

Carling Adams • CJ Adamson • Veronica Adekile • Junayed Ahmed • Lindsey Akiyama • Echo Alexander • Ben Allemann • Taylor Almquist • Karen Althouse • Kathy Anstine • Shayne Arriola • Jess Arter • Sina Attaie • Randy Ayers • Michelle Bachman • Desarie Ball • Cindy Ballow • Emily Barker • Jackie Barnhart • Jason Barry • Steve Barton • Anna Bates • Allan Bautista • Amanda Beardsley • Rachel Beavers • Jocelyn Belden • Adam Benash • Kyle Benesch • Sara Bennett • Miguel Betancourt Soto • Dan Biggs • Tracy Black • Cody Bodfield • Kasy Bodfield • Jeff Bogner • Spencer Bogus • Ava Bohlender • Ryan Bondegard • Lanny Boswell • Cassandra Braaten • Lindsey Bradley • Nick Brandt • Nicki Bratten • Robin Brester • Scott Brester • Leanne Bristol • Dawn Brock • Erin Brodhagen • Ryan Broker • David Bronson • Tyler Brothers • Jenn Brown • Dustin Bruce • Jenny Brunke • Katie Bruss • Haley Bucknell • Tyler Burbach • Justin Burns • Jamie Cajka • Danielle Calhoun • Corry Caouette • Carly Carlson • Janet Carlson • Jalene Carpenter • Kathy Carroll • Mary Ann Castillo • Erin Cerretta • Jennifer Chandrabose • Megan Charko • Anna Chitepu • Bryan Christianity • Bailey Christy • Jared Chulufas • Justin Clark • Tessa Clark • Alayna Clouston • Kim Clouston • Marc Coker • Alyssa Conn • Breanna Cook • Kelsey Cook • Tim Cook • Paul Cooper • Ashley Cosgriff • Heather Costa-Greger • Teresa Costello-Raddatz • Lindsay Coupens • Ken Cousino • Karla Cram • Melissa Cummings • Pat Dabney • Matt Dahlke • Kathleen Damme • Jake Daniel • Martha Daniel • Rob Davis • Ashlee Deeds • Lauryn Dermitt • Lauri Dettmer • Julie Diaz • Cathy Diven • Ryan Donohue • John Dorn • Billie Douglass • Chandler Drake • Connor Drake • Austin Edstrom • TJ Ehlers • Sara Ehnes • Zane Ehnes • Hannah Eisert • Jhordan Elsberry • William England • Matt Engler • Andy Essink • Maggie Essink • Jared Eubank • Jillian Fast • Ashley Felker • Beki Ferguson • Laura Fiala • Bobbie Ficken • Travis Ficken • Brian Finck • Iesha Finney-Clanton • Jeanie Fisher • Jenny Fisher • Lauren Fix • Aliya Flores • Dena Hughes • Jamie Franco • Travis Freeburg • Rachelle Friesen • Ben Frodyma • Sarah Fryda • Jing Fu • Brooke Garbison • Lesly Garcia • Michelle Garcia Rubio • Tim Gerken • Kristine German • Jeff Gill • Dave Gilsdorf • Andy Glenn • Geeta Goenka • Aislinn Goodrich • Hollie Gordon • Toya Gorley • Jenny Grant • Patrick Griffin • Abbie Grim • Lydia Grossenbacher • Meghan Gull • David Gutgesell • Ashley Haas • Candis Hager • Marty Hager • Dan Halverson • Rachel Hamilton • Tracy Hanger • Hailey Hanlin • Jon Hanseling • Dave Hansen • Ryan Harpham • Claire Harris • James Harris • Shannon Hasemann • Kylee Hasenauer • Ryan Hatt • Kirsten Hattan • Renee Hauser • Britt Hayes • Shannon Hayes • Mike Hays • Kipp Heidtbrink • Marypat Heineman • Becky Hergert • Bret Hermsen • Jimmy Hilaire • James Hill • Deb Hinds • Ryan Hinojosa • Carmen Hinseth • Bryony Hokanson-Jack • Jason Holm • Alaia Holmes • Christina Holton • Kelly Honke • Holly Hopkins • Kim Houle • Helen Hrdy • Dorothy Hu • Trisha Hudson • Katie Hui • Ada Hui • Greg Humlicek • LaDonna Humphrey • Katie Hunke • Rachel Hupp • Brandon Hurley • Elisabeth Hurst • Eric Hyde • Andy Ibbotson • Tharziv Ilangovan • Steve Jackson • Brad Jacox • Todd Jarchow • Eric Johnson • Erika Johnson • Jean Johnson • Katie Johnson • Jamie Jorgenson • Kayce Kahl • Ryan Kalkwarf • Mel Kamm • Kevin Karas • Emily Karnish • Dana Kearse • Steve Kepler • Triet Khuc • Jennifer Kimmons • Kate Kimmons • Alicia King • Shawnelle King • Jake Kittle • Jenn Kluczynski • Natalie Knott • Justin Koch • Mike Koh • Steph Kolbo • Rich Kortum • Glenn Kramer • Annie Krein • Katie Kriegler • Justin Kubick • Jon Kuehler • Billy Kuehn • Tess Kurtenbach • Paige

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.

• **Mike Hays**, CEO and Fellow Owner

Lacey • Heath Lamb • Andy Lambert • Will Landers • Heather Lannin • Lindsay Laug • McKenna Lee • Bonny Lehmer • Richard Lierman • Sheri Life • Lu Liu • Anne Loethen • Scott Logan • Katie Long • Justin Longnecker • Amanda Loseke • Brad Lowe • Pam Luciano • Greg Ludvik • Katrina Lupsiakova • Ken Lynch Jr. • Linda Magin • Jamie Manley • Tracy Marshall • Jake Mastera • Corey Matejka • Bridget Matthiessen • Larry Mayer Jr. • Bryant McCann • Shannon McCann • Rusty McConnell • Jo Mcelwain • Alex McGinnis • Joe McTaggart • Linda Meeker • Maggie Mendoza • Carrie Merry • Jason Messerli • Jenni Metzler • Amber Meyer • Emilio Meza • Ian Miller • Matthew Miller • Nolan Miller • Randi Miller • Wesley Miller • Lisa Minchow • Yuri Miranda • Cami Mitelman • Sheena Mommens • Shelly Morton • Rose Moss • Sanjay Motwani • Laura Moulton • Alison Mumaugh • Kathy Mummert • Ana Munoz • Molly Murphy • Tom Myers • Kaitlyne Nash • Pam Nelson • Sara Nelson • Taylor Nelson • Tristen Nelson • Emma Newcomb • Karen Newlon • Jason Newton • Emily Ngo • Jennifer Nguyen • Joan Niemann • Courtney Nitzel • Courtney Nore • Samantha Norman • Keshia Norris • Roxana Novoa • Breanna Obermier • Courtney Oldham • Laura Olinger • Drew Oliver • Levi Olson • Amy Oltman • Tony Ong • Michelle Ostia • Tim Ottersburg • Nikki Pacia • John Palmer • Dikshya Pandey • De'Juan Parker • Brett Parrett • Shilpa Patel • Connie Pautz • Alex Pavlik • Jordan Pedersen • Heidi Peirce • Kathryn Peisert • Christa Peters • Michelle Peters • Dana Petersen • Sam Peterson • Spencer Phillips • Tyler Phillips • Sara Pickrel • Matthew Pierce • Rachel Pinos • Abby Plybon • Paige Pogue • Devika Pondicherry • Bailey Pons • Elliot Presnell • Alex Preston • Molly Preston • Jacob Pribnow • Taylor Price • Abby Protzman • Jona Raasch • Giana Rada • Judy Radford • Cydnee Rand • Melissa Rapp • Angie Rauner • Kaden Rea • Ryan Real • Melissa Recio • Josh Rector • Tony Reinke • Desiree Reutzel • Aulii Reyes • Katie Rhone • Dylan Ritchie • Corbin Rix • Karen Robertus • Andre Rodrigues Ferreira • Christy Rohe • Marcie Rohlf • Tiffany Ryck • Moontaha Saif • Immaculata Sam • Parker Scheer • Nathan Schmitz • Kelsey Schneider • Wes Schoenfelder • Rana Schreiber • Justin Schuerman • April Schulz • Hannah Schwanebeck • Tawna Schwarz • Emily Schweitzer • Logan Schweitzer • Colleen Selvage • Josh Sexson • Maggie Sexson • Mary Shaw • Evan Sheaff • Grant Shinn • Sarah Shockey • Elizabeth Sisney • Hannah Skiff • Kelly Slama • Ted Smidberg • Jay Smith • Raquel Smith • Shak Sobuj • Janae Spiker • Linda Stacy • Carla Steadman • Amber Steffen • Andy Steffen • Jenelle Stein • DeAnn Stephan • Jake Stephens • Erin Steuben • Joel Steuben • Jackie Stevens • Stan Sticka • Lisa Stolzenburg • Ryan Stoner • Vanessa Stuart • Brett Sullivan • Melissa Summers • Dana Svehla • Sydney Svoboda • Jon Tanner • Kim Taruc • Megan Taruc • Jake Tegler • Karol Tharnish • Allison Thomas • Sean Thomas • Micheal Thompson • Matt Timbs • James Tobey • Peyton Tobin • Eugene Tong • Marci Vander Tuig • Mike Vaughn • Peggy Vaughn • Ryan Vavra • Priya Visweswaran • Gunter Voelker • Jen Volland • Becky Volten • Vicki Vopalensky • Kayla Wagner • Rachel Wagner • Ari Wait • Seth Walker • Tim Washburn • Maxia Webb • Sam Weis • Dara Wells • KK West • Andie Westling • Deb Weyers • Connie White • Emily Wiebeck • Jenny Wieseler • Karen Wilken • Mion Wilkinson • Tanner Wilkinson • Josh Willey • Brinn Williams • Sara Winchell • Josh Winder • Rob Wirth • Kendall Witt • Andrew Witte • Kelli Woods • Meghan Wright • Warren Wunderlich • Brian Wynne • Keith Wysocki • Josh Yeoman • Ian York • Ilze Young • Jon Young • Anita Yu • Alex Yuan • Natalia Yunge Ossenkop • Joe Zigmata • Jason Zulkoski



2019 ANNUAL REPORT | 2020 PROXY STATEMENT

Human
understanding

Annual meeting

The annual meeting of shareholders will be held on May 18, 2020, at 12:30 p.m. Central Time, live via the Internet at www.virtualshareholdermeeting.com/nrc2020.

To Our Owners:

National Research Corporation's 2019 revenue increased by 7% to \$128 million and operating income grew 22%. This growth reflects not only your Company's operational strengths, but also its enduring commitment to healthcare consumers.

With a greater focus on the totality of the care experience—not just the clinical encounter—NRC's industry-leading Voice of the Customer (VOC) platform is providing health systems with a unique view into the deeply human relationships they manage, in real time and over time. Every 24 hours, NRC engages more than 450,000 consumers to bring their voices forward in advancing how care is delivered and received.

By all accounts, we are in the earliest days of "the consumerization of healthcare." This movement aligns customers and organizations in a shared commitment to lowering healthcare costs, improving outcomes, and eliminating points of friction along the journey. Accelerating demand for this brighter future should propel interest in NRC solutions.

While we can celebrate the improvement NRC solutions bring to an organization, our responsibility to consumers everywhere is to see all organizations lifted by the collective knowledge of our community. NRC's greatest strength remains the robust and growing network of peers who have become connected through our platform.

In the decade ahead, we predict that the increasing volume and granularity of customer data captured by NRC will be unleashed by research communities and clinicians alike to generate rapid cycles of innovation and produce breakthrough results. The scientific study of patient experience will bring precision and specificity to a vision we call human understanding.

This open network for knowledge-sharing, in which ideas are freely disbursed and indicators of success are commonly tracked, will enable us to properly evaluate our efficacy in addressing healthcare's most pressing challenges. The opportunities are limitless and ever evolving. For the first time, our partner systems will be able to answer questions like, "How do you best form a relationship with a patient that respects their personal preferences and emerging care protocols?" and "How can biases be eliminated that affect the delivery of care to those who differ in race, ethnicity, age, or language?"

Your Company has never been better positioned to pursue bold ambitions. Approaching a team of nearly 500 associates, we have assembled some of the brightest minds and biggest hearts in the Company's history. As we always have, we will run at challenges—not focusing on the obstacles, but seeing the opportunities that lie ahead.

Sincerely,



Steven D. Jackson
President and Fellow Owner

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NATIONAL RESEARCH CORPORATION
D/B/A NRC Health

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held May 18, 2020

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 Monday, May 18, 2020, at 12:30 P.M., Central Time, via the Internet at www.virtualshareholdermeeting.com/nrc2020, for the following purposes:

1. To elect one director to hold office until the 2023 annual meeting of shareholders and until her successor is duly elected and qualified.
2. To ratify the appointment of KPMG LLP as our independent registered public accounting firm for 2020.
3. To conduct an advisory vote to approve the compensation of our named executive officers as disclosed in the accompanying proxy statement.
4. 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 20, 2020, 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 7, 2020

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting To Be Held on May 18, 2020. The National Research Corporation proxy statement for the 2020 Annual Meeting of Shareholders and the 2019 Annual Report to Shareholders are available at www.proxyvote.com.

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.

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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 18, 2020

This proxy statement is being furnished to shareholders by the Board of Directors (the “Board”) of National Research Corporation, doing business as NRC Health (“NRC Health,” the “Company,” “we,” “our,” “us” or similar terms), beginning on or about April 7, 2020, in connection with a solicitation of proxies by the Board for use at the Annual Meeting of Shareholders to be held on Monday, May 18, 2020, at 12:30 P.M., Central Time, virtually via the Internet at www.virtualshareholdermeeting.com/nrc2020, 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 vote their shares during the Annual Meeting. Participation 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 us in writing or in open meeting. Instructions on how to vote while participating in the Annual Meeting live via the Internet are posted at www.virtualshareholdermeeting.com/nrc2020.

A proxy, in the enclosed form, which is properly executed, duly returned to us 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 person nominated for election as a director referred to herein;
- FOR the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for 2020;
- 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); 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 one director, the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for 2020 and the advisory vote to approve 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 our common stock, \$0.001 par value per share (the “Common Stock”), at the close of business on March 20, 2020 (the “Record Date”), are entitled to vote at the Annual Meeting. On that date, we had outstanding and entitled to vote 25,108,892 shares of Common Stock, each of which is entitled to one vote per share. The presence at the Annual Meeting, via live webcast or by proxy, 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.

Information Regarding Participation in the Annual Meeting via the Internet

Due to the emerging public health impact of the coronavirus outbreak (COVID-19) and to support the health and well-being of our associates and shareholders, we will be hosting the Annual Meeting live via the Internet. You will not be able to attend the Annual Meeting in person. Any stockholder can listen to and participate in the Annual Meeting live via the Internet at www.virtualshareholdermeeting.com/nrc2020. The Annual Meeting webcast will begin promptly at 12:30 P.M., Central Time. We encourage you to access the Annual Meeting webcast prior to the start time. Online check-in will begin, and stockholders may begin submitting written questions, at 12:15 P.M., Central Time, and you should allow ample time for the check-in procedures.

You will need the 16-digit control number included on your proxy card or voting instruction form, or included in the e-mail to you if you received the proxy materials by e-mail, in order to be able to vote your shares or submit questions during the Annual Meeting. Instructions on how to connect to the Annual Meeting and participate via the Internet, including how to demonstrate proof of stock ownership, are posted at www.virtualshareholdermeeting.com/nrc2020. If you do not have your 16-digit control number, you will be able to access and listen to the Annual Meeting but you will not be able to vote your shares or submit questions during the Annual Meeting. Our virtual meeting platform vendor will have technicians ready to assist you with any technical difficulties you may have accessing the virtual meeting or submitting questions. If you encounter any difficulties accessing the virtual meeting during the check-in or meeting time, please call the technical support number that will be posted on the Virtual Shareholder Meeting login page.

ELECTION OF DIRECTORS

Our 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 one director to hold office until the 2023 annual meeting of shareholders and until her successor is duly elected and qualified. Unless shareholders otherwise specify, the shares represented by the proxies received will be voted in favor of the election as director of the person named as a nominee herein. The Board has no reason to believe that the listed nominee will be unable or unwilling to serve as a director if elected. However, in the event that such 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. Such 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 director. Votes will be tabulated by an inspector of elections appointed by the Board.

The following sets forth certain information, as of March 20, 2020, about the Board's nominee for election at the Annual Meeting and each director of the Company whose term will continue after the Annual Meeting. Barbara J. Mowry's term as director is expiring at the Annual Meeting and Ms. Mowry is not standing for reelection.

Nominee for Election at the Annual Meeting

Term expiring at the 2023 Annual Meeting

JoAnn M. Martin, 65, has served as a director of the Company since June 2001. Ms. Martin is the Vice Chair of the Board of Ameritas Mutual Holding Company, Ameritas Holding Company, and Ameritas Life Insurance Company ("Ameritas"). Ms. Martin was elected President and Chief Executive Officer of Ameritas, an insurance and financial services company, in July 2005 and served as Chair and Chief Executive Officer until January 2020. From April 2003 to July 2005, she served Ameritas as President and Chief Operating Officer. Prior to that role, Ms. Martin served as Senior Vice President and Chief Financial Officer of Ameritas for more than the preceding five years. In April 2009, Ms. Martin was elected 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 preceding five years, and served as Chief Executive Officer of Ameritas Mutual Holding Company until January 2020. Prior to her retirement from the position of Chief Executive Officer in January 2020, Ms. Martin had served as an officer of Ameritas and/or its affiliates since 1988. Ms. Martin has also served as a director of Nelnet, Inc. (NYSE: NNI), a diversified educational services, technology solutions, telecommunications, and asset management company, since March 2020. Ms. Martin's financial background as a certified public accountant and as the former Chief Financial Officer 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.

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

Directors Continuing in Office

Terms expiring at the 2021 Annual Meeting

Michael D. Hays, 65, 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. Nunnelly, 67, has served as a director of the Company since December 1997. Mr. Nunnelly 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. Nunnelly 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. Nunnelly 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. Nunnelly'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.

Term expiring at the 2022 Annual Meeting

Donald M. Berwick, 73, 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.

CORPORATE GOVERNANCE

Independent Directors and Annual Meeting Attendance

Of the five directors currently serving on the Board, the Board has determined that Donald M. Berwick, JoAnn M. Martin, Barbara J. Mowry and John N. Nunnelly are "independent directors" as that term is defined in the listing standards of The NASDAQ Stock Market.

Directors are typically expected to attend our annual meeting of shareholders each year. For the 2020 Annual Meeting, such attendance will be through the Internet via live webcast. Each of the directors attended our 2019 annual meeting of shareholders.

Currently, we do 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. Nunnelly serving as the lead director since May 2012. The Board believes its current leadership structure is appropriate at this time since it establishes our chief executive officer as the primary executive leader with one vision and eliminates ambiguity as to who has primary responsibility for our 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 five meetings in 2019. All incumbent directors attended all of the meetings of the Board and the committees on which they served during 2019.

The Board has a standing Audit Committee, Compensation and Talent Committee, Nominating Committee and Strategic Planning Committee. Each of these committees has the responsibilities set forth in formal written charters adopted by the Board. We make available copies of each of these charters free of charge on our website located at www.nrchealth.com/our-purpose/investor-relations/corporate-governance/. Other than the text of the charters, we are not including the information contained on or available through our 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 our systems of internal controls regarding finance, accounting, legal compliance and ethics that management and the Board have established; our accounting and financial reporting processes; and the audits of our financial statements. The Audit Committee presently consists of JoAnn M. Martin (Chairperson), Barbara J. Mowry, John N. Nunnelly, and Donald M. Berwick, 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 2019.

The Compensation and Talent Committee determines compensation programs for our executive officers, reviews management's recommendations as to the compensation to be paid to other key personnel and administers our equity-based compensation plans. The Compensation and Talent Committee presently consists of Barbara J. Mowry (Chairperson), JoAnn M. Martin, John N. Nunnelly, and Donald M. Berwick, each of whom meets the independence standards of The NASDAQ Stock Market and the Securities and Exchange Commission for compensation committee members. The

Compensation and Talent Committee held three meetings in 2019. From time to time, with the last time being in 2015, the Compensation and Talent Committee or our management has engaged a nationally recognized compensation consultant to assist us in our review of our compensation and benefits programs, including the competitiveness of pay levels, executive compensation design issues, market trends and technical considerations. The Compensation and Talent Committee, however, did not use this information in setting the compensation of our executive officers in 2019.

The Nominating Committee presently consists of Donald M. Berwick (Chairperson), Barbara J. Mowry and John N. Nunnally, 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 held one meeting in 2019.

The Strategic Planning Committee assists the Board in reviewing and, as necessary, altering, our strategic plan, reviewing industry trends and their effects, if any, on us and assessing our products, services and offerings and the viability of such portfolio in meeting the needs of the markets that we serve. John N. Nunnally (Chairperson), Donald M. Berwick, JoAnn M. Martin and Barbara J. Mowry are the current members of the Strategic Planning Committee. The Strategic Planning Committee held one meeting in 2019.

Ms. Mowry's term as director is expiring at the Annual Meeting and she is not standing for reelection. Accordingly, Ms. Mowry will cease to serve on the abovementioned committees upon the expiration of her term at the Annual Meeting.

Board Oversight of Risk

The full Board is responsible for the oversight of our operational and strategic risk management process. The Board relies on its Audit Committee to address significant financial risk exposures facing us 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 and Talent Committee to address significant risk exposures facing us with respect to compensation, with appropriate reporting of these risks to be made to the full Board. The Board's role in our 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. Our 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 the event, however, that the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from the second Wednesday in the month of April, in order to be timely notice by the shareholder must be received not earlier than the 90th day prior to the date of such annual meeting and not later than the close of business on the later of (i) the 60th day prior to such annual meeting and (ii) the 10th day following the day on which public announcement of the date of such meeting is first made.

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 us. 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.

Compensation Committee Interlocks and Insider Participation

Ms. Mowry, Ms. Martin, Mr. Nunnally, and Mr. Berwick served on the Compensation and Talent Committee during 2019. None of such individuals were our officers or employees at any time during 2019 or as of the date of this Proxy Statement, nor was any such individual a former officer of the Company. In 2019 we purchased dental and vision insurance for certain of our associates from Ameritas,

a company for whom Ms. Martin served as Chair and Chief Executive Officer during 2019, in arms' length transactions for \$241,500. See *Transactions with Related Persons* for additional information on this transaction. Otherwise, in 2019, no member of our Compensation and Talent Committee had any relationship or transaction with us that would require disclosure as a "related person transaction" under Item 404 of Securities and Exchange Commission Regulation S-K in this Proxy Statement under the section entitled *Transactions with Related Persons*.

During 2019, none of our executive officers served as a member of the board of directors or compensation committee (or other board committee performing equivalent functions) of another entity, one of whose executive officers served on our Compensation and Talent Committee. Additionally, during 2019, none of our executive officers served as a member of the compensation committee (or other board committee performing equivalent functions) of another entity, one of whose executive officers served as a member of our Board or Compensation and Talent Committee.

Transactions with Related Persons

Except as otherwise disclosed in this section, we had no related person transactions during 2019, 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.

Until January 2020, Ms. Martin served as Chair and Chief Executive Officer of Ameritas and Ms. Martin continues to serve on the board of directors of Ameritas and certain of its affiliated companies. In connection with our regular assessment of our insurance-based associate benefits and the costs associated therewith, which is conducted by an independent insurance broker, in 2007 we began purchasing dental insurance for certain of our associates from Ameritas and, in 2009, we also began purchasing vision insurance for certain of our associates from Ameritas. 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 \$241,500 in 2019.

During 2017, we acquired a cost method investment in convertible preferred stock of PracticingExcellence.com, Inc., a privately-held Delaware corporation ("PX"). Our President, Steve Jackson, serves on the board of directors of PX pursuant to board appointment rights we obtained in connection with our investment. Prior to the investment, we entered into an agreement with PX, under which we act as a reseller of PX services (the "PX reseller agreement"). The total revenue earned from

the PX reseller agreement was \$578,000 in 2019. These transactions were conducted at arms' length and approved by the Audit Committee pursuant to our related person transaction policies and procedures.

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.

Information About Our Executive Officers

Set forth below is certain information regarding our current executive officers (other than our CEO, Mr. Hays, for whom information is set forth above under *Directors Continuing in Office*).

Steven D. Jackson, 44, has served as our President since October 2015. He served as Group President from October 2014 until September 2015, during which time he oversaw our Market Insights, Transparency, and Predictive Analytics business units. Prior to joining us, 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, 62, has served as our Chief Financial Officer, Treasurer and Secretary since September 2011, and as Senior Vice President Finance since he joined us 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.

Our executive officers are elected by and serve at the discretion of the Board. There are no family relationships between any of our directors or executive officers. There are no arrangements or understandings between any of our executive officers and any other person pursuant to which any of our executive officers was or is to be selected as an officer.

Employee, Officer and Director Hedging

We do not have practices or policies regarding the ability of employees (including officers) or directors of the Company, or any of their designees, to purchase financial instruments, or otherwise engage in transactions, that hedge or offset, or are designed to hedge or offset, any decrease in the market value of our equity securities. Our officers and Named Executive Officers have not historically engaged in any such hedging transactions and as of the Record Date none of our officers or Named Executive Officers were party to any such hedging transactions.

2019 DIRECTOR COMPENSATION

Directors who are executive officers of the Company receive no compensation for service as members of either the Board or committees thereof. Directors who are not executive officers of the Company receive 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 our lead director from 2007 to May 2012, and Mr. Nunnelly has served as our lead director since May 2012.

Pursuant to the National Research Corporation 2004 Non-Employee Director Stock Plan, as amended (the “Director Plan”), each director who is not an associate (i.e., employee) of the Company also receives an annual grant of an option to purchase shares of our Common Stock on the date of each Annual Meeting of Shareholders. For the period from January 1, 2019 to December 31, 2019, each director who was not an associate of the Company received a grant of options to purchase shares of our Common Stock with a target grant date fair value of \$100,000, computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation-Stock Compensation (“FASB ASC Topic 718”), or successor rule, on the date of our 2019 annual meeting of shareholders. The options were granted with an exercise price equal to the fair market value of our common stock on the date of grant, and are scheduled to vest the day immediately preceding the Annual Meeting.

The following table sets forth information regarding the compensation received by each of our directors during 2019:

<u>Name</u>	<u>Fees Earned or Paid in Cash</u>	<u>Option Awards⁽¹⁾</u>	<u>Total</u>
Donald M. Berwick	\$ 50,000	\$ 99,996	\$ 149,996
JoAnn M. Martin	\$ 50,000	\$ 99,996	\$ 149,996
Barbara J. Mowry ⁽²⁾	\$ 50,000	\$ 99,996	\$ 149,996
John N. Nunnelly	\$ 75,000	\$ 99,996	\$ 174,996

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 9 to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the years ended December 31, 2019, December 31, 2018, and December 31, 2017, for a discussion of assumptions made in the valuation of share-based compensation. As of December 31, 2019, the outstanding option awards for each director were as follows: Dr. Berwick – 6,821 options; Ms. Martin – 269,261 options; Ms. Mowry – 150,821 options; and Mr. Nunnelly – 55,283 options.

² Ms. Mowry’s term is expiring at the Annual Meeting and she is not standing for reelection.

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 2019 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 on the Company's internal control over financial reporting.

The Audit Committee discussed with the independent registered public accounting firm matters required to be discussed under the applicable requirements of the Public Company Accounting Oversight Board regarding communications with audit committees. 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. 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, 2019, 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
Donald M. Berwick

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding the beneficial ownership of Common Stock as of the Record Date (i.e., March 20, 2020) 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 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 25,108,892 shares of Common Stock outstanding.

Name of Beneficial Owner	Shares Beneficially Owned	
	Shares	% ⁽¹⁾
Directors and Executive Officers ⁽²⁾		
Michael D. Hays.....	224,246 ⁽³⁾⁽⁴⁾	*
Steven D. Jackson	84,696	*
Kevin R. Karas	62,311 ⁽⁴⁾⁽⁵⁾	*
Donald M. Berwick	0	*
JoAnn M. Martin.....	465,479 ⁽⁴⁾	1.8%
Barbara J. Mowry.....	150,902 ⁽⁴⁾	*
John N. Nunnelly	75,356 ⁽⁴⁾	*
All directors, nominees and executive officers as a group (seven persons)	1,062,990 ⁽⁴⁾	4.2%
Other Holders		
Amandla MK Trust and Patrick E. Beans, as the Special Holdings Direction Advisor under this Trust ⁽⁶⁾	6,421,545	25.6%
The K/I/E Trust Under Agreement dated 10/24/18 and Patrick E. Beans, as the Special Holdings Direction Advisor under this Trust ⁽⁷⁾	4,755,013	19.0%
Kayne Anderson Rudnick Investment Management LLC ⁽⁸⁾	2,987,062	11.9%

* Denotes less than 1%.

- ⁽¹⁾ In accordance with applicable rules under the Securities Exchange Act of 1934, as amended, the number of shares indicated as beneficially owned by a person includes shares of common stock and shares underlying options that are currently exercisable or will be exercisable within 60 days of March 20, 2020. Shares of common stock underlying stock options that are currently exercisable or will be exercisable within 60 days of March 20, 2020 are deemed to be outstanding for purposes of computing the percentage ownership of the person holding such options, but are not deemed outstanding for purposes of computing the percentage ownership of any other person.
- ⁽²⁾ The address of all directors and officers is 1245 Q Street, Lincoln, Nebraska 68508.
- ⁽³⁾ Includes 139,095 shares of Common Stock held by Mr. Hays' wife. Mr. Hays disclaims beneficial ownership of the shares held by his wife.
- ⁽⁴⁾ Includes shares of Common Stock that may be purchased under stock options which are currently exercisable or exercisable within 60 days of March 20, 2020, as follows: Mr. Hays, 56,550 shares; Mr. Karas, 44,735 shares; Ms. Martin, 190,440 shares; Mr. Nunnelly, 48,462 shares; Ms. Mowry, 144,000 shares; and all directors, nominees and executive officers as a group, 484,187 shares.
- ⁽⁵⁾ Includes 13,576 shares of Common Stock pledged as security.
- ⁽⁶⁾ The trustee of this Trust is The Bryn Mawr Trust Company of Delaware and its address is 20 Montchanin Road, Suite 100, Greenville, Delaware 19807. The address of the Special Holdings Direction Advisor for this Trust is 709 Pier 2, Lincoln, Nebraska 68528.
- ⁽⁷⁾ 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 709 Pier 2, Lincoln, Nebraska 68528.
- ⁽⁸⁾ The number of shares owned set forth above in the table is as of or about December 31, 2019 as reported by Kayne Anderson Rudnick Investment Management LLC ("Kayne Anderson") in its amended Schedule 13G filed with the Securities and Exchange Commission. The address for Kayne Anderson is 1800 Avenue of the Stars, 2nd Floor, Los Angeles, California 90067. Kayne Anderson reports sole voting and dispositive power with respect 576,424 of these shares and shared voting and dispositive power with respect to 2,410,638 of these shares. The amended Schedule 13G further provides that the shares noted as beneficially owned by Kayne Anderson include: (i) 2,420,638

shares beneficially owned by Virtus Investment Advisers, Inc., One Financial Plaza, Hartford, Connecticut 06103, for which such person has shared voting and dispositive power, and (ii) 2,359,518 shares beneficially owned by Virtus Equity Trust, on behalf of Virtus KAR Small Cap Growth Fund, 101 Munson Street, Greenfield, Massachusetts 01301, for which such person has shared voting and dispositive power.

DELINQUENT SECTION 16(A) REPORTS

Section 16(a) of the Securities Exchange Act of 1934 requires our directors, executive officers and any owner of greater than 10% of our Common Stock to file reports with the Securities and Exchange Commission concerning their ownership of our Common Stock. Based solely upon information provided to us by individual directors and executive officers, we believe that, during the fiscal year ended December 31, 2019, all of our directors and executive officers and owners of greater than 10% of our Common Stock complied with the Section 16(a) filing requirements, except that (i) a Form 4 for each of Mr. Berwick, Ms. Martin, Ms. Mowry and Mr. Nunnally (each reporting a grant of an option to purchase shares of Common Stock on the date of the 2019 annual meeting of shareholders pursuant to the National Research Corporation 2004 Non-Employee Director Stock Plan, as amended) and (ii) a Form 4 for The K/I/E Trust Under Agreement 10/24/18 and Patrick E. Beans, as Special Holdings Direction Advisor under the K/I/E Trust Under Agreement 10/24/18 (reporting a stock sale) were not timely filed.

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, 2020.

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 participate in the Annual Meeting via the live webcast 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, 2020 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.

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

Key features of our compensation program include the following:

- ✓ Conservative pay policy with total named executive officer and director compensation positioned below the median
- ✓ Direct link between pay and performance that aligns business strategies with stockholder value creation
- ✓ Annual say-on-pay votes
- ✓ No tax gross-ups
- ✓ No excessive perquisites for executives
- ✓ No change of control or severance obligations to named executive officers, including no accelerated vesting of equity awards upon a change of control
- ✓ No re-pricing or back-dating of stock options or similar awards
- ✓ Appropriate balance between short- and long-term compensation that discourages short-term risk taking at the expense of long-term results
- ✓ Five year vesting period for executive option grants

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:

- Competitive Pay for Our Market. We strive to compensate our executive officers at levels to ensure that we continue to attract and retain a highly competent, committed management team. Our Midwest headquarters provides a low cost of living that allows us to provide compensation that accomplishes this goal while keeping total compensation below that of many similar companies.
- Align with Shareholders. We seek to align the interests, perspectives and decision-making of our executive officers with the interests of our shareholders.
- Incentivize Performance. We link our executive officers’ compensation, particularly annual cash bonuses, to our established 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 and Talent Committee

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

- Barbara J. Mowry (Chairperson)
- JoAnn M. Martin

- John N. Nunnally
- Donald M. Berwick

The Committee is responsible for discharging the Board's responsibilities with respect to all significant aspects of our compensation policies, programs and plans, and accordingly the 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 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. From time to time, the Committee or management has engaged a nationally recognized compensation consultant to conduct a benchmarking study of executive compensation levels and practices. This market information has, in the past, been used to help inform and shape decisions, but was (and is) neither the only nor the determinative factor in making compensation decisions.

At the time our Committee recommended, and our Board approved, our named executive officers' 2019 compensation, our most recent review of our compensation and benefit programs was in late 2015, when our Committee engaged Aon Hewitt to review our programs before determining compensation for 2016.

In determining compensation levels for our named executive officers in 2019, our Committee did not engage Aon Hewitt or any other compensation consultant to provide advice concerning executive officer compensation.

One objective of the Committee in setting compensation for our executive officers, other than our Chief Executive Officer, is to establish base salary at a level that will attract and retain highly-qualified individuals. The 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 also consider individual performance, level of responsibility, skills and experience, and internal comparisons among executive officers in determining base salary levels.

The 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 Committee considers internal comparisons and other existing compensation awards or arrangements in making compensation decisions and recommendations. In its decision-making process, the 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 Committee considers relevant factors, including our performance and relative shareholder return and the awards given to the executive officer in past years. The 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 Committee took the following steps in determining 2019 compensation levels for our named executive officers:

- Considered the performance of our Chief Executive Officer and determined his total compensation;
- Considered 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 recommendations by our Chief Executive Officer (as to the other officers) and the Committee's consideration of the Company's and the individual officer's performance.

2019 Say on Pay Vote

In May 2019 (after the 2019 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.

Total Compensation

We intend to continue our strategy of compensating our executive officers 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 2019 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 Committee reviews annually the salary and total compensation levels of Michael D. Hays, our Chief Executive Officer. While Mr. Hays' salary and overall compensation are significantly below the median level paid to chief executive officers of comparable companies, he requested that his base salary and targeted overall compensation remain unchanged. The Committee has not proposed an increase in his salary or overall compensation since 2005.

Elements of Compensation

Base Salary

The objective of the Committee is to establish base salary, when aligned with performance incentives, to continue to attract and retain the best talent (with the exception of Mr. Hays' salary as noted above). We have historically attempted to minimize base salary increases in order to limit our executive compensation expense if we do not meet our objectives for financial growth under our incentive compensation program.

Consistent with this practice, the Committee left Mr. Hays', Mr. Karas' and Mr. Jackson's base salaries unchanged in 2019, maintaining the salary levels in place since 2016. 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. Karas and Mr. Jackson, the decision was based on our performance and the belief that that Mr. Karas' and Mr. Jackson's salaries were at an appropriate level to retain their talent.

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	54%
Kevin R. Karas	55%
Steven D. Jackson	55%

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 total cash compensation to attract and retain key executive talent;
- 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 Committee establishes performance measures for our named executive officers at the beginning of each year. For 2019, the Committee used our overall revenue and net income as performance measures because the 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 Committee weighted the two performance measures equally in determining bonus payouts. The 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 2019 over 2018, starting from “dollar one” of such growth. Consistent with past years, the 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 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 2019. The 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 Committee concluded that their 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 2019, along with the percentages of their total compensation (as calculated for purposes of the Summary Compensation Table) that these amounts represent.

<u>Name</u>	<u>2019 Actual Bonus Percentage of Total Compensation</u>	<u>2019 Actual Bonus Amount</u>
Michael D. Hays	20%	\$ 47,265
Kevin R. Karas	20%	\$ 105,735
Steven D. Jackson	20%	\$ 111,300

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 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 with respect to our 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 each share 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, pursuant to which the options do not become fully vested and exercisable until the fifth anniversary of the grant date.

In determining equity incentive awards for 2019, the Committee concluded that setting annual equity awards for our named executive officers at a grant date target fair value of approximately 50% of their respective then-current base salaries would provide competitive compensation consistent with our goals for equity awards. The Committee generally grants stock options effective on a date in the first week of January. Accordingly, effective January 3, 2019, the Committee granted options to each of our named executive officers. To determine the number of option shares with a grant date target fair value approximately equal to 50% of an executive officer's base salary, the Committee divided 50% of the current base salary by the most recent Common Stock closing price to determine the number of shares that equal 50% of the current base salary. The number of shares were then multiplied by a factor of three to determine the number of option shares to be granted. The number of options granted to our named executive officers is shown in the Grants of Plan-Based Awards Table.

For 2019, no performance-based equity awards were granted to our named executive officers. Our Committee may, however, consider in the future conditioning awards on the achievement of various performance goals, including return on equity, shareholder value added, earnings from operations, net earnings, net earnings per share, market price of our common stock and/or total shareholder return.

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.

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.

2019 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. 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 2019. The identification of such named executive officers is determined based on the individual’s total compensation for 2019, 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 2019, 2018, and 2017: (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>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	2019	\$ 127,400	\$ 54,890	\$47,265	\$ 4,323	\$ 233,878
	2018	\$ 127,400	\$ 53,332	\$104,468	\$ 4,267	\$ 289,467
	2017	\$ 127,400	\$ 42,000	\$ 61,534	\$ 4,831	\$ 235,765
Kevin R. Karas Senior Vice President Finance, Chief Financial Officer, Treasurer and Secretary	2019	\$ 285,000	\$ 122,782	\$105,735	\$ 6,529	\$ 520,046
	2018	\$ 285,000	\$ 119,307	\$ 233,700	\$ 6,604	\$ 644,611
	2017	\$ 285,000	\$ 93,995	\$ 137,655	\$ 5,724	\$ 522,334
Steven D. Jackson President	2019	\$ 300,000	\$ 129,239	\$111,300	\$ 5,100	\$ 545,639
	2018	\$ 300,000	\$ 125,582	\$ 246,000	\$ 5,025	\$ 676,607
	2017	\$ 300,000	\$ 98,899	\$ 144,900	\$ 4,800	\$ 548,599

⁽¹⁾ Represents the aggregate grant date fair value of the option awards granted during the year, computed in accordance with FASB ASC Topic 718. See Note 9 to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2019 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. Hays and Karas, the amount of our health saving account matching contributions; and for Messrs. Karas and Jackson, the amount of our technology allowance.

GRANTS OF PLAN-BASED AWARDS IN 2019

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 2019.

<u>Name</u>	<u>Grant Date</u>	<u>Date of Committee Action</u>	<u>Threshold (\$)⁽³⁾</u>	<u>Estimated Future Payouts Under Non-Equity Incentive Plan Awards⁽¹⁾</u>		<u>All Other Option Awards: No. of Securities Underlying Options (#)⁽²⁾</u>	<u>Exercise or Base Price of Option Awards (\$)⁽²⁾</u>	<u>Closing Price on Date of Grant (\$)</u>	<u>Grant Date Fair Value of Stock and Option Awards (\$)</u>
				<u>Target (\$)</u>	<u>Maximum (\$)</u>				
Michael D. Hays	1/3/2019	12/18/2018	--	\$ 63,700	\$ 254,800	4,990	\$ 38.30	\$ 37.20	\$ 54,890
Kevin R. Karas	1/3/2019	12/18/2018	--	\$142,500	\$570,000	11,162	\$ 38.30	\$ 37.20	\$ 122,782
Steven D. Jackson	1/3/2019	12/18/2018	--	\$150,000	\$600,000	11,749	\$ 38.30	\$ 37.20	\$ 129,239

⁽¹⁾ These amounts represent only potential payments under the 2019 incentive plan awards; the actual amounts received (if any) are shown in the Summary Compensation Table above.

⁽²⁾ The 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 2, 2019, the day immediately prior to the grant date.

⁽³⁾ There were no thresholds for payments under these 2019 incentive plan awards; payments below target would be made for any year-over-year increase in any of the applicable performance measures.

OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2019

The following table sets forth information on outstanding option and stock awards held by the named executive officers at December 31, 2019, 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>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>	<u>(#)</u>
Michael D. Hays	26,481 ⁽¹⁾⁽²⁾	-	\$6.30	01/05/20			
	17,745 ⁽¹⁾⁽³⁾	-	\$9.14	01/05/21			
	14,949 ⁽¹⁾⁽⁴⁾	-	\$10.75	01/05/22			
	10,938 ⁽¹⁾⁽⁵⁾	-	\$14.50	01/07/23			
	2,904 ⁽¹⁾⁽⁶⁾	-	\$18.80	01/07/24			
	-	10,014 ⁽¹⁾⁽⁷⁾	\$13.17	01/06/25			
	-	9,145 ⁽¹⁾⁽⁸⁾	\$15.23	01/05/26			
	-	7,478 ⁽¹⁾⁽⁹⁾	\$18.80	01/04/27			
	-	5,193 ⁽¹⁾⁽¹⁰⁾	\$36.80	01/03/28			
	-	4,990 ⁽¹⁾⁽¹¹⁾	\$38.30	01/03/29			
Kevin R. Karas	20,088 ⁽¹⁾⁽⁵⁾	-	\$14.50	01/07/23			
	5,334 ⁽¹⁾⁽⁶⁾	-	\$18.80	01/07/24			
	-	19,313 ⁽¹⁾⁽⁷⁾	\$13.17	01/06/25			
	-	20,458 ⁽¹⁾⁽⁸⁾	\$15.23	01/05/26			
	-	16,728 ⁽¹⁾⁽⁹⁾	\$18.80	01/04/27			
	-	11,617 ⁽¹⁾⁽¹⁰⁾	\$36.80	01/03/28			
	-	11,612 ⁽¹⁾⁽¹¹⁾	\$38.30	01/03/29			
Steven D. Jackson	-	21,535 ⁽¹⁾⁽⁸⁾	\$15.23	01/05/26	52,477 ⁽¹²⁾	\$3,460,333 ⁽¹²⁾	
	-	17,608 ⁽¹⁾⁽⁹⁾	\$18.80	01/04/27			

Option Awards

Stock Awards

<u>Name</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>
	<u>(Exercisable) (#)</u>	<u>(Unexercisable) (#)</u>	<u>Have Not Vested</u>	<u>Have Not Vested</u>					
	-	-	12,228 ⁽¹⁰⁾	-	\$36.80	01/03/28	-	-	
	-	-	11,749 ⁽¹¹⁾	-	\$38.30	01/03/29	-	-	

- (1) Option to purchase shares of common stock.
- (2) Options vest in full on the fifth anniversary of the grant date. These options vested on January 5, 2015.
- (3) Options vest in full on the fifth anniversary of the grant date. These options vested on January 5, 2016.
- (4) Options vest in full on the fifth anniversary of the grant date. These options vested on January 5, 2017.
- (5) Options vest in full on the fifth anniversary of the grant date. These options vested on January 7, 2018.
- (6) Options vest in full on the fifth anniversary of the grant date. These options vested on January 7, 2019.
- (7) Options vest in full on the fifth anniversary of the grant date. These options vested on January 6, 2020.
- (8) Options vest in full on the fifth anniversary of the grant date. These options will vest on January 5, 2021.
- (9) Options vest in full on the fifth anniversary of the grant date. These options will vest on January 4, 2022.
- (10) Options vest in full on the fifth anniversary of the grant date. These options will vest on January 3, 2023.
- (11) Options vest in full on the fifth anniversary of the grant date. These options will vest on January 3, 2024.
- (12) Restricted shares of common stock that become fully vested on the fifth anniversary of the grant dates, which occurred in 2015: 15,721 shares vested on January 6, 2020 and 36,756 shares will vest on October 1, 2020. The market value is based on the \$65.94 per share closing price of our common stock on The NASDAQ Stock Market on December 31, 2019.

OPTION EXERCISES AND STOCK VESTED IN 2019

Name	Option Awards	
	Number of Shares Acquired on Exercise (#) ⁽¹⁾	Value Realized on Exercise (\$) ⁽²⁾
Michael D. Hays	20,109	\$ 602,265
Kevin R. Karas	26,403	\$ 1,407,280
Steven D. Jackson	--	--

(1) Shares of common stock.

(2) 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.

Risk Assessment of Compensation Policies and Practices

The Board relies on the Committee to address risk exposures facing us 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 our compensation policies and practices and considers safeguards against incentives to take excessive risks. Based on its most recent review, the Committee has concluded that the risks arising from our compensation policies and practices for its associates are not reasonably likely to have a material adverse effect on us.

COMPENSATION COMMITTEE REPORT

The 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
JoAnn M. Martin
John N. Nunnally
Donald M. Berwick

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 15, we have designed our executive compensation and benefit programs for our executive officers, including our named executive officers, to advance the following core principles:

- Competitive Pay for Our Market. We strive to compensate our executive officers at levels to ensure that we continue to attract and retain a highly competent, committed management team. Our Midwest headquarters provides a low cost of living that allows us to provide compensation that accomplishes this goal while keeping total compensation below that of many similar companies.
- Align with Shareholders. We seek to align the interests, perspectives and decision-making of our executive officers with the interests of our shareholders.
- Incentivize Performance. We link our executive officers' compensation, particularly annual cash bonuses, to our established 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 15 and the tabular and other disclosures on compensation beginning on page 21, 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.

Based on the outcome of the advisory vote on the frequency of shareholder votes on executive compensation at our 2017 annual shareholders meeting, the Company will ask its shareholders to consider an advisory vote on the compensation of our named executive officers every year until otherwise determined by a vote of our shareholders pursuant to applicable Securities and Exchange Commission rules. The next advisory vote on the compensation of our named executive officers will occur at the 2021 annual meeting of shareholders.

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.

CEO PAY RATIO

As required by Item 402(u) of Regulation S-K promulgated under the Securities Exchange Act of 1934, we are providing the following information about the ratio of the median annual total compensation of our associates (i.e., employees) and the annual total compensation of Michael D. Hays, our Chief Executive Officer. For the year ended December 31, 2019:

- the median of the annual total compensation of all associates of the Company was reasonably estimated to be \$63,703; and
- the annual total compensation of Mr. Hays was \$233,878.
- Based on this information, the ratio of the annual total compensation of our Chief Executive Officer to the median of the annual total compensation of all other associates is estimated to be 3.67 to 1.

We identified that median associate by examining total cash compensation (i.e., base wages plus cash bonuses and/or commissions) for 2019 of all individuals employed by us on December 1, 2019 (other than Mr. Hays), whether full-time, part-time or on a seasonal basis. We annualized total cash compensation for all permanent associates who were hired after January 1, 2019, as permitted by the rules of the Securities and Exchange Commission. To calculate total cash compensation for any associate paid in currency other than U.S. dollars, we then applied the applicable foreign currency exchange rate in effect on December 1, 2019 to convert such associate’s total cash compensation into U.S. dollars.

To calculate the 2019 annual total compensation of our median associate for purposes of this disclosure, we added together all of the elements of our median associate’s compensation for 2019 in the same way that we calculate the annual total compensation of our named executive officers in the Summary Compensation Table. To calculate Mr. Hays’ annual total compensation, we used the amount reported in the “Total” column of our 2019 Summary Compensation Table. To calculate our ratio, we divided Mr. Hays’ annual total compensation by the annual total compensation of our median associate.

MISCELLANEOUS

Independent Registered Public Accounting Firm

KPMG LLP acted as the independent registered public accounting firm for us in 2019. The Audit Committee is solely responsible for the selection, retention, oversight and, when appropriate, termination of our independent registered public accounting firm.

The fees to KPMG LLP for the fiscal years ended December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Audit Fees ⁽¹⁾	\$449,748	\$416,115
Audit-Related Fees ⁽²⁾	134,726	101,299
Tax Fees ⁽³⁾	203,336	122,500
All Other Fees	--	25,000
Total	<u>\$787,810</u>	<u>\$664,914</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, including out-of-pocket expenses.

(2) Information security audit services, including out-of-pocket expenses.

(3) Tax consultations and tax return preparation including out-of-pocket expenses. Of this amount, \$68,834 related to tax return preparation services and \$134,502 related to tax consulting services.

The Audit Committee has established pre-approval policies and procedures with respect to audit and permitted non-audit services to be provided by our 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 2019, 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. We 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 our 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 our annual report to shareholders and proxy statement, unless we have received contrary instructions from one or more of the shareholders. Upon written or oral request, we 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 us 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 our shareholders intend to present at and have included in our proxy statement for the 2021 annual meeting pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended (“Rule 14a-8”), must be received by us by the close of business on December 8, 2020. In addition, a shareholder who otherwise intends to present business at the 2021 annual meeting (including nominating persons for election as directors) must comply with the requirements set forth in our 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. In the event, however, that the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from the second Wednesday in the month of April, in order to be timely notice by the shareholder must be received not earlier than the 90th day prior to the date of such annual meeting and not later than the close of business on the later of (i) the 60th day prior to such annual meeting and (ii) the 10th day following the day on which public announcement of the date of such meeting is first made. Under the By-Laws, if we do not receive notice of a shareholder proposal submitted otherwise than pursuant to Rule 14a-8 (i.e., proposals shareholders intend to present at the 2021 annual meeting but do not intend to include in our proxy statement for such meeting) prior to February 14, 2021, then the notice will be considered untimely and we will not be required to present such proposal at the 2021 annual meeting. If the Board chooses to present such proposal at the 2021 annual meeting, then the persons named in proxies solicited by the Board for the 2021 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 7, 2020

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

FORM 10-K

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

For the fiscal year ended December 31, 2019

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: 001-35929

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:

Title of Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, \$.001 par value	NRC	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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(s) of the Exchange Act.

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 common stock held by non-affiliates of the registrant at June 28, 2019: \$566,163,144.

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

Common Stock, \$.001 par value, outstanding as of February 28, 2020: 25,027,889 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2020 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.....	7
Item 1B. Unresolved Staff Comments.....	12
Item 2. Properties.....	12
Item 3. Legal Proceedings.....	12
Item 4. Mine Safety Disclosures.....	12
PART II	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.....	13
Item 6. Selected Financial Data.....	15
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.....	16
Item 7A. Quantitative and Qualitative Disclosure About Market Risk.....	24
Item 8. Financial Statements and Supplementary Data.....	25
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	54
Item 9A. Controls and Procedures.....	54
Item 9B. Other Information.....	54
PART III	
Item 10. Directors, Executive Officers and Corporate Governance.....	55
Item 11. Executive Compensation.....	55
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters.....	55
Item 13. Certain Relationships and Related Transactions, and Director Independence.....	55
Item 14. Principal Accountant Fees and Services.....	55
PART IV	
Item 15. Exhibits.....	56
Item 16. Form 10-K Summary.....	57
Signatures.....	59

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 our future plans, objectives or goals are also forward-looking statements. In this Annual Report on Form 10-K, statements regarding the future value and utility of, and market demand for, our service offerings, our ability to compete successfully in the future, future opportunities for growth with respect to new and existing clients, future acquisition opportunities, future consolidation in the healthcare industry, the future adequacy of our liquidity sources, future revenue sources, future capital expenditures, and the future phase out of LIBOR and applicable replacement benchmark rates, among others, are 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 our client service contracts and retention of key clients;
- Our ability to compete in our markets, which are highly competitive with new market entrants, 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;
- Our ability to attract and retain key managers and other personnel;
- The possibility that our intellectual property and other proprietary information technology could be copied or independently developed by our competitors;
- The possibility for failures or deficiencies in our information technology platform;
- The possibility that we 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 we undertake no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances, except as required by the federal securities laws.

General

We are 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 organizations. Our solutions enable our clients to understand the voice of the customer with greater clarity, immediacy and depth. Our 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. Our 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. We believe that access to and analysis of our extensive consumer-driven information is becoming more valuable as healthcare providers increasingly need to more deeply understand and engage the people they serve to build customer loyalty.

Our expertise includes the efficient capture, transmittal, benchmarking, analysis and interpretation of critical data elements from millions of healthcare consumers. Using our digital Voice of the Customer platform, our 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. We also provide legacy experience-based solutions and shared intelligence from industry thought leaders and the nation's largest member network focused on healthcare governance and strategy to member boards and executives.

Our portfolio of subscription-based solutions provides actionable information and analysis to healthcare organizations across a range of mission-critical, constituent-related elements, including patient experience, service recovery, care transitions, health risk assessments, employee engagement, reputation management and brand loyalty. We partner with clients across the continuum of healthcare services. Our clients include integrated health systems, post-acute providers and payer organizations. We believe 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.

We have achieved a market leadership position through our more than 38 years of industry innovation and experience, as well as our 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 our founding in 1981, we have focused on meeting the evolving information needs of the healthcare industry through internal product development, as well as select acquisitions. We are 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 \$3.6 trillion in 2018, or \$11,172 per person. In total, health spending accounted for 17.7% of the nation's Gross Domestic Product in 2018. Addressing this growing expenditure burden continues to be a major policy priority at both federal and state levels. In addition, 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.

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. This transformation towards value-based payment models and increased engagement of healthcare consumers is resulting in a greater need for existing healthcare providers to deliver more customer-centric healthcare. At the same time, organizations that have successfully developed effective customer service models and brand loyalty in other industry verticals are entering the healthcare services market.

We believe that our current portfolio of solutions is uniquely aligned to address these healthcare market trends and related business opportunity. We provide tools and solutions to capture, interpret and improve the Consumer Assessment of Healthcare Providers and Systems ("CAHPS") data required by CMS as well as real time feedback that enables clients to better understand what matters most to people at key moments in their relationship with a health organization. Our solutions enable our clients to both satisfy patient survey compliance requirements and design experiences to build loyalty and improve the wellbeing of the people and communities they care for.

Our Solutions

Our portfolio of solutions represent a unique set of capabilities that individually and collectively provide value to our clients. The solutions are offered at an enterprise level through the Voice of the Customer platform, The Governance Institute, and legacy Experience solutions.

Voice of the Customer Platform Solutions

Our Voice of the Customer ("VoC") platform represents a portfolio of solutions that collectively provide a comprehensive set of capabilities that enable healthcare providers to collect, measure and analyze data collected across the patient journey to understand the preferences, experiences and needs of the people they serve. The digital platform consists of three primary solution categories which can be implemented both collectively as an enterprise solution or individually to meet specific needs within the organization. The primary solution categories include Market Insights solutions, Transparency solutions, and certain Experience solutions.

Market Insights Solutions – Our 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. Market Insights is the largest U.S. healthcare consumer database of its kind, measuring the opinions and behaviors of approximately 300,000 healthcare consumers in over the top 300 markets across the country annually. Our 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. Our 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. Our Market Insights solutions were historically marketed under the Healthcare Market Guide and Ticker brands.

Experience Solutions – Our Experience solutions are provided on a subscription basis via a cross-continuum VoC platform that collects and measures data and then delivers business intelligence that our clients utilize to improve patient experience, engagement and loyalty. Patient experience data can also be collected on a periodic basis using CAHPS compliant mail and telephone survey methods for regulatory compliance purposes and to monitor and measure improvement in CAHPS survey scores. CAHPS survey data can be collected and measured as an integrated service within the VoC platform or independently as a legacy service offering. Our 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, which are provided through the Experience, Transitions and National Research Canada Corporation operating segments. These solutions enable clients to comply with regulatory requirements and to improve their reimbursement under value-based purchasing models. More importantly, our 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, our 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. These solutions have previously been marketed under the NRC Picker, My InnerView (“MIV”), Customer-Connect LLC (“Connect”), and NRC Canada brands.

Our Health Risk Assessment solutions (formerly Payer solutions) enable our 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.

Our 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. Our Transitions solutions were previously provided by Connect.

Transparency Solutions – Our Transparency solutions allow healthcare organizations to share a picture of their organization and ensure that timely and relevant content informs better consumer decision-making. Our 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. Our 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.

The Governance Institute

Our 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 online 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. TGI thought leadership helps our client board members and executives inform and guide their organization’s strategic priorities in alignment with the rapidly changing healthcare market.

For additional information on our operating segments and our revenue and assets by geographic area, see Note 13, “Segment Information,” to our consolidated financial statements.

Our Competitive Strengths

We believe that our competitive strengths include the following:

A leading provider of patient experience solutions for healthcare providers, payers and other healthcare organizations. Our history is based on capturing the voice of the consumer in healthcare markets. Our 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. This foundation has been enhanced through the digital VoC platform offering that provides the delivery of data and insights on a real time basis.

Premier client portfolio across the care continuum. Our client portfolio encompasses leading healthcare organizations across the healthcare continuum, from acute care hospitals and post-acute providers to healthcare payers. Our client base is diverse, with our top ten clients representing approximately 16% of total revenue for the year ended December 31, 2019 and no single client representing more than 4% of our revenue.

Highly scalable and visible revenue model. Our solutions are offered to healthcare providers, payers and other healthcare organizations primarily through subscription-based service agreements. The solutions we provide are also recurring in nature, which enables an ongoing relationship with our clients. This combination of subscription-based revenue, a base of ongoing client renewals and automated platforms creates a highly visible and scalable revenue model.

Comprehensive portfolio of solutions. We offer a portfolio of solutions that provide insights across the patient journey, which is unique in the healthcare industry, enabling our clients to initially establish an enterprise relationship utilizing the entire portfolio or begin with an individual solution and increase the scope of services over time, increasing overall contract value.

Exclusive focus on healthcare. We focus exclusively on healthcare and serving the unique needs of healthcare organizations across the continuum, which we believe gives us a distinct competitive advantage compared to other survey and analytics software providers. Our 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 our founder. Our senior management team has extensive industry and leadership experience. Michael D. Hays, our 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). Our 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, our 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. We have 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. Our primary competitors among such specialty firms include Press Ganey, which we believe has significantly higher annual revenue than us, and several other organizations that we believe have less annual revenue than us. We, to a certain degree, currently compete with, and anticipate that in the future we may increasingly compete with, (1) market research firms and technology solutions which provide survey-based, general market research or voice of the customer feedback capabilities and (2) firms that provide services or products that complement healthcare performance assessments such as healthcare software or information systems.

We believe the primary competitive factors within our market include quality of service, timeliness of delivery, unique service capabilities, credibility of provider, industry experience, and price. We believe that our 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 us to compete in this market.

Although only a few of these competitors have offered specific services that compete directly with our solutions, many of these competitors have substantially greater financial, information gathering, and marketing resources than us and could decide to increase their resource commitments to our market. There are relatively few barriers to entry into our 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 we will continue to compete successfully against existing or new competitors.

Growth Strategy

We believe that the value proposition of our current solutions, combined with the favorable alignment of our solutions with emerging market demand, positions us to benefit from multiple growth opportunities. We believe that we can accelerate our growth through (1) increasing scope of services and sales of our existing solutions to our 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 ours.

Increasing contract value with existing clients. Approximately 27% of our existing clients purchase more than one of our solutions. Our sales organization actively identifies and pursues cross-sell opportunities for clients to add additional solutions in order to accelerate our growth. Organic contract value growth is also realized by the increased scope of solution adoption as the size of client organizations increase from market expansion and consolidation.

Adding new clients. We believe that there is an opportunity to add new clients across all existing market segments. Our sales organization is actively identifying and engaging new client prospects with a focus on demonstrating the economic value derived from adopting the portfolio of solutions in alignment with the prospect's strategic objectives.

Adding new solutions. The need for effective solutions in the market segments that we serve is evolving to align with emerging healthcare consumerism trends. The evolving market creates an opportunity for us to introduce new solutions that leverage and extend our existing core competencies. We believe that there is an opportunity to drive sales growth with both existing and new clients, across all of the market segments that we serve, through the introduction of new solutions.

Pursue strategic acquisitions and investments. We have historically complemented our organic growth with strategic acquisitions, having completed seven such transactions over the past eighteen years. These transactions have added new capabilities and access to market segments that are adjacent and complementary to our existing solutions and market segments. We believe that additional strategic acquisition and/or investment opportunities will exist from time to time to complement our organic growth by further expanding our service capabilities, technology offerings and end markets.

Sales and Marketing

We generate the majority of our revenue from the renewal of subscription-based client service agreements, supplemented by sales of additional solutions to existing clients and the addition of new clients. Our sales activities are carried out by a direct sales organization staffed with professional, trained sales associates.

We engage in marketing activities that enhance our brand visibility in the marketplace, generate demand for our solutions and engage existing clients. Strategic campaigns and programs focus on (1) ensuring coverage of prospective clients via targeted advertising and account-based campaigns, (2) elevating client value evidence and success stories to an executive level profile, (3) engaging key stakeholders with content, programming and events and (4) amplifying thought leadership through public and media relations programs that include earning placement in national media and trade publications, securing podium presentations at key industry events and winning awards on behalf of us and our executives.

Clients

We partner with clients across the continuum of healthcare services. Our clients include integrated health systems, post-acute providers and payer organizations. Our ten largest clients accounted for 16%, 17%, and 19% of our total revenue in 2019, 2018 and 2017, respectively. Approximately 3%, 4% and 4% of our revenue was derived from foreign customers in 2019, 2018, and 2017, respectively.

Intellectual Property and Other Proprietary Rights

Our success depends in part upon our 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. We have no patents. Consequently, we rely on a combination of copyright and trade secret laws and associate nondisclosure agreements to protect our systems, survey instruments and procedures. There can be no assurance 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. There can be no assurance, 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.

Associates

As of December 31, 2019 we employed a total of 464 persons on a full-time basis. In addition, as of such date, we had 16 part-time associates primarily in our survey operations, representing approximately 8 full-time equivalent associates. None of our associates are represented by a collective bargaining unit. We consider our relationship with our associates to be good.

Information About Our Executive Officers

The following table sets forth certain information as of February 1, 2020, regarding our executive officers:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Michael D. Hays	65	Chief Executive Officer
Steven D. Jackson	44	President
Kevin R. Karas	62	Senior Vice President Finance, Chief Financial Officer, Treasurer and Secretary

Michael D. Hays has served as our Chief Executive Officer and a director since he founded the Company in 1981. He also served as our President 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 our President since October 2015. He served as Group President from October 2014 until September 2015, during which time he oversaw our Market Insights, Transparency, and Predictive Analytics business units. Prior to joining us, 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 our Chief Financial Officer, Treasurer and Secretary since September 2011, and as Senior Vice President Finance since he joined us 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.

Our executive officers are elected by and serve at the discretion of our Board of Directors. There are no family relationships between any of our directors or executive officers.

Available Information

More information regarding NRC Health is available on our website at www.nrchealth.com. We are not including the information contained on or available through our website as part of, or incorporating such information by reference into, this Annual Report on Form 10-K. Our 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 our website. We provide access to such materials through our 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 our 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 contracts with clients under unit-based arrangements generally have no minimum purchase commitments. Client contracts are generally cancelable on short notice without penalty, however we are entitled to payment for services through the cancellation date. 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. Our ten largest clients accounted for 16%, 17%, and 19% of our total revenue in 2019, 2018, and 2017, 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 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. Our 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) market research firms and technology solutions which provide survey-based, general market research or Voice of the Customer Feedback capabilities and (2) firms that 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 us and could decide to increase their resource commitments to our market. There are relatively few barriers to entry into our 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 we 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. Future legislative changes, including additional provisions to control healthcare costs, improve healthcare quality and expand access to 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, could result in client's performing more marketing, market research and/or quality improvement functions internally 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 for data collection and other services 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 our 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 our Market Insights. In either case, our operating and net income could be negatively affected.

Our principal shareholders effectively control the Company.

A majority of our common stock and voting power was historically owned and/or held by Michael D. Hays, our Chief Executive Officer. However, over the years Mr. Hays, for estate planning purposes, gifted and/or transferred almost all of his directly owned shares to two trusts for the benefit of his family, The K/I/E Trust under agreement dated October 24, 2018 and the Amandla MK Trust (collectively the "Trusts").

As of February 27, 2020, approximately 44.7% of our outstanding common stock was owned by the Trusts and approximately 54.2% of our outstanding common stock was held by the Trusts and other entities owned or controlled by members of Mr. Hays' family. As a result, the Trusts and these other entities have the power to indirectly control decisions such as whether to issue additional shares or declare and pay dividends and 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 the Trusts and these other entities.

The market price of our 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 and trading volume of our common stock has historically been and may continue to 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, management team or large stockholder 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 volume and/or market price of our common stock. Following periods of volatility in the market price of our 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.

Failures or deficiencies in our information technology platform could negatively impact our operating results.

Our ability to provide client service is dependent, to a significant extent, upon the technology that we develop internally. Investment in the enhancement of existing and development of new information technology processes is costly and affects our ability to successfully serve our clients. The failure or deficiency of the technology we develop could negatively impact the willingness or ability for our clients to use our services and our ability to perform our services. Our failure to anticipate clients' expectation and needs, adapt to emerging technological trends, or design efficient and effective information technology platforms, could result in lower utilization, loss of customers, damage to customer relationships, reduced revenue and profits, refunds to customers and damage to our reputation. Although we have procedures to monitor the efficacy of our information technology platforms, the procedures may not prevent failures or deficiencies in the information technology platforms we develop, we may not adapt quickly enough and may incur significant costs and delays that could harm our business.

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 to 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.

If we sustain cyber-attacks or other privacy or data security incidents that result in security breaches that disrupt our operations or result in the unintended dissemination of protected personal information or proprietary or confidential information, we could suffer a loss of revenue and increased costs, exposure to significant liability, reputational harm and other serious negative consequences.

In connection with our client services, we receive, process, store and transmit sensitive business information and, in certain circumstances, personal medical information of our clients' patients, electronically over the internet. We may become the target of attempted cyber-attacks and other security threats and may be subject to breaches of the information technology systems we use. Experienced computer programmers and hackers may be able to penetrate our security controls and access, misappropriate or otherwise compromise protected personal information or proprietary or confidential information or that of third-parties, create system disruptions or cause system shutdowns that could negatively affect our operations. They also may be able to develop and deploy viruses, worms, ransomware, and other malicious software programs that attack our systems or otherwise exploit any security vulnerabilities. Hardware, software, or applications we develop or procure from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security.

We were the target of an external cyber-attack in February 2020 which resulted in a temporary suspension of our services to clients. We will likely continue to be the target of other attempted cyber-attacks and security threats. Such cyber-attacks may subject us to litigation and regulatory risk, civil and criminal penalties, additional costs and diversion of management attention due to investigation, remediation efforts and engagement of third party consultants and legal counsel in connection with such incidents, payment of "ransoms" to regain access to our systems and information, loss of clients, damage to client relationships, reduced revenue and profits, refunds of client charges and damage to our reputation, any of which could have a material adverse effect on our business, cash flows, financial condition and results of operations. While we have contingency plans and insurance coverage for potential liabilities of this nature, they may not be sufficient to cover all claims and liabilities and in some cases are subject to deductibles and layers of self-insured retention.

We cannot ensure that we will be able to identify, prevent or contain the effects of cyber-attacks or other cybersecurity risks that bypass our security measures or disrupt our information technology systems or business. We have security technologies, processes and procedures in place to protect against cybersecurity risks and security breaches. However, hardware, software or applications we develop or procure from third parties may contain defects in design, manufacturer defects or other problems that could unexpectedly compromise information security. In addition, because the techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently, are becoming increasingly sophisticated, and may not immediately produce signs of intrusion, we may be unable to anticipate these techniques, timely discover or counter them or implement adequate preventative measures.

In addition, we use third-party technology, systems and services for a variety of reasons, including, without limitation, encryption and authentication technology, employee email, content delivery to clients, back-office support, and other functions that in some cases involve processing, storing and transmitting large amounts of data for our business. These third-party providers may also experience security breaches or interruptions to their information technology hardware and software infrastructure and communications systems that could adversely impact us.

Under the Health Insurance Portability and Accountability Act of 1996, as amended by the Health Information Technology for Economic and Clinical Health Act of 2009, or HITECH, implementing regulations promulgated by the U.S. Department of Health and Human Services, or "HHS," including what are referred to as the "Privacy Rule" and the "Security Rule" (collectively, "HIPAA"), we face potential liability related to the privacy of health information we obtain. We are required through our contracts with our clients and by HIPAA to protect the privacy and security of certain health information and to make certain disclosures to our clients or to the public if this information is unlawfully accessed.

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. Noncompliance with any privacy or security laws and regulations, including, without limitation, HIPAA, or any security breach, cyber-attack or cybersecurity breach, and any incident involving the misappropriation, loss or other unauthorized disclosure or use of, or access to, sensitive or confidential information, whether by us or by one of our third-party service providers, could require us to expend significant resources to continue to modify or enhance our protective measures and to remediate any damage. In addition, this could negatively affect our operations, cause system disruptions, damage our reputation, cause client losses and contract breaches, and could also result in regulatory enforcement actions, material fines and penalties, litigation or other actions that could have a material adverse effect on our business, cash flows, financial condition and results of operations. Even if cyber-attacks or other cybersecurity breaches do not result in noncompliance with privacy or security laws, the perception that such noncompliance may have occurred by our clients or in the news media may have an adverse impact on our stock price and could result in damage to our reputation or loss of clients, which could have a material adverse effect on our business, cash flows, financial condition and results of operations.

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 and/or investments 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 and/or investments 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

We have no unresolved staff comments to report pursuant to this item.

Item 2. Properties

Our headquarters is located in an owned office building in Lincoln, Nebraska, of which 62,000 square feet are used for our operations. This facility houses all the capabilities necessary for our survey programming, printing and distribution, data processing, analysis and report generation, marketing, and corporate administration. Our credit facilities are secured by this property and our other assets.

We are leasing 4,000 square feet of office space in Markham, Ontario, 4,300 square feet of office space in Seattle, Washington, 6,200 square feet of office space in Atlanta, Georgia and 200 square feet of office space in Nashville, Tennessee.

Item 3. Legal Proceedings

From time to time, we are 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. There were no outstanding claims as of December 31, 2019. For additional information, see Note 1, under the heading “Commitments and Contingencies,” to our consolidated financial statements.

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, we consummated a recapitalization pursuant to which we 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 our 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, our class A common stock and our class B common stock were traded on the NASDAQ Global Market under the symbols “NRCIA” and “NRCIB,” respectively.

On April 16, 2018, our shareholders approved, among other things, an amendment to our Amended and Restated Articles of Incorporation (the “Articles”) to effect a recapitalization (the “Recapitalization”) pursuant to which each share of our then-existing class B common stock was exchanged for one share of the our then-existing Class A common stock plus \$19.59 in cash, without interest. On April 17, 2018, we filed an amendment to our Articles effecting the Recapitalization, followed by an amendment and restatement of our Articles, which resulted in the elimination of our class B common stock and the reclassification of our class A common stock as a share of Common Stock, par value \$0.001 per share (“Common Stock”). We issued 3,617,615 shares of Common Stock and paid \$72.4 million in exchange for all class B shares outstanding and to settle outstanding share-based awards for class B common stock. The Common Stock continues to trade on the NASDAQ Global Market under the revised symbol “NRC.”

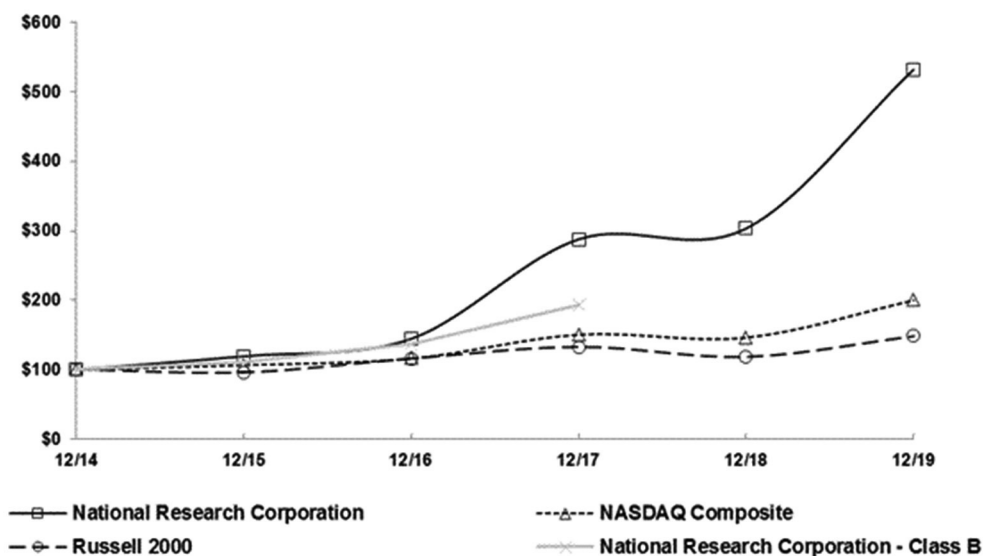
Cash dividends in the aggregate amount of \$19.4 million were declared in 2019 with \$14.2 million paid in 2019 and the remaining \$5.2 million paid in January 2020. Cash dividends in the aggregate amount of \$29.7 million were declared in 2018 with \$12.6 million paid in 2018 and the remaining \$17.1 million paid in January 2019. The payment and amount of future dividends, if any, is at the discretion our Board of Directors and will depend on the our future earnings, financial condition, general business conditions, alternative uses of our earnings and other factors.

On February 14, 2020, there were approximately 15 shareholders of record and approximately 6,201 beneficial owners of common stock.

In February 2006 and subsequently amended in May 2013, our Board of Directors authorized the repurchase of 2,250,000 shares of class A common stock and 375,000 shares of class B common stock in the open market or in privately negotiated transactions. In connection with the Recapitalization in April 2018, our Board of Directors further amended the stock repurchase program to eliminate the repurchase of the former class B common stock. Unless terminated earlier by resolution of our Board of Directors, the repurchase program will expire when the we have repurchased all shares authorized for repurchase thereunder. No Common Stock was repurchased during the three-month period ended December 31, 2019. The remaining shares of Common Stock that may be purchased under that authorization are 280,491.

The following graph compares the cumulative 5-year total return provided shareholders on our 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, 2014, and our relative performance is tracked through December 31, 2019.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among National Research Corporation, the NASDAQ Composite Index
and the Russell 2000 Index



*\$100 invested on 12/31/14 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

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

	12/14	12/15	12/16	12/17	12/18	12/19
National Research Corporation – Formerly Class B	100.00	110.85	136.77	193.65	--	--
National Research Corporation Common Stock – Formerly Class A	100.00	119.36	144.49	287.71	303.13	531.90
NASDAQ Composite	100.00	106.96	116.45	150.96	146.67	200.49
Russell 2000	100.00	95.59	115.95	132.94	118.30	148.49

Item 6. Selected Financial Data

The selected statement of income data for the years ended December 31, 2019, 2018 and 2017, and the selected balance sheet data at December 31, 2019 and 2018, are derived from, and are qualified by reference to, our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The selected statement of income data for the year ended December 31, 2016 and 2015, and the balance sheet data at December 31, 2017, 2016 and 2015, are derived from audited consolidated financial statements not included herein. We disposed of selected assets and liabilities related to the clinical workflow product of our Predictive Analytics operating segment on December 21, 2015. The acquisition and disposal did not have a significant impact on our financial results.

	Year Ended December 31,				
	2019⁽²⁾⁽³⁾	2018⁽¹⁾⁽²⁾	2017	2016	2015
	(In thousands, except per share data)				
Statement of Income Data:					
Revenue	\$ 127,982	\$ 119,686	\$ 117,559	\$ 109,384	\$ 102,343
Operating expenses:					
Direct	46,435	47,577	49,068	45,577	44,610
Selling, general and administrative	32,973	31,371	29,686	28,385	27,177
Depreciation and amortization	5,539	5,463	4,586	4,225	4,109
Total operating expenses	<u>84,947</u>	<u>84,411</u>	<u>83,340</u>	<u>78,187</u>	<u>75,896</u>
Operating income	43,035	35,275	34,219	31,197	26,447
Other income (expense)	<u>(2,516)</u>	<u>(566)</u>	64	159	913
Income before income taxes	40,519	34,709	34,283	31,356	27,360
Provision for income taxes	<u>8,113</u>	<u>4,662</u>	<u>11,340</u>	<u>10,838</u>	<u>9,750</u>
Net income	<u>\$ 32,406</u>	<u>\$ 30,047</u>	<u>\$ 22,943</u>	<u>\$ 20,518</u>	<u>\$ 17,610</u>
Earnings per share common stock:					
Basic Earnings per share:					
Common Stock (formerly Class A)	<u>\$ 1.30</u>	<u>\$ 1.08</u>	<u>\$ 0.54</u>	<u>\$ 0.49</u>	<u>\$ 0.42</u>
Class B	<u>\$ --</u>	<u>\$ 1.31</u>	<u>\$ 3.26</u>	<u>\$ 2.93</u>	<u>\$ 2.52</u>
Diluted Earnings per share:					
Common Stock (formerly Class A)	<u>\$ 1.26</u>	<u>\$ 1.04</u>	<u>\$ 0.52</u>	<u>\$ 0.48</u>	<u>\$ 0.41</u>
Class B	<u>\$ --</u>	<u>\$ 1.27</u>	<u>\$ 3.18</u>	<u>\$ 2.88</u>	<u>\$ 2.49</u>
Weighted average share and share equivalents outstanding:					
Common Stock (formerly Class A) – basic	24,809	23,562	20,770	20,713	20,741
Class B – basic	--	3,527	3,514	3,505	3,478
Common Stock (formerly Class A) – diluted	25,653	24,448	21,627	21,037	20,981
Class B – diluted	--	3,628	3,603	3,560	3,522
	<u>2019⁽²⁾⁽³⁾</u>	<u>2018⁽¹⁾⁽²⁾</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
	(In thousands, except per share data)				
Balance Sheet Data:					
Working capital surplus (deficiency)	\$ (8,998)	\$ (18,699)	\$ 19,949	\$ 15,551	\$ 10,890
Total assets	110,685	108,032	127,316	120,624	128,049
Total debt and finance lease obligations, net of unamortized debt issuance costs	34,959	38,723	1,225	3,732	5,917
Total shareholders' equity	32,892	19,083	90,041	82,806	74,222
Cash dividends declared per share:					
Common stock (formerly class A)	0.78	1.13	.40	.34	.62
Class B common stock	\$ --	\$.60	\$ 2.40	\$ 2.04	\$ 3.72

⁽¹⁾On January 1, 2018, we adopted Accounting Standards Update 2014-09, *Revenue- Revenue from Contracts with Customers* and all related amendments using the modified retrospective method for all incomplete contracts as of the date of adoption. See Notes 1 and 3 to our consolidated financial statements.

⁽²⁾As described in Note 2 to our consolidated financial statements, we completed the Recapitalization in April 2018 which settled all then-existing outstanding class B share-based awards, resulting in the elimination of the class B common stock and reclassified class A common stock to Common Stock.

⁽³⁾On January 1, 2019, we adopted Accounting Standards Update 2016-02, *Leases*, and all related amendments using the modified retrospective method for all incomplete contracts as of the date of adoption. See Notes 1 and 10 to our consolidated financial statements.

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

Overview

We are 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 organizations. Our solutions enable our clients to understand the voice of the customer with greater clarity, immediacy and depth. Our 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. Our 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. We believe that access to and analysis of our extensive consumer-driven information is becoming more valuable as healthcare providers increasingly need to more deeply understand and engage the people they serve to build customer loyalty.

Our portfolio of subscription-based solutions provides actionable information and analysis to healthcare organizations across a range of mission-critical, constituent-related elements, including patient experience, service recovery, care transitions, health risk assessments, employee engagement, reputation management, and brand loyalty. We partner with clients across the continuum of healthcare services. Our clients include integrated health systems, post-acute providers and payer organizations. We believe 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.

Critical Accounting Policies and Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported therein. The following areas are considered critical accounting estimates because they involve significant judgments or assumptions, involve complex or uncertain matters or they are susceptible to change and the impact could be material to our financial condition or operating results:

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

Revenue Recognition

We derive a majority of our revenue from annually renewable subscription-based service agreements with our customers. See Notes 1 and 3 to our consolidated financial statements for a description of our revenue recognition policies.

Our revenue arrangements with a client may include combinations of more than one service offering which may be executed at the same time, or within close proximity of one another. We combine contracts with the same customer into a single contract for accounting purposes when the contract is entered into at or near the same time and the contracts are negotiated as a single performance obligation. For contracts that contain more than one separately identifiable performance obligation, the total transaction price is allocated to the identified performance obligations based upon the relative stand-alone selling prices of the performance obligations. The stand-alone selling prices are based on an observable price for services sold to other comparable customers, when available, or an estimated selling price using a cost-plus margin or residual approach. We estimate the total contract consideration we expect to receive for variable arrangements based on the most likely amount we expect to earn from the arrangement based on the expected quantities. We only include some or a portion of variable consideration in the transaction price when it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. We consider the sensitivity of the estimate, our relationship and experience with the client and variable services being performed, the range of possible revenue amounts and the magnitude of the variable consideration to the overall arrangement.

Our fixed, non-subscription arrangements typically require us to perform an unspecified amount of services for a fixed price during a fixed period of time. Revenues are recognized over time based upon the costs incurred to date in relation to the total estimated contract costs. In determining cost estimates, management uses historical and forecasted cost information which is based on estimated volumes, external and internal costs and other factors necessary in estimating the total costs over the term of the contract. Changes in estimates are accounted for using a cumulative catch up adjustment which could impact the amount and timing of revenue for any period.

If management made different judgments and estimates, then the amount and timing of revenue for any period could differ from the reported revenue.

Valuation of Goodwill and Identifiable Intangible Assets

Intangible assets include customer relationships, trade names, technology, 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 with other long-lived assets in the related asset group whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. We review 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, we will first assess qualitative factors to determine whether it is necessary to recalculate the fair value of the intangible assets with indefinite lives. If we believe, 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, we calculate the fair value using a market or income 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. We did not recognize any impairments related to indefinite-lived intangibles during 2019, 2018 or 2017.

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 our goodwill is allocated to our reporting units, which are the same as our six operating segments: Experience, The Governance Institute, Market Insights, Transparency, National Research Corporation Canada and Transitions. 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.

We review 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 analysis will be performed, and 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, no impairment exists. If the fair value of the reporting unit is less than its carrying value, then goodwill is written down by this difference. We performed a qualitative analysis as of October 1, 2019 and determined the fair value of each reporting unit likely significantly exceeded its carrying value. No impairments were recorded during the years ended December 31, 2019, 2018 or 2017.

Our Canadian reporting unit generates service revenue from a relatively small number of customers with approximately 56.5% of its revenue concentrated in one customer contract which currently expires in March 2021. While historically we have been successful in renewing or retaining contracts with our customers, should we be unable to or choose not to renew a significant contract, it would likely result in an impairment of goodwill at this reporting unit. The carrying amount of goodwill related to our Canadian reporting unit at December 31, 2019 was \$2.3 million.

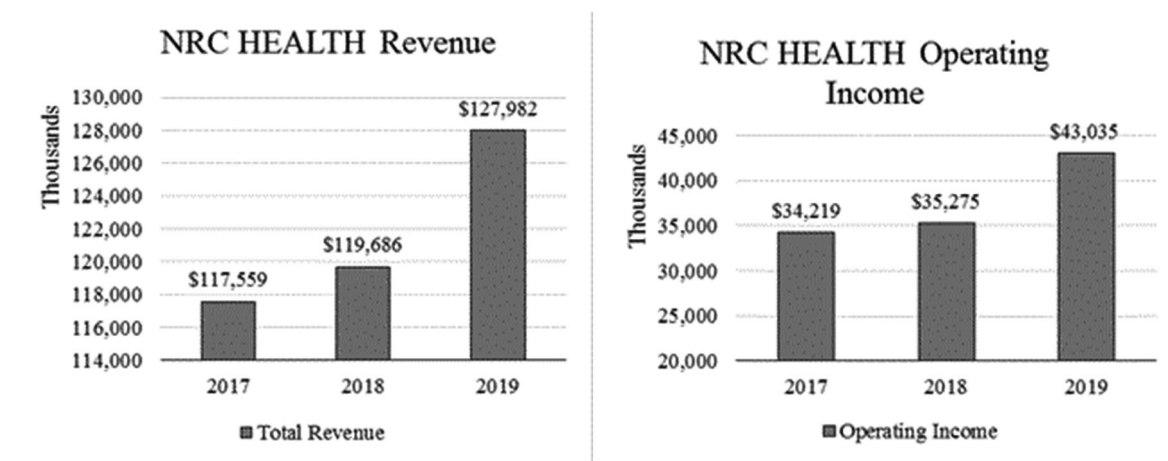
Income Taxes

We use 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. We recognize 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.

Results of Operations

The following table and graphs set forth, for the periods indicated, selected financial information derived from our 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 our consolidated financial statements.

	Percentage of Total Revenue Year Ended December 31,			Percentage Increase (Decrease)	
	2019	2018	2017	2019 over 2018	2018 over 2017
Revenue	100.0%	100.0%	100.0%	6.9%	1.8%
Operating expenses:					
Direct	36.3	39.7	41.7	(2.4)	(3.0)
Selling, general and administrative	25.8	26.2	25.3	5.1	5.7
Depreciation and amortization	4.3	4.6	3.9	1.4	19.1
Total operating expenses	66.4	70.5	70.9	0.6	1.3
Operating income	33.6%	29.5%	29.1%	22.0%	3.1%



Year Ended December 31, 2019, Compared to Year Ended December 31, 2018

Revenue. Revenue in 2019 increased 6.9% to \$128.0 million, compared to \$119.7 million in 2018, which was driven primarily due to new customer sales, as well as increases in sales to the existing client base. Our solutions within the VoC platform in 2019 accounted for 62.7% of total revenue compared to 49.6% in 2018. The remaining revenue consists of legacy Experience and Governance Solutions. Clients with agreements for multiple solutions represented 27% of our client base at the end of 2019, up from 24% at the end of 2018.

Direct expenses. Direct expenses decreased 2.4% to \$46.4 million in 2019, compared to \$47.6 million in 2018. This was due to a decrease in variable expenses of \$2.6 million, partially offset by an increase in fixed expenses of \$1.4 million. Variable expenses decreased mainly due to less postage, printing and paper costs due to lower volumes and changes in survey methodologies. Fixed expenses increased primarily as a result of increased salary and benefit costs in the customer service and information technology areas partially offset by \$730,000 of state payroll and sales tax incentives and lower contracted services. Direct expenses decreased as a percentage of revenue to 36.3% in 2019, from 39.7% in 2018, as expenses decreased by 2.4% while revenue for the same period increased by 6.9%.

Selling, general and administrative expenses. Selling, general and administrative expenses increased 5.1% to \$33.0 million in 2019 compared to \$31.4 million in 2018, primarily due to increased software license fees and platform hosting expenses of \$790,000, sales tax expense of \$775,000 as a result of a recent sales tax analysis, higher salary and benefit costs of \$690,000, additional insurance costs of \$285,000, increased travel costs of \$196,000, higher marketing program expenses of \$89,000 and additional company incentive event costs of \$81,000. These were partially offset by decreased contract services of \$529,000, a reduction in legal and accounting costs of \$469,000 mainly associated with the Recapitalization, the Tax Cut and Jobs Act and adoption of ASC 606 in 2018 and state payroll and sales tax incentives of \$917,000. Selling, general, and administrative expenses decreased as a percentage of revenue to 25.8% in 2019, from 26.2% in 2018 as expenses increased by 5.1% while revenue increased by 6.9% during the same period.

Depreciation and amortization. Depreciation and amortization expenses remained at \$5.5 million for the twelve-month period ended December 31, 2019 and 2018, however, there was increased amortization from additional computer software investments primarily offset by an intangible asset that has been fully amortized. Depreciation and amortization expenses decreased as a percentage of revenue to 4.3% in 2019, from 4.6% in 2018 as depreciation and amortization expenses increased by 1.4% while revenue increased by 6.9% during the same period.

Other income (expense). Other expense, net was \$2.5 million for the twelve-month period ended December 31, 2019, compared to \$566,000 for the same period in 2018. Interest expense increased \$578,000 due to additional interest related to the term loan originated in April 2018 and borrowings on the line of credit. Other expense, net increased \$1.3 million primarily due to revaluation of intercompany transactions for changes in the foreign exchange rates.

Provision for income taxes. Provision for income taxes was \$8.1 million (20.0% effective tax rate) in 2019, compared to \$4.7 million (13.4% effective tax rate) in 2018. The effective tax rate for the twelve-month period ended December 31, 2019, was higher mainly due to lower income tax benefits from the exercise of share-based compensation awards and higher state income taxes due to requirements to file in more states.

Year Ended December 31, 2018, Compared to Year Ended December 31, 2017

Revenue. Revenue in 2018 increased 1.8% to \$119.7 million, compared to \$117.6 million in 2017, which was due to new customer sales and increases in sales to the existing client base. Our solutions within the VoC platform in 2018 accounted for 49.6% of total revenue compared to 33.9% in 2017. The remaining revenue consists of legacy Experience and Governance Solutions. Clients with agreements for multiple solutions represented 24% of our client base at the end of 2018, up from 22% at the end of 2017.

Direct expenses. Direct expenses decreased 3.0% to \$47.6 million in 2018, compared to \$49.1 million in 2017. This was due to a decrease in variable expenses of \$2.2 million partially offset by an increase in fixed expenses of \$689,000. Variable expenses decreased mainly due to less postage, printing and paper costs due to lower volumes and changes in survey methodologies. Fixed expenses increased primarily as a result of increased salary and benefit costs in the customer service and information technology areas. Direct expenses decreased as a percentage of revenue to 39.7% in 2018 from 41.7% for the same period in 2017 as expenses decreased by 3.0% while revenue for the same period increased by 1.8%.

Selling, general and administrative expenses. Selling, general and administrative expenses increased 5.7% to \$31.4 million in 2018 compared to \$29.7 million in 2017 primarily due to increased software and platform hosting expenses of \$1.8 million, higher salary and benefit costs of \$685,000, including acceleration of share-based compensation expense from the vesting of restricted stock and settlement of stock options associated with the Recapitalization of \$331,000, and increased contracted services of \$529,000. These were offset by decreased legal and accounting expenses primarily associated with the Recapitalization of \$516,000, lower recruiting expenses of \$568,000 and a reduction in marketing expense of \$239,000. Selling, general, and administrative expenses increased as a percentage of revenue to 26.2% in 2018, from 25.3% for the same period in 2017 as expenses increased by 5.7% while revenue increased by 1.8% during the same period.

Depreciation and amortization. Depreciation and amortization expenses increased 19.1% to \$5.5 million in 2018 compared to \$4.6 million in 2017 due to increased amortization from additional computer software investments. Depreciation and amortization expenses as a percentage of revenue increased to 4.6% in 2018, from 3.9% for the same period in 2017.

Other income (expense). Other income (expense) decreased to other expense of \$566,000 in 2018, compared to other income of \$64,000 in 2017 primarily due to increased interest expense, partially offset by other income. Interest expense increased to \$1.5 million due to interest related to the new term loan originated in April 2018. Other income increased to \$885,000 primarily due to revaluation on intercompany transactions due to changes in the foreign exchange rate.

Provision for income taxes. Provision for income taxes was \$4.7 million (13.4% effective tax rate) in 2018, compared to \$11.3 million (33.1% effective tax rate) in 2017. The effective tax rate was lower in 2018 mainly due to income tax benefits from the Recapitalization, due to accelerated vesting of restricted stock and settlement of options of \$1.1 million, and the reduction in the corporate tax rate from 35% to 21% as a result of the Tax Act. In addition, we had increased tax benefits of \$1.6 million related to the vesting and exercise of stock awards, net of certain excess compensation limits, a tax depreciation method change election for software development costs creating an income tax benefit of \$308,000 and decreased non-deductible Recapitalization expenses of \$361,000. This was partially offset by decreased tax expense of \$1.1 million in 2017 due to Tax Act related adjustments. See Note 7 to our consolidated financial statements for more details on tax adjustments related to the Tax Act.

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

We believe that our existing sources of liquidity, including cash and cash equivalents, borrowing availability, and operating cash flows will be sufficient to meet our projected capital and debt maturity needs and dividend policy for the foreseeable future and therefore we feel that our working capital deficit has little impact on our liquidity. Cash dividends in the aggregate amount of \$19.4 million were declared in 2019 with \$14.2 million paid in 2019 and the remaining \$5.2 million paid in January 2020. The dividends were paid from cash on hand and \$4.5 million in borrowings on our line of credit.

As of December 31, 2019, our principal sources of liquidity included \$13.5 million of cash and cash equivalents, up to \$15 million of unused borrowings under our line of credit and up to \$15 million on our delayed draw term note. Of this cash, \$3.9 million was held in Canada. The delayed draw term note can only be used to fund permitted future business acquisitions or repurchasing our Common Stock.

Working Capital

We had a working capital deficit of \$9.0 million and \$18.7 million on December 31, 2019 and 2018, respectively.

The change was primarily due to a decrease in dividends payable of \$11.9 million, and an increase in other current assets of \$1.7 million. These were partially offset by an increase in other current liabilities of \$841,000, an increase in current portion of notes payable of \$711,000, an increase of accounts payable of \$666,000, an increase in accrued expenses \$574,000, and a decrease of \$887,000 in prepaid expenses. Dividends payable decreased due to a special dividend of \$12.4 million that was declared in 2018 and paid in January of 2019. Deferred contract costs, net increased due to growth in capitalized commission and incentives directly related to new sales. Other current liabilities increased due to adoption of Accounting Standards Update (“ASU”) 2016-02, Leases (Topic 842) (“Topic 842” or the “New Leases Standard”) and deferred income benefits from the state payroll and sales tax incentives. Topic 842 requires lessees to recognize a lease liability and a right-of-use (“ROU”) asset on the balance sheet for operating leases. Accounts payable and accrued expenses increased and prepaid expenses decreased due to timing of payment for services and supplies. Our working capital is significantly impacted by our 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, 2019 and December 31, 2018, were \$16.4 million and \$16.2 million, respectively.

The deferred revenue balance is primarily due to timing of initial billings on new and renewal contracts. We typically invoice clients for services before they have been completed. Billed amounts are recorded as billings in excess of revenue earned, or deferred revenue, on our consolidated financial statements, and are recognized as income when earned. In addition, when work is performed in advance of billing, we record 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,		
	2019	2018	2017
		(In thousands)	
Provided by operating activities	\$ 40,917	\$ 39,848	\$ 28,091
Used in investing activities	(4,656)	(5,971)	(6,118)
Used in financing activities	(36,346)	(54,497)	(21,116)
Effect of exchange rate changes on cash	611	(1,122)	855
Net increase (decrease) in cash and cash equivalents	526	(21,742)	1,712
Cash and cash equivalents at end of period	\$ 13,517	\$ 12,991	\$ 34,733

Cash Flows from Operating Activities

Cash flows from operating activities consist of net income adjusted for non-cash items including depreciation and amortization, deferred income taxes, share-based compensation and related taxes, reserve for uncertain tax positions, loss on disposal of property and equipment and the effect of working capital changes.

Net cash provided by operating activities was \$40.9 million for the year ended December 31, 2019, which included net income of \$32.4 million, plus non-cash charges (benefits) for deferred income taxes, depreciation and amortization, reserve for uncertain tax positions, loss on disposal of property and equipment and non-cash share based compensation totaling \$7.9 million. Changes in working capital increased cash flows from operating activities by \$616,000, primarily from increases in accounts payable, accrued expenses, wages, bonus and profit sharing, deferred tax incentives, and deferred contract costs, net, which fluctuate due to the timing of payments of prepaids, accounts payable and accrued expenses, and the timing of direct and incremental costs directly related to sales. These increases to cash flows were partially offset by decreases in prepaid expenses and other current assets.

Net cash provided by operating activities was \$39.8 million for the year ended December 31, 2018, which included net income of \$30.0 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 and non-cash share based compensation totaling \$8.4 million. Changes in working capital increased cash flows from operating activities by \$1.5 million, primarily from increases in income taxes payable and decreases in accounts receivables, which fluctuate due to the timing of income tax payments and the timing and frequency of billings on new and renewal contracts, respectively. These increases to cash flows were partially offset by an increase in prepaid expenses and other current assets and decreases due to the timing of payments on accounts payable, accrued expenses, wages, bonus and profit sharing, deferred contract costs and a decrease in deferred revenue.

Net cash provided by operating activities was \$28.1 million for the year ended December 31, 2017, which included net income of \$22.9 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 and non-cash share based compensation totaling \$6.0 million. Changes in working capital decreased cash flows from operating activities by \$806,000, primarily from increases in prepaid expenses, income taxes recoverable and accounts receivables, which fluctuate due to the timing and frequency of billings on new and renewal contracts. These decreases to cash flows were partially offset by the timing of payments on accounts payable, accrued expenses, wages, bonus and profit sharing, and an increase in deferred revenue.

Cash Flows from Investing Activities

Net cash of \$4.7 million was used for investing activities in the year ended December 31, 2019 for purchases of property and equipment. These expenditures consisted mainly of computer software classified in property and equipment.

Net cash of \$6.0 million was used for investing activities in the year ended December 31, 2018 for purchases of property and equipment.

Net cash of \$6.1 million was used for investing activities in the year ended December 31, 2017. Purchases of property and equipment totaled \$4.6 million. In addition, we used \$1.3 million of cash to acquire a strategic investment in convertible preferred stock of PracticingExcellence.com, a privately-held Delaware corporation, which is carried at cost and included in other non-current assets.

Cash Flows from Financing Activities

Net cash used in financing activities was \$36.3 million in the year ended December 31, 2019. Cash was used to repay borrowings under the term notes totaling \$3.7 million, to repay borrowings on the line of credit of \$21.0 million and for finance lease obligations of \$229,000. Cash was also used to pay \$31.3 million of dividends on our common stock, and to pay payroll tax withholdings related to share-based compensation of \$1.1 million. Cash of \$21.0 million was provided from borrowings on the line of credit.

Net cash used in financing activities was \$54.5 million in the year ended December 31, 2018. Cash was used for the Recapitalization of \$72.4 million (see Note 2 to our consolidated financial statements), to repay borrowings under the term notes totaling \$3.1 million, to repay borrowings on the line of credit of \$2.5 million, to pay loan origination fees on the new credit agreement of \$187,000 and for finance lease obligations of \$157,000. Cash was also used to pay \$16.9 million of dividends on our common stock, and to pay payroll tax withholdings related to share-based compensation of \$1.9 million. Cash was provided from proceeds of the new term loan of \$40 million and the new line of credit of \$2.5 million.

Net cash used in financing activities was \$21.1 million in the year ended December 31, 2017. Cash was used to repay borrowings under the term note totaling \$2.5 million and for finance lease obligations of \$108,000. Cash was used to pay \$16.9 million of dividends, and to pay payroll tax withholdings related to share-based compensation of \$1.7 million.

Capital Expenditures

Capital expenditures for the year ended December 31, 2019 were \$4.7 million. These expenditures consisted mainly of computer equipment and software. We expect similar capital expenditure purchases in 2020 consisting primarily of computer equipment and software and other equipment, to be funded through cash generated from operations.

Debt and Equity

On April 18, 2018, in connection with the Recapitalization, we entered into a credit agreement (the "Credit Agreement") with First National Bank of Omaha ("FNB") providing for (i) a \$15,000,000 revolving credit facility (the "Line of Credit"), (ii) a \$40,000,000 term loan (the "Term Loan") and (iii) a \$15,000,000 delayed draw-down term facility (the "Delayed Draw Term Loan" and, together with the Line of Credit and the Term Loan, the "Credit Facilities"). We used the Term Loan to fund, in part, the cash portion paid to holders of our then-existing class B common stock in connection with the Recapitalization and the accompanying exchange of outstanding equity awards tied to the class B common stock, as well as for the costs of the Recapitalization. The Delayed Draw Term Loan may be used to fund any permitted future business acquisitions or repurchases of our Common Stock and the Line of Credit will be used to fund ongoing working capital needs and for other general corporate purposes.

The Term Loan is payable in monthly installments of \$462,988 through April 2020 and \$526,362 thereafter, with a balloon payment due at maturity in April 2023. The Term Loan bears interest at a fixed rate per annum of 5%.

Borrowings under the Line of Credit and the Delayed Draw Term Loan, if any, bear interest at a floating rate equal to the 30 day London Interbank Offered Rate (“LIBOR”) plus 225 basis points (3.94% at December 31, 2019). Interest on the Line of Credit accrues and is payable monthly. Principal amounts outstanding under the Line of Credit are due and payable in full at maturity, in April 2021. As of December 31, 2019, the Line of Credit did not have a balance. There were no borrowings on the line of credit for the three-month period ended December 31, 2019. The weighted average borrowings on the Line of Credit for year ended December 31, 2019 was \$2.4 million. The weighted average interest on borrowings on the Line of Credit for the year ended December 31, 2019 was 4.72%.

In the event that the Delayed Draw Term Loan is used, interest-only payments will be due through the calendar year in which the Delayed Draw Term Loan is drawn upon. After that, amortization will occur at the then current Term Loan rate and schedule with principal and accrued interest amounts outstanding under the Delayed Draw Term Loan due and payable monthly during the term of the Delayed Draw Term Loan, which expires on April 18, 2023. There have been no borrowings on the Delayed Draw Term Loan since origination.

We paid a one-time fee equal to 0.25% of the amount borrowed under the Term Loan at the closing of the Credit Facilities. We are also obligated to pay ongoing unused commitment fees quarterly in arrears pursuant to the Line of Credit and the Delayed Draw Term Loan facility at a rate of 0.20% per annum based on the actual daily unused portions of the Line of Credit and the Delayed Draw Term Loan facility, respectively.

All obligations under the Credit Facilities are to be guaranteed by each of our direct and indirect wholly owned domestic subsidiaries, if any, and, to the extent required by the Credit Agreement, direct and indirect wholly owned foreign subsidiaries (each, a “guarantor”).

The Credit Facilities are secured, subject to permitted liens and other agreed upon exceptions, by a first-priority lien on and perfected security interest in substantially all of our and our guarantors’ present and future assets (including, without limitation, fee-owned real property, and limited, in the case of the equity interests of foreign subsidiaries, to 65% of the outstanding equity interests of such subsidiaries).

The Credit Agreement contains customary representations, warranties, affirmative and negative covenants (including financial covenants) and events of default. The negative covenants include, among other things, restrictions regarding the incurrence of indebtedness and liens, repurchases of our Common Stock and acquisitions, subject in each case to certain exceptions. The Credit Agreement also contains certain financial covenants with respect to minimum fixed charge coverage ratio and maximum cash flow leverage ratio. Pursuant to the Credit Agreement, we are required to maintain a minimum fixed charge coverage ratio of 1.10x for all testing periods throughout the terms of the Credit Facilities. We are also required to maintain a maximum cash flow leverage ratio of 3.00x for all testing periods throughout the terms of the Credit Facilities. As of December 31, 2019, we were in compliance with our financial covenants.

We have finance leases for computer equipment, office equipment, printing and inserting equipment. The balance of the finance leases as of December 31, 2019 was \$786,000.

We incurred expenses related to the Recapitalization of approximately \$721,000 and \$1.4 million in the year ended December 31, 2018 and 2017, respectively, which were included in selling and administrative expenses.

A sales tax accrual was recorded in 2019 after we became aware that a state sales tax liability was both probable and estimable as of December 31, 2019, due to sales taxes that should have been collected from customers in 2019 and certain previous years. As a result, we recorded an expense of \$775,000 through selling and administrative expenses and an associated liability through accrued expenses. We are working through voluntary disclosure agreements with certain states and will have procedures in place to start collecting and remitting sales tax in the second quarter of 2020. State and local jurisdictions have differing rules and regulations governing sales, use, and other taxes and these rules and regulations can be complex and subject to varying interpretations that may change over time. As a result, we could face the possibility of tax assessment and audits, and our liability for these taxes and associated interest and penalties could exceed our original estimates. In addition, we will incur additional sales tax expense in the first quarter of 2020, since we will not start collecting sales tax from customers until the 2nd quarter of 2020.

Contractual Obligations

We had contractual obligations to make payments in the following amounts in the future as of December 31, 2019:

<u>Contractual Obligations</u> ⁽¹⁾ (In thousands)	<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>
Operating leases	\$ 1,837	\$ 591	\$ 679	\$ 449	\$ 118
Finance leases	848	257	455	136	--
Uncertain tax positions ⁽²⁾	--	--	--	--	--
Long-term debt	38,838	6,063	12,633	20,142	--
Total	<u>\$ 41,523</u>	<u>\$ 6,911</u>	<u>\$ 13,767</u>	<u>\$ 20,727</u>	<u>\$ 118</u>

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

⁽²⁾ We have \$599,000 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.

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

Stock Repurchase Program

Our Board of Directors authorized the repurchase of up to 2,250,000 then-existing class A shares and 375,000 then-existing class B shares of common stock in the open market or in privately negotiated transactions under a stock repurchase program that was originally approved in February 2006 and subsequently amended in May 2013. In connection with the Recapitalization in April 2018, our Board of Directors further amended the stock repurchase program to eliminate the repurchase of the former class B common stock. As of December 31, 2019, the remaining number of shares of Common Stock that could be purchased under this authorization was 280,491 shares.

Off-Balance Sheet Obligations

We have no significant off-balance sheet obligations.

Recent Accounting Pronouncements

See Note 1 to our consolidated financial statements for a description of recently issued accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Our primary market risk exposures are changes in foreign currency exchange rates and interest rates.

Our 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. We include translation gains and losses in accumulated other comprehensive income (loss), a component of shareholders' equity. Foreign currency translation gains (losses) were, \$707,000, (\$1.3 million), and 991,000 in 2019, 2018 and 2017, respectively. Gains and losses related to transactions denominated in a currency other than the functional currency of the countries in which we operate and short-term intercompany accounts are included in other income (expense) in the consolidated statements of income and amounted to (\$483,000), \$893,000 and \$63,000 in 2019, 2018 and 2017, respectively. The increase is primarily the result of exchange rate changes applied to an intercompany loan from our Canadian subsidiary. 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 \$507,000. We have not entered into any foreign currency hedging transactions. We do not purchase or hold any derivative financial instruments for trading or otherwise 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, 2019, our fixed-rate term debt totaled \$34.3 million. Based on a sensitivity analysis, a one percent change in market interest rates as of December 31, 2019, would impact the estimated fair value of our fixed-rate debt outstanding at December 31, 2019 by approximately \$863,000.

Borrowings under our Line of Credit and Delayed Draw Term Loan, if any, bear interest at a floating rate equal to the 30-day London Interbank Offered Rate plus 225 basis points. Borrowings under the Line of Credit and Delayed Draw Term Note may not exceed \$15.0 million and \$15.0 million, respectively. There were no borrowings outstanding under the Line of Credit at December 31, 2019. There were no borrowings outstanding under the Delayed Draw Term Note at December 31, 2019, or at any time during 2019. A sensitivity analysis assuming a hypothetical 10% movement in interest rates applied to the average daily borrowings and the maximum borrowings available under the Line of Credit for 2019 indicated that such a movement would not have a material impact on our consolidated financial position, results of operations or cash flows. We have not entered into any interest rate swaps or hedging transactions.

LIBOR is currently expected to be phased out in 2021. We are required to pay interest on borrowings under our Line of Credit and Delayed Draw Term Loan at floating rates based on LIBOR. Future debt that we may incur may also require that we pay interest based upon LIBOR. Under the terms of our Credit Agreement with FNB, if LIBOR becomes unavailable during the term of the agreement, FNB may, in its reasonable discretion and in a manner consistent with market practice, designate a substitute index. We currently expect that the determination of interest under our Credit Agreement would be revised as to provide for an interest rate that approximates the existing interest rate as calculated in accordance with LIBOR. Despite our current expectations, we cannot be sure that if LIBOR is phased out or transitioned, the changes to the determination of interest under our agreements would approximate the current calculation in accordance with LIBOR. We do not know what standard, if any, will replace LIBOR if it is phased out or transitioned.

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, 2019. This unaudited information has been prepared 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 our audited consolidated financial statements and the notes thereto.

(In thousands, except per share data)

	Quarter Ended							
	Dec. 31, 2019	Sept 30, 2019	June 30, 2019	Mar. 31, 2019	Dec. 31, 2018	Sept 30, 2018	June 30, 2018	Mar. 31, 2018
Revenue	\$ 32,623	\$ 32,465	\$ 31,414	\$ 31,480	\$ 30,639	\$ 30,013	\$ 28,017	\$ 31,017
Direct expenses	11,166	12,109	11,506	11,654	11,892	11,780	10,996	12,909
Selling, general and administrative expenses	8,241	8,706	8,319	7,707	7,885	7,679	7,940	7,867
Depreciation and amortization	1,254	1,430	1,440	1,415	1,467	1,388	1,325	1,283
Operating income	11,962	10,220	10,149	10,704	9,395	9,166	7,756	8,958
Other income (expense)	(597)	(411)	(664)	(844)	145	(783)	63	9
Provision for income taxes	2,667	1,690	2,092	1,664	1,739	1,391	(129)	1,661
Net income	<u>\$ 8,698</u>	<u>\$ 8,119</u>	<u>\$ 7,393</u>	<u>\$ 8,196</u>	<u>\$ 7,801</u>	<u>\$ 6,992</u>	<u>\$ 7,948</u>	<u>\$ 7,306</u>
Earnings per share of common stock:								
Basic earnings per share								
Common (formerly class A)	\$ 0.35	\$ 0.33	\$ 0.30	\$ 0.33	\$ 0.32	\$ 0.28	\$ 0.29	\$ 0.17
Class B	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.27	\$ 1.04
Dilutive earnings per share								
Common (formerly class A)	\$ 0.34	\$ 0.31	\$ 0.29	\$ 0.32	\$ 0.30	\$ 0.27	\$ 0.28	\$ 0.17
Class B	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.26	\$ 1.01
Weighted average shares outstanding – basic								
Common (formerly class A)	24,852	24,827	24,789	24,766	24,684	24,671	23,957	20,884
Class B	-	-	-	-	-	-	3,527	3,527
Weighted average shares outstanding – diluted								
Common (formerly class A)	25,715	25,741	25,586	25,509	25,534	25,526	24,846	21,837
Class B	-	-	-	-	-	-	3,620	3,630

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
National Research Corporation:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of National Research Corporation and subsidiary (the Company) as of December 31, 2019 and 2018, 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, 2019, and the related notes (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019 based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company changed its method for accounting for revenue from contracts with customers in 2018 due to the adoption of Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*, as amended.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

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.

/s/ KPMG LLP

We have served as the Company's auditor since 1997.

Lincoln, Nebraska

March 6, 2020

NATIONAL RESEARCH CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	2019	2018
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 13,517	\$ 12,991
Trade accounts receivable, less allowance for doubtful accounts of \$144 and \$175, respectively	11,639	11,922
Prepaid expenses	2,038	2,925
Income taxes receivable	69	348
Other current assets	1,894	224
Total current assets	29,157	28,410
Net property and equipment	13,530	14,153
Intangible assets, net	1,728	2,102
Goodwill	57,935	57,831
Operating lease right-of-use assets	1,628	--
Deferred contract costs, net	4,204	3,484
Other	2,503	2,052
Total assets	\$ 110,685	\$ 108,032
<u>Liabilities and Shareholders' Equity</u>		
Current liabilities:		
Current portion of notes payable, net of unamortized debt issuance costs	\$ 4,378	\$ 3,667
Accounts payable	1,279	613
Accrued wages, bonus and profit sharing	6,086	5,798
Accrued expenses	3,408	2,834
Income taxes payable	366	636
Dividends payable	5,239	17,113
Deferred revenue	16,354	16,244
Other current liabilities	1,045	204
Total current liabilities	38,155	47,109
Notes payable, net of current portion and unamortized debt issuance costs	29,795	34,176
Deferred income taxes	7,399	6,276
Other long term liabilities	2,444	1,388
Total liabilities	77,793	88,949
Shareholders' equity:		
Preferred stock, \$0.01 par value, authorized 2,000,000 shares, none issued	--	--
Common stock (formerly Class A), \$0.001 par value; authorized 60,000,000 shares, issued 30,151,574 in 2019 and 29,917,667 in 2018, outstanding 24,947,500 in 2019 and 24,800,796 in 2018	30	30
Additional paid-in capital	162,154	157,312
Retained earnings (accumulated deficit)	(93,357)	(106,339)
Accumulated other comprehensive loss, foreign currency translation adjustment	(2,209)	(2,916)
Treasury stock, at cost; 5,204,074 Common (formerly Class A) shares in 2019 and 5,116,871 in 2018	(33,726)	(29,004)
Total shareholders' equity	32,892	19,083
Total liabilities and shareholders' equity	\$ 110,685	\$ 108,032

See accompanying notes to consolidated financial statements.

NATIONAL RESEARCH CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except share amounts)

	2019	2018	2017
Revenue	\$ 127,982	\$ 119,686	\$ 117,559
Operating expenses:			
Direct, exclusive of depreciation and amortization	46,435	47,577	49,068
Selling, general and administrative, exclusive of depreciation and amortization	32,973	31,371	29,686
Depreciation and amortization	5,539	5,463	4,586
Total operating expenses	84,947	84,411	83,340
Operating income	43,035	35,275	34,219
Other income (expense):			
Interest income	37	62	96
Interest expense	(2,091)	(1,513)	(82)
Other, net	(462)	885	50
Total other income (expense)	(2,516)	(566)	64
Income before income taxes	40,519	34,709	34,283
Provision for income taxes	8,113	4,662	11,340
Net income	\$ 32,406	\$ 30,047	\$ 22,943
Earnings per share of common stock:			
Basic earnings per share:			
Common (formerly Class A)	\$ 1.30	\$ 1.08	\$ 0.54
Class B	\$ --	\$ 1.31	\$ 3.26
Diluted earnings per share:			
Common (formerly Class A)	\$ 1.26	\$ 1.04	\$ 0.52
Class B	\$ --	\$ 1.27	\$ 3.18
Weighted average shares and share equivalents outstanding			
Common (formerly Class A) – basic	24,809	23,562	20,770
Class B – basic	--	3,527	3,514
Common (formerly Class A) – diluted	25,653	24,448	21,627
Class B – diluted	--	3,628	3,603

See accompanying notes to consolidated financial statements.

NATIONAL RESEARCH CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net income	\$ 32,406	\$ 30,047	\$ 22,943
Other comprehensive income (loss):			
Cumulative translation adjustment	\$ 707	\$ (1,281)	\$ 991
Other comprehensive income (loss)	<u>\$ 707</u>	<u>\$ (1,281)</u>	<u>\$ 991</u>
Comprehensive income	<u>\$ 33,113</u>	<u>\$ 28,766</u>	<u>\$ 23,934</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 (formerly Class A)	Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balances at December 31, 2016	\$ 26	\$ 4	\$ 46,725	\$ 71,507	\$ (2,626)	\$ (32,830)	\$ 82,806
Purchase of 132,836 class A and 15,074 class B shares of treasury stock	--	--	--	--	--	(4,123)	(4,123)
Issuance of 197,784 class A and 13,600 class B common shares for the exercise of stock options	--	--	2,455	--	--	--	2,455
Issuance of 19,314 class A and 3,219 class B restricted common shares, net of (forfeitures)	--	--	--	--	--	--	--
Non-cash stock compensation expense	--	--	1,845	--	--	--	1,845
Dividends declared of \$0.40 and \$2.40 per A and B common share, respectively	--	--	--	(16,876)	--	--	(16,876)
Other comprehensive income, foreign currency translation adjustment	--	--	--	--	991	--	991
Net income	--	--	--	22,943	--	--	22,943
Balances at December 31, 2017	\$ 26	\$ 4	\$ 51,025	\$ 77,574	\$ (1,635)	\$ (36,953)	\$ 90,041
Purchase of 218,344 class A and 3,677 class B shares of treasury stock	--	--	--	--	--	(7,950)	(7,950)
Issuance of 468,318 class A and 9,296 class B common shares for the exercise of stock options	--	--	6,098	--	--	--	6,098
Issuance of 3,496 class A restricted common shares, net of (forfeitures)	--	--	--	--	--	--	--
Non-cash stock compensation expense	--	--	1,514	--	--	--	1,514
Settlement of class B restricted common shares and stock options in connection with Recapitalization for cash of \$3,271 and 90,369 class A common shares	-	--	(2,548)	--	--	(723)	(3,271)
Settlement of class B common shares in connection with Recapitalization (3,527,246 class B common shares exchanged for \$69,099 cash and 3,527,246 class A common shares)	4	--	118,335	--	--	(187,438)	(69,099)
Retirement of 4,328,552 class B common shares in connection with Recapitalization	--	(4)	(17,112)	(186,944)	--	204,060	--
Dividends declared of \$1.13 and \$0.60 per A and B common share, respectively	--	--	--	(29,751)	--	--	(29,751)
Cumulative effect adjustment for adoption of ASC 606, net of income tax	--	--	--	2,735	--	--	2,735
Other comprehensive income, foreign currency translation adjustment	--	--	--	--	(1,281)	--	(1,281)
Net income	--	--	--	30,047	--	--	30,047
Balances at December 31, 2018	\$ 30	\$ --	\$ 157,312	\$ (106,339)	\$ (2,916)	\$ (29,004)	\$ 19,083
Purchase of 87,203 shares of treasury stock	--	--	--	--	--	(4,722)	(4,722)
Issuance of 227,902 common shares for the exercise of stock options	--	--	3,618	--	--	--	3,618
Issuance of 6,005 restricted common shares	--	--	--	--	--	--	--
Non-cash stock compensation expense	--	--	1,224	--	--	--	1,224
Dividends declared of \$0.78 per common share	--	--	--	(19,424)	--	--	(19,424)
Other comprehensive income, foreign currency translation adjustment	--	--	--	--	707	--	707
Net income	--	--	--	32,406	--	--	32,406
Balances at December 31, 2019	\$ 30	\$ --	\$ 162,154	\$ (93,357)	\$ (2,209)	\$ (33,726)	\$ 32,892

See accompanying notes to consolidated financial statements.

NATIONAL RESEARCH CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	2019	2018	2017
Cash flows from operating activities:			
Net income	\$ 32,406	\$ 30,047	\$ 22,943
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,539	5,463	4,586
Deferred income taxes	1,099	1,476	(684)
Liability for uncertain tax positions	39	(288)	181
Loss on disposal of property and equipment	(6)	186	26
Non-cash share-based compensation expense	1,224	1,514	1,845
Change in assets and liabilities:			
Trade accounts receivable	311	2,767	(2,340)
Prepaid expenses and other current assets	(529)	(833)	(565)
Operating lease assets and liability, net	(8)	--	--
Deferred contract costs, net	(719)	(113)	--
Accounts payable	647	(39)	12
Accrued expenses, wages, bonus and profit sharing	806	(566)	1,759
Income taxes receivable and payable	11	686	(1,023)
Deferred revenue	97	(452)	1,351
Net cash provided by operating activities	40,917	39,848	28,091
Cash flows from investing activities:			
Purchases of property and equipment	(4,656)	(5,971)	(4,568)
Purchase of equity investment	--	--	(1,300)
Purchase of intangible content license	--	--	(250)
Net cash used in investing activities	(4,656)	(5,971)	(6,118)
Cash flows from financing activities:			
Payments related to Recapitalization	--	(72,370)	--
Proceeds from issuance of note payable	--	40,000	--
Borrowings on line of credit	21,000	2,500	--
Payments on line of credit	(21,000)	(2,500)	--
Payments on notes payable	(3,715)	(3,071)	(2,473)
Payment of debt issuance costs	--	(187)	--
Payments on finance lease obligations	(229)	(157)	(108)
Payment of employee payroll tax withholdings on share-based awards exercised	(1,103)	(1,853)	(1,668)
Payment of dividends on common stock	(31,299)	(16,859)	(16,867)
Net cash used in financing activities	(36,346)	(54,497)	(21,116)
Effect of exchange rate changes on cash	611	(1,122)	855
Net increase (decrease) in cash and cash equivalents	526	(21,742)	1,712
Cash and cash equivalents at beginning of period	12,991	34,733	33,021
Cash and cash equivalents at end of period	\$ 13,517	\$ 12,991	\$ 34,733
Supplemental disclosure of cash paid for:			
Interest expense, (none capitalized)	\$ 2,014	\$ 1,282	\$ 76
Income taxes	\$ 6,946	\$ 2,635	\$ 12,827
Supplemental disclosure of non-cash investing and financing activities:			
Common stock (formerly class A) issued in the Recapitalization in exchange for then-existing class B shares and options.	\$ --	\$ 121,371	\$ --
Finance lease obligations originated for property and equipment	\$ 192	\$ 879	\$ 74
Stock tendered to the Company for cashless exercise of stock options in connection with equity incentive plans	\$ 3,618	\$ 6,098	\$ 2,455

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 organizations in the United States and Canada. Our portfolio of solutions represent a unique set of capabilities that individually and collectively provide value to our clients. The solutions are offered at an enterprise level through the Voice of the Customer (“VoC”) platform, The Governance Institute, and legacy Experience solutions

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and our wholly-owned subsidiary, National Research Corporation Canada. 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

Our 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. We include 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 we operate and short-term intercompany accounts are included in other income (expense) in the consolidated statements of income.

Revenue Recognition

On January 1, 2018, we adopted Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers* and all related amendments (“ASC 606” or “new revenue standard”) using the modified retrospective method for all incomplete contracts as of the date of adoption. We applied the practical expedient to reflect the total of all contract modifications occurring before January 1, 2018 in the transaction price and performance obligations at transition rather than accounting for each modification separately. Results for reporting periods beginning on or after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period. As discussed in more detail below and under “Deferred Contract Costs”, the largest impact of implementing the new revenue standard was the deferral and amortization of direct and incremental costs of obtaining contracts. In addition, there were other revisions to revenue recognition primarily related to performance obligation determinations and estimating variable consideration. We recorded a transition adjustment of approximately \$2.7 million, net of \$814,000 of tax, to the opening balance of retained earnings.

We derive a majority of our revenues from our annually renewable subscription-based service agreements with our customers, which include performance measurement and improvement services, healthcare analytics and governance education services. Such agreements are generally cancelable on short or no notice without penalty. See Note 3 for further information about our contracts with customers. We account for revenue using the following steps:

- Identify the contract, or contracts, with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the identified performance obligations; and
- Recognize revenue when, or as, we satisfy the performance obligations.

Our revenue arrangements with a client may include combinations of more than one service offering which may be executed at the same time, or within close proximity of one another. We combine contracts with the same customer into a single contract for accounting purposes when the contract is entered into at or near the same time and the contracts are negotiated together. For contracts that contain more than one separately identifiable performance obligation, the total transaction price is allocated to the identified performance obligations based upon the relative stand-alone selling prices of the performance obligations. The stand-alone selling prices are based on an observable price for services sold to other comparable customers, when available, or an estimated selling price using a cost-plus margin or residual approach. We estimate the amount of total contract consideration we expect to receive for variable arrangements based on the most likely amount we expect to earn from the arrangement based on the expected quantities of services we expect to provide and the contractual pricing based on those quantities. We only include some or a portion of variable consideration in the transaction price when it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. We consider the sensitivity of the estimate, our relationship and experience with the client and variable services being performed, the range of possible revenue amounts and the magnitude of the variable consideration to the overall arrangement. Our revenue arrangements do not contain any significant financing element due to the contract terms and the timing between when consideration is received and when the service is provided.

Our arrangements with customers consist principally of four different types of arrangements: 1) subscription-based service agreements; 2) one-time specified services performed at a single point in time; 3) fixed, non-subscription service agreements; and 4) unit-priced service agreements.

Subscription-based services - Services that are provided under subscription-based service agreements are usually for a twelve month period and represent a single promise to stand ready to provide reporting, tools and services throughout the subscription period as requested by the customer. These agreements are renewable at the option of the customer at the completion of the initial contract term for an agreed upon price increase each year. These agreements represent a series of distinct monthly services that are substantially the same, with the same pattern of transfer to the customer as the customer receives and consumes the benefits throughout the contract period. Accordingly, subscription services are recognized ratably over the subscription period. Subscription services are typically billed annually in advance but may also be billed on a quarterly and monthly basis.

One-time services – These agreements typically require us to perform a specific one-time service in a particular month. We are entitled to a fixed payment upon completion of the service. Under these arrangements, we recognize revenue at the point in time we complete the service and it is accepted by the customer.

Fixed, non-subscription services – These arrangements typically require us to perform an unspecified amount of services for a fixed price during a fixed period of time. Revenues are recognized over time based upon the costs incurred to date in relation to the total estimated contract costs. In determining cost estimates, management uses historical and forecasted cost information which is based on estimated volumes, external and internal costs and other factors necessary in estimating the total costs over the term of the contract. Changes in estimates are accounted for using a cumulative catch up adjustment which could impact the amount and timing of revenue for any period.

Unit-price services – These arrangements typically require us to perform certain services on a periodic basis as requested by the customer for a per-unit amount which is typically billed in the month following the performance of the service. Revenue under these arrangements is recognized over the time the services are performed at the per-unit amount. Revenue is presented net of any sales tax charged to our clients that we are required to remit to taxing authorities. We recognize contract assets or unbilled receivables related to revenue recognized for services completed but not invoiced to the clients. Unbilled receivables are classified as receivables when we have an unconditional right to contract consideration. A contract liability is recognized as deferred revenue when we invoice clients in advance of performing the related services under the terms of a contract. Deferred revenue is recognized as revenue when we have satisfied the related performance obligation.

Deferred Contract Costs

Deferred contract costs, net is stated at gross deferred costs less accumulated amortization. Beginning January 1, 2018, with the adoption of the new revenue standard, we defer commissions and incentives, including payroll taxes, if they are incremental and recoverable costs of obtaining a renewable customer contract. Deferred contract costs are amortized over the estimated term of the contract, including renewals, which generally ranges from three to five years. The contract term was estimated by considering factors such as historical customer attrition rates and product life. The amortization period is adjusted for significant changes in the estimated remaining term of a contract. An impairment of deferred contract costs is recognized when the unamortized balance of deferred contract costs exceeds the remaining amount of consideration we expect to receive net of the expected future costs directly related to providing those services. We have elected the practical expedient to expense contract costs when incurred for any nonrenewable contracts with a term of one year or less. Prior to 2018, all commissions and incentives were expensed as incurred. We recorded a transition adjustment on January 1, 2018 as an increase to retained earnings of \$2.6 million, net of \$776,000 of tax, to reflect \$3.4 million of commissions and incentives related to contracts that began prior to 2018, net of accumulated amortization. We deferred incremental costs of obtaining a contract of \$3.6 million and \$2.6 million in the years ended December 31, 2019 and 2018, respectively. Deferred contract costs, net of accumulated amortization was \$4.2 million and \$3.5 million at December 31, 2019 and 2018, respectively. Total amortization by expense classification for the years ended December 31, 2019 and 2018 was as follows:

	2019	2018
	(In thousands)	
Direct expenses	\$ 34	\$ 83
Selling, general and administrative expenses	\$ 2,874	\$ 2,400
Total amortization	<u>\$ 2,908</u>	<u>\$ 2,483</u>

Additional expense included in selling, general and administrative expenses for impairment of costs capitalized due to lost clients was \$22,000 and \$51,000 for the years December 31, 2019 and 2018, respectively.

Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in the Company's existing accounts receivable. We determine the allowance based on our historical write-off experience and current economic conditions. We review 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.

The following table provides the activity in the allowance for doubtful accounts for the years ended December 31, 2019, 2018 and 2017:

	Balance at Beginning of Year	Bad Debt Expense	Write-offs, net of Recoveries	Balance at End of Year
Year Ended December 31, 2017	\$ 169	\$ 249	\$ 218	\$ 200
Year Ended December 31, 2018	\$ 200	\$ 80	\$ 105	\$ 175
Year Ended December 31, 2019	\$ 175	\$ 75	\$ 106	\$ 144

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.

We capitalize certain costs incurred in connection with obtaining or developing internal-use software, including payroll and payroll-related costs for employees who are directly associated with the internal-use software projects and external direct costs of materials and services. Capitalization of such costs ceases when the project is substantially complete and ready for its intended purpose. Costs incurred during the preliminary project and post-implementation stages, as well as software maintenance and training costs are expensed as incurred. We capitalized approximately \$4.1 million and \$4.0 million of costs incurred for the development of internal-use software for the years ended December 31, 2019 and 2018, respectively.

We provide 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. We use 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 our office building and related improvements. Software licenses are amortized over the term of the license.

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, we first compare 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 significant impairments were recorded during the years ended December 31, 2019, 2018, or 2017.

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 our overall strategy;
- Significant negative trends in our industry or the overall economy;
- A significant decline in the market price for our common stock for a sustained period; and
- Our market capitalization falling below the book value of our net assets.

Goodwill and Intangible Assets

Intangible assets include customer relationships, trade names, technology, 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. We review 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, we will first assess qualitative factors to determine whether it is necessary to recalculate the fair value of the intangible assets with indefinite lives. If we believe, 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, we calculate the fair value using a market or income 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. We did not recognize any impairments related to indefinite-lived intangibles during 2019, 2018 or 2017.

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 our goodwill is allocated to our reporting units, which are the same as our 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.

We review 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 analysis will be performed, and the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit exceeds the carrying value, then goodwill is written down by this difference. We performed a qualitative analysis as of October 1, 2019 and determined the fair value of each reporting unit likely significantly exceeded the carrying value. No impairments were recorded during the years ended December 31, 2019, 2018 or 2017. The carrying amount of goodwill related to our Canadian subsidiary at December 31, 2019 was \$2.3 million. A substantial portion of the revenue earned by our Canadian subsidiary is concentrated with one customer. If we are unable to renew or retain our contract, which expires in March 2021, our goodwill associated with our Canadian subsidiary would likely be impaired.

Income Taxes

We use 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. We use the deferral method of accounting for our investment tax credits related to state tax incentives. During the years ended December 31, 2019, 2018 and 2017, we recorded income tax benefits relating to these tax credits of \$24,000, \$0, and \$4,000, respectively. Interest and penalties related to income taxes are included in income taxes in the Statement of Income.

We recognize 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

All of our existing stock option awards and non-vested stock awards have been determined to be equity-classified awards. The compensation expense on share-based payments is recognized based on the grant-date fair value of those awards. We recognize the excess tax benefits and tax deficiencies in the income statement when options are exercised. Amounts recognized in the financial statements with respect to these plans:

	2019	2018	2017
	(In thousands)		
Amounts charged against income, before income tax benefit	\$ 1,224	\$ 1,514	\$ 1,845
Amount of related income tax benefit	(2,081)	(3,566)	(2,310)
Net (benefit) expense to net income	<u>\$ (857)</u>	<u>\$ (2,052)</u>	<u>\$ (465)</u>

Cash and Cash Equivalents

We consider all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents were \$3.7 million and \$1.8 million as of December 31, 2019, and 2018, respectively, consisting primarily of money market accounts. At certain times, cash equivalent balances may exceed federally insured limits.

Leases

We adopted Accounting Standards Update (“ASU”) 2016-02, Leases (Topic 842) (“Topic 842” or the “New Leases Standard”) effective January 1, 2019 using a modified retrospective transition and did not adjust prior periods. We elected practical expedients related to existing leases at transition to not reassess whether contracts are or contain leases, to not reassess lease classification, initial direct costs, or lease terms. Additionally, we elected the practical expedient to account for lease and non-lease components as a single lease component for all asset classifications. We have also made a policy election to not record short-term leases with a duration of 12 months or less on the balance sheet.

Topic 842 requires lessees to recognize a lease liability and a right-of-use (“ROU”) asset on the balance sheet for operating leases. We recorded \$2.3 million of ROU assets and \$2.3 million of lease liabilities related to operating leases at the date of transition. The ROU assets recorded were net of \$43,000 of accrued liabilities and prepaid expenses representing previously deferred (prepaid) rent. There was no significant impact to the consolidated statements of income, comprehensive income, shareholders’ equity or cash flows. Accounting for finance leases is substantially unchanged.

We determine whether a lease is included in an agreement at inception. Operating lease ROU assets are included in operating lease right-of-use assets in our consolidated balance sheet. Finance lease assets are included in property and equipment. Operating and finance lease liabilities are included in other current liabilities and other long term liabilities. Certain lease arrangements may include options to extend or terminate the lease. We include these provisions in the ROU and lease liabilities only when it is reasonably certain that we will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term and is included in direct expenses and selling, general and administrative expenses. Our lease agreements do not contain any residual value guarantees.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments during the lease term. ROU assets and lease liabilities are recorded at lease commencement based on the estimated present value of lease payments. Because the rate of interest implicit in each lease is not readily determinable, we use our estimated incremental collateralized borrowing rate at lease commencement, to calculate the present value of lease payments. When determining the appropriate incremental borrowing rate, we consider our available credit facilities, recently issued debt and public interest rate information

Fair Value Measurements

Our 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 our 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.

The following details our financial assets within the fair value hierarchy at December 31, 2019 and 2018:

	Level 1	Level 2	Level 3	Total
	(In thousands)			
<u>As of December 31, 2019</u>				
Money Market Funds	\$ 3,662	\$ --	\$ --	\$ 3,662
Total Cash Equivalents	<u>\$ 3,662</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 3,662</u>
<u>As of December 31, 2018</u>				
Money Market Funds	\$ 1,848	--	--	1,848
Total Cash Equivalents	<u>\$ 1,848</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 1,848</u>

There were no transfers between levels during the years ended December 31, 2019 and 2018.

Our 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:

	December 31, 2019	December 31, 2018
	(In thousands)	
Total carrying amount of long-term debt	\$ 34,281	\$ 37,966
Estimated fair value of long-term debt	\$ 35,205	\$ 38,257

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 property and equipment, goodwill, intangibles and cost method investments, are measured at fair value in certain circumstances (for example, when there is evidence of impairment). As of December 31, 2019 and 2018, there was no indication of impairment related to these assets.

Commitments and Contingencies

From time to time, we are 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. Legal fees, net of estimated insurance recoveries, are expensed as incurred. There were no outstanding claims at December 31, 2019.

A sales tax accrual was recorded in 2019 after we became aware that a state sales tax liability was both probable and estimable as of December 31, 2019, due to sales taxes that should have been collected from customers in 2019 and certain previous years. As a result, we recorded an expense of \$775,000 in selling and administrative expenses and an associated liability in accrued expenses. We are working through voluntary disclosure agreements with certain states and will have procedures in place to start collecting and remitting sales tax in the second quarter of 2020. State and local jurisdictions have differing rules and regulations governing sales, use, and other taxes and these rules and regulations can be complex and subject to varying interpretations that may change over time. As a result, we could face the possibility of tax assessment and audits, and our liability for these taxes and associated interest and penalties could exceed our original estimates. In addition, we will incur additional sales tax expense in the first quarter of 2020, since we will not start collecting sales tax from customers until the second quarter of 2020.

We became self-insured for group medical and dental insurance on January 1, 2019. We carry excess loss coverage in the amount of \$150,000 per covered person per year for group medical insurance. We do not self-insure for any other types of losses, and therefore do not carry any additional excess loss insurance. We record a reserve for our group medical and dental insurance for all unresolved claims and for an estimate of incurred but not reported (“IBNR”) claims. On a quarterly basis, we adjust our accrual based on a review of our claims experience and a third-party actuarial IBNR analysis. As of December 31, 2019, our accrual related to self-insurance was \$270,000.

Earnings Per Share

Prior to the Recapitalization, net income per share of our former class A common stock and former class B common stock was computed using the two-class method. Basic net income per share was 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 was 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 were the same for the holders of our former class A common stock and former class B common stock. Other than share distributions and liquidation rights, the amount of any dividend or other distribution payable on each share of former class A common stock was equal to one-sixth (1/6th) of the amount of any such dividend or other distribution payable on each share of former class B common stock. As a result, the undistributed earnings for each period were allocated based on the participation rights of the former class A and former class B common stock under our then-effective Articles of Incorporation as if the earnings for the year had been distributed.

As described in Note 2, we completed a Recapitalization in April 2018, resulting in the elimination of the class B common stock and settlement of all then-existing outstanding class B share-based awards and reclassification of all class A common stock to Common Stock. The Recapitalization was effective on April 17, 2018. Therefore, income was allocated between the former class A and class B stock using the two-class method through April 16, 2018, and fully allocated to the Common Stock (formerly class A) following the Recapitalization.

We had 16,221, 93,346 and 104,647 options of Common Stock (former class A shares) for the years ended December 31, 2019, 2018 and 2017, respectively and 1,858 options of former class B shares for the year ended December 31, 2017, respectively which have been excluded from the diluted net income per share computation because their inclusion would be anti-dilutive.

	2019	2018		2017	
	Common Stock	Common Stock (formerly Class A)	Class B Common Stock	Common Stock (formerly Class A)	Class B Common Stock
	(In thousands, except per share data)				
Numerator for net income per share - basic:					
Net income	\$ 32,406	\$ 25,423	\$ 4,624	\$ 11,388	\$ 11,555
Allocation of distributed and undistributed income to unvested restricted stock shareholders	(109)	(82)	(18)	(88)	(87)
Net income attributable to common shareholders	<u>\$ 32,297</u>	<u>\$ 25,341</u>	<u>\$ 4,606</u>	<u>\$ 11,300</u>	<u>\$ 11,468</u>
Denominator for net income per share - basic:					
Weighted average common shares outstanding – basic	24,809	23,562	3,527	20,770	3,514
Net income per share – basic	<u>\$ 1.30</u>	<u>\$ 1.08</u>	<u>\$ 1.31</u>	<u>\$ 0.54</u>	<u>\$ 3.26</u>
Numerator for net income per share - diluted:					
Net income attributable to common shareholders for basic computation	<u>\$ 32,297</u>	<u>\$ 25,341</u>	<u>\$ 4,606</u>	<u>\$ 11,300</u>	<u>\$ 11,468</u>
Denominator for net income per share - diluted:					
Weighted average common shares outstanding – basic	24,809	23,562	3,527	20,770	3,514
Weighted average effect of dilutive securities – stock options:	844	886	101	857	89
Denominator for diluted earnings per share – adjusted weighted average shares	<u>25,653</u>	<u>24,448</u>	<u>3,628</u>	<u>21,627</u>	<u>3,603</u>
Net income per share – diluted	<u>\$ 1.26</u>	<u>\$ 1.04</u>	<u>\$ 1.27</u>	<u>\$ 0.52</u>	<u>\$ 3.18</u>

Recent Accounting Pronouncements Not Yet Adopted

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. We believe our adoption on January 1, 2020 will not significantly impact our results of operations and financial position.

In August 2018, the FASB issued ASU 2018-15, Intangibles-Goodwill and Other-Internal Use Software (Subtopic 350-40). This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The guidance is effective for annual reporting periods beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption is permitted. We plan to adopt the guidance prospectively and believe our adoption on January 1, 2020 will not significantly impact our results of operations and financial position.

In December 2019, the FASB issued ASU 2019-12, Simplifying the Accounting for Income Taxes (Topic 740). Among other clarifications and simplifications related to income tax accounting, this ASU simplifies the accounting for income taxes by eliminating certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, hybrid taxes and the recognition of deferred tax liabilities for outside basis differences. The guidance is effective for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years. Early adoption is permitted in interim or annual periods with any adjustments reflected as of the beginning of the annual period that includes that interim period. Additionally, entities that elect early adoption must adopt all the amendments in the same period. Amendments are to be applied prospectively, except for certain amendments that are to be applied either retrospectively or with a modified retrospective approach through a cumulative effect adjustment recorded to retained earnings. We are currently in the process of further evaluating the impact that this new guidance will have on our consolidated financial statements.

(2) Recapitalization

On April 16, 2018, our shareholders approved, among other things, an amendment to our Amended and Restated Articles of Incorporation (the “Articles”) to effect a recapitalization (the “Recapitalization”) pursuant to which each share of our then-existing class B common stock was exchanged for one share of the our then-existing Class A common stock plus \$19.59 in cash, without interest. On April 17, 2018, we filed an amendment to our Articles effecting the Recapitalization, followed by an amendment and restatement of our Articles, which resulted in the elimination of our class B common stock and the reclassification of our class A common stock as a share of Common Stock, par value \$0.001 per share (“Common Stock”). We issued 3,617,615 shares of Common Stock and paid \$72.4 million in exchange for all class B shares outstanding and to settle outstanding share-based awards for class B common stock. The Common Stock continues to trade on the NASDAQ Global Market under the revised symbol “NRC.”

In connection with the Recapitalization, on April 18, 2018, we entered into a credit agreement with First National Bank of Omaha, a national banking association (“FNB”), as described in Note 8.

(3) Contracts with Customers

The following table disaggregates revenue for the years ended December 31, 2019 and 2018 based on timing of revenue recognition (In thousands):

	2019	2018
Subscription services recognized ratably over time	\$ 114,329	\$ 104,777
Services recognized at a point in time	4,992	4,775
Fixed, non-subscription recognized over time	2,766	3,163
Unit price services recognized over time	5,895	6,971
Total revenue	<u>\$ 127,982</u>	<u>\$ 119,686</u>

Our solutions within the digital VoC platform in 2019, 2018 and 2017 accounted for 62.7%, 49.6% and 33.9% of total revenue, respectively. The remaining revenue consists of legacy Experience and Governance Solutions.

The following table provides information about receivables, contract assets, and contract liabilities from contracts with customers (In thousands):

	December 31, 2019	December 31, 2018
Accounts receivables	\$ 11,639	\$ 11,922
Contract assets included in other current assets	\$ 103	\$ 53
Deferred revenue	\$ (16,354)	\$ (16,244)

Significant changes in contract assets and contract liabilities during the years ended December 31, 2019 and 2018 are as follows (in thousands):

	2019		2018	
	Contract Asset	Deferred Revenue	Contract Asset	Deferred Revenue
	Increase (Decrease)			
Revenue recognized that was included in deferred revenue at beginning of year due to completion of services	\$ -	\$ (15,785)	\$ -	\$ (16,372)
Increases due to invoicing of client, net of amounts recognized as revenue	-	15,631	-	16,119
Decreases due to completion of services (or portion of services) and transferred to accounts receivable	(53)	-	(74)	-
Change due to cumulative catch-up adjustments arising from changes in expected contract consideration	-	264	-	(145)
Decreases due to impairment	-	-	-	-
Increases due to revenue recognized in the period with additional performance obligations before invoicing	103	-	53	-

We have elected to apply the practical expedient to not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less. Total remaining contract revenue for contracts with original duration of greater than one year expected to be recognized in the future related to performance obligations that are unsatisfied at December 31, 2019 approximated \$1,097,000, of which \$1,037,000 and \$60,000 are expected to be recognized during 2020 and 2021, respectively.

(4) Equity Investments

We make equity investments to promote business and strategic objectives. For investments that do not have a readily determinable fair value, we apply either cost or equity method of accounting depending on the nature of our investment and our ability to exercise significant influence. Investments are periodically analyzed to determine whether or not there are any indicators of impairment and written down to fair value if the investment has incurred an other than temporary impairment. During 2017, we acquired a \$1.3 million investment in convertible preferred stock of PracticingExcellence.com, Inc., a privately-held Delaware corporation (“PX”). It is not practicable for us to estimate fair value at each reporting date due to the cost and complexity of the calculations for this non-public entity. Our investment in PX is included in non-current assets and is carried at cost less impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer, if any. We have a seat on PX’s board of directors and our investment, which is not considered to be in-substance common stock, represents approximately 15.7% of the issued and outstanding equity interests in PX.

(5) **Property and Equipment**

At December 31, 2019, and 2018, property and equipment consisted of the following:

	2019	2018
	(In thousands)	
Furniture and equipment	\$ 5,025	\$ 5,321
Computer equipment	2,706	2,900
Computer software	24,532	26,694
Building	9,349	9,349
Leaseholds	41	41
Land	425	425
Property and equipment at cost	42,078	44,730
Less accumulated depreciation and amortization	28,548	30,577
Net property and equipment	<u>\$ 13,530</u>	<u>\$ 14,153</u>

Depreciation and amortization expense related to property and equipment, including assets under capital lease, for the years ended December 31, 2019, 2018, and 2017 was \$5.4 million, \$4.8 million, and \$4.0 million, respectively. There were no significant impairments in property and equipment during 2019, 2018, and 2017.

(6) **Goodwill and Intangible Assets**

Goodwill and intangible assets consisted of the following at December 31, 2019:

	Useful Life	Gross	Accumulated Amortization	Net
	(In years)		(In thousands)	
Goodwill		<u>\$ 57,935</u>		<u>\$ 57,935</u>
Non-amortizing intangible assets:				
Indefinite trade name		1,191		1,191
Amortizing intangible assets:				
Customer related	5 - 15	9,338	9,154	184
Technology	7	1,360	1,007	353
Trade names	5 - 10	1,572	1,572	--
Total amortizing intangible assets		12,270	11,733	537
Total intangible assets other than goodwill		<u>\$ 13,461</u>	<u>\$ 11,733</u>	<u>\$ 1,728</u>

Goodwill and intangible assets consisted of the following at December 31, 2018:

	Useful Life (In years)	Gross	Accumulated Amortization (In thousands)	Net
Goodwill		\$ 57,831		\$ 57,831
Non-amortizing intangible assets:				
Indefinite trade name		1,191		1,191
Amortizing intangible assets:				
Customer related	5 - 15	9,327	9,011	316
Technology	7	1,360	765	595
Trade names	5 - 10	1,572	1,572	--
Total amortizing intangible assets		12,259	11,348	911
Total intangible assets other than goodwill		\$ 13,450	\$ 11,348	\$ 2,102

The following represents a summary of changes in the carrying amount of goodwill for the years ended December 31, 2019 and 2018 (in thousands):

Balance as of December 31, 2017	\$ 58,021
Foreign currency translation	(190)
Balance as of December 31, 2018	\$ 57,831
Foreign currency translation	104
Balance as of December 31, 2019	\$ 57,935

Aggregate amortization expense for customer related intangibles, trade names, and technology for the years ended December 31, 2019, 2018 and 2017 was \$374,000, \$662,000, and \$610,000, respectively. Estimated future amortization expense for 2020, 2021 and 2022 is \$318,000, \$180,000, and \$39,000, respectively.

(7) Income Taxes

For the years ended December 31, 2019, 2018, and 2017, income before income taxes consists of the following:

	2019	2018	2017
	(In thousands)		
U.S. Operations	\$ 40,045	\$ 32,056	\$ 32,750
Foreign Operations	474	2,653	1,533
Income before income taxes	\$ 40,519	\$ 34,709	\$ 34,283

Income tax expense consisted of the following components:

	2019	2018	2017
	(In thousands)		
<u>Federal:</u>			
Current	\$ 5,574	\$ 2,144	\$ 10,947
Deferred	718	1,328	(1,596)
Total	\$ 6,292	\$ 3,472	\$ 9,351
<u>Foreign:</u>			
Current	\$ 94	\$ 882	\$ 387
Deferred	33	(178)	704
Total	\$ 127	\$ 704	\$ 1,091
<u>State:</u>			
Current	\$ 1,322	\$ 204	\$ 837
Deferred	372	282	61
Total	\$ 1,694	\$ 486	\$ 898
Total	\$ 8,113	\$ 4,662	\$ 11,340

Federal Tax Reform

On December 22, 2017, the Tax Cut and Jobs Act (the “Tax Act”) was enacted which, among other changes, reduced the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018. The Tax Act made broad and complex changes to the U.S. tax code. Based on the information available, and the current interpretation of the Tax Act, we made a reasonable estimate as of December 31, 2017, and recorded a provisional net tax benefit of \$1.9 million related to the remeasurement of the deferred tax assets and liabilities related to the following elements of the Tax Act:

- Reduction in the U.S. Federal Corporate Tax Rate: The Tax Act reduced the corporate tax rate to 21%, effective January 1, 2018.
- Availability of 100% bonus depreciation on assets placed in service after September 27, 2017.
- Certain stock compensation plans potentially subject to limitations as to deductibility.

The above items were final as of December 31, 2018, and no material adjustments were made to the provisional amounts recorded as of December 31, 2017. Under the Tax Act, we were also subject to a one-time mandatory deemed repatriation tax on accumulated non-U.S. earnings, payable over eight years.

In addition, as a result of the Tax Act, we determined that we would no longer indefinitely reinvest the earnings of our Canadian subsidiary and recorded the withholding tax of \$706,000 associated with this planned repatriation in December 2017. In December 2018, the Canadian subsidiary declared a deemed dividend for \$3 million to the Company. Withholding tax of \$150,000 was paid in 2018. In 2019, we recorded additional withholding tax of \$107,000 for the unremitted Canadian earnings.

The Tax Act subjects a U.S. corporation to tax on its Global Intangible Low Taxed Income (“GILTI”). Due to the complexity of the new GILTI tax rules, we are continuing to evaluate this provision of the Tax Act. Under Generally Accepted Accounting Principles, we can make an accounting policy election to either treat taxes due on the GILTI inclusion as a current period expense or factor such amounts into the measurement of deferred taxes. We elected the current period expense method and have not reflected any corresponding deferred tax assets and liabilities associated with the GILTI tax in the table of deferred tax assets and liabilities. GILTI tax has been recorded as current period expense of \$13,000 and \$40,000 in 2019 and 2018, respectively.

We received notice in December 2019, that we met qualification requirements for the Nebraska Advantage LB312 Act (“NAA”) related to certain investment and full-time equivalent employee thresholds in the year ended 2017. NAA provides direct refunds of sales tax on qualified property, as well as investment credits and employment credits that can be claimed through credits of Nebraska income tax, employment tax, and sales tax on non-qualified property. We will receive direct refunds of Nebraska sales tax on qualified property incurred from 2014 to 2023. Investment credits started to accumulate in 2014 and can be earned through 2023. These credits can be claimed against Nebraska income taxes or through sales tax on non-qualified property through 2028. The employment credits are earned from 2017 through 2023, and they can be claimed against Nebraska payroll taxes through 2028. In December, we recorded cumulative adjustments for direct refunds and credits earned through the year ending December 31, 2019, which reduced operating expenses by approximately \$1.9 million. In addition, income tax credits for the years 2017 to 2019 of \$24,000 were recorded as a reduction to income tax expense.

The difference between our 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 21% for 2019 and 2018 and 35% for 2017 pretax income was as follows:

	2019	2018	2017
	(In thousands)		
Expected federal income taxes	\$ 8,509	\$ 7,285	\$ 11,999
Foreign tax rate differential	26	146	(131)
State income taxes, net of federal benefit and state tax credits	1,344	376	608
Federal tax credits	(419)	(150)	(130)
Uncertain tax positions	34	90	151
Nondeductible expenses (income) related to recapitalization	(24)	151	504
Share based compensation	(1,579)	(3,041)	(1,564)
Compensation limit for covered employees	--	--	955
Impact of 2017 Tax Act	--	--	(2,415)
Tax depreciation method change	--	(308)	--
Valuation allowance	--	--	535
Withholding tax on repatriation of foreign earnings	107	--	706
GILTI	13	40	--
Other	102	73	122
Total	<u>\$ 8,113</u>	<u>\$ 4,662</u>	<u>\$ 11,340</u>

Deferred tax assets and liabilities at December 31, 2019 and 2018, were comprised of the following:

	2019	2018
	(In thousands)	
Deferred tax assets:		
Allowance for doubtful accounts	\$ 35	\$ 41
Accrued expenses	537	424
Share based compensation	1,267	1,264
Accrued bonuses	120	198
Foreign tax credit from repatriation	535	535
Other	--	46
Gross deferred tax assets	<u>2,494</u>	<u>2,508</u>
Less valuation allowance	<u>(535)</u>	<u>(535)</u>
Deferred tax assets	<u>1,959</u>	<u>1,973</u>
Deferred tax liabilities:		
Prepaid expenses	135	95
Deferred contract costs	990	786
Property and equipment	1,926	1,944
Intangible assets	5,553	4,919
Repatriation withholding	528	505
Unrealized translation gain on intercompany loan	214	--
Other	12	--
Deferred tax liabilities	<u>9,358</u>	<u>8,249</u>
Net deferred tax liabilities	<u>\$ (7,399)</u>	<u>\$ (6,276)</u>

In assessing the realizability of deferred tax assets, we consider 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. We consider 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, we believe it is more likely than not that it will realize the benefits of these deductible differences excluding the foreign tax credit carryforward.

We had an unrecognized tax benefit at December 31, 2019 and 2018, of \$592,000 and \$554,000, respectively, excluding interest of \$7,000 and \$6,000 at December 31, 2019 and 2018, respectively. Of these amounts, \$515,000 and \$482,000 at December 31, 2019 and 2018, respectively, represents the net unrecognized tax benefits that, if recognized, would favorably impact the effective income tax rate. The change in the unrecognized tax benefits for 2019 and 2018 is as follows:

	(In thousands)
Balance of unrecognized tax benefits at December 31, 2017	<u>\$ 843</u>
Reductions due to lapse of applicable statute of limitations	(35)
Reductions due to tax positions of prior years	(66)
Reductions due to settlement with taxing authorities	(300)
Additions based on tax positions related to the current year	112
Balance of unrecognized tax benefits at December 31, 2018	<u>\$ 554</u>
Reductions due to lapse of applicable statute of limitations	(43)
Reductions due to tax positions of prior years	--
Reductions due to settlement with taxing authorities	(300)
Additions based on tax positions related to the current year	381
Balance of unrecognized tax benefits at December 31, 2019	<u>\$ 592</u>

We file a U.S. federal income tax return, various state jurisdictions returns and a Canada federal and provincial income tax return. All years prior to 2016 are now closed for US federal income tax and for years prior to 2016 for state income tax returns, and no exposure items exist for these years. The 2015 to 2019 Canada federal and provincial income tax returns remain open to examination.

(8) Notes Payable

Our long-term debt consists of the following:

	2019	2018
	(In thousands)	
Term Loans	\$ 34,281	\$ 37,996
Less: current portion	(4,378)	(3,667)
Less: unamortized debt issuance costs	(108)	(153)
Notes payable, net of current portion	<u>\$ 29,795</u>	<u>\$ 34,176</u>

On April 18, 2018, in connection with the Recapitalization, we entered into a credit agreement (the “Credit Agreement”) with FNB providing for (i) a \$15,000,000 revolving credit facility (the “Line of Credit”), (ii) a \$40,000,000 term loan (the “Term Loan”) and (iii) a \$15,000,000 delayed draw-dawn term facility (the “Delayed Draw Term Loan”) and, together with the Line of Credit and the Term Loan, the “Credit Facilities”). We used the Term Loan to fund, in part, the cash portion paid to holders of our then-existing class B common stock in connection with the Recapitalization and the accompanying exchange of outstanding share-based awards tied to the class B common stock, as well as for the costs of the Recapitalization. The Delayed Draw Term Loan may be used to fund any permitted future business acquisitions or repurchases of our Common Stock and the Line of Credit will be used to fund ongoing working capital needs and for other general corporate purposes.

The Term Loan is payable in monthly installments of \$462,988 through April 2020 and \$526,362 thereafter, with a balloon payment due at maturity in April 2023. The Term Loan bears interest at a fixed rate per annum of 5%.

Borrowings under the Line of Credit and the Delayed Draw Term Loan, if any, bear interest at a floating rate equal to the 30-day London Interbank Offered Rate plus 225 basis points (3.94% at December 31, 2019). Interest on the Line of Credit accrues and is payable monthly. Principal amounts outstanding under the Line of Credit are due and payable in full at maturity, in April 2021. As of December 31, 2019 and 2018, the Line of Credit did not have a balance. The weighted average borrowings on the Line of Credit for year ended December 31, 2019 was \$2.4 million. The weighted average interest on borrowings on the Line of Credit for the year ended December 31, 2019 was 4.72%. There have been no borrowings on the Delayed Draw Term Loan since origination.

We paid a one-time fee equal to 0.25% of the amount borrowed under the Term Loan at the closing of the Credit Facilities. We are also obligated to pay ongoing unused commitment fees quarterly in arrears pursuant to the Line of Credit and the Delayed Draw Term Loan facility at a rate of 0.20% per annum based on the actual daily unused portions of the Line of Credit and the Delayed Draw Term Loan facility, respectively.

The Credit Agreement is collateralized by substantially all of our assets and contains customary representations, warranties, affirmative and negative covenants (including financial covenants) and events of default. The negative covenants include, among other things, restrictions regarding the incurrence of indebtedness and liens, repurchases of our Common Stock and acquisitions, subject in each case to certain exceptions. The Credit Agreement also contains certain financial covenants with respect to a minimum fixed charge coverage ratio of 1.10x and a maximum cash flow leverage ratio of 3.00x. As of December 31, 2019, we were in compliance with our financial covenants.

Scheduled maturities of notes payable at December 31, 2019 are as follows:

2020	\$	4,418
2021		4,916
2022		5,171
2023		19,776

(9) Share-Based Compensation

We measure and recognize compensation expense for all share-based payments based on the grant-date fair value of those awards. All of our existing stock option awards and unvested stock awards have been determined to be equity-classified awards. We account for forfeitures as they occur. As described in Note 2, we completed a Recapitalization in April 2018 which, among other things, settled all then-existing outstanding class B share-based awards and resulted in the elimination of the class B common stock. As a result, we accelerated vesting of all outstanding class B share based awards, resulting in accelerated share-based compensation of \$331,000 in the year ended December 31, 2018. All outstanding class B share-based awards were then settled for the same stock to cash proportion of the class B common stock described in Note 2, less the exercise price, if any, which approximated the awards' intrinsic values.

Our 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 our former class A common stock and 300,000 shares of our former 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.

Our 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 our Common Stock and, prior to the Recapitalization, 500,000 shares of our former class B common stock. The 2004 Director Plan provides for grants of nonqualified stock options to each of our directors who we do not employ. Beginning in 2018, on the date of each annual meeting of shareholders, options to purchase shares of Common Stock equal to an aggregate grant date fair value of \$100,000 are granted to each non-employee director that is elected or retained as a director at each such meeting. Prior to 2018, on the date of each annual meeting of shareholders, options to purchase 36,000 shares of our former class A common stock and 6,000 shares of our former class B common stock were granted to directors that were elected or retained as a director at such meeting. Stock options vest approximately one year following the date of grant and option terms are generally the earlier of ten years following the date of grant, or three years from the termination of the outside director's service. At December 31, 2019, there were 851,956 shares of Common Stock available for issuance pursuant to future grants under the 2004 Director Plan. We have accounted for grants of 2,148,044 shares of Common Stock under the 2004 Director Plan using the date of grant as the measurement date for financial accounting purposes.

Our 2006 Equity Incentive Plan (the "2006 Equity Incentive Plan"), as amended, 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 Common Stock and, prior to the Recapitalization, 300,000 shares of our former 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, 2019, there were 736,492 shares of Common Stock available for issuance pursuant to future grants under the 2006 Equity Incentive Plan. We have accounted for grants of 1,063,508 shares of Common Stock and restricted stock under the 2006 Equity Incentive Plan using the date of grant as the measurement date for financial accounting purposes.

During 2019 and 2018, we granted options to purchase 100,615 and 116,276 shares of Common Stock, respectively. We granted options to purchase 299,917 shares of our former class A common stock and 49,986 shares of our former class B common stock during 2017. 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. We do, 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 weighted average assumptions:

	2019	2018	2017	
	Common Stock	Common Stock	Common Stock (former Class A)	Former Class B Common Stock
Expected dividend yield at date of grant	2.60%	2.59%	2.62%	8.06%
Expected stock price volatility	34.01%	32.47%	32.45%	26.75%
Risk-free interest rate	2.38%	2.51%	2.18%	2.18%
Expected life of options (in years)	7.46	7.28	6.80	6.80

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 our 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 we estimate that options will be outstanding. We consider 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, 2019:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Terms (Years)	Aggregate Intrinsic Value (In thousands)
<u>Common Stock</u>				
Outstanding at December 31, 2018	1,373,209	\$ 15.99		
Granted	100,615	\$ 41.64		
Exercised	(227,902)	\$ 15.88		\$ 8,280
Forfeited	--	\$ --		
Outstanding at December 31, 2019	<u>1,245,922</u>	\$ 18.08	4.45	\$ 59,631
Exercisable at December 31, 2019	<u>807,537</u>	\$ 14.33	3.02	\$ 41,677

The following table summarizes information related to stock options for the years ended December 31, 2019, 2018 and 2017:

	2019	2018	2017	
	Common Stock	Common Stock (former Class A)	Common Stock (former Class A)	Former Class B Common Stock
Weighted average grant date fair value of stock options granted	\$ 11.99	\$ 10.02	\$ 5.83	\$ 3.66
Intrinsic value of stock options exercised (in thousands)	\$ 8,280	\$ 10,621	\$ 2,681	\$ 202
Intrinsic value of stock options vested (in thousands)	\$ 1,891	\$ 2,719	\$ 5,258	\$ 787

As of December 31, 2019, the total unrecognized compensation cost related to non-vested stock option awards was approximately \$1.5 million which was expected to be recognized over a weighted average period of 2.90 years.

There was no cash received from stock options exercised for the year ended December 31, 2019, 2018 or 2017. We recognized \$934,000, \$1.1 million and \$1.2 million of non-cash compensation for the years ended December 31, 2019, 2018, and 2017, respectively, related to options, which is included in direct fixed and selling, general and administrative expenses. The actual tax benefit realized for the tax deduction from stock options exercised was \$1.9 million, \$3.8 million and \$1.1 million for the years ended December 31, 2019, 2018 and 2017, respectively.

During 2019 and 2018, we granted 6,005 and 6,793 non-vested shares of Common Stock, respectively, under the 2006 Equity Incentive Plan. No shares were granted during the year ended December 31, 2017. As of December 31, 2019, we had 84,176 non-vested shares of Common Stock outstanding under the 2006 Equity Incentive Plan. These shares vest over 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. We recognized \$290,000, \$428,000 and \$629,000 of non-cash compensation for the years ended December 31, 2019, 2018, and 2017, respectively, related to this non-vested stock, which is included in direct fixed and selling, general and administrative expenses. The actual tax benefit realized for the tax deduction from vesting of restricted stock was \$168,000 and \$1.3 million for the years ended December 31, 2018 and 2017, respectively. No restricted stock vested during the year end December 31, 2019.

The following table summarizes information regarding non-vested stock granted to associates under the 2006 Equity Incentive Plans for the year ended December 31, 2019:

	Common Stock Outstanding	Common Stock Weighted Average Grant Date Fair Value Per Share
Outstanding at December 31, 2018	78,171	\$ 15.61
Granted	6,005	\$ 38.30
Vested	--	\$ --
Forfeited	--	\$ --
Outstanding at December 31, 2019	<u>84,176</u>	<u>\$ 17.23</u>

As of December 31, 2019, the total unrecognized compensation cost related to non-vested stock awards was approximately \$411,000 and is expected to be recognized over a weighted average period of 3.03 years.

(10) Leases

We lease printing, computer, other equipment and office space in the United States and Canada. The leases remaining terms as of December 31, 2019 range from less than one year to 5.7 years.

Certain equipment and office lease agreements include provisions for periodic adjustments to rates and charges. The rates and charges are adjusted based on actual usage or actual costs for internet, common area maintenance, taxes or insurance, as determined by the lessor and are considered variable lease costs.

The components of lease expense for the year ended December 31, 2019 included (in thousands):

	2019
Operating leases	\$ 781
Finance leases:	
Asset amortization	252
Interest on lease liabilities	39
Variable lease cost	86
Short-term lease cost	42
Total net lease cost	<u>\$ 1,200</u>

We recorded rent expense in connection with our operating leases of \$779,000 and \$869,000 in 2018 and 2017, respectively.

Supplemental balance sheet information related to leases (in thousands):

	<u>December 31, 2019</u>	<u>January 1, 2019</u>
<u>Operating leases:</u>		
Operating ROU assets	\$ 1,628	\$ 2,287(1)
Current operating lease liabilities	524	692(1)
Noncurrent operating lease liabilities	1,139	1,639(1)
Total operating lease liabilities	<u>\$ 1,663</u>	<u>\$ 2,331(1)</u>

(1) Represents the December 31, 2018 balance recorded at implementation of Topic 842

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>Finance leases:</u>		
Furniture and equipment	\$ 802	\$ 1,062
Computer Equipment	511	487
Computer Software	207	224
Property and equipment under finance lease, gross	1,520	1,773
Less accumulated amortization	(734)	(839)
Property and equipment under finance lease, net	<u>\$ 786</u>	<u>\$ 934</u>
Current obligations of finance leases	\$ 227	\$ 204
Noncurrent obligations of finance leases	559	676
Total finance lease liabilities	<u>\$ 786</u>	<u>\$ 880</u>

Weighted average remaining lease term (in years):

Operating leases	4.17
Finance leases	3.56

Weighted average discount rate:

Operating leases	4.81%
Finance leases	4.60%

Supplemental cash flow and other information related to leases was as follows (in thousands):

	<u>2019</u>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 789
Operating cash flows from finance leases	38
Financing cash flows from finance leases	229
ROU assets obtained in exchange for operating lease liabilities	16
ROU assets obtained in exchange for finance lease liabilities	192

Undiscounted payments under non-cancelable finance and operating leases at December 31, 2019 are as follows (in thousands):

	<u>Finance Leases</u>	<u>Operating Leases</u>
2020	\$ 257	\$ 591
2021	251	453
2022	204	226
2023	123	246
2024	13	203
Thereafter	--	118
Total minimum lease payments	848	1,837
Less: Amount representing interest	(62)	(174)
Present value of minimum lease payments	786	1,663
Current portion	(227)	(524)
Lease obligations, net of current portion	<u>\$ 559</u>	<u>\$ 1,139</u>

Undiscounted payments under non-cancelable operating leases and finance leases at December 31, 2018 were as follows (in thousands):

<u>Year Ending December 31,</u>	<u>Finance Leases</u>	<u>Operating Leases</u>
2019	\$ 258	\$ 882
2020	241	672
2021	214	564
2022	168	273
2023	85	262
Total minimum lease payments	<u>966</u>	
Less: Amount representing interest	<u>(86)</u>	
Present value of minimum lease payments	880	
Less: Current maturities	<u>(204)</u>	
Capital lease obligations, net of current portion	<u>\$ 676</u>	

(11) Related Party

One of our directors also served as an officer and director of Ameritas Life Insurance Corp. (“Ameritas”) as of December 31, 2019. In connection with our regular assessment of our insurance-based associate benefits, which is conducted by an independent insurance broker, and the costs associated therewith, we purchase dental and vision insurance for certain of our associates from Ameritas. The total value of these purchases was \$242,000, \$200,000 and \$248,000 in 2019, 2018 and 2017 respectively.

Mr. Hays, our Chief Executive Officer and director, is an owner of 14% of the equity interest of Nebraska Global Investment Company LLC (“Nebraska Global”). We, directly or indirectly through our former subsidiary Customer-Connect LLC, purchased certain services from Nebraska Global, primarily consisting of software development services. The total value of these purchases were \$12,500 in 2017.

Mr. Hays personally incurred approximately \$538,000 of fees and expenses in connection with exploring our strategic alternatives, including the Recapitalization (see Note 2), for which we reimbursed Mr. Hays in 2017. These fees and expenses were attributable to the evaluation of alternatives and the sourcing and negotiating of financing for the alternatives, all of which we would have directly borne if they had not been advanced by Mr. Hays.

During 2017, we acquired a cost method investment in convertible preferred stock of PX (see Note 4). Also in 2017, we paid \$250,000 to acquire certain perpetual content licenses from PX for content we include in certain of our subscription services. We also have an agreement with PX which commenced in 2016 under which we act as a reseller of PX services and receive a portion of the revenues. The total revenue earned from the PX reseller agreement in the years ended December 31, 2019, 2018 and 2017 was \$578,000, \$439,000 and \$633,000, respectively. We will no longer earn revenue under this agreement after December 31, 2020.

(12) Associate Benefits

We sponsor a qualified 401(k) plan covering substantially all associates with no eligibility service requirement. Under the 401(k) plan, we match 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. We contributed \$447,000, \$396,000 and \$350,000 in 2019, 2018 and 2017, respectively, as a matching percentage of associate 401(k) contributions.

(13) Segment Information

Our 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 Transitions, 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 table below presents entity-wide information regarding our revenue and assets by geographic area:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
		(In thousands)	
Revenue:			
United States	\$ 124,369	\$ 115,451	\$ 112,885
Canada	3,613	4,235	4,674
Total	<u>\$ 127,982</u>	<u>\$ 119,686</u>	<u>\$ 117,559</u>
Long-lived assets:			
United States	\$ 78,906	\$ 77,330	\$ 72,562
Canada	2,622	2,291	2,495
Total	<u>\$ 81,528</u>	<u>\$ 79,621</u>	<u>\$ 75,057</u>
Total assets:			
United States	\$ 95,668	\$ 91,080	\$ 110,785
Canada	15,017	16,952	16,531
Total	<u>\$ 110,685</u>	<u>\$ 108,032</u>	<u>\$ 127,316</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”), our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2019. 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, 2019.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act). Our 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.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our 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, our management concluded that our internal control over financial reporting was effective as of December 31, 2019.

The effectiveness of our internal control over financial reporting as of December 31, 2019, 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 our internal control over financial reporting that occurred during the quarter ended December 31, 2019, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

We have no other information to report pursuant to this item.

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,” “Corporate Governance – Committees” and “Delinquent Section 16(a) Reports,” respectively, in our definitive Proxy Statement for our 2020 Annual Meeting of Shareholders (“Proxy Statement”) and is hereby incorporated herein by reference. Information with respect to our executive officers 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.

We have adopted a Code of Business Conduct and Ethics that applies to all of our associates, including our Chief Executive Officer and Chief Financial Officer and other persons performing similar functions. We have posted a copy of the Code of Business Conduct and Ethics on our 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 our Secretary. We intend 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 our website at www.nrchealth.com. We are not including the information contained on our 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,” “2019 Summary Compensation Table,” “Grants of Plan-Based Awards in 2019,” “Outstanding Equity Awards at December 31, 2019,” “2019 Director Compensation,” “Compensation Committee Report,” “Corporate Governance-Transactions with Related Persons” and “CEO Pay Ratio” 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, 2019.

<u>Plan Category</u>	<u>Number of securities to be issued upon the exercise of outstanding options, warrants and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)</u>
<u>Common Shares</u>			
Equity compensation plans approved by security holders ⁽¹⁾	1,245,922	\$ 18.08	1,588,448 ⁽²⁾
Equity compensation plans not approved by security holders	--	--	--
Total	<u>1,245,922</u>	<u>\$ 18.08</u>	<u>1,588,448</u>

⁽¹⁾ Includes our 2006 Equity Incentive Plan, 2004 Director Plan, and the 2001 Equity Incentive Plan.

⁽²⁾ Under the 2006 Equity Incentive Plan, we had authority to award up to 325,081 additional shares of restricted Common Stock 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 736,492 shares of Common Stock as of December 31, 2019. The Director Plan provides for granting options for 3,000,000 shares of Common Stock. Option awards through December 31, 2019 totaled 2,148,044 shares of 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 are filed as part of this Annual Report on Form 10-K.
2. Financial statement schedules. All financial statement schedules have been omitted because they are not applicable or the required information is included in the consolidated financial statements and the related notes thereto.
3. Exhibits. The exhibits listed in the exhibit index below are filed as part of this Annual Report on Form 10-K.

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Exhibit Description</u>
(3.1)	Amended and Restated Articles of Incorporation of National Research Corporation, effective as of 5:01 pm, CT, on April 17, 2018 [Incorporated by reference to Exhibit 3.3 to National Research Corporation's Current Report on Form 8-K dated April 16, 2018 and filed on April 20, 2018 (File No. 001-35929)]
(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. 001-35929)]
(4.1)	Amended and Restated Articles of Incorporation of National Research Corporation, effective as of 5:01 pm, CT, on April 17, 2018 [Incorporated by reference to Exhibit 3.3 to National Research Corporation's Current Report on Form 8-K dated April 16, 2018 and filed on April 20, 2018 (File No. 001-35929)]
(4.2)	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. 001-35929)]
(4.3)**	Description of the Securities of the Registrant.
(10.1)	Credit Agreement, dated April 18, 2018, between National Research Corporation and First National Bank of Omaha [Incorporated by reference to Exhibit 10 to National Research Corporation's Current Report on Form 8-K dated April 16, 2018 and filed on April 20, 2018 (File No. 001-35929)].
(10.2)*	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 the 2018 Annual Meeting of Shareholders filed on April 27, 2018 (File No. 001-35929)]
(10.3)*	Form of Nonqualified Stock Option Agreement (for new associates) used in connection with the National Research Corporation 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) filed on November 16, 2004]
(10.4)*	Form of Nonqualified Stock Option Agreement (for officers) used in connection with the National Research Corporation 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) filed on November 16, 2004]
(10.5)*	Form of Restricted Stock Agreement for executive officers used in connection with the National Research Corporation 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 and filed on March 23, 2005 (File No. 000-29466)]

<u>Exhibit Number</u>	<u>Exhibit Description</u>
(10.6)*	Form of Restricted Stock Agreement (one year vesting) used in connection with the National Research Corporation 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) filed on November 16, 2004]
(10.7)*	Form of Restricted Stock Agreement (five year vesting) used in connection with the National Research Corporation 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) filed on November 16, 2004]
(10.8)*	Form of Nonqualified Stock Option Agreement used in connection with the National Research Corporation 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 and filed on April 2, 2007 (File No. 000-29466)]
(10.9)*	Form of Restricted Stock Agreement used in connection with the National Research Corporation 2006 Equity Incentive Plan [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 and filed on April 2, 2007 (File No. 000-29466)]
(10.10)*	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 on April 3, 2002 (File No. 000-29466)]
(10.11)*	National Research Corporation 2006 Equity Incentive Plan, [Incorporated by reference to Appendix A to National Research Corporation's Proxy Statement for the 2006 Annual Meeting of Shareholders filed on April 3, 2006 (File No. 000-29466)]
(10.12)* **	Form of Grant used in connection with the National Research Corporation 2004 Non-Employee Director Stock Plan, as amended
(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
(101)**	Financial statements from the Annual Report on Form 10-K of National Research Corporation for the year ended December 31, 2019, 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.

** Filed herewith.

Item 16. Form 10-K Summary

None.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page in this <u>Form 10-K</u>
Report of Independent Registered Public Accounting Firm.....	26
Consolidated Balance Sheets as of December 31, 2019 and 2018	28
Consolidated Statements of Income for the Three Years Ended December 31, 2019	29
Consolidated Statements of Comprehensive Income for the Three Years Ended December 31, 2019	30
Consolidated Statements of Shareholders' Equity for the Three Years Ended December 31, 2019	31
Consolidated Statements of Cash Flows for the Three Years Ended December 31, 2019	32
Notes to Consolidated Financial Statements	33

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 6th day of March 2020.

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 6, 2020
<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 6, 2020
<u>/s/ Donald M. Berwick</u> Donald M. Berwick	Director	March 6, 2020
<u>/s/ JoAnn M. Martin</u> JoAnn M. Martin	Director	March 6, 2020
<u>/s/ Barbara J. Mowry</u> Barbara J. Mowry	Director	March 6, 2020
<u>/s/ John N. Nunnely</u> John N. Nunnely	Director	March 6, 2020

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934**

As of December 31, 2019, National Research Corporation (the "Company," "we," "us" or "our") has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), our common stock, par value \$.001 ("Common Stock").

The summary of the general terms and provisions of the Common Stock set forth below does not purport to be complete and is subject to and qualified by reference to the Company's Amended and Restated Articles of Incorporation ("Articles") and Bylaws ("Bylaws"), each of which is incorporated by reference as exhibits to the Annual Report on Form 10-K. For additional information, please read the Articles and Bylaws and the applicable provisions of the Wisconsin Business Corporation Law.

Authorized Capital Stock

Our authorized capital stock consists of 62,000,000 shares, consisting of: (i) 60,000,000 shares of Common Stock, par value \$0.001 per share, and (ii) 2,000,000 shares of Preferred Stock, par value \$0.01 per share. As of February 28, 2020, 25,027,889 shares of Common Stock were issued and outstanding, and no shares of our preferred stock were issued and outstanding.

Common Stock

After all cumulative dividends have been paid or declared and set apart for payment on any shares of preferred stock that are outstanding, the Common Stock is entitled to such dividends as may be declared from time to time by our board of directors in accordance with applicable law.

Except as provided under Wisconsin law and except as may be determined by our board of directors with respect to any series of preferred stock, only the holders of Common Stock shall be entitled to vote for the election of directors of the Company and on all other matters. Holders of Common Stock are entitled to one vote for each share of Common Stock held by them on all matters properly submitted to a vote of shareholders, subject to Section 180.1150 of the Wisconsin Business Corporation Law. Shareholders have no cumulative voting rights, which means that the holders of shares entitled to exercise more than 50% of the voting power are able to elect all of the directors to be elected.

All shares of Common Stock are entitled to participate equally in distributions in liquidation, subject to the prior rights of any preferred stock which may be outstanding. Holders of Common Stock have no preemptive rights to subscribe for or purchase shares of our capital stock. There are no conversion rights, sinking fund or redemption provisions applicable to Common Stock. The outstanding shares of our Common Stock are fully paid and nonassessable.

Our Common Stock is listed on the NASDAQ Global Market under the trading symbol "NRC." The transfer agent for our Common Stock is American Stock Transfer & Trust Company LLC.

Preferred Stock

Pursuant to our Amended and Restated Articles of Incorporation, the board of directors has the authority, without further action by the shareholders, to issue up to 2,000,000 shares of preferred stock in one or more series and to fix the designations, powers, preferences, privileges and relative participating, optional or special rights and the qualifications, limitations or restrictions thereof, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights of our Common Stock. The board of directors, without shareholder approval, can issue preferred stock with voting, conversion or other rights that could adversely affect the voting power and other rights of the holders of Common Stock. As a result, preferred stock could be issued quickly with terms calculated to delay or prevent a change of control of the company or make removal of management more difficult. Additionally, the issuance of preferred stock may have the effect of decreasing the market price of our Common Stock and may adversely affect the voting and other rights of the holders of Common Stock.

As of the date of the Annual Report on Form 10-K of which this Exhibit is a part, no shares of preferred stock are outstanding.

Anti-Takeover Effects of Various Provisions of Wisconsin Law and Our Amended and Restated Articles of Incorporation and By-Laws

Certain anti-takeover provisions in the Wisconsin Business Corporation Law are applicable to “resident domestic corporations” (we do not believe we are a resident domestic corporation but it is a fact-specific determination). Through Article 10 of our Amended and Restated Articles of Incorporation, we have elected to be treated as an “issuing public corporation” for purposes of the “Fair Price” and “Control Share” statutes described below. In addition, Article 9 of our Amended and Restated Articles of Incorporation incorporates a substantial portion of the “Business Combination” statute described below. Because these provisions are set forth in our Amended and Restated Articles of Incorporation rather than by statute, assuming we are not otherwise a resident domestic corporation, future amendments could eliminate or modify these provisions.

Control Share Statute. Section 180.1150 of the Wisconsin Business Corporation Law provides that the voting power of shares of public Wisconsin corporations such as us held by any person or persons acting as a group in excess of 20% of the voting power in the election of directors is limited to 10% of the full voting power of those shares. This statutory voting restriction does not apply to shares acquired directly from us or in certain specified transactions or shares for which full voting power has been restored pursuant to a vote of shareholders.

Fair Price Statute. Section 180.1130 to 180.1133 of the Wisconsin Business Corporation Law provide that some “business combinations” not meeting specified adequacy-of-price standards must be approved by a vote of at least 80% of the votes entitled to be cast by shareholders and by two-thirds of the votes entitled to be cast by shareholders other than a “significant shareholder” who is a party to the transaction. The term “business combination” is defined to include, subject to some exceptions, a merger or consolidation of us (or any subsidiary of ours) with, or the sale or other disposition of substantially all of our assets to, any significant shareholder or affiliate thereof. “Significant shareholder” is defined generally to include a person that is the beneficial owner of 10% or more of the voting power of the common stock.

Business Combinations. Sections 180.1140 to 180.1144 of the Wisconsin Business Corporation Law regulate a broad range of “business combinations” between a Wisconsin corporation and an “interested stockholder.” Wisconsin Business Corporation Law defines a “business combination” to include a merger or share exchange, sale, lease, exchange, mortgage, pledge, transfer, or other disposition of assets equal to at least 5% of the market value of the stock or assets of a corporation or 10% of its earning power, issuance of stock or rights to purchase stock with a market value equal to 5% of the outstanding stock, adoption of a plan of liquidation, and certain other transactions involving an “interested stockholder.” An “interested stockholder” is defined as a person who beneficially owns, directly or indirectly, 10% of the voting power of the outstanding voting stock of a corporation, or who is an affiliate or associate of the corporation and beneficially owned 10% of the voting power of the then outstanding voting stock within the last three years. Sections 180.1140 to 180.1144 prohibit a corporation from engaging in a business combination (other than a business combination of a type specifically excluded from the coverage of the statute) with an interested stockholder for a period of three years following the date such person becomes an interested stockholder, unless the board of directors approved the business combination or the acquisition of the stock that resulted in a person becoming an interested stockholder before such acquisition. Business combinations after the three-year period following the stock acquisition date are permitted only if:

- the board of directors approved the acquisition of the stock prior to the acquisition date; or
- the business combination is approved by a majority of the outstanding voting stock not beneficially owned by the interested stockholder; or
- the consideration to be received by shareholders meets certain requirements with respect to form and amount; or
- the business combination is of a type specifically excluded from the coverage of the statute.

Our Amended and Restated Articles of Incorporation contain provisions that are similar to the provisions of Sections 180.1140 to 180.1144.

Section 180.1134 provides that, in addition to the vote otherwise required by law or the articles of incorporation of an issuing public corporation, the approval of the holders of a majority of the shares entitled to vote is required before such corporation can take certain action while a takeover offer is being made or after a takeover offer has been publicly announced and before it is concluded. Under Section 180.1134, shareholder approval is required for the corporation to:

- acquire more than 5% of the outstanding voting shares at a price above the market price from any individual or organization that owns more than 3% of the outstanding voting shares and has held such shares for less than two years, unless a similar offer is made to acquire all voting shares; or

- sell or option assets of the corporation that amount to at least 10% of the market value of the corporation, unless the corporation has at least three independent directors and a majority of the independent directors vote not to have the provision apply to the corporation.

The restrictions described in the first bullet point above may have the effect of deterring a shareholder from acquiring our shares with the goal of seeking to have us repurchase such shares at a premium over the market price.

Under our Amended and Restated Articles of Incorporation and by-laws, our board of directors is divided into three classes, with staggered terms of three years each. Each year the term of one class expires. The Amended and Restated Articles of Incorporation provide that any vacancies on the board of directors shall be filled only by the affirmative vote of a majority of the directors in office, even if less than a quorum. Any director so elected will serve until the next election of the class for which such director is chosen and until his or her successor is duly elected and qualified.

Our Amended and Restated Articles of Incorporation provide that any directors may be removed from office, but only for cause by the affirmative vote of at least 66-2/3% of all outstanding shares entitled to vote in the election of directors. However, if at least two-thirds of the board of directors plus one director vote to remove a director, such director may be removed without cause by a majority of the voting power of our outstanding shares of capital stock entitled to vote thereon.

In addition, our by-laws establish a procedure that shareholders seeking to call a special meeting of shareholders must satisfy. This procedure involves notice to us, our receipt of written demands for a special meeting from holders of 10% or more of the issued and outstanding shares of Common Stock, a review of the validity of such demands by an independent inspector appointed by us and the fixing of the record and meeting dates by the board of directors. In addition, shareholders demanding such a special meeting must deliver to us a written agreement to pay the costs we incur in holding a special meeting, including the costs of preparing and mailing the notice of meeting and the proxy material for our solicitation of proxies for use at such meeting, in the event such shareholders are unsuccessful in their proxy solicitation.

Our by-laws also provide the board of directors with discretion in postponing shareholder meetings, including, within some limits, special meetings of shareholders. Additionally, the chief executive officer or the board of directors, acting by resolution, may adjourn a shareholder meeting at any time prior to the transaction of business at such meeting. Our by-laws also contain strict time deadlines and procedures applicable to shareholders seeking to nominate a person for election as a director or to otherwise bring business before a meeting.

These provisions of our Articles and Bylaws and the Wisconsin Business Corporation Law could have the effect of delaying or preventing a change of control of the Company.

**FORM OF GRANT USED IN CONNECTION WITH THE NATIONAL RESEARCH CORPORATION
2004 NON-EMPLOYEE DIRECTOR STOCK PLAN, AS AMENDED**

[Director name]

Re: Stock Option Grant National Research Corporation Director Stock Plan

This letter is to confirm that on [date], you were automatically granted a nonqualified stock option to purchase [# of shares] shares of Common Stock, \$.001 par value, of National Research Corporation (“Company”) pursuant to the terms of the 2004 Non-Employee Director Stock Plan (the “Plan”).

Your stock option to purchase up to [# of shares] shares of Common Stock is subject to the terms and conditions of the Plan. The option price is [price] per share, which was the last sale price of a share of Common Stock on the NASDAQ Stock Market on [date of grant], the date of grant.

In accordance with the terms of the Plan, your options are not exercisable until one year after the date of grant unless your status as a director of the Company terminates because of death prior to that time, in which event the options become immediately exercisable in full and may be exercised for a period of three (3) years after the date of death. If for any reason other than death you cease to be an outside director of the Company within one year of the date of grant, the options will be cancelled as of the date of such termination. Subject to the foregoing, the options expire ten (10) years after the date of grant, or if earlier, three (3) years after you cease to be an outside director of the Company.

The other terms which govern your stock options are as set forth below and as provided in the Plan.

Procedure for Exercise. You may exercise your options in whole or in part at any time after the options have become exercisable (as discussed above) by delivering written notice to the Company together with payment of the option price in cash, previously acquired shares of Common Stock valued at their fair market value or such other forms as the Board or Plan administrator approves.

Securities Laws Matters. Applicable federal and state securities laws govern the disposition by you of shares purchased through the exercise of your options. You may sell such shares only (1) pursuant to an effective registration statement under the Securities Act of 1933, as amended (“Act”), or (2) in a transaction which is exempt from registration under the Act, such as a sale which fully complies with Rule 144 under the Act.

Non-Transferability. Your options may not be sold or transferred other than by will or under the laws of descent and distribution, except that an option may be transferred to the extent allowed by the Board or the Plan administrator. The designation of a beneficiary will not constitute a transfer.

Conformity with Plan. Your options are intended to conform in all respects with, and are subject to all applicable provisions of, the Plan. Inconsistencies between this letter and the Plan will be resolved in accordance with the terms of the Plan.

Please execute and return the enclosed copy of this letter to the Company. By doing so, you agree to be bound by all of the terms of this letter and of the Plan.

Very truly yours,

NATIONAL RESEARCH CORPORATION

By: [Authorized Officer]

Accepted on this ____ day of _____, [yyyy].

[Director name], Director

Subsidiary of National Research Corp.

National Research Corporation's subsidiary as of December 31, 2019 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, 333-209934, 333-226715, and 333-226716) on Forms S-8 and (File Nos. 333-120529, 333-211190, and 333-232534) on Forms S-3 of National Research Corporation of our report dated March 6, 2020, with respect to the consolidated balance sheets of National Research Corporation and subsidiary as of December 31, 2019 and 2018, 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, 2019, and the related notes (collectively, the consolidated financial statements), and the effectiveness of internal control over financial reporting as of December 31, 2019, which report appears in the December 31, 2019 annual report on Form 10-K of National Research Corporation.

Our report dated March 6, 2020, refers to a change in the Company's method for accounting for revenue from contracts with customers in 2018 due to the adoption of Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*, as amended.

/s/ KPMG LLP

Lincoln, Nebraska
March 6, 2020

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 6, 2020

/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 6, 2020

/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, 2019 (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 6, 2020

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.

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Directors and Officers

Board of Directors

Michael D. Hays

Chief Executive Officer
National Research Corporation

John N. Nunnely, Lead Director

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

Donald M. Berwick, M.D.

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

JoAnn M. Martin

Vice Chair of the Board of Ameritas
Mutual Holding Company, Ameritas
Holding Company, and Ameritas Life
Insurance Company
*Member of Strategy, Audit (Chair),
Compensation and Talent Committees*

Barbara J. Mowry

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

Scudder Law Firm, P.C., L.L.O.,
Lincoln, Nebraska

Woods & Aitken LLP
Lincoln, Nebraska

Common Stock

National Research Corporation's
common stock is traded on The
NASDAQ Stock Market under the
symbol NRC.

Independent Registered Public Accounting Firm

KPMG LLP
Lincoln, Nebraska

