NATIONAL RESEARCH
Corporation

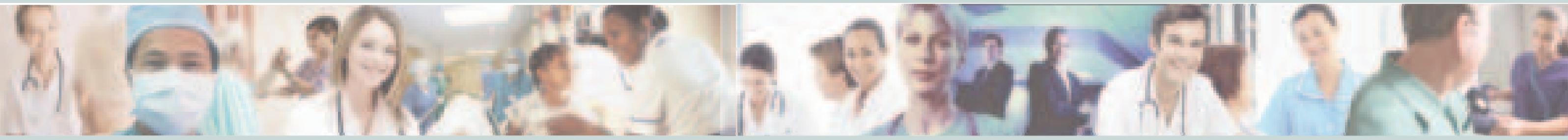
2005 Annual Report / Proxy Statement

Company Profile

National Research Corporation, headquartered in Lincoln, Nebraska, believes it is a leading provider of ongoing survey-based performance measurement, analysis, improvement and educational services to the healthcare industry in the United States and Canada. The Company addresses the growing need of healthcare providers and payers to measure the care outcomes, specifically the experience, satisfaction and health status, of their patients and/or members. The Company offers solutions to effectively measure and improve the experiences with healthcare providers and payers.

Annual Meeting

The annual meeting of shareholders will be held on May 4, 2006, at 9:00 a.m. (local time) at the Company's corporate offices, 1245 Q Street, Lincoln, Nebraska 68508.



To Our Shareholders:

For National Research Corporation, 2005 started slowly but finished strong. As anticipated, the volatility from federal sector contracts in the fourth quarter of 2004 carried over into the first half of 2005, producing flat top line growth. However, the second half of 2005 was a very different story, producing top line growth of 19%. As a result, we achieved record earnings of $5.2 million for full year 2005, generating earnings per share of $0.74, a 17% increase over 2004.

We began 2006 with $37 million in contract value, a 28% greater backlog of business than the start of 2005.

This growth in contract value is driven by the Company's expanded sales force, which included 28 sales associates at year end, up from six in the fourth quarter of 2003, when we commenced the sales expansion effort. More feet on the street is clearly generating incremental revenues from current client relationships, as well as attracting new clients whom we now have the pleasure to serve.

Outside of the financial performance in 2005, our activities can be categorized as broadening management bandwidth and laying new runways for growth. In 2005, we acquired GHS, an organization that provides health outcomes, performance measurement and health risk assessment services to health plans, including 10 of the largest 20 payers in the country. This new "runway" opened a market equal in size to the provider market from which our company has historically generated 100% of its revenues.

The runway for quality and patient safety performance measurement and improvement within the provider market widened in 2005-06 when financial incentives for hospitals to participate in public reporting of performance was signed into law. Pay for performance, adopted by payers such as the Centers for Medicaid and Medicare Services, added more financial incentives for hospitals to dedicate additional resources in the area of improvement. What in the past has been the right thing for hospitals to do, now has a clear financial justification.

National Research Corporation's management team was expanded in 2005. A case in point is in sales management. Bill Eckstrom, Jason Rau, Paul Huelskamp, Greg Hackbart, Gregg Loughman, Cole Mangers, Darryl Peitzmeier, and Mike Wirth now lead our sales group, which had grown to 42 sales associates by the close of the first quarter of 2006.

Increased bandwidth has also been established in product development and product marketing. Jona Raasch, Kris Benson, Shandra Christianson, and Andy Monnich are adding enhancements to current products, while at the same time adding new products to the sales teams' portfolio.

Julie Samuelson, Barb van Maris and their team of Client Service associates have raised the bar with near perfect performance in client renewals, which speaks to National Research Corporation's ability to secure its recurring revenue stream.

Back office operations and cost controls, led by Tera Beermann, Mike Carpenter and Jon Zvolanek should provide you, as it does me, with a high level of confidence in the Company's ability to exceed client expectations at a profit to the shareholders.

Joe Carmichael, President since 2004, has exceeded all my expectations. Joe is strengthening our organization by working on a talent acquisition and development that, combined with a scalable infrastructure, places the Company on a very solid foundation.

In addition to the above named management team, I am fortunate to work with Pat Beans, our Chief Financial Officer, and an enviable Board of Directors, namely JoAnn M. Martin, John N. Nunnelly, Paul C. Schorr III, and Gail L. Warden. The involvement of these and over 200 additional remarkable associates allows me, and I trust you, to envision a very bright future for the Company.

Sincerely,

Michael D. Hays
Chief Executive Officer
and Fellow Shareholder

NATIONAL RESEARCH CORPORATION

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held May 4, 2006

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 Thursday, May 4, 2006, at 9:00 A.M., local time, at our corporate offices located at 1245 Q Street, Lincoln, Nebraska 68508, for the following purposes:

1. To elect one director to hold office until the 2008 Annual Meeting of Shareholders and two directors to hold office until the 2009 Annual Meeting of Shareholders, in each case until their successors are duly elected and qualified.

2. To act upon a proposal to approve the National Research Corporation 2006 Equity Incentive Plan.

3. 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 16, 2006, 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

Patrick E. Beans
Secretary

Lincoln, Nebraska
April 3, 2006

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.

NATIONAL RESEARCH CORPORATION

1245 Q Street
Lincoln, Nebraska 68508

PROXY STATEMENT
For
ANNUAL MEETING OF SHAREHOLDERS
To Be Held May 4, 2006

This proxy statement is being furnished to shareholders by the Board of Directors (the "Board") of National Research Corporation (the "Company") beginning on or about April 3, 2006, in connection with a solicitation of proxies by the Board for use at the Annual Meeting of Shareholders to be held on Thursday, May 4, 2006, at 9:00 A.M., local time, at the Company's corporate offices located at 1245 Q 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 FOR the three persons nominated for election as directors referred to herein, FOR the proposal to approve the National Research Corporation 2006 Equity Incentive Plan (the "2006 Equity Incentive Plan") 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 three directors and the proposal to approve the 2006 Equity Incentive Plan, 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, $.001 par value per share (the "Common Stock"), at the close of business on March 16, 2006 are entitled to vote at the Annual Meeting. On that date, the Company had outstanding and entitled to vote 6,885,496 shares of Common Stock, each of which is entitled to one vote per share.

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 2008 Annual Meeting of Shareholders and two directors to hold office until the 2009 Annual Meeting of Shareholders, and in each case until their successors are duly elected and qualified. Unless shareholders otherwise specify, the shares represented by the proxies received will be voted in favor of the election as directors of the three persons named as nominees herein. The Board has no reason to believe that the listed nominees will be unable or unwilling to serve as directors if elected. However, in the event that any nominee should be unable to serve or for good cause will not serve, the shares represented by proxies received will be voted for another nominee selected by the Board. Each director will be elected by a plurality of the votes cast at the Annual Meeting (assuming a quorum is present). Consequently, any shares not voted at the Annual Meeting, whether due to abstentions, broker non-votes or otherwise, will have no impact on the election of the directors. Votes will be tabulated by an inspector of elections appointed by the Board.

The following sets forth certain information, as of March 15, 2006, about the Board's nominees for election at the Annual Meeting and each director of the Company whose term will continue after the Annual Meeting.

Nominees for Election at the Annual Meeting

Term expiring at the 2008 Annual Meeting

Joseph W. Carmichael, age 42, has served as President of the Company since August 2004. Prior to August 2004, Mr. Carmichael held various positions with the Company since April 1983, most recently as Senior Vice President from May 2002 to August 2004.

Terms expiring at the 2009 Annual Meeting

Michael D. Hays, 51, has served as Chief Executive Officer and as a director since he founded the Company in 1981. From 1981 to 2004, he also served as the Company's President. 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).

John N. Nunnelly, 53, has served as a director of the Company since December 1997. Mr. Nunnelly has been a Vice President of Strategic Planning at McKesson Corporation, a leader in the healthcare information industry, since April 2005. Mr. Nunnelly has served in various other positions during his 24 year tenure with McKesson, including Group President of Resource Management and Home Health Solutions, Vice President and General Manager of the Amherst Product Group and Vice President of Sales-Decision Support. Mr. Nunnelly also serves as an adjunct professor at the University of Massachusetts, teaching information technology in the School of Nursing.

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

Directors Continuing in Office

Terms expiring at the 2007 Annual Meeting

Patrick E. Beans, 48, has served as Vice President, Treasurer, Chief Financial Officer and Secretary and a director of the Company since 1997, and as the principal financial officer since he joined the Company in August 1994. From June 1993 until joining the Company, Mr. Beans was the finance director for the Central Interstate Low-Level Radioactive Waste Commission, a five-state compact developing a low-level radioactive waste disposal plan. From 1979 to 1988 and from June 1992 to June 1993, he practiced as a certified public accountant.

Gail L. Warden, 67, has served as a director of the Company since January 2005. Mr. Warden is currently President Emeritus of Detroit-based Henry Ford Health System, where he served as President and Chief Executive Officer from 1988 until 2003. Prior to this role, Mr. Warden served as President and Chief Executive Officer of Group Health Cooperative of Puget Sound, as well as Executive Vice President of the American Hospital Association. Mr. Warden serves as Chairman to several national healthcare committees and as a board member to many other healthcare related committees and institutions. In addition, Mr. Warden serves as a director of Comerica Incorporated, a financial services company.

Terms expiring at the 2008 Annual Meeting

JoAnn M. Martin, 51, has served as a director of the Company since June 2001. Ms. Martin was elected President and Chief Executive Officer of Ameritas Life Insurance Corp., an insurance and financial services company, in July 2005. From April 2003 to July 2005, she served Ameritas Life Insurance Corp. as President and Chief Operating Officer. Prior thereto, Ms. Martin served as Senior Vice President and Chief Financial Officer of Ameritas for more than the last five years. Ms. Martin also has served as Executive Vice President and Chief Financial Officer of Ameritas Holding Company and UNIFI Mutual Holding Company (previously named Ameritas Acacia Mutual Holding Company) for more than the last five years. Ms. Martin has served as an officer of Ameritas and/or its affiliates since 1988. Ms. Martin is also a director of the Saint Elizabeth Regional Medical Center, the Lincoln Chamber of Commerce, Nebraska Wesleyan University and the Nebraska Society of CPAs Foundation.

Paul C. Schorr III, 69, has served as a director of the Company since February 1998. Mr. Schorr has been the President and Chief Executive Officer of ComCor Holding Inc., an electrical contractor specializing in construction consulting services, since 1987. Mr. Schorr is also a director of Western Sizzlin Corp. and Ameritas Life Insurance Corp.

BOARD OF DIRECTORS

Independent Directors and Annual Meeting Attendance

Of the six directors currently serving on the Board of Directors, the Board has determined that JoAnn M. Martin, John N. Nunnelly, Paul C. Schorr III and Gail L. Warden are "independent directors" as that term is defined in the listing standards of The Nasdaq Stock Market.

Directors are expected to attend the Company's annual meeting of shareholders each year. Five of the six directors who were directors at the time of the Company's 2005 Annual Meeting attended the meeting.

Committees

The Board held five meetings in 2005. During 2005, each director attended at least 75% of the aggregate of (1) the total of all the meetings of the Board and (2) the total number of meetings held by all committees of the Board on which such director served during 2005.

The Board has a standing Audit Committee, Compensation Committee and Nominating Committee. Each of these committees has the responsibilities set forth in formal written charters adopted by the Board. The Company makes available on its website located at www.nationalresearch.com copies of each of these charters free of charge.

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 Paul C. Schorr III (Chairperson), JoAnn M. Martin, John N. Nunnelly and Gail L. Warden, each of whom meets the independence standards of the Nasdaq Stock Market and the Securities and Exchange Commission for audit committee members. The Board has determined that JoAnn M. Martin qualifies as an “audit committee financial expert,” as that term is defined by the Securities and Exchange Commission, because she has the requisite attributes through, among other things, education and experience as a president, chief financial officer and certified public accountant. The Audit Committee held three meetings in 2005.

The Compensation Committee reviews and recommends to the Board the compensation structure for the Company’s directors, officers and other managerial personnel, including salary rates, participation in incentive compensation and benefit plans, fringe benefits, non-cash perquisites and other forms of compensation, and administers the 2006 Equity Incentive Plan, the National Research Corporation 2001 Equity Incentive Plan (the “2001 Equity Incentive Plan”), the National Research Corporation 1997 Equity Incentive Plan (the “1997 Equity Incentive Plan”), under which no additional awards may be granted, the National Research Corporation 2004 Director Stock Plan (the “2004 Director Plan”) and the National Research Corporation Director Stock Plan (the “Director Plan”), under which no additional awards may be granted. John N. Nunnelly (Chairperson), JoAnn M. Martin, Paul C. Schorr III and Gail L. Warden are the current members of the Compensation Committee. The Compensation Committee held five meetings in 2005.

The Nominating Committee consists of JoAnn M. Martin (Chairperson), John N. Nunnelly, Paul C. Schorr III and Gail L. Warden, each of whom meets the independence standards of the Nasdaq Stock Market for nominating committee members. The Nominating Committee’s primary functions are to: (1) recommend persons to be selected by the Board as nominees for election as directors and (2) recommend persons to be elected to fill any vacancies on the Board. The Nominating Committee held no meetings in 2005.

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 an 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 of Directors 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.

- Directors must be selected so that the Board is a diverse body.

Communications with the Board of Directors

Shareholders may communicate with the Board by writing to National Research Corporation, Board of Directors (or, at the shareholder's option, to a specific director), c/o Patrick E. Beans, 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.

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 retainer of $10,000 and a fee of $500 for each committee meeting attended which is not held on the same date as a Board meeting is held. Additionally, directors are reimbursed for out-of-pocket expenses associated with attending meetings of the Board and committees thereof.

Pursuant to the 2004 Director Plan, each director who is not an associate (i.e., employee) of the Company receives an annual grant of an option to purchase 12,000 shares of Common Stock on the date of each Annual Meeting of Shareholders. The options have an exercise price equal to the fair market value of the Common Stock on the date of grant and vest one year after the grant date.

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 2005 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 conformity of those audited financial statements with accounting principles generally accepted in the United States.

The Audit Committee discussed with the independent registered public accounting firm matters required to be discussed by Statement on Auditing Standards No. 61, "Communication with Audit Committees," as amended. In addition, the Company's independent registered public accounting firm provided to the Audit Committee the written disclosures required by the Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees," and the Audit Committee discussed with the independent registered public accounting firm the firm's independence. The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent registered public accounting firm on a case-by-case basis. The Audit Committee has considered whether the provision of the services relating to the *Audit-Related Fees*, *Tax Fees* and *All Other Fees* set forth in "Miscellaneous – Independent Registered Public Accounting Firm" was compatible with maintaining the independence of the independent registered public accounting firm and determined that such services did not adversely affect the independence of the firm.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board (and the Board has approved) that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, for filing with the SEC.

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

Paul C. Schorr III, Chairperson
JoAnn M. Martin
John N. Nunnelly
Gail L. Warden

PRINCIPAL SHAREHOLDERS

Management and Directors

The following table sets forth certain information regarding the beneficial ownership of Common Stock as of March 15, 2006, by: (i) each director and director nominee; (ii) each of the executive officers named in the Summary Compensation Table set forth below; and (iii) all of the directors, director nominees and executive officers (including the executive officers named in the Summary Compensation Table) as a group. 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 March 15, 2006, there were 6,885,496 shares of Common Stock outstanding.

Name of Beneficial Owner	Shares of Common Stock Beneficially Owned	Percent of Common Stock Beneficially Owned
Michael D. Hays[(1)]	4,834,201	69.7%
Patrick E. Beans	83,237 [(2)]	1.2%
Jona S. Raasch	74,213 [(3)(6)]	1.1%
John N. Nunnelly	34,800 [(6)]	*
Paul C. Schorr III	33,000 [(4)(6)]	*
JoAnn M. Martin	28,500 [(6)]	*
Joseph W. Carmichael	26,922 [(5)(6)]	*
Gail L. Warden	12,000[(6)]	*
All directors, nominees and executive officers as a group (eight persons)	5,127,184 [(6)]	73.9%

* Denotes less than 1%.

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

(2) Includes 1,500 shares held by Mr. Beans as custodian for his minor children and 42,734 shares owned by four trusts for which Mr. Beans is the sole trustee.

(3) Includes 50 shares owned by Ms. Raasch's minor children.

(4) Includes 3,000 shares owned by The Schorr Family Company, Inc., which Mr. Schorr manages.

(5) Includes 11 shares held by Mr. Carmichael as a result of his membership in an investment club.

(6) Includes shares of Common Stock that may be purchased under stock options which are currently exercisable or exercisable within 60 days of March 15, 2006, as follows: Ms. Raasch, 2,573 shares; Mr. Carmichael, 10,714 shares; Mr. Nunnelly, 27,000 shares; Mr. Schorr, 24,000 shares; Ms. Martin, 26,000 shares; Mr. Warden, 12,000 shares; and all directors, nominees and executive officers as a group, 102,287 shares.

EXECUTIVE COMPENSATION

Summary Compensation Information

The following table sets forth certain information concerning the compensation earned in each of the last three fiscal years by the Company's Chief Executive Officer and each of the Company's three other most highly compensated executive officers whose total cash compensation exceeded $100,000 in the fiscal year ended December 31, 2005. The persons named in the table are sometimes referred to herein as the "named executive officers."

Summary Compensation Table

					Long-Term Compensation		
					Awards	Payouts	
		Annual Compensation					
Name and Principal Position	Year	Salary($)	Bonus($)	Other Annual Compensation ($)(1)	Restricted Stock Awards($)	Securities Underlying Stock Options(#)	All Other Compensation ($)
Michael D. Hays	2005	$127,400	$37,821	--	---	---	--
Chief Executive Officer	2004	196,400	30,689	--	---	18,298	$1,523(2)
	2003	161,150	29,094	--	---	38,182	1,523
Joseph W. Carmichael	2005	$172,700	$52,458	--	$200,000(3)	---	--
President	2004	135,600	21,189	--	---	12,634	--
	2003	128,850	24,940	--	---	32,727	--
Jona S. Raasch	2005	$158,000	$46,907	--	---	15,330	--
Vice President and Chief	2004	143,700	22,453	--	---	13,388	--
Operations Officer	2003	132,012	25,975	--	---	34,091	--
Patrick E. Beans....................	2005	$143,100	$42,484	--	---	13,884	--
Vice President, Treasurer,	2004	130,100	20,329	--	---	12,121	--
Chief Financial Officer and	2003	120,663	41,150	--	---	31,364	--
Secretary							

(1) Certain personal benefits provided by the Company to the named executive officers are not included in the table. The aggregate amount of such personal benefits for each named executive officer in each year reflected in the table did not exceed the lesser of $50,000 or 10% of the sum of such officer's salary and bonus in each respective year.

(2) Premiums for disability insurance paid by the Company for the benefit of Mr. Hays.

(3) The amounts shown in this column represent the market value of the restricted stock based upon the closing price of the Company's Common Stock on the restricted stock grant dates. The restricted stock is subject to a three year restriction period. The value of this award at December 31, 2005, was $231,284. Mr. Carmichael is entitled to any dividends on the restricted stock that became payable during the restriction period.

Stock Options

The Company has in effect the 2001 Equity Incentive Plan and the 2006 Equity Incentive Plan (which is subject to approval by the shareholders at the Annual Meeting), pursuant to which options to purchase Common Stock may be granted to associates (i.e., employees) of the Company, including officers and associate-directors, and the 1997 Equity Incentive Plan, pursuant to which no additional stock options may be granted.

The following table presents certain information as to grants of stock options made during 2005 to the named executive officers.

Option Grants in 2005

Name	Individual Grants: Number of Securities Underlying Options Granted (#)(1)	Percent of Total Options Granted to Associates in 2005	Exercise or Base Price ($/Share)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(2): At 5% Annual Growth Rate	At 10% Annual Growth Rate
Michael D. Hays	--	--%	--	--	--	--
Joseph W. Carmichael..	--	--%	--	--	--	--
Jona S. Raasch	15,330	19.0%	$15.46	01/05/2015	$149,049	$377,720
Patrick E. Beans	13,884	17.21%	$15.46	01/05/2015	$134,990	$342,091

(1) The options reflected in the table (which are nonstatutory options for purposes of the Internal Revenue Code) will each become fully exercisable five years from its date of grant.

(2) This presentation is intended to disclose the potential value which would accrue to the optionee if the options were exercised the day before they would expire and if the per share value had appreciated at the compounded annual rate indicated in each column. The assumed rates of appreciation of 5% and 10% are prescribed by the rules of the Securities and Exchange Commission regarding disclosure of executive compensation. The assumed annual rates of appreciation are not intended to forecast possible future appreciation, if any, with respect to the price of the Common Stock.

The following table sets forth information regarding the exercise of stock options by the named executive officers during 2005, and the year-end value of unexercised options held by such persons.

Aggregated Option Exercises in 2005 Fiscal Year and Fiscal Year-End Option Values

	Shares Acquired on Exercise (#)	Value Realized($)(1)	Number of Securities Underlying Unexercised Options at Fiscal Year-End(#): Exercisable	Unexercisable	Value of Unexercised In-the-Money Options at Fiscal Year-End ($)(1): Exercisable	Unexercisable
Michael D. Hays................	--	--	--	56,480	$ --	$ 262,504
Joseph W. Carmichael.......	--	--	10,714	45,361	140,353	221,341
Jona S. Raasch..................	--	--	10,435	62,809	120,524	259,046
Patrick E. Beans	--	--	6,429	57,369	66,219	237,685

(1) The dollar values are calculated by determining the difference between the fair market value of the underlying Common Stock and the exercise price of the options at exercise or fiscal year-end, respectively.

Report on Executive Compensation

The Compensation Committee of the Board is responsible for all aspects of the Company's compensation package offered to its corporate officers, including the named executive officers. The following report was prepared by members of the Compensation Committee.

The Company's executive compensation program is designed to promote a strong, direct relationship between performance (on both a Company and individual level) and compensation and to base compensation on the Company's quarterly, annual and long-term performance goals by rewarding above-average corporate performance and recognizing individual initiative and achievement. The Company has developed an overall compensation strategy and specific compensation plans that are intended to be effective tools for fostering the creation of shareholder value and the execution of the Company's business plan. The overall objectives of this strategy are to make executive compensation generally competitive, with a substantial portion of such compensation contingent upon Company and individual performance, and to encourage equity ownership by the Company's executive officers so that their interests are closely aligned with the interests of shareholders.

During 2003, the Company retained a nationally-recognized compensation consultant to advise it with respect to compensation issues. The first step in the overall review of executive compensation was an analysis of the duties and responsibilities of each Company executive. Subsequently, the Company's consultant compared the compensation for each Company executive with general market data for individuals with comparable job responsibilities. The Company's consultant summarized its conclusions on Company executive compensation in a report finalized in April 2003. The results of this study have provided, and will continue to provide in 2006, the framework for determining compensation for executives of the Company.

The key elements of the Company's executive compensation program consist of base salary, annual cash incentive and long-term equity incentive plan, which, based on the Company's consultant's recommendations and the Compensation Committee's judgment, approximate, depending on the attainment of certain revenue and profitability levels, the following percentages of aggregate compensation: base salary, 50%; annual cash incentive, 25%; and long-term equity incentive plan, 25%; respectively. A general description of the elements of the Company's compensation program, including the bases for the compensation awarded to the Company's Chief Executive Officer for 2005, are discussed below.

Base Salary. Base salaries are initially determined by evaluating the responsibilities of the position, the experience and contributions of the individual and the salaries for comparable positions in the competitive marketplace. Base salary levels for the Company's executive officers are generally positioned within the range for comparable positions in companies of similar size offering similar services. While the Company believes it offers competitive base salaries, the Company attempts to keep executive base salary increases as low as possible in order to limit the Company's exposure if performance targets are not met.

Annual Cash Incentive. The Company's executive officers are eligible for annual cash incentive awards under the Company's incentive compensation program. Under this program, Company and individual performance objectives are established at the beginning of each year. Company performance objectives are based on the Company obtaining certain levels of revenues and/or net profits. Individual performance objectives are oriented to long-term objectives of the Company, with stated goals and activities to achieve those objectives specified for each individual.

Long-Term Equity Incentive Plan. The 2006 Equity Incentive Plan and the 2001 Equity Incentive Plan are designed to encourage and create ownership of Common Stock by key executives, thereby promoting a close identity of interests between the Company's management and its shareholders. The 2006 Equity Incentive Plan and the 2001 Equity Incentive Plan are also designed to motivate and reward executives for long-term strategic management and the enhancement of shareholder value. The Compensation Committee has determined that stock option grants to the Company's associates, including key executive officers, are consistent with the Company's best interest and the Company's overall compensation program.

Stock options are granted with an exercise price equal to the market value of the Common Stock on the date of grant. Vesting schedules are designed to encourage the creation of shareholder value over the long-term since the full benefit of the compensation package cannot be realized unless stock price appreciation occurs over a number of years and the executive remains in the Company's employ.

The Compensation Committee has granted stock options to key executive officers. See above under "—Summary Compensation Information" and "—Stock Options."

Chief Executive Officer Compensation. During 2005, the Company's Chief Executive Officer, Michael D. Hays, was paid a salary of $127,400 and was awarded $37,821 of cash incentives and was not granted any stock options as part of the long-term equity incentive plan. In evaluating Mr. Hays' performance during 2005, the Compensation Committee considered the Company's overall financial performance and the achievement of long-term objectives of the Company.

Section 162(m) Limitation. The Company anticipates that all 2006 compensation to executives will be fully deductible under Section 162(m) of the Internal Revenue Code. Therefore, the Company determined that a policy with respect to qualifying compensation paid to executive officers for deductibility is not necessary.

NATIONAL RESEARCH CORPORATION
COMPENSATION COMMITTEE

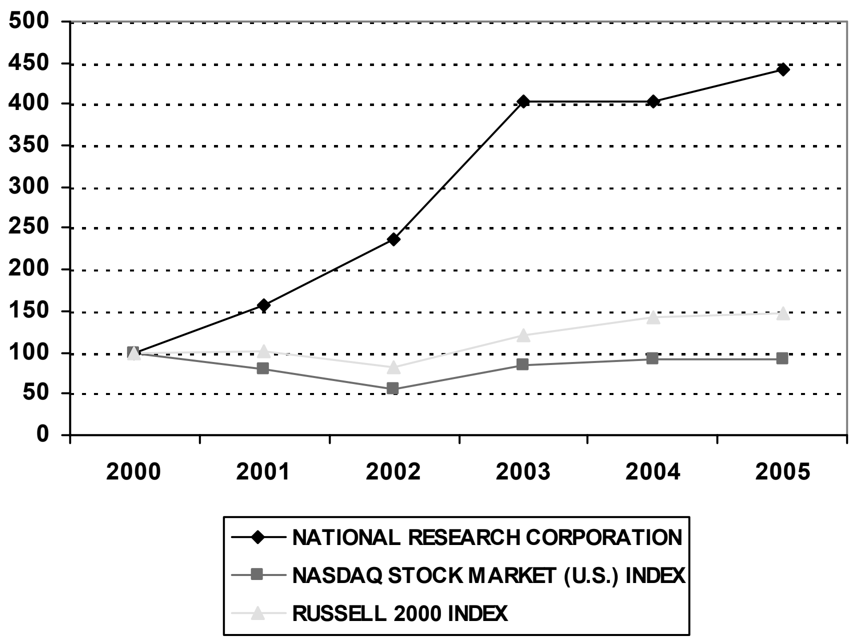
John N. Nunnelly, Chairperson
JoAnn M. Martin
Paul C. Schorr III
Gail L. Warden

PERFORMANCE INFORMATION

The following graph compares on a cumulative basis changes since December 31, 2000, in (a) the total shareholder return on the Common Stock with (b) the total return on the Nasdaq Stock Market (U.S.) Index and (c) the total return on the Russell 2000 Index. The graph assumes $100 was invested on December 31, 2000, in each of the three alternatives, and that all dividends were reinvested.

The Russell 2000 Index is an index of companies with market capitalizations similar to the Company. The Company has selected this index because, at this time, the Company does not believe it can reasonably identify a peer group for comparison. The Company believes that an index of companies with similar market capitalizations provides a reasonable basis for comparing total shareholder returns.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN
AMONG NATIONAL RESEARCH CORPORATION, THE NASDAQ STOCK MARKET (U.S.) INDEX AND THE RUSSELL 2000 INDEX



	December 31, 2000	December 31, 2001	December 31, 2002	December 31, 2003	December 31, 2004	December 31, 2005
NATIONAL RESEARCH CORPORATION	100.00	156.50	235.70	402.75	403.75	441.49
NASDAQ STOCK MARKET (U.S.) INDEX	100.00	79.08	55.95	83.35	90.64	92.73
RUSSELL 2000 INDEX	100.00	102.49	81.49	120.00	142.00	148.46

APPROVAL OF THE 2006 EQUITY INCENTIVE PLAN

General

The Company currently has in effect the 2001 Equity Incentive Plan, under which awards with respect to up to 18,364 shares of Common Stock may be granted, and the 1997 Equity Incentive Plan, under which no additional awards may be granted. To allow for additional equity-based compensation awards to be made by the Company, the Board has unanimously adopted the 2006 Equity Incentive Plan contingent upon shareholder approval of the 2006 Equity Incentive Plan at the Annual Meeting. The following summary description of the 2006 Equity Incentive Plan is qualified in its entirety by reference to the full text of the 2006 Equity Incentive Plan which is attached to this proxy statement as Appendix A.

Purpose

The purpose of the 2006 Equity Incentive Plan is to promote the best interests of the Company and its shareholders by providing associates (i.e., employees) of the Company and its affiliates with an opportunity to acquire a proprietary interest in the Company. The 2006 Equity Incentive Plan is intended to promote continuity of management and to provide increased incentive and personal interest in the welfare of the Company to associates upon whose judgment, interest and special effort the successful conduct of the Company's business depends.

Administration and Eligibility

The 2006 Equity Incentive Plan is required to be administered by a committee of the Board (the "Committee") consisting of no less than two directors, each of whom is a "non-employee director" within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and each of whom is also an "outside director" within the meaning of Section 162(m)(4)(C) of the Internal Revenue Code. In the event that the Committee is not appointed, the functions of the Committee will be exercised by the Board. Among other functions, the Committee has the authority to designate participants; to determine the types of awards to be granted to participants and the number of shares covered by such awards; and to set the terms and conditions of such awards. The Committee may also determine whether the payment of any proceeds of any award shall or may be deferred by a participant. Subject to the express terms of the 2006 Equity Incentive Plan, determinations and interpretations with respect to the 2006 Equity Incentive Plan and award agreements will be at the sole discretion of the Committee, whose determinations and interpretations will be binding on all parties. The Compensation Committee has been designated as the current administrator of the 2006 Equity Incentive Plan.

Any associate of the Company or any affiliate is eligible to be granted awards by the Committee under the 2006 Equity Incentive Plan. Approximately 220 persons are currently eligible to participate in the 2006 Equity Incentive Plan. The number of eligible participants may increase over time based upon future growth of the Company.

Awards Under the 2006 Equity Incentive Plan; Available Shares

The 2006 Equity Incentive Plan authorizes the granting to associates of: (a) stock options, which may be either incentive stock options meeting the requirements of Section 422 of the Internal Revenue Code or non-qualified stock options; (b) stock appreciation rights; (c) restricted stock; (d) performance shares and (e) other stock-based awards and benefits. The 2006 Equity Incentive Plan provides that up to a total of 600,000 shares of Common Stock (subject to adjustment as described below) are available for granting of awards under the 2006 Equity Incentive Plan.

If any shares subject to awards granted under the 2006 Equity Incentive Plan, or to which any award relates, are forfeited, or if an award otherwise terminates, expires or is cancelled prior to the delivery of all of the shares or other consideration issuable or payable pursuant to the award, such shares will be available for the granting of new awards under the 2006 Equity Incentive Plan. Any shares delivered pursuant to an award may be either authorized and unissued shares of Common Stock or treasury shares held by the Company.

Terms of Awards

Option Awards. Options granted to participants under the 2006 Equity Incentive Plan may be either incentive stock options or non-qualified stock options. No individual participant may be granted options that could result in such participant exercising options for more than 200,000 shares of Common Stock under the 2006 Equity Incentive Plan (subject to adjustment as described below). No more than 300,000 shares of Common Stock may be issued pursuant to the exercise of incentive stock options pursuant to the 2006 Equity Incentive Plan (subject to adjustment as described below).

The exercise price per share of Common Stock subject to options granted under the 2006 Equity Incentive Plan will be determined by the Committee, provided that the exercise price may not be less than 100% of the fair market value of a share of Common Stock on the date of grant. The term of any option granted under the 2006 Equity Incentive Plan will be as determined by the Committee, provided that the term of an incentive stock option may not exceed ten years from the date of its grant. Options granted under the 2006 Equity Incentive Plan will become exercisable in such manner and within such period or periods and in such installments or otherwise as determined by the Committee. Options may be exercised by payment in full of the exercise price, either (at the discretion of the Committee) in cash or in whole or in part by tendering shares of Common Stock or other consideration having a fair market value on the date of exercise equal to the option exercise price. All incentive stock options granted under the 2006 Equity Incentive Plan will also be required to comply with all other terms of Section 422 of the Internal Revenue Code.

Stock Appreciation Rights. A stock appreciation right granted under the 2006 Equity Incentive Plan will confer on the participant holder a right to receive, upon exercise thereof, the excess of (a) the fair market value of one share of Common Stock on the date of exercise over (b) the grant price of the stock appreciation right as specified by the Committee. The grant price of a stock appreciation right under the 2006 Equity Incentive Plan may not be less than 100% of the fair market value of a share of Common Stock on the date of grant. The grant price, term, methods of exercise, methods of settlement (including whether the holder of a stock appreciation right will be paid in cash, shares of Common Stock or other consideration), and any other terms and conditions of any stock appreciation right granted under the 2006 Equity Incentive Plan are determined by the Committee at the time of grant. Pursuant to the terms of the 2006 Equity Incentive Plan, no individual participant may be granted stock appreciation rights that could result in such participant exercising stock appreciation rights with respect to more than 200,000 shares of Common Stock under the 2006 Equity Incentive Plan (subject to adjustment as described below).

Restricted Stock. Shares of restricted Common Stock granted to participants under the 2006 Equity Incentive Plan will be subject to such restrictions as the Committee may impose, including any limitation on the right to vote such shares or receive dividends thereon. The restrictions imposed on the shares may lapse separately or in combination at such time or times, or in such installments or otherwise, as the Committee may deem appropriate. Except as otherwise determined by the Committee, upon termination of a participant's employment for any reason during the applicable restriction period, all shares of restricted stock still subject to restriction will be subject to forfeiture by the participant.

No participant shall be granted awards relating to more than 75,000 shares of restricted stock. The aggregate number of shares of restricted stock granted under the 2006 Equity Incentive Plan to all participants as a group shall not exceed 200,000. The foregoing numerical limitations on the issuance of shares of restricted stock are subject to adjustment as described below.

Performance Shares. The 2006 Equity Incentive Plan also provides for the granting of performance shares to participants. The Committee will determine and/or select the applicable performance period, the performance goal or goals (and the performance level or levels related thereto) to be achieved during any performance period, the proportion of payments, if any, to be made for performance between the minimum and full performance levels for any performance goal and, if applicable, the relative percentage weighting given to each of the selected performance goals, the restrictions applicable to shares of restricted stock or restricted stock units received upon payment of performance shares if payment is made in such manner, and any other terms, conditions and rights relating to the grant of performance shares. Under the terms of the 2006 Equity Incentive Plan, the Committee may select from various performance goals, including return on equity, return on investment, return on net assets, economic value added, revenues, operating income, pre-tax profits, net earnings, net earnings per share, working capital as a percent of net sales, net cash provided by operating activities, market price per share of Common Stock and total shareholder return. The Committee shall have sole discretion to alter the selected performance goals, subject to shareholder approval, to the extent required to qualify the performance award for the performance-based exemption provided by Section 162(m) of the Internal Revenue Code. In the event the Committee determines it is advisable to grant performance shares which do not qualify for the performance-based exemption, the Committee may make such grants in its discretion.

Following completion of the applicable performance period, payment on performance shares granted to and earned by participants will be made in shares of Common Stock (which, at the discretion of the Committee, may be shares of restricted stock). Pursuant to the terms of the 2006 Equity Incentive Plan, no participant may be granted more than 75,000 performance shares under the 2006 Equity Incentive Plan (subject to adjustment as described below).

The Committee may provide that during a performance period a participant be paid cash amounts with respect to each performance share held by the participant, in the same time, manner and amount as dividends paid on a share of Common Stock. Participants shall have no voting rights with respect to the performance shares held by them during the applicable performance period.

Other Awards and Benefits

The Committee may grant participants other stock-based awards, subject to such terms and conditions as the Committee determines. The Committee may provide other types of benefits as the Committee determines would further the purposes of the 2006 Equity Incentive Plan.

Adjustments

If any dividend or other distribution, recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of shares of Common Stock or other securities of the Company, issuance of warrants or other rights to purchase shares of Common Stock or other securities of the Company, or other similar corporate transaction or event affects the shares of Common Stock so that an adjustment is appropriate, then the Committee will generally have the authority to, in such manner as it deems equitable, adjust (a) the number and type of shares subject to the 2006 Equity Incentive Plan and which thereafter may be made the subject of awards, (b) the number and type of shares subject to individual participant limitations, (c) the number and type of shares subject to outstanding awards, and (d) the grant, purchase or exercise price with respect to any award, or may make provision for a cash payment to the holder of an outstanding award.

Limits on Transferability

Except as otherwise provided by the Committee, no award granted under the 2006 Equity Incentive Plan (other than an award of restricted stock on which the restrictions have lapsed) may be assigned, sold, transferred or encumbered by any participant, otherwise than by will, by designation of a beneficiary, or by the laws of descent and distribution. Each award will be exercisable during the participant's lifetime only by such participant or, if permissible under applicable law, by the participant's guardian or legal representative.

Amendment and Termination of the 2006 Equity Incentive Plan

Subject to shareholder approval in certain circumstances, the Board may amend, alter, suspend, discontinue, or terminate the 2006 Equity Incentive Plan. Shareholder approval of any amendment of the 2006 Equity Incentive Plan must be obtained if the Board determines it is otherwise required by the Internal Revenue Code or any rules promulgated thereunder (in order to allow for incentive stock options to be granted under the 2006 Equity Incentive Plan), by the quotation or listing requirements of the Nasdaq National Market or any principal securities exchange or market on which shares of Common Stock are then traded (in order to maintain the listing of the shares thereon) or any other applicable law. To the extent permitted by applicable law and subject to such shareholder approval as may be required above, the Committee may also amend the 2006 Equity Incentive Plan. Termination of the 2006 Equity Incentive Plan will not affect the rights of participants with respect to awards previously granted to them, and all unexpired awards will continue in force and effect after termination of the 2006 Equity Incentive Plan except as they may lapse or be terminated by their own terms and conditions.

Amendment, Modification or Cancellation of Awards

Subject to the limitations of the 2006 Equity Incentive Plan, the Committee may modify or amend any award or award agreement or waive any restrictions or conditions applicable to any award or the exercise of the award, so long as any amendment or modification does not increase the number of shares of Common Stock issuable under the 2006 Equity Incentive Plan; *provided* that the consent of the holder of the award generally must be obtained if any such modification or amendment would adversely affect the rights of such individual under the award.

No Repricing

The Committee will not have the authority to effect the repricing of any outstanding options or stock appreciation rights or the modification of an option or stock appreciation right or entering into a transaction or series of transactions which modification or transaction(s) would be deemed to constitute a repricing of an option or stock appreciation right.

Withholding

Not later than the date as of which an amount first becomes includible in the gross income of a participant for federal income tax purposes with respect to any award under the 2006 Equity Incentive Plan, the participant will be required to pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any federal, state, local or foreign taxes of any kind required by law to be withheld with respect to such amount. Unless otherwise determined by the Committee, withholding obligations arising with respect to awards under the 2006 Equity Incentive Plan may be settled with shares of Common Stock (other than shares of restricted stock), including shares of Common Stock that are part of, or are received upon exercise of, the award that gives rise to the withholding requirement. The obligations of the Company under the 2006 Equity Incentive Plan are conditional on such payment or arrangements, and the Company and any affiliate will, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to the participant. The Committee may establish such procedures as it deems appropriate for the settling of withholding obligations with shares of Common Stock.

Certain Federal Income Tax Consequences

Stock Options. The grant of a stock option under the 2006 Equity Incentive Plan creates no income tax consequences to the participant or the Company. A participant who is granted a non-qualified stock option will generally recognize ordinary income at the time of exercise for each underlying share of Common Stock in an amount equal to the excess of the fair market value of the Common Stock at such time over the exercise price. The Company will generally be entitled to a deduction in the same amount and at the same time as ordinary income is recognized by the participant. A subsequent disposition of the Common Stock will generally give rise to capital gain or loss to the extent the amount realized from the disposition differs from the tax basis, i.e., the fair market value of the Common Stock on the date of exercise. This capital gain or loss will be a long-term or short-term capital gain or loss depending upon the length of time the Common Stock is held prior to the disposition.

In general, a participant will recognize no income or gain as a result of exercise of an incentive stock option for regular tax purposes (income equal to the excess of the fair market value of the underlying Common Stock at such time over the exercise price is recognized for alternative minimum tax purposes). Except as described below, any gain or loss realized by the participant on the disposition of the Common Stock acquired pursuant to the exercise of an incentive stock option will be treated as a long-term capital gain or loss and no deduction will be allowed to the Company. If the participant fails to hold the shares of Common Stock acquired pursuant to the exercise of an incentive stock option for at least two years from the date of grant of the incentive stock option and one year from the date of exercise, the participant will recognize ordinary income at the time of the disposition equal to the lesser of (a) the gain realized on the disposition or (b) the excess of the fair market value of the shares of Common Stock on the date of exercise over the exercise price. The Company will be entitled to a deduction in the same amount and at the same time as ordinary income is recognized by the participant. Any additional gain realized by the participant over the fair market value at the time of exercise will be treated as a capital gain. This capital gain will be a long-term capital gain if the Common Stock has been held for more than one year from the date of exercise.

Stock Appreciation Rights. The grant of a stock appreciation right will create no income tax consequences for the participant or the Company. Upon exercise of a stock appreciation right, the participant will recognize ordinary income equal to the amount of any cash and the fair market value of any shares of Common Stock or other property received, except that if the participant receives an option or shares of restricted stock upon exercise of a stock appreciation right, recognition of income may be deferred in accordance with the rules applicable to such other awards. The Company will generally be entitled to a deduction in the same amount and at the same time as income is recognized by the participant.

Restricted Stock. A participant will not recognize income at the time an award of restricted stock is made under the 2006 Equity Incentive Plan, unless the election described below is made. A participant who has not made such an election will recognize ordinary income at the time the restrictions on the stock lapse in an amount equal to the fair market value of the restricted stock at such time reduced by any amount paid for the restricted stock. The Company will generally be entitled to a corresponding deduction in the same amount and at the same time as the participant recognizes income. Any otherwise taxable disposition of the restricted stock after the time the restrictions lapse will generally result in capital gain or loss (long-term or short-term depending upon the length of time the restricted stock is held after the time the restrictions lapse). Dividends paid in cash and received by a participant prior to the time the restrictions lapse will constitute ordinary income to the participant in the year paid. The Company will generally be entitled to a corresponding compensation deduction for such dividends. Any dividends paid in stock will be treated as an award of additional restricted stock subject to the tax treatment described herein.

A participant may, within 30 days after the date of the award of restricted stock, elect to recognize ordinary income as of the date of the award in an amount equal to the fair market value of such restricted stock on the date of the award reduced by any amount paid for the restricted stock. The Company will generally be entitled to a corresponding deduction in the same amount and at the same time as the participant recognizes income. If the election is made, any cash dividends received with respect to the restricted stock will be treated as dividend income to the participant in the year of payment and will not be deductible by the Company. Any otherwise taxable disposition of the restricted stock (other than by forfeiture) will result in capital gain or loss (long-term or short-term depending on the holding period). If the participant who has made an election subsequently forfeits the restricted stock, the participant will only be entitled to recognize a capital loss equal to the amount the participant paid for the restricted stock less the amount received upon forfeiture. In addition, the Company would be required to include as ordinary income the amount of the deduction it originally claimed with respect to such shares.

Performance Shares. The grant of performance shares will create no income tax consequences for the participant or the Company. Upon the receipt of shares of Common Stock at the end of the applicable performance period, the participant will recognize ordinary income equal to the fair market value of the shares of Common Stock received, except that if the participant receives shares of restricted stock in payment of performance shares, recognition of income may be deferred in accordance with the rules applicable to such restricted stock. In addition, the participant will recognize ordinary income equal to the dividend equivalents paid on performance shares prior to or at the end of the performance period. The Company will generally be entitled to a deduction in the same amount and at the same time as income is recognized by the participant.

Internal Revenue Code Section 162(m). Section 162(m) of the Internal Revenue Code limits the Company’s tax deduction for compensation paid in any taxable year to certain executive officers to $1,000,000 per individual. Amounts in excess of $1,000,000 are not deductible unless one of several exceptions applies. The Committee intends to grant awards under the 2006 Equity Incentive Plan that are designed, in most cases, to qualify for one such exception, the performance-based compensation exception. Grants of options and stock appreciation rights can be structured so as to qualify for this exception. The Company does not anticipate that Section 162(m) will have a material impact on the Company’s ability to deduct compensation due to awards made under the 2006 Equity Incentive Plan.

Internal Revenue Code Sections 280G and 4999. Section 280G of the Internal Revenue Code limits the Company’s income tax deductions for compensation in the event the Company undergoes a change in control. Accordingly, all or some of the amount which would otherwise be deductible may not be deductible with respect to those options, stock appreciation rights and restricted stock that become immediately exercisable in the event of a change in control. In addition, if Section 280G limits the Company’s deduction with respect to an award to a given participant, a 20% federal excise tax (i.e., in addition to the federal income tax) will be withheld from that participant under Section 4999 on that portion of the cash or value of the common stock received by that participant that is non-deductible under Section 280G.

Internal Revenue Code Section 409A. Section 409A of the Internal Revenue Code imposes restrictions on nonqualified deferred compensation arrangements that do not meet specified criteria as set forth in the statute and guidance promulgated thereunder. If any of the arrangements provided under the 2006 Equity Incentive Plan fail to meet the criteria specified in Section 409A, or if the 2006 Equity Incentive Plan is not operated by the Company in accordance with such criteria, then a participant will recognize ordinary income equal to the value of the awards when such awards are no longer subject to a substantial risk of forfeiture even though the participant has not received the award in cash or stock. Additionally, the participant will be liable for a 20% tax on such amounts in addition to income taxes otherwise due on such amounts.

Future Plan Benefits

The Company cannot currently determine the number of shares or the type of shares that may be granted to eligible participants under the 2006 Equity Incentive Plan in the future. Such determinations will be made from time to time by the Committee. Neither the Committee nor the Board has approved any grants of awards that require shareholder approval of the 2006 Equity Incentive Plan.

During 2005, the Committee awarded stock options and restricted stock to executive officers and others under the Company's 2001 Equity Incentive Plan. See "Executive Compensation—Summary Compensation Information" and "Executive Compensation—Stock Options."

On March 15, 2006, the closing price per share of Common Stock on the Nasdaq National Market was $20.43.

Equity Compensation Plan Information

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, 2005.

PLAN CATEGORY	Number of securities to be issued upon the exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders (1)....	465,069	$13.17	275,183 (2)
Equity compensation plans not approved by security holders..........	--	$13.17	--
Total.............................	465,069		275,183

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

(2) As of December 31, 2005, the Company had authority to award up to 148,831 additional shares of restricted Common Stock to participants under the 2001 Equity Incentive Plan; provided that the total of such shares awarded may not exceed the total number of shares remaining available for issuance under the 2001 Equity Incentive Plan, which totaled 106,183 as of December 31, 2005.

Vote Required

The affirmative vote of the holders of a majority of the shares of Common Stock represented and voted at the Annual Meeting with respect to the 2006 Equity Incentive Plan (assuming a quorum is present) is required to approve the 2006 Equity Incentive Plan. Any shares of Common Stock not voted at the Annual Meeting with respect to the 2006 Equity Incentive Plan (whether as a result of broker non-votes or otherwise, except abstentions) will have no impact on the vote. Shares of Common Stock as to which holders abstain from voting will be treated as votes against the 2006 Equity Incentive Plan.

THE BOARD RECOMMENDS A VOTE "FOR" THE 2006 EQUITY INCENTIVE PLAN. SHARES OF THE COMPANY'S COMMON STOCK REPRESENTED AT THE ANNUAL MEETING BY EXECUTED BUT UNMARKED PROXIES WILL BE VOTED "FOR" THE 2006 EQUITY INCENTIVE PLAN.

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, 2005, 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 each of Joseph W. Carmichael, Jona S. Raasch and Patrick E. Beans did not timely file a Form 4 reporting a grant of stock options on January 5, 2005, and Mr. Carmichael did not timely file a Form 4 reporting a grant of restricted stock on August 10, 2005.

MISCELLANEOUS

Independent Registered Public Accounting Firm

KPMG LLP acted as the independent registered public accounting firm for the Company in 2005 and it is anticipated that such firm will be similarly appointed to act in 2006. The Audit Committee is solely responsible for the selection, retention, oversight and, when appropriate, termination of the Company's independent registered public accounting firm. 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.

The fees to KPMG LLP for the fiscal years ended December 31, 2005 and 2004 were as follows:

	2005	2004
Audit Fees[(1)]	$ 93,100	$80,500
Audit-Related Fees[(2)]	23,345	5,570
Tax Fees[(3)]	15,792	22,798
All Other Fees	--	--
Total	$132,237	$108,868

(1) Audit of annual financial statements and review of financial statements included in Forms 10-Q.

(2) Due diligence and accounting consultations.

(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. During 2005, 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.

Shareholder Proposals

Proposals that shareholders of the Company intend to present at and have included in the Company's proxy statement for the 2007 Annual Meeting pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended ("Rule 14a-8"), must be received by the Company by the close of business on December 4, 2006. In addition, a shareholder who otherwise intends to present business at the 2007 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 2007 Annual Meeting but do not intend to include in the Company's proxy statement for such meeting) prior to February 10, 2007, then the notice will be considered untimely and the Company will not be required to present such proposal at the 2007 Annual Meeting. If the Board chooses to present such proposal at the 2007 Annual Meeting, then the persons named in proxies solicited by the Board for the 2007 Annual Meeting may exercise discretionary voting power with respect to such proposal.

Certain Transactions

Mr. Warden serves as a director of the Picker Institute. During 2003 and 2004, the Company advanced to the Picker Institute $600,000 to fund designated research projects which, as of the date of this proxy statement, have not yet commenced. In addition, the Company is a party to a support services agreement with the Picker Institute under which the Company conducts the annual Picker Institute International Symposium. Under the support services agreement, the Picker Institute receives a portion of the gross receipts of each symposium, which amounted to $15,000 in 2005. In addition, the Company was party to an agreement with the Picker Institute under which the Company markets certain products under the Picker Symposium Educational Products name which was terminated during 2005. Under this agreement, the Picker Institute receives a portion of the net receipts from the sales of such products, which amounted to approximately $2,000 in 2005.

Other Matters

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. The Company will reimburse brokers and other nominees for their reasonable expenses in communicating with the persons for whom they hold Common Stock.

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. 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. Shareholders may notify the Company of their requests by calling or writing Patrick E. Beans, Secretary, National Research Corporation, 1245 Q Street, Lincoln, Nebraska 68508.

By Order of the Board of Directors
NATIONAL RESEARCH CORPORATION

Patrick E. Beans
Secretary

April 3, 2006

APPENDIX A

NATIONAL RESEARCH CORPORATION

2006 EQUITY INCENTIVE PLAN

Section 1. Purpose

The purpose of the National Research Corporation 2006 Equity Incentive Plan (the "Plan") is to promote the best interests of National Research Corporation (together with any successor thereto, the "Company") and its shareholders by providing associates (i.e., employees) of the Company and its Affiliates (as defined below) with an opportunity to acquire a proprietary interest in the Company. It is intended that the Plan will promote continuity of management and increased incentive and personal interest in the welfare of the Company by associates upon whose judgment, interest and special effort the successful conduct of the Company's business is dependent.

Section 2. Definitions

As used in the Plan, the following terms shall have the respective meanings set forth below:

(a) "Affiliate" shall mean any entity that, directly or through one or more intermediaries, is controlled by, controls, or is under common control with, the Company. With respect to Awards subject to Section 409A of the Code, the term "Affiliate" shall have the meaning ascribed in Sections 414(b) or (c) of the Code, *provided* that, in applying such provisions, the phrase "at least 50 percent" shall be used in place of "at least 80 percent" each place it appears therein.

(b) "Award" shall mean any Option, Stock Appreciation Right, Restricted Stock, Performance Share or other award granted under the Plan.

(c) "Award Agreement" shall mean any written agreement, contract, or other instrument or document evidencing any Award.

(d) "Board" shall mean the Board of Directors of the Company.

(e) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time. Any reference to a specific provision of the Code shall also be deemed a reference to any successor provision thereto.

(f) "Commission" shall mean the United States Securities and Exchange Commission or any successor agency.

(g) "Committee" shall mean a committee of the Board designated by such Board to administer the Plan and composed of not less than two directors, each of whom shall qualify as a "non-employee director" within the meaning of Rule 16b-3 and as an "outside director" within the meaning of Section 162(m)(4)(C) of the Code.

(h) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time. Any reference to a specific provision of the Exchange Act shall also be deemed a reference to any successor provision thereto.

(i) "Excluded Items" shall mean any items which the Committee determines shall be excluded in fixing Performance Goals, such as any gains or losses from discontinued operations, any extraordinary gains or losses and the effects of accounting changes.

(j) "Fair Market Value" shall mean (i) with respect to any Share, the last sale price of the Common Stock as reported on the Nasdaq National Market on the business day immediately preceding the date of grant of the applicable Award or other applicable valuation date, or if no such sale shall have been made on that day, on the last preceding day on which there was such a sale, and (ii) with respect to any property other than Shares (including, without limitation, any other securities), the fair market value of such property determined by such methods or procedures as shall be established from time to time by the Committee.

(k) "Incentive Stock Option" shall mean an Option that is intended to meet the requirements of Section 422 of the Code.

(l) "Non-Qualified Stock Option" shall mean an Option that is not intended to be an Incentive Stock Option.

(m) "Option" shall mean the right, granted under Section 6(a) of the Plan, to purchase a Share at a specified price at a specified time or during a specified period of time. Each Option shall be either an Incentive Stock Option or a Non-Qualified Stock Option.

(n) "Participant" shall mean any officer or other associate (i.e., employee) of the Company or of any Affiliate who is granted an Award. Members of the Board who are not associates of the Company or of any Affiliate shall not be eligible to receive Awards.

(o) "Performance Goals" shall mean any of the following (in all cases after excluding the impact of applicable Excluded Items):

(i) Return on equity for the Performance Period for the Company on a consolidated basis.

(ii) Return on investment for the Performance Period (aa) for the Company on a consolidated basis, (bb) for any one or more Affiliates or divisions of the Company and/or (cc) for any other business unit or units of the Company as defined by the Committee at the time of selection.

(iii) Return on net assets for the Performance Period (aa) for the Company on a consolidated basis, (bb) for any one or more Affiliates or divisions of the Company and/or (cc) for any other business unit or units of the Company as defined by the Committee at the time of selection.

(iv) Economic value added (as defined by the Committee at the time of selection) for the Performance Period (aa) for the Company on a consolidated basis, (bb) for any one or more Affiliates or divisions of the Company and/or (cc) for any other business unit or units of the Company as defined by the Committee at the time of selection.

(v) Revenues for the Performance Period (aa) for the Company on a consolidated basis, (bb) for any one or more Affiliates or divisions of the Company and/or (cc) for any other business unit or units of the Company as defined by the Committee at the time of selection.

(vi) Operating income for the Performance Period (aa) for the Company on a consolidated basis, (bb) for any one or more Affiliates or divisions of the Company and/or (cc) for any other business unit or units of the Company as defined by the Committee at the time of selection.

(vii) Pre-tax profits for the Performance Period (aa) for the Company on a consolidated basis, (bb) for any one or more Affiliates or divisions of the Company and/or (cc) for any other business unit or units of the Company as defined by the Committee at the time of selection.

(viii) Net earnings for the Performance Period (aa) for the Company on a consolidated basis, (bb) for any one or more Affiliates or divisions of the Company and/or (cc) for any other business unit or units of the Company as defined by the Committee at the time of selection.

(ix) Net earnings per Share for the Performance Period for the Company on a consolidated basis.

(x) Working capital as a percent of net sales for the Performance Period (aa) for the Company on a consolidated basis, (bb) for any one or more Affiliates or divisions of the Company and/or (cc) for any other business unit or units of the Company as defined by the Committee at the time of selection.

(xi) Net cash provided by operating activities for the Performance Period (aa) for the Company on a consolidated basis, (bb) for any one or more Affiliates or divisions of the Company and/or (cc) for any other business unit or units of the Company as defined by the Committee at the time of selection.

(xii) Market price per Share for the Performance Period.

(xiii) Total shareholder return for the Performance Period for the Company on a consolidated basis.

With respect to Awards that are not intended to be performance-based compensation under Code Section 162(m), the Committee may utilize other performance goals not listed above, including but not limited to, subjective performance goals.

(p) "Performance Period" shall mean, in relation to Performance Shares or other Awards subject to Performance Goals, the period for which a Performance Goal or Goals have been established.

(q) "Performance Share" shall mean the right granted under Section 6(d) of the Plan to receive a Share (which, in specified circumstances, may be a Share of Restricted Stock) following the end of a Performance Period and based on the extent to which one or more Performance Goals were met, unless otherwise determined by the Committee.

(r) "Person" shall mean any individual, corporation, partnership, association, joint-stock company, trust, unincorporated organization, or government or political subdivision thereof.

(s) "Released Securities" shall mean Shares of Restricted Stock with respect to which all applicable restrictions have expired, lapsed, or been waived.

(t) "Restricted Securities" shall mean Awards of Restricted Stock or other Awards under which issued and outstanding Shares are held subject to certain restrictions.

(u) "Restricted Stock" shall mean any Share granted under Section 6(c) of the Plan or, in specified circumstances, a Share paid in connection with a Performance Share under Section 6(d) of the Plan, which is subject to a risk of forfeiture and/or restrictions on transfer or alienability.

(v) "Rule 16b-3" shall mean Rule 16b-3 as promulgated by the Commission under the Exchange Act, or any successor rule or regulation thereto.

(w) "Shares" shall mean shares of common stock of the Company, $.001 par value, and such other securities or property as may become subject to Awards pursuant to an adjustment made under Section 4(b) of the Plan.

(x) "Stock Appreciation Right" shall mean any right granted under Section 6(b) of the Plan.

Section 3. Administration

The Plan shall be administered by the Committee; *provided, however,* that if at any time the Committee shall not be in existence, the functions of the Committee as specified in the Plan shall be exercised by the Board and all references to the Committee herein shall include the Board. To the extent permitted by applicable law, the Board may delegate to another committee of the Board or to one or more senior officers of the Company any or all of the authority and responsibility of the Committee with respect to the Plan, other than with respect to Participants who are subject to Section 16 of the Exchange Act. To the extent that the Board has delegated to such other committee or one or more officers the authority and responsibility of the Committee, all references to the Committee herein shall include such other committee or one or more officers.

Subject to the terms of the Plan and without limitation by reason of enumeration, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to each Participant; (iii) determine the number of Shares to be covered by (or with respect to which payments, rights, or other matters are to be calculated in connection with) Awards; (iv) determine the terms and conditions of any Award; (v) determine whether, to what extent, and under what circumstances Awards may be settled or exercised in cash, Shares, other securities, other Awards, or other property, and the method or methods by which Awards may be settled, exercised, cancelled, forfeited, or suspended; (vi) determine whether, to what extent, and under what circumstances cash, Shares, other Awards, and other amounts payable with respect to an Award shall be deferred either automatically or at the election of the holder thereof or of the Committee; (vii) interpret and administer the Plan and any instrument or agreement relating to, or Award made under, the Plan (including, without limitation, any Award Agreement); (viii) establish, amend, suspend, or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (ix) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan. Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations, and other decisions made under or with respect to the Plan or any Award shall be within the sole discretion of the Committee, may be made at any time, and shall be final, conclusive, and binding upon all Persons, including the Company, any Affiliate, any Participant, any holder or beneficiary of any Award, any shareholder, and any associate of the Company or of any Affiliate.

Section 4. Shares Available for Award

(a) **Shares Available.** Subject to adjustment as provided in Section 4(b):

(i) **Number of Shares Available.** The number of Shares with respect to which Awards may be granted under the Plan shall be 600,000; provided that no more than 300,000 Shares may be issued pursuant to the exercise of Incentive Stock Options. If, after the effective date of the Plan, any Shares covered by an Award granted under the Plan, or to which any Award relates, are forfeited or if an Award otherwise terminates, expires or is cancelled prior to the delivery of all of the Shares or of other consideration issuable or payable pursuant to such Award, then the number of Shares counted against the number of Shares available under the Plan in connection with the grant of such Award, to the extent of any such forfeiture, termination, expiration or cancellation, shall again be available for granting of additional Awards under the Plan, including as Incentive Stock Options.

(ii) **Limitations on Awards to Individual Participants.** No Participant shall be granted Awards that could result in such Participant exercising Options for, or Stock Appreciation Rights with respect to, more than 200,000 Shares or receiving Awards relating to more than 75,000 Shares of Restricted Stock or more than 75,000 Performance Shares under the Plan. Such number of Shares as specified in the preceding sentence shall be subject to adjustment in accordance with the terms of Section 4(b) hereof. In all cases, determinations under this Section 4(a)(ii) shall be made in a manner that is consistent with the exemption for performance-based compensation provided by Section 162(m) of the Code (or any successor provision thereto) and any regulations promulgated thereunder.

(iii) **Accounting for Awards.** The number of Shares covered by an Award under the Plan, or to which such Award relates, shall be counted on the date of grant of such Award against the number of Shares available for granting Awards under the Plan.

(iv) **Sources of Shares Deliverable Under Awards.** Any Shares delivered pursuant to an Award may consist, in whole or in part, of authorized and unissued Shares or of treasury Shares.

(b) **Adjustments.** In the event that the Committee shall determine that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the Company, or other similar corporate transaction or event affects the Shares such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee may, in such manner as it may deem equitable, adjust any or all of (i) the number and type of Shares subject to the Plan and which thereafter may be made the subject of Awards under the Plan, (ii) the number and type of Shares subject to outstanding Awards, and (iii) the grant, purchase, or exercise price with respect to any Award, or, if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award in lieu of any such adjustment; *provided, however,* in each case, that with respect to Awards of Incentive Stock Options no such adjustment shall be authorized to the extent that such authority would cause the Plan to violate Section 422(b) of the Code (or any successor provision thereto); *provided further* that the number of Shares subject to any Award payable or denominated in Shares shall always be a whole number; and *provided further* than any such adjustment (or the payment of cash in lieu thereof) to an Award that is exempt from Section 409A of the Code shall be made in manner that permits the Award to continue to be so exempt, and any adjustment (or the payment of cash in lieu thereof) to an Award that is subject to Section 409A of the Code shall be made in a manner that complies with the provisions thereof.

Section 5. Eligibility

Any associate of the Company or of any Affiliate, including any officer or associate-director of the Company or of any Affiliate, shall be eligible to be designated a Participant.

Section 6. Awards

(a) **Option Awards.** The Committee is hereby authorized to grant Options to any Participant with the terms and conditions as set forth below and with such additional terms and conditions, in either case not inconsistent with the provisions of the Plan, as the Committee shall determine.

(i) **Exercise Price.** The exercise price per Share of an Option granted pursuant to this Section 6(a) shall be determined by the Committee; *provided, however,* that such exercise price shall not be less than 100% of the Fair Market Value of a Share on the date of grant of such Option.

(ii) **Option Term.** The term of each Option shall be fixed by the Committee; *provided, however,* that in no event shall the term of any Incentive Stock Option exceed a period of ten years from the date of its grant.

(iii) **Exercisability and Method of Exercise.** An Option shall become exercisable in such manner and within such period or periods and in such installments or otherwise as shall be determined by the Committee, which may include, at the discretion of the Committee, the attainment of one or more Performance Goals. The Committee also shall determine the method or methods by which, and the form or forms in which payment of the exercise price with respect to any Option may be made or deemed to have been made, including, without limitation, cash, Shares, other securities, other Awards, other property, or any combination thereof, having a Fair Market Value on the exercise date equal to the relevant exercise price.

(iv) **Incentive Stock Options.** The terms of any Incentive Stock Option shall comply in all respects with the provisions of Section 422 of the Code and any regulations promulgated thereunder. Notwithstanding any provision in the Plan to the contrary, no Incentive Stock Option may be granted hereunder after the tenth anniversary of the adoption of the Plan by the Board.

(b) **Stock Appreciation Rights.** The Committee is hereby authorized to grant Stock Appreciation Rights to any Participant. Subject to the terms of the Plan and any applicable Award Agreement, a Stock Appreciation Right shall confer on the holder thereof a right to receive, upon exercise thereof, the excess of (i) the Fair Market Value of one Share on the date of exercise over (ii) the grant price of the Stock Appreciation Right as specified by the Committee, which shall be not less than 100% of the Fair Market Value of one Share on the date of grant of the Stock Appreciation Right. Subject to the terms of the Plan, the grant price, term, methods of exercise, methods of settlement (including whether the Participant will be paid in cash, Shares, other securities, other Awards, other property, or any combination thereof), and any other terms and conditions of any Stock Appreciation Right shall be as determined by the Committee. The Committee may impose such conditions or restrictions on the exercise of any Stock Appreciation Right as it may deem appropriate.

(c) **Restricted Stock Awards.**

(i) **Issuance.** The Committee is hereby authorized to grant Awards of Restricted Stock to any Participant; *provided, however,* that the aggregate number of Shares of Restricted Stock granted under the Plan to all Participants as a group shall not exceed 200,000 (such number of Shares subject to adjustment in accordance with the terms of Section 4(b) hereof).

(ii) **Restrictions.** Shares of Restricted Stock shall be subject to such restrictions as the Committee may impose (including, without limitation, any limitation on the right to vote a Share of Restricted Stock or the right to receive any dividend or other right or property), which restrictions may lapse separately or in combination at such time or times, in such installments or otherwise, as the Committee may deem appropriate.

(iii) **Registration.** Restricted Stock may be evidenced in such manner as the Committee may deem appropriate, including, without limitation, book-entry registration or issuance of a stock certificate or certificates. In the event any stock certificate is issued in respect of Shares of Restricted Stock granted under the Plan to a Participant, such certificate shall be registered in the name of the Participant and shall bear an appropriate legend (as determined by the Committee) referring to the terms, conditions, and restrictions applicable to such Restricted Stock.

(iv) **Payment of Restricted Stock.** At the end of the applicable restriction period relating to Restricted Stock granted to a Participant, one or more stock certificates for the appropriate number of Shares, free of restrictions imposed under the Plan, shall be delivered to the Participant, or, if the Participant received stock certificates representing the Restricted Stock at the time of grant, the legends placed on such certificates shall be removed.

(v) **Forfeiture.** Except as otherwise determined by the Committee, upon termination of employment of a Participant (as determined under criteria established by the Committee) for any reason during the applicable restriction period, all Shares of Restricted Stock still subject to restriction shall be forfeited by the Participant; *provided, however,* that the Committee may, when it finds that a waiver would be in the best interests of the Company, waive in whole or in part any or all remaining restrictions with respect to Shares of Restricted Stock held by a Participant; and *provided further, however,* that with respect to an Award of Restricted Stock that is intended to satisfy the requirements for performance-based compensation under Section 162(m) of the Code, no such discretion shall be authorized to the extent that such authority would cause such Award to cease to be considered performance-based compensation.

(d) **Performance Shares.**

(i) **Issuance.** The Committee is hereby authorized to grant Awards of Performance Shares to any Participant.

(ii) **Performance Goals and Other Terms.** The Committee shall determine the Performance Period, the Performance Goal or Goals (and the performance level or levels related thereto) to be achieved during any Performance Period, the proportion of payments, if any, to be made for performance between the minimum and full performance levels for any Performance Goal and, if applicable, the relative percentage weighting given to each of the selected Performance Goals, the restrictions applicable to Shares of Restricted Stock received upon payment of Performance Shares if Performance Shares are paid in such manner, and any other terms, conditions and rights relating to a grant of Performance Shares. The Committee shall have sole discretion to alter the selected Performance Goals set forth in Section 2(o), subject to shareholder approval, to the extent required to qualify the Award for the performance-based exemption provided by Section 162(m) of the Code. Notwithstanding the foregoing, in the event the Committee determines it is advisable to grant Performance Shares which do not qualify for the performance-based exemption under Section 162(m) of the Code, the Committee may make such grants without satisfying the requirements thereof.

(iii) **Rights and Benefits During the Performance Period.** The Committee may provide that, during a Performance Period, a Participant shall be paid cash amounts, with respect to each Performance Share awarded to such Participant, in the same manner, at the same time, and in the same amount paid, as a cash dividend on a Share, or may provide that such dividends be deferred and paid at the end of the Performance Period only to the extent to which the related Performance Share is earned.

(iv) **Payment of Performance Shares.** As soon as is reasonably practicable following the end of the applicable Performance Period, and subject to the Committee certifying in writing as to the satisfaction of the requisite Performance Goal or Goals if such certification is required in order to qualify the Award for the performance-based exemption provided by Section 162(m) of the Code, one or more certificates representing the number of Shares equal to the number of Performance Shares payable shall be registered in the name of and delivered to the Participant; *provided, however,* that any Shares of Restricted Stock payable in connection with Performance Shares shall, pending the expiration, lapse, or waiver of the applicable restrictions, be evidenced in the manner as set forth in Section 6(c)(iii) hereof.

(e) **Other Awards.**

(i) **Other Stock-Based Awards.** Other awards, valued in whole or in part by reference to, or otherwise based on, Shares may be granted either alone or in addition to or in conjunction with other Awards for such consideration, if any, and in such amounts and having such terms and conditions as the Committee may determine.

(ii) **Other Benefits.** The Committee shall have the right to provide types of benefits under the Plan in addition to those specifically listed if the Committee believes that such benefits would further the purposes for which the Plan was established.

(f) **General.**

(i) **No Consideration for Awards.** Awards shall be granted to Participants for no cash consideration unless otherwise determined by the Committee.

(ii) **Award Agreements.** Each Award granted under the Plan shall be evidenced by an Award Agreement in such form (consistent with the terms of the Plan) as shall have been approved by the Committee.

(iii) **Awards May Be Granted Separately or Together.** Awards to Participants under the Plan may be granted either alone or in addition to, in tandem with, or in substitution for any other Award or any award granted under any other plan of the Company or any Affiliate. Awards granted in addition to or in tandem with other Awards, or in addition to or in tandem with awards granted under any other plan of the Company or any Affiliate, may be granted either at the same time as or at a different time from the grant of such other Awards or awards.

(iv) **Forms of Payment Under Awards.** Subject to the terms of the Plan and of any applicable Award Agreement, payments or transfers to be made by the Company or an Affiliate upon the grant, exercise, or payment of an Award to a Participant may be made in such form or forms as the Committee shall determine, and may be made in a single payment or transfer, in installments, or on a deferred basis, in each case in accordance with rules and procedures established by the Committee. Such rules and procedures may include, without limitation, provisions for the payment or crediting of interest on installment or deferred payments. Any such determination by the Committee shall be made in a manner that will enable Awards intended to be exempt from Section 409A of the Code to continue to be exempt, or to enable Awards intended to comply with Section 409A of the Code to continue to so comply. Any deferral of amounts payable or Shares issuable hereunder shall be made pursuant to a separate written plan or other written arrangement that complies with Section 409A of the Code.

(v) **Limits on Transfer of Awards.** No Award (other than Released Securities), and no right under any such Award, shall be assignable, alienable, saleable, or transferable by a Participant otherwise than by will or by the laws of descent and distribution (or, in the case of an Award of Restricted Securities, to the Company); *provided, however,* that a Participant at the discretion of the Committee may be entitled, in the manner established by the Committee, (aa) to designate a beneficiary or beneficiaries to exercise his or her rights, and to receive any property distributable, with respect to any Award upon the death of the Participant; or (bb) transfer any Award. No Award (other than Released Securities), and no right under any such Award, may be pledged, alienated, attached, or otherwise encumbered, and any purported pledge, alienation, attachment, or encumbrance thereof shall be void and unenforceable against the Company or any Affiliate.

(vi) **Term of Awards.** Except as otherwise provided in the Plan, the term of each Award shall be for such period as may be determined by the Committee.

(vii) **Share Certificates; Representation.** In addition to the restrictions imposed pursuant to Section 6(c) and Section 6(d) hereof, all certificates for Shares delivered pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the Commission, any stock exchange or other market upon which such Shares are then listed or traded, and any applicable federal or state securities laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions. The Committee may require each Participant or other Person who acquires Shares by means of an Award originally made to a Participant to represent to the

Company in writing that such Participant or other Person is acquiring the Shares without a view to the distribution thereof.

(viii) **Waiver of Conditions.** The Committee may, in whole or in part, waive any conditions or other restrictions with respect to any Award.

Section 7. Amendment and Termination; Correction of Defects and Omissions

(a) **Amendments to and Termination of the Plan.** Except as otherwise provided herein, the Board may at any time amend, alter, suspend, discontinue, or terminate the Plan; *provided, however,* that shareholder approval of any amendment of the Plan shall also be obtained if the Board determines it is otherwise required by: (i) the Code or any rules promulgated thereunder (such as to allow for Incentive Stock Options to be granted under the Plan), (ii) the quotation or listing requirements of the Nasdaq National Market or any principal securities exchange or market on which the Shares are then traded (in order to maintain the quotation or listing of the Shares thereon), or (iii) any other applicable law. To the extent permitted by applicable law and subject to such shareholder approval as may be required above, the Committee may also amend the Plan, provided that any such amendments shall be reported to the Board.

(b) **Survival of Authority and Awards**. Notwithstanding the foregoing, the authority of the Board and the Committee under Section 3 (other than to grant Awards) and this Section 7 will extend beyond the date of this Plan's termination. In addition, termination of this Plan will not affect the rights of Participants with respect to Awards previously granted to them, and all unexpired Awards will continue in force and effect after termination of this Plan except as they may lapse or be terminated by their own terms and conditions.

(c) **Amendment, Modification or Cancellation of Awards**. Subject to the limitations of this Plan, the Committee may modify or amend any Award or Award Agreement or waive any restrictions or conditions applicable to any Award or the exercise of the Award, so long as any amendment or modification does not increase the number of Shares issuable under this Plan (except as permitted by Section 4(b)); *provided* that the consent of the holder of the Award must be obtained if any such modification or amendment would adversely affect the rights of such individual under the Award, except that the Committee need not obtain Participant (or other interested party) consent for any change authorized pursuant to the provisions of Section 4(b), for the modification of an Award to the extent deemed necessary for the Company, the Plan, any Award or Award Agreement to comply with any applicable law or the listing requirements of any principal securities exchange or market on which the Shares are then traded, or to preserve favorable accounting treatment of any Award for the Company. Notwithstanding the foregoing, any such amendment shall be made in a manner that will enable an Award intended to be exempt from Section 409A of the Code to continue to be so exempt, or to enable an Award intended to comply with Section 409A of the Code to continue to so comply.

(d) **No Repricing of Options or Stock Appreciation Rights.** Except for adjustments made pursuant to Section 4(b) or adjustments made with prior approval of the Company's shareholders, the Committee shall not have the authority to effect (i) the repricing of any outstanding Options or Stock Appreciation Rights or (ii) the modification of an Option or Stock Appreciation Right or entering into a transaction or series of transactions which modification or transaction(s) would be deemed to constitute a repricing of an Option or Stock Appreciation Right. The provisions of this Section 7(d) cannot be amended unless the amendment is approved by the Company's shareholders.

(e) **Correction of Defects, Omissions and Inconsistencies.** The Committee may correct any defect, supply any omission, or reconcile any inconsistency in any Award or Award Agreement in the manner and to the extent it shall deem desirable to carry the Plan into effect.

(f) **Code Section 409A**. The provisions of Section 409A of the Code are incorporated herein by reference to the extent necessary for any Award that is subject to Section 409A of the Code to comply therewith.

Section 8. General Provisions

(a) **No Rights to Awards.** No associate of the Company or of any Affiliate, Participant or other Person shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of associates of the Company or of any Affiliate, Participants or holders or beneficiaries of Awards. The terms and conditions of Awards need not be the same with respect to each Participant.

(b) **Withholding.** No later than the date as of which an amount first becomes includible in the gross income of a Participant for federal income tax purposes with respect to any Award, the Participant shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any federal, state, local or foreign taxes of any kind required by law to be withheld with respect to such amount. Unless otherwise determined by the Committee, withholding obligations arising with respect to Awards may be settled with Shares (other than Restricted Securities), including Shares that are part of, or are received upon exercise of, the Award that gives rise to the withholding requirement; *provided* that the Fair Market Value of the Shares used to satisfy the Participant's withholding obligation shall not exceed the total minimum federal, state and local tax withholding obligations associated with the transaction to the extent needed to preserve favorable accounting treatment for the Company. The obligations of the Company under the Plan shall be conditional on such payment or arrangements, and the Company and any Affiliate shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to the Participant. The Committee may establish such procedures as it deems appropriate for the settling of withholding obligations with Shares.

(c) **No Limit on Other Compensation Arrangements.** Nothing contained in the Plan shall prevent the Company or any Affiliate from adopting or continuing in effect other or additional compensation arrangements, and such arrangements may be either generally applicable or applicable only in specific cases.

(d) **Rights and Status of Recipients of Awards.** The grant of an Award shall not be construed as giving a Participant the right to be retained in the employ of the Company or any Affiliate. Further, the Company or any Affiliate may at any time dismiss a Participant from employment, free from any liability, or any claim under the Plan, unless otherwise expressly provided in the Plan or in any Award Agreement. Except for rights accorded under the Plan and under any applicable Award Agreement, Participants shall have no rights as holders of Shares as a result of the granting of Awards hereunder.

(e) **Termination of Employment**. Unless determined otherwise by the Committee, for purposes of the Plan and all Awards and Award Agreements, the following rules shall apply:

(i) a Participant who transfers employment between the Company and any Affiliate, or between the Company's Affiliates, will not be considered to have terminated employment;

(ii) a Participant who ceases to be employed by the Company or an Affiliate and immediately thereafter becomes a member of the Board or a member of the Board of Directors of an Affiliate, or a consultant to the Company or any Affiliate shall not be considered to have terminated employment until such Participant's service as a director of, or consultant to, the Company and its Affiliates has ceased; and

(iii) a Participant employed by an Affiliate or who is a member of the Board of Directors of an Affiliate will be considered to have terminated employment when such entity ceases to be an Affiliate.

Notwithstanding the foregoing, for purposes of an Award that is subject to Section 409A of the Code, if a Participant's termination of employment triggers the payment of compensation or the delivery or vesting of Shares under such Award, then the Participant will be deemed to have terminated employment upon a "separation from service" within the meaning of Section 409A of the Code.

(f) **No Compensation for Benefit Plans**. No amount payable or the value of Shares deliverable under this Plan shall be deemed salary or compensation for the purpose of computing benefits under any benefit plan or other arrangement of the Company or any Affiliate for the benefit of its associates unless the Company or appropriate Affiliate shall determine otherwise.

(g) **Approval of Material Terms of Performance Goals.** Notwithstanding anything herein to the contrary, if so determined by the Board, the Plan provisions specifying the material terms of the Plan's performance goals (within the meaning of Code Section 162(m)) shall be submitted to the shareholders of the Company for re-approval no later than the first shareholder meeting that occurs in the fifth year following the year in which shareholders previously approved such Plan provisions.

(h) **Unfunded Status of the Plan.** Unless otherwise determined by the Committee, the Plan shall be unfunded and shall not create (or be construed to create) a trust or a separate fund or funds. The Plan shall not establish any fiduciary relationship between the Company and any Participant or other Person. To the extent any Person holds any right by virtue of a grant under the Plan, such right (unless otherwise determined by the Committee) shall be no greater than the right of an unsecured general creditor of the Company.

(i) **Governing Law.** The validity, construction, and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with the laws of the State of Nebraska without reference to conflict of law principles thereof and applicable Federal law.

(j) **Time Limitation on Claims.** Any legal action or proceeding with respect to this Plan, any Award or any Award agreement, must be brought within one year (365 days) after the day the complaining party first knew or should have known of the events giving rise to the complaint.

(k) **Severability.** If any provision of the Plan or any Award Agreement or any Award is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction, or as to any Person or Award, or would disqualify the Plan, any Award Agreement or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan, any Award Agreement or the Award, such provision shall be stricken as to such jurisdiction, Person, or Award, and the remainder of the Plan, any such Award Agreement and any such Award shall remain in full force and effect.

(l) **No Fractional Shares.** No fractional Shares or other securities shall be issued or delivered pursuant to the Plan, any Award Agreement or any Award, and the Committee shall determine (except as otherwise provided in the Plan) whether cash, other securities, or other property shall be paid or transferred in lieu of any fractional Shares or other securities, or whether such fractional Shares or other securities or any rights thereto shall be canceled, terminated, or otherwise eliminated.

(m) **Headings.** Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

Section 9. Effective Date of the Plan

The Plan shall be effective on the day of its adoption by the Board, February 9, 2006, subject to the approval and ratification of the Plan by the shareholders of the Company within twelve months of the effective date, and any and all Awards made under the Plan prior to such approval shall be subject to such approval.

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, 2005

or

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

For the transition period from ______________ to ______________

Commission file number: 0-29466

National Research Corporation

(Exact name of registrant as specified in its charter)

Wisconsin	47-0634000
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1245 Q Street Lincoln, Nebraska	68508
(Address of principal executive offices)	(Zip code)

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

Securities registered pursuant to Section 12(b) of the Act: None

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

Title of Class

Common Stock, $.001 par value

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non- accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

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

Aggregate market value of the voting stock held by nonaffiliates of the registrant at June 30, 2005: $32,284,577.

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

Common Stock, $.001 par value, outstanding as of March 8, 2006: 6,885,257 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2006 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 below in this Annual Report on Form 10-K are "forward-looking statements" intended to qualify for the safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statement includes phrases such as the Company "believes," "expects" or other words of similar import. Similarly, statements that describe the Company's future plans, objectives or goals are also forwarding-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 factors set forth in "Risk Factors." Shareholders, potential investors, and other readers are urged to consider these and other factors in evaluating the forward-looking statements, and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included are only made as of the date of this Annual Report on Form 10-K and the Company undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

General

National Research Corporation ("NRC" or the "Company") believes it is a leading provider of ongoing survey-based performance measurement, analysis, tracking and improvement and educational services to the healthcare industry in the United States and Canada. The Company believes it has achieved this leadership position based on 25 years of industry experience and its relationships with many of the industry's largest payers and providers. The Company addresses the growing needs of healthcare providers and payers to measure the care outcomes, specifically experience and health status, of their patients and/or members. NRC develops tools that enable healthcare organizations to obtain performance measurement information necessary to comply with industry and regulatory standards, and to improve their business practices so that they can maximize new member and/or patient attraction, experience, member retention and profitability.

Since its founding 25 years ago as a Nebraska corporation (the Company reincorporated in Wisconsin in September 1997), NRC has focused on the information needs of the healthcare industry. The Company's primary types of information services are renewable performance tracking services, custom research, educational services, and a renewable syndicated service.

While performance data has always been of interest to healthcare providers and payers, such information has become increasingly important to these entities as a result of regulatory, industry and competitive requirements. In recent years, the healthcare industry has been under significant pressure from consumers, employers and the government to reduce costs. However, the same parties that demanded cost reductions are now concerned that healthcare service quality is being compromised under managed care. This concern has created a demand for consistent, objective performance information by which healthcare providers and payers can be measured and compared, and on which physicians' compensation can, in part, be based.

The NRC Solution

The Company addresses healthcare organizations' growing need to track their performance at the enterprise-wide, departmental and physician/caregiver levels. The Company has been developing tools that enable its clients to collect, in an unobtrusive manner, a substantial amount of comparative performance information in order to analyze and improve their practices to maximize new member and/or patient attraction, experience, member retention and profitability. NRC's performance assessments offer the tangible measurement of health service quality currently demanded by consumers, employers, industry accreditation organizations and lawmakers.

The Company's solutions respond to managed care's redefined relationships among consumers, employers, payers and providers. Instead of relying exclusively on static, mass produced questionnaires, NRC utilizes a dynamic data collection process to create a personalized questionnaire which evaluates service issues specific to each respondent's healthcare experience. The flexibility of the Company's data collection process allows healthcare organizations to add timely, market driven questions relevant to matters such as industry performance mandates, employer performance guarantees and internal quality improvement initiatives. In addition, the Company assesses core service factors relevant to all healthcare respondent groups (patients, members, employers, employees, physicians, etc.) and to all service points of a healthcare system (inpatient, emergency room, outpatient, home health, rehabilitation, behavioral health, long-term care, hospice, dental, etc.).

NRC offers renewable performance tracking and improvement services ("Performance Tracking Services"), custom research, educational services, and a renewable syndicated service, the NRC Healthcare Market Guide® ("Market Guide"). The Company has renewable performance tracking tools, including those produced and delivered under our Picker trade name, for gathering and analyzing data from survey respondents on an ongoing basis with comparisons over time. These tools may be coupled with the improvement tool, eToolKit, to help clients not only measure performance, but know where to focus with ideas and solutions for making improvements. The Company has the capacity to measure performance beyond the enterprise-wide level. It has the ability and experience to determine key performance indicators at the department and individual physician/caregiver measurement levels, where the Company's services can best guide the efforts of its clients to improve quality and enhance their market position. The educational services of NRC+Picker provide a way of bridging the gap between measurement and improvement. Additional offerings include functional disease-specific and health status measurement tools. The syndicated Market Guide, a stand-alone market information and competitive intelligence source, as well as a comparative performance database, allows the Company's clients to assess their performance relative to the industry, to access best practice examples, and to utilize competitive information for marketing purposes.

Growth Strategy

The Company believes that it can continue to grow through: (i) expanding the depth and breadth of its current clients' Performance Tracking Services programs, since healthcare organizations are increasingly interested in gathering performance information at deeper levels of their organizations and from more of their constituencies, (ii) increasing the cross-selling of its complementary services, including improvement and educational tools, (iii) adding new clients through penetrating the sizeable portion of the healthcare industry which is not yet conducting performance assessments beyond the enterprise-wide level or is not yet outsourcing this function, and (iv) pursuing acquisitions of, or investments in, firms providing products, services or technologies which complement those of the Company.

On September 16, 2005, the Company acquired substantially all of the assets of Geriatric Health Systems, LLC, a healthcare survey research and analytics firm based in California that specializes in measuring health status, health risk and member satisfaction for health plans in the United States. The purchase price for the acquisition was $4.0 million in cash, plus the assumption of certain liabilities.

Information Services

The Qualisys System ("Qualisys") is NRC's data collection process which provides ongoing, renewable performance tracking and is the platform of the Company's online tools. This performance tracking program efficiently coordinates and centralizes an organization's satisfaction monitoring, thereby establishing a uniform methodology and survey instrument needed to obtain valid performance information and improve quality. Using the industry method of mail and/or telephone-based data collection, this assessment process monitors the patient's or stakeholder's experience across healthcare respondent groups (patients, members, employers, employees, physicians, etc.) and service settings (inpatient, emergency room, outpatient, etc.). Rather than be limited to only static, mass produced questionnaires which provide limited flexibility and performance insights, NRC's proprietary software generates individualized questionnaires, including personalization such as patient name, treating caregiver name, encounter date and, in some cases, the services received. This personalization enhances the response rates and the relevance of performance data. Flexible and responsive to healthcare organizations' changing information needs, NRC creates personalized questionnaires which evaluate service issues specific to each respondent's healthcare experience and includes questions which address core service factors throughout a healthcare organization.

Unlike some of its competitors, the Company gathers data through one efficient questionnaire, the contents of which are selected from the Company's library of questions after a client's needs are determined, as opposed to multiple questionnaires which are often sent to the same respondents. As a result, the Company's renewable performance tracking programs and data collection processes (i) realize higher response rates, obtain data more efficiently, and thereby provide healthcare organizations with more feedback, (ii) eliminate over surveying (where one respondent receives multiple surveys), and (iii) allow healthcare organizations to adapt questionnaire content to address management objectives and to assess quality improvement programs or other timely marketplace issues.

The Company recognizes that performance programs must do more than just measure the experiences; they must measure and facilitate improvement. The Company offers proven solutions to effectively measure and improve the most important aspects of the patient's experience. By combining the advanced measurement and improvement technology of Qualisys with the philosophy and family of surveys of the Picker Institute, eToolKit allows clients to actually act on their research results and attain improvement in the care delivery process. The Company has developed online improvement tools including a one-page reporting format called Action Plan, which provides a basis on which improvements can be made. NRC Action Plans show healthcare organizations which service factors impact their customer group's value, which have the greatest impact on satisfaction levels and how their performance in relationship to these key indicators changes over time. The Company has also developed online access to performance results, which the Company believes provides NRC's clients the fastest and easiest way to access measurement results. eReports, NRC's exclusive web-based electronic delivery system, provides clients the ability to review results and reports online, independently analyze data, query data sets, customize a number of reports and distribute reports electronically.

The Company has developed NRC+Picker educational products as a way of bridging the gap between measurement and improvement of patient-centered care. These products consist of the Symposium, the Learning Network and eLearning. The Symposium is an annual event which is dedicated to the improvement of the patient experience. Learning Network is a membership-based product that enables members to participate in calls with industry experts, have access to experts, participate in monthly presentations and receive monthly newsletters, all of which focus on topics of improvement of the patient experience. eLearning is an interactive online educational product which is used by the providers to understand the dimensions of patient-centered care.

Market Guide serves as a stand-alone market information and competitive intelligence source, as well as a comparative performance database. Published by NRC annually, Market Guide is the largest consumer-based assessment of hospitals, health plans and physician medical care in the healthcare industry representing the views of one in every 600 households across nearly every county in the continental United States. Market Guide provides name-specific performance information on 3,000 hospitals and 800 health plans nationwide. More than 250 data items relevant to healthcare payers, providers and purchasers are reported in the Market Guide, including hospital quality and image ratings, product line preferences, hospital selection factors, health plan market share, household preventative health behaviors, presence of chronic conditions, and contemporary issues such as alternative medicine usage and healthcare internet utilization. Clients can purchase customized versions specific to their local service areas, with the ability to benchmark performance results to over 180 metro areas, 48 states or nationally. Market Guide is delivered to clients via NRC's exclusive web-based electronic delivery system, which features easy to use graphs, charts and various report formats for multiple users within the client's organization. Another feature of the web-based system is a national name search, which allows a healthcare organization with a national or regional presence to simultaneously compare the performance of all its sites, and pinpoint where strengths and weaknesses exist. Clients who have renewed for multiple years of the study may utilize the system's trending capability, which details how the performance of the healthcare organization changes over time. The proprietary Market Guide data results are also used to produce reports which are customized to meet the specific information needs of existing clients, as well as new healthcare markets beyond the Company's traditional client base.

Clients

The Company's ten largest clients accounted for 40%, 43%, and 45% of the Company's total revenues in 2005, 2004 and 2003, respectively. The U.S. Department of Veterans Affairs accounted for 11%, 12% and 15% of total revenues in 2005, 2004 and 2003, respectively.

Sales and Marketing

The Company generates the majority of its revenues from client renewals, supplemented by its internal marketing efforts and a direct sales force. Sales associates now direct NRC's sales efforts from Nebraska and Washington, D.C. in the United States and from Toronto and Montreal in Canada. As compared to the typical industry practice of compensating sales people with relatively high base pay and a relatively small sales commission, NRC compensates its sales associates with relatively low base pay and a relatively high per sale commission. The Company believes this compensation structure provides incentives to its sales associates to surpass sales goals and increases the Company's ability to attract top quality sales associates.

Numerous marketing efforts support the direct sales force's new business generation and project renewal initiatives. NRC conducts an annual direct marketing campaign around scheduled trade shows, including leading industry conferences. NRC uses this lead generation mechanism to track the effectiveness of marketing efforts and add generated leads to its database of current and potential client contacts. Finally, the Company's public relations program includes (i) an ongoing presence in leading industry trade press and in the mainstream press; (ii) public speaking at strategic industry conferences; (iii) fostering relationships with key industry constituencies; and (iv) an annual Consumer Choice award program recognizing top-ranking hospitals in approximately 160 markets.

The Company's integrated marketing activities facilitate its ongoing receipt of project requests-for-proposals, as well as direct sales force initiated prospect contacts. The sales process typically spans a 120-day period encompassing the identification of a healthcare organization's information needs, the education of prospects on NRC solutions (via proposals and in-person sales presentations), and the closing of the sale. The Company's sales cycle varies depending on the particular service being marketed and the size of the potential project.

Competition

The healthcare information and market research industry is highly competitive. The Company has traditionally competed both 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 main competitors among such specialty firms are Press Ganey, who NRC believes has revenues that are significantly larger than the Company's revenues, and three or four other companies who NRC believes have revenues smaller than our revenues. The Company, to a certain degree, currently competes with, and anticipates that in the future it may increasingly compete with (i) traditional market research firms which are significant providers of survey-based, general market research and (ii) 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 to date offered survey-based, healthcare market research that competes directly with the Company's 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 the Company's market. There are relatively few entry barriers 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, service uniqueness, credibility of provider, industry experience and price. NRC believes that its industry leadership position, exclusive focus on the healthcare industry, dynamic questionnaire, syndicated products, comparative performance database, and relationships with leading healthcare payers and providers position the Company to compete in this market.

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 employee 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, 2005, the Company employed a total of 143 persons on a full-time basis. In addition, as of such date, the Company had 77 part-time associates primarily in its survey operations, representing approximately 51 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 Registrant

The following table sets forth certain information, as of March 1, 2006, regarding the executive officers of the Company:

Name	Age	Position
Michael D. Hays	51	Chief Executive Officer and Director
Joseph W. Carmichael	42	President
Jona S. Raasch	47	Vice President and Chief Operations Officer
Patrick E. Beans	48	Vice President, Treasurer, Chief Financial Officer, Secretary and Director

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

Joseph W. Carmichael has served as President since August 2004. Prior to August 2004, Mr. Carmichael held various positions with the Company since April 1983, most recently as Senior Vice President from May 2002 to August 2004.

Jona S. Raasch has served as Vice President and Chief Operations Officer since September 1988. Prior to joining the Company, Ms. Raasch held various positions with A.C. Nielsen Corporation.

Patrick E. Beans has served as Vice President, Treasurer, Chief Financial Officer and Secretary and a director since 1997. He has served as the principal financial officer since he joined the Company in August 1994. From June 1993 until joining the Company, Mr. Beans was the finance director for the Central Interstate Low-Level Radioactive Waste Commission, a five-state compact developing a low-level radioactive waste disposal plan. From 1979 to 1988 and from June 1992 to June 1993, he practiced as a certified public accountant.

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.

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 rely on a limited number of key clients, and a loss of one or more of these key clients will adversely affect our operating results.

We rely on a limited number of key clients for a substantial portion of our revenues. Our ten largest clients for the years ended 2005, 2004 and 2003, generated 40%, 43% and 45%, respectively, of our revenues in each of those years. The U.S. Department of Veterans Affairs accounted for 11%, 12% and 15% of our total revenues for the years ended 2005, 2004 and 2003, respectively. We cannot assure you that we will maintain our existing client base, maintain or increase the level of revenue or profits generated by our existing clients, or be able to attract new clients. Furthermore, the healthcare industry continues to undergo consolidation and we cannot assure you that such consolidation will not cause us to lose clients. The loss of one or more of our large clients or a significant reduction in business from such clients, regardless of the reason, will have a negative effect on our revenues and a corresponding effect on our operating and net income. See "Risk Factors - Because our clients are concentrated in the healthcare industry, we may be adversely affected by a business downturn or consolidation with respect to the healthcare industry."

We depend on performance tracking contract renewals for a large share of our revenues and our operating results could be adversely affected.

We expect that a substantial portion of our revenues for the foreseeable future will continue to be derived from written and oral contracts for renewable performance tracking services. Substantially all such written contracts are renewable annually at the option of our clients, although a client generally has no minimum purchase commitment under a contract and the contracts are generally cancelable on short or no notice without penalty. To the extent that clients fail to renew or defer their renewals from the quarter we anticipate, our quarterly results may be materially adversely affected. 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 performance tracking and market research activities 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 assure you 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 revenues and a corresponding effect on our operating and net income.

Our operating results may fluctuate on a quarterly basis, and this may cause our stock price to decline.

Our operating results have fluctuated from period to period in the past and will likely fluctuate significantly in the future due to various factors. There has historically been, and we expect that there will continue to be, fluctuation in our financial results related to the Market Guide, a stand-alone market information intelligence source and comparative performance database. We recognize revenue when the Market Guides are delivered to the principal customers pursuant to their contracts, typically in the third quarter of the year. Substantially all of the related costs are deferred and subsequently charged to direct expenses contemporaneously with the recognition of the revenue. A delay in completing and delivering the Market Guide in a given year, the timing of which is dependent upon our ability to access a third-party's respondent panel on a timely basis, could delay recognition of such revenues and expenses, which could materially affect operating results for the interim periods. We generate additional revenues from incidental customers subsequent to the completion of each edition. Revenues and costs for these subsequent services are recognized as the services are performed and completed. The profit margin earned on such revenues is generally higher than that earned on revenues realized from customers under contract at the time of delivery.

In addition, our overall operating results may fluctuate as a result of a variety of other 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, postal rate changes, and industry and general economic conditions. Because a significant portion of our overhead, particularly some costs associated with owning and occupying our building and full-time personnel expenses, is fixed in the short-term, our results of operations may be materially adversely affected in any particular quarter if revenues fall below our expectations. These factors, among others, make it possible that in some future quarter 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 we could experience increased price pressure and expenses as a result.

The healthcare information and market research industry is highly competitive. We compete both with healthcare organizations' internal marketing, market research and/or quality improvement departments that create their own performance measurement tools, and with relatively small specialty research firms that provide survey-based healthcare market research and/or performance assessment. Our main competitors among such specialty firms are Press Ganey Associates, who we believe has revenues that are significantly larger than our revenues, and three or four other companies that we believe have revenues that are smaller than our revenues. We, to a certain degree, currently compete with, and we anticipate that in the future we may increasingly compete with, traditional market research firms that are significant providers of survey-based, general market research and firms that provide services or products that complement healthcare performance assessments, such as healthcare software or information systems. Although only a few of these competitors have to date offered survey-based, healthcare market research that competes directly with our services, many of these competitors have substantially greater financial, information gathering and marketing resources than us and could decide to increase their resource commitments to our market. There are relatively few barriers to entry into our market, and we expect increased competition in our market, which could adversely affect our operating results through pricing pressure, increased client service and marketing expenditures and market share losses, among other factors. We cannot assure you that we will continue to compete successfully against existing or new competitors, and our revenues and operating net income could be adversely affected as a result.

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

Substantially all of our revenues are 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. Many federal and state legislators have proposed or have announced that they intend to propose programs to reform portions of the U.S. healthcare system. These programs 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. 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 revenues and a corresponding effect on our operating and net income.

Our future success depends on our ability to manage our growth, including by identifying acquisition candidates and effectively integrating acquired companies.

Since our inception, our growth has placed significant demands on our management, administrative, operational and financial resources. In order to manage our growth, we will need to continue to implement and improve our operational, financial and management information systems and continue to expand, motivate and effectively manage an evolving workforce. If our management is unable to effectively manage under such circumstances, the quality of our services, our ability to retain key personnel and our results of operations could be materially adversely affected. Furthermore, we cannot assure you that our business will continue to expand. Reductions in clients' spending on performance tracking and market research, increased competition, pricing pressures and other general economic and industry trends could adversely affect our growth.

We may achieve a portion of our future revenue growth, if any, through acquisitions of complimentary businesses, products, services or technologies, although we currently have no commitments or agreements with respect to any such acquisitions. Our management has limited experience dealing with the issues of product and service, systems, personnel and business strategy integration posed by acquisitions, and has encountered minor problems with integrating people and processes in connection with past acquisitions. We cannot assure you that the integration of any possible future acquisitions will be managed without incurring higher than expected costs and expenses. In addition, we cannot assure you that, as a result of such unexpected costs and expenses, any possible future acquisition will not negatively affect our operating and net income.

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 tracking and market research to our clients depends on our ability to collect large quantities of high quality data through surveys and interviews. 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 revenues could be adversely affected, with a corresponding effect on our operating and net income. In addition, we currently rely primarily on mail and telephone surveys for gathering information. If one or more of our competitors were to develop an online survey process that more effectively and efficiently gathers information, then we would be at a competitive disadvantage and our revenues could be adversely affected, with a corresponding effect on our operating and net income.

We also rely on a third-party panel of pre-recruited consumer households to produce in a timely manner, annual editions of the Market Guide. If we are not able to continue to use this panel, or the time period in which we use this panel is altered and we cannot find an alternative panel on a timely, cost competitive basis, we could face an increase in our costs or an inability to effectively produce the Market Guide. In either case, our operating and net income would be negatively affected.

Our principal shareholder effectively controls our company.

Michael D. Hays, our Chief Executive Officer, beneficially owned 69.7% of our outstanding common stock as of March 15, 2006. As a result, he is able to 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 our company unless the terms are approved by Mr. Hays.

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 will 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. As of December 31, 2005, we maintained $500,000 of key officer life insurance on Mr.

Hays. 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 employee 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.

Errors in, or dissatisfaction with, performance tracking and other surveys could adversely affect our business.

Many healthcare providers, payers and other entities or individuals use our renewable performance tracking and other healthcare surveys in promoting and/or operating their businesses, and as a factor in determining physician or employee compensation. Consequently, any errors in the data received or in the final surveys, as well as the actual results of such surveys, can have a significant impact on such providers', payers' or other entities' businesses, and on any such individual's compensation. In addition, parties who have not performed well in our surveys may be dissatisfied with the results of the surveys or the manner in which the results may be used by competitors or others. Although any such errors or dissatisfaction with the results of the surveys, or the manner in which the surveys have been used, has not resulted in litigation against us, we cannot assure you that we will not face future litigation, which may be costly, as a result of a healthcare provider's, payer's, other entity's or individual's allegation of errors in our surveys or dissatisfaction with the results thereof.

Regulatory developments could adversely affect our revenues and results of operations.

In the operation of our business, we have access to, or gather certain confidential information, such as medical histories of our respondents. As a result, we could be subject to potential liability for any inappropriate disclosure or use of such information. Even if we do not improperly disclose confidential information, privacy laws, including the U.S. Health Insurance Portability and Accountability Act of 1996, the U.S. Patriot Act and Canadian legislation relating to personal health information, have had, and could in the future have, the effect of increasing our costs and restricting our ability to gather and disseminate information which could ultimately have a negative effect on our revenues.

In addition, several years ago, the Centers for Medicare and Medicaid Services initiated a nationwide effort to collect and publicly report hospital quality data, including the patient experience of care questionnaire. This questionnaire is called the HCAHPS questionnaire and was developed by the Agency for Healthcare Research and Quality. After several years of development and consensus building, the HCAHPS survey program will begin in 2006. This survey program may increase competition and pricing pressures, which could adversely affect our operating and net income.

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's survey programming, printing and distribution; data processing, analysis and report generation; marketing; and corporate administration. The Company's Canadian office is located in a rented 2,600 square foot office building in Markham, Ontario.

Item 3. Legal Proceedings

The Company is not subject to any material pending litigation.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of the Company's shareholders during the fourth quarter of the Company's 2005 fiscal year.

PART II

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

The Company's Common Stock, $.001 par value ("Common Stock"), is traded on the NASDAQ National Market under the symbol "NRCI." The following table sets forth the range of high and low sales prices for, and dividends declared on, the Common Stock for the period from January 1, 2004 through December 31, 2005:

	High	Low	Dividends Declared Per Common Share
2004 Quarter Ended:			
March 31	$17.02	$14.59	--
June 30	$17.50	$15.54	--
September 30	$17.30	$14.51	--
December 31	$16.52	$14.50	--

	High	Low	Dividends Declared Per Common Share
2005 Quarter Ended:			
March 31	$15.65	$13.44	$.08
June 30	$16.15	$12.36	$.08
September 30	$17.68	$14.35	$.08
December 31	$17.79	$15.50	$.08

On March 8, 2006, there were approximately 30 shareholders of record and approximately 500 beneficial owners of the Common Stock.

The Company had not paid cash dividends on its common stock prior to 2005. However, in March 2005, the Company announced the commencement of a quarterly cash dividend. Cash dividends of $2.3 million in the aggregate were declared and paid during the twelve month period ended December 31, 2005. The payment and amount of future dividends 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 and other factors.

The table below summarizes the Company's repurchases of its common stock during the three-month period ended December 31, 2005.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 – October 31, 2005	--	$ --	--	171,789
November 1 – November 30, 2005	--	$ --	--	171,789
December 1 – December 31, 2005	171,789	$ 15.55	171,789	--

(1) In July 2003, the Company's Board of Directors authorized, and the Company publicly announced, a stock repurchase plan providing for the repurchase of 500,000 shares. As of December 31, 2005, this plan has terminated as the Company has repurchased all shares authorized for repurchase thereunder.

In March 2006, the Company's Board of Directors authorized a stock repurchase plan providing for the repurchase of an additional 750,000 shares. The plan has no expiration date.

Item 6. Selected Financial Data

The selected statement of income data for the years ended December 31, 2005, 2004 and 2003, and the selected balance sheet data at December 31, 2005 and 2004, 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 years ended December 31, 2002 and 2001, and the balance sheet data at December 31, 2003, 2002 and 2001, are derived from audited consolidated financial statements not included herein.

	Year Ended December 31,				
	2005	2004	2003	2002	2001
	(In thousands, except per share data)				
Statement of Income Data:					
Revenues	$ 32,437	$ 29,683	$ 26,922	$ 22,387	$ 17,674
Operating expenses:					
Direct expenses	13,642	12,869	12,029	9,556	8,059
Selling, general and administrative	8,617	7,394	5,987	4,737	4,985
Depreciation and amortization (1)	1,762	2,018	1,941	1,675	1,917
Total operating expenses	24,021	22,281	19,957	15,968	14,961
Operating income	8,416	7,402	6,965	6,419	2,713
Other income (expenses)	99	(119)	(49)	(258)	(89)
Income before income taxes	8,515	7,283	6,916	6,161	2,624
Provision for income taxes	3,279	2,732	2,532	2,311	954
Net income	$ 5,236	$ 4,551	$ 4,384	$ 3,850	$ 1,670
Net income per share – basic and diluted	$ 0.74	$ 0.63	$ 0.60	$ 0.54	$ 0.24
Weighted average shares outstanding – basic	7,038	7,181	7,259	7,163	7,053
Weighted average shares outstanding – diluted	7,118	7,249	7,326	7,193	7,089

	December 31,				
	2005	2004	2003	2002	2001
	(In thousands)				
Balance Sheet Data:					
Working capital	$ 8,058	$ 19,434	$ 16,817	$ 12,919	$ 7,260
Total assets	44,675	47,954	45,673	38,832	33,772
Total debt, including current portion	1,471	4,901	5,044	5,176	5,302
Total shareholders' equity	32,593	35,018	32,424	28,018	23,353

(1) On January 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets,* and ceased amortizing goodwill and other non-amortizable intangible assets. If the Company had not amortized goodwill and other non-amortizable intangible assets during the year ended December 31, 2001, net income would have been $2 million.

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

Overview

The Company believes it is a leading provider of ongoing survey-based performance measurement, analysis, tracking, improvement and educational services to the healthcare industry in the United States and Canada. Since 1981, the Company has provided these services using traditional market research methodologies, such as direct mail, telephone-based surveys, focus groups and in-person interviews. Since 2002, the current primary data collection methodology used is direct mail, but the Company still uses other methodologies for certain types of studies. The Company addresses the growing need of healthcare providers and payers to measure the care outcomes, specifically experience and health status of their patients and/or members. NRC develops tools that enable healthcare organizations to obtain performance measurement information necessary to comply with industry and regulatory standards, and to improve their business practices so that they can maximize new member and/or patient attraction, experience, member retention and profitability. The Company believes that a driver of its growth and the growth of its industry will be the increase in demand for performance measurement and improvement products as a result of more public reporting programs. The Company's primary types of information services are performance tracking services, custom research, educational services and its Market Guide.

Acquisition of Geriatric Health Systems

On September 16, 2005, the Company acquired substantially all of the assets of Geriatric Health Systems, LLC, a healthcare survey research and analytics firm based in California that specializes in measuring health status, health risk and member satisfaction for health plans in the United States. The purchase price for the acquisition was $4.0 million in cash, plus the assumption of certain liabilities.

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 fiscal year 2005 include:

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

Revenue Recognition

The Company's performance tracking services are performance tracking and improvement tools for gathering and analyzing data from survey respondents. Such services are provided pursuant to contracts which are generally renewable annually, and that provide for a customer specific study which is conducted via a series of surveys and delivered via a series of updates or reports, the timing and frequency of which vary by contract (such as monthly or weekly). These contracts are generally cancelable on short or no notice without penalty and, since progress on these contracts can be tracked and regular updates and reports are made, clients are entitled to any work-in-process, but are obligated to pay for all services performed through cancellation. Typically, these contracts are fixed fee arrangements and a portion of the project fee is billed in advance, and the remainder is billed periodically over the duration of the project. The Company conducts custom research which measures and monitors market issues specific to individual healthcare organizations. The majority of the Company's custom research is performed under contracts which provide for advance billing of 65% of the total project fee with the remainder due upon delivery. Revenues and direct expenses for the Company's performance tracking services are recognized under the proportional performance method. Revenues and direct expenses for the NRC+Picker educational services and custom research services are also recognized under the proportional performance method.

Under the proportional performance method, the Company recognizes revenue based on output measures or key milestones such as survey set up, survey mailings, survey returns and reporting. The Company measures its progress based on the level of completion of these output measures and recognizes revenue accordingly. Management judgments and estimates must be made and used in connection with revenue recognized using the proportional performance method. If management made different judgments and estimates, then the amount and timing of revenue for any period could differ materially from the reported revenue.

The Company's Market Guide serves as a stand-alone market information and competitive intelligence source, as well as a comparative performance database. Published by NRC annually, this survey is a comprehensive consumer-based healthcare assessment. Market Guide is generally provided pursuant to contracts which have durations of four to six months and that provide for the receipt of survey results that are customized to meet an individual client's specific information needs. Typically, these contracts are not cancelable by clients, clients receive no rights in the comprehensive healthcare database which results from this survey, other than the right to use the customized reports purchased pursuant thereto, and amounts due for Market Guide are billed prior to or at delivery. The Company recognizes revenue on Market Guide contracts upon delivery to the principal customers, typically in the third quarter of the year. The Company defers costs of preparing the survey data for Market Guide. These costs are primarily incremental external direct costs solely related to fulfilling the Company's obligations under Market Guide contracts. The Company expenses these deferred costs at the time revenue is recognized. The Company monitors and assesses the recoverability of the deferred direct costs based on contracted revenues and whenever changes in circumstances warrant such assessment. The Company generates additional revenues from incidental customers subsequent to the completion of each edition. Revenue and costs for these subsequent services are recognized as the customization services are performed and completed. The profit margin earned on such revenues is generally higher than that earned on revenues realized from customers under contract at the time of delivery. As a result, the Company's margins vary throughout the year. The Company's revenue recognition policy for Market Guide is not sensitive to significant estimates and judgments.

Valuation of Long-Lived Assets

Under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company monitors events and changes in circumstances that may require the Company to review the carrying value of its long-lived assets. The Company assesses the recoverability of its long-lived assets based on estimated undiscounted future operating cash flows. The assessment of the recoverability of long-lived assets will be impacted if estimated future operating cash flows are not achieved.

The Company assesses the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. 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.

Valuation of Intangible Assets

Intangible assets include customer relationships, trade name and goodwill. Goodwill represents the difference between the purchase price paid in acquisitions, using the purchase method of accounting, and the fair value of the net assets acquired.

The Company adopted the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets,* and, as a result, the Company does not amortize goodwill.

All of the Company's goodwill is allocated to one reporting unit, the healthcare survey business. As of December 31, 2005, the Company had net goodwill of $11.5 million. As of October 1 of each year (or more frequently as changes in circumstances indicate), the Company evaluates the estimated fair value of the Company's goodwill. On these evaluation dates, to the extent that the carrying value of the net assets of the Company's reporting unit having goodwill is greater than the estimated fair value, impairment charges will be recorded. The Company's analysis has not resulted in the recognition of an impairment loss on goodwill in 2005, 2004 or 2003.

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. 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.

Results of Operations

The following table sets forth, for the periods indicated, selected financial information derived from the Company's consolidated financial statements, expressed as a percentage of total revenues and the percentage change in such items versus the prior comparable period. The trends illustrated in the following table may not necessarily be indicative of future results. The discussion that follows the table should be read in conjunction with the Company's consolidated financial statements.

	Percentage of Total Revenues Year Ended December 31,			Percentage Increase	
	2005	2004	2003	2005 over 2004	2004 over 2003
Revenues	100.0%	100.0%	100.0%	9.3%	10.3%
Operating expenses:					
Direct expenses	42.1	43.4	44.7	6.0	7.0
Selling, general and administrative	26.6	24.9	22.2	16.5	23.5
Depreciation and amortization	5.4	6.8	7.2	(12.7)	3.9
Total operating expenses	74.1	75.1	74.1	7.8	11.6
Operating income	25.9%	24.9%	25.9%	13.7%	6.3%

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Total revenues. Total revenues increased 9.3% in 2005, to $32.4 million from $29.6 million in 2004. The increase was primarily due to increases in scope of work from existing clients, and the addition of new clients, including $575,000 revenue generated from the acquisition of Geriatric Health Systems' health plan business.

Direct expenses. Direct expenses increased 6.0% to $13.6 million in 2005 from $12.9 million in 2004. The increase in direct expenses in 2005 was due primarily to increases in salaries and benefits of $424,000, other expenses of $264,000 including contracted services, fieldwork and fees expenses of $143,000 and labor and payroll expenses of $112,000 to service the increase in revenue. These increases were partially offset by a decrease in printing and postage expenses of $180,000. Direct expenses decreased as a percentage of total revenues to 42.1% in 2005 from 43.4% in 2004, primarily due to the mix of services and data collection methodology during the year, as well as a related $194,000 reduction in a tax accrual due to a change to a web-based method of delivering the Healthcare Market Guide. The Company's model for direct expenses ranges from 43% to 45% as a percentage of total revenue. The Company expects direct expenses as a percentage of total revenues to be within the model during 2006.

Selling, general and administrative expenses. Selling, general and administrative expenses increased 16.5% to $8.6 million in 2005 from $7.4 million in 2004. The net increase was primarily due to increases in salary, benefits, commissions and travel expenses increases of $1.2 million, and legal and accounting expenses of $106,000. These increases were partially offset by a decrease in direct marketing expenses of $202,000. Much of the overall increase is due to the continuation of the sales and marketing expansion initiatives which the Company started in the fourth quarter of 2003. Selling, general and administrative expenses increased as a percentage of total revenues to 26.6% in 2005 from 24.9% in 2004. The Company's model for selling, general and administrative expenses ranges from 23% to 25% as a percentage of total revenue. The Company expects selling, general and administrative expenses as a percentage of total revenues to be slightly higher than the model during 2006 due to the continued expansion of the sales and marketing departments.

Depreciation and amortization. Depreciation and amortization expenses decreased 12.7% to $1.8 million in 2005 from $2.0 million in 2004. The decrease is primarily due to assets becoming fully depreciated. Depreciation and amortization expenses decreased as a percentage of total revenues to 5.4% in 2005 from 6.8% in 2004 due to increased revenues and assets becoming fully depreciated. The Company's model for depreciation and amortization expenses ranges from 4.5% to 6.0% as a percentage of total revenue. The Company expects depreciation and amortization expenses as a percent of total revenues to be at the lower end of the model in 2006.

Provision for income taxes. The provision for income taxes totaled $3.3 million (38.5% effective tax rate) for 2005 compared to $2.7 million (37.5% effective tax rate) for 2004. The effective tax rate is higher in 2005 due to differences in state income taxes.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Total revenues. Total revenues increased 10.3% in 2004 to $29.7 million from $26.9 million in 2003. The increase was primarily due to the addition of new clients and the cross-selling and increases in scope of work from existing clients.

Direct expenses. Direct expenses increased 7.0% to $12.9 million in 2004 from $12.0 million in 2003. The increase in direct expenses in 2004 was due primarily to the incremental costs of servicing additional clients. The increases were in printing and postage expense of $540,000, labor and payroll of $194,000, and in fieldwork and fees expenses of $113,000. Direct expenses decreased as a percentage of total revenues to 43.4% in 2004 from 44.7% during 2003 primarily due to the mix of services provided during the year.

Selling, general and administrative expenses. Selling, general and administrative expenses increased 23.5% to $7.4 million in 2004 from $6.0 million in 2003. The net increase was primarily due to increases in salary and benefit expenses of $852,000, travel expenses of $419,000, rent and utilities of $89,000, legal and accounting of $68,000, contract services of $54,000, and human resources recruitment expenses of $40,000. These increases were partially offset by a decrease in bad debt expense of $102,000. Much of the overall increases were a result of the new sales expansion plan started in late 2003. Selling, general and administrative expenses increased as a percentage of total revenues to 24.9% in 2004 from 22.2% in 2003.

Depreciation and amortization. Depreciation and amortization expenses increased 3.9% to $2.0 million in 2004 from $1.9 million in 2003. The increase is primarily due to the additional depreciation of software, computer equipment and production equipment. Depreciation and amortization expenses decreased as a percentage of total revenues to 6.8% in 2004 from 7.2% in 2003.

Provision for income taxes. The provision for income taxes totaled $2.7 million (37.5% effective tax rate) for 2004 compared to $2.5 million (36.6% effective tax rate) for 2003. The effective tax rate was higher in 2004 due to differences in state income taxes.

Liquidity and Capital Resources

The Company's principal source of funds in recent years has been cash flow from its operations. The Company's operating cash flow has been sufficient to provide funds for working capital and capital expenditures, and the Company expects that it will continue to be sufficient in the foreseeable future.

As of December 31, 2005, the Company had cash and cash equivalents of $844,000 and working capital of $8.1 million.

During 2005, the Company generated $8.2 million of net cash from operating activities as compared to $7.8 and $8.2 net cash generated during 2004 and 2003, respectively. The $400,000 increase in operating cash flow from 2004 to 2005 is primarily related to $685,000 of higher net income, reduced by a $256,000 decrease in depreciation and amortization expense. The $500,000 decrease in operating cash flow from 2003 to 2004 was primarily related to the reversal of $1.6 million of timing items that occurred in prior years in connection with the Company's three customer related accounts. The effect of this reversal was partially offset by a $1.0 million net increase in income taxes recoverable due to higher payments of taxes and an extra $170,000 of net income in 2004. The timing issues related to approximately $1.6 million of billings and payments on certain government contracts, including the movement of certain government work to

December during 2002, and slow payment by one government account in late 2002. Had these timing issues not occurred, then operating cash flow would have been approximately $1.6 million lower in 2003.

Net cash provided by investing activities was $354,000 in 2005 compared to net cash used in investing activities of $4.7 million in 2004, and $5.5 million in 2003. The 2005 net cash provided by investing activities was primarily due to a $5.9 million increase in the proceeds from the maturities of securities available-for-sale over the purchases of securities available-for-sale. This was partially offset by $4.1 million to acquire the net assets of Geriatric Health Systems, LLC, a $348,000 earn-out on the acquisition of Smaller World Communications Inc., and an investment of $1.1 million in furniture, computer equipment, software and production equipment to support the expansion of the Company's business. The 2004 net cash used in investing activities was primarily comprised of the investment of $2.1 million in furniture, computer equipment, software and production equipment, and an increase in the net purchases of securities available-for-sale over the proceeds from the maturities of securities of $2.7 million. The 2003 net cash used in investing activities was primarily comprised of the investment of $1.7 million in furniture, computer equipment, software and production equipment, the investment of $1.0 million to acquire the net assets of Smaller World Communications Inc., and an increase in the net purchases of securities available-for-sale over the proceeds from the maturities of securities of $2.9 million. The Company's investments available-for-sale consist principally of United States government securities with maturities of three years or less.

Net cash used in financing activities was $11.4 million in 2005 compared to $2.8 million and $205,000 cash used in financing activities in 2004 and 2003, respectively. The cash used in financing activities in 2005 was primarily comprised of $5.9 million used for the purchase of treasury stock, $3.4 million of principal payments on long term debt, and $2.3 million of dividends paid. The cash used in financing activities in 2004 was primarily comprised of $2.9 million used for the purchase of treasury stock.

The Company has budgeted approximately $1.3 million for additional capital expenditures in 2006 to be funded through cash generated from operations. The Company expects that the additional capital expenditures during 2006 will be primarily for computer hardware and software, production equipment and furniture.

The Company typically bills clients for performance tracking services and custom research projects before they have been completed. Billed amounts are recorded as billings in excess of revenues earned, or deferred revenue, on the Company's consolidated financial statements, and are recognized as income when earned. As of December 31, 2005 and 2004, the Company had $5.4 million and $4.0 million of deferred revenues, respectively. In addition, when work is performed in advance of billing, the Company records this work as revenues earned in excess of billings, or unbilled revenue. The Company had $1.2 million of unbilled revenues as of December 31, 2005 and 2004. Substantially all deferred and unbilled revenues will be earned and billed respectively, within 12 months of the respective period ends.

The Company had not paid cash dividends on its common stock prior to 2005. However, in March 2005, the Company announced the commencement of a quarterly cash dividend. Cash dividends of $2.3 million in the aggregate were declared and paid during the year ended December 31, 2005. The payment and amount of future dividends 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 and other factors.

As of December 31, 2005, the Company had obligations to make cash payments in the following amounts in the future:

Contractual Obligations	Total Payments	Less than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years
Operating Leases	$ 954,177	$ 262,672	$ 513,497	$ 178,008	$ --
Long Term Debt	--	--	--	--	--
Other Long Term Liabilities (see below)	--	--	--	--	--
Total	$ 954,177	$ 262,672	$ 513,497	$ 178,008	$ --

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.

The purchase price for Smaller World Communications Inc. includes two additional scheduled payments of additional purchase price in 2006 and 2008. As of December 31, 2005, the first aggregate payment based on meeting certain revenue goals was $536,200, including an additional earn-out of $348,199 recorded to goodwill during the period ended December 31, 2005. This payment is due in the next 12 months and is included in accrued expenses. The second aggregate payment, also based upon certain revenue goals, has a minimum of $0 and a maximum of $601,000.

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."

Stock Repurchase Program

In July 2003, the Board of Directors of the Company authorized the repurchase of 500,000 shares of common stock in the open market or in privately negotiated transactions. As of December 31, 2005, this plan has terminated as all shares have been repurchased under that authorization.

Subsequent to December 31, 2005, the Board of Directors of the Company authorized the repurchase of an additional 750,000 shares of common stock in the open market or in privately negotiated transactions.

Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board, ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 153, *Exchanges of Nonmonetary Assets*. SFAS No. 153 amends the guidance in APB Opinion No. 29, *Accounting for Nonmonetary Transactions*. APB Opinion No. 29 provided an exception to the basic measurement principle (fair value) for exchanges of similar assets, requiring that some nonmonetary exchanges be recorded on a carryover basis. SFAS No. 153 eliminates the exception to fair value for exchanges of similar productive assets and replaces it with a general exception for exchange transactions that do not have commercial substance, that is, transactions that are not expected to result in significant changes in the cash flows of the reporting entity. The provisions of SFAS No. 153 are effective for exchanges of nonmonetary assets occurring in fiscal periods beginning after June 15, 2005. As of December 31, 2005, SFAS No. 153 did not have any effect on the Company's consolidated financial statements.

In December 2004, the FASB revised SFAS No. 123 (revised 2004), *Share-Based Payments*. SFAS No. 123(R) eliminates the alternative to use the intrinsic value method of accounting set forth in APB Opinion No. 25 (generally resulting in recognition of no compensation cost) and instead requires a company to recognize in its financial statements the cost of employee services received in exchange for valuable equity instruments issued, and liabilities incurred, to employees in share-based payment transactions (e.g., stock options). The cost will be based on the grant-date fair value of the award and will be recognized over the period for which an employee is required to provide service in exchange for the award. In March 2005, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") 107, *Share-Based Payments*, which includes recognition, measurement and disclosure guidance as companies begin to implement SFAS No. 123(R). SAB 107 does not modify any of the requirements of SFAS No. 123(R). In April 2005, the SEC adopted a rule amending the compliance dates for SFAS No. 123(R). Under the new SEC rule, the provisions of the revised statement are to be applied prospectively by the Company for awards that are granted, modified, or settled in the first fiscal year beginning after June 15, 2005. Additionally, the Company would recognize compensation cost for any portion of awards granted or modified after December 15, 1994, that is not yet vested at the date the standard is adopted, based on the grant-date fair value of those awards calculated under SFAS No. 123 (as originally issued) for either recognition or proforma disclosures. The Company adopted this standard on January 1, 2006, and it will now report in its financial statements the share-based compensation expense for reporting periods beginning in 2006. As of the date of this filing, the Company believes that adopting the new standard will decrease net income by approximately $.04 to $.06 per share for the year ending December 31, 2006. The impact of adopting SFAS 123(R) will depend in part on levels of share-based awards granted in the future.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*. This Statement replaces APB Opinion No. 20, *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and changes the requirement for the accounting and reporting of all voluntary changes in accounting principles and changes required by an accounting pronouncement when the pronouncement does not include specific transition provisions. This Statement requires retrospective application to prior periods' financial statements of changes in accounting principles, unless it is impracticable to do so. The provisions of SFAS No. 154 are effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS No. 154 will have no effect on the Company's consolidated financial statements, but would affect the Company's accounting for future changes in accounting principles.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

The impact of financial market risk exposure to the Company is not significant. The Company's primary financial market risk exposure consists of interest rate risk related to interest income from the Company's investments in United States government securities with maturities of three years or less. The Company has invested and expects to continue to invest a substantial portion of its excess cash in such securities. See Note 3 to the Company's consolidated financial statements. Generally, if the overall average return on such securities would have decreased .5% from the average return during the years ended December 31, 2005 and 2004, then the Company's interest income and pre-tax income would have decreased approximately $81,000 and $68,000, respectively. These amounts were determined by considering the impact of a hypothetical change in interest rates on the Company's interest income.

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, 2005. 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.

	Quarter Ended							
	Dec. 31, 2005	Sept 30, 2005	June 30, 2005	Mar. 31, 2005	Dec. 31, 2004	Sept.30, 2004	June 30, 2004	Mar. 31, 2004
Revenues	$ 8,558	$ 10,132	$ 7,150	$ 6,597	$ 6,431	$ 9,320	$ 6,371	$ 7,561
Direct expenses	3,801	4,018	3,073	2,750	2,680	4,174	2,717	3,298
Selling, general and administrative	2,012	2,331	2,089	2,185	1,816	1,824	1,850	1,904
Depreciation and amortization	428	456	454	424	527	538	489	464
Operating income	2,317	3,327	1,534	1,238	1,408	2,784	1,315	1,895
Other income (expense)	44	46	6	3	24	11	(113)	(41)
Provision for income taxes	827	1,344	615	493	510	1,079	464	679
Net income	$ 1,534	$ 2,029	$ 925	$ 748	$ 922	$ 1,716	$ 738	$ 1,175
Net income per share – basic	$ 0.22	$ 0.29	$ 0.13	$ 0.10	$ 0.13	$ 0.24	$ 0.10	$ 0.16
Net income per share – diluted	$ 0.22	$ 0.29	$ 0.13	$ 0.10	$ 0.13	$ 0.24	$ 0.10	$ 0.16
Weighted average shares outstanding – basic	6,921	6,961	7,122	7,150	7,142	7,137	7,191	7,256
Weighted average shares outstanding – diluted	7,012	7,056	7,179	7,202	7,211	7,224	7,284	7,353

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
National Research Corporation:

We have audited the accompanying consolidated balance sheets of National Research Corporation and subsidiary (the Company) as of December 31, 2005 and 2004 and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2005. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule II for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements and financial statement schedule 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 conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Research Corporation and subsidiary as of December 31, 2005 and 2004 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. In addition, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

KPMG LLP

Lincoln, Nebraska
February 24, 2006

NATIONAL RESEARCH CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS AS OF
DECEMBER 31, 2005 AND 2004

Assets	**2005**	**2004**
Current assets:		
Cash and cash equivalents	$ 843,959	$ 3,647,693
Investments in marketable debt securities	9,451,835	15,348,349
Trade accounts receivable, less allowance for doubtful accounts of $103,183 and $100,526 in 2005 and 2004, respectively	5,494,689	3,391,953
Unbilled revenues	1,182,657	1,190,084
Prepaid expenses and other	934,699	948,432
Recoverable income taxes	183,970	632,026
Deferred income taxes	125,771	295,290
Total current assets	18,217,580	25,453,827
Net property and equipment	11,890,809	12,355,456
Goodwill, net of accumulated amortization	11,483,401	8,293,346
Intangible assets, net of accumulated amortization	3,043,987	1,832,889
Other	39,575	18,445
Total assets	$ 44,675,352	$ 47,953,963
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of note payable	$ 1,471,283	$ 155,728
Accounts payable	1,065,717	429,973
Accrued wages, bonus and profit sharing	1,248,001	975,991
Accrued expenses	940,634	421,212
Billings in excess of revenues earned	5,434,321	4,036,608
Total current liabilities	10,159,956	6,019,512
Note payable, net of current portion	--	4,745,126
Deferred income taxes	1,921,905	1,827,235
Other long-term liabilities	--	344,433
Total liabilities	12,081,861	12,936,306
Shareholders' equity:		
Preferred stock, $.01 par value; authorized 2,000,000 shares, no shares issued and outstanding	--	--
Common stock, $.001 par value; authorized 20,000,000 shares, issued 7,740,571 in 2005 and 7,684,006 in 2004, outstanding 6,845,571 in 2005 and 7,174,706 in 2004	7,741	7,684
Additional paid-in capital	20,046,027	19,345,569
Retained earnings	23,360,297	20,382,334
Unearned compensation	(432,631)	(182,354)
Accumulated other comprehensive income, net of taxes	300,369	220,261
Treasury stock, at cost; 895,000 shares in 2005 and 509,300 shares in 2004	(10,688,312)	(4,755,837)
Total shareholders' equity	32,593,491	35,017,657
Total liabilities and shareholders' equity	$ 44,675,352	$ 47,953,963

See accompanying notes to consolidated financial statements.

NATIONAL RESEARCH CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME FOR THE
THREE YEARS ENDED DECEMBER 31, 2005

	2005	2004	2003
Revenues	$ 32,436,502	$ 29,683,091	$ 26,922,433
Operating expenses:			
Direct expenses	13,642,195	12,869,259	12,028,561
Selling, general and administrative	8,617,372	7,394,567	5,987,154
Depreciation and amortization	1,761,623	2,017,621	1,941,418
Total operating expenses	24,021,190	22,281,447	19,957,133
Operating income	8,415,312	7,401,644	6,965,300
Other income (expense):			
Interest income	488,120	344,570	292,517
Interest expense	(379,464)	(458,581)	(427,847)
Other, net	(9,507)	(4,777)	85,831
Total other income (expense)	99,149	(118,788)	(49,499)
Income before income taxes	8,514,461	7,282,856	6,915,801
Provision for income taxes	3,278,370	2,732,222	2,531,544
Net income	$ 5,236,091	$ 4,550,634	$ 4,384,257
Net income per share – basic and diluted	$ 0.74	$ 0.63	$ 0.60

See accompanying notes to consolidated financial statements.

NATIONAL RESEARCH CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME AS OF AND FOR THE THREE YEARS ENDED DECEMBER 31, 2005

	Common Stock	Additional Paid-in Capital	Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balances at December 31, 2002	$ 7,561	$ 18,123,603	$ 11,447,443	$ --	$ 35,371	$ (1,595,703)	$ 28,018,275
Purchase of 18,500 shares of treasury stock	--	--	--	--	--	(273,727)	(273,727)
Issuance of 40,062 common shares for the exercise of stock options	41	200,624	--	--	--	--	200,665
Tax benefit from the exercise of options	--	115,116	--	--	--	--	115,116
Issuance of 39,147 restricted common shares, net of -0- shares cancelled	39	436,177	--	(436,216)	--	--	--
Non-cash stock compensation expense	--	--	--	42,222	--	--	42,222
Comprehensive income							
Change in unrealized gain/(loss) on marketable securities net of tax	--	--	--	--	(54,455)	--	(54,455)
Change in cumulative translation adjustment	--	--	--	--	(8,064)	--	(8,064)
Net income	--	--	4,384,257	--	--	--	4,384,257
Total comprehensive income	--	--	4,384,257	--	(62,519)	--	4,321,738
Balances at December 31, 2003	7,641	18,875,520	15,831,700	(393,994)	(27,148)	(1,869,430)	32,424,289
Purchase of 175,300 shares of treasury stock	--	--	--	--	--	(2,886,407)	(2,886,407)
Issuance of 57,857 common shares for the exercise of stock options	57	332,991	--	--	--	--	333,048
Tax benefit from the exercise of options	--	233,345	--	--	--	--	233,345
Issuance of 2,483 restricted common shares, net of 16,153 shares cancelled	(16)	(96,287)	--	96,301	--	--	--
Non-cash stock compensation expense	--	--	--	115,339	--	--	115,339
Comprehensive income							
Change in unrealized gain/(loss) on marketable securities net of tax	--	--	--	--	(56,850)	--	(56,850)
Change in cumulative translation adjustment	--	--	--	--	304,259	--	304,259
Net income	--	--	4,550,634	--	--	--	4,550,634
Total comprehensive income	--	--	4,550,634	--	247,409	--	4,798,043
Balances at December 31, 2004	7,684	19,345,569	20,382,334	(182,354)	220,261	(4,755,837)	35,017,657
Purchase of 385,700 shares of treasury stock	--	--	--	--	--	(5,932,475)	(5,932,475)
Issuance of 30,873 common shares for the exercise of stock options	31	253,846	--	--	--	--	253,877
Tax benefit from the exercise of options	--	84,140	--	--	--	--	84,140
Issuance of 25,692 restricted common shares, net of 2,036 cancelled	26	362,472	--	(362,472)	--	--	--
Non-cash stock compensation expense	--	--	--	112,221	--	--	112,221
Dividends declared of $0.32 per common share			(2,258,128)				(2,258,128)
Comprehensive income							
Change in unrealized gain/(loss) on marketable securities net of tax	--	--	--	--	4,280	--	4,280
Change in cumulative translation adjustment	--	--	--	--	75,828	--	75,828
Net income	--	--	5,236,091	--	--	--	5,236,091
Total comprehensive income	--	--	5,236,091	--	80,108	--	5,316,199
Balances at December 31, 2005	$ 7,741	$ 20,046,027	$ 23,360,297	$ (432,631)	$ 300,369	$ (10,688,312)	$ 32,593,491

See accompanying notes to consolidated financial statements.

NATIONAL RESEARCH CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE YEARS ENDED DECEMBER 31, 2005

	2005	2004	2003
Cash flows from operating activities:			
Net income	$ 5,236,091	$ 4,550,634	$ 4,384,257
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,761,623	2,017,621	1,941,418
Deferred income taxes	264,049	614,871	330,698
Loss (gain) on sale of property and equipment	239	(4,090)	8,173
Loss (gain) on sale of other investments	(43)	75	41
Tax benefit from exercise of stock options	84,140	233,345	115,116
Non-cash stock compensation expense	112,221	115,339	42,222
Change in assets and liabilities, net of effect of acquisitions:			
Trade accounts receivable	(2,079,193)	2,160,923	(596,714)
Unbilled revenues	29,026	(187,482)	961,335
Prepaid expenses and other	45,597	(315,139)	(307,801)
Accounts payable	602,326	(48,381)	(162,596)
Accrued expenses, wages, bonus and profit sharing	328,718	(15,420)	274,241
Income taxes payable and recoverable	442,865	(876,140)	170,618
Billings in excess of revenues earned	1,360,425	(429,427)	1,104,085
Net cash provided by operating activities	8,188,084	7,816,729	8,265,093
Cash flows from investing activities:			
Purchases of property and equipment	(1,088,172)	(2,066,807)	(1,682,734)
Acquisition, net of cash acquired and earn-out on acquisition	(4,459,198)	--	(996,888)
Purchases of securities available-for-sale	(19,453,522)	(9,211,409)	(14,065,000)
Proceeds from the maturities of securities available-for-sale	25,353,137	6,537,109	11,202,426
Proceeds from sale of property and equipment	1,500	4,863	2,543
Net cash provided by (used in) investing activities	353,745	(4,736,244)	(5,539,653)
Cash flows from financing activities:			
Payments on notes payable	(3,429,571)	(142,710)	(132,433)
Payments on other long term liabilities	--	(143,081)	--
Proceeds from exercise of stock options	253,877	333,048	200,665
Purchase of treasury stock	(5,932,475)	(2,886,407)	(273,727)
Payment of dividends on common stock	(2,258,128)	--	--
Net cash used in financing activities	(11,366,297)	(2,839,150)	(205,495)
Effect of exchange rate changes on cash	20,734	(34,557)	(70,247)
Net increase (decrease) in cash and cash equivalents	(2,803,734)	206,778	2,449,698
Cash and cash equivalents at beginning of period	3,647,693	3,440,915	991,217
Cash and cash equivalents at end of period	$ 843,959	$ 3,647,693	$ 3,440,915
Supplemental disclosure of cash paid for:			
Interest expense	$ 364,210	$ 458,581	$ 427,847
Income taxes	$ 2,479,834	$ 2,759,669	$ 1,907,504

Supplemental disclosures of non-cash investing activities:

In connection with the Company's acquisition of businesses in 2005 and 2003, the Company acquired current assets of $53,046 and $171,635, respectively, and assumed current liabilities of $151,685 and $164,294, respectively.

See accompanying notes to consolidated financial statements.

NATIONAL RESEARCH CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Description of Business and Basis of Presentation

National Research Corporation (the "Company") is a provider of ongoing survey-based performance measurement, analysis, tracking, improvement and educational services to the healthcare industry in the United States and Canada. The Company provides market research services to hospitals and insurance companies on an unsecured credit basis. The Company's ten largest clients accounted for 40%, 43% and 45% of the Company's total revenues in 2005, 2004 and 2003, respectively. One client accounted for 11%, 12% and 15% of total revenues in 2005, 2004 and 2003, respectively. The Company operates in a single industry segment.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary. All significant intercompany transactions and balances have been eliminated in consolidation.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Translation of Foreign Currencies

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

Revenue Recognition

The Company derives a majority of its operating revenues from its annually renewable services, which include the performance tracking services and Market Guide. Under the performance tracking services, the Company provides interim and annual performance tracking and improvement tools to its clients under annual client service contracts, although such contracts are generally cancelable on short or no notice without penalty. Through its Market Guide, the Company publishes healthcare market information for its clients generally on an annual basis. The Company also derives revenues from its educational products and custom and other research projects.

The Company recognizes revenues from its performance tracking services, Learning Network, and its custom and other research projects using the proportional performance method of accounting. These services typically include a series of surveys and deliverable reports in which the timing and frequency vary by contract. Progress on a contract can be tracked reliably, and customers are obligated to pay as services are performed. The Company recognizes revenue based on output measures or key milestones such as survey set up, survey mailings, survey returns and reporting. The Company measures its progress based on the level of completion of these output measures and recognizes the revenue related to output measures. Losses expected to be incurred, if any, on jobs in progress are charged to income as soon as such losses are known. Revenues earned on contracts in progress in excess of billings are classified as a current asset. Amounts billed in excess of revenues earned are classified as a current liability. Client projects are generally completed within a twelve-month period.

The Company recognizes revenue on Market Guide contracts upon its delivery to the principal customers. The Company defers costs of preparing the survey data for Market Guide. These costs are primarily incremental external direct costs solely related to fulfilling the Company's obligations under Market Guide contracts. The Company expenses these deferred costs at the time revenue is recognized. The Company monitors and assesses the recoverability of the deferred direct costs based on contracted revenues and whenever changes in circumstances warrant such assessment. The Company generates additional revenues from incidental customers subsequent to the completion of each edition. Revenue and costs for these subsequent services are recognized as the customization services are performed and completed.

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. The Company reviews the allowance for doubtful accounts monthly.

Property and Equipment

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

For costs of software developed for internal use, the Company expenses computer software costs as incurred in the preliminary project stage, which involves the conceptual formulation, evaluation and selection of technology alternatives. Costs incurred related to the design, coding, installation and testing of software during the application project stage are capitalized. Costs for training and application maintenance are expensed as incurred. The Company has capitalized approximately $680,000, $583,000 and $544,000, of internal and external costs incurred for the development of internal use software for the years ended December 31, 2005, 2004 and 2003, respectively, with such costs classified as property and equipment.

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

Impairment of Long-lived Assets

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* the Company monitors events and changes in circumstances that may require the Company to review the carrying value of its long-lived assets. The Company assesses the recoverability of its long-lived assets based on estimated undiscounted future operating cash flows. The assessment of the recoverability of long-lived assets will be impacted if estimated future operating cash flows are not achieved.

The Company assesses the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Management believes the following circumstances are important indicators of potential impairment of such assets and as a result they 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 name and goodwill. Customer relationships are being amortized over periods of five to ten years. Goodwill represents the difference between the purchase price paid in acquisitions, using the purchase method of accounting, and the fair value of the net assets acquired.

Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead are tested for impairment at least annually in accordance with the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets.* Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144.

All of the Company's goodwill is allocated to one reporting unit, the healthcare survey business. As of December 31, 2005, the Company has net goodwill of $11.5 million. As of October 1 of each year (or more frequently as changes in circumstances indicate), the Company evaluates the estimated fair value of the Company's goodwill. On these evaluation dates, to the extent that the carrying value of the net assets of the Company's reporting unit having goodwill is greater than the estimated fair value, impairment charges will be recorded. The Company's analysis has not resulted in the recognition of an impairment loss on goodwill in 2005, 2004 or 2003.

Investments in Marketable Debt Securities

All marketable debt securities held by the Company at December 31, 2005 and 2004, were classified as available-for-sale and recorded at fair market value. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are reported as other comprehensive income or loss. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis. Fair values are estimated based on quoted market prices. Interest income is recognized when earned.

A decline in the market value of any available-for-sale security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other-than-temporary, the Company considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, and forecasted performance of the investee. The Company's analysis has not resulted in the recognition of an impairment loss on investments in 2005, 2004 or 2003.

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.

Stock Option Plans

The Company recognizes stock-based compensation expense for its stock option plans using the intrinsic value method prescribed by Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees,* and related interpretations to account for its fixed-plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. SFAS No. 123, *Accounting for Stock-Based Compensation,* established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic-value-based method of accounting.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No. 123*. SFAS No. 148 amends SFAS No. 123, *Accounting for Stock-Based Compensation,* to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements. The following table illustrates the effect on net income if the fair-value-based method had been applied to all outstanding and unvested option awards in each period:

	2005	2004	2003
	(in thousands, except per share amounts)		
Pro forma:			
Net income, as reported	$5,236	$4,551	$4,384
Less: Total stock-based compensation expense determined under the fair value method for all awards, net of tax	(459)	(399)	(153)
Add: Stock-based employee compensation expense included in reported net income, net of tax	70	72	27
Net income, adjusted for the fair value method	$4,847	$4,224	$4,258
Income per share, as reported basic	$0.74	$0.63	$0.60
Income per share, as reported diluted	$0.74	$0.63	$0.60
Income per share, adjusted for the fair value method basic	$0.69	$0.59	$0.59
Income per share, adjusted for the fair value method diluted	$0.68	$0.58	$0.58

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Fair Value of Financial Instruments

The carrying value of financial instruments included in assets and liabilities in the accompanying consolidated balance sheets approximates their fair value.

Earnings Per Share

Net income per share has been calculated and presented for "basic" and "diluted" per share data. Net income per share is computed by dividing net income by the weighted average number of common shares outstanding. Diluted income per share is computed by dividing net income by the weighted average number of common shares adjusted for the dilutive effects of options and restricted stock. At December 31, 2005, 2004 and 2003, the Company had 9,439, 142,896 and -0- options, respectively, which have been excluded from the diluted net income per share computation because their exercise price exceeds the fair market value.

The weighted average shares outstanding is calculated as follows:

	2005	2004	2003
Common stock	7,037,896	7,181,096	7,259,387
Dilutive effect of options	61,511	54,438	60,595
Dilutive effect of restricted stock	18,630	13,794	6,436
Weighted average shares used for dilutive per share information	7,118,037	7,249,328	7,326,418

There are no reconciling items between the Company's reported net income and net income used in the computation of basic and diluted income per share.

Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) were as follows:

	2005	2004	2003
Unrealized loss on marketable securities	$(118,436)	$ (121,494)	$ (29,136)
Related tax benefit	46,782	45,560	10,052
Net loss on marketable securities	(71,654)	(75,934)	(19,084)
Foreign currency translation adjustment	372,023	296,195	(8,064)
Accumulated other comprehensive income (loss)	$ 300,369	$ 220,261	$ (27,148)

New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board, ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 153, *Exchanges of Nonmonetary Assets*. SFAS No. 153 amends the guidance in APB Opinion No. 29, *Accounting for Nonmonetary Transactions*. APB Opinion No. 29 provided an exception to the basic measurement principle (fair value) for exchanges of similar assets, requiring that some nonmonetary exchanges be recorded on a carryover basis. SFAS No. 153 eliminates the exception to fair value for exchanges of similar productive assets and replaces it with a general exception for exchange transactions that do not have commercial substance, that is, transactions that are not expected to result in significant changes in the cash flows of the reporting entity. The provisions of SFAS No. 153 are effective for exchanges of nonmonetary assets occurring in fiscal periods beginning after June 15, 2005. As of

December 31, 2005, management believes that SFAS No. 153 did not have any effect on the Company's consolidated financial statements.

In December 2004, the FASB revised SFAS No. 123 (revised 2004), *Share-Based Payments*. SFAS No. 123(R) eliminates the alternative to use the intrinsic value method of accounting set forth in APB Opinion No. 25 (generally resulting in recognition of no compensation cost) and instead requires a company to recognize in its financial statements the cost of employee services received in exchange for valuable equity instruments issued, and liabilities incurred, to employees in share-based payment transactions (e.g., stock options). The cost will be based on the grant-date fair value of the award and will be recognized over the period for which an employee is required to provide service in exchange for the award. In March 2005, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") 107, *Share-Based Payments*, which includes recognition, measurement and disclosure guidance as companies begin to implement SFAS No. 123(R). SAB 107 does not modify any of the requirements of SFAS No. 123(R). In April 2005, the SEC adopted a rule amending the compliance dates for SFAS No. 123(R). Under the new SEC rule, the provisions of the revised statement are to be applied prospectively by the Company for awards that are granted, modified, or settled in the first fiscal year beginning after June 15, 2005. Additionally, the Company would recognize compensation cost for any portion of awards granted or modified after December 15, 1994, that is not yet vested at the date the standard is adopted, based on the grant-date fair value of those awards calculated under SFAS No. 123 (as originally issued) for either recognition or proforma disclosures. The Company adopted this standard on January 1, 2006, and it will now report in its financial statements the share-based compensation expense for reporting periods beginning in 2006. The impact of adopting SFAS 123(R) will depend in part on levels of share-based awards granted in the future.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*. This Statement replaces APB Opinion No. 20, *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and changes the requirement for the accounting and reporting of all voluntary changes in accounting principles and changes required by an accounting pronouncement when the pronouncement does not include specific transition provisions. This Statement requires retrospective application to prior periods' financial statements of changes in accounting principles, unless it is impracticable to do so. The provisions of SFAS No. 154 are effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS No. 154 will have no effect on the Company's consolidated financial statements, but would affect the Company's accounting for future changes in accounting principles.

(2) Acquisitions

On September 16, 2005, the Company acquired substantially all of the assets of Geriatric Health Systems, LLC (GHS), based in California. GHS is a healthcare survey research and analytics firm specializing in measuring health status, health risk and member satisfaction for health plans in the United States. The results of GHS operations have been included in the Company's consolidated financial statements since the date of acquisition. As a result of the acquisition, the Company expects to expand into the commercial health plan market. The purchase price was $4.0 million in cash, plus the assumption of certain liabilities. The Company paid $3.5 million in cash to the seller at closing and $500,000 into an escrow account. The escrow account will be released nine months from the acquisition date pending any unresolved claims. The Company estimates its direct acquisition costs to be $111,000.

The Company has preliminarily allocated the purchase price as follows, based on the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

	Fair Value
Current assets	$ 53,046
Property and equipment	50,000
Customer relationships	1,073,000
Surveys	298,000
Goodwill	2,788,639
Total acquired assets	4,262,685
Less total liabilities assumed	151,685
Net assets acquired	$4,111,000

Of the $4,159,639 of acquired intangible assets, $1,073,000 was assigned to customer relationships and $298,000 was assigned to surveys. The excess of purchase price over the fair value of net assets acquired resulted in the Company recording $2,788,639 of goodwill. The amortization of customer relationships, surveys, and goodwill is expected to be deductible for tax purposes.

The following unaudited pro forma information for the Company has been prepared as if this acquisition had occurred on January 1, 2004. The information is based on the historical results of the separate companies, and may not necessarily be indicative of the results that could have been achieved, or of results that may occur in the future.

	2005	2004
	(In thousands, except per share amounts) (Unaudited)	
Revenues..	$34,702	$32,089
Net income...	$ 5,515	$ 4,737
Earnings per share – basic………………	$ 0.78	$ 0.66
Earnings per share – diluted…………….	$ 0.77	$ 0.65

On March 17, 2003, the Company acquired 100% of the outstanding common shares of Smaller World Communications Inc. ("Smaller World") based in Toronto, Canada. The results of Smaller World's operations have been included in the consolidated financial statements since the effective date of March 1, 2003. Smaller World is a provider of performance measurement services for healthcare organizations in Canada. The aggregate minimum purchase price was $1,361,000. The purchase price includes two additional scheduled payments in 2006 and 2008. As of December 31, 2005, the first aggregate payment based on meeting certain revenue goals was $536,200, including an additional earn-out of $348,199 recorded to goodwill during the period ended December 31, 2005. This payment is due in the next 12 months and is included in accrued expenses. The second aggregate payment, also based upon certain revenue goals has a minimum of $0 and a maximum of $601,000. The Company recorded direct acquisition costs of approximately $85,000.

(3) Investments in Marketable Debt Securities

The Company's investments in marketable securities are in marketable debt securities classified as obligations of U.S. government agencies. The amortized cost, gross unrealized holding gains and losses and fair value of the Company's investment in the obligations of U.S. government agencies as of December 31, 2005 and 2004, were as follows:

	2005	2004
Amortized cost	$ 9,570,271	$ 15,469,843
Gross unrealized holding gains	1,140	3,198
Gross unrealized holding losses	(119,576)	(124,692)
Fair value	$ 9,451,835	$ 15,348,349

There were no sales of marketable debt securities in advance of scheduled maturities of available-for-sale marketable debt securities during 2005, 2004 or 2003. The fair value and amortized cost of marketable debt securities at December 31, 2005, by contractual maturity, are shown below. Actual maturities may differ from the contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	At December 31, 2005	
	Fair Value	Amortized Cost
Due after three months through one year	$7,324,153	$7,392,814
Due after one year through five years	2,127,682	2,177,457
	$9,451,835	$9,570,271

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2005, were as follows:

	Less than 12 months		12 months or more		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available for Sale:						
Obligations of US government agencies	$(7,364)	$1,869,241	$(112,212)	$7,582,594	$(119,576)	$9,451,835

The unrealized losses on investments in obligations of U.S. government agencies were caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

(4) Property and Equipment

At December 31, 2005 and 2004, property and equipment consisted of the following:

	2005	2004
Furniture and equipment	$ 2,116,480	$ 2,131,940
Computer equipment and software	10,317,841	9,292,576
Building	8,624,019	8,624,019
Land	425,000	425,000
	21,483,340	20,473,535
Less accumulated depreciation and amortization	9,592,531	8,118,079
Net property and equipment	$ 11,890,809	$ 12,355,456

(5) Goodwill and Intangible Assets

Goodwill and intangible assets consisted of the following at December 31, 2005 and 2004 :

	2005	2004
Nonamortizing intangible assets:		
Goodwill, net	$ 11,483,401	$ 8,293,346
Trade name	1,190,559	1,190,559
Amortizing intangible assets, gross:		
Customer related intangibles	2,433,465	1,053,573
Total other intangible assets, gross	3,624,024	2,244,132
Less accumulated amortization	580,037	411,243
Other intangible assets, net	$ 3,043,987	$ 1,832,889

The following represents a summary of changes in the Company's carrying amount of goodwill for the years ended December 31, 2005 and 2004:

Balance as of January 1, 2004	$ 8,002,089
Foreign currency translation	291,257
Balance as of December 31, 2004	8,293,346
GHS acquisition	2,788,639
Smaller World acquisition earn-out	348,199
Foreign currency translation	53,217
Balance as of December 31, 2005	$ 11,483,401

The change in the carrying amount of goodwill and customer related intangibles for the year ended December 31, 2005, includes the impact of foreign currency translation. Customer related intangibles consist of customer relationships and surveys which are being amortized over their estimated useful lives of five to fifteen years. Aggregate amortization expense for customer relationships/surveys for the year ended December 31, 2005, was $163,000. Estimated amortization expense for the next five years is: 2006--$270,000; 2007--$261,000; 2008--$217,000; 2008--$217,000; 2010--$217,000.

(6) Income Taxes

Income tax expense consisted of the following components:

	Current	Deferred	Total
2005:			
Federal	$ 2,231,717	$ 238,868	$ 2,470,585
Foreign	286,573	(18,894)	267,679
State	494,669	45,437	540,106
Total	$ 3,012,959	$ 265,411	$ 3,278,370
2004:			
Federal	$ 1,752,454	$ 544,396	$ 2,296,850
Foreign	43,471	(14,612)	28,859
State	317,188	89,325	406,513
Total	$ 2,113,113	$ 619,109	$ 2,732,222
2003:			
Federal	$ 1,770,983	$ 393,761	$ 2,164,744
Foreign	181,968	15,607	197,575
State	158,408	10,817	169,225
Total	$ 2,111,359	$ 420,185	$ 2,531,544

The difference between the Company's income tax expense as reported in the accompanying financial statements and that which would be calculated applying the U.S. Federal income tax rate of 34% on pretax income is as follows:

	2005	2004	2003
Expected federal income taxes	$2,894,917	$2,476,171	$2,351,372
Foreign tax rate differential	30,674	1,846	32,366
State income taxes, net of federal benefit and credits	356,470	268,299	111,689
Tax credits and incentives	(34,980)	--	(7,200)
Other	31,289	(14,094)	43,317
Total	$3,278,370	$2,732,222	$2,531,544

Deferred tax assets and liabilities at December 31, 2005 and 2004, were comprised of the following:

	2005	2004
Deferred tax assets:		
Allowance for doubtful accounts	$ 40,241	$ 39,205
Accrued expenses	118,741	189,544
Stock based compensation	89,615	58,464
Investments available-for-sale	46,782	45,560
Gross deferred tax assets	295,379	332,773
Deferred tax liabilities:		
Prepaid expenses	122,440	96,761
Basis in property and equipment	1,234,664	1,302,891
Intangible assets	734,409	465,066
Gross deferred tax liabilities	2,091,513	1,864,718
Net deferred tax liabilities	$(1,796,134)	$ 1,531,945)

The Company did not record a valuation allowance for its deferred tax assets because management believes that it is more likely than not that the Company will generate sufficient taxable income to fully realize these deferred tax benefits.

The undistributed earnings of the Company's foreign subsidiary of approximately $884,000 are considered to be indefinitely reinvested. Accordingly, no provision for U.S. federal and state income taxes or foreign withholding taxes have been provided for such undistributed earnings. It is impractical to determine the additional income tax liability, if any, associated with the repatriation of undistributed earnings.

(7) Note Payable

Note payable consists of the following:

	2005	2004
Note payable to US Bank, interest varies with the prime rate, no scheduled principal payments, final payment of interest and principal due October 31, 2010, secured by land and building.	$ 1,471,283	$ 4,900,854
Less current portion	1,471,283	155,728
Note payable, net of current portion	$ --	$ 4,745,126

This note payable had an option to pay down principal and reprice to a variable interest rate on October 31, 2005. The Company exercised this option and is making interest only payments and periodic payments of principal. The interest rate fluctuates with the prime rate, and was 6.75% at December 31, 2005. The Company intends to pay off the loan in the next 12 months and therefore, has classified the loan as a current liability. The aggregate maturities of the note payable for each of the five years subsequent to December 31, 2005, are: 2006--$1,471,283; 2007--$0; 2008--$0; 2009--$0; and 2010--$0.

(8) Stock Option Plans

In October 1997, the Board of Directors adopted and the Company's shareholders approved the National Research Corporation Director Stock Plan (the "Director Plan"). As amended in December 1997, the Director Plan provides for formula grants of nonqualified options to each director of the Company who is not employed by the Company. On the date of each Annual Meeting of Shareholders of the Company, each such director, if re-elected or retained as a director at such meeting, is granted an option to purchase 1,000 shares of the Company's common stock. Option exercise prices equal the fair market value of the Company's common stock on the date of grant. Options vest one year following the date of grant and may be exercisable for a period of up to 10 years following the date of grant. Options to purchase 3,000 shares of the Company's common stock were each granted in 2004 and 2003. At December 31, 2005, there were no shares available for issuance under this plan as it was terminated upon the approval of the National Research Corporation 2004 Directors Plan.

In August 2001, the Board of Directors adopted, and on May 1, 2002, the Company's shareholders approved, the National Research Corporation 2001 Equity Incentive Plan ("2001 Equity Incentive Plan"). The 2001 Equity Incentive Plan provides for the granting of options, stock appreciation rights, restricted stock and/or performance shares with respect to up to an aggregate of 600,000 shares of the Company's common stock. Options granted may be either nonqualified or incentive stock options. Vesting terms vary with each grant, and option terms are generally five years. At December 31, 2005, there were 106,183 shares available for issuance pursuant to future grants under the 2001 Equity Incentive Plan. The Company has accounted for grants of 493,817 options under the Equity Incentive Plan using the date of grant as the measurement date for financial accounting purposes.

In May 2004, the Board of Directors adopted, and on May 5, 2005, the Company's shareholders approved the National Research Corporation 2004 Director Plan (the "2004 Director Plan"). The 2004 Director Plan provides for the granting of options with respect to 250,000 shares of the Company's common stock. The 2004 Director Plan provides for grants of nonqualified options to each director of the Company who is not employed by the Company. In May 2004, each such director was granted an option to purchase 11,000 shares of the Company's common stock. On the date of each subsequent Annual Meeting of Shareholders of the Company, each such director, if re-elected or retained as a director at such meeting, is granted an option to purchase 12,000 shares of the Company's common stock. Options vest one year following the date of grant and may be exercisable for a period of up to ten years following the date of grant, or three years in the case of termination of the outside director. At December 31, 2005, there were 169,000 shares available for issuance pursuant to future grants under the 2004 Director Plan. The Company has accounted for grants of 81,000 options under the 2004 Director Plan using the date of grant as the measurement date for financial accounting purposes.

In February 2006, the Board of Directors adopted, subject to the approval of the Company's shareholders at the May 2006 Annual Meeting of Shareholders, the National Research Corporation 2006 Equity Incentive Plan (the "2006 Equity Incentive Plan"). The 2006 Equity Incentive Plan provides for the granting of options, stock appreciation rights, restricted stock and/or performance shares with respect to up to an aggregate of 600,000 shares of the Company's common 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. Options vest one to five years following the date of grant and may be exercisable for a period of up to ten years following the date of grant.

Options to purchase shares of common stock have been granted in 2005, 2004 and 2003, with exercise prices equal to the fair value of the common stock on the date of grant. Accordingly, no compensation expense was recorded for these grants.

During 2005, 2004 and 2003, the Company granted 27,728, 2,483 and 39,147 restricted shares, respectively, of common stock under the 2001 Equity Incentive Plan. The market value of these shares was recorded in unearned compensation, which is reflected in the accompanying consolidated balance sheet as a component of accumulated other comprehensive income. The applicable compensation expense will be recognized by the Company over the vesting periods of the restricted stock which is generally one to five years. The Company recognized $112,221, $115,339 and $42,222 of non-cash compensation for the years ended December 31, 2005, 2004 and 2003, respectively, related to this restricted stock.

The weighted average fair value of options granted in 2005, 2004 and 2003, was $4.97, $6.17 and $4.21, respectively. Pro forma net income displayed in Note 1 reflects the allocation of compensation cost for stock option grants using the fair value method. Compensation cost is allocated between periods based upon the vesting period of the options. Therefore, the full impact of calculating compensation cost using the fair value method is not reflected in pro forma net income amounts displayed in Note 1, because compensation cost is amortized to expense over the vesting period, and additional options may be granted in future years. The fair value for these options for 2005, 2004 and 2003, was estimated at the date of grant using the Black-Scholes model with the following assumptions:

	2005	2004	2003
Expected dividend yield at date of grant..........	2.07%	0	0
Expected stock price volatility.........................	38.40%	40.20%	42.20%
Risk-free interest rate.......................................	3.88%	2.99%	3.03%
Expected life of options (in years)...................	2.5 to 7.00	3.75 to 5.00	2.50 to 5.00

The following information relates to options to purchase common stock:

	2005		2004		2003	
	Number of Options	Weighted Average Exercise Price ($)	Number of Options	Weighted Average Exercise Price ($)	Number of Options	Weighted Average Exercise Price ($)
Outstanding at beginning of year……………….	384,775	$12.24	302,925	$ 9.03	159,518	$5.36
Granted……………..	130,688	14.96	172,235	16.10	205,915	10.98
Exercised……………	(30,873)	8.36	(57,857)	5.76	(40,062)	5.59
Canceled / expired.…	(19,521)	10.40	(32,528)	14.33	(22,446)	8.39
Outstanding at end of year…………………	465,069	13.17	384,775	12.24	302,925	9.03
Exercisable at end of year…………………	95,039	5.43	78,817	7.27	82,802	5.14

The following table summarizes information about stock options outstanding at December 31, 2005:

	Options Outstanding		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$ 2.19 to $6.00	25,502	1.08 years	$ 4.86
$ 6.01 to $10.00	20,019	3.10 years	7.98
$10.01 to $14.00	161,705	6.78 years	11.22
$14.01 to $17.00	257,843	6.39 years	15.62
$ 2.19 to $17.00	465,069	6.09 years	13.17

(9) Leases

The Company leases printing equipment and services in the United States and office space in Canada. The Company has recorded rent expense of $277,000, $233,000 and $217,000 in 2005, 2004 and 2003, respectively. Minimum lease payments under noncancelable operating leases for each of the five years subsequent to December 31, 2005 are: 2006--$263,000; 2007--$261,000; 2008--$252,000; 2009--$178,000 and 2010--$0.

(10) Related Party

A Board member of the Company also serves as a director of the Picker Institute. The Company advanced $300,000 in each of 2004 and 2003 to the Picker Institute to fund designated research projects, which as of December 31, 2005, have not yet commenced. In addition, the Company is a party to a support services agreement with the Picker Institute under which the Company conducts the annual Picker Institute International Symposiums. Under the support services agreement, the Picker Institute receives a portion of the gross receipts of each symposium, which amounted to approximately $15,000 in 2005, 2004 and 2003. In addition, the Company is a party to an agreement with the Picker Institute under which the Company markets certain products under the Picker Institute Symposium Educational Products name which was terminated in 2005. Under this agreement, the Picker Institute receives a portion of the net receipts from the sales of such products, which amounted to approximately $2,000 in 2005 and $12,000 in each of 2004 and 2003.

(11) Associate Benefits

The Company sponsors a qualified defined contribution profit sharing plan covering substantially all associates with no eligibility service requirement. Employer contributions, which are discretionary, vest to participants at a rate of 20% per year. No contributions were made by the Company in 2005, 2004 or 2003.

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

There have been no changes in or disagreements with the Company's accountants regarding accounting or financial disclosure required to be reported pursuant to this item.

Item 9A. 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, 2005. 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, 2005.

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2005, 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.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by this Item with respect to directors and Section 16 compliance is included under the captions "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance," respectively, in the Company's definitive Proxy Statement for its 2006 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 Company has adopted a Code of Business Conduct and Ethics that applies to all of the Company's employees, including the Company's Chief Executive Officer, Chief Financial Officer, Controller 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.nationalresearch.com. 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.nationalresearch.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 "Board of Directors-Director Compensation" and "Executive Compensation" in the Proxy Statement and is hereby incorporated herein by reference; provided, however, that the subsection entitled "Executive Compensation-Report on Executive Compensation" shall not be deemed to be 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, 2005.

Plan Category	Number of securities to be issued upon the exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders (1)....	465,069	$13.17	275,183 (2)
Equity compensation plans not approved by security holders	--	--	--
Total.............................	465,069	$13.17	275,183

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

(2) As of December 31, 2005, the Company had authority to award up to 148,831 additional shares of restricted Common Stock to participants under the 2001 Equity Incentive Plan, provided that the total of such shares awarded may not exceed the total number of shares remaining available for issuance under the 2001 Equity Incentive Plan, which totaled 106,183 as of December 31, 2005.

Item 13. Certain Relationships and Related Transactions

The information required by this Item is included under the caption "Miscellaneous-Certain Transactions" 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

(a) 1. Consolidated financial statements - The consolidated financial statements listed in the accompanying index to the consolidated financial statements and financial statement schedule are filed as part of this Annual Report on Form 10-K.

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

3. Exhibits - The exhibits listed in the accompanying exhibit index are filed as part of this Annual Report on Form 10-K.

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 29th day of March 2006.

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.

Signature	Title	Date
/s/ Michael D. Hays Michael D. Hays	Chief Executive Officer and Director (Principal Executive Officer)	March 29, 2006
/s/ Patrick E. Beans Patrick E. Beans	Vice President, Treasurer, Secretary, Chief Financial Officer and Director (Principal Financial and Accounting Officer)	March 29, 2006
/s/ JoAnn M. Martin JoAnn M. Martin	Director	March 29, 2006
/s/ John N. Nunnelly John N. Nunnelly	Director	March 29, 2006
/s/ Paul C. Schorr III Paul C. Schorr III	Director	March 29, 2006
/s/ Gail L. Warden Gail L. Warden	Director	March 29, 2006

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

Page in this Form 10-K

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.

NATIONAL RESEARCH CORPORATION AND SUBSIDIARY

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Year	Bad Debt Expense	Write-offs, Net of Recoveries	Balance at End of Year
Allowance for doubtful accounts:				
Year Ended December 31, 2003	$ 67,320	$ 127,848	$ 117,168	$ 78,000
Year Ended December 31, 2004	$ 78,000	$ 26,491	$ 3,965	$ 100,526
Year Ended December 31, 2005	$ 100,526	$ 2,657	$ --	$ 103,183

See accompanying report of independent registered public accounting firm.

EXHIBIT INDEX

Exhibit Number	Exhibit Description
(3.1)	Articles of Incorporation of National Research Corporation, as amended to date [Incorporated by reference to Exhibit (3.1) to National Research Corporation's Registration Statement on Form S-1 (Registration No. 333-33273)]
(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 March 15, 2006 (File No. 0-29466)]
(10.1)*	National Research Corporation 1997 Equity Incentive Plan [Incorporated by reference to Exhibit (10.2) to National Research Corporation's Registration Statement on Form S-1 (Registration No. 333-33273)]
(10.2)*	National Research Corporation 2001 Equity Incentive Plan [Incorporated by reference to National Research Corporation's Proxy Statement for the 2002 Annual Meeting of Shareholders, filed with the Securities and Exchange Commission on April 3, 2002 (File No. 0-29466)]
(10.3)*	National Research Corporation Director Stock Plan, as amended to date [Incorporated by reference to Exhibit (10.2) to National Research Corporation's Annual Report on Form 10-K for the year ended December 31, 1997 (File No. 0-29466)]
(10.4)*	National Research Corporation 2004 Director Stock Plan [Incorporated by reference to National Research Corporation's Proxy Statement for the 2005 Annual Meeting of Shareholders, filed with the Securities and Exchange Commission on April 4, 2005 (File No. 0-29466)]
(10.5)	Asset Purchase Agreement, dated as of September 16, 2005, among National Research Corporation, Geriatric Health Systems, LLC, Health Services Benefit Administrators, Inc. and Peter Yedidia [Incorporated by reference to Exhibit 2.1 to National Research Corporation's current Report of Form 8-K dated September 16, 2005 (File No. 0-29466)]
(10.6)+	Contract, dated January 23, 2002, between National Research Corporation and the Department of Veterans Affairs [Incorporated by reference to Exhibit (10.4) to National Research Corporation's Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 0-29466)]
(10.7)*	Form of Nonqualified Stock Option Agreement (for new associates) used in connection with the 2001 Equity Incentive Plan [Incorporated by reference to Exhibit 4.4 to National Research Corporation's Registration Statement on Form S-8 (Registration No. 333-120530)]
(10.8)*	Form of Nonqualified Stock Option Agreement (for officers) used in connection with the 2001 Equity Incentive Plan [Incorporated by reference to Exhibit 4.5 to National Research Corporation's Registration Statement on Form S-8 (Registration No. 333-120530)]
(10.9)*	Form of Restricted Stock Agreement for executive officers used in connection with the

Exhibit Number	Exhibit Description
	2001 Equity Incentive Plan [Incorporated by reference to Exhibit 10.2 to National Research Corporation's Current Report on Form 8-K dated March 19, 2005 (File No. 0-29466)]
(10.10)	Form of Restricted Stock Agreement (one year vesting) used in connection with the 2001 Equity Incentive Plan [Incorporated by reference to Exhibit 4.6 to National Research Corporation's Registration Statement on Form S-8 (Registration No. 333-120530)]
(10.11)*	Form of Restricted Stock Agreement (five year vesting) used in connection with the 2001 Equity Incentive Plan [Incorporated by reference to Exhibit 4.7 to National Research Corporation's Registration Statement on Form S-8 (Registration No. 333-120530)]
(10.12)*	Restricted Stock Incentive Plan for Joseph W. Carmichael, as amended and restated, under 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 3, 2006 (File No. 0-29466)]
(10.13)*	Director's Compensation summary [Incorporated by reference to Exhibit (10.11) to National Research Corporation's Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 0-29466)]
(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
(32.1)	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
(99.1)	Proxy Statement for the 2005 Annual Meeting of Shareholders, to be filed within 120 days of December 31, 2004 [To be filed with the Securities and Exchange Commission under Regulation 14A within 120 days after December 31, 2004; except to the extent specifically incorporated by reference, the Proxy Statement for the 2005 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]

* A management contract or compensatory plan or arrangement.

\+ Portions of this exhibit have been redacted and are subject to a confidential treatment request filed with the Secretary of the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. The redacted material was filed separately with the Securities and Exchange Commission.

Directors and Officers

Board of Directors

Michael D. Hays
Chief Executive Officer
National Research Corporation

Patrick E. Beans
Vice President, Treasurer, Secretary and Chief Financial Officer
National Research Corporation

JoAnn M. Martin*
President and Chief Executive Officer
Ameritas Life Insurance Corporation

John N. Nunnelly*
Vice President, Strategic Planning
McKesson Corporation

Paul C. Schorr III*
President and Chief Executive Officer
ComCor Holding, Inc.

*Gail L. Warden**
President Emeritus
Henry Ford Health System

**Members of Audit, Compensation and Nominating Committees*

Executive Officers

Michael D. Hays
Chief Executive Officer

Jona S. Raasch
Vice President and Chief Operations Officer

Joseph W. Carmichael
President

Patrick E. Beans
Vice President, Treasurer, Secretary and Chief Financial Officer

Corporate Data

Corporate Headquarters

National Research Corporation
1245 Q Street
Lincoln, Nebraska 68508
phone: 402.475.2525
fax: 402.475.9061
www.nationalresearch.com

Transfer Agent

Illinois Stock Transfer Company
209 West Jackson Boulevard
Suite 903
Chicago, Illinois 60606
phone: 800.757.5755
fax: 312.427.2879

Corporate Counsel

Foley & Lardner LLP
Milwaukee, Wisconsin

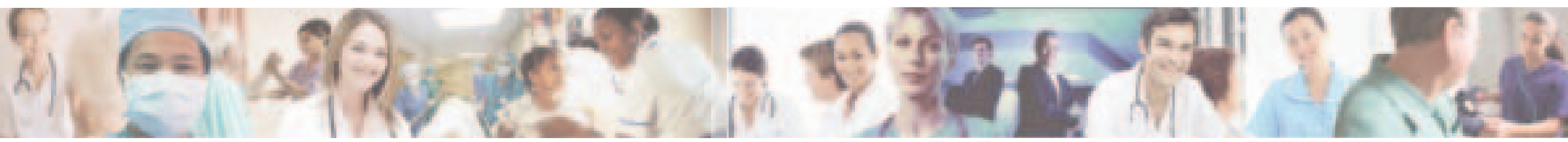
Woods & Aitken LLP
Lincoln, Nebraska

Common Stock

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

Independent Registered Public Accounting Firm

KPMG LLP
Lincoln, Nebraska



NATIONAL RESEARCH
Corporation

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