

Carling Adams • CJ Adamson • Junayed Ahmed • Lindsey Akiyama • Echo Alexander • Ben Allemann • Taylor Almquist • Karen Althouse • Edward Anderson • Ryan Anderson • Kathy Anstine • Shayne Arriola • Jess Arter • Zak Arushanov • Sina Attaie • Michelle Bachman • Desarie Ball • Cindy Ballow • Emily Barker • Chrissy Barnhardt • Jason Barry • Steve Barton • Anna Bates • Allan Bautista • Amanda Beardley • Rachel Beavers • Nick Beiermann • Adam Benash • Kyle Benesch • Sara Bennett • Dan Biggs • Mike Bisenius • Tracy Black • Cody Bodfield • Jeff Bogner • Ryan Bondegard • Ariel Born • Lanny Boswell • Cassandra Braaten • Lindsey Bradley • Nick Brandt • Nicki Bratten • Robin Brester • Scott Brester • Dawn Brock • Erin Brodhagen • David Bronson • Dustin Bruce • Jenny Brunke • Tyler Burbach • Justin Burns • Erin Butcher • Matt Cain • Jamie Cajka • Corry Caouette • Carly Carlson • Janet Carlson • Jalene Carpenter • Kathy Carroll • Mary Ann Castillo • Jackie Cech • Erin Cerretta • Jennifer Chandrabose • Megan Charko • Anna Chitepu • Bryan Christiancy • Bailey Christy • Jared Chulufas • Katie Clabaugh • Justin Clark • Tessa Clark • Ron Clarkin • RoJean Clifton • Alayna Clouston • Kim Clouston • Danny Coca Herrera • Marc Coker • Breanna Cook • Kelsey Cook • Tim Cook • Paul Cooper • Heather Costa-Greger • Teresa Costello-Raddatz • Lindsay Coupens • Ken Cousino • Melissa Cummings • Pat Dabney • Sudha Daggumati • Matt Dahlke • Jake Daniel • Martha Daniel • Rob Davis • Ashlee Deeds • Lauryn Dermot • Lauri Dettmer • Jatinder Dhaliwal • Julie Diaz • Jacob Dittmer • Cathy Diven • Ryan Donohue • John Dorn • Billie Douglass • Connor Drake • Priyadarshini Dutta • Austin Edstrom • TJ Ehlers • Brooke Ehlert • Sara Ehnes • Zane Ehnes • Hannah Eisert • Jhordan Elsberry • William England • Matt Engler • Andy Essink • Maggie Essink • John Estudillo • Jared Eubank • Jillian Fast • Ashley Felker • Beki Ferguson • Bobbie Ficken • Travis Ficken • Brian Finck • Jenny Fisher • Lauren Fix • Aliya Flores • Tony Flores • Michelle Folken • Nick Fontana • Rachelle Friesen • Ben Frodyma • Sarah Fryda • Jing Fu • Brooke Garbison • Lesly Garcia • Tim Gerken • Kristine German • Jeff Gill • Dave Gilsdorf • Andy Glenn • Geeta Goenka • Aislinn Goodrich • Hollie Gordon • Toya Gorley • Jenny Grant • Kristin Graves • Kylee Gries • Meghan Gull • Ashley Haas • Candis Hager • Marty Hager • Rachel Hamilton • Tracy Hanger • Jon Hanseling • Dave Hansen • Claire Harris • James Harris • Gina Harvey • Shannon Hasemann • Ryan Hatt • Kirsten Hattan • Renee Hauser • Britt Hayes



2018 ANNUAL REPORT | 2019 PROXY STATEMENT

# Human understanding

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*

• Shannon Hayes • Mike Hays • Trevor Heidinger • Kipp Heidtbrink • Nathan Heimes • Bret Hermesen • Jess Hesse • James Hill • Deb Hinds • Ryan Hinojosa • Carmen Hinseth • Erin Hobelman • Bryony Hokanson-Jack • Alaia Holmes • Kelly Honke • Holly Hopkins • Nate Hoppe • Kim Houle • Helen Hrdy • Dorothy Hu • Trisha Hudson • Ada Hui • Greg Humlicek • LaDonna Humphrey • Katie Hunke • Rachel Hupp • Brandon Hurley • Elisabeth Hurst • Eric Hyde • Andy Ibbotson • Steve Jackson • Brad Jacox • Todd Jarchow • Ruta Jaudegis • Erika Johnson • Katie Johnson • Jamie Jorgenson • Mel Kamm • Cody Kampschneider • Kevin Karas • Emily Karnish • Dana Kearse • Steve Kepler • Kevin Khan • Triet Khuc • Evan Killham • Jennifer Kimmmons • Kate Kimmons • Alicia King • Shawnelle King • Justin Koch • Mike Koh • Steph Kolbo • Rich Kortum • Glenn Kramer • Annie Krein • Katie Kriegler • Spencer Krull • Justin Kubick • Jon Kuehler • Billy Kuehn • Tess Kurtenbach • Heath Lamb • Andy Lambert • Will Landers • Jessica Lane • Heather Lannin • Lindsay Laug • Emily Lichter • Richard Lierman • Sheri Life • Anne Loethen • Scott Logan • Devan Lorenson • Amanda Loseke • Kayla Lounsbery • Andrew Lowe • Brad Lowe • Pam Luciano • Greg Ludvik • Katrina Lupsiakova • Linda Magin • Jamie Manley • Tracy Marshall • Christian Martinez • Jake Mastera • Corey Matejka • Bridget Matthiessen • Larry Mayer Jr. • Bryant McCann • Shannon McCann • Jessica McDaniel • Jo Mcelwain • Joe Mctaggart • Linda Meeker • Zoe Menard • Maggie Mendoza • Carrie Merry • Jason Messerli • Patrick Messersmith • Amber Meyer • Garrett Miles • Ian Miller • Randi Miller • Wesley Miller • Lisa Minchow • Yuri Miranda • Sheena Mommens • Russell Morgan • Shelly Morton • Steph Mosley • Sanjay Motwani • Laura Moulton • Alison Mumaugh • Kathy Mummert • Ana Munoz • Molly Murphy • Tom Myers • Kaitlyne Nash • Pam Nelson • Sara Nelson • Taylor Nelson • Emma Newcomb • James Newton • Jason Newton • Emily Ngo • David Nguyen • 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 • Kaitlin Overfield • John Palmer • De'Juan Parker • George Parker • Shilpa Patel • Connie Pautz • Alex Pavlik • Jordan Pedersen • Heidi Peirce • Kathryn Peisert • Kasey Pepper • Christina Perry • Christa Peters • Michelle Peters • Dana Petersen • Sam Peterson • Lynn Phillips • Sara Pickrel • Matthew Pierce • Jane Plagmann • Abby Plybon • Devika Pondicherry • Bailey Pons • Alexandria Preston • Molly Preston • Jacob Pribnow • Abby Protzman • Jona Raasch • Giana Rada • Judy Radford • Cydnee Rand • Melissa Rappl • Angie Rauner • Likhitha Rayakur • Kaden Rea • Glen Ready • Ryan Real • Josh Rector • Tony Reinke • Aulii Reyes • Katie Rhone • Hannah Riitscher • Corbin Rix • Karen Robertus • Bonny Robley • Andre Rodrigues Ferreira • Marcie Rohlfis • Alena Rusetskaya • Tiffany Ryck • Moontaha Saif • Immaculata Sam • Parker Scheer • Nathan Schmitz • Rana Schreiber • Justin Schuerman • April Schulz • Tawna Schwarz • Emily Schweitzer • Logan Schweitzer • Colleen Selvage • Josh Sexson • Mary Shaw • Rachel Simants • Elizabeth Sisney • Hannah Skiff • Kelly Slama • Ted Smidberg • Jay Smith • Raquel Smith • Shakawat Sobuj • Janae Spiker • Linda Stacy • Carla Steadman • Amber Steffen • Andy Steffen • Jenelle Stein • Deann Stephan • Jake Stephens • Joel Steuben • Jackie Stevens • Lisa Stolzenburg • Ryan Stoner • Vanessa Stuart • Brett Sullivan • Melissa Summers • Dana Svehla • Sydney Svoboda • Sean Swanson • Jon Tanner • Kim Taruc • Megan Taruc • Jake Tegler • Jack Thelen • Jenifer Therrien • Allison Thomas • Jason Thomas • Micheal Thompson • Britney Thomson • Matt Timbs • James Tobey • Peyton Tobin • Barbara Toffolet • Marci Vander Tuig • Peggy Vaughn • Mike Vaughn • Ryan Vavra • Priya Visweswaran • Gunter Voelker • Jen Volland • Becky Volten • Vicki Vopalensky • Kaylin Wade • Kayla Wagner • Ari Wait • Tim Washburn • Maxia Webb • Sam Weis • Dara Wells • KK West • Andie Westling • Deb Weyers • Connie White • Jacob White • Emily Wiebeck • Jenny Wieseler • Karen Wilken • Minon Wilkinson • Tanner Wilkinson • Joshua Willey • Brinn Williams • Sara Winchell • Josh Winder • Rob Wirth • Kendall Witt • Kelli Woods • Meghan Wright • Warren Wunderlich • Brian Wynne • Keith Wysocki • Ian York • Ilze Young • Jon Young • Anita Yu • Alex Yuan • Joe Zigtema • Zach Zobel • Jason Zulkoski

## Annual meeting

The annual meeting of shareholders will be held on May 29, 2019, 3:00 p.m. (local time) at the Embassy Suites, 1040 P Street, Lincoln, Nebraska 68508.

## To Our Owners:

While most industries have already adopted an omnichannel strategy, the “digital front door” to healthcare has, until most recently, been locked. To this day, it remains easier to schedule a haircut or book an around-the-world trip than interact online with most health systems.

Seventy-seven percent of consumers begin their healthcare search online, where they must sift through a wealth of information varying in credibility and usefulness. Forward-looking health systems have taken notice that the digital front door is key to attracting patients and building the brand awareness and loyalty that keeps customers coming back.

Over the past four years, your Company’s Transparency program has provided verified star ratings and reviews for individual physicians, service lines, and care locations, enabling more than 150 healthcare organizations to take control of their online presence, outperform in search rankings, and build confidence with prospective patients. Nearly 60% of consumers now book an appointment as a result of what they read in online ratings and reviews.

But as these consumers progress through the “four walls” of the care environment, your Company’s research continues to show a widening gap between consumer expectations and the capabilities of most healthcare providers. Consumers are seeking ever greater convenience, ease, and affordability relative to their purchasing dollar.

Launched in 2018, the NRC Loyalty Index offers a proprietary national benchmark for healthcare leaders to evaluate their effectiveness in forging closer connections with the more than 40% of individuals who lack loyalty to a healthcare brand and a growing number of frustrated consumers and activist employers.

Our commitment to helping organizations “act boldly” has resulted in notable new customer wins, improved retention rates, and the majority of our legacy customers switching to the Company’s recently introduced Voice of the Customer (VOC) platform.

Uniting marketing, patient experience, and clinical services, the digital platform enables, for the first time, a complete, whole-person view of the longitudinal care experiences customers have with healthcare brands—anywhere care is delivered today, designed to support however care delivery may change in the future.

There is no better way to convey this impact, than to hear directly from those we have the opportunity to serve: [www.nrchealth.com/whyNRC](http://www.nrchealth.com/whyNRC).

Looking to the future, my hope is that our knowledge of populations, households, and individuals will be further unlocked and available industry-wide to accelerate us toward a new era of relationship-centered care. Integrating our Company’s data directly into the workflow of our customers and future industry partners has transformative potential.

Always, and forever, it is the people and culture of NRC Health that propel your Company forward. Celebrating our 38<sup>th</sup> year, we are proud of our increasingly diverse workforce. Women now comprise 59% of our Company, bringing balance and a unique sense of empathy so imperative to healthcare. And our fearless millennial cohort—an ever-growing 25%—are driven by such passion for purpose, it is inspiring your Company to have an even larger and more lasting impact on the industry.

We hope you agree, matching purpose with profit makes for good business.

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 29, 2019**

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 Wednesday, May 29, 2019, at 3:00 P.M., local time, at the Embassy Suites hotel located at 1040 P Street, Lincoln, Nebraska 68508, for the following purposes:

1. To elect one director to hold office until the 2022 annual meeting of shareholders and until his successor is duly elected and qualified.
2. To ratify the appointment of KPMG LLP as our independent registered public accounting firm for 2019.
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 22, 2019, 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 9, 2019

**Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting To Be Held on May 29, 2019. The National Research Corporation proxy statement for the 2019 Annual Meeting of Shareholders and the 2018 Annual Report to Shareholders are available at [www.proxyvote.com](http://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 29, 2019

This proxy statement is being furnished to shareholders by the Board of Directors (the “Board”) of National Research Corporation, doing business as NRC Health (the “Company”), beginning on or about April 9, 2019, in connection with a solicitation of proxies by the Board for use at the Annual Meeting of Shareholders to be held on Wednesday, May 29, 2019, at 3:00 P.M., local time, at the Embassy Suites hotel located at 1040 P Street, Lincoln, Nebraska 68508, and all adjournments or postponements thereof (the “Annual Meeting”) for the purposes set forth in the attached Notice of Annual Meeting of Shareholders.

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

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

- FOR the 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 2019;
- 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 2019 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 the Company’s common stock, \$0.001 par value per share (the “Common Stock”), at the close of business on March 22, 2019 (the “Record Date”), are entitled to vote at the Annual Meeting. On that date, the Company had outstanding and entitled to vote 24,864,391 shares of Common Stock, each of which is entitled to one vote per share. The presence of a majority of the votes entitled to be cast shall constitute a quorum for the purpose of transacting business at the Annual Meeting. Abstentions and broker non-votes will be counted as present in determining whether there is a quorum.

## ELECTION OF DIRECTORS

The Company's By-Laws provide that the directors shall be divided into three classes, with staggered terms of three years each. At the Annual Meeting, the shareholders will elect one director to hold office until the 2022 annual meeting of shareholders and until his 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 22, 2019, 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.

### **Nominee for Election at the Annual Meeting**

*Term expiring at the 2022 Annual Meeting*

**Donald M. Berwick**, 72, 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.

**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 2020 Annual Meeting*

**JoAnn M. Martin**, 64, has served as a director of the Company since June 2001. Ms. Martin was elected President and Chief Executive Officer of Ameritas Life Insurance Corp., an insurance and financial services company, in July 2005 and currently serves as Chair and Chief Executive Officer. From April 2003 to July 2005, she served Ameritas Life Insurance Corp. as President and Chief Operating Officer. Prior thereto, Ms. Martin served as Senior Vice President and Chief Financial Officer of Ameritas for more than the last five years. In April 2009, Ms. Martin was elected Chief Executive Officer of Ameritas Holding Company and Ameritas Mutual Holding Company (previously named UNIFI



Mutual Holding Company), where she had served as Executive Vice President and Chief Financial Officer for more than the last five years, and currently serves as Chief Executive Officer of Ameritas Mutual Holding Company. Ms. Martin has served as an officer of Ameritas and/or its affiliates since 1988. Ms. Martin also serves as a director of Ameritas Mutual Holding Company and/or its affiliates. Ms. Martin's financial background as a certified public accountant and as the former Chief Financial Officer and current Chief Executive Officer of a mutual insurance holding company, as well as her past leadership experiences as a director of the Omaha Branch of the Federal Reserve Bank of Kansas City and other organizations, led to the conclusion that she should serve as a director of the Company.

**Barbara J. Mowry**, 71, has served as a director of the Company since May 2014. Ms. Mowry founded, and is currently the Chief Executive Officer of, GoreCreek Advisors, a management consulting firm. Prior to founding GoreCreek Advisors, Ms. Mowry served as Senior Vice President - Data Integration of Oracle Corporation, an industry leading software, hardware and services company, from January 2010 through March 2011, and as President and Chief Executive Officer of Silver Creek Systems, Inc., a data quality solutions software company, from January 2003 to December 2009. Ms. Mowry served as a director of Axion Health (from 2012 to 2014) and the Federal Reserve Bank of Kansas City (from 2012 to 2014) where she was Chair of the Board from 2013 to 2014. Ms. Mowry also serves as a director of IMA Financial Group (since May 2017), a privately held diversified financial services company, and as a director of several not-for-profit organizations, including the Kauffman Foundation (since 2013), the University of Minnesota Executive Committee, Carlson School of Management and the Board of Overseers (since 2004) and the National Association of Corporate Directors Colorado Chapter where she is a Leadership Fellow. Ms. Mowry previously served as a director of Gaiam, Inc. (from 1999 to 2013), Real Goods Solar, Inc. (from 2008 to 2013) and the Denver Branch of the Federal Reserve Bank of Kansas City (from 2008 to 2011). Ms. Mowry's financial background as a former President and Chief Executive Officer of several companies, a former member of the audit and compensation committees of the boards of directors of Gaiam, Inc. and Real Goods Solar, Inc. and as the current Chief Executive Officer of GoreCreek Advisors, led to the conclusion that she should serve as a director of the Company.

*Terms expiring at the 2021 Annual Meeting*

**Michael D. Hays**, 64, has served as Chief Executive Officer and a director since he founded the Company in 1981. He also served as President of the Company from 1981 to 2004 and from July 2008 to July 2011. Prior to founding the Company, Mr. Hays served for seven years as a Vice President and a director of SRI Research Center, Inc. (n/k/a the Gallup Organization). Mr. Hays' background as founder of the Company, and his long and successful tenure as Chief Executive Officer and a director, led to the conclusion that he should serve as a director of the Company.

**John N. Nunnally**, 66, has served as a director of the Company since December 1997. Mr. Nunnally is a retired Group President from McKesson Corporation, a leader in pharmaceutical distribution and healthcare information technology. During his 28-year career at McKesson, Mr. Nunnally served in a variety of other positions including, Vice President of Strategic Planning and Business Development, Vice President and General Manager of the Amherst Product Group and Vice President of Sales-Decision Support. These responsibilities included leading several business units, including one with over \$360 million in annual revenue. In addition, he was involved in managing a number of mergers and acquisitions. Mr. Nunnally also serves as an adjunct professor at the University of Massachusetts, School of Nursing, advising students and faculty on matters pertaining to healthcare information technology. These experiences and Mr. Nunnally's expertise as a professional and educator in the field of healthcare information technology led to the conclusion that he should serve as a director of the Company.

## 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. Nunnally are “independent directors” as that term is defined in the listing standards of The NASDAQ Stock Market.

Directors are expected to attend the Company’s annual meeting of shareholders each year. With the exception of Mr. Berwick, each of the directors attended the Company’s 2018 annual meeting of shareholders.

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

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

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

### Committees

The Board held six meetings in 2018. All incumbent directors attended at least 75% of the meetings of the Board and the committees on which they served during 2018.

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. The Company makes available copies of each of these charters free of charge on its website located at [www.nrchealth.com](http://www.nrchealth.com). Other than the text of the charters, the Company is not including the information contained on or available through its website as a part of, or incorporating such information by reference into, this proxy statement.

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

Committee presently consists of JoAnn M. Martin (Chairperson), Barbara J. Mowry and John N. Nunnelly, 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 2018.

The Compensation and Talent Committee determines compensation programs for the Company’s executive officers, reviews management’s recommendations as to the compensation to be paid to other key personnel and administers the Company’s equity-based compensation plans. The Compensation and Talent Committee presently consists of Barbara J. Mowry (Chairperson), JoAnn M. Martin and John N. Nunnelly, 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 four meetings in 2018. From time to time, with the last time being in 2015, the Compensation and Talent Committee or management of the Company has engaged a nationally recognized compensation consultant to assist the Company in its review of its compensation and benefits programs, including the competitiveness of pay levels, executive compensation design issues, market trends and technical considerations. The Compensation and Talent Committee, however, did not use this information in setting the compensation of the Company’s executive officers in 2018.

The Nominating Committee presently consists of Donald M. Berwick (Chairperson), Barbara J. Mowry and John N. Nunnelly, each of whom meets the independence standards of The NASDAQ Stock Market for nominating committee members. The Nominating Committee’s primary functions are to: (1) recommend persons to be selected by the Board as nominees for election as directors and (2) recommend persons to be elected to fill any vacancies on the Board. The Nominating Committee did not hold any meetings in 2018.

The Strategic Planning Committee assists the Board in reviewing and, as necessary, altering, the Company’s strategic plan, reviewing industry trends and their effects, if any, on the Company and assessing the Company’s products, services and offerings and the viability of such portfolio in meeting the needs of the markets that the Company serves. John N. Nunnelly (Chairperson), Donald M. Berwick, JoAnn M. Martin and Barbara J. Mowry are the current members of the Strategic Planning Committee. The Strategic Planning Committee held one meeting in 2018.

## **Board Oversight of Risk**

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

## **Nominations of Directors**

The Nominating Committee will consider persons recommended by shareholders to become nominees for election as directors. Recommendations for consideration by the Nominating Committee should be sent to the Secretary of the Company in writing together with appropriate biographical information concerning each proposed nominee. The Company’s By-Laws also set forth certain requirements for shareholders wishing to nominate director candidates directly for consideration by the shareholders. With respect to an election of directors to be held at an annual meeting, a shareholder must,

among other things, give notice of intent to make such a nomination to the Secretary of the Company not less than 60 days or more than 90 days prior to the second Wednesday in the month of April.

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

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

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

- At least one independent director must have the requisite experience and expertise to be designated as an "audit committee financial expert," as defined by applicable rules of the Securities and Exchange Commission, and have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the member's financial sophistication, as required by the rules of NASDAQ.
- One or more of the directors generally must be active or former executive officers of public or private companies or leaders of major complex organizations, including commercial, scientific, government, educational and other similar institutions.

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

## **Transactions with Related Persons**

Except as otherwise disclosed in this section, we had no related person transactions during 2018, and none are currently proposed, in which we were a participant and in which any related person had a direct or indirect material interest. Our Board has adopted written policies and procedures regarding related person transactions. For purposes of these policies and procedures:

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

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

Ms. Martin, a director of the Company, serves as Chair and Chief Executive Officer of Ameritas Life Insurance Corp. In connection with the Company’s regular assessment of its insurance-based associate benefits and the costs associated therewith, which is conducted by an independent insurance broker, in 2007 the Company began purchasing dental insurance for certain of its associates from Ameritas Life Insurance Corp. and, in 2009, the Company also began purchasing vision insurance for certain of its associates from Ameritas Life Insurance Corp. The total value of these purchases, which were conducted in arms’ length transactions and approved by the Audit Committee pursuant to our related person transaction policies and procedures, were \$200,365 in 2018.

During 2017, the Company acquired a cost method investment in convertible preferred stock of PracticingExcellence.com, Inc., a privately-held Delaware corporation (“PX”). Prior to the investment, the Company entered into an agreement with PX, under which the Company acts as a reseller of PX services (the “PX reseller agreement”). The total revenue earned from the PX reseller agreement was \$439,000 in 2018. 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.

## 2018 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 the Company’s lead director from 2007 to May 2012, and Mr. Nunnelly has served as the Company’s lead director since May 2012.

Pursuant to the National Research Corporation 2004 Non-Employee Director Stock Plan, 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, 2018 to December 31, 2018, 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 the Company’s 2018 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 the Company’s directors during 2018:

<u>Name</u>	<u>Fees Earned or Paid in Cash</u>	<u>Option Awards<sup>(1)</sup></u>	<u>Total</u>
Donald M. Berwick	\$ 50,000	\$ 100,015	\$ 150,015
JoAnn M. Martin	\$ 50,000	\$ 100,015	\$ 150,015
Barbara J. Mowry	\$ 50,000	\$ 100,015	\$ 150,015
John N. Nunnelly	\$ 75,000	\$ 100,015	\$ 175,015

<sup>1</sup> Represents the aggregate grant date fair value of option awards granted during the year, computed in accordance with FASB ASC Topic 718. See Note 11 to the Company’s Consolidated Financial Statements included in its Annual Report on Form 10-K for the years ended December 31, 2018, December 31, 2017, and December 31, 2016, for a discussion of assumptions made in the valuation of share-based compensation. As of December 31, 2018, the outstanding option awards for each director were as follows: Dr. Berwick – 46,440 options; Ms. Martin – 262,440 options; Ms. Mowry – 190,440 options; and Mr. Nunnelly – 48,462 options.

## 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 2018 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, 2018, 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

## PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding the beneficial ownership of Common Stock as of the Record Date (i.e., March 22, 2019) 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 24,864,391 shares of Common Stock outstanding.

Name of Beneficial Owner	Shares Beneficially Owned	
	Shares	%
<b>Directors and Executive Officers <sup>(1)</sup></b>		
Michael D. Hays.....	225,194 <sup>(2)(4)</sup>	*
Steven D. Jackson .....	105,476 <sup>(4)</sup>	*
Kevin R. Karas .....	65,841 <sup>(4)(3)</sup>	*
Donald M. Berwick .....	36,000 <sup>(4)</sup>	*
JoAnn M. Martin.....	470,455 <sup>(4)</sup>	1.9%
Barbara J. Mowry.....	186,902 <sup>(4)</sup>	*
John N. Nunnelly .....	64,916 <sup>(4)</sup>	*
All directors, nominees and executive officers as a group (seven persons) .....	1,154,784 <sup>(4)</sup>	4.5%
<b>Other Holders</b>		
Amandla MK Trust and Patrick E. Beans, as the Special Holdings Direction Advisor under this Trust <sup>(5)</sup> .....	7,378,645	29.7%
The K/I/E Trust Under Agreement dated 10/24/18 and Patrick E. Beans, as the Special Holdings Direction Advisor under this Trust <sup>(6)</sup> .....	5,037,053	20.3%
Kayne Anderson Rudnick Investment Management LLC <sup>(7)</sup> .....	3,154,040	12.7%

\* Denotes less than 1%.

<sup>(1)</sup> The address of all directors and officers is 1245 Q Street, Lincoln, Nebraska 68508.

<sup>(2)</sup> Includes 139,095 shares of Common Stock held by Mr. Hays' wife. Mr. Hays disclaims beneficial ownership of the shares held by his wife.

<sup>(3)</sup> Includes 10,016 shares of Common Stock pledged as security.

<sup>(4)</sup> Includes shares of Common Stock that may be purchased under stock options which are currently exercisable or exercisable within 60 days of March 22, 2019, as follows: Dr. Berwick, 36,000 shares; Mr. Hays, 73,017 shares; Mr. Jackson, 0 shares; Mr. Karas, 51,825 shares; Ms. Martin, 252,000 shares; Mr. Nunnelly, 38,022 shares; Ms. Mowry, 180,000 shares; and all directors, nominees and executive officers as a group, 630,864 shares.

<sup>(5)</sup> 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.

<sup>(6)</sup> 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.

<sup>(7)</sup> The number of shares owned set forth above in the table is as of or about December 31, 2018 as reported by Kayne Anderson Rudnick Investment Management LLC in its amended Schedule 13G filed with the Securities and Exchange Commission. The address for this shareholder is 1800 Avenue of the Stars, 2<sup>nd</sup> Floor, Los Angeles, California 90067. This shareholder reports sole voting and dispositive power with respect to 757,730 of these shares and shared voting and dispositive power with respect to 2,396,760 of these shares.



## **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors, executive officers and any owner of greater than 10% of the Company's Common Stock to file reports with the Securities and Exchange Commission concerning their ownership of the Company's Common Stock. Based solely upon information provided to the Company by individual directors and executive officers, the Company believes that, during the fiscal year ended December 31, 2018, all of its directors and executive officers and owners of greater than 10% of the Company's Common Stock complied with the Section 16(a) filing requirements, 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 2018 annual meeting of shareholders pursuant to the National Research Corporation 2004 Non-Employee Director Stock Plan, as amended) and (ii) six Form 4s for Mr. Berwick (each reporting stock sales) 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, 2019.

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

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

Assuming a quorum is present at the Annual Meeting, the number of votes cast for the ratification of the Audit Committee's appointment of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2019 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

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:

- Market Driven. We strive to compensate our executive officers at levels to ensure that we continue to attract and retain a highly competent, committed management team.
- Align with Shareholders. We seek to align the interests, perspectives and decision-making of our executive officers with the interests of our shareholders.
- Performance Based. We link our executive officers’ compensation, particularly annual cash bonuses, to established Company financial performance goals and individual 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. Nunnelly

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’ 2018 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 2018, 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 2018 compensation levels for our named executive officers:

- Reviewed the performance of our Chief Executive Officer and determined his total compensation;
- Reviewed the performance of our other executive officers and other key associates (i.e., employees) with assistance from our Chief Executive Officer; and
- Determined total compensation for our named executive officers based on recommendations by our Chief Executive Officer (as to the other officers) and the Committee's review of the Company's and the individual officer's performance.

### **2018 Say on Pay Vote**

In May 2018 (after the 2018 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 2018 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 exposure 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 from 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 Company 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).

<b>Base Salary as a Percentage of Total Compensation</b>	
Michael D. Hays	44%
Kevin R. Karas	44%
Steven D. Jackson	44%

#### *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 2018, 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 2018 over 2017, 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 2018. 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 that payouts determined by these formulas were likely to produce results consistent with our past practice of setting annual target payouts at 50% of base salary, and would continue to provide competitive compensation consistent with our goals for annual incentive awards.

The following table shows amounts actually earned by our named executive officers for 2018, 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>2018 Actual Bonus Percentage of Total Compensation</u>	<u>2018 Actual Bonus Amount</u>
Michael D. Hays	36%	\$ 104,468
Kevin R. Karas	36%	\$ 233,700
Steven D. Jackson	36%	\$ 246,000

### ***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. Prior to 2018, in each year following our 2013 recapitalization pursuant to which we established two classes of common stock (class A common stock and class B common stock), we granted options to purchase both class A common stock and class B common stock. For 2018, in light of the then-proposed 2018 Recapitalization, which would eliminate all of our class B common stock, we granted options based only on our class A 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.

In determining equity incentive awards for 2018, 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, 2018, the Committee granted options to each of our named executive officers. In light of the then-proposed 2018 Recapitalization, which would eliminate all of our class B common stock, the Committee granted options based only on our class A common stock. 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 class A 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 2018, no performance-based 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.

## 2018 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 2018. The identification of such named executive officers is determined based on the individual's total compensation for 2018, 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 2018, 2017, and 2016: (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>Bonus (\$)</u>	<u>Stock Awards (\$)</u>	<u>Option Awards (\$)<sup>(1)</sup></u>	<u>Non-Equity Incentive Plan Compensation (\$)</u>	<u>All Other Compensation (\$)<sup>(2)</sup></u>	<u>Total (\$)</u>
Michael D. Hays Chief Executive Officer	2018	\$ 127,400	--	--	\$ 53,332	\$104,468	\$ 4,267	\$ 289,467
	2017	\$ 127,400	--	--	\$ 42,000	\$ 61,534	\$ 4,831	\$ 235,765
	2016	\$ 127,400	--	--	\$ 44,261	\$ 74,656	\$ 2,079	\$ 248,396
Kevin R. Karas Senior Vice President Finance, Chief Financial Officer, Treasurer and Secretary	2018	\$ 285,000	--	--	\$ 119,307	\$ 233,700	\$ 6,604	\$ 644,611
	2017	\$ 285,000	--	--	\$ 93,995	\$ 137,655	\$ 5,724	\$ 522,334
	2016	\$ 283,640	--	--	\$ 99,018	\$ 167,010	\$ 4,727	\$ 554,395
Steven D. Jackson President	2018	\$ 300,000	--	--	\$ 125,582	\$ 246,000	\$ 5,025	\$ 676,607
	2017	\$ 300,000	--	--	\$ 98,899	\$ 144,900	\$ 4,800	\$ 548,599
	2016	\$ 300,000	--	--	\$104,229	\$ 175,800	\$ 400,838	\$ 980,867

<sup>(1)</sup> 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 11 to the Company's Consolidated Financial Statements included in its Annual Report on Form 10-K for the year ended December 31, 2018 for a discussion of assumptions made in the valuation of share-based compensation.

<sup>(2)</sup> 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 2018

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 2018.

Name	Grant Date	Date of Committee Action	Threshold	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards <sup>(1)</sup>		All Other Stock Awards: No. of Shares or Units	All Other Option Awards: No. of Securities Underlying Options <sup>(2)</sup>	Exercise or Base Price of Option Awards <sup>(2)</sup>	Closing Price on Date of Grant	Grant Date Fair Value of Stock and Option Awards
				Target	Maximum					
Michael D. Hays	1/3/2018	12/20/2017	-- <sup>(3)</sup>	\$ 63,700	\$ 254,800		5,193 <sup>(3)</sup>	\$ 36.80	\$36.85	\$ 53,332
Kevin R. Karas	1/3/2018	12/20/2017	-- <sup>(3)</sup>	\$142,500	\$570,000		11,617 <sup>(3)</sup>	\$ 36.80	\$36.85	\$ 119,307
Steven D. Jackson	1/3/2018	12/20/2017	-- <sup>(3)</sup>	\$150,000	\$600,000		12,228 <sup>(3)</sup>	\$ 36.80	\$36.85	\$ 125,582

<sup>(1)</sup> These amounts represent only potential payments under the 2018 incentive plan awards; the actual amounts received (if any) are shown in the Summary Compensation Table above.

<sup>(2)</sup> 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, 2018, the day immediately prior to the grant date.

<sup>(3)</sup> There were no thresholds for payments under these 2018 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, 2018

The following table sets forth information on outstanding option and stock awards held by the named executive officers at December 31, 2018, including the number of shares underlying both exercisable and unexercisable portions of each stock option, the exercise price and expiration date of each outstanding option, the number of shares of stock that have not vested and the market value of such shares.

<u>Name</u>	<u>Option Awards</u>			<u>Stock Awards</u>			<u>Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that Have Not Vested</u>
	<u>No. of Securities Underlying Unexercised Options (Exercisable)</u>	<u>No. of Securities Underlying Unexercised Options (Unexercisable)</u>	<u>Option Exercise Price</u>	<u>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>Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested</u>	
Michael D. Hays	20,019 <sup>(1)(2)</sup>	-	\$8.13				
	26,481 <sup>(1)(3)</sup>	-	\$6.30				
	17,745 <sup>(1)(4)</sup>	-	\$9.14				
	14,949 <sup>(1)(5)</sup>	-	\$10.75				
	10,938 <sup>(1)(6)</sup>	-	\$14.50				
	-	2,904 <sup>(1)(7)</sup>	\$18.80				
	-	10,014 <sup>(1)(8)</sup>	\$13.17				
	-	9,145 <sup>(1)(9)</sup>	\$15.23				
	-	7,478 <sup>(1)(10)</sup>	\$18.80				
	-	5,193 <sup>(1)(11)</sup>	\$36.80				
	-	-	-				
Kevin R. Karas	26,403 <sup>(1)(5)</sup>	-	\$10.75				
	20,088 <sup>(1)(6)</sup>	-	\$14.50				
	-	5,334 <sup>(1)(7)</sup>	\$18.80				
	-	19,313 <sup>(1)(8)</sup>	\$13.17				
	-	20,458 <sup>(1)(9)</sup>	\$15.23				
	-	16,728 <sup>(1)(10)</sup>	\$18.80				
	-	11,617 <sup>(1)(11)</sup>	\$36.80				
	-	-	-				
	-	-	-				
	-	-	-				
	-	-	-				

### Option Awards

### Stock Awards

Name	No. of Securities Underlying Unexercised Options		Option Exercise Price	Expiration Date	No. of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards:
	(Exercisable)	(Unexercisable)					Market or Payout Value of Unearned Shares, Units or Other Rights that Have Not Vested
Steven D. Jackson	-	21,535 <sup>(1)(9)</sup>	\$15.23	01/05/26	52,477	\$2,001,473 <sup>(12)</sup>	
	-	17,608 <sup>(1)(10)</sup>	\$18.80	01/04/27			
	-	12,228 <sup>(1)(11)</sup>	\$36.80	01/03/28			

(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, 2014.

(3) Options vest in full on the fifth anniversary of the grant date. These options vested on January 5, 2015.

(4) Options vest in full on the fifth anniversary of the grant date. These options vested on January 5, 2016.

(5) Options vest in full on the fifth anniversary of the grant date. These options vested on January 5, 2017.

(6) Options vest in full on the fifth anniversary of the grant date. These options vested on January 7, 2018.

(7) Options vest in full on the fifth anniversary of the grant date. These options will vest on January 7, 2019.

(8) Options vest in full on the fifth anniversary of the grant date. These options will vest on January 6, 2020.

(9) Options vest in full on the fifth anniversary of the grant date. These options will vest on January 5, 2021.

(10) Options vest in full on the fifth anniversary of the grant date. These options will vest on January 4, 2022.

(11) Options vest in full on the fifth anniversary of the grant date. These options will vest on January 3, 2023.

(12) Restricted shares of common stock that become fully vested on the fifth anniversary of the grant date, which occurred in 2015. The market value is based on the \$38.14 per share closing price of our common stock on The NASDAQ Stock Market on December 31, 2018.

## OPTION EXERCISES AND STOCK VESTED IN 2018

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise \$( <sup>(1)</sup> )	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Michael D. Hays	21,633 <sup>(2)</sup>	\$ 631,900	--	--
	9,019 <sup>(3)</sup>	\$ 205,626	--	--
Kevin R. Karas	17,654 <sup>(3)</sup>	\$ 392,827	--	--
Steven D. Jackson	6,524 <sup>(3)</sup>	\$ 105,674	--	--

<sup>(1)</sup> 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.

<sup>(2)</sup> Shares of class A common stock (or common stock following the 2018 Recapitalization).

<sup>(3)</sup> Shares of class B common stock.

### Risk Assessment of Compensation Policies and Practices

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

### COMPENSATION COMMITTEE REPORT

The 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

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

- Market Driven. We strive to compensate our executive officers at levels to ensure that we continue to attract and retain a highly competent, committed management team.
- Align with Shareholders. We seek to align the interests, perspectives and decision-making of our executive officers with the interests of our shareholders.
- Performance Based. We link our executive officers' compensation, particularly annual cash bonuses, to established Company financial performance goals and individual 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 13 and the tabular and other disclosures on compensation beginning on page 18, 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 2020 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, 2018:

- the median of the annual total compensation of all associates of the Company was reasonably estimated to be \$61,485; and
- the annual total compensation of Mr. Hays was \$289,467.
- 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 4.71 to 1.

For purposes of this disclosure, as permitted by SEC regulations, we used the same median associate as in our 2018 proxy statement because there was no change in our associate population or associate compensation arrangements during 2018 that we reasonably believed would result in a significant change to our pay ratio disclosure. We identified that median associate by examining total cash compensation (i.e., base wages plus cash bonuses and/or commissions) for 2017 of all individuals employed by us on December 1, 2017 (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, 2017, 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, 2017 to convert such associate’s total cash compensation into U.S. dollars.

To calculate the 2018 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 2018 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 2018 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 the Company in 2018. The Audit Committee is solely responsible for the selection, retention, oversight and, when appropriate, termination of the Company's independent registered public accounting firm.

The fees to KPMG LLP for the fiscal years ended December 31, 2018, and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Audit Fees <sup>(1)</sup>	\$416,115	\$498,548
Audit-Related Fees <sup>(2)</sup>	101,299	101,941
Tax Fees <sup>(3)</sup>	122,500	90,567
All Other Fees	25,000	--
Total	<u>\$664,914</u>	<u>\$691,056</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.

The Audit Committee has established pre-approval policies and procedures with respect to audit and permitted non-audit services to be provided by its independent registered public accounting firm. Pursuant to these policies and procedures, the Audit Committee may form, and delegate authority to, subcommittees consisting of one or more members when appropriate to grant such pre-approvals, provided that decisions of such subcommittee to grant pre-approvals are presented to the full Audit Committee at its next scheduled meeting. The Audit Committee's pre-approval policies do not permit the delegation of the Audit Committee's responsibilities to management. In 2018, the Audit Committee pre-approved all services provided by our independent registered public accounting firm, and no fees to the independent registered public accounting firm were approved pursuant to the de minimis exception under the Securities and Exchange Commission's rules.

### Expenses

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

## **Multiple Shareholders Sharing the Same Address**

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

## **Shareholder Proposals**

Proposals that shareholders of the Company intend to present at and have included in the Company's proxy statement for the 2020 annual meeting pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended ("Rule 14a-8"), must be received by the Company by the close of business on December 11, 2019. In addition, a shareholder who otherwise intends to present business at the 2020 annual meeting (including nominating persons for election as directors) must comply with the requirements set forth in the Company's By-Laws. Among other things, to bring business before an annual meeting, a shareholder must give written notice thereof, complying with the By-Laws, to the Secretary of the Company not less than 60 days and not more than 90 days prior to the second Wednesday in the month of April (subject to certain exceptions if the annual meeting is advanced or delayed a certain number of days). Under the By-Laws, if the Company does not receive notice of a shareholder proposal submitted otherwise than pursuant to Rule 14a-8 (i.e., proposals shareholders intend to present at the 2020 annual meeting but do not intend to include in the Company's proxy statement for such meeting) prior to February 8, 2020, then the notice will be considered untimely and the Company will not be required to present such proposal at the 2020 annual meeting. If the Board chooses to present such proposal at the 2020 annual meeting, then the persons named in proxies solicited by the Board for the 2020 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 9, 2019



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

**FORM 10-K**

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2018

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  
Common Stock, \$.001 par value

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 29, 2018: \$415,536,664.

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

Common Stock, \$0.001 par value, outstanding as of February 28, 2019: 24,846,500 shares

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the 2019 Annual Meeting of Shareholders are incorporated by reference into Part III.

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## **PART I**

### **Item 1. Business**

#### **Special Note Regarding Forward-Looking Statements**

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

- The possibility of non-renewal of the Company’s client service contracts and retention of key clients;
- The Company’s ability to compete in its markets, which are highly competitive 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;
- The Company’s ability to attract and retain key managers and other personnel;
- The possibility that the Company’s intellectual property and other proprietary information technology could be copied or independently developed by its competitors;
- The possibility for failures or deficiencies in the Company’s information technology platform;
- The possibility that the Company could be subject to security breaches or computer viruses; and
- The factors set forth under the caption “Risk Factors” in Part I, Item 1A of this Annual Report on Form 10-K.

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

#### **General**

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

NRC Health’s expertise includes the efficient capture, transmittal, benchmarking, analysis and interpretation of critical data elements from millions of healthcare consumers. Using its digital Voice of the Customer platform, the Company’s clients gain insights into what people think and feel about their organizations in real-time, allowing them to build on their strengths and resolve service issues with greater speed and personalization. The Company also provides 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.

The Company's 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. NRC Health partners with clients across the continuum of healthcare services. The Company's clients include integrated health systems, post-acute providers and payer organizations. The Company believes this cross-continuum positioning is a unique and an increasingly important capability as evolving payment models drive healthcare providers and payers towards a more collaborative and integrated service model.

NRC Health has achieved a market leadership position through its more than 37 years of industry innovation and experience, as well as its long-term, recurring revenue relationships (solutions that are used or required by a client each year) with many of the healthcare industry's largest organizations. Since its founding in 1981, the Company has focused on meeting the evolving information needs of the healthcare industry through internal product development, as well as select acquisitions. The Company is a Wisconsin corporation headquartered in Lincoln, Nebraska.

### **Industry and Market Opportunity**

According to the Centers for Medicare and Medicaid Services ("CMS"), health expenditures in the United States were approximately \$3.5 trillion in 2017, or \$10,739 per person. In total, health spending accounted for 17.9% of the nation's Gross Domestic Product in 2017. 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.

NRC Health believes that its current portfolio of solutions is uniquely aligned to address these healthcare market trends and related business opportunity. The Company provides 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. NRC Health's solutions enable its 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.

### **NRC Health's Solutions**

NRC Health's portfolio of solutions represent a unique set of capabilities that individually and collectively provide value to its 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**

The 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.

***NRC Health's Market Insights Solutions*** – NRC Health's Market Insights solutions are subscription-based services that allow for improved tracking of awareness, perception, and consistency of healthcare brands; real-time assessment of competitive differentiators; and enhanced segmentation tools to evaluate the needs, wants, and behaviors of communities through real-time competitive assessments and enhanced segmentation tools. NRC Health's Market Insights is the largest U.S. healthcare consumer database of its kind, measuring the opinions and behaviors of more than 292,000 healthcare consumers in the top 300 markets across the country annually. NRC Health's Market Insights is a syndicated survey that provides clients with an independent third-party source of information that is used to understand consumer perception and preferences and optimize marketing strategies.

NRC Health's Market Insights solutions provide clients with on-demand tools to measure brand value and build brand equity in their markets, evaluate and optimize advertising efficacy and consumer recall, and tailor research to obtain the real time voice of customer feedback to support branding and loyalty initiatives. The Company's Market Insights solutions were historically marketed under the Healthcare Market Guide and Ticker brands.

***NRC Health's Experience Solutions*** – NRC Health's Experience solutions are provided on a subscription basis via a cross-continuum VoC platform that collects and measures data and then delivers business intelligence that the Company's clients utilize to improve patient experience, engagement and loyalty. Patient 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. NRC Health's Experience solutions provide hospitals and healthcare providers the ability to receive and take action on customer and employee feedback across all care settings in real-time. Experience solutions include patient and resident experience, workforce engagement, health risk assessments, transitions, and improvement tools, 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, NRC Health's Experience solutions provide quantitative and qualitative real-time feedback, improvement plans, and coaching tools to enable clients to improve the experiences of patients, residents, physicians and staff. By illuminating the complete care journey in real time, the Company's clients are able to ensure each individual receives the care, respect, and experience he or she deserves. Developing a longitudinal profile of what healthcare customers want and need allows for organizational improvement, increased clinician and staff engagement, loyal relationships and personal well-being. These solutions have previously been marketed under NRC Picker, My InnerView ("MIV"), Customer-Connect LLC (doing business as Connect), and NRC Canada.

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

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

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

## **The Governance Institute**

NRC Health's Governance solutions, branded as The Governance Institute ("TGI"), serves not-for-profit hospital and health system boards of directors, executives, and physician leadership. TGI's subscription-based, value-driven membership services are provided through national conferences, publications, advisory services, and an on-line portal designed to improve the effectiveness of hospital and healthcare systems by continually strengthening their board governance, strategic planning, medical leadership, management performance, and transparency positioning. TGI also conducts research studies and tracks industry trends showcasing emerging healthcare trends and best practice solutions of healthcare boards across the country. TGI thought leadership helps its client board members and executives inform and guide their organization's strategic priorities in alignment with the rapidly changing healthcare market.

## **NRC Health's Competitive Strengths**

### **The Company believes that its competitive strengths include the following:**

*A leading provider of patient experience solutions for healthcare providers, payers and other healthcare organizations.* The Company's history is based on capturing the voice of the consumer in healthcare markets. The Company's solutions build on the "Eight Dimensions of Patient-Centered Care," a philosophy developed by noted patient advocate Harvey Picker, who believed patients' experiences are integral to quality healthcare. 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.* NRC Health's client portfolio encompasses leading healthcare organizations across the healthcare continuum, from acute care hospitals and post-acute providers to healthcare payers. The Company's client base is diverse, with its top ten clients representing approximately 17% of total revenue for the year ended December 31, 2018 and no single client representing more than 4% of the Company's revenue.

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

*Comprehensive portfolio of solutions.* NRC Health offers a portfolio of solutions that provide insights across the patient journey, which is unique in the healthcare industry, enabling its 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.* The Company focuses exclusively on healthcare and serving the unique needs of healthcare organizations across the continuum, which NRC Health believes gives it a distinct competitive advantage compared to other survey and analytics software providers. The Company's platform includes features and capabilities built specifically for healthcare providers, including a library of performance improvement content which can be tailored to the provider based on their specific customer feedback profile.

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

## **Competition**

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

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

## **Growth Strategy**

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

*Increasing contract value with existing clients.* Approximately 24% of the Company's existing clients purchase more than one of its solutions. NRC Health's sales organization actively identifies and pursues cross-sell opportunities for clients to add additional solutions in order to accelerate the growth of the Company. 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.* NRC Health believes that there is an opportunity to add new clients across all existing market segments. The Company's 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 NRC Health serves is evolving to align with emerging healthcare consumerism trends. The evolving market creates an opportunity for the Company to introduce new solutions that leverage and extend its existing core competencies. The Company believes that there is an opportunity to drive sales growth with both existing and new clients, across all of the market segments that it serves, through the introduction of new solutions.

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

## **Sales and Marketing**

The Company generates the majority of its revenue from the renewal of subscription-based client service agreements, supplemented by sales of additional solutions to existing clients and the addition of new clients. NRC Health sales activities are carried out by a direct sales organization staffed with professional, trained sales associates.

NRC Health engages in marketing activities that enhance the Company's brand visibility in the marketplace, generate demand for its 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 the Company and its executives.

## **Clients**

NRC Health partners with clients across the continuum of healthcare services. The Company's clients include integrated health systems, post-acute providers and payer organizations. The Company's ten largest clients accounted for 17%, 19%, and 17% of the Company's total revenue in 2018, 2017 and 2016, respectively. Approximately 4%, 4% and 5% of the Company's revenue was derived from foreign customers in 2018, 2017, and 2016, respectively.

## Intellectual Property and Other Proprietary Rights

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

## Associates

As of December 31, 2018, the Company employed a total of 434 persons on a full-time basis. In addition, as of such date, the Company had 25 part-time associates primarily in its survey operations, representing approximately 13 full-time equivalent associates. None of the Company's associates are represented by a collective bargaining unit. The Company considers its relationship with its associates to be good.

## Executive Officers of the Company

The following table sets forth certain information as of February 1, 2019, regarding the executive officers of the Company:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Michael D. Hays	64	Chief Executive Officer
Steven D. Jackson	43	President
Kevin R. Karas	61	Senior Vice President Finance, Chief Financial Officer, Treasurer and Secretary

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

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

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

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

## Available Information

More information regarding NRC Health is available on the Company's website at [www.nrchealth.com](http://www.nrchealth.com). NRC Health is not including the information contained on or available through its website as part of, or incorporating such information by reference into, this Annual Report on Form 10-K. The Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports are made available to the public at no charge through a link appearing on the Company's website. NRC Health provides access to such materials through its website as soon as reasonably practicable after electronically filing such material with, or furnishing it to, the Securities and Exchange Commission. Reports and amendments posted on the Company's website do not include access to exhibits and supplemental schedules electronically filed with the reports or amendments.



## **Item 1A. Risk Factors**

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

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

We expect that a substantial portion of our revenue for the foreseeable future will continue to be derived from renewable service contracts. Substantially all contracts are renewable annually at the option of our clients, although 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. The Company's ten largest clients accounted for 17%, 19%, and 17% of the Company's total revenue in 2018, 2017, and 2016, 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. The Company's primary competitors among such specialty firms include Press Ganey, which we believe has significantly higher annual revenue than us, and three or four other firms that we believe have lower annual revenue than us. To a certain degree, we currently compete with, and anticipate that in the future we may increasingly compete with, (1) market research firms and technology solutions which provide survey-based, general market research or Voice of the Customer Feedback capabilities and (2) firms which provide services or products that complement healthcare performance assessments, such as healthcare software or information systems. Although only a few of these competitors have offered specific services that compete directly with our services, many of these competitors have substantially greater financial, information gathering, and marketing resources than the Company and could decide to increase their resource commitments to our market. There are relatively few barriers to entry into the Company's market, and we expect increased competition in our market which could adversely affect our operating results through pricing pressure, increased marketing expenditures, and market share losses, among other factors. There can be no assurance that the Company will continue to compete successfully against existing or new competitors.

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

Substantially all of our revenue is derived from clients in the healthcare industry. As a result, our business, financial condition and results of operations are influenced by conditions affecting this industry, including changing political, economic, competitive and regulatory influences that may affect the procurement practices and operation of healthcare providers and payers. 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 or could result in the termination of a client's relationship with us. The impact of these developments on the healthcare industry is difficult to predict and could have an adverse effect on our revenue and a corresponding effect on our operating and net income.

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

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

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

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

**Our principal shareholders effectively control the Company.**

A majority of the Company's 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 25, 2019, approximately 50.06% of the outstanding common stock was owned by the Trusts. As a result, the Trusts 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.

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

- Variations in our financial performance and that of similar companies;
- Regulatory and other developments that may impact the demand for our services;
- Reaction to our press releases, public announcements and filings with the Securities and Exchange Commission;
- Client, market and industry perception of our services and performance;
- Actions of our competitors;
- Changes in earnings estimates or recommendations by analysts who follow our stock;
- Loss of key personnel;
- Investor or management team sales of our stock;
- Changes in accounting principles; and
- Variations in general market, economic and political conditions or financial markets.

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

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

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

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

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

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

**Security breaches or computer viruses could harm our business.**

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

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

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

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

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

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

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

**Our growth strategy includes future acquisitions 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**

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

**Item 2. Properties**

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

The Company is leasing 4,000 square feet of office space in Markham, Ontario, 3,900 square feet of office space in San Diego, California, 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, the Company is involved in certain claims and litigation arising in the normal course of business. Management assesses the probability of loss for such contingencies and recognizes a liability when a loss is probable and estimable. For additional information, see Note 1, under the heading "Contingencies," to the Company's 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, the Company consummated a recapitalization pursuant to which the Company established two classes of common stock (class A common stock and class B common stock), issued a dividend of three shares of class A common stock for each share of the Company's then existing common stock and reclassified each then existing share of common stock as one-half of one share of class B common stock. Following the May 2013 recapitalization, the Company's class A common stock and the Company's class B common stock were traded on the NASDAQ Global Market under the symbols "NRCIA" and "NRCIB," respectively.

On April 16, 2018, the shareholders of the Company approved, among other things, an amendment to the Company's Amended and Restated Articles of Incorporation (the "Articles") to effect a recapitalization (the "Recapitalization") pursuant to which each share of the Company's then-existing class B common stock was exchanged for one share of the Company's then-existing class A common stock plus \$19.59 in cash, without interest. On April 17, 2018, the Company filed an amendment to its Articles effecting the Recapitalization and then a further amendment and restatement of the Company's Articles which resulted in the elimination of the Company's class B common stock and the reclassification of the Company's class A common stock as a share of Common Stock, par value \$0.001 per share ("Common Stock"). The Company 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 \$29.7 million were declared in 2018 with \$12.6 million paid in 2018 and the remaining \$17.1 million paid in January 2019. Cash dividends in the aggregate amount of \$16.9 million were declared in 2017 with \$12.7 million paid in 2017 and the remaining \$4.2 million paid in January 2018. The payment and amount of future dividends, if any, is at the discretion of the Company's Board of Directors and will depend on the Company's future earnings, financial condition, general business conditions, alternative uses of the Company's earnings and other factors.

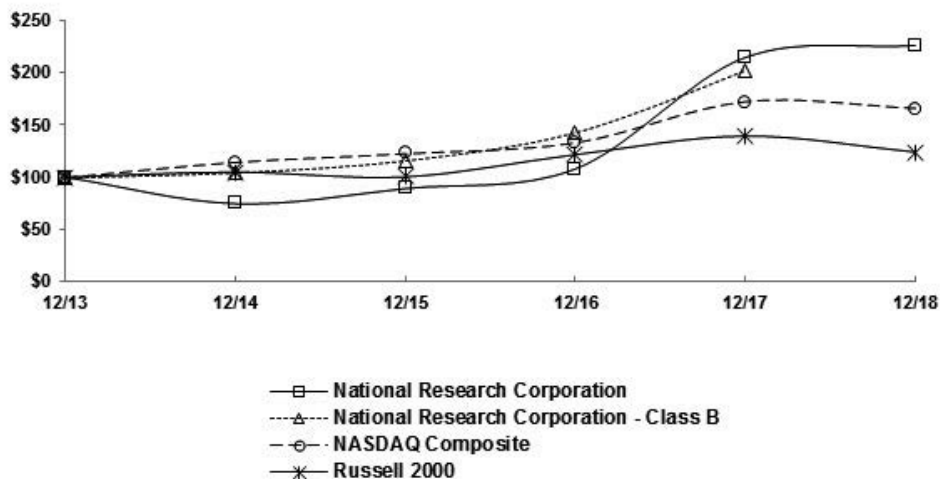
On February 15, 2019, there were approximately 16 shareholders of record and approximately 5,289 beneficial owners of common stock.

In February 2006 and subsequently amended in May 2013, the Board of Directors of the Company authorized the repurchase of 2,250,000 shares of class A common stock and 375,000 shares of class B common stock in the open market or in privately negotiated transactions. In connection with the Recapitalization in April 2018, the 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 the Company's Board of Directors, the repurchase program will expire when the Company has repurchased all shares authorized for repurchase thereunder. No Common Stock was repurchased during the three-month period ended December 31, 2018. 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 the Company's common stock relative to the cumulative total returns of the NASDAQ Composite Index and the Russell 2000 Index. An investment of \$100 (with reinvestment of all dividends) is assumed to have been made in our common stock and in each of the indexes on December 31, 2013, and its relative performance is tracked through December 31, 2018.

### COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

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



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

	12/13	12/14	12/15	12/16	12/17	12/18
National Research Corporation – Formerly Class B	100.00	104.68	116.04	142.80	201.77	--
National Research Corporation – Common Stock (formerly Class A)	100.00	74.65	89.11	107.87	214.79	226.30
NASDAQ Composite	100.00	114.62	122.81	133.19	172.11	165.84
Russell 2000	100.00	104.89	100.26	121.63	139.44	124.09

## Item 6. Selected Financial Data

The selected statement of income data for the years ended December 31, 2018, 2017 and 2016, and the selected balance sheet data at December 31, 2018 and 2017, are derived from, and are qualified by reference to, the audited consolidated financial statements of the Company included elsewhere in this Annual Report on Form 10-K. The selected statement of income data for the year ended December 31, 2015 and 2014, and the balance sheet data at December 31, 2016, 2015 and 2014, are derived from audited consolidated financial statements not included herein. The Company acquired Digital Assent, LLC on October 28, 2014 and disposed of selected assets and liabilities related to the clinical workflow product of its Predictive Analytics operating segment on December 21, 2015. The acquisition and disposal did not have a significant impact on the Company's financial results.

	Year Ended December 31,				
	2018 <sup>(1)(2)</sup>	2017	2016	2015	2014
	(In thousands, except per share data)				
<b>Statement of Income Data:</b>					
Revenue	\$ 119,686	\$ 117,559	\$ 109,384	\$ 102,343	\$ 98,837
Operating expenses:					
Direct	47,577	49,068	45,577	44,610	41,719
Selling, general and administrative	31,371	29,686	28,385	27,177	25,018
Depreciation and amortization	5,463	4,586	4,225	4,109	3,804
Total operating expenses	<u>84,411</u>	<u>83,340</u>	<u>78,187</u>	<u>75,896</u>	<u>70,541</u>
Operating income	35,275	34,219	31,197	26,447	28,296
Other income (expense)	(566)	64	159	913	(204)
Income before income taxes	34,709	34,283	31,356	27,360	28,092
Provision for income taxes	4,662	11,340	10,838	9,750	9,936
Net income	<u>\$ 30,047</u>	<u>\$ 22,943</u>	<u>\$ 20,518</u>	<u>\$ 17,610</u>	<u>\$ 18,156</u>
Earnings per share common stock:					
Basic Earnings per share:					
Common Stock (formerly Class A)	<u>\$ 1.08</u>	<u>\$ 0.54</u>	<u>\$ 0.49</u>	<u>\$ 0.42</u>	<u>\$ 0.44</u>
Class B	<u>\$ 1.31</u>	<u>\$ 3.26</u>	<u>\$ 2.93</u>	<u>\$ 2.52</u>	<u>\$ 2.62</u>
Diluted Earnings per share:					
Common Stock (formerly Class A)	<u>\$ 1.04</u>	<u>\$ 0.52</u>	<u>\$ 0.48</u>	<u>\$ 0.41</u>	<u>\$ 0.43</u>
Class B	<u>\$ 1.27</u>	<u>\$ 3.18</u>	<u>\$ 2.88</u>	<u>\$ 2.49</u>	<u>\$ 2.57</u>
Weighted average share and share equivalents outstanding:					
Common Stock (formerly Class A) – basic	23,562	20,770	20,713	20,741	20,764
Class B – basic	3,527	3,514	3,505	3,478	3,473
Common Stock (formerly Class A) – diluted	24,448	21,627	21,037	20,981	21,076
Class B – diluted	3,628	3,603	3,560	3,522	3,536
	<u>2018<sup>(1)(2)</sup></u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
	(In thousands, except per share data)				
<b>Balance Sheet Data:</b>					
Working capital surplus (deficiency)	\$ (18,699)	\$ 19,949	\$ 15,551	\$ 10,890	\$ 25,262
Total assets	108,032	127,316	120,624	128,049	129,510
Total debt and capital lease obligations, net of unamortized debt issuance costs	39,029	1,225	3,732	5,917	8,386
Total shareholders' equity	19,083	90,041	82,806	74,222	87,748
Cash dividends declared per share:					
Common stock (formerly class A)	1.13	.40	.34	.62	.06
Class B common stock	\$ .60	\$ 2.40	\$ 2.04	\$ 3.72	\$ .36

(1) On January 1, 2018, the Company 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 2 to the Company's consolidated financial statements.

(2) As described in Note 2 to the Company's consolidated financial statements, the Company 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.



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

### **Overview**

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

The Company's 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. NRC Health partners with clients across the continuum of healthcare services. The Company's clients include integrated health systems, post-acute providers and payer organizations. The Company believes this cross-continuum positioning is a unique and an increasingly important capability as evolving payment models drive healthcare providers and payers towards a more collaborative and integrated service model.

### **Critical Accounting Policies and Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported therein. The most significant of these areas involving difficult or complex judgments made by management with respect to the preparation of the Company's consolidated financial statements for 2018 include:

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

#### *Revenue Recognition*

The Company derives a majority of its revenue from annually renewable subscription-based service agreements with its customers. See Notes 1 and 3 to the Company's consolidated financial statements for a description of the Company's revenue recognition policies.

The Company's 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. The Company combines 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. The Company estimates the total contract consideration it expects to receive for variable arrangements based on the most likely amount it expects to earn from the arrangement based on the expected quantities. The Company only includes 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. The Company considers the sensitivity of the estimate, its 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.

The Company's fixed, non-subscription arrangements typically require the Company 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, non-compete agreements and goodwill. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment 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. The Company reviews intangible assets with indefinite lives for impairment annually as of October 1 and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable.

When performing the impairment assessment, the Company will first assess qualitative factors to determine whether it is necessary to recalculate the fair value of the intangible assets with indefinite lives. If the Company believes, as a result of the qualitative assessment, that it is more likely than not that the fair value of the indefinite-lived intangibles is less than their carrying amount, the Company calculates the fair value using a market 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. The Company did not recognize any impairments related to indefinite-lived intangibles during 2018, 2017 or 2016.

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. All of the Company's goodwill is allocated to its reporting units, which are the same as its 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.

The Company reviews for goodwill impairment by first assessing qualitative factors to determine whether any impairment may exist. If the Company believes, as a result of the qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, a quantitative 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. The Company performed a qualitative analysis as of October 1, 2018 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, 2018, 2017 or 2016.

### *Income Taxes*

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

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cut and Jobs Act (the "Tax Act"). The Tax Act made broad and complex changes to the U.S. tax code that affected 2017, including, but not limited to, a federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017, the transition of U.S international taxation from a worldwide tax system to a territorial system, a one-time transition tax on the mandatory deemed repatriation of foreign earnings and accelerated depreciation that will allow for full expensing of qualified property.

In accordance with Staff Accounting Bulletin No. 118 (“SAB 118”), the Company made reasonable estimates and recorded a provisional net tax benefit of \$1.9 million as of December 31, 2017 related to the following elements of the Tax Act:

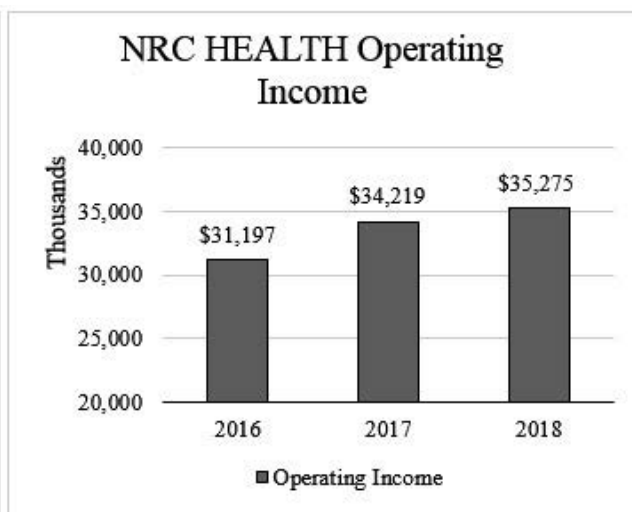
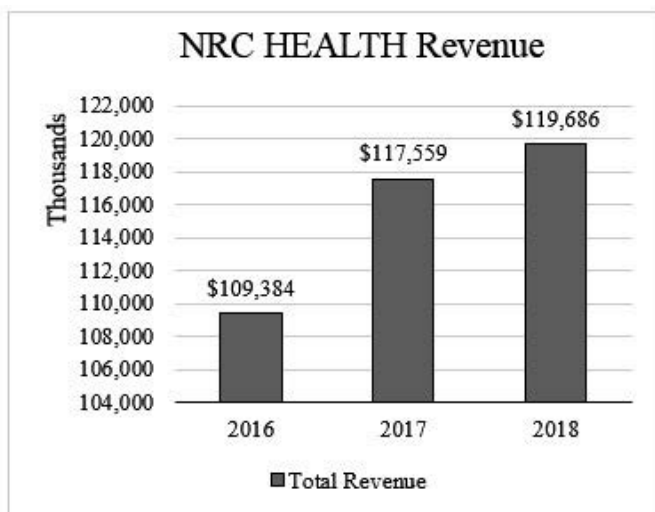
- Reduction in the U.S. Federal Corporate Tax Rate: The Tax Act reduced the corporate tax rate to 21%, effective January 1, 2018. Recorded a decrease related to deferred tax assets and liabilities with a corresponding net adjustment to deferred income tax benefit for the year ended December 31, 2017.
- 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, the Company was also subject to a one-time mandatory deemed repatriation tax on accumulated non-U.S. earnings. The estimates booked as of December 31, 2017 have been finalized and no material adjustments were made to the financials.

## Results of Operations

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

	Percentage of Total Revenue Year Ended December 31,			Percentage Increase (Decrease)	
	2018	2017	2016	2018 over 2017	2017 over 2016
	Revenue	100.0%	100.0%	100.0%	1.8%
Operating expenses:					
Direct	39.7	41.7	41.7	(3.0)	7.7
Selling, general and administrative	26.2	25.3	25.9	5.7	4.6
Depreciation and amortization	4.6	3.9	3.9	19.1	8.5
Total operating expenses	70.5	70.9	71.5	1.3	6.6
Operating income	29.5%	29.1%	28.5%	3.1%	9.7%



### 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. The Company’s 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, the Company 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 9 to the Company's consolidated financial statements for more details on tax adjustments related to the Tax Act.

## **Year Ended December 31, 2017, Compared to Year Ended December 31, 2016**

*Revenue.* Revenue in 2017 increased 7.5% to \$117.6 million, compared to \$109.4 million in 2016, which was driven primarily by a combination of continued gains in market share and vertical growth in our existing client base. Revenue from subscription-based agreements comprised 89.3% of the total revenue in 2017, compared to 88.0 % of total revenue in 2016.

*Direct expenses.* Direct expenses increased 7.7% to \$49.1 million in 2017, compared to \$45.6 million in 2016. This was due to an increase in variable expenses of \$555,000 and fixed expenses of \$2.9 million. Variable expense increased mainly due to increased costs to support the larger revenue and higher contracted voice recognition technology, phone costs, and labor costs, partially offset by decreased postage, printing and paper costs due to a reduction in postage fees and changes in survey methodologies. Conference expenses also decreased over the same period in 2016. Fixed expenses increased primarily as a result of increased salary and benefit costs in the customer service area, partially offset by decreased contracted service costs. Direct expenses remained the same as a percentage of revenue at 41.7% in 2017 and 2016 as expenses increased by 7.7% while revenue for the same period increased by 7.5%.

*Selling, general and administrative expenses.* Selling, general and administrative expenses increased 4.6% to \$29.7 million in 2017 compared to \$28.4 million in 2016, primarily due to expenses associated with the Proposed Recapitalization of \$1.4 million, higher computer supplies and software license fees of \$513,000, and higher recruiting fees of \$412,000, partially offset by lower salary and benefit costs of \$308,000, lower travel costs of \$234,000, lower development and training costs of \$205,000, \$177,000 reduction for shelf registration fees expensed in 2016, and lower marketing expenses of \$162,000. Selling, general, and administrative expenses decreased as a percentage of revenue to 25.3% in 2017, from 25.9% in 2016 as expenses increased by 4.6% while revenue increased by 7.5% during the same period.

*Depreciation and amortization.* Depreciation and amortization expenses increased 8.5% to \$4.6 million in 2017 compared to \$4.2 million in 2016 due to increased depreciation and amortization of \$405,000 primarily from additional computer software investments, partially offset by decreased amortization of \$45,000 as a result of certain intangibles becoming fully amortized. Depreciation and amortization expenses as a percentage of revenue remained the same at 3.9% in 2017 and 2016.

*Other income (expense).* Other income (expense) decreased to \$64,000 in 2017 compared to \$159,000 in 2016. In December 2016, an additional gain of \$223,000 was recorded due to receipt of funds placed in escrow at the time of the sale of selected assets and liabilities related to the clinical workflow product of the Company's former Predictive Analytics operating segment. This was partially offset by lower interest expense on the term loan in 2017.

*Provision for income taxes.* Provision for income taxes was \$11.3 million (33.1% effective tax rate) in 2017, compared to \$10.8 million (34.6% effective tax rate) in 2016. The effective tax rate for the year ended December 31, 2017 decreased primarily due to the net benefit of approximately \$1.9 million associated with remeasuring deferred tax assets and liabilities to the new lower federal rate, partially offset by a one-time mandatory deemed repatriation tax under the Tax Act. In addition, as a result of the Tax Act, the Company determined that it would no longer indefinitely reinvest the earnings of its Canadian subsidiary and recorded the withholding tax of \$706,000 associated with this planned repatriation. The 2017 effective tax rate was also impacted by a benefit of \$609,000 related to the vesting and exercise of stock awards, net of certain excess compensation limits, \$504,000 of tax expense due to non-deductible recapitalization expenses and increases in the estimated state tax rates. Pursuant to the guidance in SAB 118, the Company's estimate of impacts of the Tax Act were provisional and were subject to adjustment during 2018 based upon further analysis and interpretation of the Tax Act. See Note 9 to the Company's 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**

The Company believes that its existing sources of liquidity, including cash and cash equivalents, borrowing availability, and operating cash flows will be sufficient to meet its projected capital and debt maturity needs and dividend policy for the foreseeable future. The Company declared a special dividend in the fourth quarter of 2018 of \$0.50 per share. The special dividend, in addition to the declared quarterly dividend, totaled \$17.1 million, which was paid in January 2019. The dividends were paid from cash on hand and \$8.5 million in borrowings on our line of credit.

As of December 31, 2018, our principal sources of liquidity included \$13.0 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, \$2.0 million was held in Canada. The delayed draw term note can only be used to fund permitted future business acquisitions or repurchasing the Company's Common Stock.

#### *Working Capital*

The Company had a working capital deficit of \$18.7 million and a working capital surplus of \$19.9 million on December 31, 2018 and 2017, respectively.

The change was primarily due to a decrease in cash and cash equivalents of \$21.7 million, \$2.6 million increase in current portion of notes payable mainly due to the Recapitalization (See Note 2 to the Company's consolidated financial statements), an increase in dividends payable of \$12.9 million and a \$2.8 million decrease in trade accounts receivable. These were partially offset by decreases in accrued wages, bonus and profit sharing of \$799,000 and deferred revenue of \$634,000. Dividends payable increased due to a special dividend in addition to a quarterly dividend declaration that was paid in January 2019. Trade accounts receivable decreased due to the timing of billings and collections on new and renewal contracts. Accrued wages decreased mainly due to a payroll tax accrual from the vesting of non-vested stock award at the 2017 year-end. The Company's working capital is significantly impacted by its large deferred revenue balances which will vary based on the timing and frequency of billings on annual agreements. The deferred revenue balances as of December 31, 2018 and December 31, 2017, were \$16.2 million and \$16.9 million, respectively.

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

## Cash Flow Analysis

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

	For the Year Ended December 31,		
	2018	2017	2016
		(In thousands)	
Provided by operating activities	\$ 39,848	\$ 28,091	\$ 26,843
Used in investing activities	(5,971)	(6,118)	(3,750)
Used in financing activities	(54,497)	(21,116)	(32,502)
Effect of exchange rate changes on cash	(1,122)	855	285
Net increase (decrease) in cash and cash equivalents	(21,742)	1,712	(9,124)
Cash and cash equivalents at end of period	\$ 12,991	\$ 34,733	\$ 33,021

### Cash Flows from Operating Activities

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

Net cash provided by operating activities was \$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 stock 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 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 stock 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 increases in deferred revenue.

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

### Cash Flows from Investing Activities

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, the Company 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.

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

### *Cash Flows from Financing Activities*

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 the Company's 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 capital lease obligations of \$156,000. 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 capital 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.

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

### *Capital Expenditures*

Capital expenditures for the year ended December 31, 2018 were \$6.0 million. These expenditures consisted mainly of computer equipment and software. The Company expects similar capital expenditure purchases in 2019 consisting primarily of computer equipment and software and other equipment, to be funded through cash generated from operations.

### *Debt and Equity*

The balance on the Company's former term note with US Bank was paid in full in March 2018.

On April 18, 2018, in connection with the Recapitalization, the Company 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"). The Company used the Term Loan to fund, in part, the cash portion paid to holders of the Company's 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 repurchasing of the Company's Common Stock and the Line of Credit will be used to fund ongoing working capital needs and 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 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 (4.60% at December 31, 2018). 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, 2018, 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, 2018. The weighted average borrowings on the Line of Credit for year ended December 31, 2018 was \$324,000. The weighted average interest on borrowings on the Line of Credit for the year ended December 31, 2018 was 4.25%.

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.

The Company paid a one-time fee equal to 0.25% of the amount borrowed under the Term Loan at the closing of the Credit Facilities. The Company is 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 the Company's 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 the Company's and the 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 the Company's 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, the Company is required to maintain a minimum fixed charge coverage ratio of 1.10x for all testing periods throughout the terms of the Credit Facilities. The Company is also required to maintain a cash flow leverage ratio of 3.00x or less for all testing periods throughout the terms of the Credit Facilities. As of December 31, 2018, the Company was in compliance with its financial covenants.

The Company has capital leases for computer equipment, office equipment, printing and inserting equipment. The balance of the capital leases as of December 31, 2018 was \$880,000.

The Company 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.

### Contractual Obligations

The Company had contractual obligations to make payments in the following amounts in the future as of December 31, 2018:

<u>Contractual Obligations</u> <sup>(1)</sup> (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	\$ 2,978	\$ 882	\$ 1,236	\$ 535	\$ 325
Capital leases	966	258	455	253	--
Uncertain tax positions <sup>(2)</sup>	--	--	--	--	--
Long-term debt	44,393	5,556	12,379	26,458	--
Total	<u>\$ 48,337</u>	<u>\$ 6,696</u>	<u>\$ 14,070</u>	<u>\$ 27,246</u>	<u>\$ 325</u>

<sup>(1)</sup> Amounts are inclusive of interest payments, where applicable.

<sup>(2)</sup> We have \$560,000 in liabilities associated with uncertain tax positions. We are unable to reasonably estimate the expected cash settlement dates of these uncertain tax positions with the taxing authorities.

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

### Stock Repurchase Program

The Board of Directors of the Company 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, the Board of Directors further amended the stock repurchase program to eliminate the repurchase of the former class B common stock. As of December 31, 2018, the remaining number of shares of Common Stock that could be purchased under this authorization was 280,491 shares.

### Off-Balance Sheet Obligations

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

### Recent Accounting Pronouncements

See Note 1 to the Company's consolidated financial statements for a description of recently issued accounting pronouncements.



## **Item 7A. Quantitative and Qualitative Disclosure About Market Risk**

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

The Company's Canadian subsidiary uses as its functional currency the local currency of the country in which it operates. It translates its assets and liabilities into U.S. dollars at the exchange rate in effect at the balance sheet date. It translates its revenue and expenses at the average exchange rate during the period. The Company includes translation gains and losses in accumulated other comprehensive income (loss), a component of shareholders' equity. Foreign currency translation gains (losses) were (\$1.3 million), \$991,000, and 369,000 in 2018, 2017 and 2016, respectively. Gains and losses related to transactions denominated in a currency other than the functional currency of the countries in which the Company operates and short-term intercompany accounts are included in other income (expense) in the consolidated statements of income and amounted to \$893,000, \$63,000 and \$5,000 in 2018, 2017 and 2016, 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 \$271,000. We have not entered into any foreign currency hedging transactions. We do not purchase or hold any derivative financial instruments for the purpose of speculation or arbitrage.

We are exposed to interest rate risk with both our fixed-rate term debt and variable rate revolving line of credit facility. Interest rate changes for borrowings under our fixed-rate term debt would impact the fair value of such debt, but do not impact earnings or cash flow. At December 31, 2018, our fixed-rate term debt totaled \$38.0 million. Based on a sensitivity analysis, a one percent change in market interest rates as of December 31, 2018, would impact the estimated fair value of our fixed-rate debt outstanding at December 31, 2018 by approximately \$1.2 million.

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, 2018. There were no borrowings outstanding under the Delayed Draw Term Note at December 31, 2018, or at any time during 2018. 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 indicated that such a movement would not have a material impact on our consolidated financial position, results of operations or cash flows.

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, 2018. This unaudited information has been prepared by the Company on the same basis as the consolidated financial statements and includes all normal recurring adjustments necessary to present fairly this information when read in conjunction with the Company's audited consolidated financial statements and the notes thereto.

(In thousands, except per share data)

	Quarter Ended							
	Dec. 31, 2018	Sept 30, 2018	June 30, 2018	Mar. 31, 2018	Dec. 31, 2017	Sept 30, 2017	June 30, 2017	Mar. 31, 2017
Revenue	\$ 30,639	\$ 30,013	\$ 28,017	\$ 31,017	\$ 29,897	\$ 28,951	\$ 28,435	\$ 30,276
Direct expenses	11,892	11,780	10,996	12,909	12,362	12,267	11,939	12,500
Selling, general and administrative expenses	7,885	7,679	7,940	7,867	7,665	8,430	6,905	6,686
Depreciation and amortization	1,467	1,388	1,325	1,283	1,209	1,132	1,139	1,106
Operating income	9,395	9,166	7,756	8,958	8,661	7,122	8,452	9,984
Other income (expense)	145	(783)	63	9	(2)	51	19	(4)
Provision for income taxes	1,739	1,391	(129)	1,661	2,142	3,020	2,719	3,459
Net income	<u>\$ 7,801</u>	<u>\$ 6,992</u>	<u>\$ 7,948</u>	<u>\$ 7,306</u>	<u>\$ 6,517</u>	<u>\$ 4,153</u>	<u>\$ 5,752</u>	<u>\$ 6,521</u>
Earnings per share of common stock:								
Basic earnings per share								
Class A	\$ 0.32	\$ 0.28	\$ 0.29	\$ 0.17	\$ 0.15	\$ 0.10	\$ 0.14	\$ 0.15
Class B	\$ -	\$ -	\$ 0.27	\$ 1.04	\$ 0.93	\$ 0.59	\$ 0.82	\$ 0.93
Dilutive earnings per share								
Class A	\$ 0.30	\$ 0.27	\$ 0.28	\$ 0.17	\$ 0.15	\$ 0.09	\$ 0.13	\$ 0.15
Class B	\$ -	\$ -	\$ 0.26	\$ 1.01	\$ 0.90	\$ 0.57	\$ 0.80	\$ 0.91
Weighted average shares outstanding – basic								
Class A	24,684	24,671	23,957	20,884	20,802	20,788	20,752	20,737
Class B	-	-	3,527	3,527	3,515	3,514	3,514	3,513
Weighted average shares outstanding - diluted								
Class A	25,534	25,526	24,846	21,837	21,843	21,740	21,525	21,245
Class B	-	-	3,620	3,630	3,625	3,620	3,591	3,576

## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors  
National Research Corporation:

### *Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of National Research Corporation and subsidiary (the “Company”) as of December 31, 2018 and 2017, 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, 2018, and the related notes (collectively, the consolidated financial statements.) In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 8, 2019 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

### *Change in Accounting*

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 Opinion*

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits 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. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

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

Lincoln, Nebraska  
March 8, 2019

**NATIONAL RESEARCH CORPORATION AND SUBSIDIARY**

**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share amounts)

	<b>2018</b>	<b>2017</b>
<b><u>Assets</u></b>		
Current assets:		
Cash and cash equivalents	\$ 12,991	\$ 34,733
Trade accounts receivable, less allowance for doubtful accounts of \$175 and \$200, respectively	11,922	14,806
Prepaid expenses	2,925	2,310
Income taxes receivable	348	375
Other current assets	224	35
Total current assets	28,410	52,259
Net property and equipment	14,153	12,359
Intangible assets, net	2,102	2,764
Goodwill	57,831	58,021
Deferred contract costs, net	3,484	--
Other	2,052	1,913
Total assets	\$ 108,032	\$ 127,316
<b><u>Liabilities and Shareholders' Equity</u></b>		
Current liabilities:		
Current portion of notes payable, net of unamortized debt issuance costs	\$ 3,667	\$ 1,067
Accounts payable	613	593
Accrued wages, bonus and profit sharing	5,798	6,597
Accrued expenses	2,834	2,882
Current portion of capital lease obligations	204	71
Income taxes payable	636	--
Dividends payable	17,113	4,222
Deferred revenue	16,244	16,878
Total current liabilities	47,109	32,310
Notes payable, net of current portion and unamortized debt issuance costs	34,176	-
Deferred income taxes	6,276	4,030
Other long term liabilities	1,388	935
Total liabilities	88,949	37,275
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 29,917,667 in 2018 and 25,835,230 in 2017, outstanding 24,800,796 in 2018 and 20,936,703 in 2017	30	26
Class B Common stock, \$0.001 par value; 4,319,256 issued and 3,535,238 outstanding in 2017	--	4
Additional paid-in capital	157,312	51,025
Retained earnings (accumulated deficit)	(106,339)	77,574
Accumulated other comprehensive loss, foreign currency translation adjustment	(2,916)	(1,635)
Treasury stock, at cost; 5,116,871 Common (formerly Class A) shares in 2018 and 4,898,527 in 2017 and 784,018 Class B shares in 2017	(29,004)	(36,953)
Total shareholders' equity	19,083	90,041
Total liabilities and shareholders' equity	\$ 108,032	\$ 127,316

See accompanying notes to consolidated financial statements.

**NATIONAL RESEARCH CORPORATION AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF INCOME  
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)**

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Revenue	\$ 119,686	\$ 117,559	\$ 109,384
Operating expenses:			
Direct, exclusive of depreciation and amortization	47,577	49,068	45,577
Selling, general and administrative, exclusive of depreciation and amortization	31,371	29,686	28,385
Depreciation and amortization	5,463	4,586	4,225
Total operating expenses	84,411	83,340	78,187
Operating income	35,275	34,219	31,197
Other income (expense):			
Interest income	62	96	47
Interest expense	(1,513)	(82)	(190)
Other, net	885	50	302
Total other income (expense)	(566)	64	159
Income before income taxes	34,709	34,283	31,356
Provision for income taxes	4,662	11,340	10,838
Net income	\$ 30,047	\$ 22,943	\$ 20,518
Earnings per share of common stock:			
Basic earnings per share:			
Common (formerly Class A)	\$ 1.08	\$ 0.54	\$ 0.49
Class B	\$ 1.31	\$ 3.26	\$ 2.93
Diluted earnings per share:			
Common (formerly Class A)	\$ 1.04	\$ 0.52	\$ 0.48
Class B	\$ 1.27	\$ 3.18	\$ 2.88
Weighted average shares and share equivalents outstanding			
Common (formerly Class A) - basic	23,562	20,770	20,713
Class B - basic	3,527	3,514	3,505
Common (formerly Class A) - diluted	24,448	21,627	21,037
Class B - diluted	3,628	3,603	3,560

See accompanying notes to consolidated financial statements.

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

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Net income	\$ 30,047	\$ 22,943	\$ 20,518
Other comprehensive income (loss):			
Cumulative translation adjustment	\$ (1,281)	\$ 991	\$ 369
Other comprehensive income (loss)	\$ (1,281)	\$ 991	\$ 369
Comprehensive income	\$ 28,766	\$ 23,934	\$ 20,887

See accompanying notes to consolidated financial statements.

**NATIONAL RESEARCH CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(In thousands except share and per share amounts)

	Common Stock A (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, 2015	\$ 26	\$ 4	\$ 44,103	\$ 65,313	\$ (2,995)	\$ (32,229)	\$ 74,222
Purchase of 21,047 shares of class A and 7,681 shares of class B treasury stock	--	--	--	--	--	(601)	(601)
Issuance of 52,383 class A common shares and 35,534 class B shares for the exercise of stock options	--	--	945	--	--	--	945
Issuance of restricted common shares, net of (forfeitures) (11,565 class A and 1,928 class B)	--	--	--	--	--	--	--
Non-cash stock compensation expense	--	--	1,929	--	--	--	1,929
Dividends declared of \$0.34 and \$2.04 per A and B common share, respectively	--	--	--	(14,324)	--	--	(14,324)
Acquisition of non-controlling interest	--	--	(252)	--	--	--	(252)
Other comprehensive income, foreign currency translation adjustment	--	--	--	--	369	--	369
Net income	--	--	--	20,518	--	--	20,518
Balances at December 31, 2016	<u>\$ 26</u>	<u>\$ 4</u>	<u>\$ 46,725</u>	<u>\$ 71,507</u>	<u>\$ (2,626)</u>	<u>\$ (32,830)</u>	<u>\$ 82,806</u>
Purchase of 132,836 shares of class A and 15,074 shares of class B treasury stock	--	--	--	--	--	(4,123)	(4,123)
Issuance of 197,784 class A common shares and 13,600 class B shares for the exercise of stock options	--	--	2,455	--	--	--	2,455
Issuance of restricted common shares, net of (forfeitures) (19,314 class A and 3,219 class B)	--	--	--	--	--	--	--
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	<u>\$ 26</u>	<u>\$ 4</u>	<u>\$ 51,025</u>	<u>\$ 77,574</u>	<u>\$ (1,635)</u>	<u>\$ (36,953)</u>	<u>\$ 90,041</u>
Purchase of 218,344 shares of class A and 3,677 shares of class B treasury stock	--	--	--	--	--	(7,950)	(7,950)
Issuance of 468,318 class A common shares and 9,296 class B common shares for the exercise of stock options	--	--	6,098	--	--	--	6,098
Issuance of restricted common shares, net of (forfeitures) ((3,496) class A shares)	--	--	--	--	--	--	--
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 class B common shares in connection with Recapitalization (retirement of 4,328,552 class B common shares)	--	(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	<u>\$ 30</u>	<u>\$ --</u>	<u>\$ 157,312</u>	<u>\$ (106,339)</u>	<u>\$ (2,916)</u>	<u>\$ (29,004)</u>	<u>\$ 19,083</u>

See accompanying notes to consolidated financial statements.

**NATIONAL RESEARCH CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(IN THOUSANDS)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:			
Net income	\$ 30,047	\$ 22,943	\$ 20,518
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,463	4,586	4,225
Deferred income taxes	1,476	(684)	798
Liability for uncertain tax positions	(288)	181	73
Loss on disposal of property and equipment	186	26	22
Gain on sale of operating segment	--	--	(223)
Non-cash share-based compensation expense	1,514	1,845	1,929
Change in assets and liabilities, net of effect of acquisition and disposal:			
Trade accounts receivable	2,767	(2,340)	(1,137)
Prepaid expenses and other current assets	(833)	(565)	(535)
Deferred contract costs, net	(113)	--	--
Accounts payable	(39)	12	(15)
Accrued expenses, wages, bonus and profit sharing	(566)	1,759	440
Income taxes receivable and payable	686	(1,023)	105
Deferred revenue	(452)	1,351	643
Net cash provided by operating activities	<u>39,848</u>	<u>28,091</u>	<u>26,843</u>
Cash flows from investing activities:			
Purchases of property and equipment	(5,971)	(4,568)	(3,973)
Purchase of equity investment	--	(1,300)	--
Purchase of intangible content license	--	(250)	--
Net proceeds from sale of operating segment	--	--	223
Net cash used in investing activities	<u>(5,971)</u>	<u>(6,118)</u>	<u>(3,750)</u>
Cash flows from financing activities:			
Payments related to Recapitalization	(72,370)	--	--
Proceeds from issuance of note payable	40,000	--	--
Borrowings on line of credit	2,500	--	--
Payments on line of credit	(2,500)	--	--
Payments on notes payable	(3,071)	(2,473)	(2,199)
Payment of debt issuance costs	(187)	--	--
Payments on capital lease obligations	(157)	(108)	(95)
Cash paid for non-controlling interest	--	--	(2,000)
Proceeds from exercise of stock options	--	--	548
Payment of employee payroll tax withholdings on share-based awards exercised	(1,853)	(1,668)	(204)
Payment of dividends on common stock	(16,859)	(16,867)	(28,552)
Net cash used in financing activities	<u>(54,497)</u>	<u>(21,116)</u>	<u>(32,502)</u>
Effect of exchange rate changes on cash	(1,122)	855	285
Net increase (decrease) in cash and cash equivalents	<u>(21,742)</u>	<u>1,712</u>	<u>(9,124)</u>
Cash and cash equivalents at beginning of period	<u>34,733</u>	<u>33,021</u>	<u>42,145</u>
Cash and cash equivalents at end of period	<u>\$ 12,991</u>	<u>\$ 34,733</u>	<u>\$ 33,021</u>
Supplemental disclosure of cash paid for:			
Interest expense, net of \$0, \$0, and \$10 capitalized, respectively	\$ 1,282	\$ 76	\$ 192
Income taxes	\$ 2,635	\$ 12,827	\$ 9,963
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	\$ --	\$ --
Capital lease obligations originated for property and equipment	\$ 879	\$ 74	\$ 109
Stock tendered to the Company for cashless exercise of stock options in connection with equity incentive plans	\$ 6,098	\$ 2,455	\$ 397

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. NRC Health’s portfolio of solutions represent a unique set of capabilities that individually and collectively provide value to its clients. The solutions are offered at an enterprise level through the Voice of the Customer platform (“VoC”), The Governance Institute, and legacy Experience solutions.

#### **Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its 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**

The Company’s Canadian subsidiary uses as its functional currency the local currency of the country in which it operates. It translates its assets and liabilities into U.S. dollars at the exchange rate in effect at the balance sheet date. It translates its revenue and expenses at the average exchange rate during the period. The Company includes translation gains and losses in accumulated other comprehensive income (loss), a component of shareholders’ equity. Gains and losses related to transactions denominated in a currency other than the functional currency of the country in which the Company operates and short-term intercompany accounts are included in other income (expense) in the consolidated statements of income.

#### **Revenue Recognition**

On January 1, 2018, the Company 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. The Company 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. The Company recorded a transition adjustment of approximately \$2.7 million, net of \$814,000 of tax, to the opening balance of retained earnings.

The Company derives a majority of its revenues from its annually renewable subscription-based service agreements with its 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 the Company’s contracts with customers. Under ASC 606, the Company accounts 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
- Recognize revenue when, or as, the Company satisfies the performance obligations.

The Company's 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. The Company combines 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. The Company estimates the amount of total contract consideration it expects to receive for variable arrangements based on the most likely amount it expects to earn from the arrangement based on the expected quantities of services it expects to provide and the contractual pricing based on those quantities. The Company only includes 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. The Company considers the sensitivity of the estimate, its 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. Prior to 2018, revenue allocated to an element was limited to revenue that was not subject to refund or otherwise represented contingent revenue. The Company's 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.

The Company's 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 the Company to perform a specific one-time service in a particular month. The Company is entitled to fixed payment upon completion of the service. Under these arrangements, the Company recognizes revenue at the point in time the service is completed by the Company and accepted by the customer.

*Fixed, non-subscription services* - These arrangements typically require the Company 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. Prior to 2018, these arrangements were recognized under the proportional performance method based on cost inputs, output measures or key milestones such as survey set-up, survey mailings, survey returns and reporting.

*Unit-price services* - These arrangements typically require the Company 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.

The Company recognizes 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 the Company has 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.

The following tables summarize the impact the adoption of ASC 606 had on the Company's consolidated financial statements (in thousands, except per share data):

Consolidated balance sheet:

	As reported December 31, 2018	Adjustments	Balances without Adoption of ASC 606
Accounts receivable, net	\$ 11,922	\$ 5	\$ 11,927
Other current assets	224	(53)	171
All other current assets	16,264	94	16,358
Total current assets	<u>28,410</u>	<u>46</u>	<u>28,456</u>
Deferred contract costs	3,484	(3,484)	--
All other noncurrent assets	76,138	--	76,138
Total assets	<u>\$ 108,032</u>	<u>\$ (3,438)</u>	<u>\$ 104,594</u>
Deferred revenue	\$ 16,244	\$ 327	\$ 16,571
Other current liabilities	30,865	--	30,865
Total current liabilities	<u>47,109</u>	<u>327</u>	<u>47,436</u>
Deferred income taxes	6,276	(871)	5,405
Other long term liabilities	35,564	--	35,564
Total liabilities	<u>88,949</u>	<u>(544)</u>	<u>88,405</u>
Retained earnings	(106,339)	(2,888)	(109,227)
Accumulated other comprehensive income	(2,916)	(6)	(2,922)
Other stockholders' equity	128,338	--	128,338
Total stockholders' equity	<u>19,083</u>	<u>(2,894)</u>	<u>16,189</u>
Total liabilities and stockholders' equity	<u>\$ 108,032</u>	<u>\$ (3,438)</u>	<u>\$ 104,594</u>

Consolidated statement of income:

	Year ended December 31, 2018		
	As reported	Adjustments	Balances Without Adoption of ASC 606
Revenue	\$ 119,686	\$ (191)	\$ 119,495
Direct expenses	47,577	(82)	47,495
Selling, general and administrative	31,371	101	31,472
Depreciation and amortization	5,463	--	5,463
Total operating expenses	<u>84,411</u>	<u>19</u>	<u>84,430</u>
Operating income	35,275	(210)	35,065
Other income (expense)	(566)	--	(566)
Income before income taxes	34,709	(210)	34,499
Provision (benefit) for income taxes	4,662	(57)	4,605
Net income	<u>\$ 30,047</u>	<u>\$ (153)</u>	<u>\$ 29,894</u>
Earnings per share of common stock:			
Basic earnings per share:			
Common (formerly Class A)	\$ 1.08	\$ (0.01)	\$ 1.07
Class B	1.31	--	1.31
Diluted earnings per share:			
Common (formerly Class A)	\$ 1.04	\$ (0.01)	\$ 1.03
Class B	1.27	0.01	1.28

Consolidated statement of comprehensive income:

	Year ended December 31, 2018		
	As reported	Adjustments	Balances Without Adoption of ASC 606
Net Income	\$ 30,047	\$ (153)	\$ 29,894
Cumulative translation adjustment	(1,281)	(6)	(1,287)
Comprehensive Income	<u>\$ 28,766</u>	<u>\$ (159)</u>	<u>\$ 28,607</u>

Consolidated statement of cash flows:

	Year ended December 31, 2018		
	As reported	Adjustments	Balances Without adoption of ASC 606
Cash flows from operating activities:			
Net income	\$ 30,047	\$ (153)	\$ 29,894
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,463	--	5,463
Deferred income taxes	1,476	(57)	1,419
Reserve for uncertain tax positions	(288)	--	(288)
Non-cash share-based compensation expense	1,514	--	1,514
Loss on disposal of property and equipment	186	--	186
Change in assets and liabilities:			
Trade accounts receivable and unbilled revenue	2,767	122	2,889
Prepaid expenses and other current assets	(833)	(115)	(948)
Deferred contract costs	(113)	113	--
Accounts payable	(39)	--	(39)
Accrued expenses, wages, bonus and profit sharing	(566)	--	(566)
Income taxes receivable and payable	686	--	686
Deferred revenue	(452)	90	(362)
Net cash provided by operating activities	39,848	--	39,848
Net cash used in investing activities	(5,971)	--	(5,971)
Net cash used in financing activities	(54,497)	--	(54,497)
Effect of exchange rate changes on cash	(1,122)	--	(1,122)
Change in cash and cash equivalents	(21,742)	--	(21,742)
Cash and cash equivalents at beginning of period	34,733	--	34,733
Cash and cash equivalents at end of period	\$ 12,991	--	\$ 12,991

### 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, the Company defers 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 the Company expects to receive less than the expected future costs directly related to providing those services. The Company deferred incremental costs of obtaining a contract of \$2.6 million in the year ended December 31, 2018. Total amortization was \$2.5 million for the year ended December 31, 2018. Amortization of deferred contract costs included in direct expenses and selling, general and administrative expenses was \$83,000 and \$2.3 million for the year ended December 31, 2018, respectively. Additional expense included in selling, general and administrative expenses for impairment of costs capitalized due to lost clients was \$51,000 for the year ended December 31, 2018. The Company has 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. The Company 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.

### Trade Accounts Receivable

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

The following table provides the activity in the allowance for doubtful accounts for the years ended December 31, 2018, 2017 and 2016:

	Balance at Beginning of Year	Bad Debt Expense	Write-offs, net of Recoveries	Balance at End of Year
Year Ended December 31, 2016	\$ 173	\$ 218	\$ 222	\$ 169
Year Ended December 31, 2017	\$ 169	\$ 249	\$ 218	\$ 200
Year Ended December 31, 2018	\$ 200	\$ 80	\$ 105	\$ 175

### 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.

The Company capitalizes 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. The Company capitalized approximately \$4.0 million and \$3.0 million of costs incurred for the development of internal-use software for the years ended December 31, 2018 and 2017, respectively.

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

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

### Impairment of Long-Lived Assets and Amortizing Intangible Assets

Long-lived assets, such as property and equipment and purchased intangible assets subject to depreciation or amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. No impairments were recorded during the years ended December 31, 2018, 2017, or 2016.

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

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

## Goodwill and Intangible Assets

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

When performing the impairment assessment, the Company will first assess qualitative factors to determine whether it is necessary to recalculate the fair value of the intangible assets with indefinite lives. If the Company believes, as a result of the qualitative assessment, that it is more likely than not that the fair value of the indefinite-lived intangibles is less than their carrying amount, the Company calculates the fair value using a market 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. The Company did not recognize any impairments related to indefinite-lived intangibles during 2018, 2017 or 2016.

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

The Company reviews for goodwill impairment by first assessing qualitative factors to determine whether any impairment may exist. If the Company believes, as a result of the qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, a quantitative 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, then goodwill is written down by this difference. The Company performed a qualitative analysis as of October 1, 2018 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, 2018, 2017 or 2016.

## Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under that method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis using enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances, if any, are established when necessary to reduce deferred tax assets to the amount that is more likely than not to be realized. The Company uses the deferral method of accounting for its investment tax credits related to state tax incentives. During the years ended December 31, 2018, 2017 and 2016, the Company recorded income tax benefits relating to these tax credits of \$0, \$4,000, and \$77,000, respectively. Interest and penalties related to income taxes are included in income taxes in the Statement of Income.

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

## Share-Based Compensation

All of the Company's 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. The Company recognizes 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:

	2018	2017	2016
		(In thousands)	
Amounts charged against income, before income tax benefit	\$ 1,514	\$ 1,845	\$ 1,929
Amount of related income tax benefit	(3,566)	(2,310)	(1,164)
Net (benefit) expense to net income	<u>\$ (2,052)</u>	<u>\$ (465)</u>	<u>\$ 765</u>

## Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents were \$1.8 million and \$34.5 million as of December 31, 2018, and 2017, respectively, consisting primarily of money

market accounts, Eurodollar deposits and funds invested in commercial paper. At certain times, cash equivalent balances may exceed federally insured limits.

### Fair Value Measurements

The Company's valuation techniques are based on maximizing observable inputs and minimizing the use of unobservable inputs when measuring fair value. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect the Company's market assumptions. The inputs are then classified into the following hierarchy: (1) Level 1 Inputs—quoted prices in active markets for identical assets and liabilities; (2) Level 2 Inputs—observable market-based inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities in active markets, quoted prices for similar or identical assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data; (3) Level 3 Inputs—unobservable inputs.

Commercial paper and Eurodollar deposits are included in cash equivalents and are valued at amortized cost, which approximates fair value due to its short-term nature. Eurodollar deposits are United States dollars deposited in a foreign bank branch of a United States bank and have daily liquidity. Both of these are included as a Level 2 measurement in the table below.

The following details the Company's financial assets within the fair value hierarchy at December 31, 2018 and 2017:

	Level 1	Level 2	Level 3	Total
	(In thousands)			
<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>
<u>As of December 31, 2017</u>				
Money Market Funds	\$ 13,971	\$ --	\$ --	\$ 13,971
Commercial Paper	--	10,490	--	10,490
Eurodollar Deposits	--	10,017	--	10,017
Total Cash Equivalents	<u>\$ 13,971</u>	<u>\$ 20,507</u>	<u>\$ --</u>	<u>\$ 34,478</u>

There were no transfers between levels during the years ended December 31, 2018 and 2017.

The Company's long-term debt described in Note 10 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, 2018	December 31, 2017
	(In thousands)	
Total carrying amount of long-term debt	\$ 37,966	\$ 1,067
Estimated fair value of long-term debt	\$ 38,257	\$ 1,066

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, 2018 and 2017, there was no indication of impairment related to these assets.

### Contingencies

From time to time, the Company is involved in certain claims and litigation arising in the normal course of business. Management assesses the probability of loss for such contingencies and recognizes a liability when a loss is probable and estimable. Legal fees, net of estimated insurance recoveries, are expensed as incurred.

Since the September 2017 announcement of the original proposed recapitalization plan (“Original Transaction”) (see Note 2), three purported class action and/or derivative complaints have been filed in state or federal courts by three individuals claiming to be shareholders of the Company. All of the complaints name as defendants the Company and the individual directors of the Company. Two of these lawsuits were filed in the United States District Court for the District of Nebraska—a putative class action lawsuit captioned *Gennaro v. National Research Corporation, et al.*, which was filed on November 15, 2017, and a putative class and derivative action lawsuit captioned *Gerson v. Hays, et al.*, which was filed on November 16, 2017. These lawsuits were consolidated by order of the federal court under the caption *In re National Research Corporation Shareholder Litigation*. A third lawsuit was filed in the Circuit Court for Milwaukee County, Wisconsin—a putative class action lawsuit captioned *Apfel v. Hays, et al.*, which was filed on December 1, 2017. The allegations in all of the lawsuits were very similar. The plaintiffs alleged, among other things, that the defendants breached their fiduciary duties in connection with the allegedly unfair proposed transaction, at an allegedly unfair price, conducted in an allegedly unfair and conflicted process and in alleged violation of Wisconsin law and the Company’s Articles of Incorporation. The plaintiffs in these lawsuits sought, among other things, an injunction enjoining the defendants from consummating the Original Transaction, damages, equitable relief and an award of attorneys’ fees and costs of litigation. After the announcement of a revised proposed recapitalization plan (the “Recapitalization”), the plaintiffs abandoned their efforts to enjoin the transaction. However, the plaintiffs in *In re National Research Corporation Shareholder Litigation* in Nebraska filed an Amended Complaint on March 23, 2018 seeking damages for alleged breach of fiduciary duties in connection with the Original Transaction and alleged omission of material facts in the proxy statement relating to the Recapitalization. The plaintiffs in the *Apfel* case in Wisconsin filed an amended complaint on April 4, 2018 seeking damages for alleged breach of fiduciary duties in connection with the Original Transaction and the Recapitalization. The Company and its directors moved to dismiss both lawsuits, and those motions were granted in September and October 2018 by the respective courts. The plaintiffs did not appeal the judgments dismissing these lawsuits and, therefore, both lawsuits are now concluded.

### **Earnings Per Share**

Prior to the Recapitalization, net income per share of the Company’s 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 the Company’s 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 (1/6<sup>th</sup>) 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 contractual participation rights of the former class A and former class B common stock as if the earnings for the year had been distributed.

As described in Note 2, the Company completed a 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. 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.

The Company had 93,346, 104,647 and 546,910 options of Common Stock (former class A shares) for the years ended December 31, 2018, 2017 and 2016, respectively and 1,858 and 83,440 options of former class B shares for the years ended December 31, 2017 and 2016, respectively which have been excluded from the diluted net income per share computation because their inclusion would be anti-dilutive.



	2018		2017		2016	
	Common Stock (formerly Class A)	Class B 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	\$ 25,423	\$ 4,624	\$ 11,388	\$ 11,555	\$ 10,178	\$ 10,341
Allocation of distributed and undistributed income to unvested restricted stock shareholders	(82)	(18)	(88)	(87)	(88)	(88)
Net income attributable to common shareholders	<u>\$ 25,341</u>	<u>\$ 4,606</u>	<u>\$ 11,300</u>	<u>\$ 11,468</u>	<u>\$ 10,090</u>	<u>\$ 10,253</u>
Denominator for net income per share - basic:						
Weighted average common shares outstanding - basic	23,562	3,527	20,770	3,514	20,713	3,505
Net income per share - basic	<u>\$ 1.08</u>	<u>\$ 1.31</u>	<u>\$ 0.54</u>	<u>\$ 3.26</u>	<u>\$ 0.49</u>	<u>\$ 2.93</u>
Numerator for net income per share - diluted:						
Net income attributable to common shareholders for basic computation	<u>\$ 25,341</u>	<u>\$ 4,606</u>	<u>\$ 11,300</u>	<u>\$ 11,468</u>	<u>\$ 10,090</u>	<u>\$ 10,253</u>
Denominator for net income per share - diluted:						
Weighted average common shares outstanding - basic	23,562	3,527	20,770	3,514	20,713	3,505
Weighted average effect of dilutive securities – stock options:	886	101	857	89	324	55
Denominator for diluted earnings per share – adjusted weighted average shares	<u>24,448</u>	<u>3,628</u>	<u>21,627</u>	<u>3,603</u>	<u>21,037</u>	<u>3,560</u>
Net income per share - diluted	<u>\$ 1.04</u>	<u>\$ 1.27</u>	<u>\$ 0.52</u>	<u>\$ 3.18</u>	<u>\$ 0.48</u>	<u>\$ 2.88</u>

### Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-02, Leases (Topic 842) which supersedes existing lease guidance. Among other things, this ASU requires lessees to recognize a lease liability and a right-to-use asset for all leases, including operating leases, with a term greater than twelve months on its balance sheet. Leases will be classified as financing or operating which will drive the expense recognition pattern. For lessees, the income statement presentation and expense recognition pattern for financing and operating leases is similar to the current model for capital and operating leases, respectively. This ASU is effective in fiscal years beginning after December 15, 2018, with early adoption permitted, requires a modified retrospective transition method, and permits the use of an optional transition method to record the cumulative effect adjustment to the opening balance sheet in the period of adoption rather than in the earliest comparative period presented, which also provides that financial information and disclosures are only updated beginning with the date of initial application. The Company will adopt the standard as of January 1, 2019 and plans to use the optional transition method and the package of practical expedients, which eliminates the reassessment of past leases, classification and initial direct costs. The Company is not electing to adopt the hindsight practical expedient and will therefore maintain the lease terms determined prior to adopting Topic 842. The Company is in the process of finalizing the calculations using a lease accounting software tool and reviewing and updating its controls and processes for the new standard. Adoption of the standard is expected to result in an initial total right of use asset and corresponding lease liability in a range of \$2.3 to \$3.0 million for operating leases and will not have a significant impact on the consolidated statements of income.

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

In August 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. The Company is currently evaluating the impact that this guidance will have upon the Company's results of operations and financial position and has not yet determined whether early adoption will be elected.

## (2) Recapitalization

On April 16, 2018, the shareholders of the Company approved, among other things, an amendment to the Company's Amended and Restated Articles of Incorporation (the "Articles") to effect the Recapitalization pursuant to which each share of the Company's then-existing class B common stock was exchanged for one share of the Company's then-existing Class A common stock plus \$19.59 in cash, without interest. On April 17, 2018, the Company filed an amendment to its Articles effecting the Recapitalization and then a further amendment and restatement of the Company's Articles which resulted in the elimination of the Company's class B common stock and the reclassification of the Company's class A common stock as a share of Common Stock, par value \$0.001 per share ("Common Stock"). The Company 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 transactions were recorded based on the cash paid and the fair value of the Common Stock issued. 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, the Company entered into a credit agreement with First National Bank of Omaha, a national banking association ("FNB"), as described in Note 10.

## (3) Contracts with Customers

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

	2018
Subscription services recognized ratably over time	\$ 104,777
Services recognized at a point in time	4,775
Fixed, non-subscription recognized over time	3,163
Unit price services recognized over time	6,971
Total revenue	<u>\$ 119,686</u>

The Company's solutions within the digital 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.

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

	December 31, 2018	Balance at 1/1/2018 as adjusted (1)
Accounts receivables	\$ 11,922	\$ 14,674
Contract assets included in other current assets	\$ 53	\$ 74
Deferred Revenue	\$ (16,244)	\$ (16,642)

(1) Represents the December 31, 2017 balance adjusted for the ASC 606 transition adjustments.

Significant changes in contract assets and contract liabilities during 2018 are as follows (in thousands):

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

The Company has 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, 2018 approximated \$976,000, of which \$881,000 and \$95,000 are expected to be recognized during 2019 and 2020, respectively.

#### (4) Equity Investments

The Company makes equity investments to promote business and strategic objectives. For investments that do not have a readily determinable fair value, the Company applies either cost or equity method of accounting depending on the nature of its investment and its 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. It is not practicable for the Company to estimate fair value at each reporting date due to the cost and complexity of the calculations for this non-public entity. During 2017, the Company acquired a \$1.3 million investment in convertible preferred stock of PracticingExcellence.com, Inc., a privately-held Delaware corporation (“PX”), which 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. The Company has a seat on PX's board of directors and the Company's 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) Divestitures

On December 21, 2015, the Company completed the sale of selected assets and liabilities related to the clinical workflow product of the Predictive Analytics operating segment, for a net cash amount of approximately \$1.6 million. In connection with the closing of the transaction, \$300,000 was placed in escrow to cover certain indemnification claims for one year following the transaction pursuant to the purchase agreement. Due to the uncertainty related to the settlement of the claims, escrowed amounts were recognized when the contingency was removed and the cash was released from escrow rather than at the time of sale. The Company received \$223,000 of the escrow funds in December 2016 upon final resolution of the claims and recorded an additional gain on the sale from these funds.

#### (6) Connect

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

In July 2015, the Company acquired all of NG Customer-Connect, LLC's interest in Connect and a portion of Illuminate Health LLC's interest in Connect for combined consideration of \$2.8 million. As a result, as of December 31, 2015, the Company owned approximately 89% of Connect and Illuminate Health, LLC owned 11%. Under the amended operating agreement, NRC Health had the option to acquire additional equity units from Illuminate Health when new annual recurring contract value reached targeted levels. On March 7, 2016, the Company elected to exercise its first option to acquire one-third of the outstanding non-controlling interest for \$1.0 million. Subsequently, on March 28, 2016, NRC Health and Illuminate Health reached an agreement whereby NRC Health acquired the remaining interest held by Illuminate Health for \$1.0 million. Following these transactions, Customer-Connect LLC was a wholly owned subsidiary of NRC Health. All of Connect's previous net income (losses) had been attributable to NRC Health. Since the Company previously consolidated Connect, the transactions to acquire additional ownership interests in Connect were accounted for as equity transactions, resulting in a reduction to additional paid-in capital of \$252,000 and \$2.8 million in 2016 and 2015, respectively. The acquisition of the remaining interest resulted in differences between the book and tax basis of Connect's assets. As a result, the Company recorded deferred tax assets of \$1.7 million, with a corresponding increase to additional paid-in capital during 2016. On June 30, 2016, Customer-Connect LLC was dissolved.

## (7) Property and Equipment

At December 31, 2018, and 2017, property and equipment consisted of the following:

	2018	2017
	(In thousands)	
Furniture and equipment	\$ 5,321	\$ 5,064
Computer equipment	2,900	2,721
Computer software	26,694	22,569
Building	9,349	9,386
Leaseholds	41	41
Land	425	425
Property and equipment at cost	44,730	40,206
Less accumulated depreciation and amortization	30,577	27,847
Net property and equipment	<u>\$ 14,153</u>	<u>\$ 12,359</u>

Depreciation and amortization expense related to property and equipment, including assets under capital lease, for the years ended December 31, 2018, 2017, and 2016 was \$4.8 million, \$4.0 million, and \$3.6 million, respectively.

Property and equipment included the following amounts under capital lease:

	2018	2017
	(In thousands)	
Furniture and equipment	\$ 1,062	\$ 843
Computer Equipment	487	-
Computer Software	224	-
Property and equipment under capital lease, gross	1,773	843
Less accumulated amortization	839	684
Net assets under capital lease	<u>\$ 934</u>	<u>\$ 159</u>

## (8) Goodwill and Intangible Assets

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

	Useful Life (In years)	Gross	Accumulated Amortization (In thousands)	Net
Goodwill		<u>\$ 57,831</u>		<u>\$ 57,831</u>
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		<u>12,259</u>	<u>11,348</u>	<u>911</u>
Total intangible assets other than goodwill		<u>\$ 13,450</u>	<u>\$ 11,348</u>	<u>\$ 2,102</u>

Goodwill and intangible assets consisted of the following at December 31, 2017:

	Useful Life (In years)	Gross	Accumulated Amortization (In thousands)	Net
Goodwill		<u>\$ 58,021</u>		<u>\$ 58,021</u>
Non-amortizing intangible assets:				
Indefinite trade name		1,191		1,191
Amortizing intangible assets:				
Customer related	5 - 15	9,347	8,611	736
Technology	7	1,360	523	837
Trade names	5 - 10	<u>1,572</u>	<u>1,572</u>	--
Total amortizing intangible assets		<u>12,279</u>	<u>10,706</u>	<u>1,573</u>
Total intangible assets other than goodwill		<u>\$ 13,470</u>	<u>\$ 10,706</u>	<u>\$ 2,764</u>

The following represents a summary of changes in the Company's carrying amount of goodwill for the years ended December 31, 2018, and 2017 (in thousands):

Balance as of December 31, 2016	<u>\$ 57,861</u>
Foreign currency translation	160
Balance as of December 31, 2017	<u>\$ 58,021</u>
Foreign currency translation	(190)
Balance as of December 31, 2018	<u>\$ 57,831</u>

Aggregate amortization expense for customer related intangibles, trade names, technology and non-competes for the years ended December 31, 2018, 2017 and 2016 was \$662,000, \$610,000, and \$654,000, respectively. Estimated amortization expense for future years is: 2019—\$374,000; 2020—\$318,000; 2021—\$180,000; 2022—\$39,000.

## (9) Income Taxes

For the years ended December 31, 2018, 2017, and 2016, income before income taxes consists of the following:

	2018	2017	2016
		(In thousands)	
U.S. Operations	\$ 32,056	\$ 32,750	\$ 29,848
Foreign Operations	2,653	1,533	1,508
Income before income taxes	<u>\$ 34,709</u>	<u>\$ 34,283</u>	<u>\$ 31,356</u>

Income tax expense consisted of the following components:

	2018	2017	2016
		(In thousands)	
<u>Federal:</u>			
Current	\$ 2,144	\$ 10,947	\$ 8,930
Deferred	1,328	(1,596)	847
Total	<u>\$ 3,472</u>	<u>\$ 9,351</u>	<u>\$ 9,777</u>
<u>Foreign:</u>			
Current	\$ 882	\$ 387	\$ 409
Deferred	(178)	704	(18)
Total	<u>\$ 704</u>	<u>\$ 1,091</u>	<u>\$ 391</u>
<u>State:</u>			
Current	\$ 204	\$ 837	\$ 634
Deferred	282	61	36
Total	<u>\$ 486</u>	<u>\$ 898</u>	<u>\$ 670</u>
Total	<u>\$ 4,662</u>	<u>\$ 11,340</u>	<u>\$ 10,838</u>

## 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, the Company was able to make a reasonable estimate as of December 31, 2017, and recorded a provisional net tax benefit related to the remeasurement of the deferred tax assets and liabilities due to the reduction in the U.S. federal corporate tax rate, offset by the one-time mandatory deemed repatriation tax, payable over eight years. In accordance with Staff Accounting Bulletin No. 118, the Company made reasonable estimates and recorded a provisional net tax benefit of \$1.9 million as of December 31, 2017 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. Recorded a decrease related to deferred tax assets and liabilities with a corresponding net adjustment to deferred income tax benefit for the year ended December 31, 2017.
- 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, the Company was also subject to a one-time mandatory deemed repatriation tax on accumulated non-U.S. earnings. The estimates booked as of December 31, 2017 have been finalized and no material adjustments were made to the financials.

In addition, as a result of the Tax Act, the Company determined that it would no longer indefinitely reinvest the earnings of its 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.

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, the Company is continuing to evaluate this provision of the Tax Act. Under Generally Accepted Accounting Principles, the Company 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. The Company elected the current period expense method and has 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 \$40,000 in 2018.

The difference between the Company’s income tax expense as reported in the accompanying consolidated financial statements and the income tax expense that would be calculated applying the U.S. federal income tax rate of 21% for 2018 and 35% for 2017 and 2016 on pretax income was as follows:

	2018	2017	2016
	(In thousands)		
Expected federal income taxes	\$ 7,285	\$ 11,999	\$ 10,975
Foreign tax rate differential	146	(131)	(129)
State income taxes, net of federal benefit and state tax credits	376	608	436
Federal tax credits	(150)	(130)	(165)
Uncertain tax positions	90	151	6
Nondeductible expenses related to recapitalization	151	504	--
Share based compensation	(3,041)	(1,564)	(441)
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	--	706	--
GILTI	40	--	--
Other	73	122	156
Total	<u>\$ 4,662</u>	<u>\$ 11,340</u>	<u>\$ 10,838</u>

Deferred tax assets and liabilities at December 31, 2018 and 2017, were comprised of the following:

	2018	2017
	(In thousands)	
Deferred tax assets:		
Allowance for doubtful accounts	\$ 41	\$ 46
Accrued expenses	424	416
Share based compensation	1,264	1,457
Accrued bonuses	198	113
Foreign tax credit from repatriation	535	535
Other	46	166
Gross deferred tax assets	<u>2,508</u>	<u>2,733</u>
Less valuation allowance	(535)	(535)
Deferred tax assets	<u>1,973</u>	<u>2,198</u>
Deferred tax liabilities:		
Prepaid expenses	95	169
Deferred contract costs	786	--
Property and equipment	1,944	856
Intangible assets	4,919	4,497
Repatriation withholding	505	706
Deferred tax liabilities	<u>8,249</u>	<u>6,228</u>
Net deferred tax liabilities	<u>\$ (6,276)</u>	<u>\$ (4,030)</u>

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers projected future taxable income, carry-back opportunities, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, the Company believes it is more likely than not that it will realize the benefits of these deductible differences excluding the foreign tax credit carryforward.

The Company had an unrecognized tax benefit at December 31, 2018 and 2017, of \$554,000 and \$843,000, respectively, excluding interest of \$6,000 and \$5,000 at December 31, 2018 and 2017, respectively. Of these amounts, \$482,000 and \$620,000 at December 31, 2018 and 2017, 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 2018 and 2017 is as follows:

	(In thousands)
Balance of unrecognized tax benefits at December 31, 2016	<u>\$ 662</u>
Additions based on tax positions of prior years	(7)
Additions based on tax positions related to the current year	188
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>

The Company files a U.S. federal income tax return, various state jurisdictions returns and a Canada federal and provincial income tax return. All years prior to 2015 are now closed for US federal income tax and for years prior to 2015 for state income tax returns, and no exposure items exist for these years. The Company completed a United States federal tax examination for the tax year ended December 31, 2013 in the first quarter of 2016. The 2014 to 2018 Canada federal and provincial income tax returns remain open to examination.

## (10) Notes Payable

The Company's long-term debt consists of the following:

	2018	2017
	(In thousands)	
Term Loans	\$ 37,996	\$ 1,067
Less: current portion	(3,667)	(1,067)
Less: unamortized debt issuance costs	(153)	--
Notes payable, net of current portion	<u>\$ 34,176</u>	<u>\$ --</u>

The balance on the Company's former term note with US Bank was paid in full in March 2018.

On April 18, 2018, in connection with the Recapitalization, the Company 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"). The Company used the Term Loan to fund, in part, the cash portion paid to holders of the Company's 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 repurchasing of the Company's Common Stock and the Line of Credit will be used to fund ongoing working capital needs and other general corporate purposes, including to pay the fees and expenses incurred in connection with the Recapitalization and the Credit Agreement.

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 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 (4.60% at December 31, 2018). 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, 2018, 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, 2018. The weighted average interest rate on borrowings on the Line of Credit for the year ended December 31, 2018 was 4.25%. In January 2019, the Company borrowed \$8.5 million on the Line of Credit. There have been no borrowings on the Delayed Draw Term Loan since origination.

The Company paid a one-time fee equal to 0.25% of the amount borrowed under the Term Loan at the closing of the Credit Facilities. The Company is 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 the Company's 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 the Company's 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 or less. As of December 31, 2018, the Company was in compliance with its financial covenants.

Scheduled maturities of notes payable at December 31, 2018 are as follows:

2019	\$	3,715
2020		4,418
2021		4,916
2022		5,171
2023		19,776



## (11) Share-Based Compensation

The Company measures and recognizes compensation expense for all share-based payments based on the grant-date fair value of those awards. All of the Company's existing stock option awards and unvested stock awards have been determined to be equity-classified awards. The Company accounts for forfeitures as they occur. As described in Note 2, the Company 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, the Company 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.

The Company's 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 the Company's former class A common stock and 300,000 shares of the Company's 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.

The Company's 2004 Non-Employee Director Stock Plan, as amended (the "2004 Director Plan"), is a nonqualified plan that provides for the granting of options with respect to 3,000,000 shares of the Company's Common Stock and, prior to the Recapitalization, 500,000 shares of the Company's former class B common stock. The 2004 Director Plan provides for grants of nonqualified stock options to each director of the Company who is not employed by the Company. Beginning in 2018, on the date of each annual meeting of shareholders of the Company, 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 of the Company, options to purchase 36,000 shares of the Company's former class A common stock and 6,000 shares of the Company's 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 ten years following the date of grant, or three years in the case of termination of the outside director's service. At December 31, 2018, there were 879,240 shares of Common Stock available for issuance pursuant to future grants under the 2004 Director Plan. The Company has accounted for grants of 2,120,760 Common Stock under the 2004 Director Plan using the date of grant as the measurement date for financial accounting purposes.

The Company's 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 the Company's 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, 2018, there were 815,828 shares of Common Stock available for issuance pursuant to future grants under the 2006 Equity Incentive Plan. The Company has accounted for grants of 984,172 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 2018, the Company granted options to purchase 116,276 shares of Common Stock. The Company granted options to purchase 299,917 shares of the Company's former class A common stock and 49,986 shares of the Company's former class B common stock during 2017. During 2016, the Company granted options to purchase 315,620 shares of the Company's former class A common stock and 52,603 shares of the Company's former class B common stock. Options to purchase shares of common stock are typically granted with exercise prices equal to the fair value of the common stock on the date of grant. The Company does, in certain limited situations, grant options with exercise prices that exceed the fair value of the common shares on the date of grant. The fair value of stock options granted was estimated using a Black-Scholes valuation model with the following weighted average assumptions:

	2018	2017		2016	
	Common Stock (former Class A)	Common Stock (former Class A)	Former Class B Common Stock	Common Stock (former Class A)	Former Class B Common Stock
Expected dividend yield at date of grant	2.59%	2.62%	8.06%	2.99%	7.29%
Expected stock price volatility	32.47%	32.45%	26.75%	32.74%	29.41%
Risk-free interest rate	2.51%	2.18%	2.18%	1.69%	1.69%
Expected life of options (in years)	7.28	6.80	6.80	6.86	6.86

The risk-free interest rate assumptions were based on the U.S. Treasury yield curve in effect at the time of the grant. The expected volatility was based on historical monthly price changes of the Company's stock based on the expected life of the options at the

date of grant. The expected life of options is the average number of years the Company estimates that options will be outstanding. The Company considers groups of associates that have similar historical exercise behavior separately for valuation purposes.

The following table summarizes stock option activity under the 2001 and 2006 Equity Incentive Plans and the 2004 Director Plan for the year ended December 31, 2018:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Terms (Years)	Aggregate Intrinsic Value (In thousands)
<u>Common Stock (former Class A)</u>				
Outstanding at December 31, 2017	1,746,634	\$ 13.88		
Granted	116,276	\$ 36.12		
Exercised	(468,318)	\$ 12.67		\$ 10,621
Forfeited	(21,383)	\$ 26.18		
Outstanding at December 31, 2018	<u>1,373,209</u>	\$ 15.99	4.91	\$ 30,421
Exercisable at December 31, 2018	<u>981,069</u>	\$ 13.76	3.83	\$ 23,923
<u>Former Class B Common Stock</u>				
Outstanding at December 31, 2017	276,716	\$ 31.78		
Granted	--	\$ --		
Exercised/Settled in Recapitalization	(276,716)	\$ 31.78	--	\$ 5,937
Forfeited	--	\$ --		
Outstanding at December 31, 2018	<u>--</u>	\$ --	--	\$ --
Exercisable at December 31, 2018	<u>--</u>	\$ --	--	\$ --

The following table summarizes information related to stock options for the years ended December 31, 2018, 2017 and 2016:

	2018		2017		2016	
	Common Stock (former Class A)	Common Stock (former Class A)	Former Class B Common Stock	Common Stock (former Class A)	Former Class B Common Stock	Common Stock (former Class A)
Weighted average grant date fair value of stock options granted	\$ 10.02	\$ 5.83	\$ 3.66	\$ 3.62	\$ 3.90	\$ 3.90
Intrinsic value of stock options exercised (in thousands)	\$ 10,621	\$ 2,681	\$ 202	\$ 459	\$ 632	\$ 632
Intrinsic value of stock options vested (in thousands)	\$ 2,719	\$ 5,258	\$ 787	\$ 1,627	\$ 535	\$ 535

As of December 31, 2018, the total unrecognized compensation cost related to non-vested stock option awards was approximately \$1.2 million which was expected to be recognized over a weighted average period of 2.87 years.

Cash received from stock options exercised for the years ended December 31, 2016 was \$548,000. There was no cash received from stock options exercised for the year ended December 31, 2018 or 2017. The Company recognized \$1.1 million, \$1.2 million and \$964,000 of non-cash compensation for the years ended December 31, 2018, 2017, and 2016, respectively, related to options, which is included in selling, general and administrative expenses. The actual tax benefit realized for the tax deduction from stock options exercised was \$3.8 million, \$1.1 million and \$398,000 for the years ended December 31, 2018, 2017 and 2016, respectively.

During 2018 and 2016, the Company granted 6,793 and 20,578 non-vested shares of Common Stock and during 2016 granted 3,430 non-vested shares of former class B common stock, respectively, under the 2006 Equity Incentive Plan. No shares were granted during the year ended December 31, 2017. As of December 31, 2018, the Company had 78,171 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. The Company recognized \$428,000, \$629,000 and \$966,000 of non-cash compensation for the years ended December 31, 2018, 2017, and 2016, respectively, related to this non-vested stock, which is included in selling, general and administrative expenses. The actual tax benefit realized for the tax deduction from vesting of restricted stock was \$168,000, \$1.3 million and \$161,000 for the years ended December 31, 2018, 2017 and 2016, respectively.

The following table summarizes information regarding non-vested stock granted to associates under the 2006 Equity Incentive Plans for the year ended December 31, 2018:

	Common Stock (formerly Class A) Outstanding	Common Stock (formerly Class A) Weighted Average Grant Date Fair Value Per Share	Former Class B Common Stock Outstanding	Former Class B Common Stock Weighted Average Grant Date Fair Value Per Share
Outstanding at December 31, 2017	81,667	\$ 13.80	13,611	\$ 36.65
Granted	6,793	\$ 36.80	--	\$ --
Vested	--	\$ --	(13,611)	\$ 36.65
Forfeited	(10,289)	\$ 15.23	--	\$ --
Outstanding at December 31, 2018	<u>78,171</u>	\$ 15.61	<u>--</u>	\$ --

As of December 31, 2018, the total unrecognized compensation cost related to non-vested stock awards was approximately \$471,000 and is expected to be recognized over a weighted average period of 2.56 years.

## (12) Leases

The Company leases printing equipment in the United States, and office space in Canada, California, Georgia, Washington, and Tennessee. The Company also leased additional office space in Nebraska through June 2016. The Company recorded rent expense in connection with its operating leases of \$779,000, \$869,000 and \$920,000 in 2018, 2017, and 2016, respectively. The Company also has capital leases for production, mailing and computer equipment.

Payments under non-cancelable operating leases and capital leases at December 31, 2018 for the next five years are:

<u>Year Ending December 31,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
	(In thousands)	
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>	

## (13) Related Party

A director of the Company also serves as an officer of Ameritas Life Insurance Corp. (“Ameritas”). In connection with the Company’s regular assessment of its insurance-based associate benefits, which is conducted by an independent insurance broker, and the costs associated therewith, the Company purchases dental and vision insurance for certain of its associates from Ameritas. The total value of these purchases was \$200,000, \$248,000 and \$232,000 in 2018, 2017 and 2016 respectively.

Mr. Hays, the Chief Executive Officer and director of the Company, is an owner of 14% of the equity interest of Nebraska Global Investment Company LLC (“Nebraska Global”). The Company, directly or indirectly through its former subsidiary Customer-Connect LLC, purchased certain services from Nebraska Global, primarily consisting of software development services. The total value of these purchases were \$12,500 and \$488,000 in 2017 and 2016, respectively.

Mr. Hays personally incurred approximately \$538,000 of fees and expenses in connection with exploring strategic alternatives for the Company, including the Recapitalization (see Note 2), for which the Company 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 would have been borne directly by the Company if they had not been advanced by Mr. Hays.

During 2017, the Company acquired a cost method investment in convertible preferred stock of PX (see Note 4). Also in 2017, the Company paid \$250,000 to acquire certain perpetual content licenses from PX for content the Company includes in certain of its subscription services. The Company also has an agreement with PX which commenced in 2016 under which the Company acts as a reseller of PX services and receives a portion of the revenues. The total revenue earned from the PX reseller agreement in the years ended December 31, 2018, 2017 and 2016 was \$439,000, \$633,000 and \$28,000, respectively.

**(14) Associate Benefits**

The Company sponsors a qualified 401(k) plan covering substantially all associates with no eligibility service requirement. Under the 401(k) plan, the Company matches 25.0% of the first 6.0% of compensation contributed by each associate. Employer contributions, which are discretionary, vest to participants at a rate of 20% per year. The Company contributed \$396,000, \$350,000 and \$291,000 in 2018, 2017 and 2016, respectively, as a matching percentage of associate 401(k) contributions.

**(15) Segment Information**

The Company's six operating segments are aggregated into one reporting segment because they have similar economic characteristics and meet the other aggregation criteria from the FASB guidance on segment disclosure. The six operating segments are Experience, The Governance Institute, Market Insights, Transparency, National Research Corporation Canada and 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 the Company's revenue and assets by geographic area:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
	(In thousands)		
Revenue:			
United States	\$ 115,451	\$ 112,885	\$ 104,445
Canada	4,235	4,674	4,939
Total	<u>\$ 119,686</u>	<u>\$ 117,559</u>	<u>\$ 109,384</u>
Long-lived assets:			
United States	\$ 77,330	\$ 72,562	\$ 71,192
Canada	2,291	2,495	2,367
Total	<u>\$ 79,621</u>	<u>\$ 75,057</u>	<u>\$ 73,559</u>
Total assets:			
United States	\$ 91,080	\$ 110,785	\$ 106,288
Canada	16,952	16,531	14,336
Total	<u>\$ 108,032</u>	<u>\$ 127,316</u>	<u>\$ 120,624</u>

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

Not applicable.

### **Item 9A. Controls and Procedures**

#### ***Evaluation of Disclosure Controls and Procedures***

In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the “Exchange Act”), the Company’s management evaluated, with the participation of the Company’s Chief Executive Officer and the Company’s Chief Financial Officer, the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2018. 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, 2018.

#### ***Management’s Report on Internal Control over Financial Reporting***

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

The Company’s management, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s internal control over financial reporting using the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on such evaluation, the Company’s management concluded that the Company’s internal control over financial reporting was effective as of December 31, 2018.

The effectiveness of the Company’s internal control over financial reporting as of December 31, 2018, has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, a copy of which is included in this Annual Report on Form 10-K.

#### ***Changes in Internal Control over Financial Reporting***

There was no change in the Company’s internal control over financial reporting that occurred during the quarter ended December 31, 2018, that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

### **Item 9B. Other Information**

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

## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors  
National Research Corporation:

### *Opinion on Internal Control Over Financial Reporting*

We have audited National Research Corporation and subsidiary's (the "Company") internal control over financial reporting as of December 31, 2018, 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 Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, 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, 2018, and the related notes (collectively, the consolidated financial statements), and our report dated March 8, 2019 expressed an unqualified opinion on those consolidated financial statements.

### *Basis for Opinion*

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the 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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit 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 audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### *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

Lincoln, Nebraska  
March 8, 2019

## 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 “Section 16(a) Beneficial Ownership Reporting Compliance,” respectively, in the Company’s definitive Proxy Statement for its 2019 Annual Meeting of Shareholders (“Proxy Statement”) and is hereby incorporated herein by reference. Information with respect to the executive officers of the Company appears in Item 1 of this Annual Report on Form 10-K. The information required by this Item with respect to audit committees and audit committee financial experts is included under the caption “Corporate Governance” in the Proxy Statement and is incorporated herein by reference.

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

### **Item 11. Executive Compensation**

The information required by this Item is included under the captions “Compensation Discussion and Analysis,” “2018 Summary Compensation Table,” “Grants of Plan-Based Awards in 2018,” “Outstanding Equity Awards at December 31, 2018,” “2018 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, 2018.

<u>Plan Category Common Shares (formerly Class A shares)</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>
Equity compensation plans approved by security holders <sup>(1)</sup>	1,373,209	\$ 15.99	1,695,068 <sup>(2)</sup>
Equity compensation plans not approved by security holders	--	--	--
<b>Total</b>	<b>1,373,209</b>	<b>\$ 15.99</b>	<b>1,695,068</b>

<sup>(1)</sup> Includes the Company’s 2006 Equity Incentive Plan, 2004 Director Plan, and the 2001 Equity Incentive Plan.

<sup>(2)</sup> Under the 2006 Equity Incentive Plan, the Company had authority to award up to 331,086 additional shares of restricted Common Stock (formerly class A 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 815,828 shares of Common Stock (formerly class A common stock) as of December 31, 2018. The Director Plan provides for granting options for 3,000,000 shares of Common Stock (formerly class A common stock). Option awards through December 31, 2018 totaled 2,120,760 shares of Common Stock (formerly class A 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**

<b><u>Exhibit Number</u></b>	<b><u>Exhibit Description</u></b>
(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)	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)].
(10.1)*	National Research Corporation 2001 Equity Incentive Plan [Incorporated by reference to Appendix A to National Research Corporation's Proxy Statement for the 2002 Annual Meeting of Shareholders filed on April 3, 2002 (File No. 001-35929)]
(10.2)*	National Research Corporation 2006 Equity Incentive Plan, as amended [Incorporated by reference to Exhibit (4.3) to National Research Corporation's Registration Statement on Form S-8 (Registration No. 333-226715) filed on August 9, 2018]
(10.3)*	National Research Corporation 2004 Non-Employee Director Stock Plan, as amended [Incorporated by reference to Appendix A to National Research Corporation's Proxy Statement for the 2018 Annual Meeting of Shareholders filed on April 27, 2018 (File No. 001-35929)]
(10.4)*	Form of Nonqualified Stock Option Agreement (for new associates) used in connection with the 2001 Equity Incentive Plan [Incorporated by reference to Exhibit 4.4 to National Research Corporation's Registration Statement on Form S-8 (Registration No. 333-120530) filed on November 16, 2004]
(10.5)*	Form of Nonqualified Stock Option Agreement (for officers) used in connection with the 2001 Equity Incentive Plan [Incorporated by reference to Exhibit 4.5 to National Research Corporation's Registration Statement on Form S-8 (Registration No. 333-120530) filed on November 16, 2004]
(10.6)*	Form of Restricted Stock Agreement for executive officers used in connection with the 2001 Equity Incentive Plan [Incorporated by reference to Exhibit 10.2 to National Research Corporation's Current Report on Form 8-K dated March 19, 2005 and filed on March 23, 2005 (File No. 001-35929)]
(10.7)*	Form of Restricted Stock Agreement (one year vesting) used in connection with the 2001 Equity Incentive Plan [Incorporated by reference to Exhibit 4.6 to National Research Corporation's Registration Statement on Form S-8 (Registration No. 333-120530) filed on November 16, 2004]

<b><u>Exhibit Number</u></b>	<b><u>Exhibit Description</u></b>
(10.8)*	Form of Restricted Stock Agreement (five year vesting) used in connection with the 2001 Equity Incentive Plan [Incorporated by reference to Exhibit 4.7 to National Research Corporation's Registration Statement on Form S-8 (Registration No. 333-120530) filed on November 16, 2004]
(10.9)*	Form of Nonqualified Stock Option Agreement used in connection with the 2006 Equity Incentive Plan [Incorporated by reference to Exhibit (10.14) to National Research Corporation's Annual Report on Form 10-K for the year ended December 31, 2006 and filed on April 2, 2007 (File No. 001-35929)]
(10.10)*	Form of Restricted Stock Agreement used in connection with the 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. 001-35929)]
(21)	Subsidiary of National Research Corporation
(23)	Consent of Independent Registered Public Accounting Firm
(31.1)	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(31.2)	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(32)	Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(99)	Proxy Statement for the 2019 Annual Meeting of Shareholders [To be filed with the Securities and Exchange Commission under Regulation 14A within 120 days after December 31, 2018; except to the extent specifically incorporated by reference, the Proxy Statement for the 2019 Annual Meeting of Shareholders shall not be deemed to be filed with the Securities and Exchange Commission as part of this Annual Report on Form 10-K]
(101)**	Financial statements from the Annual Report on Form 10-K of National Research Corporation for the year ended December 31, 2018, 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.

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\* A management contract or compensatory plan or arrangement.

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

**Item 16. Form 10-K Summary**

None.

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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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 8th day of March 2019.

### 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 8, 2019
<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 8, 2019
<u>/s/ Donald M. Berwick</u> Donald M. Berwick	Director	March 8, 2019
<u>/s/ JoAnn M. Martin</u> JoAnn M. Martin	Director	March 8, 2019
<u>/s/ Barbara J. Mowry</u> Barbara J. Mowry	Director	March 8, 2019
<u>/s/ John N. Nunnelly</u> John N. Nunnelly	Director	March 8, 2019

**Subsidiary of National Research Corp.**

National Research Corporation's subsidiary as of December 31, 2018 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, and 333-226715) on Forms S-8 and (File Nos. 333-120529 and 333-211190) on Forms S-3 of National Research Corporation of our reports dated March 8, 2019, with respect to the consolidated balance sheets of National Research Corporation and subsidiary as of December 31, 2018 and 2017, 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, 2018, and the related notes (collectively, the consolidated financial statements), and the effectiveness of internal control over financial reporting as of December 31, 2018, which reports appear in the December 31, 2018 annual report on Form 10-K of National Research Corporation.

Our report dated March 8, 2019, 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 8, 2019

**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 8, 2019

/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 8, 2019

/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, 2018 (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 8, 2019

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

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## Board of Directors

**Michael D. Hays**

Chief Executive Officer  
National Research Corporation

**John N. Nunnally, 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, Nominating (Chair)  
Committees*

**JoAnn M. Martin**

President and Chief Executive Officer  
Ameritas Mutual Holding 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

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**Corporate Headquarters**

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

**Transfer Agent**

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

**Corporate Counsel**

Foley & Lardner LLP  
Milwaukee, Wisconsin  
  
Woods & Aitken LLP  
Lincoln, Nebraska

**Common Stock**

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

**Independent Registered  
Public Accounting Firm**

KPMG LLP  
Lincoln, Nebraska

