incentive compensation in the form of cash and equity-based awards. To that end, we have structured total executive compensation to ensure that there is an appropriate balance between a focus on our long-term versus short-term performance. We believe that the total compensation paid or awarded to the executive officers during 2016 was consistent with our financial performance and the individual performance of each of our executive officers. We also believe that this total compensation was reasonable in its totality and is consistent with our compensation philosophies described above.

CEO Compensation

The Compensation Committee reviews annually the salary and total compensation levels of Michael D. Hays, our Chief Executive Officer. Based on the comparative company data that Aon Hewitt provided as part of our compensation review completed in 2015, Mr. Hays' salary and overall compensation are significantly below the median level paid to chief executive officers of comparable companies. Due to Mr. Hays' large holding of our stock and his desire to materially align his compensation with the interests of our other shareholders, he requested that his base salary and targeted overall compensation remain unchanged. The Compensation Committee has not proposed an increase in his salary or overall compensation since 2005.

Elements of Compensation

Base Salary

The objective of the Compensation Committee is to establish base salary at a competitive level compared with comparable companies, with the exception of Mr. Hays' salary, as noted above. Within the framework of offering competitive base salaries, we have historically attempted to minimize base salary increases in order to limit our exposure if we do not meet our objectives for financial growth under our incentive compensation program. Accordingly, based on comparable company information and the other factors noted above, the Compensation Committee generally resets executive salary levels at the time of each significant compensation review and generally does not subsequently make adjustments except to reflect changes in responsibilities. Following its 2015 review of compensation, the Compensation Committee left Mr. Hays' and Mr. Jackson's base salaries unchanged from 2015. In the case of Mr. Hays, the decision was based on his request, described above, that his salary not be increased. In the case of Mr. Jackson, the decision was based the comparable company data showing that Mr. Jackson's salary was at a competitive level. In the case of Mr. Karas, the Compensation Committee increased his base salary by 16%, to \$285,000 per annum, to bring his salary level closer to the median level of the comparable company data.

Base salaries paid to Messrs. Hays, Karas and Jackson represented the following percentages of their total compensation (as calculated for purposes of the Summary Compensation Table).

**Base Salary as a Percentage
of Total Compensation**

Michael D. Hays	51%
Kevin R. Karas	51%
Steven D. Jackson	31%

Annual Cash Incentive

Our executive officers are eligible for annual cash incentive awards under our incentive compensation program. Please note that, while we may refer to annual cash incentive awards as bonuses in this discussion, the award amounts are reported in the Summary Compensation Table under the column titled “Non-Equity Incentive Plan Compensation” pursuant to the Securities and Exchange Commission’s regulations.

We intend for our incentive compensation program to provide an incentive to meet and exceed our financial goals, and to promote a superior level of performance. Within the overall context of our pay philosophy and culture, the program:

- Provides competitive levels of total cash compensation;
- Aligns pay with organizational performance;
- Focuses executive attention on key business metrics; and
- Provides a significant incentive for achieving and exceeding performance goals.

Under our incentive compensation program, the Compensation Committee establishes performance measures for our named executive officers at the beginning of each year. For 2016, the Compensation Committee used our overall revenue and net income as performance measures because the Compensation Committee believes these are key measures of our ability to deliver value to our shareholders for which our named executive officers have primary responsibility. The Compensation Committee weighted the two performance measures equally in determining bonus payouts. The Compensation Committee structured the incentive compensation program so that our named executive officers would receive a bonus based on the percentage of growth in overall revenue and net income in 2016 over 2015, starting from “dollar one” of such growth. Consistent with past years, the Compensation Committee structured the incentive compensation program for our named executive officers to require performance representing growth in revenue or net income for any payout to be received.

The Compensation Committee structured the incentive compensation program to permit payouts to be earned for any growth in revenue and net income because it believed that providing an incentive to achieve growth in these measures would provide an effective incentive to the executive officers in 2016. The Compensation Committee determined that the bonuses under the incentive compensation program would be equal to the following (subject to a maximum of 200% of base salary): the product of the executive officer’s base salary (i) multiplied by the sum of the percentage year over year increase, if any, in overall revenue plus the percentage year over year increase, if any, in overall net income (ii) multiplied by 2.5.

In determining the potential bonus amounts for our named executive officers described above, the Compensation Committee considered the comparative company data and Aon Hewitt’s recommendations in connection with the 2015 compensation review, and concluded that that payouts determined by these formulas were likely to produce results consistent with our past practice of setting annual target payouts at

50% of base salary, and would continue to provide competitive compensation consistent with our goals for annual incentive awards.

The following table shows amounts actually earned by our named executive officers for 2016, along with the percentages of their total compensation (as calculated for purposes of the Summary Compensation Table) that these amounts represent.

<u>Name</u>	2016 Actual Bonus Percentage of Total Compensation	2016 Actual Bonus Amount
Michael D. Hays	30%	74,656
Kevin R. Karas	30%	167,010
Steven D. Jackson	18%	175,800

Long-Term Equity Incentive

The general purpose of our current equity-based plans is to promote the achievement of our long-range strategic goals and enhance shareholder value. The Compensation Committee may from time to time approve discretionary awards, however, we generally grant equity-based awards in the following circumstances:

- *Annual Awards.* To provide an additional performance incentive for our executive officers and other key management personnel, our executive compensation package generally includes annual grants of stock options. In each year following our 2013 recapitalization pursuant to which we established two classes of common stock (class A common stock and class B common stock), we have granted options to purchase both class A common stock and class B common stock.
- *New Hire or Promotion Awards.* We also award restricted stock grants to newly hired or promoted executive officers during their first year of participation in our equity incentive program to provide greater alignment between the officers' interests and those of our shareholders, and to assist in retention.

Options to purchase shares of common stock are typically granted with a per-share exercise price of 100% of the fair market value of a share of the class of common stock subject to the option on the date of grant. The value of the option will be dependent on the future market value of the common stock, which we believe helps to align the economic interests of our key management personnel with the interests of our shareholders. To encourage our key management personnel to continue in employment with us, when we grant restricted stock under the 2006 Equity Incentive Plan to executive officers, we generally impose a 5-year restriction period on the grant.

In determining equity incentive awards for 2016, the Compensation Committee considered the comparative company data and Aon Hewitt's recommendations resulting from the 2015 compensation review, and concluded that setting annual target equity awards for our named executive officers at approximately 50% of their respective then-current base salaries would provide competitive compensation consistent with our goals for equity awards. The Compensation Committee generally grants stock options effective on a date in the first week of January. Accordingly, effective January 5, 2016, the Compensation Committee granted options to each of our named executive officers. To determine the number and class of options approximately equal to 50% of an executive officer's base salary, the Compensation Committee allocated the target equity award amount between class A options and class B options using a six-to-one ratio and divided the applicable portion of the annual target equity award amount by the closing price per share of the applicable class of stock on the day prior to the date of

grant. The number of options granted to our named executive officers is shown in the Grants of Plan-Based Awards Table.

Our Compensation Committee may condition awards on the achievement of various performance goals, including the following:

- Return on equity;
- Return on investment;
- Return on net assets;
- Shareholder value added;
- Earnings from operations;
- Pre-tax profits;
- Net earnings;
- Net earnings per share;
- Working capital as a percent of net cash provided by operating activities;
- Market price for our common stock; and
- Total shareholder return.

In conjunction with selecting the applicable performance goal or goals, the Compensation Committee will also fix the relevant performance level or levels that must be achieved with respect to the goal or goals in order for key associates to earn the performance-based awards. For 2016, no performance-based awards were granted to our named executive officers.

Other Benefits

To assist our associates in preparing financially for retirement, we maintain a 401(k) plan for all associates over 21 years of age, including our executive officers. Pursuant to the 401(k) plan, we match 25% of the first 6% of compensation contributed by our associates up to allowable Internal Revenue Service limitations. We also maintain group life, health, dental and vision insurance programs for all of our salaried associates, and our named executive officers are eligible to participate in these programs on the same basis as all other eligible associates. In 2016, we provided Mr. Jackson with relocation assistance in connection with his move to our headquarters and made an additional cash payment to him to make him whole for such assistance on an after-tax basis. The cost of this relocation assistance and the make-whole payment are disclosed below in the All Other Compensation column of the Summary Compensation Table.

Agreements with Officers

We do not have employment, retention, severance, change of control or similar agreements with any of our executive officers. While we enter into award agreements with our executive officers and other participants under our long-term equity award plans, these agreements and plans do not provide for acceleration of vesting or other benefits upon a change of control or termination.

2016 SUMMARY COMPENSATION TABLE

Set forth below is information regarding compensation earned by or paid or awarded to the following executive officers: Michael D. Hays, our Chief Executive Officer; Kevin R. Karas, our Senior Vice President Finance, Chief Financial Officer, Treasurer and Secretary; and Steven D. Jackson, our President and Chief Operating Officer. We had no other executive officers, as defined in Rule 3b-7 of the Securities Exchange Act of 1934, whose total compensation exceeded \$100,000 during 2016. The identification of such named executive officers is determined based on the individual's total compensation for 2016, as reported below in the Summary Compensation Table, other than amounts reported as above-market earnings on deferred compensation and the actuarial increase in pension benefit accruals.

The following table sets forth for our named executive officers with respect to 2016, 2015 and 2014 (or, in the case of Mr. Jackson, 2016 and 2015 only because 2015 was the first year with respect to which he was a named executive officer): (1) the dollar value of base salary earned during the year; (2) the aggregate grant date fair value of stock and option awards granted during the year, computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation-Stock Compensation ("FASB ASC Topic 718"); (3) the dollar value of earnings for services pursuant to awards granted during the year under non-equity incentive plans; (4) all other compensation for the year; and (5) the dollar value of total compensation for the year.

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary</u>	<u>Bon- us</u>	<u>Stock Awards⁽¹⁾</u>	<u>Option Awards⁽¹⁾</u>	<u>Non-Equity Incentive Plan Compensation</u>	<u>All Other Compensation⁽²⁾</u>	<u>Total</u>
Michael D. Hays Chief Executive Officer	2016	\$127,400	--	--	\$44,261	\$74,656	\$2,079	\$248,396
	2015	\$127,400	--	--	\$47,633	\$11,211	\$3,178	\$189,422
	2014	\$127,400	--	--	\$19,019	\$84,466	\$2,644	\$233,529
Kevin R. Karas Senior Vice President Finance, Chief Financial Officer, Treasurer and Secretary	2016	\$283,640	--	--	\$99,018	\$167,010	\$4,727	\$554,395
	2015	\$245,700	--	--	\$91,866	\$21,622	\$2,862	\$362,050
	2014	\$234,000	--	--	\$34,937	\$155,142	\$3,253	\$439,032
Steven D. Jackson President ⁽³⁾	2016	\$300,000	--	--	\$104,229	\$175,800	\$400,838	\$980,867
	2015	\$300,000	--	\$1,050,067	--	\$26,400	\$3,900	\$1,380,367

⁽¹⁾ Represents the aggregate grant date fair value of the stock or option awards, as indicated, granted during the year, computed in accordance with FASB ASC Topic 718. See Note 9 to the Company's Consolidated Financial Statements included in its Annual Report on Form 10-K for the year ended December 31, 2016 for a discussion of assumptions made in the valuation of share-based compensation.

⁽²⁾ Represents, for each of our named executive officers, the amount of our 401(k) matching contributions; for Messrs. Karas and Jackson, the amount of a technology allowance; and for Mr. Jackson, relocation assistance in the amount of \$258,075 and a related tax gross-up of \$137,801.

⁽³⁾ Mr. Jackson became our President on October 1, 2015.

GRANTS OF PLAN-BASED AWARDS IN 2016

We maintain the 2006 Equity Incentive Plan and the 2001 Equity Incentive Plan pursuant to which grants may be made to our executive officers. The following table sets forth information regarding all such incentive plan awards that were made to the named executive officers in 2016.

Name	Grant Date	Date of Committee Action	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards ⁽¹⁾			All Other Stock Awards : No. of Shares of Stock or Units ⁽²⁾	All Other Option Awards: No. of Securities Underlying Options ⁽²⁾	Exercise or Base Price of Option Awards ⁽²⁾	Closing Price on Date of Grant	Grant Date Fair Value of Stock and Option Awards
			Threshold	Target	Maximum					
Michael D. Hays	1/05/2016	11/9/2015					9,145 ⁽³⁾	\$15.23	\$15.39	\$38,683
	1/05/2016	11/9/2015	-(4)	\$ 63,700	\$254,800		1,524 ⁽⁵⁾	\$34.00	\$34.00	\$5,578
Kevin R. Karas	1/05/2016	11/9/2015					20,458 ⁽³⁾	\$15.23	\$15.39	\$86,537
	1/05/2016	11/9/2015	-(4)	\$141,820	\$567,280		3,410 ⁽⁵⁾	\$34.00	\$34.00	\$12,481
Steven D. Jackson	1/05/2016	11/9/2015					21,535 ⁽³⁾	\$15.23	\$15.39	\$91,093
	1/05/2016	11/9/2015	-(4)	\$150,000	\$600,000		3,589 ⁽⁵⁾	\$34.00	\$34.00	\$13,136

⁽¹⁾ These amounts represent only potential payments under the 2016 incentive plan awards; the actual amounts received (if any) are shown in the Summary Compensation Table above.

⁽²⁾ The restricted stock and stock option awards were granted under the 2006 Equity Incentive Plan. The exercise price of the stock option awards was equal to the closing stock price on January 4, 2016, the day immediately prior to the grant date.

⁽³⁾ Options to purchase shares of class A common stock.

⁽⁴⁾ There were no thresholds for payments under these 2016 incentive plan awards; payments below target would be made for any year-over-year increase in any of the applicable performance measures.

⁽⁵⁾ Options to purchase shares of class B common stock.

OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2016

The following table sets forth information on outstanding option and stock awards held by the named executive officers at December 31, 2016, including the number of shares underlying both exercisable and unexercisable portions of each stock option, the exercise price and expiration date of each outstanding option, the number of shares of stock that have not vested and the market value of such shares.

<u>Name</u>	<u>Option Awards</u>				<u>Stock Awards</u>		<u>Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that have Not Vested</u>	<u>Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that have Not Vested</u>	
	<u>No. of Securities Underlying Unexercised Options (Exercisable)</u>	<u>No. of Securities Underlying Unexercised Options (Unexercisable)</u>	<u>Option Exercise Price</u>	<u>Option Expiration Date</u>	<u>No. of Shares or Units of Stock That Have Not Vested</u>	<u>Market Value of Shares or Units of Stock That Have Not Vested</u>			
Michael D. Hays	25,068 ⁽¹⁾⁽²⁾	-	\$6.62	01/05/17	-	-	-	-	
	21,633 ⁽¹⁾⁽³⁾	-	\$7.59	01/04/18	-	-	-	-	
	20,109 ⁽¹⁾⁽⁴⁾	-	\$8.12	01/05/19	-	-	-	-	
	26,481 ⁽¹⁾⁽⁵⁾	-	\$6.30	01/05/20	-	-	-	-	
	17,745 ⁽¹⁾⁽⁶⁾	-	\$9.14	01/05/21	-	-	-	-	
		14,949 ⁽¹⁾⁽⁷⁾	-	\$10.75	01/05/22	-	-	-	-
		2,491 ⁽⁷⁾⁽⁸⁾	-	\$21.50	01/05/22	-	-	-	-
	-	10,938 ⁽¹⁾⁽⁹⁾	-	\$14.50	01/07/23	-	-	-	-
	-	1,823 ⁽⁸⁾⁽⁹⁾	-	\$27.13	01/07/23	-	-	-	-
	-	2,904 ⁽¹⁾⁽¹⁰⁾	-	\$18.80	01/07/24	-	-	-	-
	-	266 ⁽⁸⁾⁽¹⁰⁾	-	\$34.15	01/07/24	-	-	-	-
	-	10,014 ⁽¹⁾⁽¹¹⁾	-	\$13.17	01/06/25	-	-	-	-
	-	1,669 ⁽⁸⁾⁽¹¹⁾	-	\$35.48	01/06/25	-	-	-	-
	-	9,145 ⁽¹⁾⁽¹²⁾	-	\$15.23	01/05/26	-	-	-	-
-	1,524 ⁽⁸⁾⁽¹²⁾	-	\$34.00	01/05/26	-	-	-	-	
Kevin R. Karas		26,403 ⁽¹⁾⁽⁷⁾	\$10.75	01/05/22	-	-	-	-	
		4,400 ⁽⁷⁾⁽⁸⁾	\$21.50	01/05/22	-	-	-	-	
	-	20,088 ⁽¹⁾⁽⁹⁾	\$14.50	01/07/23	-	-	-	-	
	-	3,348 ⁽⁸⁾⁽⁹⁾	\$27.13	01/07/23	-	-	-	-	
	-	5,334 ⁽¹⁾⁽¹⁰⁾	\$18.80	01/07/24	-	-	-	-	
	-	489 ⁽⁸⁾⁽¹⁰⁾	\$34.15	01/07/24	-	-	-	-	
	-	19,313 ⁽¹⁾⁽¹¹⁾	\$13.17	01/06/25	-	-	-	-	
	-	3,219 ⁽⁸⁾⁽¹¹⁾	\$35.48	01/06/25	-	-	-	-	
	-	20,458 ⁽¹⁾⁽¹²⁾	\$15.23	01/05/26	-	-	-	-	
-	3,410 ⁽⁸⁾⁽¹²⁾	\$34.00	01/05/26	-	-	-	-		
Steven D. Jackson	-	21,535 ⁽¹⁾⁽¹²⁾	\$15.23	01/05/26	52,477 ⁽¹³⁾	\$997,063 ⁽¹³⁾	73,506 ⁽¹⁵⁾	\$1,396,614 ⁽¹⁵⁾	
	-	3,589 ⁽⁸⁾⁽¹²⁾	\$34.00	01/05/26	8,746 ⁽¹⁴⁾	\$364,446 ⁽¹⁴⁾	12,251 ⁽¹⁶⁾	\$510,499 ⁽¹⁶⁾	

-
- (1) Option to purchase shares of class A common stock.
 - (2) Options vest in full on the fifth anniversary of the grant date. These options vested on January 5, 2012.
 - (3) Options vest in full on the fifth anniversary of the grant date. These options vested on January 4, 2013.
 - (4) Options vest in full on the fifth anniversary of the grant date. These options vested on January 5, 2014.
 - (5) Options vest in full on the fifth anniversary of the grant date. These options vested on January 5, 2015.
 - (6) Options vest in full on the fifth anniversary of the grant date. These options vested on January 5, 2016.
 - (7) Options vest in full on the fifth anniversary of the grant date. These options will vest on January 5, 2017.
 - (8) Option to purchase shares of class B common stock.
 - (9) Options vest in full on the fifth anniversary of the grant date. These options will vest on January 7, 2018.
 - (10) Options vest in full on the fifth anniversary of the grant date. These options will vest on January 7, 2019.
 - (11) Options vest in full on the fifth anniversary of the grant date. These options will vest on January 6, 2020.
 - (12) Options vest in full on the fifth anniversary of the grant date. These options will vest on January 5, 2021.
 - (13) Restricted shares of class A common stock that become fully vested on the fifth anniversary of the grant date, which occurred in 2015. The market value is based on the \$19.00 per share closing price of our class A common stock on the NASDAQ Stock Market on December 31, 2016.
 - (14) Restricted shares of class B common stock that become fully vested on the fifth anniversary of the grant date, which occurred in 2015. The market value is based on the \$41.67 per share closing price of our class B common stock on the NASDAQ Stock Market on December 31, 2016.
 - (15) Restricted shares of class A common stock granted in 2014 that become vested on the earlier of the achievement of performance goals established prior to the executive's appointment as an executive officer or the fifth anniversary of the grant date. The market value is based on the \$19.00 per share closing price of our class A common stock on the NASDAQ Stock Market on December 31, 2016.
 - (16) Restricted shares of class B common stock granted in 2014 that become vested on the earlier of the achievement of performance goals established prior to the executive's appointment as an executive officer or the fifth anniversary of the grant date. The market value is based on the \$41.67 per share closing price of our class B common stock on the NASDAQ Stock Market on December 31, 2016.

OPTION EXERCISES AND STOCK VESTED IN 2016

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$) ⁽¹⁾	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Michael D. Hays	33,234 ⁽²⁾	\$335,996	--	--
	24,043 ⁽³⁾	\$435,448	--	--
Kevin R. Karas	--	--	20,892 ⁽²⁾	\$321,528
	--	--	3,482 ⁽³⁾	\$118,388
Steven D. Jackson	--	--	--	--
	--	--	--	--

(1) Amounts represent the product of the number of shares acquired on exercise multiplied by the excess of the closing market price per share on the date of exercise over the exercise price per share.

(2) Shares of class A common stock.

(3) Shares of class B common stock.

Risk Assessment of Compensation Policies and Practices

The Board relies on the Compensation Committee to address risk exposures facing the Company with respect to compensation, with appropriate reporting of these risks to be made to the full Board. The Committee, as part of its periodic review of compensation and benefit programs, assesses the potential risks arising from the Company's compensation policies and practices and considers safeguards against incentives to take excessive risks. Based on its most recent review, the Compensation Committee has concluded that the risks arising from the Company's compensation policies and practices for its associates are not reasonably likely to have a material adverse effect on the Company.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the preceding Compensation Discussion and Analysis with management and, based on such review and discussion, has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's proxy statement.

Barbara J. Mowry, Chairperson
John N. Nunnelly
Gail L. Warden

ADVISORY VOTE ON EXECUTIVE COMPENSATION

This proposal provides our shareholders with the opportunity to cast a vote either for or against a non-binding, advisory resolution to approve the compensation of our named executive officers as disclosed in the Compensation Discussion and Analysis section and the accompanying compensation tables and narrative discussion in this proxy statement. We are required to hold this vote by Section 14A of the Securities Exchange Act of 1934. As discussed in the Compensation Discussion and Analysis above, beginning on page 16, we have designed our executive compensation and benefit programs for our executive officers, including our named executive officers, to advance the following core principles:

- We strive to compensate our executive officers at competitive levels to ensure that we attract and retain a highly competent, committed management team.
- We provide our executive officers with the opportunity to earn competitive pay as measured against comparable companies.
- We link our executive officers' compensation, particularly annual cash incentives, to established Company financial performance goals.

We believe that a focus on these principles will benefit us and, ultimately, our shareholders in the long term by ensuring that we can attract and retain highly-qualified executive officers who are committed to our long-term success.

The Board invites you to review carefully the Compensation Discussion and Analysis beginning on page 16 and the tabular and other disclosures on compensation beginning on page 23, and cast an advisory vote either for or against the following resolution:

“Resolved, that shareholders approve, on an advisory basis, the compensation of the Company’s named executive officers as disclosed in the Compensation Discussion and Analysis section and the compensation tables and narrative discussion contained in this Proxy Statement.”

While the vote does not bind the Board to any particular action, the Board values the input of our shareholders, and will take into account the outcome of this vote in considering future compensation arrangements.

Assuming a quorum is present at the Annual Meeting, the number of votes cast for the non-binding resolution to approve the Company’s executive compensation program must exceed the number of votes cast against it. Abstentions and broker non-votes will be counted as present in determining whether there is a quorum; however, they will not constitute a vote “for” or “against” the non-binding resolution and will be disregarded in the calculation of votes cast. A broker non-vote occurs when a broker submits a proxy card with respect to shares that the broker holds on behalf of another person but declines to vote on a particular matter, either because the broker elects not to exercise its discretionary authority to vote on the matter or does not have authority to vote on the matter. Shares of the Company’s class A common stock and class B common stock vote together as a single class on this advisory vote.

When we hold our next advisory vote on the compensation of our named executive officers will depend on the results of Proposal 4, “Advisory Vote on the Frequency of Shareholder Votes on Executive Compensation,” and our Board’s determination based on those results.

THE BOARD RECOMMENDS A VOTE “FOR” APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS AS DISCLOSED IN THIS PROXY STATEMENT. SHARES OF THE COMPANY’S COMMON STOCK REPRESENTED BY EXECUTED BUT UNMARKED PROXIES WILL BE VOTED “FOR” APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS AS DISCLOSED IN THIS PROXY STATEMENT.

ADVISORY VOTE ON THE FREQUENCY OF SHAREHOLDER VOTES ON EXECUTIVE COMPENSATION

As discussed above, the Board values the input of our shareholders regarding the Company's compensation program for its named executive officers. As required by Section 14A of the Securities Exchange Act of 1934, shareholders are invited to express their view on a non-binding, advisory basis as to how frequently shareholders will vote on a non-binding, advisory resolution to approve the compensation of our named executive officers. Shareholders can advise the Board on whether such vote should occur every year, every two years or every three years.

This is an advisory vote, and as such is not binding on the Board. However, the Board will take the results of the vote into account when deciding when to call for the next vote on a non-binding resolution to approve the Company's compensation program for its named executive officers. A scheduling vote similar to this will occur at least once every six years.

The Board recommends that a vote on a non-binding resolution to approve our compensation program for our named executive officers be held every year, because it believes that an annual vote will promote best governance practices and facilitate our Compensation Committee's and our management's consideration of the views of our shareholders in structuring our compensation programs for our named executive officers. We believe that an annual vote will provide our Compensation Committee and our management with more direct input on, and reactions to, our current compensation practices, and better allow our Compensation Committee and our management to measure how they respond to the prior year's vote.

When voting on this advisory vote, shareholders should understand that they are not voting "for" or "against" the Board's recommendation to hold the advisory vote every year. Rather, shareholders have the option to recommend that such advisory vote on the compensation of our named executive officers be held every one, two or three years, or to abstain entirely from voting on the proposal. Please mark on the enclosed proxy your preference as to how frequently shareholders will vote on a non-binding resolution to approve our compensation program for our named executive officers, as either every year, every two years or every three years, or you may abstain from voting.

Assuming a quorum is present at the Annual Meeting, the advisory vote as to how frequently shareholders will vote on a non-binding resolution to approve our compensation program for our named executive officers requires a plurality of the votes cast for the three options presented at the annual meeting. The frequency option that receives the most votes of all the votes cast in person or by proxy at the meeting is the one that will be deemed approved by the shareholders. Abstentions and broker non-votes will be counted as present in determining whether there is a quorum; however, they will have no effect in determining whether any frequency option has been approved and will be disregarded in the calculation of votes cast. A broker non-vote occurs when a broker submits a proxy card with respect to shares that the broker holds on behalf of another person but declines to vote on a particular matter, either because the broker elects not to exercise its discretionary authority to vote on the matter or does not have authority to vote on the matter.

We intend to hold our next advisory vote on the frequency of shareholder votes on executive compensation at our annual meeting in 2023.

THE BOARD RECOMMENDS A VOTE FOR HOLDING A NON-BINDING VOTE TO APPROVE THE COMPANY'S COMPENSATION PROGRAM FOR ITS NAMED EXECUTIVE OFFICERS "EVERY YEAR." SHARES OF COMMON STOCK REPRESENTED BY EXECUTED BUT UNMARKED PROXIES WILL BE VOTED FOR SUBMITTING THE ADVISORY VOTE ON THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS TO SHAREHOLDERS "EVERY YEAR."

MISCELLANEOUS

Independent Registered Public Accounting Firm

KPMG LLP acted as the independent registered public accounting firm for the Company in 2016. The Audit Committee is solely responsible for the selection, retention, oversight and, when appropriate, termination of the Company's independent registered public accounting firm.

The fees to KPMG LLP for the fiscal years ended December 31, 2016, and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Audit Fees ⁽¹⁾	\$373,000	\$383,645
Audit-Related Fees ⁽²⁾	101,456	102,344
Tax Fees ⁽³⁾	94,734	94,676
All Other Fees	--	--
Total	<u>\$569,190</u>	<u>\$580,665</u>

(1) Audit of annual financial statements, review of financial statements included in Form 10-Q and other services normally provided in connection with statutory and regulatory filings.

(2) Information security readiness assessment and information security audit services.

(3) Tax consultations and tax return preparation including out-of-pocket expenses.

The Audit Committee has established pre-approval policies and procedures with respect to audit and permitted non-audit services to be provided by its independent registered public accounting firm. Pursuant to these policies and procedures, the Audit Committee may form, and delegate authority to, subcommittees consisting of one or more members when appropriate to grant such pre-approvals, provided that decisions of such subcommittee to grant pre-approvals are presented to the full Audit Committee at its next scheduled meeting. The Audit Committee's pre-approval policies do not permit the delegation of the Audit Committee's responsibilities to management. In 2016, the Audit Committee pre-approved all services provided by our independent registered public accounting firm, and no fees to the independent registered public accounting firm were approved pursuant to the de minimis exception under the Securities and Exchange Commission's rules.

Expenses

The cost of soliciting proxies will be borne by the Company. In addition to soliciting proxies by mail, proxies may be solicited personally and by telephone by certain officers and regular associates of the Company. Such individuals will not be paid any additional compensation for such solicitation. The Company will reimburse brokers and other nominees for their reasonable expenses in communicating with the persons for whom they hold Common Stock.

Multiple Shareholders Sharing the Same Address

Pursuant to the rules of the Securities and Exchange Commission, services that deliver the Company's communications to shareholders that hold their stock through a bank, broker or other holder of record may deliver to multiple shareholders sharing the same address a single copy of the Company's annual report to shareholders and proxy statement, unless the Company has received contrary instructions from one or more of the shareholders. Upon written or oral request, the Company will promptly deliver a separate copy of the annual report to shareholders and/or proxy statement to any shareholder at a shared address to which a single copy of each document was delivered. For future deliveries of annual reports to shareholders and/or proxy statements, shareholders may also request that we deliver multiple copies at a shared address to which a single copy of each document was delivered. Shareholders sharing an address who are currently receiving multiple copies of the annual report to shareholders and/or proxy statement may also request delivery of a single copy. Shareholders may notify the Company of their requests by calling or writing Kevin R. Karas, Secretary, NRC Health, at (402) 475-2525 or 1245 Q Street, Lincoln, Nebraska 68508.

Shareholder Proposals

Proposals that shareholders of the Company intend to present at and have included in the Company's proxy statement for the 2018 annual meeting pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended ("Rule 14a-8"), must be received by the Company by the close of business on December 4, 2017. In addition, a shareholder who otherwise intends to present business at the 2018 annual meeting (including nominating persons for election as directors) must comply with the requirements set forth in the Company's By-Laws. Among other things, to bring business before an annual meeting, a shareholder must give written notice thereof, complying with the By-Laws, to the Secretary of the Company not less than 60 days and not more than 90 days prior to the second Wednesday in the month of April (subject to certain exceptions if the annual meeting is advanced or delayed a certain number of days). Under the By-Laws, if the Company does not receive notice of a shareholder proposal submitted otherwise than pursuant to Rule 14a-8 (i.e., proposals shareholders intend to present at the 2018 annual meeting but do not intend to include in the Company's proxy statement for such meeting) prior to February 10, 2018, then the notice will be considered untimely and the Company will not be required to present such proposal at the 2018 annual meeting. If the Board chooses to present such proposal at the 2018 annual meeting, then the persons named in proxies solicited by the Board for the 2018 annual meeting may exercise discretionary voting power with respect to such proposal.

By Order of the Board of Directors
NATIONAL RESEARCH CORPORATION

Kevin R. Karas
Secretary

April 3, 2017

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

or

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

For the transition period from _____ to _____

Commission file number: 0-29466

National Research Corporation

(Exact name of registrant as specified in its charter)

Wisconsin
(State or other jurisdiction
of incorporation or organization)

47-0634000
(I.R.S. Employer
Identification No.)

1245 Q Street
Lincoln, Nebraska
(Address of principal executive offices)

68508
(Zip code)

Registrant's telephone number, including area code: (402) 475-2525

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

<u>Title of Class</u>	<u>Name of Each Exchange on Which Registered</u>
Class A Common Stock, \$.001 par value	The NASDAQ Stock Market
Class B Common Stock, \$.001 par value	The NASDAQ Stock Market

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 Section 15(d) of the Act.

Yes No

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

Aggregate market value of the class A common stock and the class B common stock held by non-affiliates of the registrant at June 30, 2016: \$239,916,362.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class A Common Stock, \$0.001 par value, outstanding as of February 17, 2017: 20,911,579 shares

Class B Common Stock, \$0.001 par value, outstanding as of February 17, 2017: 3,541,026 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2017 Annual Meeting of Shareholders are incorporated by reference into Part III.

TABLE OF CONTENTS

	<u>Page</u>
PART I	
Item 1. Business	1
Item 1A. Risk Factors	9
Item 1B. Unresolved Staff Comments	14
Item 2. Properties	14
Item 3. Legal Proceedings	14
Item 4. Mine Safety Disclosures	14
PART II	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	15
Item 6. Selected Financial Data	17
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	18
Item 7A. Quantitative and Qualitative Disclosure About Market Risk	28
Item 8. Financial Statements and Supplementary Data	29
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	58
Item 9A. Controls and Procedures	58
Item 9B. Other Information	58
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	60
Item 11. Executive Compensation	60
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters	60
Item 13. Certain Relationships and Related Transactions, and Director Independence	61
Item 14. Principal Accountant Fees and Services	61
PART IV	
Item 15. Exhibits and Financial Statement Schedules	62
Signatures	65

PART I

Item 1. Business

Special Note Regarding Forward-Looking Statements

Certain matters discussed in this Annual Report on Form 10-K are “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements can generally be identified as such because the context of the statement includes phrases such as National Research Corporation, doing business as NRC Health (“NRC Health,” the “Company,” “we,” “our,” “us” or similar terms), “believes,” “expects,” or other words of similar import. Similarly, statements that describe the Company’s future plans, objectives or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties which could cause actual results or outcomes to differ materially from those currently anticipated. Factors that could affect actual results or outcomes include, without limitation, the following factors:

- The possibility of non-renewal of the Company’s client service contracts and retention of key clients;
- The Company’s ability to compete in its markets, which are highly competitive, and the possibility of increased price pressure and expenses;
- The effects of an economic downturn;
- The impact of consolidation in the healthcare industry;
- The impact of federal healthcare reform legislation or other regulatory changes;
- The Company’s ability to attract and retain key managers and other personnel;
- The possibility that the Company’s intellectual property and other proprietary information technology could be copied or independently developed by its competitors;
- The possibility that the Company could be subject to security breaches or computer viruses; and
- The factors set forth under the caption “Risk Factors” in Part I, Item 1A of this Annual Report on Form 10-K.

Shareholders, potential investors and other readers are urged to consider these and other factors in evaluating the forward-looking statements, and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included are only made as of the date of this Annual Report on Form 10-K and the Company undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

General

The Company is a leading provider of analytics and insights that facilitate measurement and improvement of the patient and employee experience while also increasing patient engagement and customer loyalty for healthcare providers, payers and other healthcare organizations. The Company’s solutions enable its clients to understand the voice of the customer with greater clarity, immediacy and depth. NRC Health’s heritage, proprietary methods, and holistic approach enable our partners to better understand the people they care for and design experiences that inspire loyalty and trust, while also facilitating regulatory compliance and the shift to population-based health management. The Company’s ability to measure what matters most and

systematically capture, analyze and deliver insights based on self-reported information from patients, families and consumers is critical in today's healthcare market. NRC Health believes that access to and analysis of its extensive consumer-driven information is becoming more valuable as healthcare providers increasingly need to more deeply understand and engage patients and consumers in an effort towards effective population-based health management.

NRC Health's expertise includes the efficient capture, interpretation, transmittal and benchmarking of critical data elements from millions of healthcare consumers. Using its portfolio of solutions through internet-based business intelligence tools, the Company's clients gain insights into what people think and feel about their organizations in real-time, allowing them to build on their strengths and resolve service issues with greater speed and personalization. The Company's clients are also able to access networking groups, on-line education and an extensive library of performance improvement material that can be tailored to each of their unique needs.

The Company's portfolio of subscription-based solutions provide actionable information and analysis to healthcare organizations and payers across a range of mission-critical, constituent-related elements, including patient experience and satisfaction, community population health risks, workforce engagement, community perceptions, and physician engagement. NRC Health partners with clients across the continuum of healthcare services. The Company's clients range from integrated health systems and post-acute providers, such as home health, long term care and hospice, to numerous payer organizations. The Company believes this cross-continuum positioning is a unique and an increasingly important capability as evolving payment models drive healthcare providers and payers towards a more collaborative and integrated service model.

NRC Health has achieved a market leadership position through its more than 35 years of industry innovation and experience, as well as its long-term, recurring revenue relationships (solutions that are used or required by a client each year) with many of the healthcare industry's largest organizations. Since its founding in 1981, the Company has focused on meeting the evolving information needs of the healthcare industry through internal product development, as well as select acquisitions. The Company is a Wisconsin corporation headquartered in Lincoln, Nebraska.

Industry and Market Opportunity

According to the Centers for Medicare and Medicaid Services ("CMS"), health expenditures in the United States were approximately \$3.2 trillion in 2015, or \$9,990 per person. In total, health spending accounted for 17.8% of the nation's Gross Domestic Product in 2015. Addressing this growing expenditure burden continues to be a major policy priority at both federal and state levels. In addition, continued unemployed and underemployed rates and lower incomes for many Americans coupled with increased co-pays and deductibles in healthcare plans have focused even more consumer attention on health spending and affordability. In the public sector, Medicare provides health coverage for individuals aged 65 and older, while Medicaid provides coverage for low income families and other individuals in need. Both programs are administered by the CMS. With the aging of the U.S. population, Medicare enrollment has increased significantly. In addition, longer life spans and greater prevalence of chronic illnesses among both the Medicare and Medicaid populations have placed tremendous demands on the health care system.

Driven by escalating costs and a growing recognition of the challenges of chronic care and unnecessary hospitalizations, Medicare reimbursement for healthcare providers is shifting from a volume-based approach (fees paid for each element of service rendered, independent of outcome) to a more value-based model, where reimbursement is based on the value (or quality) of the healthcare service delivered. The establishment of standardized quality-focused datasets and the requirement that providers capture and transmit this data to CMS has enabled this shift.

An increasing percentage of Medicare reimbursement and reimbursement from commercial payers will be determined under value payment models, based on factors such as patient readmission rates and provider adherence to certain quality-related protocols. At the same time, many hospitals and other providers are creating new models of care delivery to improve patient experience, reduce cost and provide better clinical outcomes. These new models are based on sharing financial risk and managing the health and behaviors of large populations of patients and consumers. Certain of these new models are known as accountable care organizations, or ACOs, and medical homes, in which multiple provider organizations are coordinated in providing care and bearing shared financial risk in serving a defined patient population. This transformation towards value-based payment models and increased engagement of healthcare consumers is resulting in a greater need for providers to deliver more customer-centric healthcare.

NRC Health believes that its current portfolio of solutions is aligned to address this evolving market opportunity. The Company provides tools and solutions to capture, interpret and improve the data required by CMS as well as enhanced capabilities that capture insights about patient health risks, behaviors and perceptions. The information and analytics provided through these solutions enable payers and providers to better understand what matters most to people at key moments in their relationship with a health organization. NRC Health's solutions enable its clients to design experiences to improve the wellbeing of the people and communities they care for. In addition, the Company's portfolio of experience solutions helps providers address and impact the types of behaviors that could result in reduced hospital re-admission rates, and a direct and measurable impact on providers' revenue.

Finally, the Company believes that its ability to offer these insights across the entire care continuum is particularly relevant as new reimbursement models reward collaboration amongst different types of providers. Bundled payments, medical home, ACOs and other models of reimbursement for population-based health management all require effective coordination of care both within and outside of the traditional acute care settings.

NRC Health's Solutions

NRC Health's portfolio of solutions are designed to help healthcare companies understand the totality of how their organizations are experienced by the people they serve. NRC Health's solutions address specific needs around market insight, experience, transparency, and governance for healthcare providers, payers and other healthcare organizations. While each distinct solution provides discernible value on a stand-alone basis, the Company believes that in combination, its solutions provide value through a comprehensive view of healthcare consumers both within healthcare settings and outside of those settings—creating a differentiated solution set to address the emerging needs for population-based health management.

NRC Health's Market Insights Solutions – NRC Health's Market Insights solutions are subscription-based services that allow for improved tracking of awareness, perception, and consistency of healthcare brands; real-time assessment of competitive differentiators; and enhanced segmentation tools to evaluate the needs, wants, and behaviors of communities through real-time competitive assessments and enhanced segmentation tools. NRC Health's Market Insights is the largest U.S. healthcare consumer database of its kind, measuring the opinions and behaviors of 310,000 healthcare consumers in the top 300 markets across the country annually. NRC Health's Market Insights is a syndicated survey that provides clients with an independent third-party source of information that is used to understand consumer perception and preferences and optimize marketing strategies. NRC Health's Market Insights solutions provide clients with on-demand tools to measure brand value and build brand equity in their markets, evaluate and optimize advertising efficacy and consumer recall, and tailor research to obtain the real time voice of customer feedback to support branding and loyalty initiatives. The Company's Market Insights solutions were historically marketed under the Healthcare Market Guide and Ticker brands.

NRC Health’s Experience Solutions – NRC Health’s Experience solutions provide hospitals and healthcare providers the ability to receive and take action on customer and employee feedback across all care settings in real-time. Experience solutions include patient and resident experience, workforce engagement, health risk assessments, transitions, and improvement tools. These solutions enable clients to comply with regulatory requirements and to improve their reimbursement under value-based purchasing models. More importantly, NRC Health’s Experience solutions provide quantitative and qualitative real-time feedback, improvement plans, and coaching tools to enable clients to improve the experiences of patients, residents, physicians and staff. By illuminating the complete care journey in real time, the Company’s clients are able to ensure each individual receives the care, respect, and experience he or she deserves. Developing a longitudinal profile of what healthcare customers want and need allows for organizational improvement, increased clinician and staff engagement, loyal relationships and personal well-being.

NRC Health’s Experience solutions are provided on a subscription basis via a cross-continuum platform that collects and measures data and then delivers business intelligence that the Company’s clients utilize to improve patient experience, engagement and loyalty. Patient data can be collected on a longitudinal basis for improvement and regulatory compliance purposes as well as on a real time basis to support service recovery, rapid cycle improvement, and engagement activities. NRC Health provides these performance results and prescriptive analytics to its clients via web-based improvement planning and business intelligence portals. These solutions have previously been marketed under NRC Picker, My InnerView (“MIV”), Customer-Connect LLC (doing business as Connect), and NRC Canada.

NRC Health’s Transitions solutions are provided to healthcare organizations on a subscription basis to drive effective communication between healthcare providers and patients in the critical 24-72 hours post discharge using a discharge call program. Through preference-based communications and real-time alerts, these solutions enable organizations to identify and manage high-risk patients to reduce readmissions, increase patient satisfaction and support safe care transitions. Tracking, trending and benchmarking tools isolate the key areas for process improvement allowing organizations to implement changes and reduce future readmissions. NRC Health’s Transitions solutions were previously provided by Connect. Connect was formed in June 2013 to develop and provide patient outreach and discharge call solutions. NRC Health originally had a 49% ownership interest in Connect but by March 2016 had acquired all of the remaining interest and subsequently dissolved Customer-Connect LLC in June 2016.

NRC Health’s Health Risk Assessment solutions (formerly Payer Solutions) enable the Company’s clients to understand the health risks associated with populations of patients, analyze and address readmission risks, and efficiently reach out to patients to impact their behaviors outside of the healthcare provider settings. These health risk assessment solutions enable clients to effectively segment populations and manage care for those who are most at-risk, engage individuals, increase preventative care and manage wellness programs to improve patient experience and outcomes.

NRC Health’s Transparency Solutions – NRC Health’s Transparency solutions allow healthcare organizations to share a picture of their organization and ensure that timely and relevant content informs better consumer decision-making. NRC Health’s star ratings solution (formerly Reputation) enables clients to publish a five-star rating metric and verified patient feedback derived from actual patient survey data to complement their online physician information. Sharing this feedback not only results in better-informed consumer decision-making but also has the ability to drive new patient acquisition and grow online physician reputation. NRC Health’s reputation monitoring solution alerts clients to ratings and reviews on third-party websites and provides workflows for response and service recovery. These solutions raise physician awareness of survey results and provide access to improvement resources and educational development opportunities designed to improve the way care is delivered.

NRC Health’s Governance Solutions – NRC Health’s Governance solutions, branded as The Governance Institute (“TGI”), serves not-for-profit hospital and health system boards of directors, executives, and

physician leadership. TGI's subscription-based, value-driven membership services are provided through national conferences, publications, advisory services, and an on-line portal designed to improve the effectiveness of hospital and healthcare systems by continually strengthening their board governance, strategic planning, medical leadership, management performance, and transparency positioning. TGI also conducts research studies and tracks industry trends showcasing emerging healthcare trends and best practice solutions of healthcare boards across the country.

NRC Health's Competitive Strengths

The Company believes that its competitive strengths include the following:

A leading provider of patient experience solutions for healthcare providers, payers and other healthcare organizations. The Company's history is based on capturing the voice of the consumer in healthcare markets. The Company's solutions build on the "Eight Dimensions of Patient-Centered Care," a philosophy developed by noted patient advocate Harvey Picker, who believed patients' experiences are integral to quality healthcare. NRC Health has extended this philosophy to include families, caregivers, employees and other stakeholders.

Premier client portfolio across the care continuum. NRC Health's client portfolio encompasses leading healthcare organizations across the healthcare continuum, from acute care hospitals and post-acute providers to healthcare payers. The Company's client base is diverse, with its top ten clients representing approximately 17% of total revenue for the year ended December 31, 2016 and no single client representing more than 5% of the Company's revenue.

Highly scalable and visible revenue model. The Company's solutions are offered to healthcare providers, payers and other healthcare organizations primarily through subscription-based service agreements. The solutions NRC Health provides are also recurring in nature, which enables an ongoing relationship with its clients. This combination of subscription-based revenue, a base of ongoing client renewals and automated platforms creates a highly visible and scalable revenue model for the Company.

Comprehensive portfolio of solutions. Since NRC Health offers solutions encompassing market insights, experience, transparency, and governance, its clients can engage with the Company at multiple levels and, over time, increase their commitment and the financial value of their business relationship.

Exclusive focus on healthcare. The Company focuses exclusively on healthcare and serving the unique needs of healthcare organizations across the continuum, which NRC Health believes gives it a distinct competitive advantage compared to other survey and analytics software providers. The Company's platform includes features and capabilities built specifically for healthcare providers, including a library of performance improvement content which can be tailored to the provider based on their specific customer feedback profile.

Experienced senior management team led by NRC Health's founder. NRC Health's senior management team has extensive industry and leadership experience. Michael D. Hays, the Company's Chief Executive Officer, founded NRC Health in 1981. Prior to launching the Company, Mr. Hays served as Vice President and as a Director of SRI Research Center, Inc. (now known as the Gallup Organization). The Chief Financial Officer, Kevin Karas, CPA, has extensive financial experience having served as CFO at two previous companies, along with healthcare experience at Rehab Designs of America, Inc. and NovaCare, Inc. Steven D. Jackson, the Company's President, served as Chief Strategy Officer for Vocera Communications, and he also served as Chief Operating Officer for ExperiaHealth.

Competition

The healthcare information and market research services industry is highly competitive. The Company has traditionally competed with healthcare organizations' internal marketing, market research, and/or quality improvement departments which create their own performance measurement tools, and with relatively small specialty research firms which provide survey-based healthcare market research and/or performance assessment. The Company's primary competitors among such specialty firms include Press Ganey, which has significantly higher annual revenue than the Company, and three or four other organizations that NRC Health believes have less annual revenue than the Company. The Company, to a certain degree, currently competes with, and anticipates that in the future it may increasingly compete with, (1) traditional market research firms which are significant providers of survey-based, general market research and (2) firms which provide services or products that complement healthcare performance assessments such as healthcare software or information systems. Although only a few of these competitors have offered specific services that compete directly with the Company's solutions, many of these competitors have substantially greater financial, information gathering, and marketing resources than the Company and could decide to increase their resource commitments to the Company's market. There are relatively few barriers to entry into the Company's market, and the Company expects increased competition in its market which could adversely affect the Company's operating results through pricing pressure, increased marketing expenditures, and market share losses, among other factors. There can be no assurance that the Company will continue to compete successfully against existing or new competitors.

The Company believes the primary competitive factors within its market include quality of service, timeliness of delivery, unique service capabilities, credibility of provider, industry experience, and price. NRC Health believes that its industry leadership position, exclusive focus on the healthcare industry, cross-continuum presence, comprehensive portfolio of solutions and relationships with leading healthcare payers and providers position the Company to compete in this market.

Growth Strategy

NRC Health believes that the value proposition of its current solutions, combined with the favorable alignment of its solutions with emerging market demand, positions the Company to benefit from multiple growth opportunities. The Company believes that it can accelerate its growth through (1) increasing sales of its existing solutions to its existing clients (or cross-selling), (2) winning additional new clients through market share growth in existing market segments, (3) developing and introducing new solutions to new and existing clients, and (4) pursuing acquisitions of, or investments in, firms providing products, solutions or technologies which complement those of the Company.

Selling additional solutions to existing clients. Approximately 20% of the Company's existing clients purchase more than one of its solutions. NRC Health's sales organization actively identifies and pursues these cross-sell opportunities in order to accelerate the growth of the Company.

Adding new clients. NRC Health believes that there is an opportunity to add new clients in each of the acute care, post-acute care and health plan market segments. The Company's sales organization is actively identifying and engaging new client prospects in each of the segments noted above, with a focus on featuring its comprehensive cross continuum portfolio of solutions.

Adding new solutions. The need for growth, engagement and informing solutions in the market segments that NRC Health serves is evolving to align with emerging healthcare regulatory and reimbursement trends. The evolving market creates an opportunity for the Company to introduce new solutions that leverage its existing core competencies. The Company believes that there is an opportunity to drive sales growth with both existing and new clients, across all of the market segments that it serves, through the introduction of new solutions.

Pursue Strategic Acquisitions. The Company has historically complemented its organic growth with strategic acquisitions, having completed seven such transactions over the past fifteen years. These transactions have added new capabilities and access to market segments that are adjacent and complementary to the Company's existing solutions and market segments. NRC Health believes that additional strategic acquisition opportunities exist for the Company to complement its organic growth by further expanding its service capabilities, technology offerings and end markets.

Sales and Marketing

The Company generates the majority of its revenue from the renewal of subscription-based client service agreements, supplemented by sales of other solutions to existing clients and the addition of new clients. NRC Health sales activities are carried out by a direct sales organization staffed with professional, trained sales associates. As compared to the typical industry practice of compensating sales associates with relatively high base pay and a relatively small sales commission, NRC Health compensates its sales staff with relatively low base pay and a relatively high commission component. The Company believes this compensation structure provides incentives to its sales associates to surpass sales goals and increases the Company's ability to attract top-quality sales associates.

NRC Health conducts various marketing programs to generate new opportunities for its sales organization. The Company also maintains an active public relations program which includes (1) an ongoing presence in leading industry trade press and in the mainstream press, (2) public speaking at strategic industry conferences, (3) fostering relationships with key industry constituencies, and (4) annual awards programs that recognize top-ranking healthcare organizations.

Clients

NRC Health's clients include many of the nation's largest healthcare systems. The Company provides solutions to over 61 payer health plans and 145 of the 200 largest health systems.

The Company's ten largest clients accounted for 17%, 15%, and 16% of the Company's total revenue in 2016, 2015 and 2014, respectively. Approximately 5% of the Company's revenue was derived from foreign customers in 2016 and 2015 and 7% in 2014.

For financial information by geographic area, see Note 14 to the Company's consolidated financial statements.

Intellectual Property and Other Proprietary Rights

The Company's success depends in part upon its data collection processes, research methods, data analysis techniques and internal systems, and procedures that it has developed specifically to serve clients in the healthcare industry. The Company has no patents. Consequently, it relies on a combination of copyright and trade secret laws and associate nondisclosure agreements to protect its systems, survey instruments and procedures. There can be no assurance that the steps taken by the Company to protect its rights will be adequate to prevent misappropriation of such rights or that third parties will not independently develop functionally equivalent or superior systems or procedures. The Company believes that its systems and procedures and other proprietary rights do not infringe upon the proprietary rights of third parties. There can be no assurance, however, that third parties will not assert infringement claims against the Company in the future or that any such claims will not result in protracted and costly litigation, regardless of the merits of such claims or whether the Company is ultimately successful in defending against such claims.

Associates

As of December 31, 2016, the Company employed a total of 372 persons on a full-time basis. In addition, as of such date, the Company had 32 part-time associates primarily in its survey operations, representing approximately 16 full-time equivalent associates. None of the Company's associates are represented by a collective bargaining unit. The Company considers its relationship with its associates to be good.

Executive Officers of the Company

The following table sets forth certain information as of February 1, 2017, regarding the executive officers of the Company:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Michael D. Hays	62	Chief Executive Officer
Steven D. Jackson	41	President
Kevin R. Karas	59	Senior Vice President Finance, Chief Financial Officer, Treasurer and Secretary

Michael D. Hays has served as Chief Executive Officer and a director since he founded the Company in 1981. He also served as President of the Company from 1981 to 2004 and from July 2008 to July 2011. Prior to founding the Company, Mr. Hays served for seven years as a Vice President and a director of SRI Research Center, Inc. (n/k/a the Gallup Organization).

Steven D. Jackson has served as President of the Company since October 2015. He served as Group President from October 2014 until September 2015, during which time he oversaw the Company's Market Insights, Transparency, and Predictive Analytics business units. Prior to joining the Company, Mr. Jackson served as Chief Strategy Officer for Vocera Communications where he was employed from 2007 to 2014. He also served as Chief Operating Officer for ExperiaHealth, a subsidiary of Vocera. Earlier in his career, Mr. Jackson held positions of increasing responsibility at The Advisory Board Company, Neoforma, and Stockamp & Associates.

Kevin R. Karas has served as Chief Financial Officer, Treasurer and Secretary of the Company since September 2011, and as Senior Vice President Finance since he joined the Company in December 2010. From 2005 to 2010, he served as Vice President of Finance for Lifetouch Portrait Studios, Inc., a national retail photography company. Mr. Karas also previously served as Chief Financial Officer at CARSTAR, Inc., an automobile collision repair franchise business, from 2000 to 2005, Chief Financial Officer at Rehab Designs of America, Inc., a provider of orthotic and prosthetic services, from 1993 to 2000, and as a regional Vice President of Finance and Vice President of Operations at Novacare, Inc., a provider of physical rehabilitation services, from 1988 to 1993. He began his career as a Certified Public Accountant at Ernst & Young.

Executive officers of the Company are elected by and serve at the discretion of the Company's Board of Directors. There are no family relationships between any directors or executive officers of NRC Health.

Available Information

More information regarding NRC Health is available on the Company's website at www.nrchealth.com. NRC Health is not including the information contained on or available through its website as part of, or incorporating such information by reference into, this Annual Report on Form 10-K. The Company's Annual

Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports are made available to the public at no charge through a link appearing on the Company's website. NRC Health provides access to such materials through its website as soon as reasonably practicable after electronically filing such material with, or furnishing it to, the Securities and Exchange Commission. Reports and amendments posted on the Company's website do not include access to exhibits and supplemental schedules electronically filed with the reports or amendments.

Item 1A. Risk Factors

You should carefully consider each of the risks described below, together with all of the other information contained in this Annual Report on Form 10-K, before making an investment decision with respect to our securities. If any of the following risks develop into actual events, our business, financial condition or results of operations could be materially and adversely affected and you may lose all or part of your investment.

We depend on contract renewals, including retention of key clients, for a large share of our revenue and our operating results could be adversely affected.

We expect that a substantial portion of our revenue for the foreseeable future will continue to be derived from renewable service contracts. Substantially all contracts are renewable annually at the option of our clients, although a client generally has no minimum purchase commitment under a contract and the contracts are generally cancelable on short or no notice without penalty. To the extent that clients fail to renew or defer their renewals, we anticipate our results may be materially adversely affected. We rely on a limited number of key clients for a substantial portion of our revenue. The Company's ten largest clients accounted for 17%, 15%, and 16% of the Company's total revenue in 2016, 2015, and 2014, respectively. Our ability to secure renewals depends on, among other things, our ability to gather and analyze performance data in a consistent, high-quality, and timely fashion. In addition, the service needs of our clients are affected by accreditation requirements, enrollment in managed care plans, the level of use of satisfaction measures in healthcare organizations' overall management and compensation programs, the size of operating budgets, clients' operating performance, industry and economic conditions, and changes in management or ownership. As these factors are beyond our control, we cannot ensure that we will be able to maintain our renewal rates. Any material decline in renewal rates from existing levels would have an adverse effect on our revenue and a corresponding effect on our operating and net income.

Our operating results may fluctuate and this may cause our stock price to decline.

Our overall operating results may fluctuate as a result of a variety of factors, including the size and timing of orders from clients, client demand for our services (which, in turn, is affected by factors such as accreditation requirements, enrollment in managed care plans, operating budgets and clients' operating performance), the hiring and training of additional staff, expense increases, and industry and general economic conditions. Because a significant portion of our overhead is fixed in the short-term, particularly some costs associated with owning and occupying our building and full-time personnel expenses, our results of operations may be materially adversely affected in any particular period if revenue falls below our expectations. These factors, among others, make it possible that in some future period our operating results may be below the expectations of securities analysts and investors which would have a material adverse effect on the market price of our class A common stock and/or our class B common stock.

We operate in a highly competitive market and could experience increased price pressure and expenses as a result.

The healthcare information and market research services industry is highly competitive. We have traditionally competed with healthcare organizations' internal marketing, market research and/or quality

improvement departments that create their own performance measurement tools, and with relatively small specialty research firms that provide survey-based healthcare market research and/or performance assessment. The Company's primary competitors among such specialty firms include Press Ganey, which we believe has significantly higher annual revenue than us, and three or four other firms that we believe have lower annual revenue than us. To a certain degree, we currently compete with, and anticipate that in the future we may increasingly compete with, (1) traditional market research firms which are significant providers of survey-based, general market research, and (2) firms which provide services or products that complement healthcare performance assessments, such as healthcare software or information systems. Although only a few of these competitors have offered specific services that compete directly with our services, many of these competitors have substantially greater financial, information gathering, and marketing resources than the Company and could decide to increase their resource commitments to our market. There are relatively few barriers to entry into the Company's market, and we expect increased competition in our market which could adversely affect our operating results through pricing pressure, increased marketing expenditures, and market share losses, among other factors. There can be no assurance that the Company will continue to compete successfully against existing or new competitors.

Because our clients are concentrated in the healthcare industry, our revenue and operating results may be adversely affected by changes in regulations, a business downturn or consolidation with respect to the healthcare industry.

Substantially all of our revenue is derived from clients in the healthcare industry. As a result, our business, financial condition and results of operations are influenced by conditions affecting this industry, including changing political, economic, competitive and regulatory influences that may affect the procurement practices and operation of healthcare providers and payers. The 2010 Federal comprehensive healthcare reform plan, which includes provisions to control healthcare costs, improve healthcare quality and expand access to affordable health insurance, could result in lower reimbursement rates and otherwise change the environment in which providers and payers operate. In addition, large private purchasers of healthcare services are placing increasing cost pressure on providers. Healthcare providers may react to these cost pressures and other uncertainties by curtailing or deferring purchases, including purchases of our services. Moreover, there has been consolidation of companies in the healthcare industry, a trend which we believe will continue to grow. Consolidation in this industry, including the potential acquisition of certain of our clients, could adversely affect aggregate client budgets for our services or could result in the termination of a client's relationship with us. The impact of these developments on the healthcare industry is difficult to predict and could have an adverse effect on our revenue and a corresponding effect on our operating and net income.

We rely on third parties whose actions could have a material adverse effect on our business.

We outsource certain operations and engage third parties to perform work needed to fulfill our client services. For example, we use vendors to perform certain printing, mailing, information transmittal and other services related to our survey operations. If any of these vendors cease to operate or fail to adequately perform the contracted services and alternative resources and processes are not utilized in a timely manner, our business could be adversely affected. The loss of any of our key vendors could impair our ability to perform our client services and result in lower revenues and income. It would also be time-consuming and expensive to replace, either directly or through other vendors, the services performed by these vendors, which could adversely impact revenues, expenses and net income. Furthermore, our ability to monitor and direct our vendors' activities is limited. If their actions and business practices violate policies, regulations or procedures otherwise considered illegal, we could be subject to reputational damage or litigation which would adversely affect our business.

We face several risks relating to our ability to collect the data on which our business relies.

Our ability to provide timely and accurate performance measurement and improvement services to our clients depends on our ability to collect large quantities of high-quality data through surveys and interviews. If our mail survey operations are disrupted and we are unable to mail our surveys in a timely manner, then our revenue and net income could be negatively impacted. If receptivity to our survey and interview methods by respondents declines, or, for some other reason, their willingness to complete and return surveys declines, or if we, for any reason, cannot rely on the integrity of the data we receive, then our revenue could be adversely affected with a corresponding effect on our operating and net income. We also rely on third-party panels of pre-recruited consumer households to produce NRC Health's Market Insights in a timely manner. If we are not able to continue to use these panels, or the time period in which we use these panels is altered and we cannot find alternative panels on a timely, cost-competitive basis, we could face an increase in our costs or an inability to effectively produce NRC Health's Market Insights. In either case, our operating and net income could be negatively affected.

Our principal shareholder effectively controls the Company, and holders of class A common stock are not able to independently elect directors of NRC Health or control any of the Company's management policies or business decisions because the holders of class A common stock have substantially less voting power than the holders of the Company's class B common stock, a majority of which is beneficially owned by our principal shareholder.

The Company's outstanding stock is divided into two classes of common stock: class A common stock and class B common stock. The class B common stock has one vote per share on all matters and the class A common stock has one-one-hundredth (1/100th) of one vote per share. As of February 17, 2017, the class B common stock constituted approximately 94% of NRC Health's total voting power. As a result, holders of class B common stock are able to exercise a controlling influence over the Company's business, have the power to elect its directors and indirectly control decisions such as whether to issue additional shares, declare and pay dividends or enter into significant corporate transactions. A majority of the class B common stock is owned by Michael D. Hays, our Chief Executive Officer.

As of February 17, 2017, approximately 56% of the outstanding class B common stock and approximately 26% of the outstanding class A common stock was owned by Mr. Hays, and that collectively constituted approximately 54% of the Company's total voting power. As a result, Mr. Hays can control matters requiring shareholder approval, including the election of directors and the approval of significant corporate matters such as change of control transactions. The effects of such influence could be to delay or prevent a change of control of the Company unless the terms are approved by Mr. Hays.

The market prices of our two classes of common stock may be volatile and shareholders may be unable to resell shares at or above the price at which the shares were acquired.

The market price of stock can be highly volatile. As a result, the market prices and trading volumes of each of our two classes of common stock may also be highly volatile, and investors in our common stock may experience a decrease in the value of their shares, including decreases that are in response to factors beyond our control, including, but not limited to:

- Variations in our financial performance and that of similar companies;
- Regulatory and other developments that may impact the demand for our services;
- Reaction to our press releases, public announcements and filings with the Securities and Exchange Commission;
- Client, market and industry perception of our services and performance;
- Actions of our competitors;
- Changes in earnings estimates or recommendations by analysts who follow our stock;

- Loss of key personnel;
- Investor or management team sales of our stock;
- Changes in accounting principles; and
- Variations in general market, economic and political conditions or financial markets.

Any of these factors, among others, may result in changes in the trading volumes and/or market prices of each of our classes common stock. Following periods of volatility in the market price of a company's securities, shareholders have often filed securities class-action lawsuits. Our involvement in a class-action lawsuit would result in substantial legal fees and divert our senior management's attention from operating our business, which could harm our business and net income.

Our business and operating results could be adversely affected if we are unable to attract or retain key managers and other personnel.

Our future performance may depend, to a significant extent, upon the efforts and ability of our key personnel who have expertise in gathering, interpreting and marketing survey-based performance information for healthcare markets. Although client relationships are managed at many levels within our company, the loss of the services of Michael D. Hays, our Chief Executive Officer, or one or more of our other senior managers, could have a material adverse effect, at least in the short to medium term, on most significant aspects of our business, including strategic planning, product development, and sales and customer relations. Our success will also depend on our ability to hire, train and retain skilled personnel in all areas of our business. Currently, we do not have employment agreements with our officers or our other key personnel. Competition for qualified personnel in our industry is intense, and many of the companies that compete with us for qualified personnel have substantially greater financial and other resources than us. Furthermore, we expect competition for qualified personnel to become more intense as competition in our industry increases. We cannot assure you that we will be able to recruit, retain and motivate a sufficient number of qualified personnel to compete successfully.

If intellectual property and other proprietary information technology were copied or independently developed by our competitors, our operating results could be negatively affected.

Our success depends in part upon our data collection process, research methods, data analysis techniques, and internal systems and procedures that we have developed specifically to serve clients in the healthcare industry. We have no patents. Consequently, we rely on a combination of copyright, trade secret laws and associate nondisclosure agreements to protect our systems, survey instruments and procedures. We cannot assure you that the steps we have taken to protect our rights will be adequate to prevent misappropriation of such rights, or that third parties will not independently develop functionally equivalent or superior systems or procedures. We believe that our systems and procedures and other proprietary rights do not infringe upon the proprietary rights of third parties. We cannot assure you, however, that third parties will not assert infringement claims against us in the future, or that any such claims will not result in protracted and costly litigation, regardless of the merits of such claims, or whether we are ultimately successful in defending against such claims.

Our business and operating results could be adversely affected if we experience business interruptions or failure of our information technology and communication systems.

Our ability to provide timely and accurate performance measurement and improvement services to our clients depends on the efficient and uninterrupted operation of our information technology and communication systems, and those of our external service providers. Our systems and those of our external service providers, could be exposed to damage or interruption from fire, natural disasters, energy loss, telecommunication failure, security breach and computer viruses. An operational failure or outage in our information technology and communication systems or those of our external service providers, could result

in loss of customers, damage to customer relationships, reduced revenue and profits, refunds of customer charges and damage our reputation and may result in additional expense to repair or replace damaged equipment and recover data loss resulting from the interruption. Although we have taken steps to prevent system failures and have back-up systems and procedures to prevent or reduce disruptions, such steps may not prevent an interruption of services and our disaster recovery planning may not account for all contingencies. Additionally, our insurance may not adequately compensate us for all losses or failures that may occur. Any one of the above situations could have a material adverse effect on our business, financial condition, results of operations and reputation.

Security breaches or computer viruses could harm our business.

In connection with our client services, we receive, process, store and transmit sensitive business information electronically over the Internet. Computer viruses could spread throughout our systems and disrupt operations and service delivery. Unauthorized access to our computer systems or databases could result in the theft or publication of confidential information or the deletion or modification of records or could otherwise cause interruption in our operations. We cannot be certain that the technology protecting our networks and information will successfully prevent computer viruses, data thefts, release of confidential information or security breaches. A compromise in our data security systems that results in inappropriate disclosure of our associates', customers' or vendors' confidential information, could harm our reputation and expose us to regulatory action and claims. Changes in privacy and information security laws and standards may require we incur significant expense to ensure compliance due to increased technology investment and operational procedures. An inability to prevent security breaches or computer viruses or failure to comply with privacy and information security laws could result in litigation and regulatory risk, loss of customers, damage to customer relationships, reduced revenue and profits, refunds of customer charges and damage our reputation, which could adversely affect our business, financial condition, results of operations and reputation.

Reputational harm could have a material adverse effect on our business, financial condition and results of operations.

Our ability to maintain a good reputation is critical to selling our services. Our reputation could be adversely impacted by any of the following (whether or not valid): the failure to maintain high ethical and social standards; the failure to perform our client services in a timely manner; violations of laws and regulations; and the failure to maintain an effective system of internal controls or to provide accurate and timely financial information. Damage to our reputation or loss of our clients' confidence in our services for any of these, or any other reasons, could adversely impact our business, revenues, financial condition, and results of operations, as well as require additional resources to rebuild our reputation.

Our operations are subject to laws and regulations that impose significant compliance costs and create reputational and legal risk.

Due to the nature of the services we offer, we are subject to significant commercial, trade and privacy regulations. We cannot predict the nature, scope or effect of future regulatory requirements to which our operations might be subject or the manner in which existing laws might be administered or interpreted, which could have a material and negative impact on our business and our results of operation. For example, recent years have seen an increase in the development or enforcement of legislation related to healthcare reform, privacy, trade compliance and anti-corruption. Additionally, some of the services we provide include information our clients need to fulfill regulatory reporting requirements. If our services result in errors or omissions in our clients' regulatory reporting, we may be subject to loss of clients, reputational harm or litigation, each potentially adversely impacting our business. Furthermore, although we maintain a variety of internal policies and controls designed to educate, discourage, prevent and detect violations of such laws, we cannot guarantee that such actions will be effective or sufficient or that individual employees will not engage

in inappropriate behavior in breach of our policies. Such conduct, or even an allegation of misbehavior, could result in material adverse reputational harm, costly investigations, severe criminal or civil sanctions, or could disrupt our business, and could negatively affect our results of operations or financial condition.

Failure to comply with public company regulations could adversely impact our profitability.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, the Sarbanes-Oxley Act of 2002, the Dodd-Frank Act Wall Street Reform and Consumer Protection Act, the listing requirements of NASDAQ and other applicable securities rules and regulations. Additionally, laws, regulations and standards relating to corporate governance and public disclosure are subject to varying interpretations and continue to develop and change. If we misinterpret or fail to comply with these rules and regulations, our legal and financial compliance costs and net income may be adversely affected.

Our growth strategy includes future acquisitions which involve inherent risk.

In order to expand services or technologies to existing clients and increase our client base, we have historically, and may in the future, make strategic business acquisitions that we believe complement our business. Acquisitions have inherent risks which may have material adverse effects on our business, financial condition, or results of operations, including, among other things: (1) failure to successfully integrate the purchased operations, technologies, products or services and maintain uniform standard controls, policies and procedures; (2) substantial unanticipated integration costs; (3) loss of key associates including those of the acquired business; (4) diversion of management's attention from other operations; (5) failure to retain the customers of the acquired business; (6) failure to achieve any projected synergies and performance targets; (7) additional debt and/or assumption of known or unknown liabilities; (8) dilutive issuances of equity securities; and (9) a write-off of goodwill, software development costs, client lists, other intangibles and amortization of expenses. If we fail to successfully complete acquisitions or integrate acquired businesses, we may not achieve projected results and there may be a material adverse effect on our business, financial condition and results of operations.

Item 1B. Unresolved Staff Comments

The Company has no unresolved staff comments to report pursuant to this item.

Item 2. Properties

The Company's headquarters is located in an owned office building in Lincoln, Nebraska, of which 62,000 square feet are used for the Company's operations. This facility houses all the capabilities necessary for NRC Health's survey programming, printing and distribution, data processing, analysis and report generation, marketing, and corporate administration. The Company's term note is secured by this property, among other things.

The Company is leasing 4,000 square feet of office space in Markham, Ontario, 3,900 square feet of office space in San Diego, California, 8,100 square feet of office space in Seattle, Washington and 1,500 square feet of office space in Atlanta, Georgia.

Item 3. Legal Proceedings

The Company is not subject to any material pending litigation.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

In May 2013, the Company consummated a recapitalization (the “May 2013 Recapitalization”) pursuant to which the Company established two classes of common stock (class A common stock and class B common stock), issued a dividend of three shares of class A common stock for each share of the Company’s then existing common stock and reclassified each then existing share of common stock as one-half of one share of class B common stock. Following the May 2013 Recapitalization, the Company’s class A common stock and the Company’s class B common stock are traded on the NASDAQ Global Market under the symbols “NRCIA” and “NRCIB,” respectively.

The following table sets forth the range of high and low sales prices for, and dividends declared on the class A common stock and class B common stock for the period from January 1, 2015, through December 31, 2016:

	Class A			Class B		
	High	Low	Dividends Declared Per Common Share	High	Low	Dividends Declared Per Common Share
2015 Quarter Ended:						
March 31	\$16.67	\$13.00	\$0.06	\$36.20	\$31.26	\$0.36
June 30	\$15.25	\$13.29	\$0.06	\$35.50	\$31.50	\$0.36
September 30	\$15.21	\$10.72	\$0.06	\$35.50	\$27.54	\$0.36
December 31	\$17.42	\$11.32	\$0.44	\$38.22	\$31.88	\$2.64
2016 Quarter Ended						
March 31	\$16.10	\$13.70	\$0.08	\$36.87	\$32.99	\$0.48
June 30	\$16.67	\$12.53	\$0.08	\$44.60	\$33.19	\$0.48
September 30	\$17.14	\$13.26	\$0.08	\$38.50	\$32.18	\$0.48
December 31	\$20.00	\$14.35	\$0.10	\$46.37	\$32.57	\$0.60

Cash dividends in the aggregate amount of \$14.3 million were declared in 2016 with \$10.1 million paid in 2016 and the remaining \$4.2 million paid in January 2017. Cash dividends in the aggregate amount of \$26.0 million were declared in 2015 with \$7.6 million paid in 2015 and the remaining \$18.4 million paid in January 2016. The payment and amount of future dividends, if any, is at the discretion of the Company’s Board of Directors and will depend on the Company’s future earnings, financial condition, general business conditions, alternative uses of the Company’s earnings and other factors.

On February 17, 2017, there were approximately 16 shareholders of record and approximately 1,224 beneficial owners of the class A common stock and approximately 14 shareholders of record and approximately 1,157 beneficial owners of the class B common stock.

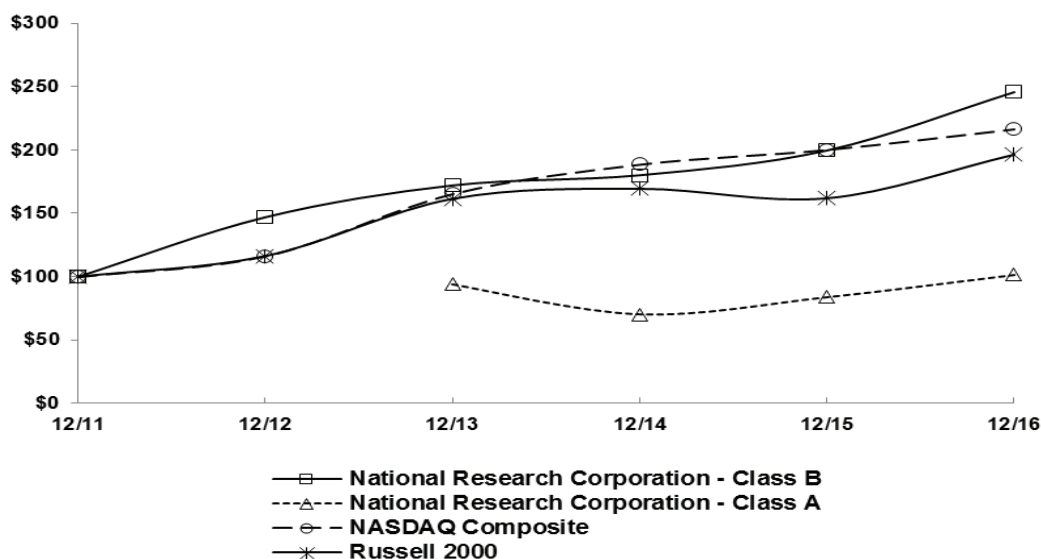
In February 2006, the Board of Directors of the Company authorized the repurchase of 2,250,000 shares of class A common stock and 375,000 shares of class B common stock (on a post-May 2013 Recapitalization basis) in the open market or in privately negotiated transactions. Unless terminated earlier by resolution of the Company’s Board of Directors, the repurchase program will expire when the Company has repurchased all shares authorized for repurchase thereunder. As of February 17, 2017, 1,969,509 shares of class A common stock and 305,509 shares of class B common stock have been repurchased under that authorization. No class A or class B common stock was repurchased during the three-month period ended December 31, 2016. The remaining shares that may be purchased under that authorization are 280,491 and 69,491 for class A and class B common stock, respectively.

The following graph compares the cumulative 5-year total return provided shareholders on the Company’s common stock relative to the cumulative total returns of the NASDAQ Composite Index and the Russell 2000

Index. An investment of \$100 (with reinvestment of all dividends) is assumed to have been made in our common stock and in each of the indexes on December 31, 2011 (or on May 23, 2013 for our class A common stock which was the first day it was traded), and its relative performance is tracked through December 31, 2016. In accordance with Securities and Exchange Commission guidance, in calculating the cumulative 5-year total return on our class B common stock, we gave retroactive effect to the May 2013 Recapitalization (i.e., as if it had occurred on December 31, 2011).

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among National Research Corporation, the NASDAQ Composite Index and the Russell 2000 Index



The stock price performance included in this graph is not necessarily indicative of future stock price performance.

	12/11	12/12	5/23/13	12/13	12/14	12/15	12/16
National Research Corporation - Class B	100.00	146.97	---	172.09	180.14	199.70	245.75
National Research Corporation - Class A	---	---	100.00	94.10	70.25	83.85	101.51
NASDAQ Composite	100.00	116.41	---	165.47	188.69	200.32	216.54
Russell 2000	100.00	116.35	---	161.52	169.43	161.95	196.45

Item 6. Selected Financial Data

The selected statement of income data for the years ended December 31, 2016, 2015 and 2014, and the selected balance sheet data at December 31, 2016 and 2015, are derived from, and are qualified by reference to, the audited consolidated financial statements of the Company included elsewhere in this Annual Report on Form 10-K. The selected statement of income data for the year ended December 31, 2013 and 2012, and the balance sheet data at December 31, 2014, 2013 and 2012, are derived from audited consolidated financial statements not included herein. The Company acquired Digital Assent, LLC (“Digital Assent”) on October 28, 2014 and disposed of selected assets and liabilities related to the clinical workflow product of its Predictive Analytics operating segment on December 21, 2015. The acquisition and disposal did not have a significant impact on the Company’s financial results, therefore, the historical data in the table below have not been adjusted.

	Year Ended December 31, (a)				
	2016	2015	2014	2013	2012
	(In thousands, except per share data)				
Statement of Income Data:					
Revenue	\$ 109,384	\$ 102,343	\$ 98,837	\$ 92,590	\$ 86,421
Operating expenses:					
Direct	45,577	44,610	41,719	38,844	35,461
Selling, general and administrative	28,385	27,177	25,018	25,208	23,542
Depreciation and amortization	4,225	4,109	3,804	3,732	4,699
Total operating expenses	<u>78,187</u>	<u>75,896</u>	<u>70,541</u>	<u>67,784</u>	<u>63,702</u>
Operating income	31,197	26,447	28,296	24,806	22,719
Other income (expense)	159	913	(204)	(318)	(512)
Income before income taxes	31,356	27,360	28,092	24,488	22,207
Provision for income taxes	10,838	9,750	9,936	9,004	7,139
Net income	<u>\$ 20,518</u>	<u>\$ 17,610</u>	<u>\$ 18,156</u>	<u>\$ 15,484</u>	<u>\$ 15,068</u>
Earnings per share common stock:					
Basic Earnings per share:					
Class A	<u>\$ 0.49</u>	<u>\$ 0.42</u>	<u>\$ 0.44</u>	<u>\$ 0.37</u>	<u>\$ 0.37</u>
Class B	<u>\$ 2.93</u>	<u>\$ 2.52</u>	<u>\$ 2.62</u>	<u>\$ 2.25</u>	<u>\$ 2.22</u>
Diluted Earnings per share:					
Class A	<u>\$ 0.48</u>	<u>\$ 0.41</u>	<u>\$ 0.43</u>	<u>\$ 0.37</u>	<u>\$ 0.36</u>
Class B	<u>\$ 2.88</u>	<u>\$ 2.49</u>	<u>\$ 2.57</u>	<u>\$ 2.20</u>	<u>\$ 2.17</u>
Weighted average share and share equivalents outstanding:					
Class A – basic	20,713	20,741	20,764	20,677	20,325
Class B – basic	3,505	3,478	3,473	3,447	3,388
Class A – diluted	21,037	20,981	21,076	21,099	20,854
Class B – diluted	3,560	3,522	3,536	3,514	3,476
	2016	2015	2014	2013	2012
	(In thousands)				
Balance Sheet Data:					
Working capital surplus (deficiency)	\$ 15,551	\$ 10,890	\$ 25,262	\$ 12,784	\$ (11,483)
Total assets	120,624	128,049	129,510	111,088	100,046
Total debt and capital lease obligations, including current portion	3,732	5,917	8,386	10,546	12,763
Total shareholders’ equity	\$ 82,806	\$ 74,222	\$ 87,748	\$ 71,755	\$ 56,742

(a) All share and per share data have been retroactively adjusted to give effect to the May 2013 Recapitalization as further described in Item 5.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

The Company is a leading provider of analytics and insights that facilitate measurement and improvement of the patient and employee experience while also increasing patient engagement and customer loyalty for healthcare providers, payers and other healthcare organizations. The Company’s solutions enable its clients to understand the voice of the customer with greater clarity, immediacy and depth. NRC Health’s heritage, proprietary methods, and holistic approach enable our partners to better understand the people they care for and design experiences that inspire loyalty and trust, while also facilitating regulatory compliance and the shift to population-based health management. The Company’s ability to measure what matters most and systematically capture, analyze and deliver insights based on self-reported information from patients, families and consumers is critical in today’s healthcare market. NRC Health believes that access to and analysis of its extensive consumer-driven information is becoming more valuable as healthcare providers increasingly need to more deeply understand and engage patients and consumers in an effort towards effective population-based health management.

The Company’s portfolio of subscription-based solutions provide actionable information and analysis to healthcare organizations and payers across a range of mission-critical, constituent-related elements, including patient experience and satisfaction, community population health risks, workforce engagement, community perceptions, and physician engagement. NRC Health partners with clients across the continuum of healthcare services. The Company’s clients range from integrated health systems and post-acute providers, such as home health, long term care and hospice, to numerous payer organizations. The Company believes this cross-continuum positioning is a unique and an increasingly important capability as evolving payment models drive healthcare providers and payers towards a more collaborative and integrated service model.

Acquisitions/ Investments

In October 2014, NRC Health acquired Digital Assent, a company with a healthcare technology platform. The acquisition created a Center of Excellence in Atlanta, Georgia, responsible for developing novel solutions to enhance consumer decision-making in the selection of healthcare providers. The all-cash consideration paid at closing was \$2.6 million.

Divestitures

On December 21, 2015, the Company completed the sale of selected assets and liabilities related to the clinical workflow product of the former Predictive Analytics operating segment, for a net cash amount of approximately \$1.6 million. The Company recorded a gain of approximately \$1.1 million from the sale in the fourth quarter of 2015, which is included in other income on the Consolidated Statement of Income. An additional gain was recorded in December 2016, when \$223,000 was received from proceeds placed in escrow at the time of sale.

Critical Accounting Policies and Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported therein. The most significant of these areas involving difficult or complex judgments made by management with respect to the preparation of the Company’s consolidated financial statements for 2016 include:

- Revenue recognition;
- Valuation of goodwill and identifiable intangible assets;
- Income taxes; and
- Business combinations.

Revenue Recognition

The Company derives a majority of its operating revenue from its annually renewable services, which include performance measurement and improvement services, healthcare analytics and governance education services. The Company provides these services to its clients under annual client service contracts, although such contracts are generally cancelable on short or no notice without penalty.

Services are provided under subscription-based service agreements. The Company recognizes subscription-based service revenue over the period of time the service is provided. Generally, the subscription periods are for twelve months and revenue is recognized equally over the subscription period.

Certain contracts are fixed-fee arrangements with a portion of the project fee billed in advance and the remainder billed periodically over the duration of the project. Revenue and direct expenses for services provided under these contracts are recognized under the proportional performance method. Under the proportional performance method, the Company recognizes revenue based on output measures or key milestones such as survey set-up, survey mailings, survey returns and reporting. The Company measures its progress based on the level of completion of these output measures and recognizes revenue accordingly. Management judgments and estimates must be made and used in connection with revenue recognized using the proportional performance method. If management made different judgments and estimates, then the amount and timing of revenue for any period could differ materially from the reported revenue.

The Company's revenue arrangements with a client may include combinations of performance measurement and improvement services, healthcare analytics or governance education services which may be executed at the same time, or within close proximity of one another (referred to as a multiple-element arrangement). Each element of a multiple-element arrangement is accounted for as a separate unit of accounting provided each delivered element is sold separately by the Company or another vendor; and for an arrangement that includes a general right of return relative to the undelivered elements, delivery or performance of the undelivered services are considered probable and substantially in the control of the Company. The Company's arrangements generally do not include a general right of return related to the delivered services. If these criteria are not met, the arrangement is accounted for as a single unit of accounting with revenue generally recognized equally over the subscription period or recognized under the proportional performance method.

Revenue is allocated to each separate unit of accounting based on relative selling price using a selling price hierarchy: vendor specific objective evidence ("VSOE"), if available, third-party evidence ("TPE") if VSOE is not available, or estimated selling price if VSOE nor TPE is available. VSOE is established based on the services normal selling price and discounts for the specific services when sold separately. TPE is established by evaluating similar competitor services in standalone arrangements. If neither exists for a deliverable, the best estimate of the selling price ("ESP") is used for that deliverable based on list price, representing a component of management's market strategy, and an analysis of historical prices for bundled and standalone arrangements. Revenue allocated to an element is limited to revenue that is not subject to refund or otherwise represents contingent revenue. VSOE, TPE, and ESP are periodically adjusted to reflect current market conditions. These adjustments are not expected to differ significantly from historical results.

Valuation of Goodwill and Identifiable Intangible Assets

Intangible assets include customer relationships, trade names, technology, non-compete agreements and goodwill. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The Company reviews intangible assets with indefinite lives for impairment annually as of October 1 and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable.

When performing the impairment assessment, the Company first assesses qualitative factors to determine whether it is necessary to recalculate the fair value of our intangible assets with indefinite lives. If the Company believes, as a result of the qualitative assessment, that it is more likely than not that the fair value of the indefinite-lived intangibles is less than their carrying amount, the Company calculates the fair value using a market approach. If the carrying value of an intangible asset with an indefinite life exceeds its fair value,

then the intangible asset is written-down to their fair values. The Company did not recognize any impairment related to our indefinite-lived intangible assets during 2016, 2015 or 2014.

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. All of the Company's goodwill is allocated to its reporting units, which are the same as its operating segments. Goodwill is reviewed for impairment at least annually as of October 1 and whenever events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable.

The Company reviews for goodwill impairment by first assessing qualitative factors to determine whether any impairment may exist. If we believe, as a result of the qualitative assessment that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, a quantitative two-step test is required; otherwise, no further testing is required. Under the first step of the quantitative test, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit exceeds its carrying value, step two is not performed. If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the Company performs step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the fair value of that goodwill. The fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the fair value of the reporting unit goodwill.

In instances when a step two is required, the fair value of the reporting unit is determined using an income approach and comparable market multiples. Under the income approach, there are a number of inputs used to calculate the fair value using a discounted cash flow model, including operating results, business plans, projected cash flows and a discount rate. Discount rates, growth rates and cash flow projections are the most sensitive and susceptible to change as they require significant management judgment. Discount rates are determined by using a weighted average cost of capital, which considers market and industry data. Management develops growth rates and cash flow projections for each reporting unit considering industry and Company-specific historical and projected information. Terminal value rate determination follows common methodology of capturing the present value of perpetual cash flow estimates beyond the last projected period assuming a constant weighted average cost of capital and low long-term growth rates. Under the market approach, the Company considers its market capitalization, comparisons to other public companies' data, and recent transactions of similar businesses within the Company's industry.

The Company performed a qualitative analysis as of October 1, 2016, which did not indicate that it was more likely than not that the carrying values of the reporting units exceeded fair value. No impairments were recorded during the years ended December 31, 2016, 2015 or 2014.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under that method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases using enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances, if any, are established when necessary to reduce deferred tax assets to the amount that is more likely than not to be realized. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Management judgment is required to determine the provision for income taxes and to determine whether deferred income taxes will be realized in full or in part. Such judgments include, but are not limited to, the likelihood we would realize the benefits of net operating loss carryforwards, the adequacy of valuation allowances, the election to capitalize or expense costs incurred, and the probability of outcomes of uncertain tax positions. It is possible that the various taxing authorities could

challenge those judgments or positions and reach conclusions that would cause us to incur tax liabilities in excess of, or realize benefits less than, those currently recorded. In addition, changes in the geographical mix or estimated amount of annual pretax income could impact our overall effective tax rate.

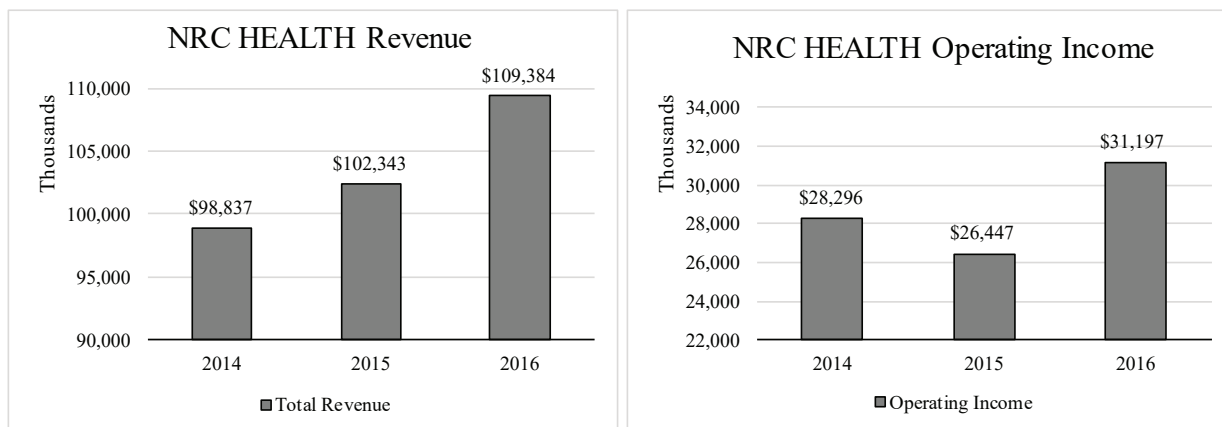
Business Combinations

The Company uses the acquisition method of accounting for acquired businesses. Under the acquisition method, the financial statements reflect the operations of an acquired business starting from the completion of the acquisition. The assets acquired and liabilities assumed are recorded at their respective estimated fair values at the date of the acquisition. Any excess of the purchase price over the estimated fair values of the identifiable net assets acquired is recorded as goodwill. Significant judgment is required in estimating the fair value of assets acquired, especially intangible assets. As a result, in the case of significant acquisitions we typically engage third-party valuation specialists in estimating fair values of tangible and intangible assets. The fair value estimates are based on available historical information and on expectations and assumptions about the future, considering the perspective of marketplace participants. While management believes those expectations and assumptions are reasonable, they are inherently uncertain. Unanticipated market or macroeconomic events and circumstances may occur, which could impact the accuracy or validity of the estimates and assumptions.

Results of Operations

The following table and graphs set forth, for the periods indicated, selected financial information derived from the Company's consolidated financial statements, including amounts expressed as a percentage of total revenue and the percentage change in such items versus the prior comparable period (please note that all columns may not add up to 100% due to rounding). The trends illustrated in the following table and graphs may not necessarily be indicative of future results. The discussion that follows the information should be read in conjunction with the Company's consolidated financial statements.

	Percentage of Total Revenue Year Ended December 31,			Percentage Increase (Decrease)	
	2016	2015	2014	2016 over 2015	2015 over 2014
Revenue	100.0%	100.0%	100.0%	6.9%	3.5%
Operating expenses:					
Direct	41.7	43.6	42.2	2.2	6.9
Selling, general and administrative	25.9	26.6	25.3	4.4	8.6
Depreciation and amortization	3.9	4.0	3.8	2.8	8.0
Total operating expenses	<u>71.5</u>	<u>74.2</u>	<u>71.4</u>	3.0	7.6
Operating income	<u>28.5%</u>	<u>25.8%</u>	<u>28.6%</u>	18.0%	(6.5%)



Year Ended December 31, 2016, Compared to Year Ended December 31, 2015

Revenue. Revenue in 2016 increased 6.9% to \$109.4 million, compared to \$102.3 million in 2015, which was driven primarily by a combination of continued gains in market share and vertical growth in our existing client base. Revenue from subscription-based agreements comprised 88.0% of the total revenue in 2016, compared to 86.6% of total revenue in 2015.

Direct expenses. Direct expenses increased 2.2% to \$45.6 million in 2016, compared to \$44.6 million in 2015. Variable expenses increased by \$327,000 due to higher survey volumes and increased contracted survey costs, partially offset by decreased survey operations expenses due to a reduction in postage fees and changes in survey methodologies. Fixed expenses increased \$641,000 as a result of higher salary and benefit costs in the client service area, increased travel expenses and increased software license amortization. Direct expenses decreased as a percentage of revenue to 41.7% in 2016 from 43.6% in 2015 as expenses increased by 2.2% while revenue for the same period increased by 6.9%.

Selling, general and administrative expenses. Selling, general and administrative expenses increased 4.4% to \$28.4 million in 2016 compared to \$27.2 million in 2015, primarily due to increased salary and benefits of \$991,000 (mainly from increased incentives and share based compensation expense), increased marketing expenses of \$510,000, higher annual incentive trip expenses of \$348,000, Securities and Exchange Commission registration fees expensed in 2016 of \$177,000, and increased professional development costs for associates of \$172,000. These were partially offset by a reduction of \$238,000 in repairs and maintenance on the Company's headquarters building and the \$657,000 write off of a purchase option in 2015 when the Company chose not to exercise the option and it expired. Selling, general, and administrative expenses decreased as a percentage of revenue to 25.9% in 2016, from 26.6% for the same period in 2015 as expenses increased by 4.4% while revenue increased by 6.9% during the same period.

Depreciation and amortization. Depreciation and amortization expenses increased 2.8% to \$4.2 million in 2016 compared to \$4.1 million in 2015 primarily due to increased depreciation and amortization from increased computer software investments and computer software license expense being included in depreciation and amortization in 2016, resulting from the adoption of Accounting Standards Update ("ASU") 2015-05, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. These increases were offset by decreased amortization as a result of the sale of the clinical workflow product of the former Predictive Analytics operating segment in 2015 and other intangibles becoming fully amortized. Depreciation and amortization expenses as a percentage of revenue decreased to 3.9% in 2016 from 4.0% during in 2015.

Other income (expense). Other income (expense) decreased to \$159,000 in 2016 compared to \$913,000 in 2015. This was primarily due to the \$1.1 million gain on the sale of selected assets and liabilities related to the clinical workflow product of the former Predictive Analytics operating segment in 2015. In December 2016,

an additional \$223,000 was recorded as a gain on the sale due to receipt of funds placed in escrow at the time of the sale.

Provision for income taxes. Provision for income taxes was \$10.8 million (34.6% effective tax rate) in 2016, compared to \$9.8 million (35.6% effective tax rate) in 2015. The decrease in the effective tax rate was mainly due to the prospective adoption of ASU 2016-09, *Compensation – Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting* (“ASU 2016-09”), which reduced tax expense by \$460,000 in 2016. ASU 2016-09 requires excess tax benefits and tax deficiencies to be recorded in the income statement when share based compensation awards vest or are settled rather than to additional paid-in capital.

Year Ended December 31, 2015, Compared to Year Ended December 31, 2014

Revenue. Revenue in 2015 increased 3.5% to \$102.3 million, compared to \$98.8 million in 2014, which was driven primarily by a combination of continued gains in market share and vertical growth in our existing client base. Revenue from subscription-based agreements comprised 86.6% of the total revenue in 2015, compared to 82.3% of total revenue in 2014.

Direct expenses. Direct expenses increased 6.9% to \$44.6 million in 2015, compared to \$41.7 million in 2014. Variable expenses increased \$1.1 million primarily from increased postage and printing of \$989,000, and contracted survey-related costs of \$ 416,000, partially offset by a reduction in labor costs of \$334,000. Fixed expenses increased \$1.8 million primarily due to increased salary and benefit costs from the Digital Assent acquisition in 2014 and staffing additions in the customer service area, and increased equipment lease costs from the acquisition. Direct expenses increased as a percentage of revenue to 43.6% in 2015 from 42.2% in 2014 primarily due to the staffing additions from the acquisition and growth in customer service support.

Selling, general and administrative expenses. Selling, general and administrative expenses increased 8.6% to \$27.2 million in 2015, compared to \$25.0 million in 2014, primarily due to increased salary and benefit costs of \$1.1 million (which includes \$581,000 of increased share-based compensation expense), the \$657,000 write-off of the purchase option for a potential acquisition in 2015, increased contracted service costs of \$328,000, increased maintenance and repairs expense of \$278,000 (primarily due to repairs to the Company’s headquarters building), and higher software license and computer supplies fees of \$247,000. These were partially offset by decreased recruiting and bad debt expenses. Selling, general, and administrative expenses increased as a percentage of revenue to 26.6% in 2015, from 25.3% in 2014, due to expense growth of 8.6% while revenue grew at 3.5%.

Depreciation and amortization. Depreciation and amortization expenses increased 8.0% to \$4.1 million in 2015 compared to \$3.8 million in 2014 due to increased customer relationship and technology intangible amortization from the acquisition in October 2014 and increased depreciation costs from computer software investments. Depreciation and amortization expenses as a percentage of revenue increased to 4.0% in 2015 from 3.8% during in 2014.

Other income (expense). Other income (expense) increased to \$913,000 of other income in 2015 compared to (\$204,000) of other expense in 2014. This was primarily due to the \$1.1 million gain on the sale of selected assets and liabilities related to the clinical workflow product of the former Predictive Analytics operating segment.

Provision for income taxes. Provision for income taxes was \$9.8 million (35.6% effective tax rate) in 2015, compared to \$9.9 million (35.4% effective tax rate) in 2014. The effective tax rate for the twelve-month period ended December 31, 2015, is higher than the rate in the same period of 2014 primarily due to slightly higher projected state tax rates and less benefit from the foreign tax rate differential.

Inflation and Changing Prices

Inflation and changing prices have not had a material impact on revenue or net income in the last three years.

Liquidity and Capital Resources

The Company believes that its existing sources of liquidity, including cash and cash equivalents, borrowing availability, and operating cash flows will be sufficient to meet its projected capital and debt maturity needs and dividend policy for the foreseeable future.

As of December 31, 2016, our principal sources of liquidity included \$33.0 million of cash and cash equivalents and up to \$6.5 million of unused borrowings under our revolving credit note. The amount of unused borrowings actually available under the revolving credit note varies in accordance with the terms of the agreement. Of this cash, \$11.7 million was held in Canada. All of the amounts held in Canada are intended to be indefinitely reinvested in foreign operations. The amounts held outside of the U.S. are eligible for repatriation, but under current law, would be subject to U.S. federal income taxes less applicable foreign tax credits. The Company estimated at December 31, 2016, that an additional tax liability of \$536,000 would become due if repatriation of undistributed earnings would occur.

Working Capital

The Company had a working capital surplus of \$15.6 million and \$10.9 million on December 31, 2016 and 2015, respectively.

The change was primarily due to decreases in dividends payable of \$14.2 million and increases in trade accounts receivable of \$1.1 million. This was partially offset by decreases in cash and cash equivalents of \$9.1 million, increases in deferred revenue of \$654,000 and increases in accrued expense of \$363,000. Dividends payable and cash and cash equivalents changed mainly due to the payment of \$18.4 million in dividends in 2016 that were declared in 2015. The payment and amount of future dividends are at the discretion of the Company's Board of Directors. Trade accounts receivable increased due to the timing of billings and collections on new and renewal contracts. Accrued expenses changed due to the timing of vendor payments. The Company's working capital is significantly impacted by its large deferred revenue balances which will vary based on the timing and frequency of billings on annual agreements. The deferred revenue balances as of December 31, 2016 and December 31, 2015, were \$15.5 million and \$14.8 million, respectively.

The deferred revenue balance is primarily due to timing of initial billings on new and renewal contracts. The Company typically invoices clients for performance tracking services and custom research projects before they have been completed. Billed amounts are recorded as billings in excess of revenue earned, or deferred revenue, on the Company's consolidated financial statements, and are recognized as income when earned. In addition, when work is performed in advance of billing, the Company records this work as revenue earned in excess of billings, or unbilled revenue. Substantially all deferred revenue and all unbilled revenue will be earned and billed respectively, within 12 months of the respective period ends.

Cash Flow Analysis

A summary of operating, investing, and financing activities are shown in the following table:

	For the Year Ended December 31,		
	2016	2015	2014
		(In thousands)	
Provided by operating activities	\$26,843	\$21,886	\$26,197
Used in investing activities	(3,750)	(1,326)	(5,723)
Used in financing activities	(32,502)	(16,869)	(1,730)
Effect of exchange rate changes on cash	285	(1,588)	(794)
Net (decrease) increase in cash and cash equivalents	(9,124)	2,103	17,950
Cash and cash equivalents at end of period	\$33,021	\$42,145	\$40,042

Cash Flows from Operating Activities

Cash flows from operating activities consist of net income adjusted for non-cash items including depreciation and amortization, deferred taxes, share-based compensation and related taxes, gain on sale from operating segment and the effect of working capital changes.

Net cash provided by operating activities was \$26.8 million for the year ended December 31, 2016, which included net income of \$20.5 million, plus non-cash charges (benefits) for deferred tax expense, depreciation and amortization, reserve for uncertain tax positions, gain on sale from operating segment, loss on disposal of property and equipment and non-cash stock compensation totaling \$6.8 million. Changes in working capital decreased cash flows from operating activities by \$499,000, primarily due to the timing of payments on accounts payable and increases in prepaid expenses, accounts receivables, and unbilled revenue, which fluctuate due to the timing and frequency of billings on new and renewal contracts. These decreases to cash flows were partially offset by decreases income taxes recoverable, and timing of payments related to accrued expenses, wages, bonus and profit sharing and deferred revenue.

Net cash provided by operating activities was \$21.9 million for the year ended December 31, 2015, which included net income of \$17.6 million, plus non-cash charges (benefits) for deferred tax expense, depreciation and amortization, reserve for uncertain tax positions, gain on sale from operating segment, write off of purchase option, tax benefit from exercise of stock options, and non-cash stock compensation totaling \$3.8 million. Changes in working capital increased cash flows from operating activities by \$472,000, primarily due to decreases in income taxes recoverable, and timing of payments related to accrued expenses, wages, bonus and profit sharing and deferred revenue. These increases were offset in part by decreases in accounts payable, and increases in accounts receivables and unbilled revenues which fluctuate due to the timing and frequency of billings on new and renewal contracts and increases in prepaid expenses.

Net cash provided by operating activities was \$26.2 million for the year ended December 31, 2014, which included net income of \$18.2 million, plus non-cash charges (benefits) for deferred tax expense, depreciation and amortization, reserve for uncertain tax positions, loss on disposal of property and equipment, tax benefit from exercise of stock options, and non-cash stock compensation totaling \$4.9 million. Changes in working capital increased 2014 cash flows from operating activities by \$3.1 million, primarily due to decreases in trade accounts receivable and timing of billings on new or renewal contracts increasing cash flows provided from deferred revenue and unbilled revenue. The increase was partially offset by timing of payments on accrued expenses, wages, bonus and profit sharing and income taxes.

Cash Flows from Investing Activities

Net cash of \$3.8 million was used for investing activities in the year ended December 31, 2016. Purchases of property and equipment totaled \$4.0 million. The Company received \$223,000 in cash from funds put in escrow at the time of the December 21, 2015 sale of selected assets and liabilities related to the clinical workflow product of the former Predictive Analytics operating segment.

Net cash of \$1.3 million was used for investing activities in the year ended December 31, 2015. Purchases of property and equipment totaled \$2.9 million. The Company received \$1.6 million in cash for the December 21, 2015 sale of selected assets and liabilities related to the clinical workflow product of the former Predictive Analytics operating segment.

Net cash of \$5.7 million was used for investing activities in the year ended December 31, 2014. Purchases of property and equipment totaled \$2.5 million. The Company paid \$2.6 million in cash for the October 2014 acquisition of Digital Assent and \$657,000 for the option to purchase a partner company.

Cash Flows from Financing Activities

Net cash used in financing activities was \$32.5 million in the year ended December 31, 2016. Cash was used to repay borrowings under the term note totaling \$2.2 million and for capital lease obligations of \$95,000. Cash was used to pay \$28.6 million of dividends, purchase non-controlling interests in Connect totaling \$2.0 million, and repurchase shares for payroll tax withholdings related to share-based compensation of \$204,000. These were partially offset by the cash provided from the proceeds from the exercise of stock options of \$548,000.

Net cash used in financing activities was \$16.9 million in the year ended December 31, 2015. Cash was used to repay borrowings under the term note totaling \$2.3 million and for capital lease obligations of \$173,000. Cash was used to pay \$10.1 million of dividends, purchase non-controlling interests in Connect totaling \$2.8 million, purchase treasury stock totaling \$1.7 million and repurchase shares for payroll tax withholdings related to share-based compensation of \$92,000. These were partially offset by the cash provided from the excess tax benefit from share-based compensation of \$240,000.

Net cash used in financing activities was \$1.7 million in the year ended December 31, 2014. Proceeds from the exercise of stock options and the excess tax benefit of share-based compensation provided cash of \$408,000 and \$622,000, respectively, partially offset by repurchases of shares for payroll tax withholdings related to share-based compensation of \$348,000. Cash was used to repay borrowings under the term note totaling \$2.3 million and capital lease obligations of \$156,000.

The effect of changes in foreign exchange rates increased (decreased) cash and cash equivalents by \$285,000, (\$1.6 million), and (\$794,000) in the years ended December 31, 2016, 2015, and 2014, respectively.

Capital Expenditures

Capital expenditures for the year ended December 31, 2016 were \$4.0 million. These expenditures consisted mainly of computer equipment and software. The Company expects similar capital expenditure purchases in 2017 consisting primarily of computer equipment and software and other equipment, to be funded through cash generated from operations.

Debt and Equity

The Company's term note is payable in monthly installments of \$212,468. Borrowings under the term note bear interest at an annual rate of 3.12%. The outstanding balance of the term note at December 31, 2016 was \$3.5 million.

The Company also has a revolving credit note that was renewed in June 2016 to extend the term to June 30, 2017. The maximum aggregate amount available under the revolving credit note is \$6.5 million, subject to a borrowing base equal to 75.0% of the Company's eligible accounts receivable. Borrowings under the revolving credit note bear interest at a variable annual rate, with three rate options at the discretion of management as follows: (1) 2.5% plus the daily reset one-month London Interbank Offered Rate ("LIBOR") or (2) 2.2% plus the one-, two- or three- month LIBOR rate, or (3) the bank's one-, two, three, six, or twelve month Money Market Loan Rate. As of December 31, 2016 the revolving credit note did not have a balance. According to the borrowing base requirements, the Company had the capacity to borrow \$6.5 million as of December 31, 2016.

The term note and revolving credit note are secured by certain of the Company's assets, including the Company's land, building, accounts receivable and intangible assets. The term note and the revolving credit note contain various restrictions and covenants applicable to the Company, including requirements that the Company maintain certain financial ratios at prescribed levels and restrictions on the ability of the Company to consolidate or merge, create liens, incur additional indebtedness or dispose of assets. As of December 31, 2016, the Company was in compliance with the financial covenants.

The Company has capital leases for computer equipment, office equipment, printing and inserting equipment. The balance of the capital leases as of December 31, 2016 was \$192,000.

Contractual Obligations

The Company had contractual obligations to make payments in the following amounts in the future as of December 31, 2016:

<u>Contractual Obligations</u> ⁽¹⁾	<u>Total Payments</u>	<u>Less than One Year</u>	<u>One to Three Years</u>	<u>Three to Five Years</u>	<u>After Five Years</u>
(In thousands)					
Operating leases	\$ 1,505	\$ 603	\$ 796	\$ 106	\$ --
Capital leases	209	96	81	32	--
Uncertain tax positions ⁽²⁾	--	--	--	--	--
Long-term debt	<u>3,625</u>	<u>2,762</u>	<u>863</u>	<u>--</u>	<u>--</u>
Total	<u>\$ 5,339</u>	<u>\$ 3,461</u>	<u>\$ 1,740</u>	<u>\$ 138</u>	<u>\$ --</u>

⁽¹⁾ Amounts are inclusive of interest payments, where applicable.

⁽²⁾ We have \$467,000 in liabilities associated with uncertain tax positions. We are unable to reasonably estimate the expected cash settlement dates of these uncertain tax positions with the taxing authorities.

The Company generally does not make unconditional, non-cancelable purchase commitments. The Company enters into purchase orders in the normal course of business, but these purchase obligations do not exceed one year.

Shareholders' equity increased by \$8.6 million to \$82.8 million in 2016, from \$74.2 million in 2015. The increase was mainly due to net income of \$20.5 million, changes in the cumulative translation adjustment of \$369,000, share-based compensation of \$1.9 million and \$945,000 from the exercise of stock options. This was partially offset by dividends declared of \$14.3 million, the acquisition of Customer-Connect LLC non-controlling interests of a net \$252,000, and share repurchases of \$601,000. The Customer-Connect LLC non-controlling interests net amounts consists of \$2.0 million paid for the controlling interest, offset by the addition of a \$1.7 million deferred tax asset from the purchase of these remaining interests, which resulted in an increase to additional paid-in capital.

Stock Repurchase Program

In February 2006, the Board of Directors of the Company authorized the repurchase of 2,250,000 shares of class A common stock and 375,000 shares of class B common stock (on a post-May 2013 Recapitalization basis) in the open market or in privately negotiated transactions. As of December 31, 2016, the remaining number of shares that could be purchased under this authorization was 280,491 shares of class A common stock and 69,491 shares of class B common stock.

Off-Balance Sheet Obligations

The Company has no significant off-balance sheet obligations other than the operating lease commitments disclosed in "Liquidity and Capital Resources."

Recent Accounting Pronouncements

See Note 13 to the Company's consolidated financial statements for a description of recently issued accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

The Company's primary market risk exposure is changes in foreign currency exchange rates and interest rates.

The Company's Canadian subsidiary uses as its functional currency the local currency of the country in which it operates. It translates its assets and liabilities into U.S. dollars at the exchange rate in effect at the balance sheet date. It translates its revenue and expenses at the average exchange rate during the period. The Company includes translation gains and losses in accumulated other comprehensive income (loss), a component of shareholders' equity. Foreign currency translation gains (losses) were \$369,000, (\$2.2 million), and (\$1.1 million) in 2016, 2015 and 2014, respectively. Gains and losses related to transactions denominated in a currency other than the functional currency of the countries in which the Company operates and short-term intercompany accounts are included in other income (expense) in the consolidated statements of income. A portion of our cash in our Canadian subsidiary is denominated in foreign currencies, where fluctuations in exchange rates will impact our cash balances in U.S. dollar terms. A sensitivity analysis assuming a hypothetical 10% change in the value of the U.S. dollar would impact our reported cash balance by approximately \$1.6 million. We have not entered into any foreign currency hedging transactions. We do not purchase or hold any derivative financial instruments for the purpose of speculation or arbitrage.

We are exposed to interest rate risk with both our fixed-rate term debt and variable rate revolving line of credit facility. Interest rate changes for borrowings under our fixed-rate term debt would impact the fair value of such debt, but do not impact earnings or cash flow. At December 31, 2016, our fixed-rate term debt totaled \$3.5 million. Based on a sensitivity analysis, a one percent change in market interest rates as of December 31, 2015, would not have a material effect on the estimated fair value of our fixed-rate debt outstanding at December 31, 2016.

Borrowings under our revolving credit note bear interest at a variable annual rate, with three rate options at the discretion of management. Borrowings under the revolving credit note may not exceed the lesser of a calculated borrowing base or \$6.5 million. There were no borrowings outstanding under our revolving credit note at December 31, 2016, or at any time during 2016. A sensitivity analysis assuming a hypothetical 10% movement in interest rates applied to the average daily borrowings and the maximum borrowings available under the revolving credit note indicated that such a movement would not have a material impact on our consolidated financial position, results of operations or cash flows.

Item 8. Financial Statements and Supplementary Data

Quarterly Financial Data (Unaudited)

The following table sets forth selected financial information for each of the eight quarters in the two-year period ended December 31, 2016. This unaudited information has been prepared by the Company on the same basis as the consolidated financial statements and includes all normal recurring adjustments necessary to present fairly this information when read in conjunction with the Company's audited consolidated financial statements and the notes thereto.

(In thousands, except per share data)

	Quarter Ended							
	Dec. 31, 2016	Sept 30, 2016	June 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sept 30, 2015	June 30, 2015	Mar. 31, 2015
Revenue	\$ 28,368	\$ 27,032	\$ 26,114	\$ 27,870	\$ 26,365	\$ 25,244	\$ 24,464	\$ 26,270
Direct expenses	11,836	11,468	10,734	11,539	11,365	11,006	10,440	11,799
Selling, general and administrative expenses	6,619	7,139	7,270	7,357	6,294	6,620	6,636	7,627
Depreciation and amortization	<u>1,079</u>	<u>1,086</u>	<u>1,092</u>	<u>968</u>	<u>1,000</u>	<u>1,070</u>	<u>1,024</u>	<u>1,015</u>
Operating income	8,834	7,339	7,018	8,006	7,706	6,548	6,364	5,829
Other income (expense)	171	(30)	18	--	1,062	(63)	(39)	(47)
Provision for income taxes	<u>3,280</u>	<u>2,580</u>	<u>2,478</u>	<u>2,500</u>	<u>2,841</u>	<u>2,346</u>	<u>2,261</u>	<u>2,302</u>
Net income	<u>\$ 5,725</u>	<u>\$ 4,729</u>	<u>\$ 4,558</u>	<u>\$ 5,506</u>	<u>\$ 5,927</u>	<u>\$ 4,139</u>	<u>\$ 4,064</u>	<u>\$ 3,480</u>
Earnings per share of common stock:								
Basic earnings per share								
Class A	\$ 0.14	\$ 0.11	\$ 0.11	\$ 0.13	\$ 0.14	\$ 0.10	\$ 0.10	\$ 0.08
Class B	\$ 0.82	\$ 0.67	\$ 0.65	\$ 0.79	\$ 0.85	\$ 0.59	\$ 0.58	\$ 0.50
Dilutive earnings per share								
Class A	\$ 0.13	\$ 0.11	\$ 0.11	\$ 0.13	\$ 0.14	\$ 0.10	\$ 0.10	\$ 0.08
Class B	\$ 0.80	\$ 0.66	\$ 0.64	\$ 0.77	\$ 0.84	\$ 0.59	\$ 0.57	\$ 0.49
Weighted average shares outstanding – basic								
Class A	20,717	20,716	20,711	20,710	20,656	20,726	20,790	20,792
Class B	3,511	3,511	3,508	3,489	3,478	3,478	3,478	3,478
Weighted average shares outstanding - diluted								
Class A	21,118	21,068	20,992	21,012	20,936	20,937	21,029	21,033
Class B	3,569	3,556	3,565	3,549	3,523	3,521	3,522	3,524

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
National Research Corporation:

We have audited the accompanying consolidated balance sheets of National Research Corporation and subsidiary as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule listed in Item 15(2) of this Form 10-K. These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Research Corporation and subsidiary as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), National Research Corporation and subsidiary's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 3, 2017 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Lincoln, Nebraska
March 3, 2017

**NATIONAL RESEARCH CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS**

(In thousands, except share amounts)

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 33,021	\$ 42,145
Trade accounts receivable, less allowance for doubtful accounts of \$169 and \$173, respectively	10,864	9,808
Unbilled revenue	1,546	1,435
Prepaid expenses	1,585	1,482
Income taxes receivable	14	157
Other current assets	<u>35</u>	<u>34</u>
Total current assets	47,065	55,061
Net property and equipment	11,806	11,125
Intangible assets, net	3,124	3,778
Goodwill	57,861	57,792
Other	<u>768</u>	<u>293</u>
Total assets	<u>\$ 120,624</u>	<u>\$ 128,049</u>
 <u>Liabilities and Shareholders' Equity</u>		
Current liabilities:		
Current portion of notes payable	\$ 2,683	\$ 2,402
Accounts payable	765	614
Accrued wages, bonus and profit sharing	4,543	4,391
Accrued expenses	3,069	2,706
Current portion of capital lease obligations	82	74
Income taxes payable	662	701
Dividends payable	4,213	18,440
Deferred revenue	<u>15,497</u>	<u>14,843</u>
Total current liabilities	31,514	44,171
Notes payable, net of current portion	857	3,337
Deferred income taxes	4,861	5,744
Other long term liabilities	<u>586</u>	<u>575</u>
Total liabilities	37,818	53,827
Shareholders' equity:		
Preferred stock, \$0.01 par value, authorized 2,000,000 shares, none issued	--	--
Class A Common stock, \$0.001 par value; authorized 60,000,000 shares, issued 25,656,760 in 2016 and 25,592,812 in 2015, outstanding 20,891,069 in 2016 and 20,848,168 in 2015	26	26
Class B Common stock, \$0.001 par value; authorized 80,000,000 shares, issued 4,308,875 in 2016 and 4,271,413 in 2015, outstanding 3,539,931 in 2016 and 3,510,150 in 2015	4	4
Additional paid-in capital	46,725	44,103
Retained earnings	71,507	65,313
Accumulated other comprehensive (loss) income, foreign currency translation adjustment	(2,626)	(2,995)
Treasury stock, at cost; 4,765,691 Class A shares, 768,944 Class B shares in 2016 and 4,744,644 Class A shares, 761,263 Class B shares in 2015	<u>(32,830)</u>	<u>(32,229)</u>
Total shareholders' equity	<u>82,806</u>	<u>74,222</u>
Total liabilities and shareholders' equity	<u>\$ 120,624</u>	<u>\$ 128,049</u>

See accompanying notes to consolidated financial statements.

NATIONAL RESEARCH CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except for per share amounts)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Revenue	\$ 109,384	\$ 102,343	\$ 98,837
Operating expenses:			
Direct	45,577	44,610	41,719
Selling, general and administrative	28,385	27,177	25,018
Depreciation and amortization	<u>4,225</u>	<u>4,109</u>	<u>3,804</u>
Total operating expenses	<u>78,187</u>	<u>75,896</u>	<u>70,541</u>
Operating income	<u>31,197</u>	<u>26,447</u>	<u>28,296</u>
Other income (expense):			
Interest income	47	60	83
Interest expense	(190)	(220)	(305)
Other, net	<u>302</u>	<u>1,073</u>	<u>18</u>
Total other expense	<u>159</u>	<u>913</u>	<u>(204)</u>
Income before income taxes	31,356	27,360	28,092
Provision for income taxes	<u>10,838</u>	<u>9,750</u>	<u>9,936</u>
Net income	<u>\$ 20,518</u>	<u>\$ 17,610</u>	<u>\$ 18,156</u>
Earnings per share of common stock:			
Basic earnings per share:			
Class A	<u>\$ 0.49</u>	<u>\$ 0.42</u>	<u>\$ 0.44</u>
Class B	<u>\$ 2.93</u>	<u>\$ 2.52</u>	<u>\$ 2.62</u>
Diluted earnings per share:			
Class A	<u>\$ 0.48</u>	<u>\$ 0.41</u>	<u>\$ 0.43</u>
Class B	<u>\$ 2.88</u>	<u>\$ 2.49</u>	<u>\$ 2.57</u>
Weighted average shares and share equivalents outstanding			
Class A - basic	<u>20,713</u>	<u>20,741</u>	<u>20,764</u>
Class B - basic	<u>3,505</u>	<u>3,478</u>	<u>3,473</u>
Class A - diluted	<u>21,037</u>	<u>20,981</u>	<u>21,076</u>
Class B - diluted	<u>3,560</u>	<u>3,522</u>	<u>3,536</u>

See accompanying notes to consolidated financial statements.

**NATIONAL RESEARCH CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(In thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Net Income	\$ 20,518	\$ 17,610	\$ 18,156
Other comprehensive income (loss):			
Cumulative translation adjustment	\$ 369	\$ (2,222)	\$ (1,075)
Other comprehensive income (loss)	<u>\$ 369</u>	<u>\$ (2,222)</u>	<u>\$ (1,075)</u>
Comprehensive Income	<u>\$ 20,887</u>	<u>\$ 15,388</u>	<u>\$ 17,081</u>

See accompanying notes to consolidated financial statements.

NATIONAL RESEARCH CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands except share and per share amounts)

	Common Stock A	Common Stock B	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income(Loss)	Treasury Stock	Total
Balances at December 31, 2013	\$ 25	\$ 4	\$ 42,192	\$ 58,042	\$ 302	\$ (28,810)	\$ 71,755
Purchase of 65,131 shares of class A and 4,317 shares of class B treasury stock	--	--	--	--	--	(1,248)	(1,248)
Issuance of 140,595 class A common shares and 23,432 class B shares for the exercise of stock options	--	--	1,308	--	--	--	1,308
Tax benefit from the exercise of options and restricted stock	--	--	622	--	--	--	622
Issuance of restricted common shares, net of forfeitures (50,038 class A and 8,340 class B)	--	--	--	--	--	--	--
Non-cash stock compensation expense	--	--	742	--	--	--	742
Dividends declared of \$0.06 and \$0.36 per A and B common share, respectively	--	--	--	(2,512)	--	--	(2,512)
Other comprehensive loss, foreign currency translation adjustment	--	--	--	--	(1,075)	--	(1,075)
Net income	--	--	--	18,156	--	--	18,156
Balances at December 31, 2014	\$ 25	\$ 4	\$ 44,864	\$ 73,686	\$ (773)	\$ (30,058)	\$ 87,748
Purchase of 163,268 shares of class A and 4,239 shares of class B treasury stock	--	--	--	--	--	(2,171)	(2,171)
Issuance of 43,983 class A common shares and 7,330 class B shares for the exercise of stock options	--	--	406	--	--	--	406
Tax benefit from the exercise of options and restricted stock	--	--	240	--	--	--	240
Issuance of restricted common shares, net of forfeitures (73,168 class A and 12,194 class B)	1	--	(1)	--	--	--	--
Non-cash stock compensation expense	--	--	1,383	--	--	--	1,383
Dividends declared of \$0.62 and \$3.72 per A and B common share, respectively	--	--	--	(25,983)	--	--	(25,983)
Acquisition of non-controlling interest	--	--	(2,789)	--	--	--	(2,789)
Other comprehensive loss, foreign currency translation adjustment	--	--	--	--	(2,222)	--	(2,222)
Net income	--	--	--	17,610	--	--	17,610
Balances at December 31, 2015	\$ 26	\$ 4	\$ 44,103	\$ 65,313	\$ (2,995)	\$ (32,229)	\$ 74,222
Purchase of 21,047 shares of class A and 7,681 shares of class B treasury stock	--	--	--	--	--	(601)	(601)
Issuance of 52,383 class A common shares and 35,534 class B shares for the exercise of stock options	--	--	945	--	--	--	945
Issuance of restricted common shares, net of forfeitures (11,565 class A and 1,928 class B)	--	--	--	--	--	--	--
Non-cash stock compensation expense	--	--	1,929	--	--	--	1,929
Dividends declared of \$0.34 and \$2.04 per A and B common share, respectively	--	--	--	(14,324)	--	--	(14,324)
Acquisition of non-controlling interest	--	--	(252)	--	--	--	(252)
Other comprehensive income, foreign currency translation adjustment	--	--	--	--	369	--	369
Net income	--	--	--	20,518	--	--	20,518
Balances at December 31, 2016	\$ 26	\$ 4	\$ 46,725	\$ 71,507	\$ (2,626)	\$ (32,830)	\$ 82,806

See accompanying notes to consolidated financial statements.

NATIONAL RESEARCH CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:			
Net income	\$ 20,518	\$ 17,610	\$ 18,156
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,225	4,109	3,804
Deferred income taxes	865	(1,361)	107
Reserve for uncertain tax positions	6	93	182
Loss on disposal of property and equipment	22	-	2
Gain on sale from operating segment	(223)	(1,102)	-
Write-off of purchase option	--	657	-
Tax benefit from exercise of stock options	--	25	93
Non-cash share-based compensation expense	1,929	1,383	742
Change in assets and liabilities, net of effect of acquisition and disposal:			
Trade accounts receivable	(1,044)	(1,777)	2,914
Unbilled revenue	(93)	(390)	66
Prepaid expenses and other current assets	(535)	207	(2)
Accounts payable	(15)	(224)	163
Accrued expenses, wages, bonus and profit sharing	440	755	(367)
Income taxes receivable and payable	105	1,504	(715)
Deferred revenue	643	397	1,052
Net cash provided by operating activities	<u>26,843</u>	<u>21,886</u>	<u>26,197</u>
Cash flows from investing activities:			
Purchases of property and equipment	(3,973)	(2,939)	(2,492)
Option purchase	--	--	(657)
Acquisition, net of cash acquired	--	--	(2,574)
Net proceeds from sale of operating segment	223	1,613	--
Net cash used in investing activities	<u>(3,750)</u>	<u>(1,326)</u>	<u>(5,723)</u>
Cash flows from financing activities:			
Payments on notes payable	(2,199)	(2,328)	(2,256)
Payments on capital lease obligations	(95)	(173)	(156)
Cash paid for non-controlling interest	(2,000)	(2,789)	--
Proceeds from exercise of stock options	548	-	408
Excess tax benefit from share-based compensation	-	240	622
Repurchase of shares for payroll tax withholdings related to share-based compensation	(204)	(92)	(348)
Purchase of Treasury Stock	--	(1,673)	--
Payment of dividends on common stock	(28,552)	(10,054)	--
Net cash used in financing activities	<u>(32,502)</u>	<u>(16,869)</u>	<u>(1,730)</u>
Effect of exchange rate changes on cash	285	(1,588)	(794)
Net (decrease) increase in cash and cash equivalents	(9,124)	2,103	17,950
Cash and cash equivalents at beginning of period	42,145	40,042	22,092
Cash and cash equivalents at end of period	<u>\$ 33,021</u>	<u>\$ 42,145</u>	<u>\$ 40,042</u>
Supplemental disclosure of cash paid for:			
Interest expense, net of \$10, \$14, and \$10 capitalized, respectively	\$ 192	\$ 207	\$ 284
Income taxes	\$ 9,963	\$ 9,377	\$ 9,874

Supplemental disclosures of non-cash investing and financing activities:

Capital lease obligations for property and equipment originating during the years ended December 31, 2016, 2015 and 2014 was \$109, \$32, and \$248, respectively.

In connection with the Company's equity incentive plans, certain optionees tendered to the Company previously owned shares to pay for the option strike price. The total non-cash stock options exercised was \$397, \$406 and \$900 for the years ended December 31, 2016, 2015, and 2014, respectively.

See accompanying notes to consolidated financial statements.

NATIONAL RESEARCH CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Description of Business and Basis of Presentation

National Research Corporation, doing business as NRC Health (“NRC Health,” the “Company,” “we,” “our,” “us” or similar terms), is a leading provider of analytics and insights that facilitate measurement and improvement of the patient and employee experience while also increasing patient engagement and customer loyalty for healthcare providers, payers and other healthcare organizations in the United States and Canada. The Company’s solutions enable its clients to understand the voice of the customer with greater clarity, immediacy and depth. The Company’s ten largest clients accounted for 17%, 15%, and 16% of the Company’s total revenue in 2016, 2015, and 2014, respectively.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, National Research Corporation Canada. Prior to becoming a wholly-owned subsidiary in March 2016, the accounts of Customer-Connect LLC (“Connect”), then a variable interest entity for which NRC Health was deemed the primary beneficiary, were included in the consolidated financial statements of the Company. On June 30, 2016, Customer-Connect LLC was dissolved. All significant intercompany transactions and balances have been eliminated.

Use of Estimates

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

Translation of Foreign Currencies

The Company’s Canadian subsidiary uses as its functional currency the local currency of the country in which it operates. It translates its assets and liabilities into U.S. dollars at the exchange rate in effect at the balance sheet date. It translates its revenue and expenses at the average exchange rate during the period. The Company includes translation gains and losses in accumulated other comprehensive income (loss), a component of shareholders’ equity. Gains and losses related to transactions denominated in a currency other than the functional currency of the country in which the Company operates and short-term intercompany accounts are included in other income (expense) in the consolidated statements of income. Since the undistributed earnings of the Company’s foreign subsidiary are considered to be indefinitely reinvested, the components of accumulated other comprehensive income (loss) have not been tax effected.

Revenue Recognition

The Company derives a majority of its operating revenue from its annually renewable services, which include performance measurement and improvement services, healthcare analytics and governance education services. The Company provides these services to its clients under annual client service contracts, although such contracts are generally cancelable on short or no notice without penalty. Services are provided under subscription-based service agreements. The Company recognizes subscription-based service revenue over the period of time the service is provided. Generally, the subscription periods are for twelve months and revenue is recognized equally over the subscription period.

Certain contracts are fixed-fee arrangements with a portion of the project fee billed in advance and the remainder billed periodically over the duration of the project. Revenue for services provided under these contracts are recognized under the proportional performance method. Under the proportional performance method, the Company recognizes revenue based on output measures or key milestones such as survey set-up, survey mailings, survey returns and reporting. The Company measures its progress based on the level of completion of these output measures and recognizes revenue accordingly. Management judgments and estimates must be made and used in connection with revenue recognized using the proportional performance method. If management made different judgments and estimates, then the amount and timing of revenue for any period could differ materially from the reported revenue.

The Company's revenue arrangements with a client may include combinations of NRC Health's Experience, Transparency, Governance, and Market Insights solutions which may be executed at the same time, or within close proximity of one another (referred to as a multiple-element arrangement). Each element of a multiple-element arrangement is accounted for as a separate unit of accounting provided each delivered element is sold separately by the Company or another vendor; and for an arrangement that includes a general right of return relative to the undelivered elements, delivery or performance of the undelivered services are considered probable and substantially in the control of the Company. The Company's arrangements generally do not include a general right of return related to the delivered services. If these criteria are not met, the arrangement is accounted for as a single unit of accounting with revenue generally recognized equally over the subscription period or recognized under the proportional performance method.

Revenue is allocated to each separate unit of accounting based on relative selling price using a selling price hierarchy: vendor-specific objective evidence ("VSOE"), if available, third-party evidence ("TPE") if VSOE is not available, or estimated selling price if VSOE nor TPE is available. VSOE is established based on the services normal selling price and discounts for the specific services when sold separately. TPE is established by evaluating similar competitor services in standalone arrangements. If neither exists for a deliverable, the best estimate of the selling price ("ESP") is used for that deliverable based on list price, representing a component of management's market strategy, and an analysis of historical prices for bundled and standalone arrangements. Revenue allocated to an element is limited to revenue that is not subject to refund or otherwise represents contingent revenue. VSOE, TPE and ESP are periodically adjusted to reflect current market conditions. These adjustments are not expected to differ significantly from historical results.

Business Combinations

The Company uses the acquisition method of accounting for acquired businesses. Under the acquisition method, the financial statements reflect the operations of an acquired business starting from the completion of the acquisition. The assets acquired and liabilities assumed are recorded at their respective estimated fair values at the date of the acquisition. Any excess of the purchase price over the estimated fair values of the identifiable net assets acquired is recorded as goodwill. Significant judgment is required in estimating the fair value of assets acquired, especially intangible assets. As a result, in the case of significant acquisitions we typically engage third-party valuation specialists in estimating fair values of tangible and intangible assets. The fair value estimates are based on available historical information and on expectations and assumptions about the future, considering the perspective of marketplace participants.

Segment Information

In 2016, the Company had six operating segments comprised of Experience, The Governance Institute, Market Insights, Transparency, National Research Corporation Canada and Connect, which offer a portfolio of solutions that address specific needs around market insight, experience, transparency and governance for healthcare providers, payers and other healthcare organizations. The Company's six operating segments are aggregated into one reporting segment because they have similar economic characteristics and meet the other aggregation criteria from the Financial Accounting Standards Board ("FASB") guidance on segment disclosure. As discussed in Note 3, on December 21, 2015, selected assets and liabilities were sold from the former Predictive Analytics operating segment, reducing the number of operating segments from seven to six in December 2015.

Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines the allowance based on the Company's historical write-off experience and current economic conditions. The Company reviews the allowance for doubtful accounts monthly. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Property and Equipment

Property and equipment is stated at cost. Major expenditures to purchase property or to substantially increase useful lives of property are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

For costs of software developed for internal use, the Company expenses computer software costs as incurred in the preliminary project stage, which involves the conceptual formulation, evaluation and selection of technology alternatives. Costs incurred related to the design, coding, installation and testing of software during the application project stage are capitalized. Costs for training and application maintenance are expensed as incurred. The Company has capitalized approximately \$2.5 million and \$2.0 million of internal and external costs incurred for the development of internal-use software for the years ended December 31, 2016 and 2015, respectively, with such costs classified as property and equipment.

The Company provides for depreciation and amortization of property and equipment using annual rates which are sufficient to amortize the cost of depreciable assets over their estimated useful lives. The Company uses the straight-line method of depreciation and amortization over estimated useful lives of three to ten years for furniture and equipment, three to five years for computer equipment, one to five years for capitalized software, and seven to forty years for the Company's office building and related improvements.

Leases are categorized as operating or capital at the inception of the lease. Assets under capital lease obligations are reported at the lower of fair value or the present value of the aggregate future minimum lease payments at the beginning of the lease term. The Company depreciates capital lease assets without transfer-of-ownership or bargain-purchase-options using the straight-line method over the lease terms, excluding any lease renewals, unless the lease renewals are reasonably assured. Capital lease assets with transfer-of-ownership or bargain-purchase-options are depreciated using the straight-line method over the assets' estimated useful lives.

Impairment of Long-Lived Assets and Amortizing Intangible Assets

Long-lived assets, such as property and equipment and purchased intangible assets subject to depreciation or amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the

carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. No impairments were recorded during the years ended December 31, 2016, 2015, or 2014.

Among others, management believes the following circumstances are important indicators of potential impairment of such assets and as a result may trigger an impairment review:

- Significant underperformance in comparison to historical or projected operating results;
- Significant changes in the manner or use of acquired assets or the Company's overall strategy;
- Significant negative trends in the Company's industry or the overall economy;
- A significant decline in the market price for the Company's common stock for a sustained period; and
- The Company's market capitalization falling below the book value of the Company's net assets.

Goodwill and Intangible Assets

Intangible assets include customer relationships, trade names, technology, non-compete agreements and goodwill. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The Company reviews intangible assets with indefinite lives for impairment annually as of October 1 and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable.

When performing the impairment assessment, the Company will first assess qualitative factors to determine whether it is necessary to recalculate the fair value of the intangible assets with indefinite lives. If the Company believes, as a result of the qualitative assessment, that it is more likely than not that the fair value of the indefinite-lived intangibles is less than their carrying amount, the Company calculates the fair value using a market approach. If the carrying value of intangible assets with indefinite lives exceeds their fair value, then the intangible assets are written-down to their fair values. The Company did not recognize any impairments related to indefinite-lived intangibles during 2016, 2015 or 2014.

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. All of the Company's goodwill is allocated to its reporting units, which are the same as its operating segments. Goodwill is reviewed for impairment at least annually, as of October 1, and whenever events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable.

The Company reviews for goodwill impairment by first assessing qualitative factors to determine whether any impairment may exist. If the Company believes, as a result of the qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, a quantitative two-step test is required; otherwise, no further testing is required. Under the first step of the quantitative test, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit exceeds its carrying value, step two is not performed. If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the Company performs step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the fair value of that goodwill. The fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the fair value of the reporting unit goodwill.

In instances when a step two is required, the fair value of the reporting unit is determined using an income approach and comparable market multiples. Under the income approach, there are a number of inputs used to calculate the fair value using a discounted cash flow model, including operating results, business plans, projected cash flows and a discount rate. Discount rates, growth rates and cash flow projections are the most sensitive and susceptible to change as they require significant management judgment. Discount rates are determined by using a weighted average cost of capital, which considers market and industry data.

Management develops growth rates and cash flow projections for each reporting unit considering industry and Company-specific historical and projected information. Terminal value rate determination follows common methodology of capturing the present value of perpetual cash flow estimates beyond the last projected period assuming a constant weighted average cost of capital and low long-term growth rates. Under the market approach, the Company considers its market capitalization, comparisons to other public companies' data, and recent transactions of similar businesses within the Company's industry.

The Company performed a qualitative analysis as of October 1, 2016 which did not indicate that it was more likely than not that the carrying values of the reporting units exceeded fair value. No impairments were recorded during the years ended December 31, 2016, 2015 or 2014.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under that method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis using enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances, if any, are established when necessary to reduce deferred tax assets to the amount that is more likely than not to be realized. The Company uses the deferral method of accounting for its investment tax credits related to state tax incentives. During the years ended December 31, 2016, 2015 and 2014, the Company recorded income tax benefits relating to these tax credits of \$77,000, \$156,000, and \$224,000, respectively.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Share-Based Compensation

The compensation expense on share-based payments is recognized based on the grant-date fair value of those awards. All of the Company's existing stock option awards and non-vested stock awards have been determined to be equity-classified awards.

Amounts recognized in the financial statements with respect to these plans:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	(In thousands)		
Amounts charged against income, before income tax benefit	\$ 1,929	\$ 1,383	\$ 742
Amount of related income tax benefit	<u>(704)</u>	<u>(505)</u>	<u>(269)</u>
Total impact to net income	<u>\$ 1,225</u>	<u>\$ 878</u>	<u>\$ 473</u>

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents were \$32.7 million and \$39.8 million as of December 31, 2016, and 2015, respectively, consisting primarily of money market accounts and funds invested in commercial paper. At certain times, cash equivalent balances may exceed federally insured limits.

Fair Value Measurements

The Company's valuation techniques are based on maximizing observable inputs and minimizing the use of unobservable inputs when measuring fair value. Observable inputs reflect readily obtainable data from

independent sources, while unobservable inputs reflect the Company's market assumptions. The inputs are then classified into the following hierarchy: (1) Level 1 Inputs—quoted prices in active markets for identical assets and liabilities; (2) Level 2 Inputs—observable market-based inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities in active markets, quoted prices for similar or identical assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data; (3) Level 3 Inputs—unobservable inputs.

Commercial paper included in cash equivalents is valued at amortized cost, which approximates fair value due to its short-term nature. These are included as a Level 2 measurement in the table below.

The following details the Company's financial assets within the fair value hierarchy at December 31, 2015 and 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(In thousands)			
<u>As of December 31, 2016</u>				
Money Market Funds	\$ 11,200	\$ --	\$ --	\$ 11,200
Commercial Paper	<u>--</u>	<u>21,450</u>	<u>--</u>	<u>21,450</u>
Total Cash Equivalents	<u>\$ 11,200</u>	<u>\$ 21,450</u>	<u>\$ --</u>	<u>\$ 32,650</u>
<u>As of December 31, 2015</u>				
Money Market Funds	\$ 8,954	\$ --	\$ --	\$ 8,954
Commercial Paper	<u>--</u>	<u>30,872</u>	<u>--</u>	<u>30,872</u>
Total Cash Equivalents	<u>\$ 8,954</u>	<u>\$ 30,872</u>	<u>\$ --</u>	<u>\$ 39,826</u>

There were no transfers between levels during the years ended December 31, 2016 and 2015.

The Company's long-term debt described in Note 8 is recorded at historical cost. The fair value of long-term debt is classified in Level 2 of the fair value hierarchy and was estimated based primarily on estimated current rates available for debt of the same remaining duration and adjusted for nonperformance and credit.

The following are the carrying amount and estimated fair values of long-term debt:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	(In thousands)	
Total carrying amount of long-term debt	\$ 3,540	\$ 5,739
Estimated fair value of long-term debt	\$ 3,533	\$ 5,708

The carrying amounts of accounts receivable, accounts payable, and accrued expenses approximate their fair value. All non-financial assets that are not recognized or disclosed at fair value in the financial statements on a recurring basis, which includes goodwill and non-financial long-lived assets, are measured at fair value in certain circumstances (for example, when there is evidence of impairment). As of December 31, 2016 and 2015, there was no impairment related to property and equipment, goodwill and other intangible assets.

Contingencies

From time to time, the Company is involved in certain claims and litigation arising in the normal course of business. Management assesses the probability of loss for such contingencies and recognizes a liability when a loss is probable and estimable. At December 31, 2016, the Company was not engaged in any legal proceedings that are expected, individually or in the aggregate, to have a material effect on the Company.

Earnings Per Share

Net income per share of class A common stock and class B common stock is computed using the two-class method. Basic net income per share is computed by allocating undistributed earnings to common shares and using the weighted-average number of common shares outstanding during the period.

Diluted net income per share is computed using the weighted-average number of common shares and, if dilutive, the potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options and vesting of restricted stock. The dilutive effect of outstanding stock options is reflected in diluted earnings per share by application of the treasury stock method.

The liquidation rights and the rights upon the consummation of an extraordinary transaction are the same for the holders of class A common stock and class B common stock. Other than share distributions and liquidation rights, the amount of any dividend or other distribution payable on each share of class A common stock will be equal to one-sixth (1/6th) of the amount of any such dividend or other distribution payable on each share of class B common stock. As a result, the undistributed earnings for each year are allocated based on the contractual participation rights of the class A and class B common stock as if the earnings for the year had been distributed.

At December 31, 2016, 2015, and 2014, the Company had 156,610, 487,639 and 162,391 options of class A shares and 49,262, 58,429, and 19,561 options of class B shares, respectively, which have been excluded from the diluted net income per share computation because the exercise price exceeds the fair market value. At December 31, 2016, 2015, and 2014 an additional 390,299, 68,779, and 185,461 options of class A shares and 34,178, 1,101, and 1,687 options of class B shares, respectively were excluded as their inclusion would be anti-dilutive.

	2016		2015		2014	
	Class A	Class B	Class A	Class B	Class A	Class B
(In thousands, except per share data)						
Numerator for net income per share - basic:						
Net income	\$ 10,178	\$ 10,341	\$ 8,759	\$ 8,851	\$ 9,062	\$ 9,094
Allocation of distributed and undistributed income to unvested restricted stock shareholders	<u>(88)</u>	<u>(88)</u>	<u>(76)</u>	<u>(77)</u>	<u>--</u>	<u>--</u>
Net income attributable to common shareholders	<u>\$ 10,090</u>	<u>\$ 10,253</u>	<u>\$ 8,683</u>	<u>\$ 8,774</u>	<u>\$ 9,062</u>	<u>\$ 9,094</u>
Denominator for net income per share - basic:						
Weighted average common shares outstanding - basic	<u>20,713</u>	<u>3,505</u>	<u>20,741</u>	<u>3,478</u>	<u>20,764</u>	<u>3,473</u>
Net income per share - basic	<u>\$ 0.49</u>	<u>\$ 2.93</u>	<u>\$ 0.42</u>	<u>\$ 2.52</u>	<u>\$ 0.44</u>	<u>\$ 2.62</u>
Numerator for net income per share - diluted:						
Net income attributable to common shareholders for basic computation	<u>\$ 10,090</u>	<u>\$ 10,253</u>	<u>\$ 8,683</u>	<u>\$ 8,774</u>	<u>\$ 9,062</u>	<u>\$ 9,094</u>
Denominator for net income per share - diluted:						
Weighted average common shares outstanding - basic	20,713	3,505	20,741	3,478	20,764	3,473
Weighted average effect of dilutive securities – stock options:	<u>324</u>	<u>55</u>	<u>240</u>	<u>44</u>	<u>312</u>	<u>63</u>
Denominator for diluted earnings per share – adjusted weighted average shares	<u>21,037</u>	<u>3,560</u>	<u>20,981</u>	<u>3,522</u>	<u>21,076</u>	<u>3,536</u>
Net income per share - diluted	<u>\$ 0.48</u>	<u>\$ 2.88</u>	<u>\$ 0.41</u>	<u>\$ 2.49</u>	<u>\$ 0.43</u>	<u>\$ 2.57</u>

(2) Acquisitions

On October 28, 2014, the Company acquired Digital Assent, LLC (“Digital Assent”), a company with a healthcare technology platform. The acquisition created a Center of Excellence in Atlanta, Georgia, responsible for developing novel solutions to enhance consumer decision-making in the selection of healthcare providers. The all-cash consideration paid at closing was \$2.6 million.

The following table summarizes the fair value of assets acquired and liabilities assumed at the acquisition date, and the weighted average life of the long-lived assets.

Amount of Identified Assets Acquired and Liabilities Assumed

(\$ in thousands)

Current Assets	\$ 36
Property and equipment	16
Customer relationships	382
Technology	1,110
Goodwill	1,124
Other Long Term Assets	<u>23</u>
Total acquired assets	2,691
Current liabilities	<u>(117)</u>
Net assets acquired	<u>\$ 2,574</u>

The identifiable intangible assets are being amortized over their estimated useful lives and have a total weighted average amortization period of 7.26 years. The goodwill and identifiable intangible assets are deductible for tax purposes. Goodwill related to the acquisition was primarily attributable to anticipated synergies and other intangibles that do not qualify for separate recognition.

The consolidated financial statements as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015, and 2014 include amounts acquired from, as well as the results of operations of the acquired entity from October 28, 2014 forward. Results of operations for the year ended December 31, 2014 include revenue of \$95,000 and an operating loss of \$548,000 attributable to the acquired entity since acquisition. Acquisition-related costs of \$52,000 are included in selling, general and administrative expenses for the year ended December 31, 2014.

The following unaudited pro forma information for the Company has been prepared as if the acquisition had occurred on January 1, 2014. The information is based on the historical results of the separate companies and may not necessarily be indicative of the results that could have been achieved or of results that may occur in the future. The pro forma adjustments include the impact of depreciation and amortization of property and equipment and intangible assets acquired, interest expense of debt not assumed in the acquisition and income tax benefits of the acquired entity.

	<u>Year Ended December 31,</u>
	<u>2014</u>
	(In thousands, except per share data)
Revenue	\$99,266
Net income	\$17,642
Basic Earnings per share – Class A	\$0.42
Basic Earnings per share – Class B	\$2.54
Diluted Earnings per share – Class A	\$0.42
Diluted earnings per share – Class B	\$2.50

During October 2014, the Company also made an investment which included an option for a potential acquisition of a partner company that had developed a talent-matching solution to accelerate the formation of high-performing teams. The cash consideration paid was \$800,000, of which \$657,000 was allocated to the purchase option and the remaining \$143,000 to a license and work to be performed. The option provided NRC Health with the right to acquire the partner company for \$4.1 million on or before March 31, 2015. The option was extended until June 30, 2015. The Company did not exercise the option and, accordingly, it expired in June 2015. The \$657,000 option was written off in 2015.

(3) Divestitures

On December 21, 2015, the Company completed the sale of selected assets and liabilities related to the clinical workflow product of the Predictive Analytics operating segment, for a net cash amount of approximately \$1.6 million. The Company recorded a gain of approximately \$1.1 million from the sale, which is included in other income on the Statement of Income. In connection with the closing of the transaction, \$300,000 was placed in escrow to cover certain indemnification claims for one year following the transaction pursuant to the purchase agreement. Due to the uncertainty related to the settlement of the claims, escrowed amounts were recognized when the contingency was removed and the cash was released from escrow rather than at the time of sale. The Company received \$223,000 of the escrow funds in December 2016 upon final resolution of the claims and recorded an additional gain on the sale from these funds. The lack of operating results from this business due to its divestiture will not have a major effect on our operations and financial results, and, accordingly, it was not classified as a discontinued operation for any of the periods presented. The following assets and liabilities were included in the sale:

Assets and Liabilities Sold

(\$ in thousands)

Assets:	
Prepaid Expenses	\$ 3
Software and Technology	161
Other intangible assets	819
Goodwill	276
Liabilities:	
Deferred Revenue	<u>(748)</u>
Net assets sold	<u>\$ 511</u>

(4) Connect

Customer-Connect LLC was formed in June 2013 to develop and commercialize the Connect programs. Connect programs provide healthcare organizations the technology to engage patients through real-time identification and management of individual patient needs, preferences, risks, and experiences. The platform ensures that organizations have access to a longitudinal view of the patient to more effectively manage patient engagement across the continuum of care. At inception, NRC Health had a 49% ownership interest in Connect. NG Customer-Connect, LLC held a 25% interest, and the remaining 26% was held by Illuminate Health, LLC. Profits and losses were allocated under the hypothetical liquidation at book value approach.

In July 2015, the Company acquired all of NG Customer-Connect, LLC's interest in Connect and a portion of Illuminate Health LLC's interest in Connect for combined consideration of \$2.8 million. As a result, as of December 31, 2015, the Company owned approximately 89% of Connect and Illuminate Health, LLC owned 11%. Under the amended operating agreement, NRC Health had the option to acquire additional equity units from Illuminate Health when new annual recurring contract value reached targeted levels. On March 7, 2016, the Company elected to exercise its first option to acquire one-third of the outstanding non-controlling interest for \$1.0 million. Subsequently, on March 28, 2016, NRC Health and Illuminate Health reached an agreement whereby NRC Health acquired the remaining interest held by Illuminate Health for \$1.0 million. Following these transactions, Customer-Connect LLC was a wholly owned subsidiary of NRC Health. All of Connect's previous net income (losses) had been attributable to NRC Health. Since the Company previously consolidated Connect, the transactions to acquire additional ownership interests in Connect were accounted for as equity transactions, resulting in a reduction to additional paid-in capital of \$252,000 and \$2.8 million in 2016 and 2015, respectively. The acquisition of the remaining interest resulted in differences between the book and tax basis of Connect's assets. As a result, the Company recorded deferred tax assets of

\$1.7 million, with a corresponding increase to additional paid-in capital during 2016. On June 30, 2016, Customer-Connect LLC was dissolved.

(5) Property and Equipment

At December 31, 2016, and 2015, property and equipment consisted of the following:

	<u>2016</u>	<u>2015</u>
	(In thousands)	
Furniture and equipment	\$ 4,737	\$ 4,738
Computer equipment and software	23,342	20,042
Building	9,386	9,386
Land	<u>425</u>	<u>425</u>
Property and equipment at cost	37,890	34,591
Less accumulated depreciation and amortization	<u>26,084</u>	<u>23,466</u>
Net property and equipment	<u>\$ 11,806</u>	<u>\$ 11,125</u>

Depreciation and amortization expense related to property and equipment, including assets under capital lease, for the years ended December 31, 2016, 2015, and 2014 was \$3.6 million, \$3.1 million, and \$3.0 million, respectively.

Property and equipment included the following amounts under capital lease:

	<u>2016</u>	<u>2015</u>
	(In thousands)	
Furniture and equipment	\$ 769	\$ 787
Computer equipment and software	<u>--</u>	<u>56</u>
Property and equipment under capital lease, gross	769	843
Less accumulated amortization	<u>530</u>	<u>567</u>
Net assets under capital lease	<u>\$ 239</u>	<u>\$ 276</u>

(6) Goodwill and Intangible Assets

Goodwill and intangible assets consisted of the following at December 31, 2016:

	<u>Useful Life</u>	<u>Gross</u>	<u>Accumulated</u>	<u>Net</u>
	(In years)		(In thousands)	
Goodwill		<u>\$ 57,861</u>		<u>\$ 57,861</u>
Non-amortizing intangible assets:				
Indefinite trade name		1,191		1,191
Amortizing intangible assets:				
Customer related	5 - 15	9,331	8,164	1,167
Technology	7	1,110	344	766
Trade names	5 - 10	<u>1,572</u>	<u>1,572</u>	<u>--</u>
Total amortizing intangible assets		<u>12,013</u>	<u>10,080</u>	<u>1,933</u>
Total intangible assets other than goodwill		<u>\$ 13,204</u>	<u>\$ 10,080</u>	<u>\$ 3,124</u>

Goodwill and intangible assets consisted of the following at December 31, 2015:

	Useful Life (In years)	Gross	Accumulated Amortization (In thousands)	Net
Goodwill		<u>\$ 57,792</u>		<u>\$ 57,792</u>
Non-amortizing intangible assets:				
Indefinite trade name		1,191		1,191
Amortizing intangible assets:				
Customer related	5 - 15	9,323	7,726	1,597
Technology	7	1,110	185	925
Trade names	5 - 10	<u>1,572</u>	<u>1,507</u>	<u>65</u>
Total amortizing intangible assets		<u>12,005</u>	<u>9,418</u>	<u>2,587</u>
Total intangible assets other than goodwill		<u>\$ 13,196</u>	<u>\$ 9,418</u>	<u>\$ 3,778</u>

The following represents a summary of changes in the Company's carrying amount of goodwill for the years ended December 31, 2016, and 2015 (in thousands):

Balance as of December 31, 2014	<u>\$ 58,489</u>
Sale of certain assets and liabilities of operating segment	(276)
Foreign currency translation	<u>(421)</u>
Balance as of December 31, 2015	<u>\$ 57,792</u>
Foreign currency translation	<u>69</u>
Balance as of December 31, 2016	<u>\$ 57,861</u>

Aggregate amortization expense for customer related intangibles, trade names, technology and non-competes for the years ended December 31, 2016, 2015 and 2014 was \$654,000, \$995,000, and \$876,000, respectively. Estimated amortization expense for the next five years is: 2017—\$589,000; 2018—\$579,000; 2019—\$290,000; 2020—\$255,000; 2021—\$180,000; thereafter \$40,000.

(7) Income Taxes

For the years ended December 31, 2016, 2015, and 2014, income before income taxes consists of the following:

	2016	2015	2014
		(In thousands)	
U.S. Operations	\$29,848	\$25,536	\$25,338
Foreign Operations	<u>1,508</u>	<u>1,824</u>	<u>2,754</u>
Income before income taxes	<u>\$31,356</u>	<u>\$27,360</u>	<u>\$28,092</u>

Income tax expense consisted of the following components:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>Federal:</u>		(In thousands)	
Current	\$ 8,930	\$ 9,955	\$ 8,578
Deferred	<u>847</u>	<u>(1,232)</u>	<u>99</u>
Total	<u>\$ 9,777</u>	<u>\$ 8,723</u>	<u>\$ 8,677</u>
<u>Foreign:</u>			
Current	\$ 409	\$ 455	\$ 714
Deferred	<u>(18)</u>	<u>(23)</u>	<u>34</u>
Total	<u>\$ 391</u>	<u>\$ 432</u>	<u>\$ 748</u>
<u>State:</u>			
Current	\$ 634	\$ 680	\$ 448
Deferred	<u>36</u>	<u>(85)</u>	<u>63</u>
Total	<u>\$ 670</u>	<u>\$ 595</u>	<u>\$ 511</u>
Total	<u>\$ 10,838</u>	<u>\$ 9,750</u>	<u>\$ 9,936</u>

The difference between the Company's income tax expense as reported in the accompanying consolidated financial statements and the income tax expense that would be calculated applying the U.S. federal income tax rate of 35% for 2016, 2015, and 2014 on pretax income was as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
		(In thousands)	
Expected federal income taxes	\$10,975	\$9,576	\$9,832
Foreign tax rate differential	(129)	(139)	(239)
State income taxes, net of federal benefit and state tax credits	436	391	332
Federal tax credits	(165)	(150)	(150)
Uncertain tax positions	6	93	182
Deferred tax adjustment due to change in state tax law	--	39	58
Share based compensation	(441)	--	--
Expiration of capital loss carryforward	--	--	1,124
Release of valuation allowance	--	--	(1,124)
Other	<u>156</u>	<u>(60)</u>	<u>(79)</u>
Total	<u>\$10,838</u>	<u>\$9,750</u>	<u>\$9,936</u>

Deferred tax assets and liabilities at December 31, 2016 and 2015, were comprised of the following:

	2016	2015
	(In thousands)	
Deferred tax assets:		
Allowance for doubtful accounts	\$ 62	\$ 58
Accrued expenses	580	578
Share based compensation	2,357	1,796
Accrued bonuses	84	618
Other	<u>53</u>	<u>94</u>
Deferred tax assets	3,136	3,144
Deferred tax liabilities:		
Prepaid expenses	270	261
Property and equipment	1,206	943
Intangible assets	6,521	7,616
Other	<u>--</u>	<u>68</u>
Deferred tax liabilities	<u>7,997</u>	<u>8,888</u>
Net deferred tax liabilities	<u>(\$4,861)</u>	<u>(\$5,744)</u>

In November 2015, the FASB issued Accounting Standards Update (“ASU”) 2015-17, *Balance Sheet Classification of Deferred Taxes* (“ASU 2015-17”). ASU 2015-17 amends the current requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations will now be required to classify all deferred tax assets and liabilities as noncurrent. The Company adopted ASU 2015-17 retrospectively effective January 1, 2016 and reclassified \$1.1 million of current deferred tax assets to noncurrent, which was netted with deferred tax liabilities on the December 31, 2015 consolidated balance sheet.

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers projected future taxable income, carry-back opportunities, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, the Company believes it is more likely than not that it will realize the benefits of these deductible differences. Therefore, the Company has not recorded a valuation allowance as of December 31, 2016 or 2015. The net impact on income tax expense related to changes in the valuation allowance for 2014 was \$1.1 million.

The Company had domestic capital loss carryforwards that expired in 2014. The total \$3.1 million of the capital loss carryforwards related to the pre-acquisition periods of acquired companies, and the Company had provided a \$1.1 million valuation allowance against the \$1.1 million tax benefit associated with the capital loss carryforwards.

The undistributed foreign earnings of the Company’s foreign subsidiary of approximately \$15.2 million are considered to be indefinitely reinvested. Accordingly, no provision for U.S. federal and state income taxes or foreign withholding taxes has been provided for such undistributed earnings. The Company estimated at December 31, 2016, that an additional tax liability of \$536,000 would become due if repatriation of undistributed earnings would occur.

The Company had an unrecognized tax benefit at December 31, 2016 and 2015, of \$463,000 and \$450,000, respectively, excluding interest of \$4,000 and \$10,000 at December 31, 2016 and 2015, respectively, and penalties of \$7,000 at both December 31, 2016 and 2015. Of these amounts, \$119,000 and \$244,000 at December 31, 2016 and 2015, respectively, represents the net unrecognized tax benefits that, if recognized, would favorably impact the effective income tax rate. The remaining \$344,000 and \$206,000 at December 31, 2016 and 2015, respectively, would have no impact on the effective tax rate, if recognized. The Company accrues interest and penalties related to uncertain tax positions in the statements of income as income tax expense. The interest change (reduced) increased income tax expense by (\$6,000) and \$2,000 in 2016 and 2015, respectively.

The change in the unrecognized tax benefits for 2016 and 2015 is as follows:

	<u>(In thousands)</u>
Balance of unrecognized tax benefits at December 31, 2014	<u>\$ 360</u>
Reductions due to lapse of applicable statute of limitations	(24)
Reductions due to tax positions of prior years	(3)
Additions based on tax positions related to the current year	<u>117</u>
Balance of unrecognized tax benefits at December 31, 2015	<u>\$ 450</u>
Reductions due to lapse of applicable statute of limitations	(147)
Additions based on tax positions of prior years	5
Additions based on tax positions related to the current year	<u>155</u>
Balance of unrecognized tax benefits at December 31, 2016	<u>\$ 463</u>

The Company files a U.S. federal income tax return, various state jurisdictions and a Canada federal and provincial income tax return. All years prior to 2014 are now closed for US federal income tax and for years prior to 2013 for state income tax returns, and no exposure items exist for these years. The Company completed a United States federal tax examination for the tax year ended December 31, 2013 in the first quarter of 2016. The 2012 to 2016 Canada federal and provincial income tax returns remain open to examination.

(8) Notes Payable

Notes payable consisted of the following:

	<u>2016</u>	<u>2015</u>
	<u>(In thousands)</u>	
Revolving credit note with U.S. Bank, maximum available \$6.5 million subject to borrowing base, matures June 30, 2017	\$ --	\$ --
Note payable to U.S. Bank for \$11.8 million, interest at a 3.12% fixed rate, monthly principal and interest payments of \$212,468 through April 2018	<u>3,540</u>	<u>5,739</u>
Total notes payable	3,540	5,739
Less current portion	<u>2,683</u>	<u>2,402</u>
Note payable, net of current portion	<u>\$ 857</u>	<u>\$ 3,337</u>

The maximum aggregate amount available under the revolving credit note is \$6.5 million, subject to a borrowing base equal to 75.0% of the Company's eligible accounts receivable. Borrowings under the revolving credit note bear interest at a variable annual rate, with three rate options at the discretion of management as follows: (1) 2.5% plus the daily reset one-month London Interbank Offered Rate ("LIBOR") or (2) 2.2% plus the one-, two- or three- month LIBOR rate, or (3) the bank's one-, two, three, six, or twelve month Money Market Loan Rate. As of December 31, 2016 the revolving credit note did not have a balance.

According to the borrowing base requirements, the Company had the capacity to borrow \$6.5 million as of December 31, 2016.

The term note and revolving credit note are secured by certain of the Company's assets, including the Company's land, building, accounts receivable and intangible assets. The term note and the revolving credit note contain various restrictions and covenants applicable to the Company, including requirements that the Company maintain certain financial ratios at prescribed levels and restrictions on the ability of the Company to consolidate or merge, create liens, incur additional indebtedness or dispose of assets. As of December 31, 2016, the Company was in compliance with the financial covenants.

The remaining note payable maturities for each year subsequent to December 31, 2016, are as follows:

	Total Payments	2017	2018
Notes payable	\$ 3,540	\$ 2,683	\$ 857

(9) Share-Based Compensation

The Company measures and recognizes compensation expense for all share-based payments based on the grant-date fair value of those awards. All of the Company's existing stock option awards and non-vested stock awards have been determined to be equity-classified awards.

The National Research Corporation 2001 Equity Incentive Plan ("2001 Equity Incentive Plan") provided for the granting of stock options, stock appreciation rights, restricted stock, performance shares and other share-based awards and benefits up to an aggregate of 1,800,000 shares of class A common stock and 300,000 shares of class B common stock. Stock options granted could have been either nonqualified or incentive stock options. Stock options vest over one to five years following the date of grant and option terms are generally five to ten years following the date of grant. Due to the expiration of the 2001 Equity Incentive Plan, at December 31, 2015, there were no shares of stock available for future grants. The Company has accounted for grants of 1,683,309 class A and 280,552 class B options and restricted stock under the 2001 Equity Incentive Plan using the date of grant as the measurement date for financial accounting purposes.

The Company's 2004 Non-Employee Director Stock Plan, as amended (the "2004 Director Plan"), is a nonqualified plan that provides for the granting of options with respect to 3,000,000 shares of class A common stock and 500,000 shares of class B common stock. The 2004 Director Plan provides for grants of nonqualified stock options to each director of the Company who is not employed by the Company. On the date of each annual meeting of shareholders of the Company, options to purchase 36,000 shares of class A common stock and 6,000 shares of class B common stock are granted to directors that are elected or retained as a director at such meeting. Stock options vest one year following the date of grant and option terms are generally ten years following the date of grant, or three years in the case of termination of the outside director's service. At December 31, 2016, there were 1,065,000 shares of class A common stock and 177,500 shares of class B common stock available for issuance pursuant to future grants under the 2004 Director Plan. The Company has accounted for grants of 1,935,000 class A and 322,500 class B options under the 2004 Director Plan using the date of grant as the measurement date for financial accounting purposes.

The National Research Corporation 2006 Equity Incentive Plan (the "2006 Equity Incentive Plan") provides for the granting of stock options, stock appreciation rights, restricted stock, performance shares and other share-based awards and benefits up to an aggregate of 1,800,000 shares of class A common stock and 300,000 shares of class B common stock. Stock options granted may be either incentive stock options or nonqualified stock options. Vesting terms vary with each grant and option terms are generally five to ten years following the date of grant. At December 31, 2016, there were 941,085 shares of class A common stock and 157,793 shares of class B common stock available for issuance pursuant to future grants under the 2006 Equity Incentive Plan. The Company has accounted for grants of 858,915 class A and 142,207 class B

options and restricted stock under the 2006 Equity Incentive Plan using the date of grant as the measurement date for financial accounting purposes.

The Company granted options to purchase 315,620 shares of class A common stock and 52,603 shares of class B common stock during 2016. During 2015, the Company granted options to purchase 261,306 shares of class A common stock and 43,551 shares of class B common stock, and during 2014 granted options to purchase 204,166 shares of class A common stock and 32,217 shares of class B common stock. Options to purchase shares of common stock are typically granted with exercise prices equal to the fair value of the common stock on the date of grant. The Company does, in certain limited situations, grant options with exercise prices that exceed the fair value of the common shares on the date of grant. The fair value of stock options granted was estimated using a Black-Scholes valuation model with the following assumptions:

	2016		2015		2014	
	Class A	Class B	Class A	Class B	Class A	Class B
Expected dividend yield at date of grant	2.96 to 3.02%	6.67 to 8.12%	2.00 to 2.57%	5.29 to 5.72%	1.47 to 1.97%	4.03 to 4.87%
Expected stock price volatility	31.33 to 34.61%	27.64 to 31.77%	30.86 to 34.87%	29.72 to 33.94%	27.52 to 32.03%	30.13 to 32.65%
Risk-free interest rate	1.36 to 2.12%	1.36 to 2.12%	1.41 to 1.78%	1.41 to 1.78%	1.63 to 2.37%	1.63 to 2.37%
Expected life of options (in years)	6 to 8	6 to 8	5 to 7	5 to 7	5 to 7	5 to 7

The risk-free interest rate assumptions were based on the U.S. Treasury yield curve in effect at the time of the grant. The expected volatility was based on historical monthly price changes of the Company's stock based on the expected life of the options at the date of grant. The expected life of options is the average number of years the Company estimates that options will be outstanding. The Company considers groups of associates that have similar historical exercise behavior separately for valuation purposes.

The following table summarizes stock option activity under the 2001 and 2006 Equity Incentive Plans and the 2004 Director Plan for the year ended December 31, 2016:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Terms (Years)	Aggregate Intrinsic Value (In thousands)
<u>Class A</u>				
Outstanding at December 31, 2015	1,485,738	\$ 11.65		
Granted	315,620	\$ 14.64		
Exercised	(52,383)	\$ 6.59		\$ 459
Forfeited	<u>(43,492)</u>	\$ 13.25		
Outstanding at December 31, 2016	<u>1,705,483</u>	\$ 12.31	5.87	\$ 11,404
Exercisable at December 31, 2016	<u>1,250,793</u>	\$ 11.64	4.96	\$ 9,203
<u>Class B</u>				
Outstanding at December 31, 2015	240,673	\$ 26.31		
Granted	52,603	\$ 36.16		
Exercised	(35,534)	\$ 16.88		\$ 632
Forfeited	<u>(7,249)</u>	\$ 26.90		
Outstanding at December 31, 2016	<u>250,493</u>	\$ 29.70	6.32	\$ 3,066
Exercisable at December 31, 2016	<u>175,659</u>	\$ 27.82	5.43	\$ 2,500

During 2016, the weighted average grant date fair value of the stock options granted was \$3.62 and \$3.90 for class A common stock and class B common stock respectively. The weighted average grant date fair value of stock options granted during 2015 was \$3.49 for class A common stock and \$5.45 for class B common stock. The weighted average grant date fair value of stock options granted during 2014 was \$2.14 for class A common stock and \$2.16 for class B common stock. The total intrinsic value of stock options exercised during 2016, 2015, and 2014 was \$459,000, \$350,000 and \$1.5 million for the shares of class A common stock and \$632,000, \$151,000 and \$502,000 for the shares of class B common stock, respectively. The total intrinsic value of stock options vested during 2016, 2015 and 2014 was \$1.6 million, \$1.4 million and \$528,000 for the shares of class A common stock and \$535,000, \$415,000 and \$402,000 for the shares of class B common stock, respectively. As of December 31, 2016, the total unrecognized compensation cost related to non-vested stock option awards was approximately \$820,000 and \$152,000 for class A and class B common stock shares, respectively, which was expected to be recognized over a weighted average period of 2.78 years and 2.58 years for class A and class B common stock shares, respectively.

Cash received from stock options exercised for the years ended December 31, 2016 and 2014 was \$548,000 and \$408,000, respectively. There was no cash received from stock options exercised for the year ended December 31, 2015. The Company recognized \$964,000, \$828,000 and \$707,000 of non-cash compensation for the years ended December 31, 2016, 2015, and 2014, respectively, related to options, which is included in selling, general and administrative expenses.

The actual tax benefit realized for the tax deduction from stock options exercised was \$337,000, \$157,000 and \$622,000 for the years ended December 31, 2016, 2015 and 2014, respectively. The Company prospectively elected ASU 2016-09, *Compensation – Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting* (“ASU 2016-09”) in 2016. As a result, the tax benefit from stock options exercised was recognized as a reduction to our provision for income taxes for the year ended December 31, 2016 rather than as an increase to additional paid-in capital for the years ended December 31, 2015 and 2014 prior to adoption (See Note 13).

During 2016, 2015, and 2014 the Company granted 20,578, 89,416, and 73,506 non-vested shares of class A and 3,430, 14,902, and 12,251 non-vested shares of class B common stock, respectively, under the 2006 Equity Incentive Plan. As of December 31, 2016, the Company had 174,487 and 29,081 non-vested shares of class A and class B common stock, respectively, outstanding under the 2006 Equity Incentive Plan. These shares vest over one to five years following the date of grant and holders thereof are entitled to receive dividends from the date of grant, whether or not vested. The fair value of the awards is calculated as the fair market value of the shares on the date of grant. The Company recognized \$966,000, \$555,000 and \$35,000 of non-cash compensation for the years ended December 31, 2016, 2015, and 2014, respectively, related to this non-vested stock, which is included in selling, general and administrative expenses.

The following table summarizes information regarding non-vested stock granted to associates under the 2001 and 2006 Equity Incentive Plans for the year ended December 31, 2016:

	Class A Shares Outstanding	Class A Weighted Average Grant Date Fair Value Per Share	Class B Shares Outstanding	Class B Weighted Average Grant Date Fair Value Per Share
Outstanding at December 31, 2015	183,814	\$ 12.78	30,635	\$ 36.93
Granted	20,578	\$ 15.23	3,430	\$ 34.00
Vested	(20,892)	\$ 5.38	(3,482)	\$ 32.31
Forfeited	(9,013)	\$ 13.17	(1,502)	\$ 35.48
Outstanding at December 31, 2016	<u>174,487</u>	\$ 13.93	<u>29,081</u>	\$ 37.21

As of December 31, 2016, the total unrecognized compensation cost related to non-vested stock awards was approximately \$1.8 million and is expected to be recognized over a weighted average period of 2.96 years.

(10) Leases

The Company leases printing equipment in the United States, and office space in Canada, California, Georgia, and Washington. The Company also leased additional office space in Nebraska through June 2016. The Company recorded rent expense in connection with its operating leases of \$920,000, \$1.0 million, and \$840,000 in 2016, 2015, and 2014, respectively. The Company also has capital leases for production, mailing and computer equipment.

Payments under non-cancelable operating leases and capital leases at December 31, 2016 are:

<u>Year Ending December 31,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
	(In thousands)	
2017	\$ 96	\$ 603
2018	55	484
2019	26	312
2020	26	106
2021	<u>6</u>	--
Total minimum lease payments	209	
Less: Amount representing interest	<u>17</u>	
Present value of minimum lease payments	192	
Less: Current maturities	<u>82</u>	
Capital lease obligations, net of current portion	<u>\$ 110</u>	

(11) Related Party

A director of the Company also serves as an officer of Ameritas Life Insurance Corp. In connection with the Company's regular assessment of its insurance-based associate benefits and the costs associated therewith, in 2007 the Company began purchasing dental insurance for certain of its associates from Ameritas Life Insurance Corp. and, in 2009, the Company also began purchasing vision insurance for certain of its associates from Ameritas Life Insurance Corp. The total value of these purchases was \$232,000, \$227,000 and \$207,000 in 2016, 2015 and 2014 respectively.

Mr. Hays, the Chief Executive Officer, majority shareholder and director of the Company, is an owner of 14% of the equity interest of Nebraska Global Investment Company LLC ("Nebraska Global"). The Company, directly or indirectly through its former subsidiary Customer-Connect LLC, purchased certain services from Nebraska Global, primarily consisting of software development services. The total value of these purchases were \$488,000 in 2016 and \$440,000 in 2015. There were no purchases from Nebraska Global in 2014.

(12) Associate Benefits

The Company sponsors a qualified 401(k) plan covering substantially all associates with no eligibility service requirement. Under the 401(k) plan, the Company matches 25.0% of the first 6.0% of compensation contributed by each associate. Employer contributions, which are discretionary, vest to participants at a rate of 20% per year. The Company contributed \$291,000, \$330,000 and \$216,000 in 2016, 2015 and 2014, respectively, as a matching percentage of associate 401(k) contributions.

(13) Recent Accounting Pronouncements

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis* ("ASU 2015-02"), which requires reporting entities to reevaluate whether certain legal entities should be consolidated under the revised consolidation model. ASU 2015-02 modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs), eliminates the presumption that a general partner should consolidate a limited partnership, and affects the

consolidation analysis of reporting entities that are involved with VIEs, especially those that have fee arrangements and related party relationships. The Company's adoption of the standard effective January 1, 2016 did not significantly impact its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement* ("ASU 2015-05"). ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, ASU 2015-05 specifies that the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. ASU 2015-05 further specifies that the customer should account for a cloud computing arrangement as a service contract if the arrangement does not include a software license. The Company prospectively adopted ASU 2015-05 effective January 1, 2016. Beginning in 2016, if a software license is included in a cloud computing arrangement and the Company has the ability and feasibility to download the software, it is accounted for as software, included in property and equipment, and amortized. If a software license is not included or the Company does not have the ability or feasibility to download software included in a cloud computing arrangement, it is accounted for as a service contract, which is expensed to direct expenses or selling, general and administrative expenses during the service period.

In November 2015, the FASB issued ASU 2015-17. ASU 2015-17 amends the current requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations will now be required to classify all deferred tax assets and liabilities as noncurrent. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by ASU 2015-17. The Company adopted ASU 2015-17 retrospectively effective January 1, 2016 and reclassified \$1.1 million of current deferred tax assets to noncurrent, which was netted with deferred tax liabilities on the December 31, 2015 consolidated balance sheet.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in accounting principles generally accepted in the United States when it becomes effective. The standard is effective for annual and interim reporting periods in fiscal years beginning after December 15, 2017, with early adoption allowed for years beginning after December 15, 2016. An entity may choose to adopt ASU 2014-09 either retrospectively or through a cumulative effect adjustment as of the start of the first period for which it applies the standard. The Company is currently in the process of evaluating the impact that this new guidance will have on its consolidated financial statements and expects to adopt the guidance beginning January 1, 2018 through the retrospective transition method. We are in the process of developing and testing changes to our processes and systems. The Company currently expects the most significant changes to result from deferring commissions and recognizing the expense over the estimated life of the client relationship rather than expensing as incurred, which is the Company's current practice, and estimating variable consideration at the outset of the contract.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires lessees to recognize a lease liability and a right-to-use asset for all leases, including operating leases, with a term greater than twelve months on its balance sheet. This ASU is effective in fiscal years beginning after December 15, 2018, with early adoption permitted, and requires a modified retrospective transition method. The Company is currently in the process of evaluating the impact that this new guidance will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09. ASU 2016-09 requires excess tax benefits and tax deficiencies to be recorded in the income statement when the awards vest or are settled. In addition, cash flows related to excess tax benefits are no longer separately classified as a financing activity apart from other income tax cash flows. The Company elected to early adopt the new guidance in the second quarter of 2016 on a prospective basis which required us to reflect any adjustments as of January 1, 2016, the beginning of

the annual period that includes the interim period of adoption. The primary impact of adoption was the recognition of excess tax benefits in our provision for income taxes rather than paid-in capital for all periods of 2016. As a result, excess tax benefits of \$333,000 recorded to additional paid-in capital in the first quarter of 2016 have been reclassified to income tax expense in the year ended December 31, 2016. Additionally, as required by ASU 2016-09, when calculating diluted earnings per share, excess tax benefits were excluded from the calculation of assumed proceeds since such amounts are recognized in the income statement. The Company applied the cash flow presentation requirements for cash flows related to excess tax benefits prospectively, and the 2015 statement of cash flows was not adjusted. ASU 2016-09 also allows an entity to elect as an accounting policy either to estimate the total number of awards for which the requisite service period will not be rendered or to account for forfeitures for service based awards as they occur. The Company has elected to account for forfeitures as they occur. Adoption of ASU 2016-09 resulted in the recognition of excess tax benefits in our provision for income taxes rather than additional paid-in capital of \$460,000 for the year ended December 31, 2016.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU will require the measurement of all expected credit losses for financial assets, including trade receivables, held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The guidance is effective for annual reporting periods beginning after December 15, 2019 and interim periods within those fiscal years. The Company believes its adoption will not significantly impact the Company's results of operations and financial position.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments* which eliminates the diversity in practice related to eight cash flow classification issues. This ASU is effective for the Company on January 1, 2018 with early adoption permitted. The Company believes its adoption will not significantly impact the Company's results of operations and financial position.

In October 2016, the FASB issued ASU 2016-16, *Intra-Entity Transfers of Asset Other Than Inventory* ("ASU 2016-16"), which requires entities to recognize the tax consequences of intercompany asset transfers other than inventory transfers in the period in which the transfer takes place. ASU 2016-16 is effective for fiscal years and interim periods within fiscal years beginning after December 15, 2017. ASU 2016-16 is to be adopted using a modified retrospective approach with a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption. The cumulative effect adjustment will include recognition of the income tax consequences of intra-entity transfers of assets other than inventory that occur before the adoption date. Early adoption is permitted at the beginning of an annual period. The Company is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash* ("ASU 2016-18"), which requires that the amounts generally described as restricted cash or restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-the period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 does not provide a definition of restricted cash or restricted cash equivalents. ASU 2016-18 is effective for fiscal years and interim periods beginning after December 15, 2017. The Company does not expect the adoption of ASU 2016-18 to have any impact on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"). The new guidance eliminates Step 2 of the goodwill impairment testing which requires the fair value of individual assets and liabilities of a reporting unit to be determined when measuring goodwill impairment. The new guidance may result in different amounts of impairment that could be recognized compared to existing guidance. In addition, failing step 1 of the impairment test may not result in impairment under existing guidance. However, under the revised guidance, failing step 1 will always result in a goodwill impairment. ASU 2017-04 is to be applied prospectively for goodwill impairment testing performed in years beginning after December 15, 2019. The Company does not believe the adoption will significantly impact the Company's results of operations or financial position.

(14) Segment Information

The Company's six operating segments are aggregated into one reporting segment because they have similar economic characteristics and meet the other aggregation criteria from the FASB guidance on segment disclosure. The six operating segments are Experience, The Governance Institute, Market Insights, Transparency, National Research Corporation Canada and Connect, which offer a portfolio of solutions that address specific needs around market insight, experience, transparency and governance for healthcare providers, payers and other healthcare organizations. On December 21, 2015, selected assets and liabilities were sold from a seventh operating segment, Predictive Analytics, reducing the number of operating segments to six as of December 31, 2015.

The table below presents entity-wide information regarding the Company's revenue and assets by geographic area:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
		(In thousands)	
Revenue:			
United States	\$ 104,445	\$ 97,097	\$ 92,270
Canada	<u>4,939</u>	<u>5,246</u>	<u>6,567</u>
Total	<u>\$ 109,384</u>	<u>\$ 102,343</u>	<u>\$ 98,837</u>
Long-lived assets:			
United States	\$ 71,192	\$ 70,624	\$ 73,328
Canada	<u>2,367</u>	<u>2,364</u>	<u>2,994</u>
Total	<u>\$ 73,559</u>	<u>\$ 72,988</u>	<u>\$ 76,322</u>
Total assets:			
United States	\$ 106,288	\$ 115,480	\$115,730
Canada	<u>14,336</u>	<u>12,569</u>	<u>13,780</u>
Total	<u>\$ 120,624</u>	<u>\$ 128,049</u>	<u>\$129,510</u>

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the “Exchange Act”), the Company’s management evaluated, with the participation of the Company’s Chief Executive Officer and the Company’s Chief Financial Officer, the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2016. Based upon their evaluation of these disclosure controls and procedures, the Chief Executive Officer and the Chief Financial Officer concluded that the disclosure controls and procedures were effective as of December 31, 2016.

Management’s Report on Internal Control over Financial Reporting

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act). The Company’s internal control over financial reporting is 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. Because of its inherent limitations, however, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company’s management, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s internal control over financial reporting using the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on such evaluation, the Company’s management concluded that the Company’s internal control over financial reporting was effective as of December 31, 2016.

The effectiveness of the Company’s internal control over financial reporting as of December 31, 2016, has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, a copy of which is included in this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There was no change in the Company’s internal control over financial reporting that occurred during the quarter ended December 31, 2016, that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Item 9B. Other Information

The Company has no other information to report pursuant to this item.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
National Research Corporation:

We have audited National Research Corporation and subsidiary's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). National Research Corporation and subsidiary'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, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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.

In our opinion, National Research Corporation and subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of National Research Corporation and subsidiary as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016, and our report dated March 3, 2017 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Lincoln, Nebraska
March 3, 2017

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item with respect to directors and Section 16 compliance is included under the captions “Election of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance,” respectively, in the Company’s definitive Proxy Statement for its 2017 Annual Meeting of Shareholders (“Proxy Statement”) and is hereby incorporated herein by reference. Information with respect to the executive officers of the Company appears in Item 1 of this Annual Report on Form 10-K. The information required by this Item with respect to audit committees and audit committee financial experts is included under the caption “Corporate Governance” in the Proxy Statement and is incorporated herein by reference.

The Company has adopted a Code of Business Conduct and Ethics that applies to all of the Company’s associates, including the Company’s Chief Executive Officer and Chief Financial Officer and other persons performing similar functions. The Company has posted a copy of the Code of Business Conduct and Ethics on its website at www.nrchealth.com, and such Code of Business Conduct and Ethics is available, in print, without charge, to any shareholder who requests it from the Company’s Secretary. The Company intends to satisfy the disclosure requirements under Item 5.05 of Form 8-K regarding amendments to, or waivers from, the Code of Business Conduct and Ethics by posting such information on its website at www.nrchealth.com. The Company is not including the information contained on its website as part of, or incorporating it by reference into, this report.

Item 11. Executive Compensation

The information required by this Item is included under the captions “Compensation Discussion and Analysis,” “2016 Summary Compensation Table,” “Grants of Plan-Based Awards in 2016,” “Outstanding Equity Awards at December 31, 2016,” “2016 Director Compensation,” “Compensation Committee Report” and “Corporate Governance-Transactions with Related Persons” in the Proxy Statement and is hereby incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information required by this Item with respect to security ownership of certain beneficial owners and management is included under the caption “Principal Shareholders” in the Proxy Statement and is hereby incorporated by reference.

The following table sets forth information with respect to compensation plans under which equity securities of the Company are authorized for issuance as of December 31, 2016.

<u>Plan Category Class A shares</u>	Number of securities to be issued upon the exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders ⁽¹⁾	1,705,483	\$12.31	2,006,085 ⁽²⁾
Equity compensation plans not approved by security holders	--	--	--
Total	<u>1,705,483</u>	<u>\$12.31</u>	<u>2,006,085</u>

<u>Plan Category Class B shares</u>	Number of securities to be issued upon the exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders ⁽¹⁾	250,493	\$29.70	335,293 ⁽²⁾
Equity compensation plans not approved by security holders	--	--	--
Total	<u>250,493</u>	<u>\$29.70</u>	<u>335,293</u>

⁽¹⁾ Includes the Company's 2006 Equity Incentive Plan, 2004 Director Plan, and the 2001 Equity Incentive Plan.

⁽²⁾ Under the 2006 Equity Incentive Plan, the Company had authority to award up to 308,275 additional shares of restricted class A common stock and 51,380 additional shares of restricted class B common stock to participants, provided that the total of such shares awarded may not exceed the total number of shares remaining available for issuance under the 2006 Equity Incentive Plan, which totaled 941,085 shares of class A common stock and 157,793 shares of class B common stock as of December 31, 2016. The Director Plan provides for granting options for 3,000,000 shares of Class A common stock and 500,000 shares of Class B common stock. Option awards through December 31, 2016 totaled 1,935,000 shares of Class A common stock and 322,500 of Class B common stock. No future awards are available under the 2001 Equity Incentive Plan due to its expiration.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is included under the caption "Corporate Governance" in the Proxy Statement and is hereby incorporated by reference.

Item 14. Principal Accountant Fees and Services

The information required by this Item is included under the caption "Miscellaneous — Independent Registered Public Accounting Firm" in the Proxy Statement and is hereby incorporated by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

1. Consolidated financial statements. The consolidated financial statements listed in the accompanying index to the consolidated financial statements and financial statement schedule are filed as part of this Annual Report on Form 10-K.
2. Financial statement schedule. The financial statement schedule listed in the accompanying index to the consolidated financial statements and financial statement schedule is filed as part of this Annual Report on Form 10-K.
3. Exhibits. The exhibits listed in the accompanying exhibit index are filed as part of this Annual Report on Form 10-K.

NATIONAL RESEARCH CORPORATION AND SUBSIDIARY
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

(In thousands)

	<u>Balance at Beginning of Year</u>	<u>Bad Debt Expense</u>	<u>Write-offs Net of Recoveries</u>	<u>Balance at End of Year</u>
Allowance for doubtful accounts:				
Year Ended December 31, 2014	\$ 183	\$ 305	\$ 282	\$ 206
Year Ended December 31, 2015	\$ 206	\$ 111	\$ 144	\$ 173
Year Ended December 31, 2016	\$ 173	\$ 218	\$ 222	\$ 169

See accompanying report of independent registered public accounting firm.

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE**

**Page in this
Form 10-K**

Report of Independent Registered Public Accounting Firm.....	30
Consolidated Balance Sheets as of December 31, 2016 and 2015	31
Consolidated Statements of Income for the Three Years Ended December 31, 2016.....	32
Consolidated Statements of Comprehensive Income for the Three Years Ended December 31, 2016.....	33
Consolidated Statements of Shareholders' Equity for the Three Years Ended December 31, 2016.....	34
Consolidated Statements of Cash Flows for the Three Years Ended December 31, 2016.....	35
Notes to Consolidated Financial Statements	36
Schedule II — Valuation and Qualifying Accounts	63

All other financial statement schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedules, or because the information required is included in the consolidated financial statements and notes thereto.

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 this 3rd day of March 2017.

NATIONAL RESEARCH CORPORATION

By /s/ Michael D. Hays

Michael D. Hays
Chief Executive Officer

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Michael D. Hays</u> Michael D. Hays	Chief Executive Officer and Director (Principal Executive Officer)	March 3, 2017
<u>/s/ Kevin R. Karas</u> Kevin R. Karas	Senior Vice President Finance, Chief Financial Officer, Treasurer and Secretary (Principal Financial and Accounting Officer)	March 3, 2017
<u>/s/ Donald M. Berwick</u> Donald M. Berwick	Director	March 3, 2017
<u>/s/ JoAnn M. Martin</u> JoAnn M. Martin	Director	March 3, 2017
<u>/s/ Barbara J. Mowry</u> Barbara J. Mowry	Director	March 3, 2017
<u>/s/ John N. Nunnelly</u> John N. Nunnelly	Director	March 3, 2017
<u>/s/ Gail L. Warden</u> Gail L. Warden	Director	March 3, 2017

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Exhibit Description</u>
(3.1)	Amended and Restated Articles of Incorporation of National Research Corporation, effective May 22, 2013 [Incorporated by reference to Exhibit (3.2) to National Research Corporation's Current Report on Form 8-K dated May 22, 2013 and filed May 24, 2013 (File No. 0-29466)]
(3.2)	By-Laws of National Research Corporation, as amended to date [Incorporated by reference to Exhibit (3.2) to National Research Corporation's Current Report on Form 8-K dated October 26, 2015 and filed on October 28, 2015 (File No. 0-29466)]
(4)	Installment Note, dated as of May 9, 2013, from National Research Corporation to U.S. Bank National Association [Incorporated by reference to Exhibit (4) to National Research Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 (File No. 0-29466)]
(10.1)*	National Research Corporation 2001 Equity Incentive Plan [Incorporated by reference to Appendix A to National Research Corporation's Proxy Statement for the 2002 Annual Meeting of Shareholders, filed with the Securities and Exchange Commission on April 3, 2002 (File No. 0-29466)]
(10.2)*	National Research Corporation 2006 Equity Incentive Plan, as amended [Incorporated by reference to Exhibit (4.3) to National Research Corporation's Registration Statement on Form S-8 (Registration No. 333-189141) filed on June 6, 2013]
(10.3)*	National Research Corporation 2004 Non-Employee Director Stock Plan, as amended [Incorporated by reference to Appendix A to National Research Corporation's Proxy Statement for its 2015 Annual Meeting of Shareholders filed on April 1, 2015]
(10.4)*	Form of Nonqualified Stock Option Agreement (for new associates) used in connection with the 2001 Equity Incentive Plan [Incorporated by reference to Exhibit 4.4 to National Research Corporation's Registration Statement on Form S-8 (Registration No. 333-120530)]
(10.5)*	Form of Nonqualified Stock Option Agreement (for officers) used in connection with the 2001 Equity Incentive Plan [Incorporated by reference to Exhibit 4.5 to National Research Corporation's Registration Statement on Form S-8 (Registration No. 333-120530)]
(10.6)*	Form of Restricted Stock Agreement for executive officers used in connection with the 2001 Equity Incentive Plan [Incorporated by reference to Exhibit 10.2 to National Research Corporation's Current Report on Form 8-K dated March 19, 2005 (File No. 0-29466)]
(10.7)*	Form of Restricted Stock Agreement (one year vesting) used in connection with the 2001 Equity Incentive Plan [Incorporated by reference to Exhibit 4.6 to National Research Corporation's Registration Statement on Form S-8 (Registration No. 333-120530)]
(10.8)*	Form of Restricted Stock Agreement (five year vesting) used in connection with the 2001 Equity Incentive Plan [Incorporated by reference to Exhibit 4.7 to National Research Corporation's Registration Statement on Form S-8 (Registration No. 333-120530)]
(10.9)*	Form of Nonqualified Stock Option Agreement used in connection with the 2006 Equity Incentive Plan [Incorporated by reference to Exhibit (10.14) to National Research Corporation's Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 0-29466)]
(10.10)*	Form of Restricted Stock Agreement used in connection with the 2006 Equity Incentive Plan

**Exhibit
Number** **Exhibit Description**

- [Incorporated by reference to Exhibit (10.15) to National Research Corporation’s Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 0-29466)]
- (21) Subsidiary of National Research Corporation
- (23) Consent of Independent Registered Public Accounting Firm
- (31.1) Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (31.2) Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (32) Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- (99) Proxy Statement for the 2017 Annual Meeting of Shareholders [To be filed with the Securities and Exchange Commission under Regulation 14A within 120 days after December 31, 2016; except to the extent specifically incorporated by reference, the Proxy Statement for the 2017 Annual Meeting of Shareholders shall not be deemed to be filed with the Securities and Exchange Commission as part of this Annual Report on Form 10-K]
- (101)** Financial statements from the Annual Report on Form 10-K of National Research Corporation for the year ended December 31, 2016, formatted in eXtensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Shareholders’ Equity, (v) the Consolidated Statements of Cash Flows, (vi) the Notes to the Consolidated Financial Statements, and (vii) document and entity information.

* A management contract or compensatory plan or arrangement.

** In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

Subsidiary of National Research Corp.

National Research Corporation's subsidiary as of December 31, 2016 is listed below:

Subsidiary

Jurisdiction of organization

National Research Corporation Canada

Ontario

Consent of Independent Registered Public Accounting Firm

The Board of Directors
National Research Corporation:

We consent to the incorporation by reference in the registration statements (File Nos. 333-120530, 333-137763, 333-137769, 333-173097, 333-189139, 333-189140, 333-189141, and 333-209934) on Forms S-8 and (File Nos. 333-120529 and 333-211190) on Forms S-3 of National Research Corporation of our reports dated March 3, 2017, with respect to the consolidated balance sheets of National Research Corporation and subsidiary as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016, and the related financial statement schedule, and the effectiveness of internal control over financial reporting as of December 31, 2016, which reports appear in the December 31, 2016 annual report on Form 10-K of National Research Corporation.

/s/ KPMG LLP

Lincoln, Nebraska
March 3, 2017

**Certification of Chief Executive Officer
Pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934**

I, Michael D. Hays, certify that:

1. I have reviewed this Annual Report on Form 10-K of National Research Corporation;
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 subsidiary, 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 the 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 3, 2017

/s/ Michael D. Hays
Michael D. Hays
Chief Executive Officer

**Certification of Chief Financial Officer
Pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934**

I, Kevin R. Karas, certify that:

1. I have reviewed this Annual Report on Form 10-K of National Research Corporation;
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 subsidiary, 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 the 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 3, 2017

/s/ Kevin R. Karas
Kevin R. Karas
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**

In connection with the accompanying Annual Report on Form 10-K of National Research Corporation (the “Company”) for the year ended December 31, 2016 (the “Report”), I, Michael D. Hays, Chief Executive Officer of the Company, and I, Kevin R. Karas, Chief Financial Officer, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, based on my knowledge, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael D. Hays
Michael D. Hays
Chief Executive Officer

/s/ Kevin R. Karas
Kevin R. Karas
Chief Financial Officer

Date: March 3, 2017

A signed original of this written statement required by Section 906 has been provided to National Research Corporation and will be retained by National Research Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

This page intentionally left blank

This page intentionally left blank

Directors and Officers

Board of Directors

Michael D. Hays

Chief Executive Officer
National Research Corporation

JoAnn M. Martin

President and Chief Executive Officer
Ameritas Life Insurance Corporation
*Member of Strategy, Audit (Chair) and
Leadership Committees*

Barbara J. Mowry

Chief Executive Officer
GoreCreek Advisors
*Member of Strategy, Audit, Nominating and
Compensation (Chair) Committees*

John N. Nunnally, Lead Director

Adjunct Professor
University of Massachusetts
*Member of Strategy (Chair), Audit,
Nominating, Compensation and
Leadership Committees*

Gail L. Warden

President Emeritus
Henry Ford Health System
*Member of Strategy, Audit, Nominating,
Compensation and Leadership (Chair)
Committees*

Donald M. Berwick, M.D.

President Emeritus and Senior Fellow
Institute for Healthcare Improvement
*Member of Strategy, Nominating (Chair) and
Leadership Committees*

Executive Officers

Michael D. Hays

Chief Executive Officer

Kevin R. Karas

Chief Financial Officer
Treasurer and Secretary

Steven D. Jackson

President

Corporate Data

Corporate Headquarters

National Research Corporation
1245 Q Street
Lincoln, Nebraska 68508
Phone: 402.475.2525
Fax: 402.475.9061
www.nrchealth.com

Transfer Agent

American Stock Transfer & Trust Company LLC
200 S. Wacker Drive, Suite 3144
Chicago, Illinois 60606
Phone: 718.921.8588
Fax: 718.765.8717

Corporate Counsel

Foley & Lardner LLP
Milwaukee, Wisconsin

Woods & Aitken LLP
Lincoln, Nebraska

Common Stock

National Research Corporation's
common stock is traded on The
NASDAQ Stock Market under the
symbols NRCIA and NRCIB.

**Independent Registered
Public Accounting Firm**

KPMG LLP
Lincoln, Nebraska

