

# 2013 ANNUAL REPORT
# 2014 PROXY STATEMENT

NATIONAL RESEARCH *Corporation*

*Empowering customer-centric healthcare across the continuum.™*

# Company Profile

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

Abbey Hipple
Ada Hui
Adam Benash
Adam Harris
Adam Waggoner
Adrien Baumann
Adrienne Roper
AJ Leetch
Alanna Morse
Alena Rusetskaya
Alex Gallichotte
Alex Nietfeld
Alexis LaFleur
Alicia Jordan
Alicia Weixelman
Allison Pappas
Allison Thomas
Amanda Beardsley
Amy Oltman
Ana Munoz
Andrew Carlson
Andrew Dalton
Andrew Gatzemeyer
Andy Glenn
Andy Lambert
Andy Monnich
Angie Miller
Anna Bates
Anna Burke
Anne Auld
Anne Donald
Annie Krein
Anthony Monaco
Ashley Thiemann
Ashwini Kasarla
Aubrey Paulsen
Aulii Reyes
Avery Meyers
Barbara Toffolet
Becki Hoppes
Becky Moshiri
Ben Allemann
Billy Welch III
Bobbie Paulk
Brad Jacox
Brad Lowe
Brandon Foltz
Brandon Hurley
Brei Wagner
Bret Hermsen
Brett Sullivan
Brett Waggoner
Brian Wynne
Bridget Matthiessen
Brook Jobes
Bryan Christiancy
Bryant McCann
Cameron Andreesen
Carissa Hager
Carla Steadman
Carly Carlson
Carol Hartley
Carrie Merry
Cassandra Styers
Cassie DiClemente
Cathy Diven
Charles Steimel
Chelsea Pfeiffer
Chi Pham
Chris Burkholder
Chrissy Judd
Christian Amelinckx
Christin Cross
Christina Padanilam
Christine Lang
Cindy Ballow
Cody O'Grady
Cody Parker
Colleen Selvage
Collin Nissen
Connie Pautz
Connie White
Corry Caouette
Courtney Nore
Cydnee Rand
Dan Biggs
Dan Coca_Herrera
Dan Rogowsky
Dana Petersen
Dana Svehla
Dani Rogalla
Dave Gilsdorf
Dave Hansen
David Houdek
David Stueckrath
David Van Winkle
DeAnn Stephan
Deb Tovar
Deb Weyers
Deborah Hinds
Debra Wetzel
Denise Szakonyi
Derek Brogger
Derek Hansen
Deron Ferguson
Dietrah Weber-Stiles
Don Mayhew
Dorothy Hu
Doug Brownell
Drew Oliver
Dwight Dean
Echo Pope
Ellie Phillips
Emily Bruntz
Emily Carr
Emily Lichter
Emme Grafton
Eric Barsalou
Eric Faust
Erica Bartz
Erica McClurg
Erika Daubman
Erin Brodhagen
Erin Cerretta
Erin Hobelman
Ganapathi Raman
Giana Rada
Ginny Martin
Glenn Kramer
Greg Hackbart
Greg Humlicek
Gregg Loughman
Gunter Voelker
Heather Fusco
Heidi Wegele
Helen Hrdy
Holly Kirk
Ian Miller
Ilze Young
Ira Collins
Jackie Stevens
Jacob Bonander
Jacy Skrdlant
Jade Chong
Jaimie Van Lent
Jaiveer Nijjar
Jake Bogus
Jake Daniel
James Tobey
Jamie Jorgenson
Janeen Watson
Janet Carlson
Jared Chulufas
Jason Messerli
Jason Newton
Jason Rau
Jason Smith
Jason Stevens
Jason Stolberg
Jason Zulkoski
Jay Burt
Jeff Gill
Jeff Hraban
Jeff MacDonald
Jen Volland
Jenna Atwood
Jenna Catlett
Jennifer Cintani
Jennifer Dunning
Jennifer Kimmons
Jennifer Nguyen
Jennifer Oatman
Jennifer Uhrich
Jeremy Nelson
Jess Arter
Jessica Schwab
Joe Johnson
Joe McTaggart
Joe Morales
Joe Zigtema
Joel Steuben
Joey Patterson
John Dorn
Johnny Dingwerth
Jon Caniglia
Jon Hanseling
Jon Kuehler
Jon Richards
Jon Tanner
Jona Raasch
Josh Carter
Josh Summers
Josh Vonfeldt
Josh Willey
Joshua Rector
Joslyn Vosta
Joyce DeLay
JP Spears
Juan Gomez
Julie Boring
Julie Grass
Justin Burns
Justin Kubick
Justin Meaney
Justin Schuerman
Kaitlin Overfield
Kalyn Groenewold
Karen Hecimovic
Karen Jones
Karen Robertus
Karen Wilken
Karina Espeleta
Karrie Vincentini
Kasey Pepper
Kathryn Peisert
Kathy Anstine
Katie Johnson
Katie Loos
Katie Skrivanek
Katie Taff
Katsiaryna Lupsiakova
Kayla Kollars
Kayla Lounsbery
Kayla Wagner
Keith Bartels
Keith Wysocki
Kelli Woods
Kelly Fushia
Kelly Slama
Kelsey Watson
Kendall Culbertson
Kendall Frantz
Keshia Kraft
Kevin Karas
Kilee Haase
Kim Gilkison
Kim Jones
Kirill Arushanov
Kirsten Grindel
Kori Stanosheck
Kris Dotson
Krista Calderon
Kristin Drahota
Kristine German
Kristine Oltman
Kryste Wiedenfeld
Kylee Gries
LaDonna Humphrey
Lance Gemar
Laura Breckner
Lauri Dettmer
Leah Luther
Leslie Nicholson
Liliya Bulchenko
Linda Magin
Linda Stacy
Lindsay Laug
Lindsey Akiyama
Lindsey Hand
Lisa Minchow
Liz Wood
Logan Donahoo
Lynn Phillips
Maegan Bouc
Maggie Essink
Maggie Pope
Marci Vander Tuig
Marcos Mateo
Margaret Yanicki
Marianne Dummitt
Mark Barrera
Martha Cross
Martha Daniel
Mary Ann Castillo
Mary Fraser
Mary Lavern-Oakes
Mary Shaw
Mary Tellis-Nayak
Mason Davis
Max Wyrick
Maya Clanton
Megan Charko
Megan Luebke
Megan Trowbridge
Mel Kamm
Melissa Cummings
Melissa Wolken
Melissa Zwiener
Melody Du
Michael Quinn
Michael Wagner
Michaela Wirtz
Michelle Folken
Mike Beltz
Mike Hays
Mike Hewitt
Mitch Bergen
Mitch Bush
Molly Murphy
Morgan Gruebele
Naiomi Perea
Nancy Gooden
Nate Heard
Nate Lawrence
Nathan Schmitz
Nathan Walker
Nic Esser
Nicole Bober
Nikki Paulk
Nikki Riojas
Pam Hill
Pam Luciano
Pam Masker
Pam Nelson
Pam Vance
Paul Cooper
Pete Kostelnick
Rachel Beavers
Rachel Novak
Rachel Rivas
Raquel Shaw Moxam
Rebecca Heersink
Rich Booth
Rich Kortum
Richard Lierman
Ritika Golej
Rob Wirth III
Rochelle Delley
RoJean Clifton
Roxana Novoa
Rusty Mcconnell
Ruta Jaudegis
Ryan Bondegard
Ryan Donohue
Ryan Hansen
Ryan Real
Santosh Doodi
Sara Brown
Sara Winchell
Sarah Boyer
Sarah Fryda
Sarah Kramer
Scott Anderson
Scott Logan
Scott Smith
Sean Swanson
Sergei Zubenko
Seth Maynard
Shana Porter
Shannon Summers
Shawn Seevers
Sheri Flood
Sheri Life
Sherri Luebke
Sheryl Pietzyk
Shilpa Patel
Shiyamali Paranirupasingam
Sommer Hoff
Sonia Jacobs
Spencer Krull
Stacy Nelson
Steph Mosley
Stephanie Hansen
Stephanie Kolbo
Stephen Busch
Stephen Fivash
Steve Evers
Steve Kepler
Stew Peterson
Sue Blockberger-Miller
Susan Henricks
Tara Duggar
Tayler Jackson
Ted Smidberg
Teresa Costello-Raddatz
Tiffany Ryck
Tim Butler
Tim Gerken
Tim Lee
Tim Ottersburg
Tim Washburn
Tina Reisdorff
TJ Ehlers
Todd Jarchow
Tom Culhane
Tony Flores
Tony Reinke
Tra Khuc
Tracy Alward
Travis Ficken
Trevor Heidinger
Trevor Schuessler
Trina Wiese
Troy Pladson
Tyler Punteney
Vicki Vopalensky
Virgina Argabright
Vivian Tellis-Nayak
Warren Wunderlich
Whitney Hansen
Zach Braxton
Zach Griffin

# Annual Meeting

The annual meeting of shareholders will be held on May 8, 2014, at 9:00 a.m. (local time) at the Company's corporate offices, 1245 Q Street, Lincoln, Nebraska 68508.

# To Our Shareholders:

National Research Corporation's 2013 revenue increased by 7% to $93 million, and operating income grew by 9%. The fact that operating income growth outpaced revenue growth speaks to the leverage inherent in our subscription-based business model, a hallmark of our success. However, to really benefit from this leverage we need more top-line growth.

Compared to many organizations, a 7% top-line growth would be satisfying. I believe in light of the healthcare industry transformation, far greater revenue growth rates are possible. For the first time, every aspect of healthcare is changing—and central to all is the changing role of the patient.

Patients are becoming engaged healthcare customers as the cost of care shifts to them. This, combined with ready access to quality information, has imploded the black box of choice when it comes to care options and providers.

In addition, healthcare providers are expanding service offerings to be relevant across the entire care continuum only to find a new competitive set. Retail-based businesses that are clearly more agile in meeting customer needs have introduced the value of convenience for basic healthcare services and it's succeeding.

Given these and other drivers, most players in healthcare are imagining a very different world where the customer is king. And when the customer is king, the key to the kingdom is to understand what the customer values. This simple truth frames your Company's opportunity. Everything we do for our healthcare clients focuses on listening and understanding what their customers value.

For an industry far from adept in understanding customer needs or, for that matter, even thinking in terms of customers, your Company has unbridled opportunities to bring value to healthcare providers and payers.

This fact was vividly reinforced recently in a YouTube video sent to me by our Chief Financial Officer, Kevin Karas. The clarity surrounding the importance of what we do has never been more apparent. Viewing this video is the most valuable 13 minutes and 52 seconds that I have spent since founding National Research Corporation 33 years ago. I urge you to watch the video, "Outside-In Perspective and the Agile Organization" by Don Smith.

All the best,

Michael D. Hays
CEO and Fellow Shareholder

# NATIONAL RESEARCH CORPORATION

## NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
**To Be Held May 8, 2014**

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 8, 2014, 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 two directors to hold office until the 2017 annual meeting of shareholders and until their successors are duly elected and qualified.

2. To conduct an advisory vote to approve the compensation of our named executive officers as disclosed in the accompanying proxy statement.

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 25, 2014, has been fixed as the record date for the determination of shareholders entitled to notice of, and to vote at, the meeting and any adjournment or postponement thereof.

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

By Order of the Board of Directors
NATIONAL RESEARCH CORPORATION

Kevin R. Karas
*Secretary*

Lincoln, Nebraska
April 11, 2014

**Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting To Be Held on May 8, 2014. The National Research Corporation proxy statement for the 2014 Annual Meeting of Shareholders and the 2013 Annual Report to Shareholders are available at http://www.rdgir.com/national-research-corporation.**

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

# NATIONAL RESEARCH CORPORATION

**1245 Q Street**
**Lincoln, Nebraska 68508**

**PROXY STATEMENT**
**FOR**
**ANNUAL MEETING OF SHAREHOLDERS**
**To Be Held May 8, 2014**

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 11, 2014, in connection with a solicitation of proxies by the Board for use at the Annual Meeting of Shareholders to be held on Thursday, May 8, 2014, 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 as follows:

- FOR the two persons nominated for election as directors referred to herein;

- FOR the advisory vote to approve the compensation of the individuals named in the Summary Compensation Table set forth below in this proxy statement (such group of individuals are sometimes referred to as our named executive officers); and

- On such other business or matters which may properly come before the Annual Meeting in accordance with the best judgment of the persons named as proxies in the enclosed form of proxy.

Other than the election of two directors and the advisory vote to approve the compensation of our named executive officers, the Board has no knowledge of any matters to be presented for action by the shareholders at the Annual Meeting.

Only holders of record of the Company's class A common stock and class B common stock (sometimes referred to collectively as the "Common Stock") at the close of business on March 25, 2014 (the "Record Date") are entitled to vote at the Annual Meeting. On that date, the Company had outstanding and entitled to vote: (a) 20,815,515 shares of class A common stock, each of which is entitled to one-one-hundredth (1/100$^{th}$) of one vote per share, with an aggregate of 208,155.15 votes; and (b) 3,481,653 shares of class B common stock, each of which is entitled to one vote per share, with an aggregate of 3,481,653 votes. The presence of a majority of the votes entitled to be cast shall constitute a quorum for the purpose of transacting business at the Annual Meeting. Abstentions and broker non-votes will be counted as present in determining whether there is a quorum.

## ELECTION OF DIRECTORS

The Company's By-Laws provide that the directors shall be divided into three classes, with staggered terms of three years each. At the Annual Meeting, the shareholders will elect two directors to hold office until the 2017 annual meeting of shareholders and until their successors are duly elected and qualified. Unless shareholders otherwise specify, the shares represented by the proxies received will be voted in favor of the election as directors of the two persons named as nominees herein. The Board has no reason to believe that the listed nominees will be unable or unwilling to serve as directors if elected. However, in the event that any nominee should be unable to serve or for good cause will not serve, the shares represented by proxies received will be voted for another nominee selected by the Board. Each director will be elected by a plurality of the votes cast at the Annual Meeting (assuming a quorum is present). Consequently, any shares not voted at the Annual Meeting, whether due to abstentions, broker non-votes or otherwise, will have no impact on the election of the directors. Votes will be tabulated by an inspector of elections appointed by the Board. Shares of the Company's class A common stock and class B common stock vote together as a single class on the election of directors.

Paul C. Schorr III, a director of the Company since 1998, is not standing for re-election due to his retirement.

The following sets forth certain information, as of March 25, 2014, about the Board's nominees for election at the Annual Meeting and each director of the Company whose term will continue after the Annual Meeting.

### Nominees for Election at the Annual Meeting

*Terms expiring at the 2017 Annual Meeting*

**JoAnn M. Martin**, 59, has served as a director of the Company since June 2001. Ms. Martin was elected President and Chief Executive Officer of Ameritas Life Insurance Corp., an insurance and financial services company, in July 2005. From April 2003 to July 2005, she served Ameritas Life Insurance Corp. as President and Chief Operating Officer. Prior thereto, Ms. Martin served as Senior Vice President and Chief Financial Officer of Ameritas for more than the last five years. In April 2009, Ms. Martin was elected President and Chief Executive Officer of Ameritas Holding Company and Ameritas Mutual Holding Company (previously named UNIFI Mutual Holding Company), where she had served as Executive Vice President and Chief Financial Officer for more than the last five years. Ms. Martin has served as an officer of Ameritas and/or its affiliates since 1988. Ms. Martin also serves as a director of Ameritas Life Insurance Corp. Separate Account LLVL (since 2003), Ameritas Life Insurance Corp. Separate Account LLVA (since 2003), Calvert Asset Management Company (since 2007), Union Central Life Insurance Company Separate Accounts (since 2008) and the Omaha Branch of the Federal Reserve Bank of Kansas City. Ms. Martin's financial background as a former certified public accountant and as the former Chief Financial Officer and current President and Chief Executive Officer of a mutual insurance holding company, as well as her leadership experiences as a director of the Omaha Branch of the Federal Reserve Bank of Kansas City and other organizations, led to the conclusion that she should serve as a director of the Company.

**Barbara J. Mowry**, 66, has not previously served as a director of the Company. Ms. Mowry founded, and is currently the Chief Executive Officer of, GoreCreek Advisors, a management consulting firm. Prior to founding GoreCreek Advisors, Ms. Mowry served as Senior Vice President - Data Integration of Oracle Corporation, an industry leading software, hardware and services company, from January 2010 through March 2011, and as President and Chief Executive Officer of Silver Creek Systems, Inc., a data quality solutions software company, from January 2003 to December 2009. Ms.

Mowry serves as a director of Axion Health (since 2012) and the Federal Reserve Bank of Kansas City (since 2012). Ms. Mowry also serves as a director of several not-for-profit organizations, including the Kauffman Foundation (since 2013), the University of Minnesota Executive Committee, Carlson School of Management and the Board of Overseers (since 2004) and the Colorado Innovation Network (since 2013). Ms. Mowry previously served as a director of Gaiam, Inc. (from 1999 to 2013), Real Goods Solar, Inc. (from 2008 to 2013) and the Denver Branch of the Federal Reserve Bank of Kansas City (from 2008 to 2011). Ms. Mowry's financial background as a former President and Chief Executive Officer of Silver Creek Systems, Inc., a former member of the audit committees of the boards of directors of Gaiam, Inc. and Real Goods Solar, Inc. and as the current Chief Executive Officer of GoreCreek Advisors led to the conclusion that she should serve as a director of the Company.

JoAnn M. Martin, a director of the Company, recommended Ms. Mowry to the Nominating Committee as a well-qualified and credentialed candidate to serve as a director of the Company. The Nominating Committee recommended Ms. Mowry for election to the Board following personal interviews with Ms. Mowry, a review of Ms. Mowry's qualifications in light of the criteria in the Company's Corporate Governance Guidelines and the minimum qualifications that the Board and Nominating Committee has established. The Board of Directors has determined that Ms. Mowry does not have a material relationship with the Company and is "independent" as that term is defined in the listing standards of The NASDAQ Stock Market.

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

**Directors Continuing in Office**

*Terms expiring at the 2015 Annual Meeting*

**Michael D. Hays**, 59, has served as Chief Executive Officer and a director since he founded the Company in 1981. He also served as President of the Company from 1981 to 2004 and from July 2008 to July 2011. Prior to founding the Company, Mr. Hays served for seven years as a Vice President and a director of SRI Research Center, Inc. (n/k/a the Gallup Organization). Mr. Hays' background as founder of the Company, and his long and successful tenure as Chief Executive Officer and a director, led to the conclusion that he should serve as a director of the Company.

**John N. Nunnelly**, 61, has served as a director of the Company since December 1997. Mr. Nunnelly is a retired Group President from McKesson Corporation, a leader in pharmaceutical distribution and healthcare information technology. During his 28-year career at McKesson, Mr. Nunnelly served in a variety of other positions including, Vice President of Strategic Planning and Business Development, Vice President and General Manager of the Amherst Product Group and Vice President of Sales-Decision Support. These responsibilities included leading several business units, including one with over $360 million in annual revenue. In addition, he was involved in managing a number of mergers and acquisitions. Mr. Nunnelly also serves as an adjunct professor at the University of Massachusetts, School of Nursing, advising students and faculty on matters pertaining to healthcare information technology. These experiences and Mr. Nunnelly's expertise as a professional and educator in the field of healthcare information technology led to the conclusion that he should serve as a director of the Company.

*Terms expiring at the 2016 Annual Meeting*

**Gail L. Warden**, 75, has served as a director of the Company since January 2005. Mr. Warden is currently President Emeritus of Detroit-based Henry Ford Health System, where he served as President and Chief Executive Officer from 1988 until 2003. Prior to this role, Mr. Warden served as President and Chief Executive Officer of Group Health Cooperative of Puget Sound, as well as Executive Vice President of the American Hospital Association. Mr. Warden serves as Chairman to several national healthcare committees and as a board member to many other healthcare related committees and institutions. Mr. Warden's extensive experience in the healthcare industry and the many leadership roles he has held with healthcare enterprises, including serving as the president and chief executive officer of a large integrated health system for 15 years, and industry organizations led to the conclusion that he should serve as a director of the Company.

## CORPORATE GOVERNANCE

### Independent Directors and Annual Meeting Attendance

Of the five directors currently serving on the Board, 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. Each of the directors attended the Company's 2013 annual meeting of shareholders.

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

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

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

### Committees

The Board held four meetings in 2013. During 2013, each of the directors attended all of the meetings of the Board and all of the meetings held by all committees of the Board on which such director served during 2013.

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

The Audit Committee's primary function is to assist the Board in fulfilling its oversight responsibilities by overseeing the Company's systems of internal controls regarding finance, accounting, legal compliance and ethics that management and the Board have established; the Company's accounting and financial reporting processes; and the audits of the financial statements of the Company. The Audit Committee presently consists of 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 five meetings in 2013.

The Compensation Committee determines compensation programs for the Company's executive officers, reviews management's recommendations as to the compensation to be paid to other key personnel and administers the Company's equity-based compensation plans. The Compensation Committee presently consists of John N. Nunnelly (Chairperson), JoAnn M. Martin, Paul C. Schorr III and Gail L. Warden, each of whom meets the independence standards of the NASDAQ Stock Market and the Securities and Exchange Commission for compensation committee members. The Compensation Committee held three meetings in 2013. In 2011, management of the Company engaged Buck Consultants, a nationally recognized compensation consultant, to assist the Company in its review of its compensation and benefits programs, including the competitiveness of pay levels, executive compensation design issues, market trends and technical considerations.

The Nominating Committee presently consists of 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 five meetings in 2013.

The Strategic Planning Committee assists the Board in reviewing and, as necessary, altering, the Company's strategic plan, reviewing industry trends and their effects, if any, on the Company and assessing the Company's products, services and offerings and the viability of such portfolio in meeting the needs of the markets that the Company serves. John N. Nunnelly (Chairperson), Paul C. Schorr III and Gail L. Warden are the current members of the Strategic Planning Committee. The Strategic Planning Committee held one meeting in 2013.

**Board Oversight of Risk**

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

**Nominations of Directors**

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

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

- A director must display high personal and professional ethics, integrity and values.

- A director must have the ability to exercise sound business judgment.

- A director must be accomplished in his or her respective field, with broad experience at the administrative and/or policy-making level in business, government, education, technology or public interest.

- A director must have relevant expertise and experience, and be able to offer advice and guidance based on that expertise and experience.

- A director must be independent of any particular constituency, be able to represent all shareholders of the Company and be committed to enhancing long-term shareholder value.

- A director must have sufficient time available to devote to activities of the Board and to enhance his or her knowledge of the Company's business.

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

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

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

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

**Transactions with Related Persons**

Except as otherwise disclosed in this section, we had no related person transactions during 2013, and none are currently proposed, in which we were a participant and in which any related person had a direct or indirect material interest. Our Board has adopted policies and procedures regarding related person transactions. For purposes of these policies and procedures:

- A "related person" means any of our directors, executive officers, nominees for director, any holder of 5% or more of the common stock or any of their immediate family members; and

- A "related person transaction" generally is a transaction (including any indebtedness or a guarantee of indebtedness) in which we were or are to be a participant and the amount involved exceeds $120,000, and in which a related person had or will have a direct or indirect material interest.

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

Ms. Martin serves as President and Chief Executive Officer of Ameritas Life Insurance Corp. In connection with the Company's regular assessment of its insurance-based associate benefits and the costs associated therewith conducted by an independent insurance broker, in 2007 the Company began purchasing dental insurance for certain of its associates from Ameritas Life Insurance Corp. and, in 2009, the Company also began purchasing vision insurance for certain of its associates from Ameritas Life Insurance Corp. The total value of these purchases, which were conducted in arms' length transactions and approved by the Audit Committee pursuant to our related person transaction policies and procedures, was $213,000 in 2013 and $199,000 in 2012.

Mr. Hays is a director and owner of 14% of the equity interests of Nebraska Global Investment Company LLC ("NGIC"). In 2012, the Company began purchasing certain technology consulting and software development services from NGIC. The total value of these purchases, which were conducted in arms' length transactions and approved by the Audit Committee pursuant to our related person transaction policies and procedures, was $58,000 in 2013 and $55,000 in 2012.

Customer-Connect LLC ("Connect"), which was formed in 2013 to develop and commercialize the Company's connect programs, is 49% owned by the Company, 26% owned by Illuminate Health, LLC, an entity formed by Company associates, and 25% owned by NG Customer-Connect, LLC, an entity that is affiliated with NGIC ("NGCC"). While Mr. Hays, the Chief Executive Officer, majority shareholder and director of the Company, is a director and owner of 14% of the equity of NGIC and NGCC is an entity that is affiliated with NGIC, Mr. Hays does not have any equity ownership in NGCC and is not a director or officer of NGCC. In 2013, Connect began purchasing certain software development services from NGCC. The total value of these purchases, which were conducted in arms' length transactions, was $447,000 in 2013. Even though Mr. Hays does not have a relationship with NGCC that would constitute a "Related Person Transaction" pursuant to the Company's related person transaction policies and procedures, the Audit Committee, nonetheless, approved the aforementioned purchases from NGCC pursuant to the Company's related person transaction policies and procedures.

**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 Kevin R. Karas, Secretary, 1245 Q Street, Lincoln, Nebraska 68508. The Secretary will ensure that the communication is delivered to the Board or the specified director, as the case may be.

## 2013 DIRECTOR COMPENSATION

Directors who are executive officers of the Company receive no compensation for service as members of either the Board or committees thereof. Based on, among other things, a 2010 director competitive compensation assessment for the Company by Presidio Pay Advisors, Inc., the recommendations of Presidio Pay Advisors and management, and a review of best practices in this area, directors who are not executive officers of the Company are compensated as follows: an annual retainer of $50,000 for the lead director and $25,000 for each other director, a fee of $1,000 for each Board meeting attended, a fee of $1,000 for each Audit Committee meeting attended ($1,500 per meeting for the chairperson of the Audit Committee) and a fee of $750 for each Compensation Committee, Nominating Committee and/or Strategic Planning Committee meeting attended ($1,000 per meeting for the chairperson of each such committee). Directors are also reimbursed for out-of-pocket expenses associated with attending meetings of the Board and committees thereof. Ms. Martin served as the Company's lead director from 2007 to May 2012 and Mr. Nunnelly has served as the Company's lead director since May 2012.

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

The following table sets forth information regarding the compensation received by each of the Company's directors during 2013:

| **Name** | **Fees Earned or Paid in Cash** | **Option Awards**[(1)] | **Total** |
|---|---|---|---|
| JoAnn M. Martin | $46,250 | $143,400 | $189,650 |
| John N. Nunnelly | $71,750 | $143,400 | $215,150 |
| Paul C. Schorr III | $48,250 | $143,400 | $191,650 |
| Gail L. Warden | $45,750 | $143,400 | $189,150 |

Represents the aggregate grant date fair value of option awards granted during the year, computed in accordance with FASB ASC Topic 718. See Note 7 to the Company's Consolidated Financial Statements included in its Annual Report on Form 10-K for the years ended December 31, 2013, December 31, 2012, and December 31, 2011, for a discussion of assumptions made in the valuation of share-based compensation. As of December 31, 2013, the outstanding option awards for each director were as follows: Ms. Martin – 85,800 options for class A common stock and 14,300 options for class B common stock; Mr. Nunnelly – 180,000 options for class A common stock and 24,000 options for class B common stock; Mr. Schorr – 36,000 options for class A common stock and 6,000 options for class B common stock; Mr. Warden – 216,000 options for class A common stock and 36,000 options for class B common stock.

Due to the fact that Ms. Mowry has not previously served as a member of the Board, Ms. Mowry did not receive any compensation for service as a member of the Board or any committee thereof during 2013. Pursuant to the 2004 Director Plan, along with the other directors who are not associates (i.e., employees) of the Company, Ms. Mowry will receive a grant of an option to purchase 36,000 shares of our class A common stock and 6,000 shares of our class B common stock on the date of the Annual Meeting. In addition to such annual grant, Ms. Mowry will receive a one-time discretionary grant of an option to purchase another 36,000 shares of our class A common stock and another 6,000 shares of our class B common stock on the date of the Annual Meeting. The options have an exercise price equal to the fair market value of the class A common stock and class B common stock, as applicable, on the date of grant and vest one year after the grant date.

## 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 2013 Annual Report on Form 10-K with the Company's management and independent registered public accounting firm. Management is responsible for the financial statements and the reporting process, including the system of internal controls. The independent registered public accounting firm is responsible for expressing an opinion on the audited financial statements in conformity with U.S. generally accepted accounting principles and assessing the effectiveness of the Company's internal control over financial reporting.

The Audit Committee discussed with the independent registered public accounting firm matters required to be discussed by AU Section 380 of the Public Company Accounting Oversight Board, as amended. In addition, the Company's independent registered public accounting firm provided to the Audit Committee the written disclosures and the letter required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm's communications with the Audit Committee concerning independence, and the Audit Committee discussed with the independent registered public accounting firm the firm's independence. The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent registered public accounting firm on a case-by-case basis. The Audit Committee has considered whether the provision of the services relating to the *Audit-Related Fees*, *Tax Fees* and *All Other Fees* set forth in "Miscellaneous – Independent Registered Public Accounting Firm" was compatible with maintaining the independence of the independent registered public accounting firm and determined that such services did not adversely affect the independence of the firm.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board (and the Board has approved) that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, for filing with the Securities and Exchange Commission.

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

AUDIT COMMITTEE

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

## PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding the beneficial ownership of the Company's class A common stock and class B common stock as of the Record Date (i.e., March 25, 2014) by: (1) each director and director nominee; (2) each of the executive officers named in the Summary Compensation Table; (3) all of the current directors, director nominees and executive officers as a group; and (4) each person or entity known to the Company to be the beneficial owner of more than 5% of either class of the Common Stock. Except as otherwise indicated in the footnotes, each of the holders listed below has sole voting and investment power over the shares beneficially owned. As of the Record Date, there were 20,815,515 shares of class A common stock and 3,481,653 shares of class B common stock outstanding.

| | Shares Beneficially Owned | | | |
|---|---|---|---|---|
| | Class A Common Stock | | Class B Common Stock | |
| Name of Beneficial Owner | Shares | % | Shares | % |
| **Directors and Executive Officers** | | | | |
| Michael D. Hays[1] | 5,537,216 [2][4] | 26.5% | 2,019,509 [3][5] | 57.7% |
| Susan L. Henricks[8] | 23,469 [4] | * | 3,911 [5] | * |
| Kevin R. Karas | 20,892 [4] | * | 3,482 [5] | * |
| JoAnn M. Martin | 288,048 [4] | 1.4% | 48,008 [5] | 1.4% |
| John N. Nunnelly | 209,200 [4] | * | 27,900 [5] | * |
| Paul C. Schorr III | 125,786 [4] | * | 12,000 [5] | * |
| Gail L. Warden | 293,694 [4] | 1.4% | 48,949 [5] | 1.4% |
| Barbara J. Mowry | 0 [4] | * | 0 [5] | * |
| All current directors, nominees and executive officers as a group (eight persons) | 6,498,305 [4] | 30.2% | 2,163,759 [5] | 60.2% |
| **Other Holders** | | | | |
| Michael and Karen Hays Grandchildren's Trust dated March 9, 2009 and Kent E. Endacott, as the Special Holdings Direction Advisor under this Trust | 5,768,000 [6] | 27.7% | 128,000 | 3.7% |
| Conestoga Capital Advisors LLC | 1,040,576 [7] | 5.0% | 269,630 | 7.7% |

* Denotes less than 1%.

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

(2) Includes [4,800,000] shares of class A common pledged as security and 47,720 shares of class A common stock held by Mr. Hays' wife. Mr. Hays disclaims beneficial ownership of the shares held by his wife. Does not include 703,105 shares of class A common transferred to the Trusts created under the Michael D. Hays 2013 Two-Year GRAT Agreement and the Karen S. Hays 2013 Two-Year GRAT Agreement, all or a portion of which will be returned to Mr. Hays and/or his wife over the next two years.

(3) Includes [800,000] shares of class B common stock pledged as security and 125,137 shares of class B common stock held by Mr. Hays' wife. Mr. Hays disclaims beneficial ownership of the shares held by his wife.

(4) Includes shares of class A common stock that may be purchased under stock options which are currently exercisable or exercisable within 60 days of March 25, 2014, as follows: Mr. Hays, 100,044 shares; Ms. Henricks, 0 shares; Mr. Karas, 0 shares; Ms. Martin, 121,800 shares; Mr. Nunnelly, 180,000 shares; Mr. Schorr, 72,000 shares; Mr. Warden, 252,000 shares; Ms. Mowry, 0 shares; and all current directors, nominees and executive officers as a group, 752,844 shares.

(5) Includes shares of class B common stock that may be purchased under stock options which are currently exercisable or exercisable within 60 days of March 25, 2014, as follows: Mr. Hays, 16,673 shares; Ms. Henricks, 0 shares; Mr. Karas, 0 shares; Ms. Martin, 20,300 shares;

Mr. Nunnelly, 24,000 shares; Mr. Schorr, 12,000 shares; Mr. Warden, 42,000 shares; Ms. Mowry, 0 shares; and all current directors, nominees and executive officers as a group, 114,973 shares.

(6) The trustee of this Trust is Bessemer Trust Company of Delaware, N.A. and its address is 1007 N. Orange Street, Suite 1450, Wilmington, Delaware 19801. The address of the Special Holdings Direction Advisor for this Trust is c/o Woods & Aitken LLP, 301 South 13th Street, Suite 500, Lincoln, Nebraska 68508.

(7) The number of shares owned set forth above in the table is as of or about December 31, 2013 as reported by Conestoga Capital Advisors LLC in its amended Schedule 13G filed with the Securities and Exchange Commission. The address for this shareholder is 259 N. Radnor-Chester Road, Radnor Court, Suite 120, Radnor, Pennsylvania 19087. This shareholder reports sole dispositive power with respect to all of these shares but sole voting power only over 759,749 shares of class A common stock and 184,088 shares of class B common stock.

(8) Ms. Henricks resigned as of March 31, 2014.

## 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, 2013, 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.

## COMPENSATION DISCUSSION AND ANALYSIS

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

### Overview of Executive Compensation Philosophy

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

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

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

### Role of the Compensation Committee

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

- John N. Nunnelly (Chairperson)
- JoAnn M. Martin
- Paul C. Schorr III
- Gail L. Warden

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

At the time the Compensation Committee determined compensation for 2013, our most recent review of our compensation and benefit programs had been conducted in October 2011, after compensation for 2011 had been determined. For our review in 2011, our management engaged Buck

Consultants, a nationally recognized compensation consultant. Our management instructed Buck Consultants to conduct a comprehensive review of our total compensation program for our named executive officers, benchmarking the base salary, target annual cash incentive compensation, total cash compensation and total direct compensation that we offer our named executive officers. Buck Consultants worked with our management to select a peer group of companies in 2011 that were of comparable size, scope and complexity to our company and had similar strategies as a means of ensuring that the executives at the comparison companies possessed competencies, experience and skills that matched our business strategy. Annual revenues of the comparison companies ranged from approximately $28.2 million to approximately $290.3 million, with median revenues of approximately $114.4 million.

The companies selected for our review of compensation in 2011 were the following:

- A.D.A.M, Inc.
- The Advisory Board Company
- Forrester Research, Inc.
- Franklin Covey Co.
- Hooper Holmes, Inc.
- Landauer, Inc.
- Mattersight Corp.
- Mediware Information Systems, Inc.
- Phase Forward, Inc.
- Vital Images, Inc.
- Athenahealth, Inc.
- Computer Programs & Systems, Inc.
- Health Grades, Inc.
- Healthstream, Inc.
- Keynote Systems, Inc.
- The Management Network Group, Inc.
- Medidata Solutions, Inc.
- Merge Healthcare, Inc.
- Rainmaker Systems, Inc.

We refer to these companies as "comparable companies." In determining compensation levels for our named executive officers in 2013, our Compensation Committee reviewed the comparable company data to the extent the data reflected positions similar to those held by our named executive officers. Our Compensation Committee considered these data and other information provided by Buck Consultants to assess our competitive position with respect to the following components of compensation:

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

The Compensation Committee did not engage Buck Consultants or any other compensation consultant to provide concerning executive officer or director compensation during 2013.

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

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

In fulfilling its objectives as described above, the Compensation Committee took the following steps in determining 2013 compensation levels for our named executive officers:

- Referred to the comparative company data provided in 2011 by Buck Consultants;
- Reviewed the performance of our Chief Executive Officer and determined his total compensation;

- Reviewed the performance of our other executive officers and other key associates (i.e., employees) with assistance from our Chief Executive Officer; and

- Determined total compensation for our named executive officers based on the 2011 compensation review, recommendations by our Chief Executive Officer (as to the other officers) and the Compensation Committee's review of the officers' performance.

**2013 Say on Pay Vote**

In May 2013 (after the 2013 executive compensation actions described in this Compensation Discussion and Analysis had taken place), we held our annual advisory shareholder vote on the compensation of our named executive officers at our annual shareholders' meeting, and, consistent with the recommendation of the Board, our shareholders approved our executive compensation, with more than 99% of votes cast in favor. Consistent with this strong vote of shareholder approval, we have not undertaken any material changes to our executive compensation programs in response to the outcome of the vote.

**Total Compensation**

We intend to continue our strategy of compensating our executive officers at competitive levels through programs that emphasize performance-based incentive compensation in the form of cash and equity-based awards. To that end, we have structured total executive compensation to ensure that there is an appropriate balance between a focus on our long-term versus short-term performance. We believe that the total compensation paid or awarded to the executive officers during 2013 was consistent with our financial performance and the individual performance of each of our executive officers. We also believe that this total compensation was reasonable in its totality and is consistent with our compensation philosophies described above.

**CEO Compensation**

The Compensation Committee reviews annually the salary and total compensation levels of Michael D. Hays, our Chief Executive Officer. Based on the comparative company data that Buck Consultants provided as part of our compensation review completed in 2011, Mr. Hays' salary and overall compensation are significantly below the median level paid to chief executive officers of comparable companies. Due to Mr. Hays' large holding of our stock and his desire to materially align his compensation with the interests of our other shareholders, he requested that his base salary and targeted overall compensation remain unchanged. The Compensation Committee has not proposed an increase in his salary or overall compensation since 2005.

**Elements of Compensation**

***Base Salary***

The objective of the Compensation Committee is to establish base salary at a competitive level compared with comparable companies, with the exception of Mr. Hays' salary, as noted above, and the salary of Ms. Henricks, whose base salary the Compensation Committee set initially in 2012 at a level more than 20% above the median level of the comparable companies based on its subjective judgment of the value of Ms. Henricks' contributions to our company and the compensation level necessary to retain her. Within the framework of offering competitive base salaries, we have historically attempted to minimize base salary increases in order to limit our exposure if we do not meet our objectives for financial growth under our incentive compensation program. Accordingly, based on comparable company information and the other factors noted above, the Compensation Committee generally reset executive salary levels at the time of each significant compensation review and did not adjust them except to reflect changes in responsibilities. Consistent with this practice, the Compensation Committee did not adjust the annual base salary of Mr. Hays for 2013. For the base salaries of Mr. Karas and Ms. Henricks, however, the Compensation Committee modified its historical approach with respect to 2013 base salaries. The Compensation Committee approved the increased base salaries for Mr. Karas and Ms. Henricks shown in the table below.

| Name | 2013 Base Salary | Increase From 2012 Base Salary |
|---|---|---|
| Kevin R. Karas | $234,000 | 4.00% |
| Susan L. Henricks | $312,000 | 4.00% |

The Compensation Committee approved these increases using an evaluation methodology that we adopted in 2012 on a company-wide basis for evaluating our associates (i.e., employees) generally for potential increases in base salary. This methodology considers each associate for a potential increase in base salary based on the employee's performance over the course of the preceding year. The amount of the potential increases are determined based on publicly-available, broad-based survey data concerning average salary increases in the region of the country in which the employee is located. For Mr. Karas and Ms. Henricks, the Committee based its determination to increase their salaries on its evaluation of the performance of Mr. Karas and Ms. Henricks during 2012 and their expected contributions to our company in the future. The amount of the increase was based on publicly-available, broad-based survey data concerning average salary increases in the region that includes our headquarters. The Compensation Committee was not aware of, and did not consider, the individual companies whose data was included in the publicly-available, broad-based survey data.

Base salaries paid to our named executive officers in 2013 represented the following percentages of their total compensation (as calculated for purposes of the Summary Compensation Table).

| | Base Salary as a Percentage of Total Compensation |
|---|---|
| Michael D. Hays | 60% |
| Kevin R. Karas | 60% |
| Susan L. Henricks | 60% |

***Annual Cash Incentive***

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

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

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

Under our incentive compensation program, the Compensation Committee establishes performance measures for our named executive officers at the beginning of each year. For 2013, the Compensation Committee used our overall revenue and net income as performance measures because the Compensation Committee believes these are key measures of our ability to deliver value to our shareholders for which our named executive officers have primary responsibility. The Compensation Committee weighted the two performance measures equally in determining bonus payouts. The Compensation Committee structured the incentive compensation program so that our named executive officers would receive a bonus based on the percentage of growth in overall revenue and net income in 2013 over 2012, starting from "dollar one" of such growth. Consistent with past years, the Compensation Committee structured the incentive compensation program for our named executive officers to require performance representing growth in revenue or net income for any payout to be received.

The Compensation Committee structured the incentive compensation program to permit payouts to be earned for any growth in revenue and net income because it believed that providing an incentive to achieve growth in these measures would provide an effective incentive to the executive officers in 2013. The Compensation Committee determined that the bonuses under the incentive compensation program would be equal to the following (subject to a maximum of 200% of base salary): the product of the executive officer's base salary (i) multiplied by the sum of the percentage year over year increase, if any, in overall revenue plus the percentage year over year increase, if any, in overall net income (ii) multiplied by 2.5.

In determining the potential bonus amounts for our named executive officers described above, the Compensation Committee considered the comparative company data and Buck Consultant's recommendations resulting from the 2011 compensation review, and concluded that that payouts determined by these formulas were likely to produce results consistent with our past practice of setting annual target payouts at 50% of base salary, and would continue to provide competitive compensation consistent with our goals for annual incentive awards.

The following table shows amounts actually earned by our named executive officers for 2013, along with the percentages of their total compensation (as calculated for purposes of the Summary Compensation Table) that these amounts represent.

| Name | 2013 Actual Bonus Percentage of Total Compensation | 2013 Actual Bonus Amount |
|---|---|---|
| Michael D. Hays | 21% | $45,600 |
| Kevin R. Karas | 21% | $83,700 |
| Susan L. Henricks | 21% | $111,700 |

***Long-Term Equity Incentive***

The general purpose of our current equity-based plans is to promote the achievement of our long-range strategic goals and enhance shareholder value. To provide an additional performance incentive for our executive officers and other key management personnel, our executive compensation package includes annual grants of stock options. We also award restricted stock grants to newly hired or promoted executive officers during their first year of participation in our equity incentive program to provide greater alignment between the officers' interests and those of our shareholders, and to assist in retention. Options to purchase shares of common stock are typically granted with a per-share exercise price of 100% of the fair market value of a share of our common stock on the date of grant. The value of the option will be dependent on the future market value of the common stock, which we believe helps to align the economic interests of our key management personnel with the interests of our shareholders. To encourage our key management personnel to continue in employment with us, when we grant restricted stock under the 2006 Equity Incentive Plan to executive officers, we generally impose a 5-year restriction period on the grant.

In determining equity incentive awards for 2013, the Compensation Committee considered the comparative company data and Buck Consultant's recommendations resulting from the 2011 compensation review, and concluded that our practice of setting annual target equity awards for our executive officers at 50% of their respective then-current base salaries continues to provide competitive compensation consistent with our goals for equity awards. The Compensation Committee generally grants options to purchase shares of our common stock effective on a date in the first week of January. Accordingly, effective January 7, 2013, the Compensation Committee granted options to each of our named executive officers approximately equal in value to 50% of their respective then-current base salaries. To determine the number of options equal to 50% of an executive officer's base salary, the Compensation Committee divided the annual target equity award amount by the closing price per share of our common stock on the date of grant, and multiplied the resulting quotient by three. The number of options granted to our named executive officers is shown in the Grants of Plan-Based Awards Table.

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

- Return on equity;
- Return on investment;
- Return on net assets;
- Shareholder value added;
- Pre-tax profits;
- Net earnings;
- Net earnings per share;
- Working capital as a percent of net cash provided by operating activities;

- Earnings from operations;
- Market price for our common stock; and
- Total shareholder return.

In conjunction with selecting the applicable performance goal or goals, the Compensation Committee will also fix the relevant performance level or levels (e.g., a 15% return on equity) that must be achieved with respect to the goal or goals in order for key associates to earn performance shares. For 2013, no awards were conditioned on such performance goals.

***Other Benefits***

To assist our associates in preparing financially for retirement, we maintain a 401(k) plan for all associates over 21 years of age, including our executive officers. Pursuant to the 401(k) plan, we match 25% of the first 6% of compensation contributed by our associates up to allowable Internal Revenue Service limitations. We also maintain group life, health, dental and vision insurance programs for all of our salaried employees, and our named executive officers are eligible to participate in these programs on the same basis as all other eligible employees.

***Agreements with Officers***

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

## 2013 SUMMARY COMPENSATION TABLE

Set forth below is information regarding compensation earned by or paid or awarded to the following executive officers: Michael D. Hays, our Chief Executive Officer; Kevin R. Karas, our Senior Vice President Finance, Chief Financial Officer, Treasurer and Secretary; and Susan L. Henricks, who served as our President and Chief Operating Officer until her resignation as of March 31, 2014. We had no other executive officers, as defined in Rule 3b-7 of the Securities Exchange Act of 1934, whose total compensation exceeded $100,000 during 2013. The identification of such named executive officers is determined based on the individual's total compensation for 2013, as reported below in the Summary Compensation Table, other than amounts reported as above-market earnings on deferred compensation and the actuarial increase in pension benefit accruals.

The following table sets forth for our named executive officers with respect to 2013, 2012 and 2011: (1) the dollar value of base salary earned during the year; (2) the aggregate grant date fair value of stock and option awards granted during the year, computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation-Stock Compensation ("FASB ASC Topic 718"); (3) the dollar value of earnings for services pursuant to awards granted during the year under non-equity incentive plans; (4) all other compensation for the year; and (5) the dollar value of total compensation for the year.

| Name and Principal Position | Year | Salary | Bonus | Stock Awards[(1)] | Option Awards[(1)] | Non-Equity Incentive Plan Compensation | All Other Compensation[(2)] | Total |
|---|---|---|---|---|---|---|---|---|
| Michael D. Hays | 2013 | $127,400 | -- | -- | $37,645 | $45,600 | $3,152 | $213,797 |
| Chief Executive Officer | 2012 | $127,400 | -- | -- | $32,688 | $141,541 | $3,075 | $304,704 |
| | 2011 | $127,400 | -- | -- | $44,599 | $97,206 | $2,391 | $271,596 |
| Kevin R. Karas | 2013 | $234,000 | -- | -- | $69,137 | $83,700 | $5,750 | $392,587 |
| Senior Vice President | 2012 | $225,000 | -- | -- | $57,735 | $249,975 | $5,625 | $538,335 |
| Finance, Chief Financial Officer, Treasurer and Secretary | 2011 | $225,000 | | $223,475 | -- | $171,675 | $59,663 | $679,813 |
| Susan L. Henricks | 2013 | $312,000 | -- | -- | $92,182 | $111,700 | $4,668 | $520,550 |
| President and Chief | 2012 | $300,000 | -- | $300,000 | -- | $333,300 | $3,115 | $936,415 |
| Operating Officer[(3)] | 2011 | $143,077 | -- | -- | $361,500 | $114,450 | $1,338 | $620,415 |

(1) Represents the aggregate grant date fair value of the stock or option awards, as indicated, granted during the year, computed in accordance with FASB ASC Topic 718. See Note 7 to the Company's Consolidated Financial Statements included in its Annual Report on Form 10-K for the year ended December 31, 2013 for a discussion of assumptions made in the valuation of share-based compensation.

(2) Represents, for each of our named executive officers, the amount of our 401(k) matching contributions.

(3) Ms. Henricks resigned as of March 31, 2014.

## GRANTS OF PLAN-BASED AWARDS IN 2013

We maintain the 2006 Equity Incentive Plan and the 2001 Equity Incentive Plan pursuant to which grants may be made to our executive officers. The following table sets forth information regarding all such incentive plan awards that were made to the named executive officers in 2013. No equity incentive awards were granted to the named executive officers in 2013.

| | | | Estimated Possible Payouts Under Non-Equity Incentive Plan Awards[(1)] | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Name** | **Grant Date** | **Date of Committee Action** | **Threshold** | **Target** | **Maximum** | **All Other Stock Awards: No. of Shares of Stock or Units** | **All Other Option Awards: No. of Securities Underlying Options[(2)]** | **Exercise or Base Price of Option Awards[(2)]** | **Grant Date Fair Value of Stock and Option Awards** |
| Michael D. Hays | 1/07/2013 | 10/26/2012 | -[(4)] | $ 63,700 | $254,800 | - | 3,646 | $52.42 | $37,645 |
| Kevin R. Karas | 1/07/2013 | 10/26/2012 | -[(4)] | $117,000 | $468,000 | - | 6,696 | $52.42 | $69,137 |
| Susan L. Henricks | 1/07/2013 | 10/26/2012 | -[(4)] | $ 156,000 | $624,000 | - | 8,928 | $52.42 | $92,182 |

(1) These amounts represent only potential payments under the 2013 incentive plan awards; the actual amounts received (if any) are shown in the Summary Compensation Table above.

(2) The stock option awards were granted under the 2006 Equity Incentive Plan. The number of shares and exercise prices shown in the table above are as of the January 7, 2013 grant date and do not reflect the effect of the May 22, 2013, recapitalization pursuant to which, among other things, a stock dividend of three shares of class A common stock were issued for each share of then-existing common stock and each share of then-existing common stock was reclassified as one-half of one share of class B common stock. All fractional shares of class B common stock were cashed-out in the recapitalization. In connection with the recapitalization, the exercise prices of outstanding options were equitably adjusted to prevent the dilution or enlargement of the benefits intended to be provided.

(3) There were no thresholds for payments under these 2013 incentive plan awards; payments below target would be made for any year-over-year increase in any of the applicable performance measures.

(4) There were no thresholds for payments under these 2012 incentive plan awards; payments below target would be made for any year-over-year increase in any of the applicable performance measures.

## OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2013

The following table sets forth information on outstanding option and stock awards held by the named executive officers at December 31, 2013, including the number of shares underlying both exercisable and unexercisable portions of each stock option, the exercise price and expiration date of each outstanding option, the number of shares of stock that have not vested and the market value of such shares. The number of shares and exercise prices shown in the table below reflect the effect of the May 22, 2013, recapitalization pursuant to which, among other things, a stock dividend of three shares of class A common stock were issued for each share of then-existing common stock and each share of then-existing common stock was reclassified as one-half of one share of class B common stock. All fractional shares of class B common stock were cashed-out in the recapitalization. In connection with the recapitalization, the exercise prices of outstanding options were equitably adjusted to prevent the dilution or enlargement of the benefits intended to be provided.

| | Option Awards | | | | Stock Awards | |
|---|---|---|---|---|---|---|
| Name | No. of Securities Underlying Unexercised Options (Exercisable) | No. of Securities Underlying Unexercised Options (Unexercisable) | Option Exercise Price | Option Expiration Date | No. of Shares or Units of Stock That Have Not Vested | Market Value of Shares or Units of Stock That Have Not Vested |
| Michael D. Hays | 33,234[1][2] | - | $5.12 | 01/05/16 | - | - |
| | 5,539[3][2] | - | $13.06 | 01/05/16 | | |
| | 25,068[1][4] | - | $6.62 | 01/05/17 | - | - |
| | 4,178[3][4] | - | $15.31 | 01/05/17 | | |
| | 21,633[1][5] | - | $7.59 | 01/04/18 | - | - |
| | 3,605[3][5] | - | $16.76 | 01/04/18 | - | - |
| | 20,109[1][6] | - | $8.12 | 01/05/19 | - | - |
| | 3,351[3][7] | - | $17.57 | 01/05/19 | - | - |
| | - | 26,481[1][7] | $6.29 | 01/05/20 | - | - |
| | - | 4,413[3][7] | $14.82 | 01/05/20 | - | - |
| | - | 17,745[1][8] | $9.14 | 01/05/21 | - | - |
| | - | 2,957[3][8] | $19.09 | 01/05/21 | - | - |
| | - | 14,949[1][9] | $10.75 | 01/05/22 | | |
| | - | 2,491[3][9] | $21.50 | 01/05/22 | | |
| | - | 10,938[1][10] | $14.50 | 01/07/23 | | |
| | - | 1,823[3][10] | $27.13 | 01/07/23 | | |
| | - | 2,904[1][11] | $18.80 | 01/07/24 | | |
| | - | 266[3][11] | $34.15 | 01/07/24 | | |
| Kevin R. Karas | - | 26,403[1][9] | $10.75 | 01/05/22 | 20,892[12] | $393,187[12] |
| | - | 4,400[3][9] | $21.50 | 01/05/22 | 3,482[13] | $120,860[13] |
| | - | 20,088[1][10] | $14.50 | 01/07/23 | | |
| | - | 3,348[3][10] | $27.13 | 01/07/23 | | |
| | - | 5,334[1][11] | $18.80 | 01/07/24 | | |
| | - | 849[3][11] | $34.15 | 01/07/24 | | |

| | Option Awards | | | | Stock Awards | |
|---|---|---|---|---|---|---|
| Name | No. of Securities Underlying Unexercised Options (Exercisable) | No. of Securities Underlying Unexercised Options (Unexercisable) | Option Exercise Price | Option Expiration Date | No. of Shares or Units of Stock That Have Not Vested | Market Value of Shares or Units of Stock That Have Not Vested |
| Susan L. Henricks | - | 150,000[(1)(14)] | $11.72 | 07/05/21 | 23,469[(15)] | $441,687[(15)] |
| | - | 25,000[(3)(14)] | $22.96 | 07/05/21 | 3,911[(16)] | $135,751[(16)] |
| | - | 26,784[(1)(10)] | $14.50 | 01/07/23 | | |
| | - | 4,464[(3)(10)] | $27.13 | 01/07/23 | | |
| | - | 7,112[(1)(11)] | $18.80 | 01/07/24 | | |
| | - | 653[(3)(11)] | $34.15 | 01/07/24 | | |

(1) Option to purchase shares of class A common stock.
(2) Options vest in full on the fifth anniversary of the grant date. These options vested on January 5, 2011.
(3) Option to purchase shares of class B common stock.
(4) Options vest in full on the fifth anniversary of the grant date. These options vested on January 5, 2012.
(5) Options vest in full on the fifth anniversary of the grant date. These options vested on January 4, 2013.
(6) Options vest in full on the fifth anniversary of the grant date. These options vested on January 5, 2014.
(7) Options vest in full on the fifth anniversary of the grant date. These options will vest on January 5, 2015.
(8) Options vest in full on the fifth anniversary of the grant date. These options will vest on January 5, 2016.
(9) Options vest in full on the fifth anniversary of the grant date. These options will vest on January 5, 2017.
(10) Options vest in full on the fifth anniversary of the grant date. These options will vest on January 7, 2018.
(11) Options vest in full on the fifth anniversary of the grant date. These options will vest on January 7, 2019.
(12) Restricted shares of class A common stock that become fully vested on the fifth anniversary of the grant date. These shares will vest on January 5, 2016. The market value is based on the $18.82 per share closing price of our class A common stock on the NASDAQ Stock Market on December 31, 2013.
(13) Restricted shares of class B common stock that become fully vested on the fifth anniversary of the grant date. These shares will vest on January 5, 2016. The market value is based on the $34.71 per share closing price of our class B common stock on the NASDAQ Stock Market on December 31, 2013.
(14) Options vest in full on the fifth anniversary of the grant date. These options will vest on July 5, 2016.
(15) Restricted shares of class A common stock that become fully vested on the fifth anniversary of the grant date. These shares will vest on January 5, 2017. The market value is based on the $18.82 per share closing price of our class A common stock on the NASDAQ Stock Market on December 31, 2013.
(16) Restricted shares of class B common stock that become fully vested on the fifth anniversary of the grant date. These shares will vest on January 5, 2017. The market value is based on the $34.71 per share closing price of our class B common stock on the NASDAQ Stock Market on December 31, 2013.

No stock options were exercised during 2013 by the Company's named executive officers, and no restricted stock vested.

**Risk Assessment of Compensation Policies and Practices**

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

## COMPENSATION COMMITTEE REPORT

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

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

## ADVISORY VOTE ON EXECUTIVE COMPENSATION

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

- We strive to compensate our executive officers at competitive levels to ensure that we attract and retain a highly competent, committed management team.

- We provide our executive officers with the opportunity to earn competitive pay as measured against comparable companies.

- We link our executive officers' compensation, particularly annual cash incentives, to established Company financial performance goals.

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

The Board invites you to review carefully the Compensation Discussion and Analysis beginning on page 14 and the tabular and other disclosures on compensation beginning on page 21, and cast an advisory vote either for or against the following resolution:

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

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

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

The Company will ask its shareholders to consider an advisory vote on the compensation of our named executive officers every year until otherwise determined by a vote of our shareholders pursuant to applicable Securities and Exchange Commission rules. The next advisory vote on the compensation of our named executive officers will occur at the 2015 annual meeting of shareholders.

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

## MISCELLANEOUS

### Independent Registered Public Accounting Firm

KPMG LLP acted as the independent registered public accounting firm for the Company in 2013 and it is anticipated that such firm will be similarly appointed to act in 2014. 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, 2013, and 2012 were as follows:

| | 2013 | 2012 |
|---|---|---|
| Audit Fees(1) | $386,500 | $381,778 |
| Audit-Related Fees | -- | -- |
| Tax Fees(2) | 48,805 | 68,288 |
| All Other Fees(3) | 71,695 | 97,356 |
| Total | $507,000 | $547,422 |

(1) Audit of annual financial statements, review of financial statements included in Form 10-Q, review of registration statement and other services normally provided in connection with statutory and regulatory filings.
(2) Tax consultations and tax return preparation including out-of-pocket expenses.
(3) Information security readiness assessment and information security audit services.

The Audit Committee has established pre-approval policies and procedures with respect to audit and permitted non-audit services to be provided by its independent registered public accounting firm. Pursuant to these policies and procedures, the Audit Committee may form, and delegate authority to, subcommittees consisting of one or more members when appropriate to grant such pre-approvals, provided that decisions of such subcommittee to grant pre-approvals are presented to the full Audit Committee at its next scheduled meeting. The Audit Committee's pre-approval policies do not permit the delegation of the Audit Committee's responsibilities to management. In 2013, the Audit Committee pre-approved all services provided by our independent registered public accounting firm, and no fees to the independent registered public accounting firm were approved pursuant to the de minimis exception under the Securities and Exchange Commission's rules.

### Expenses

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

**Multiple Shareholders Sharing the Same Address**

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

**Shareholder Proposals**

Proposals that shareholders of the Company intend to present at and have included in the Company's proxy statement for the 2015 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 12, 2014. In addition, a shareholder who otherwise intends to present business at the 2015 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 2015 annual meeting but do not intend to include in the Company's proxy statement for such meeting) prior to February 7, 2015, then the notice will be considered untimely and the Company will not be required to present such proposal at the 2015 annual meeting. If the Board chooses to present such proposal at the 2015 annual meeting, then the persons named in proxies solicited by the Board for the 2015 annual meeting may exercise discretionary voting power with respect to such proposal.

By Order of the Board of Directors
NATIONAL RESEARCH CORPORATION

Kevin R. Karas
*Secretary*

April 11, 2014

# 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, 2013

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<br>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:

| Title of Class | Name of Each Exchange on Which Registered |
|---|---|
| Class A Common Stock, $.001 par value | The NASDAQ Stock Market |
| Class B Common Stock, $.001 par value | The NASDAQ Stock Market |

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ No ☒

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

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

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

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

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

Aggregate market value of the class A common stock and the class B common stock held by non-affiliates of the registrant at June 28, 2013: $201,088,365.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
Class A Common Stock, $0.001 par value, outstanding as of February 21, 2014: 20,795,772 shares
Class B Common Stock, $0.001 par value, outstanding as of February 21, 2014: 3,478,128 shares

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the 2014 Annual Meeting of Shareholders are incorporated by reference into Part III.

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## PART I

## Item 1. Business

### Special Note Regarding Forward-Looking Statements

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

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

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

## General

The Company is a leading provider of analytics and insights that facilitate revenue growth, patient, employee and customer retention and patient engagement for healthcare providers, payers and other healthcare organizations. The Company's solutions support the improvement of business and clinical outcomes, while facilitating regulatory compliance and the shift to population-based health management for its clients. The

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

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

NRC's expertise includes the efficient capture, interpretation, transmittal and benchmarking of critical data elements from millions of healthcare consumers. Using its portfolio of solutions through internet-based business intelligence tools, the Company's clients gain insights into best practices to drive improvements across key performance metrics. The Company's clients are also able to access networking groups, on-line education and an extensive library of performance improvement material that can be tailored to each of their unique needs.

NRC has achieved a market leadership position through its more than 32 years of industry innovation and experience, as well as its long-term, recurring revenue relationships (solutions that are used or required by a client each year) with many of the healthcare industry's largest organizations. Since its founding in 1981, the Company has focused on meeting the evolving information needs of the healthcare industry through internal product development, as well as select acquisitions. The Company is a Wisconsin corporation headquartered in Lincoln, Nebraska.

## Industry and Market Opportunity

According to the Kaiser Foundation, health expenditures in the United States were approximately $2.6 trillion in 2010, over ten times the $256 billion spent in 1980. In total, health spending accounted for 17.9% of the nation's Gross Domestic Product in 2010. Addressing this growing expenditure burden continues to be a major policy priority at both federal and state levels. In addition, continued high unemployment rates and lower incomes for many Americans coupled with increased co-pays and deductibles in healthcare plans have focused even more consumer attention on health spending and affordability. In the public sector, Medicare provides health coverage for individuals aged 65 and older, while Medicaid provides coverage for low income families and other individuals in need. Both programs are administered by the Centers for Medicare & Medicaid Services ("CMS"). With the aging of the U.S. population, Medicare enrollment has increased significantly. In addition, longer life spans and greater prevalence of chronic illnesses among both the Medicare and Medicaid populations have placed tremendous demands on the health care system.

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

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

NRC believes that its current portfolio of solutions is aligned to address this evolving market opportunity. The Company provides tools and solutions to capture, interpret and improve the data required by CMS as well as enhanced capabilities that capture insights about patient health risks, behaviors and perspectives. The information and analytics provided through these solutions enable payers and providers to better tailor offerings to the populations they serve. Meanwhile, the Company's portfolio of engagement solutions helps providers address and impact the types of behaviors that could result in reduced hospital re-admission rates, resulting in a direct and measurable impact on providers' revenue.

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

## NRC's Solutions

NRC's portfolio of solutions address specific market needs around growth, retention, engagement and thought leadership for healthcare providers, payers and other healthcare organizations. While each distinct solution provides discernible value on a stand-alone basis, the Company believes that in combination, its solutions provide a comprehensive view of healthcare consumers both within healthcare settings and outside of those settings—creating a differentiated solution set to address the emerging needs for population-based health management.

***Growth Solutions*** - NRC's growth solutions are subscription-based services that include measurement of community perception (Market Insights), brand tracking (BrandArc) and advertising testing (AdVoice). Market Insights is the largest online U.S. healthcare survey, measuring the opinions and behaviors of 270,000 healthcare consumers in the top 250 markets across the country annually. Market Insights is a syndicated survey that provides clients with an independent third-party source of information that is used to understand consumer preferences and optimize marketing strategies. BrandArc is a solution that enables clients to measure brand value and build brand equity in their markets. AdVoice is a solution that helps NRC's clients evaluate and optimize advertising efficiency and consumer recall. The Company's growth solutions have historically been marketed under the Healthcare Market Guide and Ticker brands.

***Retention Solutions*** - NRC's retention solutions include patient and resident experience, physician engagement and employee experience measurement and improvement tools. These solutions enable clients to comply with regulatory requirements and to improve their reimbursement under value-based purchasing models. Additionally, clients use these applications to positively impact patient experience through utilization of the Company's prescriptive analytics to enable improvement planning and implementation of best practices. Finally, with a growing body of research linking employee and physician satisfaction levels to provide quality and patient experience, NRC's retention solutions also measure satisfaction from those constituents and integrate that data into prescriptive analytics for improvement.

The Company's retention solutions are marketed under the NRC Picker, My InnerView ("MIV"), and NRC Canada brands and are provided on a subscription basis via a cross-continuum platform that collects and measures data and then delivers business intelligence that the Company's clients utilize to improve retention, experience and reimbursement. NRC provides these performance results and prescriptive analytics to its clients via the Company's Catalyst improvement planning and business intelligence portal. In addition, clients have an option of more immediate feedback via the Company's real-time mobile data collection platform.

***Engagement Solutions -*** NRC's engagement solutions include its health risk assessments (Payer Solutions), patient outreach and discharge call program (Connect Transitions) and post-acute analytics (Outcome Concept Systems, or OCS). These solutions enable the Company's clients to understand the health risks associated with populations of patients, analyze and address readmission risks and efficiently reach out to patients to impact their behaviors outside of the healthcare provider settings. The Company's health risk assessment solutions enable its clients to effectively stratify and manage care for those who are most at-risk, engage individuals, increase preventative care and manage wellness programs to improve patient experience and outcomes. NRC's patient outreach and discharge call solutions are provided to healthcare organizations on a subscription basis. Through preference-based communications and real time alerts, these solutions enable organizations to identify and manage high risk patients to reduce readmissions, increase patient satisfaction and support safe care transitions. NRC's post-acute analytics solutions provide business intelligence for home health and hospice providers that enable the improvement of patient experience, operational performance and clinical outcomes.

The Connect Transitions solution is provided by Customer-Connect LLC (doing business as Connect). Connect was formed in June 2013 to develop and provide patient outreach and discharge call solutions. NRC has a 49% ownership interest in Connect, NG Customer-Connect, LLC holds 25% interest and the remaining 26% is held by Illuminate Health, LLC.

The key proprietary components of NRC's engagement solutions include a real-time electronic medical records integration platform; a portfolio of risk assessments for individual patient populations and care settings; and post-acute predictive models and algorithms based on proprietary datasets.

***Thought Leadership Solutions –*** NRC's thought leadership solutions include national conferences, publications and an on-line portal, and are integrated at various levels into NRC's growth, retention and engagement solutions. NRC also offers a specific thought leadership service branded as The Governance Institute ("TGI"). TGI is a membership organization that offers subscription-based governance information solutions and educational conferences designed to improve the effectiveness of hospital and healthcare systems by continually strengthening their boards, medical leadership and management performance. TGI conducts conferences, produces publications, videos, white papers and research studies, and tracks industry trends showcasing emerging healthcare trends and best practice solutions of healthcare boards across the country.

## NRC's Competitive Strengths

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

*A leading provider of patient experience solutions for healthcare providers, payers and other healthcare organizations*. The Company's history is based capturing the voice of the consumer in healthcare markets. With survey solutions that span the healthcare continuum, in 2013 and 2012 the Company was recognized by Modern Healthcare as one of the nation's largest patient experience survey providers. Its solutions build on the "Eight Dimensions of Patient-Centered Care," a philosophy developed by noted patient advocate Harvey Picker, who believed patients' experiences are integral to quality healthcare. NRC has extended this philosophy to include families, caregivers, employees and other stakeholders.

*Premier client portfolio across the care continuum.* NRC's client portfolio encompasses leading healthcare organizations across the healthcare continuum, from acute care hospitals and post-acute providers to healthcare payers. The Company's client base is diverse, with its top ten clients representing approximately 19% of total revenue for the year ended December 31, 2013 and no single client representing more than 5% of the Company's revenue.

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

*Comprehensive portfolio of solutions*. Since NRC offers solutions encompassing growth, retention, engagement and thought leadership, its clients can engage with the Company at multiple levels and, over time, increase their commitment and spend.

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

*Experienced senior management team led by NRC's founder.* NRC's senior management team has extensive industry and leadership experience. Michael D. Hays, the Company's Chief Executive Officer, founded NRC in 1981. Prior to launching the Company, Mr. Hays served as Vice President and as a Director of SRI Research Center, Inc. (now known as the Gallup Organization). The Chief Financial Officer, Kevin Karas, CPA, has extensive financial experience having served as CFO at two previous companies, along with healthcare experience at Rehab Designs of America, Inc. and NovaCare, Inc. NRC's President and Chief Operating Officer, Susan Henricks, has extensive leadership experience in high volume data and analytics businesses, having served as President of Financial Institution Services for First Data Corporation, the largest processor of credit card, debit card, and merchant transactions in the U.S. She also served as President for printing and marketing services organizations, in addition to various other leadership positions.

## Competition

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

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

## Growth Strategy

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

*Selling additional solutions to existing clients*. Less than 25% of the Company's existing clients purchase more than one of its solutions. NRC's sales organization actively identifies and pursues these cross-sell opportunities in order to accelerate the growth of the Company.

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

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

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

## Sales and Marketing

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

In addition to prospect leads generated by direct sales associates, the Company's integrated marketing activities facilitate its ongoing receipt of prospect request-for-proposals. NRC uses lead generation mechanisms to add generated leads to its database of current and potential client contacts. The Company also maintains an active public relations program which includes (1) an ongoing presence in leading industry trade press and in the mainstream press, (2) public speaking at strategic industry conferences, (3) fostering relationships with key industry constituencies, and (4) the annual Consumer Choice Award program recognizing top-ranking healthcare organizations.

## Clients

NRC's clients include many of the nation's largest healthcare systems. The Company serves over 2, 400 acute care facilities. It also provides solutions to over 80 payer health plans and 7,700 post-acute facilities. These clients utilize NRC's reporting platforms that capture, self-reported customer data from over 15 million unique healthcare episodes annually.

The Company's ten largest clients accounted for 19%, 22%, and 20% of the Company's total revenue in 2013, 2012 and 2011, respectively. Approximately 7% of the Company's revenue was derived from foreign customers in 2013, and 8% in 2012 and 2011.

For financial information by geographic area, see Note 12 to the Company's consolidated financial statements.

## Intellectual Property and Other Proprietary Rights

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

## Associates

As of December 31, 2013, the Company employed a total of 352 persons on a full-time basis. In addition, as of such date, the Company had 36 part-time associates primarily in its survey operations, representing approximately 18 full-time equivalent associates. None of the Company's associates are represented by a collective bargaining unit. The Company considers its relationship with its associates to be good.

## Executive Officers of the Company

The following table sets forth certain information as of February 1, 2014, regarding the executive officers of the Company:

| Name | Age | Position |
|---|---|---|
| Michael D. Hays | 59 | Chief Executive Officer |
| Susan L. Henricks | 63 | President and Chief Operating Officer |
| Kevin R. Karas | 56 | Senior Vice President Finance, Chief Financial Officer, Treasurer and Secretary |

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

Susan L. Henricks has served as President and Chief Operating Officer of the Company since she joined the Company in July 2011. From 2008 until joining the Company, she served as Managing Partner and Co-Founder of Arbor Capital, LLC, a private equity firm focused primarily on companies in the marketing and information services, payments technology and business process outsourcing sectors. Prior to starting Arbor Capital, Ms. Henricks served as President of the Financial Institution Services business of First Data Corporation, the largest processor of credit card, debit card and merchant transactions in the U.S., from 2006 to 2008, President of RRD Direct and then the directories business of RR Donnelley, a global leader in printing and print services, from 2000 to 2006, President of Donnelley Marketing, a direct marketing services company, from 1999 to 2000, and President of First Data Enterprises, the credit card issuing business of First Data Corporation, from 1997 to 1999. Ms. Henricks also held various leadership positions with Metromail Corporation, a direct marketing services company, from 1985 to 1997, including President and CEO from 1993 to 1997.

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

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

**Available Information**

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

## Item 1A. Risk Factors

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

**We depend on contract renewals for a large share of our revenue and our operating results could be adversely affected.**

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

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

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

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

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

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

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

In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010. The legislation makes extensive changes to the current system of healthcare insurance and benefits that includes changes in Medicare and Medicaid payment policies and other healthcare delivery reforms aimed at improving quality and decreasing costs, comparative effectiveness research, and independent payment advisory boards, among other provisions. These provisions could negatively impact our health care clients and could impact the services we provide our clients, the demand for the services we provide and the Company's business. At this time, it is difficult to estimate the impact of this legislation on the Company but there can be no assurances that health care reform will not adversely impact either our operating results or the manner in which we operate our business.

**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 revenue. The Company's ten largest clients accounted for 19%, 22%, and 20% of the Company's total revenue in 2013, 2012, and 2011, 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, may have a negative effect on our revenue and a corresponding effect on our operating and net income. See “Risk Factors — Because our clients are concentrated in the healthcare industry, our revenue and operating results may be adversely affected by changes in regulations, a business downturn or consolidation with respect to the healthcare industry.”

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

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

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

The Company's outstanding stock is divided into two classes of common stock: class A common stock and class B common stock. The class B common stock has one vote per share on all matters and the class A common stock has one-one-hundredth ($1/100^{th}$) of one vote per share. As of February 21, 2014, the class B common stock constitutes approximately 94% of NRC's total voting power. As a result, holders of class B common stock are able to exercise a controlling influence over the Company's business, have the power to elect its directors and indirectly control decisions such as whether to issue additional shares, declare and pay dividends or enter into significant corporate transactions. A majority of the class B common stock is owned by Michael D. Hays, our Chief Executive Officer.

As of February 21, 2014, approximately 54% of the outstanding class B common stock and approximately 26% of the outstanding class A common stock was beneficially owned by Mr. Hays, and that collectively constitutes approximately 52% of the Company's total voting power. As a result, Mr. Hays can control matters requiring shareholder approval, including the election of directors and the approval of significant corporate matters such as change of control transactions. The effects of such influence could be to delay or prevent a change of control of the Company unless the terms are approved by Mr. Hays.

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

Our future performance may depend, to a significant extent, upon the efforts and ability of our key personnel who have expertise in gathering, interpreting and marketing survey-based performance information for healthcare markets. Although client relationships are managed at many levels within our company, the loss of the services of Michael D. Hays, our Chief Executive Officer, or one or more of our other senior managers, could have a material adverse effect, at least in the short to medium term, on most significant aspects of our business, including strategic planning, product development, and sales and customer relations. As of December 31, 2013, 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 associate nondisclosure agreements to protect our systems, survey instruments and procedures. We cannot assure you that the steps we have taken to protect our rights will be adequate to prevent misappropriation of such rights, or that third parties will not independently develop functionally equivalent or superior systems or procedures. We believe that our systems and procedures and other proprietary rights do not infringe upon the proprietary rights of third parties. We cannot assure you, however, that third parties will not assert infringement claims against us in the future, or that any such claims will not result in protracted and costly litigation, regardless of the merits of such claims, or whether we are ultimately successful in defending against such claims.

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

Our ability to provide timely and accurate performance measurement and improvement services to our clients depends on the efficient and uninterrupted operation of our information technology and communication systems, and those of our external service providers. Our systems and those of our external service providers, could be exposed to damage or interruption from fire, natural disasters, energy loss, telecommunication failure, security breach and computer viruses. An operational failure or outage in our information technology and communication systems or those of our external service providers, could result in loss of customers, damage to customer relationships, reduced revenue and profits, refunds of customer charges and damage our reputation and may result in additional expense to repair or replace damaged equipment and recover data loss resulting from the interruption. Although we have taken steps to prevent system failures and have back-up systems and procedures to prevent or reduce disruptions, such steps may not prevent an interruption of services and our disaster recovery planning may not account for all contingencies. Additionally, our insurance may not adequately compensate us for all losses or failures that may occur. Any one of the above situations could have a material adverse effect on our business, financial condition, results of operations and reputation.

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

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

**Our growth strategy includes future acquisitions which involve inherent risk.**

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

## Item 1B. Unresolved Staff Comments

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

## Item 2. Properties

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

The Company is leasing 4,000 square feet of office space in Markham, Ontario, 5,100 square feet of office space in San Diego, California, 3,300 square feet of office space in Lincoln, Nebraska, and 8,100 square feet of office space in Seattle, Washington.

## Item 3. Legal Proceedings

The Company is not subject to any material pending litigation.

## Item 4. Mine Safety Disclosures

Not applicable.

## PART II

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

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

The following table sets forth the range of high and low sales prices for, and dividends declared on, the Company's pre-May 2013 Recapitalization common stock and the post-May 2013 Recapitalization class A common stock and class B common stock for the period from January 1, 2012, through December 31, 2013:

| **Pre –May 2013 Recapitalization (a):** | High | Low | Dividends Declared Per Prior Common Share |
|---|---|---|---|
| 2012 Quarter Ended: | | | |
| March 31 | $43.98 | $36.58 | $0.26 |
| June 30 | $53.00 | $41.00 | $0.26 |
| September 30 | $52.71 | $46.19 | $0.26 |
| December 31 | $58.23 | $49.51 | $1.76 |
| 2013 Quarter Ended: | | | |
| March 31 | $61.58 | $50.00 | $0.31 |
| April 1 to May 22 | $64.36 | $53.45 | -- |

| | Class A | | | Class B | | |
|---|---|---|---|---|---|---|
| **Post –May 2013 Recapitalization:** | High | Low | Dividends Declared Per Common Share | High | Low | Dividends Declared Per Common Share |
| 2013 Quarter Ended: | | | | | | |
| May 23 to June 30 | $21.31 | $12.36 | -- | $46.52 | $18.24 | -- |
| September 30 | $18.84 | $15.36 | -- | $42.48 | $26.61 | -- |
| December 31 | $19.00 | $15.69 | -- | $36.88 | $27.25 | -- |

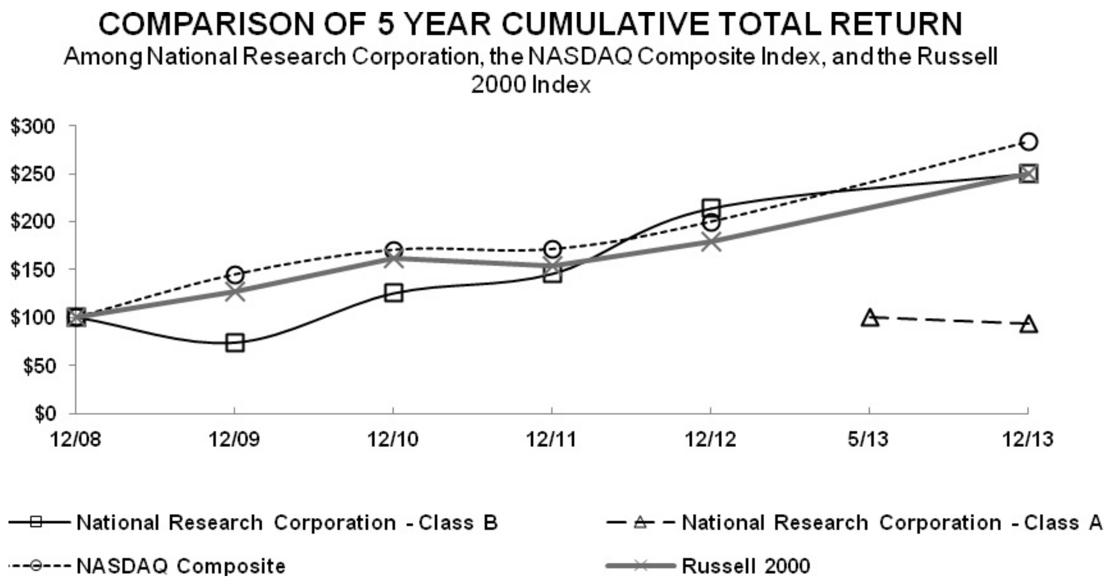
(a) Sales prices and dividends have not been adjusted to give effect to the May 2013 Recapitalization described above.

Cash dividends of $2.1 million and $17.4 million in the aggregate were declared and paid during the twelve-month periods ended December 31, 2013 and 2012, respectively. In August 2013, the Company's Board of Directors decided to suspend the payment of cash dividends through the year 2014. The payment and amount of future dividends, if any, is at the discretion of the Company's Board of Directors and will depend on the Company's future earnings, financial condition, general business conditions, alternative uses of the Company's earnings and other factors.

On February 21, 2014, there were approximately 25 shareholders of record and approximately 1,015 beneficial owners of the class A common stock and approximately 17 shareholders of record and approximately 1,197 beneficial owners of the class B common stock.

In February 2006, the Board of Directors of the Company authorized the repurchase of 2,250,000 shares of class A common stock and 375,000 shares of class B common stock (on a post-May 2013 Recapitalization basis) in the open market or in privately negotiated transactions. Unless terminated earlier by resolution of the Company's Board of Directors, the repurchase program will expire when the Company has repurchased all shares authorized for repurchase thereunder. As of February 21, 2014, 610,417 shares of the Company's prior common stock (now equivalent to 1,831,251 shares of class A common stock and 305,208 shares of class B common stock) have been repurchased under that authorization. No stock was repurchased during the three-month period ended December 31, 2013.

The following graph compares the cumulative 5-year total return provided shareholders on the Company's common stock relative to the cumulative total returns of the NASDAQ Composite Index and the Russell 2000 Index. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our common stock and in each of the indexes on December 31, 2008 (or on May 23, 2013 for our class A common stock which was the first day it was traded), and its relative performance is tracked through December 31, 2013. In accordance with Securities and Exchange Commission guidance, in calculating the cumulative 5-year total return on our class B common stock, we gave retroactive effect to the May 2013 Recapitalization (i.e., as if it had occurred on December 31, 2008).




## COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN DATA

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

| | 12/08 | 12/09 | 12/10 | 12/11 | 12/12 | 5/23/2013 | 12/13 |
|---|---|---|---|---|---|---|---|
| National Research Corporation- Class A | --- | --- | --- | --- | --- | 100.00 | 94.10 |
| National Research Corporation- Class B | 100.00 | 73.46 | 125.23 | 145.69 | 214.12 | --- | 250.71 |
| NASDAQ Composite | 100.00 | 144.88 | 170.58 | 171.30 | 199.99 | --- | 283.39 |
| Russell 2000 | 100.00 | 127.17 | 161.32 | 154.59 | 179.86 | --- | 249.69 |

## Item 6. Selected Financial Data

The selected statement of income data for the years ended December 31, 2013, 2012, and 2011, and the selected balance sheet data at December 31, 2013 and 2012, are derived from, and are qualified by reference to, the audited consolidated financial statements of the Company included elsewhere in this Annual Report on Form 10-K. The selected statement of income data for the year ended December 31, 2010 and 2009, and the balance sheet data at December 31, 2011, 2010 and 2009, are derived from audited consolidated financial statements not included herein. The Company acquired Outcome Concept Systems on August 3, 2010, and My InnerView ("MIV") on December 19, 2009.

| | Year Ended December 31, (a) | | | | |
|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| | (In thousands, except per share data) | | | | |
| **Statement of Income Data:** | | | | | |
| Revenue | $ 92,590 | $ 86,421 | $ 75,767 | $ 63,398 | $ 57,692 |
| Operating expenses: | | | | | |
| Direct | 38,844 | 35,461 | 28,667 | 24,635 | 24,148 |
| Selling, general and administrative | 25,208 | 23,542 | 23,300 | 20,202 | 16,016 |
| Depreciation and amortization | 3,732 | 4,699 | 5,065 | 4,704 | 3,831 |
| Total operating expenses | 67,784 | 63,702 | 57,032 | 49,541 | 43,995 |
| Operating income | 24,806 | 22,719 | 18,735 | 13,857 | 13,697 |
| Other expense | (318) | (512) | (575) | (542) | (580) |
| Income before income taxes | 24,488 | 22,207 | 18,160 | 13,315 | 13,117 |
| Provision for income taxes | 9,004 | 7,139 | 6,596 | 4,816 | 4,626 |
| Net income | $ 15,484 | $ 15,068 | $ 11,564 | $ 8,499 | $ 8,491 |
| Earnings per share common stock: | | | | | |
| Basic Earnings per share: | | | | | |
| Class A | $ 0.37 | $ 0.37 | $ 0.29 | $ 0.21 | $ 0.21 |
| Class B | $ 2.25 | $ 2.22 | $ 1.73 | $ 1.28 | $ 1.28 |
| Diluted Earnings per share: | | | | | |
| Class A | $ 0.37 | $ 0.36 | $ 0.28 | $ 0.21 | $ 0.21 |
| Class B | $ 2.20 | $ 2.17 | $ 1.69 | $ 1.26 | $ 1.26 |
| Weighted average share and share equivalents outstanding: | | | | | |
| Class A - basic | 20,677 | 20,325 | 20,016 | 19,912 | 19,910 |
| Class B - basic | 3,447 | 3,388 | 3,336 | 3,319 | 3,318 |
| Class A - diluted | 21,099 | 20,854 | 20,526 | 20,207 | 20,170 |
| Class B - diluted | 3,514 | 3,476 | 3,421 | 3,368 | 3,362 |

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| | (In thousands) | | | | |
| **Balance Sheet Data:** | | | | | |
| Working capital surplus (deficiency) | $ 12,784 | $ (11,483) | $ (2,262) | $ (8,809) | $ (4,432) |
| Total assets | 110,996 | 100,046 | 100,676 | 95,770 | 72,499 |
| Total debt and capital lease obligations, including current portion | 10,546 | 12,763 | 14,912 | 16,599 | 7,719 |
| Total shareholders' equity | $ 71,755 | $ 56,742 | $ 55,554 | $ 48,584 | $ 44,171 |

(a) All share and per share data have been retroactively adjusted to give effect to the May 2013 Recapitalization as further described in Note 1 to the accompanying consolidated financial statements.

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

### Overview

The Company is a leading provider of analytics and insights that facilitate revenue growth, patient, employee and customer retention and patient engagement for healthcare providers, payers and other healthcare organizations. The Company's solutions support the improvement of business and clinical outcomes, while facilitating regulatory compliance and the shift to population-based health management for its clients. The Company's ability to systematically capture, analyze and deliver to its clients self-reported information from patients, families and consumers is critical in today's healthcare market. NRC believes that access to and analysis of its extensive consumer-driven information will become even more valuable in the future as healthcare providers increasingly need to more deeply understand and engage patients and consumers in an effort towards effective population-based health management.

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

### 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 2013 include:

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

*Revenue Recognition*

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

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

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

The Company also derives revenue from hosting arrangements where our propriety software is offered as a service to our customers through our data processing facilities. The Company's revenue also includes software-related revenue for software license revenue, installation services, post-contract support (maintenance) and training. Software-related revenue is recognized in accordance with the provisions of Accounting Standards Codification ("ASC") 985-605, Software-Revenue Recognition.

Hosting arrangements to provide customers with access to the Company's propriety software are marketed under long-term arrangements generally over periods of one to three years. Under these arrangements, the customer is not provided the contractual right to take possession of the licensed software at any time during the hosting period without significant penalty, and the customer is not provided the right to run the software on their own hardware or contract with another party unrelated to us to host the software. Upfront fees for setup services are typically billed for our hosting arrangements, however, these arrangements do not qualify for separation from the ongoing hosting services due to the absence of standalone value for the set-up services. Therefore, we account for these arrangements as service contracts and recognize revenue ratably over the hosting service period when all other conditions to revenue are met. Other conditions that must be met before the commencement of revenue recognition include achieving evidence of an arrangement, determining that the collection of the revenue is probable, and determining that fees are fixed and determinable.

The Company's software arrangements typically involve the sale of a time-based license bundled with installation services, post-contract support ("PCS") and training. License terms range from one year to three years, and require an annual fee for bundled elements of the arrangement. PCS is also contractually provided for a period that is co-terminus with the term of the time-based license. The Company's installation services are not considered to be essential to the functionality of the software license. The Company does not achieve vendor-specific objective evidence ("VSOE") of the fair value of the undelivered elements of its software arrangements (primarily PCS) and, therefore, these arrangements are accounted for as a single unit of accounting with revenue recognized ratably over the minimum bundled PCS period.

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

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

*Valuation of Goodwill and Identifiable Intangible Assets*

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

When performing the impairment assessment, the Company first assesses qualitative factors to determine whether it is necessary to recalculate the fair value of our intangible assets with indefinite lives. If the Company believes, as a result of the qualitative assessment, that it is more likely than not that the fair value of the indefinite-lived intangibles is less than their carrying amount, the Company calculates the fair value using a market approach. If the carrying value of an intangible asset with an indefinite life exceeds its fair value, then the intangible asset is written-down to their fair values. The Company did not recognize any impairment related to our indefinite-lived intangible assets during 2013, 2012, or 2011.

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

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

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

Under the market approach, the Company considers its market capitalization, comparisons to other public companies' data, and recent transactions of similar businesses within the Company's industry.

The Company performed a qualitative analysis as of October 1, 2013, which did not indicate that it was more likely than not that the carrying values of the reporting units exceeded fair value. No impairments were recorded during the years ended December 31, 2013, 2012 or 2011.

*Income Taxes*

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

## 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 revenue and the percentage change in such items versus the prior comparable period (please note that all columns may not add up to 100% due to rounding). The trends illustrated in the following table 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 Revenue Year Ended December 31, | | | Percentage Increase (Decrease) | |
|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 over 2012 | 2012 over 2011 |
| Revenue | 100.0% | 100.0% | 100.0% | 7.1% | 14.1% |
| Operating expenses: | | | | | |
| Direct | 42.0 | 41.0 | 37.8 | 9.5 | 23.7 |
| Selling, general and administrative | 27.2 | 27.2 | 30.8 | 7.1 | 1.0 |
| Depreciation and amortization | 4.0 | 5.4 | 6.7 | (20.6) | (7.2) |
| Total operating expenses | 73.2 | 73.7 | 75.3 | 6.4 | 11.7 |
| Operating income | 26.8% | 26.3% | 24.7% | 9.2% | 21.3% |

**Year Ended December 31, 2013, Compared to Year Ended December 31, 2012**

*Revenue*. Revenue increased 7.1% in 2013 to $92.6 million from $86.4 million in 2012 which was driven by a combination of continued gains in market share and vertical growth in our existing client base. Revenue from subscription-based agreements comprised 81.9% of the total revenue for the year ended December 31, 2013 compared to 76.0% of the total revenue for the year ended December 31, 2012.

*Direct expenses*. Direct expenses increased 9.5% to $38.8 million in 2013 from $35.5 million in 2012. Direct variable expenses are costs that vary with volumes and consist mainly of printing, postage, hourly labor, and contracted survey work. Direct fixed expenses consist mainly of salaries and benefits, and contracted services for client service, analytical, research, and information technology development functions. The increase included postage and contracted survey-related costs to service the higher volume of business, and an increase in fixed expenses of $1.8 million from additional investments in technology, research and service resources. Direct expenses increased as a percentage of revenue to 42.0% in the year ended December 31, 2013, from 41.0% during the same period of 2012. Variable expenses as percentage of revenue were 0.2% of the change due to higher survey volumes for the subscription-based products, and fixed expenses were 0.8% of the change due to investments in technology, research and service resources. The Company expects this percentage to continue at a similar rate for 2014.

*Selling, general and administrative expenses*. Selling, general and administrative expenses increased 7.1% to $25.2 million in 2013 from $23.5 million in 2012 mainly due to additional expense in share based compensation, increases in annual software license fees and costs from the May 2013 Recapitalization, which were partially offset by decreased incentive payments and marketing costs. Selling, general, and administrative expenses remained constant as a percentage of revenue at 27.2% for each of the years ended December 31, 2013 and 2012 due to the leveraging of selling, general and administrative expenses against increased revenue. This percentage is projected to be approximately 26% of revenue in 2014.

*Depreciation and amortization*. Depreciation and amortization expenses decreased 20.6% to $3.7 million in 2013 from $4.7 million in 2012. This decrease was a result of a large software development project becoming fully depreciated and intangibles associated with an acquisition becoming fully amortized. Depreciation and amortization expenses as a percentage of revenue decreased to 4.0% in 2013 from 5.4% in 2012. The Company expects this percentage to continue at a similar rate for 2014.

*Provision for income taxes*. The provision for income taxes totaled $9.0 million (36.8% effective tax rate) for 2013, compared to $7.1 million (32.1% effective tax rate) for 2012. The effective tax rate for the year ended December 31, 2013, is higher than the rate in the same period of 2012 primarily due to an adjustment to income taxes of $575,000 for decreases in deferred state tax rates resulting from legislative changes in

2012 and nondeductible fees associated with the May 2013 Recapitalization that are part of the annualized effective rate.

**Year Ended December 31, 2012, Compared to Year Ended December 31, 2011**

*Revenue*. Revenue increased 14.1% in 2012 to $86.4 million from $75.8 million in 2011. The increase was due to market share growth and vertical growth in the existing client base. Revenue from subscription-based agreements comprised 76.0% of the total revenue for the year ended December 31, 2012 compared to 63.0% of the total revenue for the year ended December 31, 2011.

*Direct expenses*. Direct expenses increased 23.7% to $35.5 million in 2012 from $28.7 million in 2011. Direct variable expenses are costs that vary with volumes and consist mainly of printing, postage, hourly labor, and contracted survey work. Direct fixed expenses consist mainly of salaries and benefits, and contracted services for client service, analytical, research, and information technology development functions. The increase in variable expenses of $4.1 million included increased postage, labor costs, contracted survey-related costs to service the higher volume of business and conference-related expenses. The increase in fixed expenses of $2.7 million was due to additional staffing and related expenses in information technology development and client service functions. Direct expenses increased as a percentage of revenue to 41.0% in the year ended December 31, 2012, from 37.8% during the same period of 2011. Variable expenses as percentage of revenue were 2.2% of the change due to higher survey volumes for the subscription-based products, and fixed expenses were 1.0% of the change due to investments in technology, research and service resources.

*Selling, general and administrative expenses*. Selling, general and administrative expenses increased 1.0% to $23.5 million in 2012 from $23.3 million in 2011. Selling, general, and administrative expenses decreased as a percentage of revenue to 27.2% for the year ended December 31, 2012, from 30.8% for the same period in 2011 due to the leveraging of selling, general and administrative expenses against increased revenue.

*Depreciation and amortization*. Depreciation and amortization expenses decreased 7.2% to $4.7 million in 2012 from $5.1 million in 2011. This decrease was attributed to declining intangible asset amortization expenses. Depreciation and amortization expenses as a percentage of revenue decreased to 5.4% in 2012 from 6.7% in 2011.

*Provision for income taxes*. The provision for income taxes totaled $7.1 million (32.1% effective tax rate) for 2012, compared to $6.6 million (36.3% effective tax rate) for 2011. The effective tax rate for the year ended December 31, 2012, is lower than the rate in the same period of 2011 primarily due to an adjustment to income taxes of $661,000 for decreases in deferred state tax rates resulting from legislative changes. The Company also recorded federal tax credits of $198,000, and recognized an additional $73,000 in tax benefits over the same period in 2011 due to the expiration of the U.S. federal statute of limitations associated with certain tax positions.

**Inflation and Changing Prices**

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

**Liquidity and Capital Resources**

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

The Company will make capital contributions up to $2.5 million on an as-needed basis as determined by the Board of Directors of Connect. Additionally, the Company has a future obligation to purchase the other equity units in Connect when certain targeted events have been achieved. If, at any time, Connect has at least $12.5 million of annual recurring contract value, including the NRC contracts being serviced, and the members have approved a financial statement showing a pro forma minimum 35% EBITDA margin for revenue on a going-forward basis, then within 90 days thereafter NRC is required to purchase from the other members, and the other members shall be required to sell to NRC, all of their equity units not owned by NRC. As of December 31, 2013, the price at which the other members had the obligation to sell their equity units to NRC was $0.

As of December 31, 2013, our principal sources of liquidity included $22.1 million of cash and cash equivalents and up to $6.5 million of unused borrowings under our revolving credit note. Of this cash, $7.5 million was held in Canada. All of the amounts held in Canada are intended to be indefinitely reinvested in foreign operations. The amounts held outside of the U.S. are eligible for repatriation, but under current law, would be subject to U.S. federal income taxes less applicable foreign tax credits. The Company estimated at December 31, 2013, that an additional tax liability of $705,000 would become due if repatriation of undistributed earnings would occur. The amount of unused borrowings actually available under the revolving credit note varies in accordance with the terms of the agreement.

*Working Capital*

The Company had a working capital surplus of $12.8 million on December 31, 2013, compared to a $11.5 million working capital deficiency on December 31, 2012. The change in the working capital balance was primarily due to the refinancing of the Company's term notes in May 2013, which now have the final term note payments in April 2018. Additionally, the Company has not declared cash dividends since March 2013, and has temporarily suspended dividend payments in order maximize cash for possible investment opportunities. One such investment was made in Connect in June 2013. The deferred revenue balances as of December 31, 2013 and December 31, 2012, were $13.9 million and $15.8 million, respectively.

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

*Cash Flow Analysis*

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

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | | (In thousands) | |
| Provided by operating activities | $19,315 | $19,132 | $18,481 |
| Used in investing activities | (2,188) | (2,348) | (6,927) |
| Used in financing activities | (2,824) | (16,687) | (6,886) |
| Effect of exchange rate changes on cash | (497) | 107 | (105) |
| Net increase in cash and cash equivalents | 13,806 | 204 | 4,563 |
| Cash and cash equivalents at end of period | $22,092 | $ 8,286 | $ 8,082 |

*Cash Flows from Operating Activities*

Cash flows from operating activities consist of net income adjusted for non-cash items including depreciation and amortization, deferred taxes, and the effect of working capital changes.

Net cash provided by operating activities was $19.3 million for the year ended December 31, 2013, which included net income of $15.5 million, plus non-cash charges (benefits) for deferred tax expense, depreciation and amortization, tax benefit from exercise of stock options, and non-cash stock compensation totaling $4.8 million. Changes in working capital decreased 2013 cash flows from operating activities by $1.0 million, primarily due to timing of billings on new or renewal contracts decreasing cash flows provided from deferred revenue and unbilled revenue offset by increases in trade accounts receivable. The cash flows decrease was partially offset by timing of payments on accounts payable and accrued expenses, wages, bonus and profit sharing.

Net cash provided by operating activities was $19.1 million for the year ended December 31, 2012, which included net income of $15.1 million, plus non-cash charges (benefits) for deferred tax expense, depreciation and amortization, tax benefit from exercise of stock options, and non-cash stock compensation totaling $5.3 million. Changes in working capital decreased 2012 cash flows from operating activities by $1.2 million, primarily due to timing of initial billings on new or renewal contracts decreasing cash flows provided from trade accounts receivable and deferred revenue and timing of payments on accounts payable and prepaid expenses, partially offset by increases and timing in payments of accrued expenses, wages, and bonus and profit sharing.

Net cash provided by operating activities was $18.5 million for the year ended December 31, 2011, which included net income of $11.6 million, plus non-cash charges (benefits) for deferred tax expense, depreciation and amortization, tax benefit from exercise of stock options and non-cash stock compensation totaling $7.2 million. Changes in working capital decreased 2011 cash flows from operating activities by $273,000, primarily due to timing of initial billings on new or renewal contracts decreasing cash flows provided from trade accounts receivable and deferred revenue, partially offset by timing of payments on accrued expenses and income taxes.

*Cash Flows from Investing Activities*

Net cash of $2.2 million was used for investing activities in the year ended December 31, 2013. Purchases of property and equipment totaled the $2.2 million.

Net cash of $2.3 million was used for investing activities in the year ended December 31, 2012. Purchases of property and equipment totaled the $2.3 million.

Net cash of $6.9 million was used for investing activities in the year ended December 31, 2011. Earn-out payments related to the MIV acquisition approximated $4.1 million, and purchases of property and equipment totaled $2.8 million.

*Cash Flows from Financing Activities*

Net cash used in financing activities was $2.8 million in the year ended December 31, 2013. Proceeds from the exercise of stock options and the excess tax benefit of share-based compensation provided cash of $840,000 and $755,000, respectively, partially offset by repurchases of shares for payroll tax withholdings related to share-based compensation of $55,000. Cash was used to pay dividends of $2.1 million. Cash was also used to repay borrowings under the term note totaling $2.1 million and capital lease obligations of $110,000.

Net cash used in financing activities was $16.7 million in the year ended December 31, 2012. Proceeds from the exercise of stock options and the excess tax benefit of share-based compensation provided cash of $1.3 million and $2.1 million, respectively, partially offset by repurchases of shares for payroll tax withholdings related to share-based compensation of $527,000. Cash was used to pay dividends of $17.4 million, including a special dividend of $10.3 million in the fourth quarter of 2012. Cash was also used to repay borrowings under the term note totaling $2.1 million and capital lease obligations of $108,000.

Net cash used in financing activities was $6.9 million in the year ended December 31, 2011. Cash was generated from borrowings under the Company's term note and revolving credit note totaling $4.5 million. Proceeds from the exercise of stock options and the excess tax benefit of share-based compensation provided cash of $568,000 and $407,000, respectively, partially offset by repurchases of shares for payroll tax withholdings related to share-based compensation of $146,000. Cash was used to pay dividends of $5.9 million, repay borrowings under the term note and revolving credit note totaling $6.2 million, and repay capital lease obligations of $130,000.

The effect of changes in foreign exchange rates increased (decreased) cash and cash equivalents by ($497,000), $107,000, and ($105,000) in the years ended December 31, 2013, 2012, and 2011, respectively.

*Capital Expenditures*

Capital expenditures for the year ended December 31, 2013, were $2.2 million. These expenditures consisted mainly of computer software, computer hardware, furniture and other equipment. The Company expects similar capital expenditure purchases in 2014 consisting primarily of computer software and hardware and other equipment, to be funded through cash generated from operations.

*Debt and Equity*

The Company had two term notes, which were used to partially finance acquisitions in 2008 and 2010. Borrowings under the term notes bore interest at an annual rate of 3.79%. The Company refinanced these two term notes on May 9, 2013, and combined them into one new term note. The new term note is payable in 60 monthly installments of $212,468. Borrowings under the new term note bear interest at an annual rate of 3.12%. The outstanding balance of the new term note at December 31, 2013, was $10.3 million.

The Company also has a revolving credit note that was renewed in May 2013 to extend the term to June 30, 2014. The Company may borrow, repay and re-borrow amounts under the revolving credit note from time to time until its maturity on June 30, 2014. This revolving credit note provides for the maximum aggregate borrowings of $6.5 million, subject to a borrowing base equal to 75.0% of the Company's eligible accounts receivable. Borrowings under the renewed revolving credit note bear interest at a variable annual rate, with three rate options at the discretion of management as follows: (1) 2.5% plus the daily reset one-month London Interbank Offered Rate ("LIBOR") or (2) 2.2% plus the one-, two-, three-, six- or twelve-month LIBOR rate, or (3) the bank's one-, two-, three-, six- or twelve-month Money Market Loan Rate. The rate at December 31, 2013 was 2.67%. As of December 31, 2013, the revolving credit note did not have a balance. According to borrowing base requirements, the Company had the capacity to borrow $6.5 million as of December 31, 2013. The Company expects to renew the revolving credit note prior to June 30, 2014. If, however, the revolving credit note cannot be renewed, the Company believes it has adequate cash from operations to meet its debt and capital needs.

The term note and revolving credit note are secured by certain of the Company's assets, including the Company's land, building, accounts receivable and intangible assets. The term note and the revolving credit note contain various restrictions and covenants applicable to the Company, including requirements that the Company maintain certain financial ratios at prescribed levels and restrictions on the ability of the Company to consolidate or merge, create liens, incur additional indebtedness or dispose of assets. As of December 31, 2013, the Company was in compliance with these restrictions and covenants.

The Company has capital leases for computer equipment, office equipment, and inserting equipment. The balance of the capital leases as of December 31, 2013 was $222,000.

**Contractual Obligations**

The Company had contractual obligations to make payments in the following amounts in the future as of December 31, 2013:

| Contractual Obligations[1] | Total Payments | Less than One Year | One to Three Years | Three to Five Years | After Five Years |
|---|---|---|---|---|---|
| (In thousands) | | | | | |
| Operating leases | $ 2,582 | $ 782 | $ 1,260 | $ 526 | $ 14 |
| Capital leases | 250 | 137 | 113 | -- | -- |
| Uncertain tax positions[2] | -- | -- | -- | -- | -- |
| Long-term debt | 11,017 | 2,505 | 7,649 | 863 | -- |
| Total | $ 13,849 | $ 3,424 | $ 9,022 | $ 1,389 | $ 14 |

(1) Amounts are inclusive of interest payments, where applicable.
(2) We have $193,000 in liabilities associated with uncertain tax positions. We are unable to reasonably estimate the expected cash settlement dates of these uncertain tax positions with the taxing authorities.

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

Shareholders' equity increased $15.0 million to $71.8 million in 2013, from $56.7 million in 2012. The increase was primarily due to net income of $15.5 million, $1.7 million of related share-based compensation, and $1.0 million from the exercise of options partially offset by dividends paid of $2.1 million.

**Stock Repurchase Program**

In February 2006, the Board of Directors of the Company authorized the repurchase of 2,250,000 shares of class A common stock and 375,000 shares of class B common stock (on a post-May 2013 Recapitalization basis) in the open market or in privately negotiated transactions. As of December 31, 2013, the remaining number of shares that could be purchased under this authorization was 418,749 shares of class A common stock and 69,791 shares of class B common stock.

**Off-Balance Sheet Obligations**

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

**Recent Accounting Pronouncements**

There have been no new accounting pronouncements not yet effective or adopted that have significance or potential significance to the consolidated financial statements at December 31, 2013.

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

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

The Company's Canadian subsidiary uses as its functional currency the local currency of the country in which it operates. It translates its assets and liabilities into U.S. dollars at the exchange rate in effect at the balance sheet date. It translates its revenue and expenses at the average exchange rate during the period. The Company includes translation gains and losses in accumulated other comprehensive income (loss), a component of shareholders' equity. Foreign currency translation gains (losses) were ($822,000), $217,000, and ($201,000) in 2013, 2012, and 2011, respectively. Gains and losses related to transactions denominated in a currency other than the functional currency of the countries in which the Company operates and short-term intercompany accounts are included in other income (expense) in the consolidated statements of income. A portion of our cash in our Canadian subsidiary is denominated in foreign currencies, where fluctuations in exchange rates will impact our cash balances in U.S. dollar terms. A sensitivity analysis assuming a hypothetical 100 basis point movement in the value of the U.S. dollar would impact our reported cash balance by approximately $0.8 million. We have not entered into any foreign currency hedging transactions. We do not purchase or hold any derivative financial instruments for the purpose of speculation or arbitrage.

We are exposed to interest rate risk with both our fixed-rate term debt and variable rate revolving line of credit facility. Interest rate changes for borrowings under our fixed-rate term debt would impact the fair value of such debt, but do not impact earnings or cash flow. At December 31, 2013, our fixed-rate term debt totaled $10.3 million. Based on a sensitivity analysis, a one percent change in market interest rates as of December 31, 2013, would not have a material effect on the estimated fair value of our fixed-rate debt outstanding at December 31, 2013.

Borrowings under our revolving credit note bear interest at a variable annual rate, with three rate options at the discretion of management. Borrowings under the revolving credit note may not exceed the lesser of a calculated borrowing base or $6.5 million. There were no borrowings outstanding under our revolving credit note at December 31, 2013, or at any time during 2013. A sensitivity analysis assuming a hypothetical 100 basis point movement in interest rates applied to the average daily borrowings and the maximum borrowings available under the revolving credit note indicated that such a movement would not have a material impact on our consolidated financial position, results of operations or cash flows.

## Item 8. Financial Statements and Supplementary Data

### Quarterly Financial Data (Unaudited)

The following table sets forth selected financial information for each of the eight quarters in the two-year period ended December 31, 2013. This unaudited information has been prepared by the Company on the same basis as the consolidated financial statements and includes all normal recurring adjustments necessary to present fairly this information when read in conjunction with the Company's audited consolidated financial statements and the notes thereto.

| | (In thousands, except per share data) (1) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Quarter Ended | | | | | | | |
| | Dec. 31, 2013 | Sept 30, 2013 | June 30, 2013 | Mar. 31, 2013 | Dec. 31, 2012 | Sept 30, 2012 | June 30, 2012 | Mar. 31, 2012 |
| Revenue | $ 22,923 | $ 22,407 | $ 22,354 | $ 24,906 | $ 21,996 | $ 21,386 | $ 20,632 | $ 22,407 |
| Direct expenses | 9,648 | 9,452 | 9,498 | 10,246 | 9,128 | 8,769 | 8,633 | 8,931 |
| Selling, general and administrative expenses | 6,305 | 6,019 | 6,391 | 6,493 | 6,001 | 5,821 | 5,569 | 6,151 |
| Depreciation and amortization | 944 | 907 | 931 | 950 | 1,093 | 1,149 | 1,214 | 1,243 |
| Operating income | 6,026 | 6,029 | 5,534 | 7,217 | 5,774 | 5,647 | 5,216 | 6,082 |
| Other expense | (82) | (81) | (71) | (84) | (100) | (155) | (105) | (152) |
| Provision for income taxes | 2,177 | 2,135 | 2,029 | 2,663 | 1,971 | 1,915 | 1,172 | 2,081 |
| Net income | $ 3,767 | $ 3,813 | $ 3,434 | $ 4,470 | $ 3,703 | $ 3,577 | $ 3,939 | $ 3,849 |
| Earnings per share of common stock: | | | | | | | | |
| Basic earnings per share | | | | | | | | |
| Class A | $ 0.09 | $ 0.09 | $ 0.08 | $ 0.11 | $ 0.09 | $ 0.09 | $ 0.10 | $ 0.10 |
| Class B | $ 0.55 | $ 0.55 | $ 0.50 | $ 0.65 | $ 0.54 | $ 0.53 | $ 0.58 | $ 0.57 |
| Dilutive earnings per share | | | | | | | | |
| Class A | $ 0.09 | $ 0.09 | $ 0.08 | $ 0.11 | $ 0.09 | $ 0.09 | $ 0.09 | $ 0.09 |
| Class B | $ 0.54 | $ 0.54 | $ 0.49 | $ 0.64 | $ 0.53 | $ 0.51 | $ 0.57 | $ 0.56 |
| Weighted average shares outstanding – basic | | | | | | | | |
| Class A | 20,692 | 20,672 | 20,672 | 20,669 | 20,513 | 20,373 | 20,254 | 20,157 |
| Class B | 3,452 | 3,445 | 3,445 | 3,445 | 3,419 | 3,395 | 3,376 | 3,360 |
| Weighted average shares outstanding - diluted | | | | | | | | |
| Class A | 21,137 | 21,111 | 21,085 | 21,063 | 20,959 | 20,883 | 20,829 | 20,721 |
| Class B | 3,514 | 3,514 | 3,516 | 3,511 | 3,493 | 3,480 | 3,471 | 3,454 |

(1) All share and per share data have been retroactively adjusted to give effect to the May 2013 Recapitalization as further described in Note 1 to the accompanying consolidated financial statements.

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
National Research Corporation:

We have audited the accompanying consolidated balance sheets of National Research Corporation and subsidiary (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2013. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedule listed in Item 15(2) of this Form 10-K. 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 and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Research Corporation and subsidiary as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 4, 2014 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Lincoln, Nebraska
March 4, 2014

# NATIONAL RESEARCH CORPORATION AND SUBSIDIARY
# CONSOLIDATED BALANCE SHEETS

**(In thousands, except share amounts)**

| **Assets** | **2013** | **2012** |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 22,092 | $ 8,286 |
| Trade accounts receivable, less allowance for doubtful accounts of $183 and $244, respectively | 11,043 | 12,119 |
| Unbilled revenue | 1,282 | 932 |
| Prepaid expenses | 1,310 | 1,269 |
| Income taxes receivable | 265 | 158 |
| Deferred income taxes | 53 | 547 |
| Other current assets | 429 | 504 |
| Total current assets | 36,474 | 23,815 |
| Net property and equipment | 11,898 | 12,493 |
| Intangible assets, net | 4,840 | 5,794 |
| Goodwill | 57,593 | 57,799 |
| Other | 191 | 145 |
| Total assets | $ 110,996 | $ 100,046 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Current portion of notes payable | $ 2,256 | $ 12,436 |
| Accounts payable | 654 | 291 |
| Accrued wages, bonus and profit sharing | 4,319 | 4,392 |
| Accrued expenses | 2,462 | 2,265 |
| Current portion of capital lease obligations | 114 | 102 |
| Deferred revenue | 13,885 | 15,812 |
| Total current liabilities | 23,690 | 35,298 |
| Notes payable, net of current portion | 8,068 | - |
| Deferred income taxes | 7,132 | 7,527 |
| Deferred revenue | 243 | 254 |
| Capital lease obligations, net of current portion | 108 | 225 |
| Total liabilities | 39,241 | 43,304 |
| Shareholders' equity: | | |
| Preferred stock, $0.01 par value, authorized 2,000,000 shares, none issued | -- | -- |
| Class A Common stock, $0.001 par value; authorized 60,000,000 shares, issued 25,285,029 in 2013 and 25,129,776 in 2012, outstanding 20,768,784 in 2013 and 20,624,976 in 2012 | 25 | 25 |
| Class B Common stock, $0.001 par value; authorized 80,000,000 shares, issued 4,220,117 in 2013 and 4,188,296 in 2012, outstanding 3,467,410 in 2013 and 3,437,496 in 2012 | 4 | 4 |
| Additional paid-in capital | 42,192 | 39,493 |
| Retained earnings | 58,042 | 44,700 |
| Accumulated other comprehensive income, foreign currency translation adjustment | 302 | 1,124 |
| Treasury stock, at cost; 4,516,245 Class A shares, 752,707 Class B shares in 2013 and 4,504,800 Class A shares, 750,800 Class B shares in 2012 | (28,810) | (28,604) |
| Total shareholders' equity | 71,755 | 56,742 |
| Total liabilities and shareholders' equity | $ 110,996 | $ 100,046 |

See accompanying notes to consolidated financial statements.

## NATIONAL RESEARCH CORPORATION AND SUBSIDIARY
## CONSOLIDATED STATEMENTS OF INCOME
**(In thousands, except for per share amounts)**

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Revenue | $ 92,590 | $ 86,421 | $ 75,767 |
| Operating expenses: | | | |
| Direct | 38,844 | 35,461 | 28,667 |
| Selling, general and administrative | 25,208 | 23,542 | 23,300 |
| Depreciation and amortization | 3,732 | 4,699 | 5,065 |
| Total operating expenses | 67,784 | 63,702 | 57,032 |
| Operating income | 24,806 | 22,719 | 18,735 |
| Other income (expense): | | | |
| Interest income | 63 | 32 | 13 |
| Interest expense | (397) | (541) | (629) |
| Other, net | 16 | (3) | 41 |
| Total other expense | (318) | (512) | (575) |
| Income before income taxes | 24,488 | 22,207 | 18,160 |
| Provision for income taxes | 9,004 | 7,139 | 6,596 |
| Net income | $ 15,484 | $ 15,068 | $ 11,564 |
| Earnings per share of common stock: | | | |
| Basic earnings per share: | | | |
| Class A | $ 0.37 | $ 0.37 | $ 0.29 |
| Class B | $ 2.25 | $ 2.22 | $ 1.73 |
| Diluted earnings per share: | | | |
| Class A | $ 0.37 | $ 0.36 | $ 0.28 |
| Class B | $ 2.20 | $ 2.17 | $ 1.69 |
| Weighted average shares and share equivalents outstanding | | | |
| Class A - basic | 20,677 | 20,325 | 20,016 |
| Class B - basic | 3,447 | 3,388 | 3,336 |
| Class A - diluted | 21,099 | 20,854 | 20,526 |
| Class B - diluted | 3,514 | 3,476 | 3,421 |

See accompanying notes to consolidated financial statements.

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

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Net Income | $ 15,484 | $ 15,068 | $ 11,564 |
| Other comprehensive income (loss): | | | |
| Cumulative translation adjustment | $ (822) | $ 217 | $ (201) |
| Other comprehensive income (loss) | $ (822) | $ 217 | $ (201) |
| Comprehensive Income | $ 14,662 | $ 15,285 | $ 11,363 |

See accompanying notes to consolidated financial statements.

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

| | Common Stock A | Common Stock B | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Treasury Stock | Total |
|---|---|---|---|---|---|---|---|
| Balances at December 31, 2010 | $ 24 | $ 4 | $ 28,950 | $ 41,343 | $ 1,108 | $ (22,845) | $ 48,584 |
| Purchase of 51,864 A and 8,644 B shares of treasury stock | -- | -- | -- | -- | -- | (591) | (591) |
| Issuance of 176,013 A and 29,336 B common shares for the exercise of stock options | -- | -- | 940 | -- | -- | -- | 940 |
| Tax benefit from the exercise of options and vested restricted stock | -- | -- | 407 | -- | -- | -- | 407 |
| Issuance of 42,969 A and 7,162 B restricted common shares, net of forfeitures | -- | -- | -- | -- | -- | -- | -- |
| Non-cash stock compensation expense | -- | -- | 763 | -- | -- | -- | 763 |
| Dividends declared of $0.15 and $.0.88 per A and B common share, respectively | -- | -- | -- | (5,912) | -- | -- | (5,912) |
| Other comprehensive loss, foreign currency translation adjustment | -- | -- | -- | -- | (201) | -- | (201) |
| Net income | -- | -- | -- | 11,564 | -- | -- | 11,564 |
| Balances at December 31, 2011 | $ 24 | $ 4 | $ 31,060 | $ 46,995 | $ 907 | $ (23,436) | $ 55,554 |
| Purchase of 324,093 A and 54,015 B shares of treasury stock | -- | -- | -- | -- | -- | (5,168) | (5,168) |
| Issuance of 786,303 class A common shares and 131,051 class B shares for the exercise of stock options | 1 | -- | 5,967 | -- | -- | -- | 5,968 |
| Tax benefit from the exercise of options and vested restricted stock | -- | -- | 2,078 | -- | -- | -- | 2,078 |
| Issuance of restricted common shares, net of forfeitures (10,074 class A and 1,679 class B) | -- | -- | -- | -- | -- | -- | -- |
| Non-cash stock compensation expense | -- | -- | 388 | -- | -- | -- | 388 |
| Dividends declared of $0.42 and $2.54 per A and B common share, respectively | -- | -- | -- | (17,363) | -- | -- | (17,363) |
| Other comprehensive income, foreign currency translation adjustment | -- | -- | -- | -- | 217 | -- | 217 |
| Net income | -- | -- | -- | 15,068 | -- | -- | 15,068 |
| Balances at December 31, 2012 | $ 25 | $ 4 | $ 39,493 | $ 44,700 | $ 1,124 | $ (28,604) | $ 56,742 |
| Purchase of 11,445 shares of class A and 1908 B shares of class B treasury stock | -- | -- | -- | -- | -- | (206) | (206) |
| Issuance of 155,253 class A common shares and 31,876 class B shares for the exercise of stock options | -- | -- | 990 | -- | -- | -- | 990 |
| Tax benefit from the exercise of options and vested restricted stock | -- | -- | 755 | -- | -- | -- | 755 |
| Issuance of restricted common shares, net of forfeitures | -- | -- | -- | -- | -- | -- | -- |
| Non-cash stock compensation expense | -- | -- | 955 | -- | -- | -- | 955 |
| Fractional share cashed out | -- | -- | (1) | -- | -- | -- | (1) |
| Dividends declared of $0.05 and $0.31 per A and B common share, respectively | -- | -- | -- | (2,142) | -- | -- | (2,142) |
| Other comprehensive loss, foreign currency translation adjustment | -- | -- | -- | -- | (822) | -- | (822) |
| Net income | -- | -- | -- | 15,484 | -- | -- | 15,484 |
| Balances at December 31, 2013 | $ 25 | $ 4 | $ 42,192 | $ 58,042 | $ 302 | $ (28,810) | $ 71,755 |

See accompanying notes to consolidated financial statements.

# NATIONAL RESEARCH CORPORATION AND SUBSIDIARY
# CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income | $ 15,484 | $ 15,068 | $ 11,564 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 3,732 | 4,699 | 5,065 |
| Deferred income taxes | 16 | (421) | 1,297 |
| (Gain) Loss on sale of property and equipment | 23 | 4 | (1) |
| Tax benefit from exercise of stock options | 84 | 601 | 66 |
| Non-cash stock compensation expense | 955 | 388 | 763 |
| Change in assets and liabilities: | | | |
| Trade accounts receivable | 970 | (879) | (2,064) |
| Unbilled revenue | (386) | (11) | 194 |
| Prepaid expenses | (166) | (357) | 253 |
| Other current assets | 76 | (106) | (121) |
| Accounts payable | 331 | (516) | 52 |
| Accrued expenses, wages, bonus and profit sharing | 212 | 1,602 | 1,176 |
| Income taxes payable and recoverable | (100) | (303) | 1,420 |
| Deferred revenue | (1,916) | (637) | (1,183) |
| Net cash provided by operating activities | 19,315 | 19,132 | 18,481 |
| Cash flows from investing activities: | | | |
| Purchases of property and equipment | (2,188) | (2,348) | (2,812) |
| Earn-out related to acquisitions | -- | -- | (4,115) |
| Net cash used in investing activities | (2,188) | (2,348) | (6,927) |
| Cash flows from financing activities: | | | |
| Proceeds from notes payable | -- | -- | 4,545 |
| Payments on notes payable | (2,112) | (2,050) | (6,218) |
| Payments on capital lease obligations | (110) | (108) | (130) |
| Proceeds from exercise of stock options | 840 | 1,283 | 568 |
| Excess tax benefit from share-based compensation | 755 | 2,078 | 407 |
| Repurchase of shares for payroll tax withholdings related to share-based compensation | (55) | (527) | (146) |
| Payment of dividends on common stock | (2,142) | (17,363) | (5,912) |
| Net cash used in financing activities | (2,824) | (16,687) | (6,886) |
| Effect of exchange rate changes on cash | (497) | 107 | (105) |
| Net increase in cash and cash equivalents | 13,806 | 204 | 4,563 |
| Cash and cash equivalents at beginning of period | 8,286 | 8,082 | 3,519 |
| Cash and cash equivalents at end of period | $ 22,092 | $ 8,286 | $ 8,082 |
| Supplemental disclosure of cash paid for: | | | |
| Interest expense, net of capitalized amounts | $ 368 | $ 554 | $ 542 |
| Income taxes | $ 8,181 | $ 5,108 | $ 3,383 |

Supplemental disclosures of non-cash investing and financing activities:

Capital lease obligations for property and equipment originating during the years ended December 31, 2013, 2012 and 2011 was $5,000, $9,000 and $115,000, respectively.

In connection with the Company's equity incentive plans, certain optionees tendered to the Company previously owned shares to pay for the option strike price. The total non-cash stock options exercised was $150,000, $4.6 million and $445,000 for the years ended December 31, 2013, 2012, and 2011, 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 ("NRC" or the "Company") is a leading provider of analytics and insights that facilitate revenue growth, patient, employee and customer retention and patient engagement for healthcare providers, payers and other healthcare organizations in the United States and Canada. The Company's ten largest clients accounted for 19%, 22%, and 20% of the Company's total revenue in 2013, 2012, and 2011, respectively.

**Recapitalization**

In May 2013, the Company consummated a recapitalization (the "May 2013 Recapitalization") pursuant to which the Company established two classes of common stock (class A common stock and class B common stock), issued a dividend of three shares of class A common stock for each share of the Company's then existing common stock and reclassified each then existing share of common stock as one-half of one share of class B common stock. All previously reported share and per share amounts in the accompanying financial statements and related notes have been restated to reflect the May 2013 Recapitalization.

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary, National Research Corporation Canada, and a variable interest entity, Customer-Connect LLC ("Connect"), which NRC has been deemed the primary beneficiary. All significant intercompany transactions and balances have been eliminated.

**Use of Estimates**

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

**Translation of Foreign Currencies**

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

## Revenue Recognition

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

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

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

The Company also derives revenue from hosting arrangements where our propriety software is offered as a service to our customers through our data processing facilities. The Company's revenue also includes software-related revenue for software license revenue, installation services, post-contract support (maintenance) and training. Software-related revenue is recognized in accordance with the provisions of Accounting Standards Codification ("ASC") 985-605, Software-Revenue Recognition.

Hosting arrangements to provide customers with access to the Company's propriety software are marketed under long-term arrangements generally over periods of one to three years. Under these arrangements, the customer is not provided the contractual right to take possession of the licensed software at any time during the hosting period without significant penalty, and the customer is not provided the right to run the software on their own hardware or contract with another party unrelated to us to host the software. Upfront fees for setup services are typically billed for our hosting arrangements, however, these arrangements do not qualify for separation from the ongoing hosting services due to the absence of standalone value for the set-up services. Therefore, we account for these arrangements as service contracts and recognize revenue ratably over the hosting service period when all other conditions to revenue are met. Other conditions that must be met before the commencement of revenue recognition include achieving evidence of an arrangement, determining that the collection of the revenue is probable, and determining that fees are fixed and determinable.

The Company's software arrangements typically involve the sale of a time-based license bundled with installation services, post-contract support ("PCS") and training. License terms range from one year to three years, and require an annual fee for bundled elements of the arrangement. PCS is also contractually provided for a period that is co-terminus with the term of the time-based license. The Company's installation services are not considered to be essential to the functionality of the software license. The Company does not achieve vendor-specific objective evidence ("VSOE") of the fair value of the undelivered elements of its software arrangements (primarily PCS) and, therefore, these arrangements are accounted for as a single unit of accounting with revenue recognized ratably over the minimum bundled PCS period.

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

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

**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 specific account analysis and on the Company's historical write-off experience. The Company reviews the allowance for doubtful accounts monthly. Past due balances over 90 days and over a specified amount are reviewed individually for collectability and provisions are made for accounts not specifically reviewed. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

**Property and Equipment**

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

For costs of software developed for internal use, the Company expenses computer software costs as incurred in the preliminary project stage, which involves the conceptual formulation, evaluation and selection of technology alternatives. Costs incurred related to the design, coding, installation and testing of software during the application project stage are capitalized. Costs for training and application maintenance are expensed as incurred. The Company has capitalized approximately $1.7 million and $636,000 of internal and external costs incurred for the development of internal-use software for the years ended December 31, 2013 and 2012, respectively, with such costs classified as property and equipment.

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

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

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

Long-lived assets, such as property and equipment and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. No impairments were recorded during the years ended December 31, 2013, 2012, or 2011.

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

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

**Goodwill and Intangible Assets**

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

When performing the impairment assessment, the Company will first assess qualitative factors to determine whether it is necessary to recalculate the fair value of the intangible assets with indefinite lives. If the Company believes, as a result of the qualitative assessment, that it is more likely than not that the fair value of the indefinite-lived intangibles is less than their carrying amount, the Company calculates the fair value using a market approach. If the carrying value of intangible assets with indefinite lives exceeds their fair value, then the intangible assets are written-down to their fair values. The Company did not recognize any impairments related to indefinite-lived intangibles during 2013, 2012 or 2011.

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

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

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

The Company performed a qualitative analysis as of October 1, 2013 which did not indicate that it was more likely than not that the carrying values of the reporting units exceeded fair value. No impairments were recorded during the years ended December 31, 2013, 2012 or 2011.

**Segment Information**

During the first quarter of 2013, due to the Company change in operating structure (or strategy), the Company condensed its eight operating segments into two operating segments that are aggregated into one reporting segment because they have similar economic characteristics and meet the other aggregation criteria guidance on segment disclosure. The two operating segments, organized by geographic area, are National Research Corporation (United States) and National Research Corporation Canada, which each offer a portfolio of solutions to address specific market needs around growth, retention, engagement and thought leadership for healthcare organizations.

**Income Taxes**

The Company uses the asset and liability method of accounting for income taxes. Under that method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis using enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances, if any, are established when necessary to reduce deferred tax assets to the amount that is more likely than not to be realized. The Company uses the deferral method of accounting for its investment tax credits related to state tax incentives. During the years ended December 31, 2013, 2012 and 2011, the Company recorded income tax benefits relating to these tax credits of $290,000, $289,000, and $229,000, respectively.

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

The Company had an unrecognized tax benefit at December 31, 2013 and 2012, of $188,000 and $224,000, respectively, excluding interest of $5,000 and $11,000, respectively, and no penalties. Of this amount, $188,000 and $224,000 at December 31, 2013 and 2012, respectively, represents the net unrecognized tax benefits that, if recognized, would favorably impact the effective income tax rate. The Company accrues interest and penalties related to uncertain tax position in the statements of income as income tax expense. The Company is not subject to tax examinations for years prior to 2010 in the U.S. and 2009 in Canada.

**Share-Based Compensation**

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

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

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| | | (In thousands) | |
| Amounts charged against income, before income tax benefit | $ 955 | $ 388 | $ 763 |
| Amount of related income tax benefit | 377 | 153 | 302 |
| Total impact to net income | $ 578 | $ 235 | $ 461 |

**Cash and Cash Equivalents**

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents were $21.2 million and $7.5 million as of December 31, 2013, and 2012, respectively, consisting primarily of money market accounts and funds invested in commercial paper. At certain times, cash equivalent balances may exceed federally insured limits.

**Fair Value Measurements**

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

The following details the Company's financial assets and liabilities within the fair value hierarchy at December 31, 2013 and 2012:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | | (In thousands) | | |
| As of December 31, 2013 | | | | |
| Money Market Funds | $ 7,266 | $ -- | $ -- | $ 7,266 |
| Commercial Paper | $ 13,976 | $ -- | $ -- | $ 13,976 |
| Total | $ 21,242 | $ -- | $ -- | $ 21,242 |
| As of December 31, 2012 | | | | |
| Money Market Funds | $ 5,245 | $ -- | $ -- | $ 5,245 |
| Commercial Paper | $ 2,242 | $ -- | $ -- | $ 2,242 |
| Total | $ 7,487 | $ -- | $ -- | $ 7,487 |

The Company's long-term debt described in Note 6 is recorded at historical cost. The fair value of long-term debt is classified in Level 2 of the fair value hierarchy and was estimated based primarily on estimated current rates available for debt of the same remaining duration and adjusted for nonperformance and credit. The following are the carrying amount and estimated fair values of long-term debt:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| | (In thousands) | |
| Total carrying amount of long-term debt | $ 10,324 | $ 12,436 |
| Estimated fair value of long-term debt | $ 10,156 | $ 12,490 |

The Company believes that the carrying amounts of accounts receivable, accounts payable, and accrued expenses approximate their fair value. All non-financial assets that are not recognized or disclosed at fair value in the financial statements on a recurring basis, which includes goodwill and non-financial long-lived assets, are measured at fair value in certain circumstances (for example, when there is evidence of impairment). As of December 31, 2013 and 2012, there was no impairment related to property and equipment, goodwill and other intangible assets.

## Contingencies

From time to time, the Company is involved in certain claims and litigation arising in the normal course of business. Management assesses the probability of loss for such contingencies and recognizes a liability when a loss is probable and estimable. At December 31, 2013, the Company was not engaged in any legal proceedings that are expected, individually or in the aggregate, to have a material effect on the Company.

## Earnings Per Share

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

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

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

At December 31, 2013, 2012, and 2011, the Company had 99,562, 92,460 and 358,707 options of class A shares and 6,407, 15,410, and 59,785 options of class B shares, respectively, which have been excluded from the diluted net income per share computation because the exercise price exceeds the fair market value.

| | 2013 | | 2012 | | 2011 | |
|---|---|---|---|---|---|---|
| | Class A | Class B | Class A | Class B | Class A | Class B |
| | (In thousands, except per share data) | | | | | |
| Numerator for net income per share - basic: | | | | | | |
| Allocation of distributed earnings | $ 1,071 | $ 1,071 | $ 8,681 | $ 8,681 | $ 2,956 | $ 2,956 |
| Allocation of undistributed earnings | 6,670 | 6,672 | (1,147) | (1,147) | 2,826 | 2,826 |
| Net income attributable to common shareholders | $ 7,741 | $ 7,743 | $ 7,534 | $ 7,534 | $ 5,782 | $ 5,782 |
| Denominator for net income per share - basic: | | | | | | |
| Weighted average common shares outstanding - basic | 20,677 | 3,447 | 20,325 | 3,388 | 20,016 | 3,336 |
| Net income per share - basic | $ 0.37 | $ 2.25 | $ 0.37 | $ 2.22 | $ 0.29 | $ 1.73 |
| Numerator for net income per share - diluted: | | | | | | |
| Net income attributable to common shareholders for basic computation | $ 7,741 | $ 7,743 | $ 7,534 | $ 7,534 | $ 5,782 | $ 5,782 |
| Denominator for net income per share - diluted: | | | | | | |
| Weighted average common shares outstanding - basic | 20,677 | 3,447 | 20,325 | 3,388 | 20,016 | 3,336 |
| Weighted average effect of dilutive securities: | | | | | | |
| Stock Options | 388 | 61 | 492 | 82 | 474 | 79 |
| Restricted Stock | 34 | 6 | 37 | 6 | 36 | 6 |
| Weighted average common shares outstanding - diluted | 21,099 | 3,514 | 20,854 | 3,476 | 20,526 | 3,421 |
| Net income per share - diluted | $ 0.37 | $ 2.20 | $ 0.36 | $ 2.17 | $ 0.28 | $ 1.69 |

**Recent Accounting Pronouncements**

There have been no new accounting pronouncements not yet effective or adopted that have significance or potential significance to the consolidated financial statements in 2013.

## (2) Variable Interest Entity

Connect was formed in June 2013 to develop and commercialize the Connect programs. Connect programs provide healthcare organizations the technology to engage patients through real-time identification and management of individual patient needs, preferences, risks, and experiences. The platform ensures that organizations have access to a longitudinal view of the patient to more effectively manage patient engagement across the continuum of care. NRC has a 49% ownership interest in Connect. NG Customer-Connect, LLC holds 25% interest, and the remaining 26% is held by Illuminate Health, LLC. NRC has agreed to lease certain employees to Connect. In return for a fee, Connect will service the Company's discharge call program clients. NRC will make capital contributions of up to $2.5 million on an as-needed basis as determined by the Board of Directors of Connect. Profits and losses are allocated under the hypothetical liquidation at book value approach.

NRC has a future obligation to purchase the other equity units in Connect when certain targeted events have been achieved. If, at any time, there is at least $12.5 million of annual recurring contract value, including the NRC contracts being serviced, and the members have approved a financial statement showing a pro forma minimum 35% EBITDA margin for revenue on a going-forward basis, then within 90 days thereafter NRC is required to purchase from the other members, and the other members shall be required to sell to NRC, all of their equity units not owned by NRC. As of December 31, 2013, the price at which NG Customer-Connect, LLC and Illuminate Health LLC had the obligation to sell their equity units to NRC was $0.

NRC is deemed the primary beneficiary of the variable interest entity and has a 49% ownership interest in Connect. An entity is considered the primary beneficiary of a variable interest entity if it has both the power to direct the activities of the variable interest entity that most significantly impact the variable interest entity's economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the variable interest entity. Connect is thinly capitalized and relies on NRC advances and reimbursements to fund its operations. Together, NRC and NRC associates hold a majority of the voting rights on Connect board of directors and have the ability to direct the majority of Connect operations.

Included in the Company's consolidated financial statements for the year ended December 31, 2013, was Connect's net operating loss of $837,000. The net operating loss of Connect during 2013 was attributable to NRC. Connect had total assets of $649,000 and total liabilities of $186,000 as of December 31, 2013.

## (3) Property and Equipment

At December 31, 2013, and 2012, property and equipment consisted of the following:

| | 2013 | 2012 |
|---|---|---|
| | (In thousands) | |
| Furniture and equipment | $ 4,015 | $ 3,797 |
| Computer equipment and software | 18,569 | 17,647 |
| Building | 9,322 | 9,322 |
| Land | 425 | 425 |
| | 32,331 | 31,191 |
| Less accumulated depreciation and amortization | 20,433 | 18,698 |
| Net property and equipment | $ 11,898 | $ 12,493 |

Depreciation and amortization expense related to property and equipment, including assets under capital lease, for the years ended December 31, 2013, 2012, and 2011 was $2.8 million, $3.4 million, and $3.5 million, respectively.

Property and equipment included the following amounts under capital lease:

| | 2013 | 2012 |
|---|---|---|
| | (In thousands) | |
| Furniture and equipment | $ 519 | $ 514 |
| Computer equipment and software | 47 | 47 |
| | 566 | 561 |
| Less accumulated amortization | 294 | 196 |
| Net assets under capital lease | $ 272 | $ 365 |

## (4) **Goodwill and Intangible Assets**

Goodwill and intangible assets consisted of the following at December 31, 2013:

| | Useful Life | Gross | Accumulated Amortization | Net |
|---|---|---|---|---|
| | (In years) | | (In thousands) | |
| Goodwill | | $ 57,593 | | $ 57,593 |
| Non-amortizing intangible assets: | | | | |
| Indefinite trade name | | 1,191 | | 1,191 |
| Amortizing intangible assets: | | | | |
| Customer related | 5 - 15 | 10,499 | 7,334 | 3,165 |
| Non-compete agreements | 3 | 430 | 430 | - |
| Trade names | 5 - 10 | 1,902 | 1,418 | 484 |
| Total amortizing intangible assets | | 12,831 | 9,182 | 3,649 |
| Total intangible assets other than goodwill | | $ 14,022 | $ 9,182 | $ 4,840 |

Goodwill and intangible assets consisted of the following at December 31, 2012:

| | Useful Life | Gross | Accumulated Amortization | Net |
|---|---|---|---|---|
| | (In years) | | (In thousands) | |
| Goodwill | | $ 57,799 | | $ 57,799 |
| Non-amortizing intangible assets: | | | | |
| Indefinite trade name | | 1,191 | | 1,191 |
| Amortizing intangible assets: | | | | |
| Customer related | 5 - 15 | 10,521 | 6,709 | 3,812 |
| Non-compete agreements | 3 | 430 | 346 | 84 |
| Trade names | 5 - 10 | 1,902 | 1,195 | 707 |
| Total amortizing intangible assets | | 12,853 | 8,250 | 4,603 |
| Total intangible assets other than goodwill | | $ 14,044 | $ 8,250 | $ 5,794 |

The following represents a summary of changes in the Company's carrying amount of goodwill for the years ended December 31, 2013, and 2012 (in thousands):

| | |
|---|---|
| Balance as of December 31, 2011 | $ 57,730 |
| Foreign currency translation | 69 |
| Balance as of December 31, 2012 | $ 57,799 |
| Foreign currency translation | (206) |
| Balance as of December 31, 2013 | $ 57,593 |

Aggregate amortization expense for customer related intangibles, trade names and non-competes for the years ended December 31, 2013, 2012 and 2011 was $954,000, $1.3 million, and $1.6 million, respectively. Estimated amortization expense for the next five years is: 2014—$842,000; 2015—$789,000; 2016—$597,000; 2017—$531,000: 2018—$522,000: thereafter $369,000.

**(5) Income Taxes**

For the years ended December 31, 2013, 2012, and 2011, income before income taxes consists of the following :

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| | | (In thousands) | |
| U.S. Operations | $21,882 | $19,836 | $16,017 |
| Foreign Operations | 2,606 | 2,371 | 2,143 |
| | $24,488 | $22,207 | $18,160 |

Income tax expense consisted of the following components:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Federal: | | (In thousands) | |
| Current | $ 7,169 | $ 5,488 | $ 4,018 |
| Deferred | 195 | 1,140 | 1,170 |
| Total | $ 7,364 | $ 6,628 | $ 5,188 |
| Foreign: | | | |
| Current | $ 716 | $ 684 | $ 606 |
| Deferred | (7) | (6) | (1) |
| Total | $ 709 | $ 678 | $ 605 |
| State: | | | |
| Current | $ 1,020 | $ 787 | $ 609 |
| Deferred | (89) | (954) | 194 |
| Total | $ 931 | $ (167) | $ 803 |
| Total | $ 9,004 | $ 7,139 | $ 6,596 |

The difference between the Company's income tax expense as reported in the accompanying consolidated financial statements and the income tax expense that would be calculated applying the U.S. federal income tax rate of 35% for 2013, 2012, and 2011 on pretax income was as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| | | (In thousands) | |
| Expected federal income taxes | $8,571 | $7,772 | $6,356 |
| Foreign tax rate differential | (226) | (203) | (145) |
| U.S. tax graduated rates | -- | 11 | (99) |
| State income taxes, net of federal benefit and state tax credits | 605 | 552 | 522 |
| Federal tax credits | (217) | (282) | (132) |
| Uncertain tax positions | (43) | (73) | 9 |
| Deferred tax adjustment due to change in state tax law | -- | (661) | -- |
| Recapitalization expenses | 182 | -- | -- |
| Other | 132 | 23 | 85 |
| Total | $9,004 | $7,139 | $6,596 |

Deferred tax assets and liabilities at December 31, 2013 and 2012, were comprised of the following:

| | 2013 | 2012 |
|---|---|---|
| | (In thousands) | |
| Deferred tax assets: | | |
| Allowance for doubtful accounts | $ 63 | $ 86 |
| Accrued expenses | 497 | 356 |
| Share based compensation | 1,113 | 859 |
| Capital loss carryforward | 1,124 | 1,132 |
| Net operating loss | -- | 170 |
| Tax credit carryforward | -- | 319 |
| Other | 39 | -- |
| Gross deferred tax assets | 2,836 | 2,922 |
| Less Valuation Allowance | (1,124) | (1,138) |
| Deferred tax assets | 1,712 | 1,784 |
| | | |
| Deferred tax liabilities: | | |
| Prepaid expenses | 286 | 324 |
| Property and equipment | 1,426 | 1,790 |
| Intangible assets | 6,879 | 6,415 |
| Other | 200 | 235 |
| Deferred tax liabilities | 8,791 | 8,764 |
| Net deferred tax liabilities | ($7,079) | ($6,980) |

At December 31, 2013 and 2012, net deferred tax assets of $53,000 and $547,000 respectively, were included in current deferred income taxes. At December 31, 2013 and 2012, net deferred tax liabilities of $7.1 million and $7.5 million, respectively, were included in long term deferred income taxes.

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers projected future taxable income, carry-back opportunities, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, the Company believes it is more likely than not that it will realize the benefits of these deductible differences, net of the valuation allowance recorded. The net impact on income tax expense related to changes in the valuation allowance for 2013, 2012, and 2011, were $14,000, $214,000 and $0, respectively.

The Company has domestic capital loss carryforwards of $3.1 million at December 31, 2013. The total $3.1 million of the capital loss carryforwards relate to the pre-acquisition periods of acquired companies and are due to expire in 2014. The Company has provided a $1.1 million valuation allowance against the tax benefit associated with the capital loss carryforwards.

The undistributed foreign earnings of the Company's foreign subsidiary of approximately $10.7 million are considered to be indefinitely reinvested. Accordingly, no provision for U.S. federal and state income taxes or foreign withholding taxes has been provided for such undistributed earnings. The Company estimated at December 31, 2013, that an additional tax liability of $705,000 would become due if repatriation of undistributed earnings would occur.

The unrecognized tax benefit at December 31, 2013, was $188,000, excluding interest of $5,000 and no penalties. The full unrecognized tax benefits, if recognized, would favorably impact the effective income tax rate. The Company believes it is reasonably possible that the total amount of unrecognized tax benefits could continue to decrease during the next 12 months due to the expiration of the U.S. federal statute of limitations associated with certain other tax positions. The Company accrues interest and penalties related to uncertain tax position in the statements of income as income tax expense.

The change in the unrecognized tax benefits for 2013 and 2012 is as follows:

| | (In thousands) |
|---|---|
| Balance of unrecognized tax benefits at December 31, 2011 | $ 266 |
| Reductions due to lapse of applicable statute of limitations | (117) |
| Additions based on tax positions of prior years | 84 |
| Additions based on tax positions related to the current year | (9) |
| Balance of unrecognized tax benefits at December 31, 2012 | $ 224 |
| | |
| Reductions due to lapse of applicable statute of limitations | (91) |
| Additions based on tax positions of prior years | 27 |
| Additions based on tax positions related to the current year | 28 |
| Balance of unrecognized tax benefits at December 31, 2013 | $ 188 |

The Company files a U.S. federal income tax return, various state jurisdictions and a Canada federal and provincial income tax return. The 2010 to 2013 U.S. federal and state returns remain open to examination. The 2009 to 2013 Canada federal and provincial income tax returns remain open to examination.

## (6) Notes Payable

Notes payable consisted of the following:

| | 2013 | 2012 |
|---|---|---|
| | (In thousands) | |
| Revolving credit note with U.S. Bank, maximum available $6.5 million subject to borrowing base, matures June 30, 2014 | $ -- | $ -- |
| Note payable to U.S. Bank for $11.8 million, interest at a 3.12% fixed rate, 60 monthly principal and interest payments of $212,468 through April 2018 | 10,324 | -- |
| Notes payable to U.S. Bank, interest at a 3.79% fixed rate, monthly principal and interest payments of $201,294, with final balloon payment due July 31, 2013 | -- | 12,436 |
| Total notes payable | 10,324 | 12,436 |
| Less current portion | 2,256 | 12,436 |
| Note payable, net of current portion | $ 8,068 | $ -- |

The Company had two term notes, which were used to partially finance acquisitions in 2008 and 2010. Borrowings under the term notes bore interest at an annual rate of 3.79%. The Company refinanced these two term notes on May 9, 2013, and combined them into one new term note. The new term note is payable in 60 monthly installments of $212,468. Borrowings under the new term note bear interest at an annual rate of 3.12%.

The Company also has a revolving credit note that was renewed in May 2013 to extend the term to June 30, 2014. The Company may borrow, repay and re-borrow amounts under the revolving credit note from time to time until its maturity on June 30, 2014. The maximum aggregate amount available under the revolving credit note of $6.5 million is subject to a borrowing base equal to 75.0% of the Company's eligible accounts receivable. Borrowings under the renewed revolving credit note bear interest at a variable annual rate, with three rate options at the discretion of management as follows: (1) 2.5% plus the daily reset one-month LIBOR rate or (2) 2.2% plus the one-, two-, three-, six- or twelve-month London Interbank Offered Rate ("LIBOR") rate, or (3) the bank's one-, two-, three-, six- or twelve-month Money Market Loan Rate. The rate at December 31, 2013 was 2.67%. As of December 31, 2013, the revolving credit note did not have a balance. According to borrowing base requirements, the Company had the capacity to borrow $6.5 million as of December 31, 2013.

The term note and revolving credit note are secured by certain of the Company's assets, including the Company's land, building, accounts receivable and intangible assets. The term note and the revolving credit note contain various restrictions and covenants applicable to the Company, including requirements that the Company maintain certain financial ratios at prescribed levels and restrictions on the ability of the Company to consolidate or merge, create liens, incur additional indebtedness or dispose of assets. As of December 31, 2013, the Company was in compliance with the financial covenants.

The remaining note payable maturities for each year subsequent to December 31, 2013, are as follows:

| | Total Payments | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| | (In thousands) | | | | | |
| Notes payable | $ 10,324 | $ 2,256 | $ 2,328 | $ 2,402 | $ 2,480 | $ 858 |

## (7) Share-Based Compensation

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

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 stock options, stock appreciation rights, restricted stock, performance shares and other share-based awards and benefits up to an aggregate of 1,800,000 shares of class A common stock and 300,000 shares of class B common stock. Stock options granted may be either nonqualified or incentive stock options. Stock options vest over one to five years following the date of grant and option terms are generally five to ten years following the date of grant. Due to the expiration of the 2001 Equity Incentive plan, at December 31, 2013, there were no shares of stock available for future grants. The Company has accounted for grants of 1,683,309 class A and 280,552 class B options and restricted stock under the 2001 Equity Incentive Plan using the date of grant as the measurement date for financial accounting purposes.

The Company's 2004 Non-Employee Director Stock Plan (the "2004 Director Plan") is a nonqualified plan that provides for the granting of options with respect to 1,650,000 shares of class A common stock and 275,000 shares of class B common stock. The 2004 Director Plan provides for grants of nonqualified stock options to each director of the Company who is not employed by the Company. On the date of each annual meeting of shareholders of the Company, options to purchase 36,000 shares of class A common stock and 6,000 shares of class B common stock are granted to directors that are re-elected or retained as a director at such meeting. Stock options vest one year following the date of grant and option terms are generally ten years following the date of grant, or three years in the case of termination of the outside director's service. At December 31, 2013, there were 255,000 shares of class A common stock and 42,500 shares of class B common stock available for issuance pursuant to future grants under the 2004 Director Plan. The Company has accounted for grants of 1,395,000 class A and 232,500 class B 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, and on May 4, 2006, the Company's shareholders approved the National Research Corporation 2006 Equity Incentive Plan (the "2006 Equity Incentive Plan"). The 2006 Equity Incentive Plan provides for the granting of stock options, stock appreciation rights, restricted stock, performance shares and other share-based awards and benefits up to an aggregate of 1,800,000 shares of class A common stock and 300,000 shares of class B common stock. Stock options granted may be either incentive stock options or nonqualified stock options. Vesting terms vary with each grant and option terms are generally five to ten years following the date of grant. At December 31, 2013, there were 1,033,455 shares of class A common stock and 172,242 shares of class B common stock available for issuance pursuant to future grants under the 2006 Equity Incentive Plan. The Company has accounted for grants of 766,545 class A and 127,758 class B options and restricted stock under the 2006 Equity Incentive Plan using the date of grant as the measurement date for financial accounting purposes.

The Company granted options to purchase 232,344 shares of the Company's class A common stock and 38,718 shares of the class B common stock during the twelve-month period ended December 31, 2013. During the same period in 2012, the Company granted options to purchase 238,890 shares of class A common stock and 39,815 shares of class B common stock, and during 2011 granted options to purchase 498,024 shares of class A common stock and 83,004 shares of class B common stock. Options to purchase shares of common stock are typically granted with exercise prices equal to the fair value of the common stock on the date of grant. The Company does, in certain limited situations, grant options with exercise prices that exceed the fair value of the common shares on the date of grant. The fair value of stock options granted (pre-May 2013 Recapitalization) was estimated using a Black-Scholes valuation model with the following assumptions:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Expected dividend yield at date of grant | 2.26 to 3.46% | 2.63 to 3.98% | 2.00 to 2.55% |
| Expected stock price volatility | 30.34 to 30.51% | 29.10 to 31.70% | 28.70 to 32.00% |
| Risk-free interest rate | 0.55 to 1.07% | 0.56 to 1.15% | 1.70 to 2.14% |
| Expected life of options (in years) | 4 to 6 | 4 to 6 | 4 to 6 |

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

The following table summarizes stock option activity under the 2001 and 2006 Equity Incentive Plans and the 2004 Director Plan for the year ended December 31, 2013:

| | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Terms (Years) | Aggregate Intrinsic Value (In thousands) |
|---|---|---|---|---|
| Class A | | | | |
| Outstanding at December 31, 2012 | 1,367,754 | $ 8.45 | | |
| Granted | 232,344 | $ 15.98 | | |
| Exercised | (155,253) | $ 3.36 | | $ 1,126 |
| Forfeited | -- | -- | | |
| Outstanding at December 31, 2013 | 1,444,845 | $ 10.21 | 6.48 | $12,438 |
| Exercisable at December 31, 2013 | 693,975 | $ 8.96 | 5.37 | $ 6,846 |
| Class B | | | | |
| Outstanding at December 31, 2012 | 227,959 | $ 18.45 | | |
| Granted | 38,718 | $ 29.35 | | |
| Exercised | (31,875) | $ 14.69 | | $ 992 |
| Forfeited | -- | -- | | |
| Outstanding at December 31, 2013 | 234,802 | $ 20.76 | 6.54 | $3,276 |
| Exercisable at December 31, 2013 | 109,662 | $ 18.85 | 5.43 | $1,739 |

The weighted average grant date fair value of stock options granted during the years ended December 31, 2013, 2012, and 2011, was $3.24, $2.43 and $2.12, respectively, for both class A and class B common stock. The total intrinsic value of stock options exercised during the years ended December 31, 2013, was $1.1 million for the shares of class A common stock and $992,000 for the shares of class B common stock. The total intrinsic value of stock options exercised was $5.6 million for the shares of class A common stock and $941,000 for the shares of class B common stock for the year ended December 31, 2012, and $900,000 for the shares of class A common stock and $150,000 for the shares of class B common stock for the year ended December 31, 2011. The total intrinsic value of stock options vested during the years ended December 31, 2013, was $1.5 million for the shares of class A common stock and $0.5 million for the shares of class B common stock. The total intrinsic value of stock options vested was $2.3 million for the shares of class A common stock and $376,000 for the shares of class B common stock for the year ended December 31, 2012, and $1.3 million for the shares of class A common stock and $224,000 for the shares of class B common stock for the year ended December 31, 2011. As of

December 31, 2013, the total unrecognized compensation cost related to non-vested stock option awards was approximately $729,000 and $122,000 for class A and class B common stock shares, respectively, which was expected to be recognized over a weighted average period of 2.38 years for each class of stock.

Cash received from stock options exercised for the years ended December 31, 2013, 2012, and 2011 was $840,000, $1.3 million, and $568,000, respectively. The actual tax benefit realized for the tax deduction from stock options exercised was $753,000, $2.0 million and $350,000, for the years ended December 31, 2013, 2012, and 2011, respectively.

During 2012, the Company granted 23,469 and 3,912 non-vested shares of class A and class B common stock, respectively, under the 2006 Equity Incentive Plan. During 2011, the Company granted 118,503 and 19,751 non-vested shares of class A and class B common stock, respectively, under the 2006 Equity Incentive Plan. No non-vested shares of common stock were granted during 2013. As of December 31, 2013, the Company had 60,609 and 10,101 non-vested shares of class A and class B common stock, respectively, outstanding under the 2006 Equity Incentive Plan. These shares vest over one to five years following the date of grant and holders thereof are entitled to receive dividends from the date of grant, whether or not vested. The fair value of the awards is calculated as the fair market value of the shares on the date of grant. The Company recognized $140,000, $74,000 and $143,000 of non-cash compensation for the years ended December 31, 2013, 2012, and 2011, respectively, related to this non-vested stock.

The following table summarizes information regarding non-vested stock granted to associates under the 2001 and 2006 Equity Incentive Plans for the year ended December 31, 2013:

| | Class A Shares Outstanding | Class A Weighted Average Grant Date Fair Value Per Share | Class B Shares Outstanding | Class B Weighted Average Grant Date Fair Value Per Share |
|---|---|---|---|---|
| Outstanding at December 31, 2012 | 60,609 | $ 5.77 | 10,101 | $ 34.65 |
| Granted | -- | -- | -- | -- |
| Vested | -- | -- | -- | -- |
| Forfeited | -- | -- | -- | -- |
| Outstanding at December 31, 2013 | 60,609 | $ 5.77 | 10,101 | $ 34.65 |

As of December 31, 2013, the total unrecognized compensation cost related to non-vested stock awards was approximately $340,000 and is expected to be recognized over a weighted average period of 2.53 years.

## (8) Restructuring and Severance Costs

The Company records restructuring liabilities that represent charges incurred in connection with consolidations, including operations from acquisitions. These charges consist primarily of severance costs. Severance charges are based on various factors including the employee's length of service, contract provisions, and salary levels. Expense for one-time termination benefits are accrued over each individual's service period. The Company records the expense using its best estimate based upon detailed analysis. Although significant changes are not expected, actual costs may differ from these estimates.

In 2011, the Company vacated its office in Wausau, Wisconsin, and reached agreements to terminate the operating lease for its Wausau office and other services. As a result, the Company made lump-sum payments totaling $280,000, which were included in selling, general and administrative expenses in 2011.

## (9) Leases

The Company leases printing equipment in the United States, and office space in Canada, California, Nebraska and Washington. The Company recorded rent expense in connection with its operating leases of $720,000, $715,000, and $986,000 in 2013, 2012, and 2011, respectively. The Company also has capital leases for production, mailing and computer equipment.

Payments under non-cancelable operating leases and capital leases at December 31, 2013 are:

| Year Ending December 31, | Capital Leases | Operating Leases |
|---|---|---|
| | (In thousands) | |
| 2014 | $ 137 | $ 782 |
| 2015 | 104 | 753 |
| 2016 | 9 | 507 |
| 2017 | -- | 324 |
| 2018 | -- | 202 |
| Thereafter | -- | 14 |
| Total minimum lease payments | 250 | |
| Less: Amount representing interest | 28 | |
| Present value of minimum lease payments | 222 | |
| Less: Current maturities | 114 | |
| Capital lease obligations, net of current portion | $ 108 | |

## (10) Related Party

A Board member of the Company also serves as an officer of Ameritas Life Insurance Corp. In connection with the Company's regular assessment of its insurance-based associate benefits and the costs associated therewith, in 2007 the Company began purchasing dental insurance for certain of its associates from Ameritas Life Insurance Corp. and, in 2009, the Company also began purchasing vision insurance for certain of its associates from Ameritas Life Insurance Corp. The total value of these purchases was $212,000, $198,000 and $166,000 in 2013, 2012 and 2011 respectively.

The Company leased office space for OCS from EPIC Property Management LLC from August 2010 through June 2011. A former owner of OCS and an associate of the Company during the lease term was a co-owner of EPIC Property Management LLC. The total of the rental and utility payments under the lease for the year ended December 31, 2011, was $103,000.

Michael Hays, our Chief Executive Officer, is a director and owner of 14% of the equity interests of Nebraska Global Investment Company LLC. In 2012, the Company purchased certain technology consulting and software development services from Nebraska Global Investment Company LLC. The total value of these purchases was $57,000 and $55,000 in 2013 and 2012 respectively. The Company did not have any transactions with Nebraska Global Investment Company LLC during 2011 or 2010.

## (11) Associate Benefits

The Company sponsors a qualified 401(k) plan covering substantially all associates with no eligibility service requirement. Under the 401(k) plan, the Company matches 25.0% of the first 6.0% of compensation contributed by each associate. Employer contributions, which are discretionary, vest to participants at a rate of 20% per year. The Company contributed $252,000, $236,000 and $182,000 in 2013, 2012 and 2011, respectively, as a matching percentage of associate 401(k) contributions.

## (12) Segment Information

During the first quarter of 2013, the Company condensed its eight operating segments into two operating segments that are aggregated into one reporting segment because they have similar economic characteristics and meet the other aggregation criteria for guidance on segment disclosure. The two operating segments, organized by geographic area, are National Research Corporation (United States) and National Research Corporation Canada, which each offer a portfolio of solutions to address specific market needs around growth, retention, engagement and thought leadership for healthcare organizations. The table below presents entity-wide information regarding the Company's revenue and assets by geographic area:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| | | (In thousands) | |
| Revenue: | | | |
| United States | $ 85,863 | $ 79,895 | $ 70,074 |
| Canada | 6,727 | 6,526 | 5,693 |
| Total | $ 92,590 | $ 86,421 | $ 75,767 |
| Long-lived assets: | | | |
| United States | $ 71,139 | $ 72,817 | |
| Canada | 3,383 | 3,414 | |
| Total | $ 74,522 | $ 76,231 | |
| Total assets: | | | |
| United States | $ 97,982 | $ 87,670 | |
| Canada | 13,014 | 12,376 | |
| Total | $110,996 | $100,046 | |

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

Not applicable.

## Item 9A. Controls and Procedures

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

In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), the Company's management evaluated, with the participation of the Company's Chief Executive Officer and the Company's Chief Financial Officer, the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2013. 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, 2013.

***Management's Report on Internal Control over Financial Reporting***

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

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's internal control over financial reporting using the framework in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, the Company's management concluded that the Company's internal control over financial reporting was effective as of December 31, 2013.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2013, has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, a copy of which is included in this Annual Report on Form 10-K.

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

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2013, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## Item 9B. Other Information

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

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
National Research Corporation:

We have audited National Research Corporation and subsidiary's (the Company) internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, National Research Corporation and subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2013, and our report dated March 4, 2014 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Lincoln, Nebraska
March 4, 2014

## PART III

### Item 10. **Directors, Executive Officers and Corporate Governance**

The information required by this Item with respect to directors and Section 16 compliance is included under the captions "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance," respectively, in the Company's definitive Proxy Statement for its 2014 Annual Meeting of Shareholders ("Proxy Statement") and is hereby incorporated herein by reference. Information with respect to the executive officers of the Company appears in Item 1 of this Annual Report on Form 10-K. The information required by this Item with respect to audit committees and audit committee financial experts is included under the caption "Corporate Governance" in the Proxy Statement and is incorporated herein by reference.

The Company has adopted a Code of Business Conduct and Ethics that applies to all of the Company's associates, including the Company's Chief Executive Officer, Chief Financial Officer, Vice President of Finance 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, and such Code of Business Conduct and Ethics is available, in print, without change, to any shareholder who requests it from the Company's Secretary. The Company intends to satisfy the disclosure requirements under Item 5.05 of Form 8-K regarding amendments to, or waivers from, the Code of Business Conduct and Ethics by posting such information on its website at www.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 "Compensation Discussion and Analysis," "2013 Summary Compensation Table," "Grants of Plan-Based Awards in 2013," "Outstanding Equity Awards at December 31, 2013," "2013 Director Compensation," "Compensation Committee Report" and "Corporate Governance-Transactions with Related Persons" in the Proxy Statement and is hereby incorporated herein by reference.

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

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

The following table sets forth information with respect to compensation plans under which equity securities of the Company are authorized for issuance as of December 31, 2013.

| Plan Category<br>Class A shares | Number of securities to be issued upon the exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column) |
|---|---|---|---|
| Equity compensation plans approved by security holders [1] | 1,444,845 | $10.21 | 1,288,455 [2] |
| Equity compensation plans not approved by security holders | -- | -- | -- |
| Total | 1,444,845 | $10.21 | 1,288,455 |

| Plan Category<br>Class B shares | 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] | 234,802 | $20.76 | 212,742 [2] |
| Equity compensation plans not approved by security holders | -- | -- | -- |
| Total | 234,802 | $20.76 | 212,742 |

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

(2) Under the 2006 Equity Incentive Plan, the Company had authority to award up to 443,046 additional shares of restricted class A common stock and 73,842 additional shares of restricted class B common stock to participants, provided that the total of such shares awarded may not exceed the total number of shares remaining available for issuance under the 2006 Equity Incentive Plan, which totaled 1,033,455 shares of class A common stock and 172, 242 shares of class B common stock as of December 31, 2013.

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

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

**Item 14. Principal Accountant Fees and Services**

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

## PART IV

**Item 15.** **Exhibits, Financial Statement Schedules**

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

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

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

**NATIONAL RESEARCH CORPORATION AND SUBSIDIARY**

**SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS**

(In thousands)

| | 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, 2011 | 337 | 80 | 128 | 289 |
| Year Ended December 31, 2012 | 289 | 173 | 218 | 244 |
| Year Ended December 31, 2013 | 244 | 145 | 206 | 183 |

See accompanying report of independent registered public accounting firm.

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE



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

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 4th day of March 2014.

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<br>Michael D. Hays | Chief Executive Officer and Director (Principal Executive Officer) | March 4, 2014 |
| /s/ Kevin R. Karas<br>Kevin R. Karas | Senior Vice President Finance, Chief Financial Officer, Treasurer and Secretary (Principal Financial and Accounting Officer) | March 4, 2014 |
| /s/ JoAnn M. Martin<br>JoAnn M. Martin | Director | March 4, 2014 |
| /s/ John N. Nunnelly<br>John N. Nunnelly | Director | March 4, 2014 |
| /s/ Paul C. Schorr III<br>Paul C. Schorr III | Director | March 4, 2014 |
| /s/ Gail L. Warden<br>Gail L. Warden | Director | March 4, 2014 |

## EXHIBIT INDEX

| Exhibit Number | Exhibit Description |
|---|---|
| (3.1) | Amended and Restated Articles of Incorporation of National Research Corporation, effective May 22, 2013, [Incorporated by reference to Exhibit (3.2) to National Research Corporation's Current Report on Form 8-K dated May 22, 2013 and filed May 24, 2013 (File No. 0-29466) |
| (3.2) | By-Laws of National Research Corporation, as amended to date [Incorporated by reference to Exhibit (3.2) to National Research Corporation's Current Report on Form 8-K dated May 9, 2013 and filed on May 13, 2013 (File No. 0-29466)] |
| (4.1) | Installment Note, dated as of May 9, 2013, from National Research Corporation to U.S. Bank National Association [Incorporated by reference to Exhibit (4) to National Research Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 0-29466)] |
| (10.1)* | National Research Corporation 2001 Equity Incentive Plan [Incorporated by reference to Appendix A to National Research Corporation's Proxy Statement for the 2002 Annual Meeting of Shareholders, filed with the Securities and Exchange Commission on April 3, 2002 (File No. 0-29466)] |
| (10.2)* | National Research Corporation 2006 Equity Incentive Plan, as amended [Incorporated by reference to Exhibit (4.3) to National Research Corporation's Registration Statement on Form S-8 (Registration No. 333-189141) filed on June 6, 2013] |
| (10.3)* | National Research Corporation 2004 Non-Employee Director Stock Plan, as amended [Incorporated by reference to Exhibit (4.3) to National Research Corporation's Registration Statement on Form S-8 (Registration No. 333-189140) filed on June 6, 2013)] |
| (10.4)* | Form of Nonqualified Stock Option Agreement (for new associates) used in connection with the 2001 Equity Incentive Plan [Incorporated by reference to Exhibit 4.4 to National Research Corporation's Registration Statement on Form S-8 (Registration No. 333-120530)] |
| (10.5)* | Form of Nonqualified Stock Option Agreement (for officers) used in connection with the 2001 Equity Incentive Plan [Incorporated by reference to Exhibit 4.5 to National Research Corporation's Registration Statement on Form S-8 (Registration No. 333-120530)] |
| (10.6)* | Form of Restricted Stock Agreement for executive officers used in connection with the 2001 Equity Incentive Plan [Incorporated by reference to Exhibit 10.2 to National Research Corporation's Current Report on Form 8-K dated March 19, 2005 (File No. 0-29466)] |
| (10.7)* | Form of Restricted Stock Agreement (one year vesting) used in connection with the 2001 Equity Incentive Plan [Incorporated by reference to Exhibit 4.6 to National Research Corporation's Registration Statement on Form S-8 (Registration No. 333-120530)] |
| (10.8)* | Form of Restricted Stock Agreement (five year vesting) used in connection with the 2001 Equity Incentive Plan [Incorporated by reference to Exhibit 4.7 to National Research Corporation's Registration Statement on Form S-8 (Registration No. 333-120530)] |
| (10.9)* | Form of Nonqualified Stock Option Agreement used in connection with the 2006 Equity Incentive Plan [Incorporated by reference to Exhibit (10.14) to National Research Corporation's Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 0-29466)] |
| (10.10)* | Form of Restricted Stock Agreement used in connection with the 2006 Equity Incentive Plan |

| Exhibit Number | Exhibit Description |
|---|---|
| | [Incorporated by reference to Exhibit (10.15) to National Research Corporation's Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 0-29466)] |
| (21) | Subsidiary of National Research Corporation |
| (23) | Consent of Independent Registered Public Accounting Firm |
| (31.1) | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| (31.2) | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| (32) | Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| (99) | Proxy Statement for the 2014 Annual Meeting of Shareholders [To be filed with the Securities and Exchange Commission under Regulation 14A within 120 days after December 31, 2013; except to the extent specifically incorporated by reference, the Proxy Statement for the 2014 Annual Meeting of Shareholders shall not be deemed to be filed with the Securities and Exchange Commission as part of this Annual Report on Form 10-K] |
| (101)** | Financial statements from the Annual Report on Form 10-K of National Research Corporation for the year ended December 31, 2013, formatted in eXtensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, (vi) the Notes to the Consolidated Financial Statements, and (vii) document and entity information. |

* A management contract or compensatory plan or arrangement.

** In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1034, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

**Exhibit 21**

# Subsidiary of National Research Corp.

National Research Corporation's subsidiary as of December 31, 2013 is listed below:

| **Subsidiary** | **Jurisdiction of organization** |
| --- | --- |
| National Research Corporation Canada | Ontario |

**Exhibit 23**

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors
National Research Corporation:

We consent to the incorporation by reference in the registration statements (File Nos. 333-120530, 333-137763, 333-137769, 333-173097, 333-189139, 333-189140 and 333-189141) on Forms S-8 and (File Nos. 333-120529 and 333-187597) on Forms S-3 of National Research Corporation of our reports dated March 4, 2014, with respect to the consolidated balance sheets of National Research Corporation and subsidiary as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2013, and the related financial statement schedule, and the effectiveness of internal control over financial reporting as of December 31, 2013, which reports appear in the December 31, 2013 annual report on Form 10-K of National Research Corporation.

/s/ KPMG LLP

Lincoln, Nebraska
March 4, 2014

**Exhibit 31.1**

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

I, Michael D. Hays, certify that:

1. I have reviewed this Annual Report on Form 10-K of National Research Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 4, 2014

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

**Exhibit 31.2**

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

I, Kevin R. Karas, certify that:

1. I have reviewed this Annual Report on Form 10-K of National Research Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 4, 2014

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

**Exhibit 32**

## Certification Pursuant to 18 U.S.C. Section 1350
## as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the accompanying Annual Report on Form 10-K of National Research Corporation (the "Company") for the year ended December 31, 2013 (the "Report"), I, Michael D. Hays, Chief Executive Officer of the Company, and I, Kevin Karas, Chief Financial Officer, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, based on my knowledge, that:

1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

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

Date: March 4, 2014

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

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# Directors and Officers

## Board of Directors

**Michael D. Hays**
Chief Executive Officer
National Research Corporation

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

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

**John N. Nunnelly**** **Lead Director**
Adjunct Professor
University of Massachusetts

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

**Member of Audit, Compensation and Nominating Committees*
***Members of Audit, Compensation, Nominating and Strategic Planning Committees*

## Executive Officers

**Michael D. Hays**
Chief Executive Officer

**Susan L. Henricks**
President and Chief Operating Officer

**Kevin R. Karas**
Chief Financial Officer
Treasurer and Secretary

# Corporate Data

**Corporate Headquarters**
National Research Corporation
1245 Q Street
Lincoln, NE 68508
Phone: 402.475.2525
Fax: 402.475.9061
www.nationalresearch.com

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

**Transfer Agent**
IST Shareholder Services
433 S Carlton Avenue
Wheaton, IL 60187
Phone: 800.757.5755
Fax: 630.480.0641

**Independent Registered Public Accounting Firm**
KPMG LLP
Lincoln, NE

**Corporate Counsel**
Foley & Lardner LLP
Milwaukee, WI
Woods & Aitken LLP
Lincoln, NE

NATIONAL RESEARCH
*Corporation*

1245 Q Street
Lincoln, Nebraska 68508
Phone: 402.475.2525
Fax: 402.475.9061

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