AJ Leetch • Danny Coca_Herrera • Abby Plybon • Ada Hui • Adam Benash • Aislinn Reeder • Alaia Holmes • Alayna Kost • Alena Rusetskaya • Alex Gallichotte • Alex Pavlik • Alexis Lafleur • Alicia Weixelman • Aliya Garza • Allan Bautista • Allison Thomas • Amanda Beardsley • Amanda Loseke • Amanda Menke • Amber Meyer • Amber Steffen • Amy Oltman • Ana Munoz • Andie Westling • Andrew Lowe • Andy Essink • Andy Gerch • Andy Glenn • Andy Ibbotson • Andy Lambert • Ania Yu • Anna Bates • Anne Loethen • Annie Krein • April Schulz • Ari Wait • Ariel Born • Ashlee Deeds • Ashley Haas • Ashley Thiemann • Asya Petrosyan • Atif Mahmood • Aulii Reyes • Austin Edstrom • Bailey Pons • Barbara Toffolet • Becky Volten • Beki Ferguson • Ben Allemann • Billy Kuehn • BJ Choi • Bonny Robley • Brad Jacox • Brad Lowe • Brandon Hurley • BreAnna Cook • Bret Hermsen • Brett Sullivan • Brian Wynne • Bridget Matthiessen • Brooke Jensen • Bryan Christiancy • Bryant McCann • Cally Ideus • Candis Hager • Carla Steadman • Carly Carlson • Carmen Hinseth • Carrie Merry • Carry Jasper • Casey Hodgin • Cathy Diven • Chelsi Strickland • Chris Burkholder • Chris Fivash • Chrissy Barnhardt • Christian Habib • Christina Perry • Cindy Ballow • CJ Adamson • Claire Uryasz • Cody Kampschneider • Cody O'Grady • Colleen Selvage • Connie Pautz • Connie White • Corey Matejka • Corry Caouette • Courtney Nitzel • Cydnee Rand • Dan Biggs • Dana Kearse • Dana Petersen • Dana Svehla • Daniella Barron • Dara Wells • Dave Gilsdorf • Dave Hansen • Dave Snyder • Dave Stueckrath • David Lavelle • DeAnn Stephan • Deb Hinds • Deb Wetzel • Deb Weyers • Devan Lorenson • Devika Pondicherry • Dorothy Hu • Doug Burton • Drew Oliver • Drew Powell • Drew Soukup • Dustin Bruce • Dwight Dean • Elizabeth Sisney • Emily Barker • Emily Karnish • Emily Lichter • Emily Schweitzer • Emma Newcomb • Erica McClurg • Erika Newmyer • Erin Brodhagen • Erin Cerretta • Erin Hobelman • Evan Killham • George Parker • Giana Rada • Gina Harvey • Glen Ready • Glenn Kramer • Greg Humlicek • Greg Ludvik • Gunter Voelker • Hali Clark • Hannah Eisert • Hannah Skiff • Heather Dalton • Heather Lannin • Heidi Peirce • Helen Hrdy • Helen Mailer • Holden Zubrod • Hollie Gordon • Holly Hopkins • Ian Miller • Ilze Young • Immaculata Sam • Jack Thelen • Jackie Cech • Jackie Stevens • Jacob Dittmer • Jade Chong • Jake Daniel • Jake Mastera • Jake Stephens • Jake Tegler • James Harris • James Hill • James Hulsey • James Newton • Jamie Jorgenson • Janae Spiker • Janet Carlson • Jared Chulufas • Jared Eubank • Jason Barry • Jason Douros • Jason Messerli • Jason Newton • Jason Thomas • Jason Zulkoski • Jatinder Dhaliwal • Jay Smith • Jeff Bogner • Jeff Gill • Jen Volland • Jenifer Therrien • Jennifer Kimmons • Jennifer Nguyen • Jennifer Chandrabose • Jenny Brunke • Jenny Gierhan • Jenny Grant • Jenny Jones • Jenny Wieseler • Jess Arter • Jess Hesse • Jessica Lane • Jessica Meis • Jhordan Elsberry • Jing Fu • Jo McElwain • Joe McTaggart • Joe Zigtema • Joel Steuben • John Dorn • John Estudillo • John Palmer • Johnny Dingwerth • Jon Hanseling • Jon Kuehler • Jon Richards • Jon Tanner Jon Young • Jona Raasch • Jordan Handley • Jordan Pedersen • Josh Rector • Josh Sexson • Josh Winder • Joshua Willey • Josiah BeDunnah • Judy Radford • Julie Diaz • Junayed Ahmed • Justin Burns • Justin Clark • Justin Kubick • Justin Meaney • Justin Schuerman • Kade Mohrman • Kaitlin Overfield-Newman •

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

—**Mike Hays**, *CEO and Fellow Shareholder*

Kaitlyne Krinock • Kanwal Nayani • Karen Althouse • Karen Robertus • Karen Wilken • Karrie Vincentini • Kasey Pepper • Kassandra Braaten • Kat Woolman • Kate Kimmons • Kathleen O'Toole • Kathryn Peisert • Kathy Anstine • Kathy Carroll • Katie Clabaugh • Katie Hunke • Katie Johnson • Katie Rhone • Katrina Lupsiakova • Kayla Lounsbery • Kayla Wagner • Keith Covert • Keith Wysocki • Kelli Woods • Kelly Dunn • Kelly Slama • Kelsey Cook • Ken Cousino • Kendall Witt • Kendra Piening • Kerrie Waybright • Keshia Norris • Kevin Karas • Kevin Khan • Kiefer Watson • Kim Clouston • Kim Houle • Kim Taruc • Kipp Heidtbrink • Kirsten Hattan • Kody Hayes • Kori Stanosheck • Kristin Graves • Kristin Larson • Kristine German • Kyle Benesch • Kylee Gries • LaDonna Humphrey • Lanny Boswell • Laura Olinger • Lauri Dettmer • Lauryn Dermit • Leah Everson • Leslie Nicholson • Linda Magin • Linda Stacy • Lindsay Coupens • Lindsay Hand • Lindsay Laug • Lindsey Akiyama • Lindsey Bradley • Lisa Minchow • Lisa Stolzenburg • Liz Case • Logan Schweitzer • Lynn Phillips • Maggie Essink • Maggie Mendoza • Marc Coker • Marci Vander Tuig • Margaret Yanicki • Marie Hall • Marshall Ross • Martha Daniel • Mary Shaw • Mary Tellis-Nayak • Mary Ann Castillo • Matt Dahlke • Matt Timbs • Matthew Theis • Max Wyrick • Megan Charko • Megan Taruc • Meghan Gull • Mel Kamm • Melissa Cummings • Melissa Rappl • Melissa Zwiener • Michaela Brazington • Micheal Thompson • Michelle Bachman • Michelle Folken • Michelle Ostia • Michelle Peters • Mike Bisenius • Mike Hays • Mike Koh • Mike Vaughn • Molly Murphy • Molly Preston • Morgan Pelster • Natalie Campbell • Nate Heard • Nate Hoppe • Nate Lawrence • Nathan Schmitz • Nick Brandt • Nick Fontana • Nicki Bratten • Nicolle Jungers • Nikki D'Elia • Nikki Essay • Nikki Paulk • Olivia DeRusse • Ollie Olson • Pam Hill • Pam Nelson • Pam Luciano • Pat Dabney • Paul Cooper • Paul Sanny • Peyton Tobin • Rachel Beavers • Rachel Hupp • Rachel Simants • Rachelle Friesen • Rana Schreiber • Randi Miller • Raquel Smith • Rebecca Christie • Regan Murphy • Renee Hauser • Rich Kortum • Richard Hamilton • Richard Lierman • Rob Wirth • Robin Brester • RoJean Clifton • Ron Clarkin • Ross Coudeyras • Roxana Novoa • Ruta Jaudegis • Ryan Anderson • Ryan Bondegard • Ryan Donohue • Ryan Real • Ryan Stoner • Ryan Vavra • Sally Henry • Sam Areman • Sam Peterson • Sanjay Motwani • Sara Bennett • Sara Ehnes • Sara Nelson • Sara Pickrel • Sara Winchell • Sarah Akinyemi • Sarah Fryda • Scott Brester • Scott Emery • Scott Gray • Scott Logan • Sean Swanson • Seth Thacker-Lynn • Shannon Hasemann • Shannon Hayes • Shannon McCann • Shawna O'Neill • Shawnelle King • Shayne Arriola • Sheri Life • Sheryl Pietzyk • Shilpa Patel • Sina Attaie • Sonai Jacobs • Spencer Krull • Stacey Kermmoade • Steph Kolbo • Steph Mosley • Steve Barton • Steve Jackson • Steve Kepler • Sudha Daggumati • Tanner Wilkinson • Tara Duggar • Tawna Schwarz • Taylor Moran • Taylor Nelson • Ted Smidberg • Teresa Costello-Raddatz • Tess Kurtenbach • Tessa Clark • Tiffany Ryck • Tim Cook • Tim Gerken • Tim Ottersburg • Tim Washburn • TJ Ehlers • Tobin Tobey • Todd Jarchow • Tom Myers • Tony Flores • Tony Reinke • Toya Gorley • Tracy Hanger • Tracy Marshall • Travis Ficken • Trevor Heidinger • Trevor Willenborg • Tyler Burbach • Vanessa Jones • Vicki Vopalensky • Vivian Tellis-Nayak • Warren Wunderlich • Wes Miller • Will Landers • William England • Zach Zobel • Zak Arushanov

nrc HEALTH

2017 ANNUAL REPORT | 2018 PROXY STATEMENT

Human understanding

Annual meeting

The annual meeting of shareholders will be held on May 30, 2018, 3:00 p.m. (local time) at the Embassy Suites, 1040 P Street, Lincoln, Nebraska 68508.

To Our Owners:

As we concluded the final weeks of 2017, headlines across the healthcare industry highlighted the necessity for our nation's hospitals to embrace an "adapt or die" strategy as the cost of delivering care outpaces available reimbursement. For health-system executives, it raises the question, "Have we awoken to a new reality?"

Your Company's research over the last decade has illuminated the growing consumerism movement—patients voicing their frustration with escalating healthcare prices, and their increasing willingness to circumvent the system in favor of alternative models of care delivered at lower cost and with greater convenience and better outcomes. We are proud to stand side-by-side with our customers, not in fear of this new reality, but ready to seize the opportunities such tipping points provide.

As the industry reaches a crossroads, one thing is clear: getting as close to the customer as possible to understand a patient's life's conditions, frustrations, challenges, and unspoken desires, and then designing simple, elegant experiences that satisfy those requirements, is at the core of every successful reinvention.

One year ago, we introduced the concept of human understanding—a belief that quality of care, costs, and outcomes all improve the more we know about each individual person. It is a radical change for organizations used to charting performance against industry benchmarks and the false confidence such metrics provide. Celebrating a five or 10 percent improvement in customer satisfaction scores is a proxy for understanding, but not the same as true understanding. The landscape is littered with recent examples of industries—retail, transportation, and now healthcare—disintermediated by new entrants that better empathize with the customer.

Human understanding is the preventive to being caught flat-footed. It means finding love for each individual and learning what truly matters most to them. It shifts the focus from transactional encounters to lasting relationships and the loyalty they bring. It represents a world in which individual customers' insights are sought to better *their* experience, not to grade organizational performance against the competition.

In an era in which mass personalization has become the norm, human understanding is an accelerant enabling today's health systems to both catch up to, and then exceed, consumer expectations. The insights it pursues enable healthcare services to be uniquely tailored, because with them, patients' preferences are well understood. The awareness it engenders ensures financial alternatives are evaluated and arrangements made before the customer receives a bill. The learnings it elicits eradicate health disparities, because they allow each patient's voice to be equally heard and truly understood.

At a recent all-associate meeting, I was asked the question, "What will NRC Health be known for, five to ten years from now?" I hope the answer is, our commitment to constantly evolving. There is no end destination on the journey to achieving human understanding. Human beings are fickle, and people's needs are always changing.

Your Company and its greatest source of pride, its nearly 450 associates, will always be adapting—not because headlines have popularized the trend, but because it is the only way to exist.

Sincerely,

Steven D. Jackson
President and Fellow Owner

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NATIONAL RESEARCH CORPORATION
D/B/A NRC Health

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held May 30, 2018

To the Shareholders of
National Research Corporation:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of National Research Corporation will be held on Wednesday, May 30, 2018, at 3:00 P.M., local time, at the Embassy Suites hotel located at 1040 P Street, Lincoln, Nebraska 68508, for the following purposes:

1. To elect two directors to hold office until the 2021 annual meeting of shareholders and until their successors are duly elected and qualified.

2. To ratify the appointment of KPMG LLP as our independent registered public accounting firm for 2018.

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

4. To approve amendments to the National Research Corporation 2004 Non-Employee Director Stock Plan.

5. To consider and act upon such other business as may properly come before the meeting or any adjournment or postponement thereof.

The close of business on April 18, 2018, 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 27, 2018

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting To Be Held on May 30, 2018. The National Research Corporation proxy statement for the 2018 Annual Meeting of Shareholders and the 2017 Annual Report to Shareholders are available at www.proxyvote.com.

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

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NATIONAL RESEARCH CORPORATION

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

PROXY STATEMENT
FOR
ANNUAL MEETING OF SHAREHOLDERS
To Be Held May 30, 2018

This proxy statement is being furnished to shareholders by the Board of Directors (the "Board") of National Research Corporation, doing business as NRC Health (the "Company"), beginning on or about April 27, 2018, in connection with a solicitation of proxies by the Board for use at the Annual Meeting of Shareholders to be held on Wednesday, May 30, 2018, at 3:00 P.M., local time, at the Embassy Suites hotel located at 1040 P Street, Lincoln, Nebraska 68508, and all adjournments or postponements thereof (the "Annual Meeting") for the purposes set forth in the attached Notice of Annual Meeting of Shareholders.

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

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

- FOR the two persons nominated for election as directors referred to herein;
- FOR the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for 2018;
- FOR the advisory vote to approve the compensation of the individuals named in the Summary Compensation Table set forth below in this proxy statement (such group of individuals are sometimes referred to as our named executive officers);
- FOR the amendments to the National Research Corporation 2004 Non-Employee Director Stock Plan, as amended (the "Director Plan"); and
- On such other business or matters which may properly come before the Annual Meeting in accordance with the best judgment of the persons named as proxies in the enclosed form of proxy.

Other than the election of two directors, the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for 2018, the advisory vote to approve the compensation of our named executive officers and the amendments to the Director Plan, the Board has no knowledge of any matters to be presented for action by the shareholders at the Annual Meeting.

Only holders of record of the Company's common stock, $0.001 par value per share (the "Common Stock"), at the close of business on April 18, 2018 (the "Record Date"), are entitled to vote at the Annual Meeting. On that date, the Company had outstanding and entitled to vote 24,608,700 shares of Common Stock, each of which is entitled to one vote per share. The presence of a majority of the votes entitled to be cast shall constitute a quorum for the purpose of transacting business at the Annual Meeting. Abstentions and broker non-votes will be counted as present in determining whether there is a quorum.

ELECTION OF DIRECTORS

The Company's By-Laws provide that the directors shall be divided into three classes, with staggered terms of three years each. At the Annual Meeting, the shareholders will elect two directors to hold office until the 2021 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.

The following sets forth certain information, as of April 18, 2018, 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 2021 Annual Meeting

Michael D. Hays, 63, 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, 65, 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.

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 2019 Annual Meeting

Donald M. Berwick, 71, has served as a director of the Company since October 2015. Dr. Berwick is the former President and Chief Executive Officer of the Institute for Healthcare Improvement, which he co-founded and led for almost 20 years, and where he now serves as President Emeritus and Senior Fellow. He is also currently a Lecturer in the Department of Health Care Policy at Harvard Medical School. From July 2010 to December 2011, Dr. Berwick served as the Administrator of the Centers for Medicare and Medicaid Services as an appointee of President Barack Obama. Dr. Berwick previously served on the faculty of the Harvard Medical School and the Harvard School of Public Health (from 1974 to 2010). He was also vice chair of the U.S. Preventive Services Task Force (from 1990 to 1995), the first "Independent Member" of the Board of Trustees of the American Hospital Association (from 1996 to 1999) and the chair of the National Advisory Council of the Agency for Healthcare Research and Quality (from 1995 to 1999). Dr. Berwick's expertise as a professional, administrator, lecturer and educator in the field of healthcare led to the conclusion that he should serve as a director of the Company.

Terms expiring at the 2020 Annual Meeting

JoAnn M. Martin, 63, has served as a director of the Company since June 2001. Ms. Martin was elected President and Chief Executive Officer of Ameritas Life Insurance Corp., an insurance and financial services company, in July 2005 and currently serves as Chair and Chief Executive Officer. From April 2003 to July 2005, she served Ameritas Life Insurance Corp. as President and Chief Operating Officer. Prior thereto, Ms. Martin served as Senior Vice President and Chief Financial Officer of Ameritas for more than the last five years. In April 2009, Ms. Martin was elected Chief Executive Officer of Ameritas Holding Company and Ameritas Mutual Holding Company (previously named UNIFI Mutual Holding Company), where she had served as Executive Vice President and Chief Financial Officer for more than the last five years, and currently serves as Chief Executive Officer of Ameritas Mutual Holding Company. Ms. Martin has served as an officer of Ameritas and/or its affiliates since 1988. Ms. Martin also serves as a director of Ameritas Mutual Holding Company and/or its affiliates. Ms. Martin's financial background as a certified public accountant and as the former Chief Financial Officer and current Chief Executive Officer of a mutual insurance holding company, as well as her past leadership experiences as a director of the Omaha Branch of the Federal Reserve Bank of Kansas City and other organizations, led to the conclusion that she should serve as a director of the Company.

Barbara J. Mowry, 70, has served as a director of the Company since May 2014. Ms. Mowry founded, and is currently the Chief Executive Officer of, GoreCreek Advisors, a management consulting firm. Prior to founding GoreCreek Advisors, Ms. Mowry served as Senior Vice President - Data Integration of Oracle Corporation, an industry leading software, hardware and services company, from January 2010 through March 2011, and as President and Chief Executive Officer of Silver Creek Systems, Inc., a data quality solutions software company, from January 2003 to December 2009. Ms. Mowry served as a director of Axion Health (from 2012 to 2014) and the Federal Reserve Bank of Kansas City (from 2012 to 2014) where she was Chair of the Board from 2013 to 2014. Ms. Mowry also serves as a director of IMA Financial Group (since May 2017), a privately held diversified financial services company, and as a director of several not-for-profit organizations, including the Kauffman Foundation (since 2013), the University of Minnesota Executive Committee, Carlson School of Management and the Board of Overseers (since 2004) and the National Association of Corporate Directors Colorado Chapter where she is a Leadership Fellow. Ms. Mowry previously served as a director of Gaiam, Inc. (from 1999 to 2013), Real Goods Solar, Inc. (from 2008 to 2013) and the Denver Branch of the Federal Reserve Bank of Kansas City (from 2008 to 2011). Ms. Mowry's financial background as a former President and Chief Executive Officer of several companies, a former member of the audit and compensation committees of the boards of directors of Gaiam, Inc. and Real Goods Solar, Inc. and as the current Chief Executive Officer of GoreCreek Advisors, led to the conclusion that she should serve as a director of the Company.

CORPORATE GOVERNANCE

Independent Directors and Annual Meeting Attendance

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

Directors are expected to attend the Company's annual meeting of shareholders each year. Each of the directors attended the Company's 2017 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 14 meetings in 2017. All incumbent directors attended at least 75% of the meetings of the Board and the committees on which they served during 2017.

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

The Audit Committee's primary function is to assist the Board in fulfilling its oversight responsibilities by overseeing the Company's systems of internal controls regarding finance, accounting, legal compliance and ethics that management and the Board have established; the Company's accounting and financial reporting processes; and the audits of the financial statements of the Company. The Audit Committee presently consists of JoAnn M. Martin (Chairperson), Barbara J. Mowry and John N.

Nunnelly, each of whom meets the independence standards of The NASDAQ Stock Market and the Securities and Exchange Commission for audit committee members. The Board has determined that JoAnn M. Martin qualifies as an "audit committee financial expert," as that term is defined by the Securities and Exchange Commission, because she has the requisite attributes through, among other things, education and experience as a president, chief financial officer and certified public accountant. The Audit Committee held five meetings in 2017.

The Compensation Committee determines compensation programs for the Company's executive officers, reviews management's recommendations as to the compensation to be paid to other key personnel and administers the Company's equity-based compensation plans. The Compensation Committee presently consists of Barbara J. Mowry (Chairperson), JoAnn M. Martin and John N. Nunnelly, each of whom meets the independence standards of The NASDAQ Stock Market and the Securities and Exchange Commission for compensation committee members. The Compensation Committee held three meetings in 2017. From time to time, with the last time being in 2015, the Compensation Committee or management of the Company has engaged a nationally recognized compensation consultant to assist the Company in its review of its compensation and benefits programs, including the competitiveness of pay levels, executive compensation design issues, market trends and technical considerations. The Compensation Committee, however, did not use this information in setting the compensation of the Company's executive officers in 2017.

The Nominating Committee presently consists of Donald M. Berwick (Chairperson), Barbara J. Mowry and John N. Nunnelly, each of whom meets the independence standards of The NASDAQ Stock Market for nominating committee members. The Nominating Committee's primary functions are to: (1) recommend persons to be selected by the Board as nominees for election as directors and (2) recommend persons to be elected to fill any vacancies on the Board. The Nominating Committee held two meetings in 2017.

The Strategic Planning Committee assists the Board in reviewing and, as necessary, altering, the Company's strategic plan, reviewing industry trends and their effects, if any, on the Company and assessing the Company's products, services and offerings and the viability of such portfolio in meeting the needs of the markets that the Company serves. John N. Nunnelly (Chairperson), Donald M. Berwick, JoAnn M. Martin and Barbara J. Mowry are the current members of the Strategic Planning Committee. The Strategic Planning Committee held one meeting in 2017.

The Leadership Development Committee assists the Board in reviewing the Company's strategy to attract, develop and retain its associates. The Leadership Development Committee presently consists of Donald M. Berwick, JoAnn M. Martin and John N. Nunnelly. The Leadership Development Committee did not hold any meetings in 2017.

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 2017, and none are currently proposed, in which we were a participant and in which any related person had a direct or indirect material interest. Our Board has adopted written policies and procedures regarding related person transactions. For purposes of these policies and procedures:

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

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

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

Ms. Martin, a director of the Company, serves as President and Chief Executive Officer of Ameritas Life Insurance Corp. In connection with the Company's regular assessment of its insurance-based associate benefits and the costs associated therewith, which is conducted by an independent insurance broker, in 2007 the Company began purchasing dental insurance for certain of its associates from Ameritas Life Insurance Corp. and, in 2009, the Company also began purchasing vision insurance for certain of its associates from Ameritas Life Insurance Corp. The total value of these purchases, which were conducted in arms' length transactions and approved by the Audit Committee pursuant to our related person transaction policies and procedures, were $248,000 in 2017 and $232,000 in 2016.

Mr. Hays, the founder, Chief Executive Officer and director of the Company, is an owner of 14% of the equity interest of Nebraska Global Investment Company LLC ("Nebraska Global"). The Company, directly or indirectly through its former subsidiary Customer-Connect LLC, purchased certain services from Nebraska Global, primarily consisting of software development services. The total value of these purchases, which were conducted in arms' length transactions and approved by the Audit Committee pursuant to our related person transaction policies and procedures, were $12,500 in 2017 and $488,000 in 2016.

On April 17, 2018, the Company completed a recapitalization whereby the Company exchanged one share of its then-existing class A common stock, plus $19.59 in cash, without interest, for each share of its then-existing class B common stock and, following such exchange, each share of class A common stock was reclassified as a share of Common Stock (collectively, the "2018 Recapitalization").

Mr. Hays, the founder, Chief Executive Officer and director of the Company, personally incurred approximately $538,000 of fees and expenses in connection with exploring strategic alternatives for the Company, including the originally proposed stock split transaction announced by the Company in September 2017 and the 2018 Recapitalization. These fees and expenses were attributable to the evaluation of alternatives and the sourcing and negotiating of financing for the alternatives, all of which would have been borne directly by the Company if they had not been advanced by Mr. Hays, and included approximately $182,000 for legal services, approximately $224,000 for advisory services and approximately $132,000 for financial modeling services. Mr. Hays advanced these funds personally in order to maintain the confidentiality of the evaluation of such alternatives and allow our management team to maintain its focus on our business and operations. The Company reimbursed Mr. Hays following the review of these fees and expenses, and the unanimous approval of such reimbursement, by the Audit Committee pursuant to our related person transactions policy and procedures.

During 2017, the Company acquired a cost method investment in convertible preferred stock of PracticingExcellence.com, Inc., a privately-held Delaware corporation ("PX"). Prior to the investment, the Company entered into an agreement with PX, under which the Company acts as a reseller of PX services (the "PX reseller agreement"). Additionally, the Company acquired content licenses from PX for content that the Company includes in certain of its subscription services. The total revenue earned from the PX reseller agreement was $633,000 in 2017 and $28,000 in 2016. The total amount paid for licensed content from PX in 2017 was $250,000. There were no such purchases in 2016. These transactions were conducted at arms' length and approved by the Audit Committee pursuant to our related person transaction policies and procedures

Communications with the Board of Directors

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

2017 DIRECTOR COMPENSATION

Directors who are executive officers of the Company receive no compensation for service as members of either the Board or committees thereof. Directors who are not executive officers of the Company are compensated as follows: an annual fixed fee of $75,000 for the lead director and $50,000 for each other director. Directors are also reimbursed for out-of-pocket expenses associated with attending meetings of the Board and committees thereof. Ms. Martin served as the Company's lead director from 2007 to May 2012, and Mr. Nunnelly has served as the Company's lead director since May 2012.

Pursuant to the Director Plan, each director who is not an associate (i.e., employee) of the Company also receives an annual grant of an option to purchase shares of our Common Stock on the date of each Annual Meeting of Shareholders. For the period from January 1, 2017 to December 31, 2017, each director who was not an associate of the Company received a grant of an option to purchase 36,000 shares of our then-existing class A common stock and 6,000 shares of our then-existing class B common stock on the date of the 2017 annual meeting. The options had 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.

As a result of the 2018 Recapitalization and assuming that the amendments to the Director Plan are approved by the shareholders at the Annual Meeting, for the period from January 1, 2018 to December 31, 2018, each director who is not an associate of the Company will receive a grant of options to purchase such number of shares of Common Stock equal to an aggregate grant date fair value of $100,000, computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation-Stock Compensation ("FASB ASC Topic 718"), or successor rule, on the date of the Annual Meeting. The options will have an exercise price equal to the fair market value of the Common Stock on the date of grant and will vest the day immediately preceding the 2019 annual meeting of shareholders.

The following table sets forth information regarding the compensation received by each of the Company's directors during 2017:

Name	Fees Earned or Paid in Cash	Option Awards[1]	Total
Donald M. Berwick	$50,000	$251,666	$301,666
JoAnn M. Martin	$50,000	$251,666	$301,666
Barbara J. Mowry	$50,000	$251,666	$301,666
John N. Nunnelly	$75,000	$251,666	$326,666
Gail L. Warden[2]	$33,333	--	$33,333

[1] Represents the aggregate grant date fair value of option awards granted during the year, computed in accordance with FASB ASC Topic 718. See Note 7 to the Company's Consolidated Financial Statements included in its Annual Report on Form 10-K for the years ended December 31, 2017, December 31, 2016, and December 31, 2015, for a discussion of assumptions made in the valuation of share-based compensation. As of December 31, 2017, the outstanding option awards for each director were as follows: Dr. Berwick – 108,000 options for then-existing class A common stock and 18,000 options for then-existing class B common stock; Ms. Martin – 252,000 options for then-existing class A common stock and 36,000 options for then-existing class B common stock; Ms. Mowry – 180,000 options for then-existing class A common stock and 30,000 options for then-existing class B common stock; Mr. Nunnelly – 273,084 options for then-existing class A common stock and 48,000 options for then-existing class B common stock; Mr. Warden – 288,000 options for then-existing class A common stock and 60,000 options for then-existing class B common stock.

[2] Mr. Warden retired from the Board effective August 30, 2017. In accordance with the terms of the Director Plan, the options granted to him in 2017 were canceled on the date of his retirement.

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 2017 Annual Report on Form 10-K with the Company's management and independent registered public accounting firm. Management is responsible for the financial statements and the reporting process, including the system of internal controls. The independent registered public accounting firm is responsible for expressing an opinion on the audited financial statements in conformity with U.S. generally accepted accounting principles and on the Company's internal control over financial reporting.

The Audit Committee discussed with the independent registered public accounting firm matters required to be discussed under the applicable requirements of the Public Company Accounting Oversight Board regarding communications with audit committees. In addition, the Company's independent registered public accounting firm provided to the Audit Committee the written disclosures and the letter required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm's communications with the Audit Committee concerning independence, and the Audit Committee discussed with the independent registered public accounting firm the firm's independence. The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent registered public accounting firm 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, 2017, for filing with the Securities and Exchange Commission.

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

AUDIT COMMITTEE

JoAnn M. Martin, Chairperson
Barbara J. Mowry
John N. Nunnelly

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding the beneficial ownership of Common Stock as of the Record Date (i.e., April 18, 2018) by: (1) each director and director nominee; (2) each of the executive officers named in the Summary Compensation Table; (3) all of the directors, director nominees and executive officers as a group; and (4) each person or entity known to the Company to be the beneficial owner of more than 5% of the Common Stock. Except as otherwise indicated in the footnotes, each of the holders listed below has sole voting and investment power over the shares beneficially owned. As of the Record Date, there were 24,608,700 shares of Common Stock outstanding.

	Shares Beneficially Owned	
Name of Beneficial Owner	**Shares**(1)	**%**
Directors and Executive Officers (2)		
Michael D. Hays	231,475 (3)(5)	*
Steven D. Jackson	105,476(5)	*
Kevin R. Karas	66,607 (5)(4)	*
Donald M. Berwick	113,090 (5)	*
JoAnn M. Martin	470,455 (5)	1.9%
Barbara J. Mowry	186,902 (5)	*
John N. Nunnelly	296,657 (5)	1.2%
All directors, nominees and executive officers as a group (seven persons)	1,470,662 (5)	6.0%
Other Holders		
K/I/E/Trust Under Agreement 3/9/09 and Kent E. Endacott, as the Special Holdings Direction Advisor under this Trust (6)	5,751,522	23.4%
Amandla MK Trust (i.e., the New Trust) and Patrick E. Beans, as the Special Holdings Direction Advisor under this Trust (7)	7,378,645	30.0%
Kayne Anderson Rudnick Investment Management LLC (8)	2,179,282	8.9%

* Denotes less than 1%.

(1) The shares of Common Stock listed in this table have been calculated after giving effect to the 2018 Recapitalization.
(2) The address of all directors and officers is 1245 Q Street, Lincoln, Nebraska 68508.
(3) Includes 139,182 shares of Common Stock held by Mr. Hays' wife. Mr. Hays disclaims beneficial ownership of the shares held by his wife.
(4) Includes 20,116 shares of Common Stock pledged as security.
(5) Includes shares of Common Stock that may be purchased under stock options which are currently exercisable or exercisable within 60 days of April 18, 2018, as follows: Dr. Berwick, 108,000 shares; Mr. Hays, 90,222 shares; Mr. Jackson, 0 shares; Mr. Karas, 46,491 shares; Ms. Martin, 252,000 shares; Mr. Nunnelly, 244,763 shares; Ms. Mowry, 180,000 shares; and all directors, nominees and executive officers as a group, 921,476 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 trustee of this Trust is The Bryn Mawr Trust Company of Delaware and its address is 20 Montchanin Road, Suite 100, Greenville, Delaware 19807. The address of the Special Holdings Direction Advisor for this Trust is 709 Pier 2, Lincoln, Nebraska 68528.
(8) The number of shares owned set forth above in the table is as of or about December 31, 2017 as reported by Kayne Anderson Rudnick Investment Management LLC in its amended Schedule 13G filed with the Securities and Exchange Commission. The address for this shareholder is 1800 Avenue of the Stars, 2nd Floor, Los Angeles, California 90067. This shareholder reports sole voting and dispositive power with respect 414,169 of these shares and shared voting and dispositive power with respect to 1,765,113 of these shares.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors, executive officers and any owner of greater than 10% of the Company's Common Stock to file reports with the Securities and Exchange Commission concerning their ownership of the Company's Common Stock. Based solely upon information provided to the Company by individual directors and executive officers, the Company believes that, during the fiscal year ended December 31, 2017, all of its directors and executive officers and owners of greater than 10% of the Company's Common Stock complied with the Section 16(a) filing requirements, except that a Form 4 for Mr. Jackson (reporting a transaction relating to the vesting of certain restricted stock awards) was not timely filed.

RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has appointed KPMG LLP to serve as our independent registered public accounting firm for the year ending December 31, 2018.

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

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

Assuming a quorum is present at the Annual Meeting, the number of votes cast for the ratification of the Audit Committee's appointment of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2018 must exceed the number of votes cast against it. Abstentions and broker non-votes will be counted as present in determining whether there is a quorum; however, they will not constitute a vote "for" or "against" ratification and will be disregarded in the calculation of votes cast. A broker non-vote occurs when a broker submits a proxy card with respect to shares that the broker holds on behalf of another person but declines to vote on a particular matter, either because the broker elects not to exercise its discretionary authority to vote on the matter or does not have authority to vote on the matter.

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

COMPENSATION DISCUSSION AND ANALYSIS

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

Overview of Executive Compensation Philosophy

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

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

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

Role of the Compensation Committee

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

- Barbara J. Mowry (Chairperson)
- JoAnn M. Martin
- John N. Nunnelly

The Compensation Committee determines compensation programs for our executive officers or recommends such programs to the full Board for approval. The Committee also reviews management's recommendations as to the compensation to be paid to other key personnel and administers our equity-based compensation plans. Periodically, the Compensation Committee reviews and determines our compensation and benefit programs, with the objective of ensuring the executive compensation and benefits programs are consistent with our compensation philosophy. From time to time, the Compensation Committee or management has engaged a nationally recognized compensation consultant to conduct a benchmarking study of executive compensation levels and practices. This market information has, in the past, been used to help inform and shape decisions, but was (and is) neither the only nor the determinative factor in making compensation decisions.

At the time our Compensation Committee recommended, and our Board approved, our named executive officer's 2017 compensation, our most recent review of our compensation and benefit programs was in late 2015, when our Compensation Committee engaged Aon Hewitt to review our programs before determining compensation for 2016.

In determining compensation levels for our named executive officers in 2017, our Compensation Committee did not engage Aon Hewitt or any other compensation consultant to provide advice concerning executive officer compensation.

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 level 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 also consider individual performance, level of responsibility, skills and experience, and internal comparisons among executive officers in determining base salary levels.

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 2017 compensation levels for our named executive officers:

- Reviewed the performance of our Chief Executive Officer and determined his total compensation;

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

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

2017 Say on Pay Vote

In May 2017 (after the 2017 executive compensation actions described in this Compensation Discussion and Analysis had taken place), we held our annual advisory shareholder vote on the compensation of our named executive officers at our annual shareholders' meeting, and, consistent with the recommendation of the Board, our shareholders approved our executive compensation, with more than 99% of votes cast in favor. Consistent with this strong vote of shareholder approval, we have not undertaken any material changes to our executive compensation programs.

Total Compensation

We intend to continue our strategy of compensating our executive officers through programs that emphasize performance-based incentive compensation in the form of cash and equity-based awards. To that end, we have structured total executive compensation to ensure that there is an appropriate balance between a focus on our long-term versus short-term performance. We believe that the total compensation paid or awarded to the executive officers during 2017 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. While Mr. Hays' salary and overall compensation are significantly below the median level paid to chief executive officers of comparable companies, he requested that his base salary and targeted overall compensation remain unchanged. The 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, when aligned with performance incentives, to continue to attract and retain the best talent (with the exception of Mr. Hays' salary as noted above). We have historically attempted to minimize base salary increases in order to limit our exposure if we do not meet our objectives for financial growth under our incentive compensation program. Consistent with this practice, the Compensation Committee left Mr. Hays', Mr. Karas' and Mr. Jackson's base salaries unchanged from 2016. In the case of Mr. Hays, the decision was based on his request, described above, that his salary not be increased. In the case of Mr. Karas and Mr. Jackson, the decision was based on Company performance and the belief that that Mr. Karas' and Mr. Jackson's salaries were at a level to retain their talent.

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

Base Salary as a Percentage of Total Compensation	
Michael D. Hays	54%
Kevin R. Karas	55%
Steven D. Jackson	55%

Annual Cash Incentive

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

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

- Provides total cash compensation to attract and retain key executive talent;
- Aligns pay with organizational performance;
- Focuses executive attention on key business metrics; and

- Provides a significant incentive for achieving and exceeding performance goals.

Under our incentive compensation program, the Compensation Committee establishes performance measures for our named executive officers at the beginning of each year. For 2017, 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 2017 over 2016, 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 2017. 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 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 2017, along with the percentages of their total compensation (as calculated for purposes of the Summary Compensation Table) that these amounts represent.

Name	2017 Actual Bonus Percentage of Total Compensation	2017 Actual Bonus Amount
Michael D. Hays	26%	61,534
Kevin R. Karas	26%	137,655
Steven D. Jackson	26%	144,900

Long-Term Equity Incentive

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

- *Annual Awards.* To provide an additional performance incentive for our executive officers and other key management personnel, our executive compensation package generally includes annual grants of stock options. In each year following our 2013 recapitalization pursuant to which we established two classes of common stock (class A common stock and class B common stock), we have granted options to purchase both class A common stock and class B common stock (which we stopped doing in 2018 in light of the proposed recapitalization in 2018 which will eliminate all of our class B common stock).

- *New Hire or Promotion Awards.* We also award restricted stock grants to newly hired or promoted executive officers during their first year of participation in our equity incentive program to provide greater alignment between the officers' interests and those of our shareholders, and to assist in retention.

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

In determining equity incentive awards for 2017, the Compensation Committee concluded that setting annual target equity awards for our named executive officers at approximately 50% of their respective then-current base salaries would provide competitive compensation consistent with our goals for equity awards. The Compensation Committee generally grants stock options effective on a date in the first week of January. Accordingly, effective January 4, 2017, the Compensation Committee granted options to each of our named executive officers. To determine the number and class of options approximately equal to 50% of an executive officer's base salary, the Compensation Committee allocated the target equity award amount between class A options and class B options using a six-to-one ratio and divided the applicable portion of the annual target equity award amount by the closing price per share of the applicable class of stock on the day prior to the date of grant. The number of options granted to our named executive officers is shown in the Grants of Plan-Based Awards Table.

For 2017, no performance-based awards were granted to our named executive officers. Our Compensation Committee may, however, consider in the future conditioning awards on the achievement of various performance goals, including return on equity, shareholder value added, earnings from operations, net earnings, net earnings per share, market price of our common stock and/or total shareholder return.

Other Benefits

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

Agreements with Officers

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

2017 SUMMARY COMPENSATION TABLE

Set forth below is information regarding compensation earned by or paid or awarded to the following executive officers: Michael D. Hays, our Chief Executive Officer; Kevin R. Karas, our Senior Vice President Finance, Chief Financial Officer, Treasurer and Secretary; and Steven D. Jackson, our President and Chief Operating Officer. We had no other executive officers, as defined in Rule 3b-7 of the Securities Exchange Act of 1934, whose total compensation exceeded $100,000 during 2017. The identification of such named executive officers is determined based on the individual's total compensation for 2017, 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 2017, 2016 and 2015: (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	Bon-us	Stock Awards(1)	Option Awards(1)	Non-Equity Incentive Plan Compensation	All Other Compensation(2)	Total
Michael D. Hays	2017	$127,400	--	--	$42,000	$61,534	$4,831	$235,765
Chief Executive Officer	2016	$127,400	--	--	$44,261	$74,656	$2,079	$248,396
	2015	$127,400	--	--	$47,633	$11,211	$3,178	$189,422
Kevin R. Karas	2017	$285,000	--	--	$93,955	$137,655	$5,724	$522,334
Senior Vice President	2016	$283,640	--	--	$99,018	$167,010	$4,727	$554,395
Finance, Chief Financial Officer, Treasurer and Secretary	2015	$245,700	--	--	$91,866	$21,622	$2,862	$362,050
Steven D. Jackson	2017	$300,000	--	--	$98,899	$144,900	$4,800	$548,599
President(3)	2016	$300,000	--	--	$104,229	$175,800	$400,838	$980,867
	2015	$300,000	--	$1,050,067	--	$26,400	$3,900	$1,380,367

(1) Represents the aggregate grant date fair value of the stock or option awards, as indicated, granted during the year, computed in accordance with FASB ASC Topic 718. See Note 9 to the Company's Consolidated Financial Statements included in its Annual Report on Form 10-K for the year ended December 31, 2017 for a discussion of assumptions made in the valuation of share-based compensation.

(2) Represents, for each of our named executive officers, the amount of our 401(k) matching contributions; for Messrs. Hays and Karas, the amount of our health saving account matching contributions; and for Messrs. Karas and Jackson, the amount of our technology allowance.

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

GRANTS OF PLAN-BASED AWARDS IN 2017

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 2017.

			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[2]	All Other Option Awards: No. of Securities Underlying Options[2]	Exercise or Base Price of Option Awards[2]	Closing Price on Date of Grant	Grant Date Fair Value of Stock and Option Awards
Michael D. Hays	1/04/2017	12/19/2016					7,478[3]	$18.80	$19.20	$37,689
	1/04/2017	12/19/2016					1,246[5]	$40.54	$41.72	$4,311
			-[4]	$ 63,700	$254,800					
Kevin R. Karas	1/04/2017	12/19/2016					16,728[3]	$18.80	$19.20	$84,309
	1/04/2017	12/19/2016					2,788[5]	$40.54	$41.72	$9,646
			-[4]	$142,500	$570,000					
Steven D. Jackson	1/04/2017	12/19/2016					17,608[3]	$18.80	$19.20	$88,744
	1/04/2017	12/19/2016					2,935[5]	$40.54	$41.72	$10,155
			-[4]	$150,000	$600,000					

(1) These amounts represent only potential payments under the 2017 incentive plan awards; the actual amounts received (if any) are shown in the Summary Compensation Table above.

(2) The restricted stock and stock option awards were granted under the 2006 Equity Incentive Plan. The exercise price of the stock option awards was equal to the closing stock price on January 3, 2017, the day immediately prior to the grant date.

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

(4) There were no thresholds for payments under these 2017 incentive plan awards; payments below target would be made for any year-over-year increase in any of the applicable performance measures.

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

OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2017

The following table sets forth information on outstanding option and stock awards held by the named executive officers at December 31, 2017, 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.

	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	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that have Not Vested
Michael D. Hays	21,633(1)(3)	-	$7.59	01/04/18	-	-	-	-
	20,109(1)(4)	-	$8.13	01/05/19	-	-	-	-
	26,481(1)(5)	-	$6.30	01/05/20	-	-	-	-
	17,745(1)(6)	-	$9.14	01/05/21	-	-	-	-
	14,949 (1) (7)	-	$10.75	01/05/22	-	-	-	-
	2,491 (2)(7)	-	$21.50	01/05/22	-	-	-	-
	-	10,938(1)(8)	$14.50	01/07/23	-	-	-	-
	-	1,823(2)(8)	$27.13	01/07/23	-	-	-	-
	-	2,904(1)(9)	$18.80	01/07/24	-	-	-	-
	-	266(2)(9)	$34.15	01/07/24	-	-	-	-
	-	10,014(1)(10)	$13.17	01/06/25	-	-	-	-
	-	1,669(2)(10)	$35.48	01/06/25	-	-	-	-
	-	9,145(1)(11)	$15.23	01/05/26	-	-	-	-
	-	1,524(2)(11)	$34.00	01/05/26	-	-	-	-
	-	7,478(1)(12)	$18.80	01/04/27	-	-	-	-
	-	1,246(2)(12)	$40.54	01/04/27	-	-	-	-
Kevin R. Karas	26,403(1) (7)		$10.75	01/05/22	-	-	-	-
	4,400 (2) (7)	-	$21.50	01/05/22	-	-	-	-
	-	20,088(1)(8)	$14.50	01/07/23	-	-	-	-
	-	3,348(2)(8)	$27.13	01/07/23	-	-	-	-

Name	Option Awards: No. of Securities Underlying Unexercised Options (Exercisable)	No. of Securities Underlying Unexercised Options (Unexercisable)	Option Exercise Price	Option Expiration Date	Stock Awards: No. of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that have Not Vested
	-	5,334[1][9]	$18.80	01/07/24	-	-	-	-
	-	489[2][9]	$34.15	01/07/24	-	-	-	-
	-	19,313[1][10]	$13.17	01/06/25	-	-	-	-
	-	3,219[2][10]	$35.48	01/06/25	-	-	-	-
	-	20,458[1][11]	$15.23	01/05/26	-	-	-	-
	-	3,410[2][11]	$34.00	01/05/26	-	-	-	-
	-	16,728[1][12]	$18.80	01/04/27	-	-	-	-
	-	2,788[2][12]	$40.54	01/04/27	-	-	-	-
Steven D. Jackson	-	21,535[1][11]	$15.23	01/05/26	52,477[13]	$1,957,392[13]	-	-
	-	3,589[2][11]	$34.00	01/05/26	8,746[14]	$490,301[14]	-	-
	-	17,608[1][12]	$18.80	01/04/27	-	-	-	-
	-	2,935[2][12]	$40.54	01/04/27	-	-	-	-

(1) Option to purchase shares of class A common stock.
(2) Option to purchase shares of class B common stock.
(3) Options vest in full on the fifth anniversary of the grant date. These options vested on January 4, 2013.
(4) Options vest in full on the fifth anniversary of the grant date. These options vested on January 5, 2014.
(5) Options vest in full on the fifth anniversary of the grant date. These options vested on January 5, 2015.
(6) Options vest in full on the fifth anniversary of the grant date. These options vested on January 5, 2016.
(7) Options vest in full on the fifth anniversary of the grant date. These options vested on January 5, 2017.
(8) Options vest in full on the fifth anniversary of the grant date. These options will vest on January 7, 2018.
(9) Options vest in full on the fifth anniversary of the grant date. These options will vest on January 7, 2019.
(10) Options vest in full on the fifth anniversary of the grant date. These options will vest on January 6, 2020.
(11) Options vest in full on the fifth anniversary of the grant date. These options will vest on January 5, 2021.
(12) Options vest in full on the fifth anniversary of the grant date. These options will vest on January 4, 2022.
(13) Restricted shares of class A common stock that become fully vested on the fifth anniversary of the grant date, which occurred in 2015. The market value is based on the $37.30 per share closing price of our class A common stock on The NASDAQ Stock Market on December 29, 2017.
(14) Restricted shares of class B common stock that become fully vested on the fifth anniversary of the grant date, which occurred in 2015. The market value is based on the $56.06 per share closing price of our class B common stock on The NASDAQ Stock Market on December 29, 2017.

OPTION EXERCISES AND STOCK VESTED IN 2017

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)[1]	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Michael D. Hays	25,068[2]	$305,328	--	--
	--	--	--	--
Kevin R. Karas	--	--	--	--
	--	--	--	--
Steven D. Jackson	--	--	73,506[2]	$2,741,774
	--	--	12,251[3]	$686,791

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

(2) Shares of class A common stock.

(3) Shares of class B common stock.

Risk Assessment of Compensation Policies and Practices

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

COMPENSATION COMMITTEE REPORT

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

Barbara J. Mowry, Chairperson
JoAnn M. Martin
John N. Nunnelly

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:

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

- Align with Shareholders. We seek to align the interests, perspectives and decision-making of our executive officers with the interests of our shareholders.

- Performance Based. We link our executive officers' compensation, particularly annual cash bonuses, to established Company financial performance goals and individual performance goals.

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

The Board invites you to review carefully the Compensation Discussion and Analysis beginning on page 14 and the tabular and other disclosures on compensation beginning on page 19, 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.

Based on the outcome of the advisory vote on the frequency of shareholder votes on executive compensation at our 2017 annual shareholders meeting, the Company will ask its shareholders to consider an advisory vote on the compensation of our named executive officers every year until otherwise determined by a vote of our shareholders pursuant to applicable Securities and Exchange Commission rules. The next advisory vote on the compensation of our named executive officers will occur at the 2019 annual meeting of shareholders.

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

CEO PAY RATIO

As required by Item 402(u) of Regulation S-K promulgated under the Securities Exchange Act of 1934, we are providing the following information about the ratio of the median annual total compensation of our associates (i.e., employees) and the annual total compensation of Michael D. Hays, our Chief Executive Officer. For the year ended December 31, 2017:

- the median of the annual total compensation of all associates of the Company was reasonably estimated to be $53,064; and

- the annual total compensation of Mr. Hays, was $235,765.

- Based on this information, the ratio of the annual total compensation of our chief executive officer to the median of the annual total compensation of all other associates is estimated to be 4.44 to 1.

We identified our median associate by examining total cash compensation (i.e., base wages plus cash bonuses and/or commissions) of all individuals employed by us on December 1, 2017 (other than Mr. Hays), whether full-time, part-time or on a seasonable basis. We annualized total cash compensation for all permanent associates who were hired after January 1, 2017, as permitted by the rules of the Securities and Exchange Commission. To calculate total cash compensation for any associate paid in currency other than U.S. dollars, we then applied the applicable foreign currency exchange rate in effect on December 1, 2017 to convert such associate's total cash compensation into U.S. dollars. Once we identified our median associate, we added together all of the elements of such associate's compensation for 2017 in the same way that we calculate the annual total compensation of our named executive officers in the Summary Compensation Table.

To calculate our ratio, we divided Mr. Hays' annual total compensation by the annual total compensation of our median associate. To calculate Mr. Hays' annual total compensation, we used the amount reported in the "Total" column of our 2017 Summary Compensation Table.

APPROVAL OF AMENDMENTS TO THE NATIONAL RESEARCH CORPORATION 2004 NON-EMPLOYEE DIRECTOR STOCK PLAN

General

The Company is requesting that the shareholders approve amendments to the Director Plan to (1) change the amount of annual stock option grants made to non-associate (i.e., non-employee) directors and (2) change the vesting terms of the annual stock option grants made to non-associate directors. The Board has unanimously approved the amendments to the Director Plan, contingent upon shareholder approval of the amendments to the Director Plan at the Annual Meeting. If the shareholders approve the amendments to the Director Plan, it will be effective as of the date of the Annual Meeting. In the event the shareholders do not approve the proposed amendments to the Director Plan, the amendments to the Director Plan will not take effect and the existing Director Plan will continue to be administered in its current form. The Board has determined that it is in the best interests of the Company and its shareholders to approve the amendments to the Director Plan and is asking the Company's shareholders to approve the amendments to the Director Plan.

Amendments to the Director Plan

The following is a summary of the proposed material amendments to the Director Plan, as compared to the Director Plan that was approved at the Company's 2015 annual meeting of shareholders (the "Existing Plan"), both before and following the 2018 Recapitalization.

- Prior to the 2018 Recapitalization, under the Existing Plan, on the date of each annual meeting of shareholders, a non-associate director was automatically granted non-qualified stock options to purchase 36,000 shares of our then-existing class A common stock and 6,000 shares of our then-existing class B common stock. Following the 2018 Recapitalization, under the Existing Plan, on the date of each annual meeting of shareholders, a non-associate director is automatically granted non-qualified stock options to purchase 36,000 shares of our Common Stock (no class B common stock options can be granted since that class of stock was eliminated in the 2018 Recapitalization). If the shareholders approve the amendments to the Director Plan, on the date of each annual meeting of shareholders, a non-associate director will automatically be granted non-qualified stock options to purchase such number of shares of Common Stock equal to an aggregate grant date fair value of $100,000, computed in accordance with FASB ASC Topic 718, or successor rule.

- Under the Existing Plan, an annual non-qualified stock option granted to a non-associate director may be exercised commencing one year after the applicable grant date. If the shareholders approve the amendments to the Director Plan, an annual non-qualified stock option granted to a non-associate director may be exercised on the day immediately preceding the next following annual grant date (i.e. the next annual meeting of shareholders).

Except for the changes described above, the Director Plan has not and is not being amended in any material respect.

Description of Director Plan

The following summary description of the Director Plan as amended by such amendments is qualified in its entirety by reference to the full text of the Director Plan, as amended, which is attached to this proxy statement as Appendix A.

Purpose

The purpose of the Director Plan is to promote the best interests of the Company and its shareholders by providing a means to attract and retain competent independent directors and to provide opportunities for additional stock ownership by such directors which will further increase their proprietary interest in the Company and, consequently, their identification with the interests of the shareholders of the Company.

Administration and Eligibility

The Director Plan shall be administered by the Compensation Committee of the Board (the "Committee"), subject to review by the Board. The Committee may adopt such rules and regulations for carrying out the Director Plan as it may deem proper and in the best interests of the Company. The interpretation by the Board of any provision of the Director Plan or any related documents shall be final.

Each member of the Board who is not an associate of the Company or any subsidiary of the Company shall be eligible to receive shares of Common Stock under the Director Plan. The Company currently has four non-associate directors.

Awards Under the Director Plan; Available Shares

The Director Plan provides for automatic and discretionary grants of non-qualified options to non-associate directors of the Company. The total number of shares of Common Stock available for issuance under the Director Plan on and after May 30, 2018 will be 921,000.

Terms of Awards

The Director Plan provides that each non-associate director (if he or she continues to serve in such capacity) will, on the day of the Annual Meeting and each subsequent annual meeting of shareholders, automatically be granted options to purchase such number of shares of Common Stock equal to an aggregate grant date fair value of $100,000, computed in accordance with FASB ASC Topic 718, or successor rule. The Director Plan also provides that the Committee or the Board may make discretionary grants of non-qualified options under the Director Plan.

The annual options granted to non-associate directors under the Director Plan become fully exercisable on the day immediately preceding the next following annual grant date (i.e. the next annual meeting of shareholders). Any discretionary grant of options under the Director Plan become fully exercisable one year after the date of grant. However, if a non-associate director ceases to be a director of the Company by reason of death within one year after the date of grant, then the options shall immediately vest and become exercisable in full. Non-associate directors will be entitled to receive the automatic grants under the Director Plan as described above only for so long as the Director Plan remains in effect and a sufficient number of shares are available for the granting of such options thereunder.

The option price per share of any option granted to a non-associate director must be 100% of the "fair market value" of a share of Common Stock on the date of grant of such option. The fair market value of a share on the date of grant to the non-associate director will be the last sale price per share for the Common Stock on The NASDAQ Stock Market on the grant date or, if no trading occurred on the grant date, then the fair market value per share will be determined with reference to the last preceding date on which there was such a sale.

If a non-associate director ceases to be a director of the Company for any reason, other than the death of the director, then all unvested options shall immediately terminate unless otherwise determined by the Committee. All vested options will terminate on the earlier of (a) ten years after the date of grant or (b) three years after the non-associate director ceases to be a director of the Company. Options granted to non-associate directors may be exercised under the Director Plan by payment in full of the exercise price, either in cash or in whole or in part by tendering previously acquired shares of Common Stock having a fair market value on the date of exercise equal to the option exercise price.

Adjustments

In the event of any change in the Common Stock by reason of a declaration of a stock dividend (other than a stock dividend declared in lieu of an ordinary cash dividend), stock split, spin-off, merger, consolidation, recapitalization or split-up, combination or exchange of shares, or otherwise, the aggregate number of shares available under the Director Plan, the number of shares to be issued pursuant to the automatic grant provisions under the Director Plan, the number of shares subject to outstanding options and the exercise price of outstanding options shall be appropriately adjusted in order to prevent dilution or enlargement of the benefits intended to be made available under the Director Plan.

Limitations on Transferability

Except to the extent allowed by the Board or the Committee, options granted under the Director Plan may not be transferred other than by will or the laws of descent and distribution.

Amendment

Subject to shareholder approval in certain circumstances and applicable law, the Board may amend the Director Plan at any time or from time to time in any manner that it may deem appropriate.

Effective Date and Termination

The amendments to the Director Plan will be effective on the day of their approval by the shareholders of the Company at the Annual Meeting. Any and all grants made under the Director Plan prior to such shareholder approval are subject to such shareholder approval. The Director Plan will terminate on such date as may be determined by the Board.

Certain Federal Income Tax Consequences

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

New Plan Benefits

Non-qualified stock options to purchase such number of shares of Common Stock equal to an aggregate grant date fair value of $100,000, computed in accordance with FASB ASC Topic 718, or successor rule, will be granted by the Company to each of the non-associate directors so serving on May 30, 2018, subject to shareholder approval of the proposed amendments to the Director Plan at the Annual Meeting. The option price per share will be the last sale price per share for the Common Stock on The NASDAQ Stock Market on the grant date or, if no trading occurred on the grant date, then the last preceding date on which there was such a sale. In 2019 and future years, the Company will grant each non-associate director options to purchase such number of shares of Common Stock equal to an aggregate grant date fair value of $100,000, computed in accordance with FASB ASC Topic 718, or successor rule. The Company currently cannot determine the amount, if any, of discretionary stock options the Company may grant to non-associate directors in the future. Such determinations will be made from time to time by the Board or the Committee in the future.

The following table sets forth the aggregate number of awards that are expected to be received by the Company's non-associate directors as a group on the date of the Annual Meeting, assuming the amendments to the Director Plan are approved by the shareholders.

Name of Individual or Group(1)	Dollar Value	Number of Shares Underlying Stock Option Grants
All executive officers, as a group	—	—
All directors who are not executive officers, as a group	$400,000	(2)
All employees who are not executive officers, as a group	—	—

(1) Executive officers and associates are not eligible to participate in the Director Plan.

(2) Assuming the amendments to the Director Plan are approved by the shareholders on the date of the Annual Meeting, each non-associate director continuing service with the Company after the meeting will be granted an annual award of non-qualified stock options to purchase such number of shares of Common Stock equal to an aggregate grant date fair value of $100,000. The actual number non-qualified stock options granted to each non-associate director will be determined on the date of the Annual Meeting in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation-Stock Compensation.

No executive officers or other associates of the Company are eligible to receive awards under the Director Plan. See "Description of Director Plan — Administration and Eligibility."

On April 18, 2018, the closing price per share of Common Stock on The NASDAQ Stock Market was $33.95.

Our non-associate directors have an interest in this proposal because they are eligible to receive awards under the Director Plan.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth information as of December 31, 2017, with respect to shares of our then-existing class A common stock and our then-existing class B common stock that may have been issued under the Company's existing equity compensation plans. The table does not include employee benefit plans intended to meet the qualification requirements of Section 401(a) of the Internal Revenue Code. All equity compensation plans are described more fully in Note 9 to the Company's consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2017.

Plan Category 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)]	1,746,634	$13.88	1,786,465 [(2)]
Equity compensation plans not approved by security holders	--	--	--
Total	1,746,634	$13.88	1,786,465

Plan Category 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)]	276,716	$31.78	298,689 [(2)]
Equity compensation plans not approved by security holders	--	--	--
Total	276,716	$31.78	298,689

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

(2) Under the 2006 Equity Incentive Plan, the Company had authority to award up to 327,590 additional shares of restricted class A common stock and 54,599 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 865,465 shares of class A common stock and 145,189 shares of class B common stock as of December 31, 2017. The Director Plan provides for granting options for 3,000,000 shares of Class A common stock and 500,000 shares of Class B common stock. Option awards through December 31, 2017 totaled 2,079,000 shares of Class A common stock and 346,500 of Class B common stock. No future awards are available under the 2001 Equity Incentive Plan due to its expiration.

Vote Required

The affirmative vote of the holders of a majority of the shares of Common Stock represented and voted at the Annual Meeting with respect to the Director Plan (assuming a quorum is present) is required to approve the amendments to the Director Plan. Any shares of Common Stock not voted at the Annual Meeting with respect to the amendments to the Director Plan (whether as a result of broker non-votes, abstentions or otherwise) will have no impact on the vote.

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

MISCELLANEOUS

Independent Registered Public Accounting Firm

KPMG LLP acted as the independent registered public accounting firm for the Company in 2017. The Audit Committee is solely responsible for the selection, retention, oversight and, when appropriate, termination of the Company's independent registered public accounting firm.

The fees to KPMG LLP for the fiscal years ended December 31, 2017, and 2016 were as follows:

	2017	**2016**
Audit Fees[(1)]	$498,548	$373,000
Audit-Related Fees[(2)]	101,941	101,456
Tax Fees[(3)]	90,567	94,734
All Other Fees	--	--
Total	$691,056	$569,190

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

The Audit Committee has established pre-approval policies and procedures with respect to audit and permitted non-audit services to be provided by its independent registered public accounting firm. Pursuant to these policies and procedures, the Audit Committee may form, and delegate authority to, subcommittees consisting of one or more members when appropriate to grant such pre-approvals, provided that decisions of such subcommittee to grant pre-approvals are presented to the full Audit Committee at its next scheduled meeting. The Audit Committee's pre-approval policies do not permit the delegation of the Audit Committee's responsibilities to management. In 2017, the Audit Committee pre-approved all services provided by our independent registered public accounting firm, and no fees to the independent registered public accounting firm were approved pursuant to the de minimis exception under the Securities and Exchange Commission's rules.

Expenses

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

Multiple Shareholders Sharing the Same Address

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

Shareholder Proposals

Proposals that shareholders of the Company intend to present at and have included in the Company’s proxy statement for the 2019 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 28, 2018. In addition, a shareholder who otherwise intends to present business at the 2019 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 2019 annual meeting but do not intend to include in the Company’s proxy statement for such meeting) prior to February 9, 2019, then the notice will be considered untimely and the Company will not be required to present such proposal at the 2019 annual meeting. If the Board chooses to present such proposal at the 2019 annual meeting, then the persons named in proxies solicited by the Board for the 2019 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 27, 2018

Appendix A

NATIONAL RESEARCH CORPORATION

2004 NON-EMPLOYEE DIRECTOR STOCK PLAN

1. Purpose. The purpose of the National Research Corporation 2004 Non-Employee Director Stock Plan (the "Plan") is to promote the best interests of National Research Corporation (the "Company") and its shareholders by providing a means to attract and retain competent independent directors and to provide opportunities for additional stock ownership by such directors which will further increase their proprietary interest in the Company and, consequently, their identification with the interests of the shareholders of the Company.

2. Administration. The Plan shall be administered by the Compensation Committee of the Board of Directors of the Company (the "Committee"), subject to review by the Board of Directors (the "Board"). The Committee may adopt such rules and regulations for carrying out the Plan as it may deem proper and in the best interests of the Company. The interpretation by the Board of any provision of the Plan or any related documents shall be final.

3. Stock Subject to the Plan. Subject to adjustment in accordance with the provisions of Section 7, the total number of shares of common stock, par value $0.001 per share, of the Company (the "Common Stock") available for issuance under the Plan on and after May 30, 2018 shall be 921,000. Shares of Common Stock to be delivered under the Plan shall be made available from presently authorized but unissued Common Stock or authorized and issued shares of Common Stock reacquired and held as treasury shares, or a combination thereof. In no event shall the Company be required to issue fractional shares of Common Stock under the Plan. Whenever under the terms of the Plan a fractional share of Common Stock would otherwise be required to be issued, there shall be paid in lieu thereof one full share of Common Stock.

4. Eligible Directors. Each member of the Board who is not an employee of the Company or any subsidiary of the Company (each an "Outside Director") shall be eligible to receive shares of Common Stock under the Plan.

5. Director Grants.

a. Initial Grant. On May 21, 2004, each Outside Director shall automatically be granted a one-time nonqualified stock option to purchase 11,000 shares of Common Stock (the "Initial Grant Date"); *provided, however*, that in the event the shareholders of the Company fail to approve the Plan at the 2005 annual meeting of shareholders, the options granted pursuant to this Section 5(a) shall be deemed to be null and void.

b. Annual Grants. On the date of each annual meeting of shareholders of the Company (the "Annual Grant Date"), commencing with the meeting held in 2018, an Outside Director, if elected, reelected or retained as an Outside Director at such meeting, shall automatically be granted nonqualified stock options to purchase such number of shares of Common Stock equal to an aggregate grant date fair value of $100,000, computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation-Stock Compensation, or successor rule.

c. Discretionary Grants. The Committee and/or the Board is hereby authorized to grant at any time (the "Discretionary Grant Date") such additional nonqualified stock options to the Outside Directors as it deems desirable, in its sole discretion; *provided, however*, that in the event the Committee and/or the Board grants any such additional options prior to shareholder approval of the Plan at the 2005 annual meeting of shareholders and the shareholders fail to approve the Plan at such meeting, the options granted pursuant to this Section 5(c) shall be deemed to be null and void. The terms "Initial

Grant Date", "Annual Grant Date" and "Discretionary Grant Date" shall be hereinafter collectively referred to as the "Grant Date".

d. Option Terms. The exercise price of each option granted under the Plan shall be the Fair Market Value (as defined below) of a share of Common Stock on the Grant Date, which shall be payable at the time of exercise in cash, previously acquired shares of Common Stock valued at their Fair Market Value or such other forms or combinations of forms as the Board or the Committee may approve. The term "Fair Market Value" as used herein shall mean the last sale price of the Common Stock as reported on The NASDAQ Stock Market on the Grant Date, or if no such sale shall have been made on that day, on the last preceding day on which there was such a sale. Notwithstanding anything in the Plan to the contrary, neither the Committee nor any other person may decrease the exercise price of any option granted under the Plan or take any action that would result in a deemed decrease of the exercise price of an option granted under the Plan under Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A"), after the date of grant, except in accordance with Section 7 hereof and Section 1.409A-1(b)(5)(v)(D) of the Treasury Regulations, or in connection with a transaction that is considered the grant of a new option for purposes of Section 409A, provided that the new exercise price is not less than the Fair Market Value of a share of Common Stock on the date of the new grant, determined as if the date of new grant were the Grant Date.

An option may be exercised in whole or in part, from time to time commencing (1) with respect to an option granted on an Annual Grant Date, the day immediately preceding the next following Annual Grant Date, and (2) with respect to any other option, one year after the Grant Date (each such date, the "Vesting Date"), subject to the following limitations:

i. If an Outside Director's status as an Outside Director of the Company terminates because of death prior to the Vesting Date, the option shall become immediately exercisable in full and may be exercised for a period of three years after the date of death.

ii. If for any reason other than death an Outside Director ceases to be an Outside Director of the Company prior to the Vesting Date, the option shall be canceled as of the date of such termination unless otherwise determined by the Committee.

iii. If an Outside Director ceases to be an Outside Director of the Company for any reason after the Vesting Date, the option shall expire ten years after the Grant Date or if earlier, three years after termination of Outside Director status.

6. Restrictions on Transfer. Options granted under the Plan shall not be transferable other than by will or the laws of descent and distribution, except that an Outside Director may, to the extent allowed by the Board or the Committee, and in a manner specified by the Board or the Committee, (a) designate in writing a beneficiary to exercise the option after the Outside Director's death or (b) transfer any option.

7. Adjustment Provisions. In the event of any change in the Common Stock by reason of a declaration of a stock dividend (other than a stock dividend declared in lieu of an ordinary cash dividend), stock split, spin-off, merger, consolidation, recapitalization or split-up, combination or exchange of shares, or otherwise, the aggregate number of shares available under the Plan, the number of shares subject to outstanding options and the exercise price of outstanding options shall be appropriately adjusted in order to prevent dilution or enlargement of the benefits intended to be made available under the Plan.

8. Amendment of Plan. The Board shall have the right to amend the Plan at any time or from time to time in any manner that it may deem appropriate.

9. Documentation of Awards. Awards made under the Plan shall be evidenced by written agreements or such other appropriate documentation as the Board or the Committee may prescribe. The Board and/or the Committee need not require the execution of any instrument or acknowledgement of notice of an award under the Plan, in which case acceptance of such award by the respective Outside Director will constitute agreement to the terms of the award.

10. Governing Law. The Plan, all awards hereunder, and all determinations made and actions taken pursuant to the Plan shall be governed by the internal laws of the State of Wisconsin and applicable federal law.

11. Effective Date and Termination of the Plan. The Plan shall be effective on the day of its adoption by the Board, May 21, 2004, subject to the approval of the Plan by the shareholders of the Company within twelve months of the effective date, and any and all grants made under the Plan prior to such approval shall be subject to such approval. The provisions of this Plan, as amended and restated, shall be effective May 30, 2018. The Plan shall terminate on such date as may be determined by the Board.

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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, 2017
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______________ to ______________
Commission file number: 001-35929

National Research Corporation
(Exact name of registrant as specified in its charter)

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

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

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

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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☒	Smaller reporting company ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)		Emerging growth company ☐

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

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

Aggregate market value of the class A common stock and the class B common stock held by non-affiliates of the registrant at June 30, 2017: $458,611,975.

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 28, 2018: 20,970,575 shares
Class B Common Stock, $0.001 par value, outstanding as of February 28, 2018: 3,540,857 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2018 Annual Meeting of Shareholders are incorporated by reference into Part III.

TABLE OF CONTENTS

PART I

Item 1. Business

Special Note Regarding Forward-Looking Statements

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

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

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

General

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

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

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

NRC Health has achieved a market leadership position through its more than 36 years of industry innovation and experience, as well as its long-term, recurring revenue relationships (solutions that are used or required by a client each year) with many of the healthcare industry's largest organizations. Since its founding in 1981, the Company has focused on meeting the evolving information needs of the healthcare industry through internal product development, as well as select acquisitions. The Company is a Wisconsin corporation headquartered in Lincoln, Nebraska.

Industry and Market Opportunity

According to the Centers for Medicare and Medicaid Services ("CMS"), health expenditures in the United States were approximately $3.3 trillion in 2016, or $10,348 per person. In total, health spending accounted for 17.9% of the nation's Gross Domestic Product in 2016. Addressing this growing expenditure burden continues to be a major policy priority at both federal and state levels. In addition, increased co-pays and deductibles in healthcare plans have focused even more consumer attention on health spending and affordability. In the public sector, Medicare provides health coverage for individuals aged 65 and older, while Medicaid provides coverage for low income families and other individuals in need. Both programs are administered by the CMS. With the aging of the U.S. population, Medicare enrollment has increased significantly. In addition, longer life spans and greater prevalence of chronic illnesses among both the Medicare and Medicaid populations have placed tremendous demands on the health care system.

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

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

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

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

NRC Health's Solutions

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

NRC Health's Market Insights Solutions – NRC Health's Market Insights solutions are subscription-based services that allow for improved tracking of awareness, perception, and consistency of healthcare brands; real-time assessment of competitive differentiators; and enhanced segmentation tools to evaluate the needs, wants, and behaviors of communities through real-time competitive assessments and enhanced segmentation tools. NRC Health's Market Insights is the largest U.S. healthcare consumer database of its kind, measuring the opinions and behaviors of more than 292,000 healthcare consumers in the top 300 markets across the country annually. NRC Health's Market Insights is a syndicated survey that provides clients with an independent third-party source of information that is used to understand consumer perception and preferences and optimize marketing strategies. NRC Health's Market Insights solutions provide clients with on-demand tools to measure brand value and build brand equity in their markets, evaluate and optimize advertising efficacy and consumer recall, and tailor research to obtain the real time voice of customer feedback to support branding and loyalty initiatives. The Company's Market Insights solutions were historically marketed under the Healthcare Market Guide and Ticker brands.

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

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

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

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

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

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

NRC Health's Competitive Strengths

The Company believes that its competitive strengths include the following:

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

Premier client portfolio across the care continuum. NRC Health's client portfolio encompasses leading healthcare organizations across the healthcare continuum, from acute care hospitals and post-acute providers to healthcare payers. The Company's client base is diverse, with its top ten clients representing approximately 19% of total revenue for the year ended December 31, 2017 and no single client representing more than 5% of the Company's revenue.

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

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

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

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

Competition

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

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

Growth Strategy

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

Selling additional solutions to existing clients. Approximately 22% of the Company's existing clients purchase more than one of its solutions. NRC Health's sales organization actively identifies and pursues these cross-sell opportunities in order to accelerate the growth of the Company.

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

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

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

Sales and Marketing

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

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

Clients

NRC Health's clients include many of the nation's largest healthcare systems. The Company provides solutions to over 47 payer health plans and 148 of the 200 largest health systems.

The Company's ten largest clients accounted for 19%, 17%, and 15% of the Company's total revenue in 2017, 2016 and 2015, respectively. Approximately 4%, 5% and 5% of the Company's revenue was derived from foreign customers in 2017, 2016, and 2015, respectively.

For financial information by geographic area, see Note 15 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, 2017, the Company employed a total of 430 persons on a full-time basis. In addition, as of such date, the Company had 28 part-time associates primarily in its survey operations, representing approximately 14 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, 2018, regarding the executive officers of the Company:

Name	Age	Position
Michael D. Hays	63	Chief Executive Officer
Steven D. Jackson	42	President
Kevin R. Karas	60	Senior Vice President Finance, Chief Financial Officer, Treasurer and Secretary

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

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

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

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

Available Information

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

Item 1A. Risk Factors

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

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

We expect that a substantial portion of our revenue for the foreseeable future will continue to be derived from renewable service contracts. Substantially all contracts are renewable annually at the option of our clients, although contracts with clients under unit-based arrangements generally have no minimum purchase commitments. Client contracts are generally cancelable on short notice without penalty, however we are entitled to payment for services through the cancellation date. To the extent that clients fail to renew or defer their renewals, we anticipate our results may be materially adversely affected. We rely on a limited number of key clients for a substantial portion of our revenue. The Company's ten largest clients accounted for 19%, 17%, and 15% of the Company's total revenue in 2017, 2016, and 2015, respectively. Our ability to secure renewals depends on, among other things, our ability to gather and analyze performance data in a consistent, high-quality, and timely fashion. In addition, the service needs of our clients are affected by accreditation requirements, enrollment in managed care plans, the level of use of satisfaction measures in healthcare organizations' overall management and compensation programs, the size of operating budgets, clients' operating performance, industry and economic conditions, and changes in management or ownership. As these factors are beyond our control, we cannot ensure that we will be able to maintain our renewal rates. Any material decline in renewal rates from existing levels would have an adverse effect on our revenue and a corresponding effect on our operating and net income.

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

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

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

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

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

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

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

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

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

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

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

The Company's outstanding stock is divided into two classes of common stock: class A common stock and class B common stock. The class B common stock has one vote per share on all matters and the class A common stock has one-one-hundredth ($1/100^{th}$) of one vote per share. As of February 16, 2018, the class B common stock constituted approximately 94% of NRC Health's total voting power. As a result, holders of class B common stock are able to exercise a controlling influence over the Company's business, have the power to elect its directors and indirectly control decisions such as whether to issue additional shares, declare and pay dividends or enter into significant corporate transactions. A majority of the class B common stock was historically owned by Michael D. Hays, our Chief Executive Officer. However, in January and February 2018 Mr. Hays, for estate planning purposes, gifted and/or transferred all of his directly owned class B common stock and class A common stock indirectly to the Amandla MK Trust (the "New Trust"), a trust for the benefit of Mr. Hays' family.

As of February 16, 2018, approximately 53% of the outstanding class B common stock and approximately 26% of the outstanding class A common stock was owned by the New Trust, and that collectively constituted approximately 52% of the Company's total voting power. As a result, the New Trust can control matters requiring shareholder approval, including the election of directors and the approval of significant corporate matters such as change of control transactions. The effects of such influence could be to delay or prevent a change of control of the Company unless the terms are approved by the New Trust.

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

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

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

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

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

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

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

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

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

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

Security breaches or computer viruses could harm our business.

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

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

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

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

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

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

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

Our growth strategy includes future acquisitions and/or investments which involve inherent risk.

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

Item 1B. Unresolved Staff Comments

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

Item 2. Properties

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

The Company is leasing 4,000 square feet of office space in Markham, Ontario, 3,900 square feet of office space in San Diego, California, 8,100 square feet of office space in Seattle, Washington and 6,200 square feet of office space in Atlanta, Georgia.

Item 3. Legal Proceedings

From time to time, the Company is involved in certain claims and litigation arising in the normal course of business. Management assesses the probability of loss for such contingencies and recognizes a liability when a loss is probable and estimable.

Since the September 2017 announcement of the original proposed recapitalization plan (see Note 13 to the Company's consolidated financial statements), three purported class action and/or derivative complaints have been filed in state or federal courts by three individuals claiming to be shareholders of the Company. All of the complaints name as defendants the Company and the individual directors of the Company. Two of these lawsuits were filed in the United States District Court for the District of Nebraska— a putative class action lawsuit captioned *Gennaro v. National Research Corporation, et al.*, which was filed on November 15, 2017, and a putative class and derivative action lawsuit captioned *Gerson v. Hays, et al.*, which was filed on November 16, 2017. These lawsuits were consolidated by order of the federal court. A third lawsuit was filed the Circuit Court for Milwaukee County, Wisconsin—a putative class action lawsuit captioned *Apfel* v. *Hays, et al,* which was filed on December 1, 2017. The allegations in all of the lawsuits are very similar. The plaintiffs allege, among other things, that the defendants breached their fiduciary duties in connection with the allegedly unfair proposed transaction, at an allegedly unfair price, conducted in an allegedly unfair and conflicted process and in alleged violation of Wisconsin law and the Company's Articles of Incorporation. One of the lawsuits also alleges the proposed transaction is a voidable "conflict of interest transaction" under Wisconsin statutes. The plaintiffs in these lawsuits seek, among other things, an injunction enjoining the defendants from consummating the original proposed recapitalization plan, damages, equitable relief and an award of attorneys' fees and costs of litigation. The Company believes that the allegations of the complaints are without merit and intends to defend these lawsuits vigorously. Despite the changes to the original proposed recapitalization plan that culminated in the December 13, 2017 announcement of a revised proposed recapitalization plan (the "Proposed Recapitalization"), the Company expects that these shareholders or other shareholders might assert similar claims regarding the Proposed Recapitalization. The Company will defend any such lawsuits vigorously. As of December 31, 2017, no losses have been accrued as the Company does not believe the losses are probable or estimable.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

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

The following table sets forth the range of high and low sales prices for, and dividends declared on the class A common stock and class B common stock for the period from January 1, 2016, through December 31, 2017:

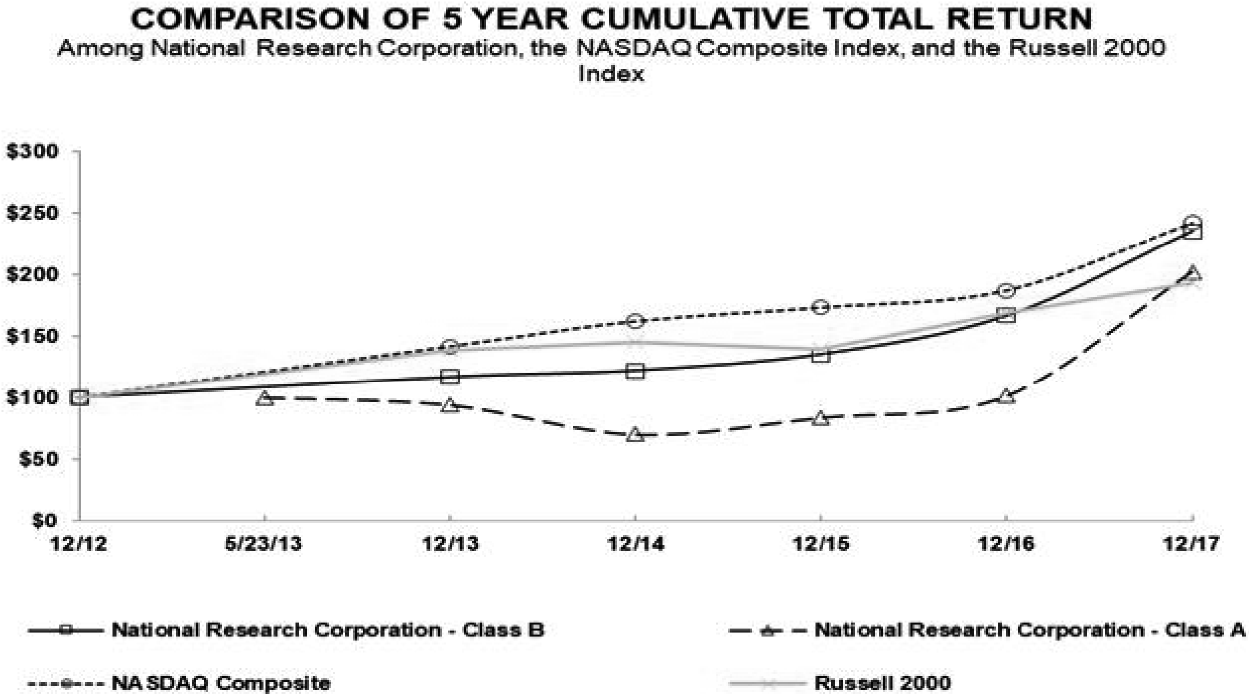
	Class A			Class B		
	High	Low	Dividends Declared Per Common Share	High	Low	Dividends Declared Per Common Share
2016 Quarter Ended:						
March 31	$ 16.10	$ 13.70	$ 0.08	$ 36.87	$ 32.99	$ 0.48
June 30	$ 16.67	$ 12.53	$ 0.08	$ 44.60	$ 33.19	$ 0.48
September 30	$ 17.14	$ 13.26	$ 0.08	$ 38.50	$ 32.18	$ 0.48
December 31	$ 20.00	$ 14.35	$ 0.10	$ 46.37	$ 32.57	$ 0.60
2017 Quarter Ended						
March 31	$ 20.93	$ 16.50	$ 0.10	$ 41.73	$ 38.76	$ 0.60
June 30	$ 28.75	$ 19.15	$ 0.10	$ 49.29	$ 39.00	$ 0.60
September 30	$ 41.99	$ 26.70	$ 0.10	$ 57.21	$ 47.07	$ 0.60
December 31	$ 39.00	$ 31.40	$ 0.10	$ 58.16	$ 50.46	$ 0.60

Cash dividends in the aggregate amount of $16.9 million were declared in 2017 with $12.7 million paid in 2017 and the remaining $4.2 million paid in January 2018. Cash dividends in the aggregate amount of $14.3 million were declared in 2016 with $10.1 million paid in 2016 and the remaining $4.2 million paid in January 2017. 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 16, 2018, there were approximately 15 shareholders of record and approximately 3,863 beneficial owners of the class A common stock and approximately 11 shareholders of record and approximately 1,447 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 16, 2018, 1,969,509 shares of class A common stock and 305,509 shares of class B common stock have been repurchased under that authorization. No class A or class B common stock was repurchased during the three-month period ended December 31, 2017. The remaining shares that may be purchased under that authorization are 280,491 and 69,491 for class A and class B common stock, respectively.

The following graph compares the cumulative 5-year total return provided shareholders on the Company's common stock relative to the cumulative total returns of the NASDAQ Composite Index and the Russell 2000 Index. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our common stock and in each of the indexes on December 31, 2012 (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, 2017. 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, 2012).



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

	12/12	5/23/13	12/13	12/14	12/15	12/16	12/17
National Research Corporation - Class B	**100.00**	**--**	**116.56**	**122.01**	**135.26**	**166.45**	**235.18**
National Research Corporation - Class A	**---**	**100.00**	**94.10**	**70.25**	**83.85**	**101.51**	**202.11**
NASDAQ Composite	**100.00**	**--**	**141.63**	**162.09**	**173.33**	**187.19**	**242.29**
Russell 2000	**100.00**	**--**	**138.82**	**145.62**	**139.19**	**168.85**	**193.58**

Item 6. Selected Financial Data

The selected statement of income data for the years ended December 31, 2017, 2016 and 2015, and the selected balance sheet data at December 31, 2017 and 2016, 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, 2014 and 2013, and the balance sheet data at December 31, 2015, 2014 and 2013, are derived from audited consolidated financial statements not included herein. The Company acquired Digital Assent, LLC on October 28, 2014 and disposed of selected assets and liabilities related to the clinical workflow product of its Predictive Analytics operating segment on December 21, 2015. The acquisition and disposal did not have a significant impact on the Company's financial results, therefore, the historical data in the table below have not been adjusted.

	Year Ended December 31, (a)				
	2017	2016	2015	2014	2013
	(In thousands, except per share data)				
Statement of Income Data:					
Revenue	$ 117,559	$ 109,384	$ 102,343	$ 98,837	$ 92,590
Operating expenses:					
Direct	49,068	45,577	44,610	41,719	38,844
Selling, general and administrative	29,686	28,385	27,177	25,018	25,208
Depreciation and amortization	4,586	4,225	4,109	3,804	3,732
Total operating expenses	83,340	78,187	75,896	70,541	67,784
Operating income	34,219	31,197	26,447	28,296	24,806
Other income (expense)	64	159	913	(204)	(318)
Income before income taxes	34,283	31,356	27,360	28,092	24,488
Provision for income taxes	11,340	10,838	9,750	9,936	9,004
Net income	$ 22,943	$ 20,518	$ 17,610	$ 18,156	$ 15,484
Earnings per share common stock:					
Basic Earnings per share:					
Class A	$ 0.54	$ 0.49	$ 0.42	$ 0.44	$ 0.37
Class B	$ 3.26	$ 2.93	$ 2.52	$ 2.62	$ 2.25
Diluted Earnings per share:					
Class A	$ 0.52	$ 0.48	$ 0.41	$ 0.43	$ 0.37
Class B	$ 3.18	$ 2.88	$ 2.49	$ 2.57	$ 2.20
Weighted average share and share equivalents outstanding:					
Class A – basic	20,770	20,713	20,741	20,764	20,677
Class B – basic	3,514	3,505	3,478	3,473	3,447
Class A – diluted	21,627	21,037	20,981	21,076	21,099
Class B – diluted	3,603	3,560	3,522	3,536	3,514

	2017	2016	2015	2014	2013
			(In thousands)		
Balance Sheet Data:					
Working capital surplus (deficiency)	$ 19,949	$ 15,551	$ 10,890	$ 25,262	$ 12,784
Total assets	127,316	120,624	128,049	129,510	111,088
Total debt and capital lease obligations, including current portion	1,225	3,732	5,917	8,386	10,546
Total shareholders' equity	$ 90,041	$ 82,806	$ 74,222	$ 87,748	$ 71,755

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

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

Overview

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

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

Investments

The Company makes equity investments to promote business and strategic objectives. For investments that do not have a readily determinable fair value, the Company applies either cost or equity method of accounting depending on the nature of its investment and its ability to exercise significant influence. Investments are periodically analyzed to determine whether or not there are any indicators of impairment and written down to fair value if the investment has incurred an other than temporary impairment. During 2017, the Company acquired a $1.3 million investment in convertible preferred stock of PracticingExcellence.com, Inc., a privately-held Delaware Corporation ("PX"), which is carried at cost and included in other non-current assets. The Company has a seat on PX's board of directors and the Company's investment, which is not considered to be in-substance common stock, represents approximately 15.7% of the issued and outstanding equity interests in PX.

Divestitures

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

Critical Accounting Policies and Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported therein. The most significant of these areas involving difficult or complex judgments made by management with respect to the preparation of the Company's consolidated financial statements for 2017 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 notice without penalty. However, the Company is entitled to payment for services through the cancellation date.

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

The Company's revenue arrangements with a client may include combinations of performance measurement and improvement services, healthcare analytics or governance education services which may be executed at the same time, or within close proximity of one another (referred to as a multiple-element arrangement). When the periods or patterns of revenue recognition differ, 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.

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

Valuation of Goodwill and Identifiable Intangible Assets

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

When performing the impairment assessment, the Company will first assess qualitative factors to determine whether it is necessary to recalculate the fair value of the intangible assets with indefinite lives. If the Company believes, as a result of the qualitative assessment, that it is more likely than not that the fair value of the indefinite-lived intangibles is less than their carrying amount, the Company calculates the fair value using a market or income approach. If the carrying value of intangible assets with indefinite lives exceeds their fair value, then the intangible assets are written-down to their fair values. The Company did not recognize any impairments related to indefinite-lived intangibles during 2017, 2016 or 2015.

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

The Company reviews for goodwill impairment by first assessing qualitative factors to determine whether any impairment may exist. If the Company believes, as a result of the qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, a quantitative analysis will be performed, and the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit exceeds its carrying value, no impairment exists. If the fair value of the reporting unit is less than its carrying value, then goodwill is written down by this difference. The Company performed a qualitative analysis as of October 1, 2017 and determined the fair value of each reporting unit likely significantly exceeded its carrying value. No impairments were recorded during the years ended December 31, 2017, 2016 or 2015.

Income Taxes

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

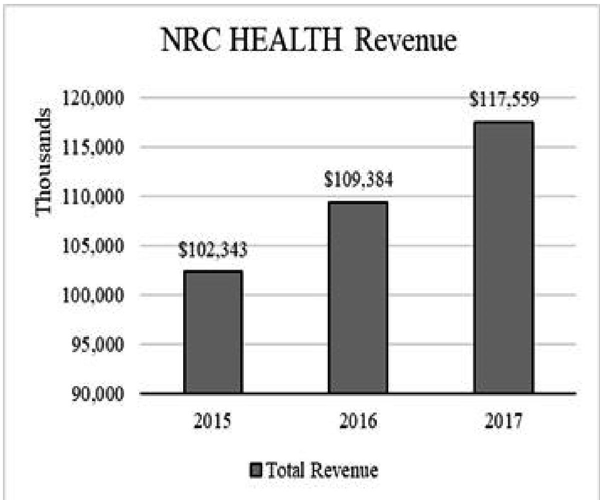
On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cut and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code that affects 2017, including, but not limited to, a federal corporate tax rate decrease from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

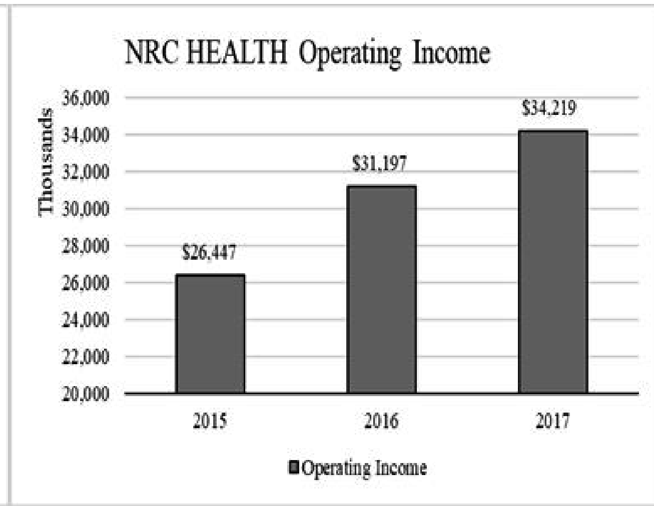
On December 22, 2017, the staff of the United States Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740, *Income Taxes*. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record and provisional estimate in the financial statements.

Results of Operations

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

	Percentage of Total Revenue Year Ended December 31,			Percentage Increase (Decrease)	
	2017	2016	2015	2017 over 2016	2016 over 2015
Revenue	100.0%	100.0%	100.0%	7.5%	6.9%
Operating expenses:					
Direct	41.7	41.7	43.6	7.7	2.2
Selling, general and administrative	25.3	25.9	26.6	4.6	4.4
Depreciation and amortization	3.9	3.9	4.0	8.5	2.8
Total operating expenses	70.9	71.5	74.2	6.6	3.0
Operating income	29.1%	28.5%	25.8%	9.7%	18.0%





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

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

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

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

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

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

Provision for income taxes. Provision for income taxes was $11.3 million (33.1% effective tax rate) in 2017, compared to $10.8 million (34.6% effective tax rate) in 2016. The effective tax rate for the year ended December 31, 2017 decreased primarily due to the net benefit of approximately $1.9 million associated with remeasuring deferred tax assets and liabilities to the new lower federal rate, partially offset by a one-time mandatory deemed repatriation tax under the Tax Act. In addition, as a result of the Tax Act, the Company determined that it would no longer indefinitely reinvest the earnings of its Canadian subsidiary and recorded the withholding tax of $706,000 associated with this planned repatriation. The 2017 effective tax rate was also impacted by a benefit of $609,000 related to the vesting and exercise of stock awards, net of certain excess compensation limits, $504,000 of tax expense due to non-deductible recapitalization expenses and increases in the estimated state tax rates. Pursuant to the guidance in SAB 118, the Company's estimate of impacts of the Tax Act are provisional and are subject to adjustment during 2018 based upon further analysis and interpretation of the Tax Act. See Note 7 to the Company's consolidated financial statements for more details on tax adjustments related to the Tax Act.

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

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

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

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

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

Other income (expense). Other income (expense) decreased to $159,000 in 2016 compared to $913,000 in 2015. This was primarily due to the $1.1 million gain on the sale of selected assets and liabilities related to the clinical workflow product of the former Predictive Analytics operating segment in 2015. In December 2016, an additional gain of $223,000 was recorded due to receipt of funds placed in escrow at the time of the sale.

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

Inflation and Changing Prices

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

Liquidity and Capital Resources

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

As of December 31, 2017, our principal sources of liquidity included $34.7 million of cash and cash equivalents and up to $12 million of unused borrowings under our revolving credit note. The amount of unused borrowings actually available under the revolving credit note varies in accordance with the terms of the agreement. Of this cash, $14.2 million was held in Canada.

Working Capital

The Company had a working capital surplus of $19.9 million and $15.6 million on December 31, 2017 and 2016, respectively.

The change was primarily due to increases in cash and cash equivalents of $1.7 million, $2.5 million increase in trade accounts receivable and $1.6 million reduction in current portion of notes payable. This was partially offset by increases in accrued wages of $2.1 million and deferred revenue of $1.4 million. Trade accounts receivable increased due to the timing of billings and collections on new and renewal contracts. Current notes payable decreased due to monthly payments on the term note that will be fully paid in April 2018. Accrued wages increased mainly due to a payroll tax accrual from the vesting of non-vested stock award at year end. The Company's working capital is significantly impacted by its large deferred revenue balances which will vary based on the timing and frequency of billings on annual agreements. The deferred revenue balances as of December 31, 2017 and December 31, 2016, were $16.9 million and $15.5 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,		
	2017	2016	2015
		(In thousands)	
Provided by operating activities	$ 28,091	$ 26,843	$ 21,886
Used in investing activities	(6,118)	(3,750)	(1,326)
Used in financing activities	(21,116)	(32,502)	(16,869)
Effect of exchange rate changes on cash	855	285	(1,588)
Net increase (decrease) in cash and cash equivalents	1,712	(9,124)	2,103
Cash and cash equivalents at end of period	$ 34,733	$ 33,021	$ 42,145

Cash Flows from Operating Activities

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

Net cash provided by operating activities was $28.1 million for the year ended December 31, 2017, which included net income of $22.9 million, plus non-cash charges (benefits) for deferred tax expense, depreciation and amortization, reserve for uncertain tax positions, loss on disposal of property and equipment and non-cash stock compensation totaling $6.0 million. Changes in working capital decreased cash flows from operating activities by $806,000, primarily from increases in prepaid expenses, income taxes recoverable and accounts receivables, which fluctuate due to the timing and frequency of billings on new and renewal contracts. These decreases to cash flows were partially offset by the timing of payments on accounts payable, accrued expenses, wages, bonus and profit sharing, decreases in unbilled revenue and increases in deferred revenue.

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

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

Cash Flows from Investing Activities

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

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

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

Cash Flows from Financing Activities

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

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

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

Capital Expenditures

Capital expenditures for the year ended December 31, 2017 were $4.6 million. These expenditures consisted mainly of computer equipment and software. The Company expects similar capital expenditure purchases in 2018 consisting primarily of computer equipment and software and other equipment, to be funded through cash generated from operations.

Debt and Equity

The Company's term note is payable in monthly installments of $212,468. Borrowings under the term note bear interest at an annual rate of 3.12%. The outstanding balance of the term note at December 31, 2017 was $1.1 million which will be fully paid in April 2018.

The Company also has a revolving credit note which was amended and extended effective June 30, 2017 with a maturity date of June 30, 2018. The maximum aggregate amount available under the revolving credit note is $12.0 million. Borrowings under the revolving credit note bear interest at a variable annual rate, with three rate options at the discretion of management as follows: (1) 2.1% plus the one-month London Interbank Offered Rate ("LIBOR") or (2) 2.1% plus the one-, two- or three- month LIBOR rate, or (3) the bank's one-, two, three, six, or twelve month Money Market Loan Rate. As of December 31, 2017 the revolving credit note did not have a balance and the Company had the capacity to borrow $12.0 million.

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, 2017, the Company was in compliance with the financial covenants.

The Company has capital leases for computer equipment, office equipment, printing and inserting equipment. The balance of the capital leases as of December 31, 2017 was $158,000.

In December 2017, the Company's Board of Directors approved the Proposed Recapitalization that will exchange each share of class B common stock for one share of class A common stock plus $19.59 in cash, for total value of $53.44 per class B share. The Proposed Recapitalization replaces the proposed plan announced in September 2017. The Proposed Recapitalization is designed to eliminate the public market trading confusion related to the Company's two classes of common stock (the class A common stock and class B common stock), to simplify the corporate structure of the Company and to provide a timely and cost-effective liquidity event for the holders of the Company's class B common stock. The transaction will be funded by cash on hand and a $40 million term loan. The Proposed Recapitalization is subject to closing of financing and approval by the holders of the Company's class A common stock, class B common stock and both classes of stock voting together as a group.

In December 2017, the Company entered into a commitment letter with First National Bank of Omaha ("FNB"), which expires on April 30, 2018, to provide a senior secured term loan of $40 million (the "Term Loan"), a senior secured delayed draw term loan facility of $15 million (the "Delayed Draw Term Loan") and a senior secured revolving line of credit facility of $15 million ("the "Line of Credit" and, collectively with the Term Loan and Delayed Draw Term Loan, the "Credit Facilities"). If the Company closes on the Credit Facilities with FNB, any balances remaining on the existing term note and revolving credit note will be repaid. The Term Loan will be used to fund, in part, the Proposed Recapitalization and related costs. The Delayed Draw Term Loan, if used, is designated to fund any future business acquisitions or repurchasing of class A common stock. The Line of Credit has a three year term and will be used to fund ongoing working capital needs and for other general purpose corporate purposes. The Company will also pay loan origination fees equal to 0.25% of the amount borrowed under the Term Loan at closing. The Company will also be obligated to pay unused commitment fees quarterly in arrears.

The Company incurred expenses related to the Proposed Recapitalization of approximately $1.4 million in the year ended December 31, 2017, which are included in selling and administrative expenses.

Contractual Obligations

The Company had contractual obligations to make payments in the following amounts in the future as of December 31, 2017:

Contractual Obligations[1]	Total Payments	Less than One Year	One to Three Years	Three to Five Years	After Five Years
(In thousands)					
Operating leases	$ 2,966	$ 708	$ 1,164	$ 567	$ 527
Capital leases	172	80	85	7	--
Uncertain tax positions[2]	--	--	--	--	--
Long-term debt	1,075	1,075	--	--	--
Total	$ 4,213	$ 1,863	$ 1,249	$ 574	$ 527

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

(2) We have $848,000 in liabilities associated with uncertain tax positions. We are unable to reasonably estimate the expected cash settlement dates of these uncertain tax positions with the taxing authorities.

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

Stock Repurchase Program

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, 2017, the remaining number of shares that could be purchased under this authorization was 280,491 shares of class A common stock and 69,491 shares of class B common stock.

Off-Balance Sheet Obligations

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

Recent Accounting Pronouncements

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

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

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

The Company's Canadian subsidiary uses as its functional currency the local currency of the country in which it operates. It translates its assets and liabilities into U.S. dollars at the exchange rate in effect at the balance sheet date. It translates its revenue and expenses at the average exchange rate during the period. The Company includes translation gains and losses in accumulated other comprehensive income (loss), a component of shareholders' equity. Foreign currency translation gains (losses) were $991,000, $369,000, and ($2.2 million) in 2017, 2016 and 2015, respectively. Gains and losses related to transactions denominated in a currency other than the functional currency of the countries in which the Company operates and short-term intercompany accounts are included in other income (expense) in the consolidated statements of income. A portion of our cash in our Canadian subsidiary is denominated in foreign currencies, where fluctuations in exchange rates will impact our cash balances in U.S. dollar terms. A sensitivity analysis assuming a hypothetical 10% change in the value of the U.S. dollar would impact our reported cash balance by approximately $1.8 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, 2017, our fixed-rate term debt totaled $1.1 million. Based on a sensitivity analysis, a one percent change in market interest rates as of December 31, 2017, would not have a material effect on the estimated fair value of our fixed-rate debt outstanding at December 31, 2017.

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 $12.0 million. There were no borrowings outstanding under our revolving credit note at December 31, 2017, or at any time during 2017. A sensitivity analysis assuming a hypothetical 10% movement in interest rates applied to the average daily borrowings and the maximum borrowings available under the revolving credit note indicated that such a movement would not have a material impact on our consolidated financial position, results of operations or cash flows.

Item 8. Financial Statements and Supplementary Data

Quarterly Financial Data (Unaudited)

The following table sets forth selected financial information for each of the eight quarters in the two-year period ended December 31, 2017. This unaudited information has been prepared by the Company on the same basis as the consolidated financial statements and includes all normal recurring adjustments necessary to present fairly this information when read in conjunction with the Company's audited consolidated financial statements and the notes thereto.

	(In thousands, except per share data)							
	Quarter Ended							
	Dec. 31, 2017	**Sept 30, 2017**	**June 30, 2017**	**Mar. 31, 2017**	**Dec. 31, 2016**	**Sept 30, 2016**	**June 30, 2016**	**Mar. 31, 2016**
Revenue	$ 29,897	$ 28,951	$ 28,435	$ 30,276	$ 28,368	$ 27,032	$ 26,114	$ 27,870
Direct expenses	12,362	12,267	11,939	12,500	11,836	11,468	10,734	11,539
Selling, general and administrative expenses	7,665	8,430	6,905	6,686	6,619	7,139	7,270	7,357
Depreciation and amortization	1,209	1,132	1,139	1,106	1,079	1,086	1,092	968
Operating income	8,661	7,122	8,452	9,984	8,834	7,339	7,018	8,006
Other income (expense)	(2)	51	19	(4)	171	(30)	18	--
Provision for income taxes	2,142	3,020	2,719	3,459	3,280	2,580	2,478	2,500
Net income	$ 6,517	$ 4,153	$ 5,752	$ 6,521	$ 5,725	$ 4,729	$ 4,558	$ 5,506
Earnings per share of common stock:								
Basic earnings per share								
Class A	$ 0.15	$ 0.10	$ 0.14	$ 0.15	$ 0.14	$ 0.11	$ 0.11	$ 0.13
Class B	$ 0.93	$ 0.59	$ 0.82	$ 0.93	$ 0.82	$ 0.67	$ 0.65	$ 0.79
Dilutive earnings per share								
Class A	$ 0.15	$ 0.09	$ 0.13	$ 0.15	$ 0.13	$ 0.11	$ 0.11	$ 0.13
Class B	$ 0.90	$ 0.57	$ 0.80	$ 0.91	$ 0.80	$ 0.66	$ 0.64	$ 0.77
Weighted average shares outstanding – basic								
Class A	20,802	20,788	20,752	20,737	20,717	20,716	20,711	20,710
Class B	3,515	3,514	3,514	3,513	3,511	3,511	3,508	3,489
Weighted average shares outstanding - diluted								
Class A	21,843	21,740	21,525	21,245	21,118	21,068	20,992	21,012
Class B	3,625	3,620	3,591	3,576	3,569	3,556	3,565	3,549

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
National Research Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of National Research Corporation and subsidiary (the "Company") as of December 31, 2017 and 2016, 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, 2017, and the related notes (collectively, the consolidated financial statements.) In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 14, 2018 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

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

Lincoln, Nebraska
March 14, 2018

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

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	$ 34,733	$ 33,021
Trade accounts receivable, less allowance for doubtful accounts of $200 and $169, respectively	13,343	10,864
Unbilled revenue	1,463	1,546
Prepaid expenses	2,310	1,585
Income taxes receivable	375	14
Other current assets	35	35
Total current assets	52,259	47,065
Net property and equipment	12,359	11,806
Intangible assets, net	2,764	3,124
Goodwill	58,021	57,861
Other	1,913	768
Total assets	$ 127,316	$ 120,624
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of notes payable	$ 1,067	$ 2,683
Accounts payable	593	765
Accrued wages, bonus and profit sharing	6,597	4,543
Accrued expenses	2,882	3,069
Current portion of capital lease obligations	71	82
Income taxes payable	--	662
Dividends payable	4,222	4,213
Deferred revenue	16,878	15,497
Total current liabilities	32,310	31,514
Notes payable, net of current portion	-	857
Deferred income taxes	4,030	4,670
Other long term liabilities	935	777
Total liabilities	37,275	37,818
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 25,835,230 in 2017 and 25,656,760 in 2016, outstanding 20,936,703 in 2017 and 20,891,069 in 2016	26	26
Class B Common stock, $0.001 par value; authorized 80,000,000 shares, issued 4,319,256 in 2017 and 4,308,875 in 2016, outstanding 3,535,238 in 2017 and 3,539,931 in 2016	4	4
Additional paid-in capital	51,025	46,725
Retained earnings	77,574	71,507
Accumulated other comprehensive (loss) income, foreign currency translation adjustment	(1,635)	(2,626)
Treasury stock, at cost; 4,898,527 Class A shares, 784,018 Class B shares in 2017 and 4,765,691 Class A shares, 768,944 Class B shares in 2016	(36,953)	(32,830)
Total shareholders' equity	90,041	82,806
Total liabilities and shareholders' equity	$ 127,316	$ 120,624

See accompanying notes to consolidated financial statements.

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

	2017	2016	2015
Revenue	$ 117,559	$ 109,384	$ 102,343
Operating expenses:			
Direct	49,068	45,577	44,610
Selling, general and administrative	29,686	28,385	27,177
Depreciation and amortization	4,586	4,225	4,109
Total operating expenses	83,340	78,187	75,896
Operating income	34,219	31,197	26,447
Other income (expense):			
Interest income	96	47	60
Interest expense	(82)	(190)	(220)
Other, net	50	302	1,073
Total other income	64	159	913
Income before income taxes	34,283	31,356	27,360
Provision for income taxes	11,340	10,838	9,750
Net income	$ 22,943	$ 20,518	$ 17,610
Earnings per share of common stock:			
Basic earnings per share:			
Class A	$ 0.54	$ 0.49	$ 0.42
Class B	$ 3.26	$ 2.93	$ 2.52
Diluted earnings per share:			
Class A	$ 0.52	$ 0.48	$ 0.41
Class B	$ 3.18	$ 2.88	$ 2.49
Weighted average shares and share equivalents outstanding			
Class A - basic	20,770	20,713	20,741
Class B - basic	3,514	3,505	3,478
Class A - diluted	21,627	21,037	20,981
Class B - diluted	3,603	3,560	3,522

See accompanying notes to consolidated financial statements.

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

	2017	2016	2015
Net Income	$ 22,943	$ 20,518	$ 17,610
Other comprehensive income (loss):			
Cumulative translation adjustment	$ 991	$ 369	$ (2,222)
Other comprehensive income (loss)	$ 991	$ 369	$ (2,222)
Comprehensive Income	$ 23,934	$ 20,887	$ 15,388

See accompanying notes to consolidated financial statements.

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

	Common Stock A	Common Stock B	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income(Loss)	Treasury Stock	Total
Balances at December 31, 2014	$ 25	$ 4	$ 44,864	$ 73,686	$ (773)	$ (30,058)	$ 87,748
Purchase of 163,268 shares of class A and 4,239 shares of class B treasury stock	--	--	--	--	--	(2,171)	(2,171)
Issuance of 43,983 class A common shares and 7,330 class B shares for the exercise of stock options	--	--	406	--	--	--	406
Tax benefit from the exercise of options and restricted stock	--	--	240	--	--	--	240
Issuance of restricted common shares, net of forfeitures (73,168 class A and 12,194 class B)	1	--	(1)	--	--	--	--
Non-cash stock compensation expense	--	--	1,383	--	--	--	1,383
Dividends declared of $0.62 and $3.72 per A and B common share, respectively	--	--	--	(25,983)	--	--	(25,983)
Acquisition of non-controlling interest	--	--	(2,789)	--	--	--	(2,789)
Other comprehensive loss, foreign currency translation adjustment	--	--	--	--	(2,222)	--	(2,222)
Net income	--	--	--	17,610	--	--	17,610
Balances at December 31, 2015	$ 26	$ 4	$ 44,103	$ 65,313	$ (2,995)	$ (32,229)	$ 74,222
Purchase of 21,047 shares of class A and 7,681 shares of class B treasury stock	--	--	--	--	--	(601)	(601)
Issuance of 52,383 class A common shares and 35,534 class B shares for the exercise of stock options	--	--	945	--	--	--	945
Issuance of restricted common shares, net of forfeitures (11,565 class A and 1,928 class B)	--	--	--	--	--	--	--
Non-cash stock compensation expense	--	--	1,929	--	--	--	1,929
Dividends declared of $0.34 and $2.04 per A and B common share, respectively	--	--	--	(14,324)	--	--	(14,324)
Acquisition of non-controlling interest	--	--	(252)	--	--	--	(252)
Other comprehensive income, foreign currency translation adjustment	--	--	--	--	369	--	369
Net income	--	--	--	20,518	--	--	20,518
Balances at December 31, 2016	$ 26	$ 4	$ 46,725	$ 71,507	$ (2,626)	$ (32,830)	$ 82,806
Purchase of 132,836 shares of class A and 15,074 shares of class B treasury stock	--	--	--	--	--	(4,123)	(4,123)
Issuance of 197,784 class A common shares and 13,600 class B shares for the exercise of stock options	--	--	2,455	--	--	--	2,455
Issuance of restricted common shares, net of forfeitures (19,314 class A and 3,219 class B)	--	--	--	--	--	--	--
Non-cash stock compensation expense	--	--	1,845	--	--	--	1,845
Dividends declared of $0.40 and $2.40 per A and B common share, respectively	--	--	--	(16,876)	--	--	(16,876)
Other comprehensive income, foreign currency translation adjustment	--	--	--	--	991	--	991
Net income	--	--	--	22,943	--	--	22,943
Balances at December 31, 2017	$ 26	$ 4	$ 51,025	$ 77,574	$ (1,635)	$ (36,953)	$ 90,041

See accompanying notes to consolidated financial statements.

NATIONAL RESEARCH CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	2017	2016	2015
Cash flows from operating activities:			
Net income	$ 22,943	$ 20,518	$ 17,610
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,586	4,225	4,109
Deferred income taxes	(684)	798	(1,387)
Reserve for uncertain tax positions	181	73	119
Loss on disposal of property and equipment	26	22	-
Gain on sale from operating segment	--	(223)	(1,102)
Write-off of purchase option	--	--	657
Tax benefit from exercise of stock options	--	--	25
Non-cash share-based compensation expense	1,845	1,929	1,383
Change in assets and liabilities, net of effect of acquisition and disposal:			
Trade accounts receivable	(2,463)	(1,044)	(1,777)
Unbilled revenue	123	(93)	(390)
Prepaid expenses and other current assets	(565)	(535)	207
Accounts payable	12	(15)	(224)
Accrued expenses, wages, bonus and profit sharing	1,759	440	755
Income taxes receivable and payable	(1,023)	105	1,504
Deferred revenue	1,351	643	397
Net cash provided by operating activities	28,091	26,843	21,886
Cash flows from investing activities:			
Purchases of property and equipment	(4,568)	(3,973)	(2,939)
Purchase of equity investment	(1,300)	--	--
Purchase of intangible content license	(250)	--	--
Net proceeds from sale of operating segment	--	223	1,613
Net cash used in investing activities	(6,118)	(3,750)	(1,326)
Cash flows from financing activities:			
Payments on notes payable	(2,473)	(2,199)	(2,328)
Payments on capital lease obligations	(108)	(95)	(173)
Cash paid for non-controlling interest	--	(2,000)	(2,789)
Proceeds from exercise of stock options	--	548	-
Excess tax benefit from share-based compensation	--	-	240
Repurchase of shares for payroll tax withholdings related to share-based compensation	(1,668)	(204)	(92)
Purchase of Treasury Stock	--	--	(1,673)
Payment of dividends on common stock	(16,867)	(28,552)	(10,054)
Net cash used in financing activities	(21,116)	(32,502)	(16,869)
Effect of exchange rate changes on cash	855	285	(1,588)
Net increase (decrease) in cash and cash equivalents	1,712	(9,124)	2,103
Cash and cash equivalents at beginning of period	33,021	42,145	40,042
Cash and cash equivalents at end of period	$ 34,733	$ 33,021	$ 42,145
Supplemental disclosure of cash paid for:			
Interest expense, net of $0, $10, and $14 capitalized, respectively	$ 76	$ 192	$ 207
Income taxes	$ 12,827	$ 9,963	$ 9,377
Supplemental disclosure of non-cash investing and financing activities:			
Capital lease obligations originated for property and equipment	$ 74	$ 109	$ 32
Stock tendered to the Company for cashless exercise of stock options in connection with equity incentive plans	$ 2,455	$ 397	$ 406

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

Description of Business and Basis of Presentation

National Research Corporation, doing business as NRC Health ("NRC Health," the "Company," "we," "our," "us" or similar terms), is a leading provider of analytics and insights that facilitate measurement and improvement of the patient and employee experience while also increasing patient engagement and customer loyalty for healthcare providers, payers and other healthcare organizations in the United States and Canada. The Company's solutions enable its clients to understand the voice of the customer with greater clarity, immediacy and depth.

Principles of Consolidation

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

Use of Estimates

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

Translation of Foreign Currencies

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

Revenue Recognition

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

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

The Company's revenue arrangements with a client may include combinations of NRC Health's Experience, Transparency, Governance, and Market Insights solutions which may be executed at the same time, or within close proximity of one another (referred to as a multiple-element arrangement). When the periods or patterns of revenue recognition differ, 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.

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

Business Combinations

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

Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines the allowance based on the Company's historical write-off experience and current economic conditions. The Company reviews the allowance for doubtful accounts monthly. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The following table provides the activity in the allowance for doubtful accounts for the years ended December 31, 2017, 2016 and 2015:

	Balance at Beginning of Year	Bad Debt Expense	Write-offs Net of Recoveries	Balance at End of Year
		(In thousands)		
Year Ended December 31, 2015	$ 206	$ 111	$ 144	$ 173
Year Ended December 31, 2016	$ 173	$ 218	$ 222	$ 169
Year Ended December 31, 2017	$ 169	$ 249	$ 218	$ 200

Property and Equipment

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

The Company capitalizes certain costs incurred in connection with obtaining or developing internal-use software, including payroll and payroll-related costs for employees who are directly associated with the internal-use software projects and external direct costs of materials and services. Capitalization of such costs ceases when the project is substantially complete and ready for its intended purpose. Costs incurred during the preliminary project and post-implementation stages, as well as software maintenance and training costs are expensed as incurred. The Company capitalized approximately $3.0 million and $2.5 million of costs incurred for the development of internal-use software for the years ended December 31, 2017 and 2016, respectively.

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

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

Impairment of Long-Lived Assets and Amortizing Intangible Assets

Long-lived assets, such as property and equipment and purchased intangible assets subject to depreciation or amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. No impairments were recorded during the years ended December 31, 2017, 2016, or 2015.

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

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

Goodwill and Intangible Assets

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

When performing the impairment assessment, the Company will first assess qualitative factors to determine whether it is necessary to recalculate the fair value of the intangible assets with indefinite lives. If the Company believes, as a result of the qualitative assessment, that it is more likely than not that the fair value of the indefinite-lived intangibles is less than their carrying amount, the Company calculates the fair value using a market or income approach. If the carrying value of intangible assets with indefinite lives exceeds their fair value, then the intangible assets are written-down to their fair values. The Company did not recognize any impairments related to indefinite-lived intangibles during 2017, 2016 or 2015.

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.

In January 2017, the FASB issued Accounting Standards Update (“ASU”) 2017-04, *Intangibles—Goodwill and Other* (Topic 350), *Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”). In connection with the October 1, 2017 annual impairment analysis, the Company early adopted ASU 2017-04, which eliminates the need to determine the fair value of individual assets and liabilities of a reporting unit to measure goodwill impairment (Step 2). The new guidance may result in more or less impairment than could previously be recognized. The adoption of this guidance did not impact the Company's results of operations or financial position since only a qualitative analysis was performed as part of the October 1, 2017 annual impairment analysis.

The Company reviews for goodwill impairment by first assessing qualitative factors to determine whether any impairment may exist. If the Company believes, as a result of the qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, a quantitative analysis will be performed, and the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit exceeds its carrying value, then goodwill is written down by this difference. The Company performed a qualitative analysis as of October 1, 2017 and determined the fair value of each reporting unit likely significantly exceeded its carrying value. No impairments were recorded during the years ended December 31, 2017, 2016 or 2015.

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, 2017, 2016 and 2015, the Company recorded income tax benefits relating to these tax credits of $4,000, $77,000, and $156,000, respectively.

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

Share-Based Compensation

The compensation expense on share-based payments is recognized based on the grant-date fair value of those awards. All of the Company's existing stock option awards and non-vested stock awards have been determined to be equity-classified awards. The Company prospectively elected ASU 2016-09, *Compensation – Stock Compensation (Topic* 718*) Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09") in 2016. As a result, the tax benefit from stock options exercised was recognized as a reduction to our provision for income taxes for the years ended December 31, 2017 and 2016 rather than as an increase to additional paid-in capital for the year ended December 31, 2015 prior to adoption.

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

	2017	2016	2015
		(In thousands)	
Amounts charged against income, before income tax benefit	$ 1,845	$ 1,929	$ 1,383
Amount of related income tax benefit	(2,310)	(1,164)	(505)
Net (benefit) expense to net income	$ (465)	$ 765	$ 878

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 $34.5 million and $32.7 million as of December 31, 2017, and 2016, respectively, consisting primarily of money market accounts, Eurodollar deposits and funds invested in commercial paper. At certain times, cash equivalent balances may exceed federally insured limits.

Reclassifications

Reclassifications of $191,000 have been made from noncurrent deferred income taxes to other noncurrent liabilities in the 2016 consolidated balance sheet to present the unrecognized tax benefits related to state taxes gross of federal tax benefits, consistent with the 2017 financial statement presentation. There was no impact on the previously reported net income and earnings per share.

Fair Value Measurements

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

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

The following details the Company's financial assets within the fair value hierarchy at December 31, 2017 and 2016:

	Level 1	Level 2	Level 3	Total
	(In thousands)			
As of December 31, 2017				
Money Market Funds	$ 13,971	$ --	$ --	$ 13,971
Commercial Paper	--	10,490	--	10,490
Eurodollar Deposits	--	10,017	--	10,017
Total Cash Equivalents	$ 13,971	$ 20,507	$ --	$ 34,478
As of December 31, 2016				
Money Market Funds	$ 11,200	$ --	$ --	$ 11,200
Commercial Paper	--	21,450	--	21,450
Total Cash Equivalents	$ 11,200	$ 21,450	$ --	$ 32,650

There were no transfers between levels during the years ended December 31, 2017 and 2016.

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

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

	December 31, 2017	December 31, 2016
	(In thousands)	
Total carrying amount of long-term debt	$ 1,067	$ 3,540
Estimated fair value of long-term debt	$ 1,066	$ 3,533

The carrying amounts of accounts receivable, accounts payable, and accrued expenses approximate their fair value. All non-financial assets that are not recognized or disclosed at fair value in the financial statements on a recurring basis, which includes property and equipment, goodwill, intangibles and cost method investments, are measured at fair value in certain circumstances (for example, when there is evidence of impairment). As of December 31, 2017 and 2016, there was no indication of impairment related to these assets.

Contingencies

From time to time, the Company is involved in certain claims and litigation arising in the normal course of business. Management assesses the probability of loss for such contingencies and recognizes a liability when a loss is probable and estimable.

Since the September 2017 announcement of the original proposed recapitalization plan (see Note 13), three purported class action and/or derivative complaints have been filed in state or federal courts by three individuals claiming to be shareholders of the Company. All of the complaints name as defendants the Company and the individual directors of the Company. Two of these lawsuits were filed in the United States District Court for the District of Nebraska— a putative class action lawsuit captioned *Gennaro v. National Research Corporation, et al.*, and a putative class and derivative action lawsuit captioned *Gerson v. Hays, et al.*,. These lawsuits were consolidated by order of the federal court. A third lawsuit was filed the Circuit Court for Milwaukee County, Wisconsin—a putative class action lawsuit captioned *Apfel* v. *Hays, et al*. The allegations in all of the lawsuits are very similar. The plaintiffs allege, among other things, that the defendants breached their fiduciary duties in connection with the allegedly unfair proposed transaction, at an allegedly unfair price, conducted in an allegedly unfair and conflicted process and in alleged violation of Wisconsin law and the Company's Articles of Incorporation. One of the lawsuits also alleges the proposed transactions is a voidable "conflict of interest transaction" under Wisconsin statutes. The plaintiffs in these lawsuits seek, among other things, an injunction enjoining the defendants from consummating the original proposed recapitalization plan, damages, equitable relief and an award of attorneys' fees and costs of litigation. The Company believes that the allegations of the complaints are without merit and intends to defend these lawsuits vigorously. Despite the changes to the original proposed recapitalization plan that culminated in the December 13, 2017 announcement of a revised proposed recapitalization plan, the Company expects that these shareholders or other shareholders might assert similar claims regarding the proposed recapitalization plan. The Company will defend any such lawsuits vigorously. As of December 31, 2017, no losses have been accrued as the Company does not believe the losses are probable or estimable.

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, 2016, and 2015, the Company had 156,610 and 487,639 options of class A shares and 49,262, and 58,429 options of class B shares, respectively, which have been excluded from the diluted net income per share computation because the exercise price exceeds the fair market value. At December 31, 2017, 2016, and 2015 an additional 104,647, 390,300, and 68,779 options of class A shares and 1,858, 34,178, and 1,101 options of class B shares, respectively were excluded as their inclusion would be anti-dilutive.

	2017		2016		2015	
	Class A	Class B	Class A	Class B	Class A	Class B
	(In thousands, except per share data)					
Numerator for net income per share - basic:						
Net income	$ 11,388	$ 11,555	$ 10,178	$ 10,341	$ 8,759	$ 8,851
Allocation of distributed and undistributed income to unvested restricted stock shareholders	(88)	(87)	(88)	(88)	(76)	(77)
Net income attributable to common shareholders	$ 11,300	$ 11,468	$ 10,090	$ 10,253	$ 8,683	$ 8,774
Denominator for net income per share - basic:						
Weighted average common shares outstanding - basic	20,770	3,514	20,713	3,505	20,741	3,478
Net income per share - basic	$ 0.54	$ 3.26	$ 0.49	$ 2.93	$ 0.42	$ 2.52
Numerator for net income per share - diluted:						
Net income attributable to common shareholders for basic computation	$ 11,300	$ 11,468	$ 10,090	$ 10,253	$ 8,683	$ 8,774
Denominator for net income per share - diluted:						
Weighted average common shares outstanding - basic	20,770	3,514	20,713	3,505	20,741	3,478
Weighted average effect of dilutive securities – stock options:	857	89	324	55	240	44
Denominator for diluted earnings per share – adjusted weighted average shares	21,627	3,603	21,037	3,560	20,981	3,522
Net income per share - diluted	$ 0.52	$ 3.18	$ 0.48	$ 2.88	$ 0.41	$ 2.49

Recent Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic* 606*)* ("ASU 2014-09"). ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in accounting principles generally accepted in the United States when it becomes effective. The standard is effective for annual and interim reporting periods in fiscal years beginning after December 15, 2017. An entity may choose to adopt ASU 2014-09 either retrospectively or through a cumulative effect adjustment as of the start of the first period for which it applies the standard. The Company has completed system changes and is analyzing the resulting impact that this new guidance will have on its consolidated financial statements. The Company will adopt this new guidance using the modified retrospective approach beginning January 1, 2018 by recording a cumulative effect adjustment. The Company expects the most significant change to result from deferring direct and incremental costs of obtaining a contract, consisting of commissions and incentives, and recognizing the expense over the estimated life of the client contract, including renewal periods, rather than expensing as incurred, which is the Company's current practice. The Company expects adjustments to retained earnings of no more than $2.7 million, net of related tax effects, upon adoption of deferring and amortizing direct and incremental contract costs. The Company also expects to record other immaterial adjustments, related to performance obligation determinations and estimating variable contingent consideration for certain contracts which were previously only recognized once the contingency was resolved and the services were performed. These amounts are only estimates and involve significant judgements by management including estimating the lives of its contracts, the value of performance deliverables and the expected amount to be earned from the satisfaction of those deliverables. The Company will finalize its calculation of the financial impact of the adoption of ASU 2014-09 in the first quarter of 2018. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments—Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 changes certain recognition, measurement, presentation and disclosure aspects related to financial instruments. ASU 2016-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is not permitted. The Company believes its adoption will not significantly impact the Company's results of operations and financial position.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This ASU requires lessees to recognize a lease liability and a right-to-use asset for all leases, including operating leases, with a term greater than twelve months on its balance sheet. This ASU is effective in fiscal years beginning after December 15, 2018, with early adoption permitted, and requires a modified retrospective transition method. As of December 31, 2017, the Company had approximately $3.0 million of operating lease commitments which would be recorded on the balance sheet under the new guidance. However, the Company is currently in the process of further evaluating the impact that this new guidance will have on its consolidated financial statements and does not plan to elect early adoption.

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

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

In October 2016, the FASB issued ASU 2016-16, Intra-Entity Transfers of Asset Other Than Inventory ("ASU 2016-16"), which requires entities to recognize the tax consequences of intercompany asset transfers other than inventory transfers in the period in which the transfer takes place. ASU 2016-16 is effective for fiscal years and interim periods within fiscal years beginning after December 15, 2017. ASU 2016-16 is to be adopted using a modified retrospective approach with a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption. The cumulative effect adjustment will include recognition of the income tax consequences of intra-entity transfers of assets other than inventory that occur before the adoption date. The Company believes the adoption of ASU 2016-16 will not impact the Company's consolidated financial statements.

(2) <u>Equity Investments</u>

The Company makes equity investments to promote business and strategic objectives. For investments that do not have a readily determinable fair value, the Company applies either cost or equity method of accounting depending on the nature of its investment and its ability to exercise significant influence. Investments are periodically analyzed to determine whether or not there are any indicators of impairment and written down to fair value if the investment has incurred an other than temporary impairment. During 2017, the Company acquired a $1.3 million investment in convertible preferred stock of Practicing Excellence.com, Inc., a privately-held Delaware Corporation ("PX"), which is carried at cost and included in other non-current assets. The Company has a seat on PX's board of directors and the Company's investment, which is not considered to be in-substance common stock, represents approximately 15.7% of the issued and outstanding equity interests in PX.

(3) Divestitures

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

(4) Connect

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

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

(5) Property and Equipment

At December 31, 2017, and 2016, property and equipment consisted of the following:

	2017	2016
	(In thousands)	
Furniture and equipment	$ 5,064	$ 4,737
Computer equipment	2,721	2,750
Computer software	22,569	20,592
Building	9,386	9,386
Leaseholds	41	--
Land	425	425
Property and equipment at cost	40,206	37,890
Less accumulated depreciation and amortization	27,847	26,084
Net property and equipment	$ 12,359	$ 11,806

Depreciation and amortization expense related to property and equipment, including assets under capital lease, for the years ended December 31, 2017, 2016, and 2015 was $4.0 million, $3.6 million, and $3.1 million, respectively.

Property and equipment included the following amounts under capital lease:

	2017	2016
	(In thousands)	
Furniture and equipment	$ 843	$ 769
Property and equipment under capital lease, gross	843	769
Less accumulated amortization	684	530
Net assets under capital lease	$ 159	$ 239

(6) Goodwill and Intangible Assets

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

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

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

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

The following represents a summary of changes in the Company's carrying amount of goodwill for the years ended December 31, 2017, and 2016 (in thousands):

Balance as of December 31, 2015	$ 57,792
Foreign currency translation	69
Balance as of December 31, 2016	$ 57,861
Foreign currency translation	160
Balance as of December 31, 2017	$ 58,021

Aggregate amortization expense for customer related intangibles, trade names, technology and non-competes for the years ended December 31, 2017, 2016 and 2015 was $610,000, $654,000, and $995,000, respectively. Estimated amortization expense for the next five years is: 2018—$662,000; 2019—$374,000; 2020—$318,000; 2021—$180,000; 2022—$39,000.

(7) Income Taxes

For the years ended December 31, 2017, 2016, and 2015, income before income taxes consists of the following:

	2017	2016	2015
		(In thousands)	
U.S. Operations	$ 32,750	$ 29,848	$ 25,536
Foreign Operations	1,533	1,508	1,824
Income before income taxes	$ 34,283	$ 31,356	$ 27,360

Income tax expense consisted of the following components:

	2017	2016	2015
		(In thousands)	
Federal:			
Current	$ 10,947	$ 8,930	$ 9,955
Deferred	(1,596)	847	(1,232)
Total	$ 9,351	$ 9,777	$ 8,723
Foreign:			
Current	$ 387	$ 409	$ 455
Deferred	704	(18)	(23)
Total	$ 1,091	$ 391	$ 432
State:			
Current	$ 837	$ 634	$ 680
Deferred	61	36	(85)
Total	$ 898	$ 670	$ 595
Total	$ 11,340	$ 10,838	$ 9,750

Federal Tax Reform

On December 22, 2017, the Tax Cut and Jobs Act (the "Tax Act") was enacted which, among other changes, reduces the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018. The Tax Act makes broad and complex changes to the U.S. tax code and it will take time to fully analyze the impact of the changes. Based on the information available, and the current interpretation of the Tax Act, the Company was able to make a reasonable estimate and recorded a provisional net tax benefit related to the remeasurement of the deferred tax assets and liabilities due to the reduction in the U.S. federal corporate tax rate, offset by the one-time mandatory deemed repatriation tax, payable over eight years. Pursuant to the Staff Accounting Bulletin published by the United States Securities and Exchange Commission on December 22, 2017, addressing the challenges in accounting for the effects of the Tax Act in the period of enactment, companies must report provisional amounts for those specific income tax effects of the Tax Act for which the accounting is incomplete but a reasonable estimate can be determined. Those provisional amounts will be subject to adjustment during a measurement period of up to one year from the enactment date. Pursuant to this guidance, the estimated impact of the Tax Act is based on a preliminary review of the new tax law and projected future financial results and is subject to revision based upon further analysis and interpretation of the Tax Act and to the extent that future results differ from currently available projections. The Company's accounting for the following elements of the Tax Act is incomplete. However, the Company was able to make reasonable estimates and recorded a provisional net tax benefit of $1.9 million related to the following elements of the Tax Act pursuant to the Staff Accounting Bulletin referred to above:

- Reduction of U.S. Federal Corporate Tax Rate: The Tax Act reduces the corporate tax rate to 21%, effective January 1, 2018. Consequently, we have recorded a decrease related to deferred tax assets and liabilities with a corresponding net adjustment to deferred income tax benefit for the year ended December 31, 2017. Since the Company has recorded provisional amounts related to certain portions of the Tax Act, any corresponding deferred tax remeasurement is also provisional. For example, the Tax Act had several changes that were depreciation related. The primary change for the Company would be the availability of 100% bonus depreciation on assets placed in service after September 27, 2017. The Company is still evaluating which assets meet the requirements of this and therefore, no adjustments have been recorded related to this portion of the Tax Act as of December 31, 2017. In addition, under the Tax Act, expense under certain stock compensation plans may now be subject to limitations as to deductibility and the Company is still reviewing and analyzing each plan to determine the impact.

- One-Time Mandatory Deemed Repatriation Tax: Under the Tax Act, the Company will be subject to a one-time mandatory deemed repatriation tax on accumulated non-U.S. earnings. The estimated impact of the Tax Act is based on a preliminary review of the new law. Several estimates were used in these calculations and the Company is still finalizing the material inputs, therefore all repatriation adjustments are considered provisional. For example, the Company's expected use of foreign tax credits and credit carryforwards may be impacted once the analysis is completed. Currently, the Company estimates that it will be unable to use approximately $535,000 of foreign tax credit carryforwards and has provided a full valuation allowance against such amount.

- Global Intangible Low-Taxed Income ("GILTI") Policy Election: The GILTI provisions of the Tax Act do not apply to the Company until 2018 and we are still evaluating its impact. The FASB allows companies to adopt an accounting policy to either recognize deferred taxes for GILTI or treat such tax cost as a current-period expense when incurred. We have not yet determined our accounting policy because determining the impact of the GILTI provisions requires analysis of our existing legal entity structure, the reversal of our U.S. generally accepted accounting principles and U.S. tax basis differences in the assets and liabilities of our foreign subsidiary, and our ability to offset any tax with foreign tax credits. As such, we have not made a policy decision regarding whether to record deferred taxes on GILTI or treat such tax cost as a current-period expense.

In addition, as a result of the Tax Act, the Company determined that it would no longer indefinitely reinvest the earnings of its Canadian subsidiary and recorded the withholding tax of $706,000 associated with this planned repatriation.

The 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 2017, 2016, and 2015 on pretax income was as follows:

	2017	2016	2015
		(In thousands)	
Expected federal income taxes	$ 11,999	$ 10,975	$ 9,576
Foreign tax rate differential	(131)	(129)	(139)
State income taxes, net of federal benefit and state tax credits	608	436	391
Federal tax credits	(130)	(165)	(150)
Uncertain tax positions	151	6	93
Nondeductible expenses related to proposed recapitalization	504	--	--
Share based compensation	(1,564)	(441)	--
Compensation limit for covered employees	955	--	--
Impact of 2017 Tax Act	(2,415)	--	--
Valuation allowance	535	--	--
Withholding tax on repatriation of foreign earnings	706	--	--
Other	122	156	(21)
Total	$ 11,340	$ 10,838	$ 9,750

Deferred tax assets and liabilities at December 31, 2017 and 2016, were comprised of the following:

	2017	2016
	(In thousands)	
Deferred tax assets:		
Allowance for doubtful accounts	$ 46	$ 62
Accrued expenses	416	580
Share based compensation	1,457	2,357
Accrued bonuses	113	84
Foreign tax credit from repatriation	535	--
Other	166	244
Gross deferred tax assets	2,733	3,327
Less Valuation Allowance	(535)	--
Deferred Tax Assets	2,198	3,327
Deferred tax liabilities:		
Prepaid expenses	169	270
Property and equipment	856	1,206
Intangible assets	4,497	6,521
Repatriation withholding	706	--
Deferred tax liabilities	6,228	7,997
Net deferred tax liabilities	$ (4,030)	$ (4,670)

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

The Company had an unrecognized tax benefit at December 31, 2017 and 2016, of $843,000 and $662,000, respectively, excluding interest of $5,000 and $2,000 at December 31, 2017 and 2016, respectively. Of these amounts, $620,000 and $472,000 at December 31, 2017 and 2016, respectively, represents the net unrecognized tax benefits that, if recognized, would favorably impact the effective income tax rate. The change in the unrecognized tax benefits for 2017 and 2016 is as follows:

	(In thousands)
Balance of unrecognized tax benefits at December 31, 2015	$ 589
Reductions due to lapse of applicable statute of limitations	(148)
Additions based on tax positions of prior years	5
Additions based on tax positions related to the current year	216
Balance of unrecognized tax benefits at December 31, 2016	$ 662
Reductions due to lapse of applicable statute of limitations	--
Reductions due to tax positions of prior years	(7)
Additions based on tax positions related to the current year	188
Balance of unrecognized tax benefits at December 31, 2017	$ 843

The Company files a U.S. federal income tax return, various state jurisdictions returns and a Canada federal and provincial income tax return. All years prior to 2014 are now closed for US federal income tax and for years prior to 2014 for state income tax returns, and no exposure items exist for these years. The Company completed a United States federal tax examination for the tax year ended December 31, 2013 in the first quarter of 2016. The 2013 to 2017 Canada federal and provincial income tax returns remain open to examination.

(8) Notes Payable

Notes payable consisted of the following:

	2017	2016
	(In thousands)	
Revolving credit note with U.S. Bank, maximum available $12.0 million, matures June 30, 2018	$ --	$ --
Note payable to U.S. Bank for $11.8 million, interest at a 3.12% fixed rate, monthly principal and interest payments of $212,468 through April 2018	1,067	3,540
Total notes payable	1,067	3,540
Less current portion	1,067	2,683
Note payable, net of current portion	$ --	$ 857

The Company's revolving credit note was amended and extended effective June 30, 2017 with a maturity date of June 30, 2018. The maximum aggregate amount available under the revolving credit note is $12.0 million. Borrowings under the revolving credit note bear interest at a variable annual rate, with three rate options at the discretion of management as follows: (1) 2.1% plus the one-month London Interbank Offered Rate ("LIBOR") or (2) 2.1% plus the one-, two- or three- month LIBOR rate, or (3) the bank's one-, two, three, six, or twelve month Money Market Loan Rate. As of December 31, 2017 the revolving credit note did not have a balance and the Company had the capacity to borrow $12.0 million.

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, 2017, the Company was in compliance with the financial covenants.

(9) Share-Based Compensation

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

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

The Company's 2004 Non-Employee Director Stock Plan, as amended (the "2004 Director Plan"), is a nonqualified plan that provides for the granting of options with respect to 3,000,000 shares of class A common stock and 500,000 shares of class B common stock. The 2004 Director Plan provides for grants of nonqualified stock options to each director of the Company who is not employed by the Company. On the date of each annual meeting of shareholders of the Company, options to purchase 36,000 shares of class A common stock and 6,000 shares of class B common stock are granted to directors that are elected or retained as a director at such meeting. Stock options vest one year following the date of grant and option terms are generally ten years following the date of grant, or three years in the case of termination of the outside director's service. At December 31, 2017, there were 921,000 shares of class A common stock and 153,500 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 2,079,000 class A and 346,500 class B options under the 2004 Director Plan using the date of grant as the measurement date for financial accounting purposes.

The National Research Corporation 2006 Equity Incentive Plan (the "2006 Equity Incentive Plan") provides for the granting of stock options, stock appreciation rights, restricted stock, performance shares and other share-based awards and benefits up to an aggregate of 1,800,000 shares of class A common stock and 300,000 shares of class B common stock. Stock options granted may be either incentive stock options or nonqualified stock options. Vesting terms vary with each grant and option terms are generally five to ten years following the date of grant. At December 31, 2017, there were 865,465 shares of class A common stock and 145,189 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 934,535 class A and 154,811 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 299,917 shares of class A common stock and 49,986 shares of class B common stock during 2017. During 2016, the Company granted options to purchase 315,620 shares of class A common stock and 52,603 shares of class B common stock, and during 2015 granted options to purchase 261,306 shares of class A common stock and 43,551 shares of class B common stock. Options to purchase shares of common stock are typically granted with exercise prices equal to the fair value of the common stock on the date of grant. The Company does, in certain limited situations, grant options with exercise prices that exceed the fair value of the common shares on the date of grant. The fair value of stock options granted was estimated using a Black-Scholes valuation model with the following weighted average assumptions:

	2017		2016		2015	
	Class A	Class B	Class A	Class B	Class A	Class B
Expected dividend yield at date of grant	2.62%	8.06%	2.99%	7.29%	2.22%	5.48%
Expected stock price volatility	32.45%	26.75%	32.74%	29.41%	31.97%	31.17%
Risk-free interest rate	2.18%	2.18%	1.69%	1.69%	1.58%	1.60%
Expected life of options (in years)	6.80	6.80	6.86	6.86	5.49	5.62

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, 2017:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Terms (Years)	Aggregate Intrinsic Value (In thousands)
Class A				
Outstanding at December 31, 2016	1,705,483	$ 12.31		
Granted	299,917	$ 22.13		
Exercised	(197,784)	$ 10.55		$ 2,681
Forfeited	(60,982)	$ 21.35		
Outstanding at December 31, 2017	1,746,634	$ 13.88	5.39	$ 40,901
Exercisable at December 31, 2017	1,274,361	$ 12.14	4.32	$ 32,060
Class B				
Outstanding at December 31, 2016	250,493	$ 29.70		
Granted	49,986	$ 42.90		
Exercised	(13,600)	$ 27.04		$ 202
Forfeited	(10,163)	$ 41.53		
Outstanding at December 31, 2017	276,716	$ 31.78	5.52	$ 6,719
Exercisable at December 31, 2017	198,950	$ 29.16	4.44	$ 5,353

The following table summarizes information related to stock options for the years ended December 31, 2017, 2016 and 2015:

	2017		2016		2015	
	Class A	Class B	Class A	Class B	Class A	Class B
Weighted average grant date fair value of stock options granted	$ 5.83	$ 3.66	$ 3.62	$ 3.90	$ 3.49	$ 5.45
Intrinsic value of stock options exercised (in thousands)	2,681	202	459	632	350	151
Intrinsic value of stock options vested (in thousands)	5,258	787	1,627	535	1,351	415

As of December 31, 2017, the total unrecognized compensation cost related to non-vested stock option awards was approximately $1.2 million and $152,000 for class A and class B common stock shares, respectively, which was expected to be recognized over a weighted average period of 2.53 years and 2.57 years for class A and class B common stock shares, respectively.

Cash received from stock options exercised for the years ended December 31, 2016 was $548,000. There was no cash received from stock options exercised for the year ended December 31, 2017 or 2015. The Company recognized $1.2 million, $964,000 and $828,000 of non-cash compensation for the years ended December 31, 2017, 2016, and 2015, respectively, related to options, which is included in selling, general and administrative expenses.

The actual tax benefit realized for the tax deduction from stock options exercised was $1.1 million, $398,000 and $183,000 for the years ended December 31, 2017, 2016 and 2015, respectively. The Company prospectively elected ASU 2016-09, *Compensation – Stock Compensation (Topic* 718*) Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09") in 2016. As a result, the excess tax benefit from stock options exercised was recognized as a reduction to our provision for income taxes for the years ended December 31, 2017 and 2016 rather than as an increase to additional paid-in capital for the years ended December 31, 2015 prior to adoption.

During 2016 and 2015, the Company granted 20,578 and 89,416 non-vested shares of class A and 3,430 and 14,902 non-vested shares of class B common stock, respectively, under the 2006 Equity Incentive Plan. No shares were granted during the year ended December 31, 2017. As of December 31, 2017, the Company had 81,677 and 13,611 non-vested shares of class A and class B common stock, respectively, outstanding under the 2006 Equity Incentive Plan. These shares vest over five years following the date of grant and holders thereof are entitled to receive dividends from the date of grant, whether or not vested. The fair value of the awards is calculated as the fair market value of the shares on the date of grant. The Company recognized $629,000, $966,000 and $555,000 of non-cash compensation for the years ended December 31, 2017, 2016, and 2015, respectively, related to this non-vested stock, which is included in selling, general and administrative expenses. The actual tax benefit realized for the tax deduction from vesting of restricted stock was $1.3 million and $161,000 for the years ended December 31, 2017 and 2016, respectively. There were no shares that vested in the year ended December 31, 2015.

The following table summarizes information regarding non-vested stock granted to associates under the 2006 Equity Incentive Plans for the year ended December 31, 2017:

	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, 2016	174,487	$ 13.93	29,081	$ 37.21
Granted	--	$ --	--	$ --
Vested	(73,506)	$ 13.99	(12,251)	$ 38.50
Forfeited	(19,314)	$ 14.27	(3,219)	$ 34.69
Outstanding at December 31, 2017	81,677	$ 13.80	13,611	$ 36.65

As of December 31, 2017, the total unrecognized compensation cost related to non-vested stock awards was approximately $806,000 and is expected to be recognized over a weighted average period of 2.54 years.

(10) Leases

The Company leases printing equipment in the United States, and office space in Canada, California, Georgia, and Washington. The Company also leased additional office space in Nebraska through June 2016. The Company recorded rent expense in connection with its operating leases of $869,000, $920,000 and $1.0 million in 2017, 2016, and 2015, 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, 2017 for the next five years are:

Year Ending December 31,	Capital Leases	Operating Leases
	(In thousands)	
2018	$ 80	$ 708
2019	51	679
2020	34	485
2021	6	377
2022	1	190
Total minimum lease payments	172	
Less: Amount representing interest	14	
Present value of minimum lease payments	158	
Less: Current maturities	71	
Capital lease obligations, net of current portion	$ 87	

(11) Related Party

A director of the Company also serves as an officer of Ameritas Life Insurance Corp. ("Ameritas"). In connection with the Company's regular assessment of its insurance-based associate benefits, which is conducted by an independent insurance broker, and the costs associated therewith, the Company purchases dental and vision insurance for certain of its associates from Ameritas. The total value of these purchases was $248,000, $232,000 and $227,000 in 2017, 2016 and 2015 respectively.

Mr. Hays, the Chief Executive Officer and director of the Company, is an owner of 14% of the equity interest of Nebraska Global Investment Company LLC ("Nebraska Global"). The Company, directly or indirectly through its former subsidiary Customer-Connect LLC, purchased certain services from Nebraska Global, primarily consisting of software development services. The total value of these purchases were $12,500, $488,000 and $440,000 in 2017, 2016 and 2015, respectively.

Mr. Hays personally incurred approximately $538,000 of fees and expenses in connection with exploring strategic alternatives for the Company, including the proposed recapitalization (see Note 13), for which the Company has reimbursed Mr. Hays in 2017. These fees and expenses were attributable to the evaluation of alternatives and the sourcing and negotiating of financing for the alternatives, all of which would have been borne directly by the Company if they had been advanced by Mr. Hays. Mr. Hays advanced these funds personally in order to maintain the confidentiality of the evaluation of such alternatives and allow the management team to maintain its focus on the Company's business and operations.

During 2017, the Company acquired a cost method investment in convertible preferred stock of PX (see Note 2). Also in 2017, the Company paid $250,000 to acquire certain perpetual content licenses from PX for content the Company includes in certain of its subscription services. The Company also has an agreement with PX which commenced in 2016 under which the Company acts as a reseller of PX services and receives a portion of the revenues. The total revenue earned from the PX reseller agreement in the years ended December 31, 2017 and 2016 was $633,000 and $28,000, respectively.

(12) Associate Benefits

The Company sponsors a qualified 401(k) plan covering substantially all associates with no eligibility service requirement. Under the 401(k) plan, the Company matches 25.0% of the first 6.0% of compensation contributed by each associate. Employer contributions, which are discretionary, vest to participants at a rate of 20% per year. The Company contributed $350,000, $291,000 and $330,000 in 2017, 2016 and 2015, respectively, as a matching percentage of associate 401(k) contributions.

(13) Proposed Recapitalization

In December 2017, the Company's Board of Directors approved a recapitalization plan that will exchange each share of class B common stock for one share of class A common stock plus $19.59 in cash, for total value of $53.44 per class B share. This proposed recapitalization plan replaces the proposed plan announced in September 2017.

In December 2017, the Company entered into a commitment letter with First National Bank of Omaha, which expires on April 30, 2018, to provide a senior secured term loan of $40 million, a delayed draw term loan facility of $15 million and a senior secured revolving line of credit facility of $15 million.

The proposed recapitalization is subject to closing of financing and approval by the holders of the Company's class A common stock, class B common stock and both classes of stock voting together as a group. The Company incurred expenses related to the proposed recapitalization of approximately $1.4 million in the year ended December 31, 2017, which are included in selling and administrative expenses. These expenses include certain amounts reimbursed to Mr. Hays (see Note 11).

(14) Segment Information

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

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

	2017	2016	2015
		(In thousands)	
Revenue:			
United States	$ 112,885	$ 104,445	$ 97,097
Canada	4,674	4,939	5,246
Total	$ 117,559	$ 109,384	$ 102,343
Long-lived assets:			
United States	$ 72,562	$ 71,192	$ 70,624
Canada	2,495	2,367	2,364
Total	$ 75,057	$ 73,559	$ 72,988
Total assets:			
United States	$ 110,785	$ 106,288	$ 115,480
Canada	16,531	14,336	12,569
Total	$ 127,316	$ 120,624	$ 128,049

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, 2017. 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, 2017.

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 (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on such evaluation, the Company's management concluded that the Company's internal control over financial reporting was effective as of December 31, 2017.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2017, 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, 2017, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

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

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
National Research Corporation:

Opinion on Internal Control Over Financial Reporting

We have audited National Research Corporation and subsidiary's (the "Company") internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2017 and 2016, 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, 2017, and the related notes (collectively, the consolidated financial statements), and our report dated March 14, 2018 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ KPMG LLP

Lincoln, Nebraska
March 14, 2018

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 2018 Annual Meeting of Shareholders ("Proxy Statement") and is hereby incorporated herein by reference. Information with respect to the executive officers of the Company appears in Item 1 of this Annual Report on Form 10-K. The information required by this Item with respect to audit committees and audit committee financial experts is included under the caption "Corporate Governance" in the Proxy Statement and is incorporated herein by reference.

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

Item 11. Executive Compensation

The information required by this Item is included under the captions "Compensation Discussion and Analysis," "2017 Summary Compensation Table," "Grants of Plan-Based Awards in 2017," "Outstanding Equity Awards at December 31, 2017," "2017 Director Compensation," "Compensation Committee Report," "Corporate Governance-Transactions with Related Persons" and "CEO Pay Ratio" in the Proxy Statement and is hereby incorporated herein by reference.

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

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

The following table sets forth information with respect to compensation plans under which equity securities of the Company are authorized for issuance as of December 31, 2017.

Plan Category 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)	1,746,634	$ 13.88	1,786,465 (2)
Equity compensation plans not approved by security holders	--	--	--
Total	1,746,634	$ 13.88	1,786,465

Plan Category 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)	276,716	$ 31.78	298,689 (2)
Equity compensation plans not approved by security holders	--	--	--
Total	276,716	$ 31.78	298,689

(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 327,590 additional shares of restricted class A common stock and 54,599 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 865,465 shares of class A common stock and 145,189 shares of class B common stock as of December 31, 2017. The Director Plan provides for granting options for 3,000,000 shares of Class A common stock and 500,000 shares of Class B common stock. Option awards through December 31, 2017 totaled 2,079,000 shares of Class A common stock and 346,500 of Class B common stock. No future awards are available under the 2001 Equity Incentive Plan due to its expiration.

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

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

Item 14. Principal Accountant Fees and Services

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

PART IV

Item 15. Exhibits, Financial Statement Schedules

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

2. Financial statement schedules. All financial statement schedules have been omitted because they are not applicable or the required information is included in the consolidated financial statements and the related notes thereto.

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

EXHIBIT INDEX

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 October 26, 2015 and filed on October 28, 2015 (File No. 0-29466)]
(4)	Installment Note, dated as of May 9, 2013, from National Research Corporation to U.S. Bank National Association [Incorporated by reference to Exhibit (4) to National Research Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 and filed on August 8, 2015 (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 on April 3, 2002 (File No. 0-29466)]
(10.2)*	National Research Corporation 2006 Equity Incentive Plan, as amended [Incorporated by reference to Exhibit (4.3) to National Research Corporation's Registration Statement on Form S-8 (Registration No. 333-189141) filed on June 6, 2013]
(10.3)*	National Research Corporation 2004 Non-Employee Director Stock Plan, as amended [Incorporated by reference to Appendix A to National Research Corporation's Proxy Statement for its 2015 Annual Meeting of Shareholders filed on April 1, 2015]
(10.4)*	Form of Nonqualified Stock Option Agreement (for new associates) used in connection with the 2001 Equity Incentive Plan [Incorporated by reference to Exhibit 4.4 to National Research Corporation's Registration Statement on Form S-8 (Registration No. 333-120530) filed on November 16, 2004]
(10.5)*	Form of Nonqualified Stock Option Agreement (for officers) used in connection with the 2001 Equity Incentive Plan [Incorporated by reference to Exhibit 4.5 to National Research Corporation's Registration Statement on Form S-8 (Registration No. 333-120530) filed on November 16, 2004]

Exhibit Number	Exhibit Description
(10.6)*	Form of Restricted Stock Agreement for executive officers used in connection with the 2001 Equity Incentive Plan [Incorporated by reference to Exhibit 10.2 to National Research Corporation's Current Report on Form 8-K dated March 19, 2005 and filed on March 23, 2005 (File No. 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) filed on November 16, 2004]
(10.8)*	Form of Restricted Stock Agreement (five year vesting) used in connection with the 2001 Equity Incentive Plan [Incorporated by reference to Exhibit 4.7 to National Research Corporation's Registration Statement on Form S-8 (Registration No. 333-120530) filed on November 16, 2004]
(10.9)*	Form of Nonqualified Stock Option Agreement used in connection with the 2006 Equity Incentive Plan [Incorporated by reference to Exhibit (10.14) to National Research Corporation's Annual Report on Form 10-K for the year ended December 31, 2006 and filed on April 2, 2007 (File No. 0-29466)]
(10.10)*	Form of Restricted Stock Agreement used in connection with the 2006 Equity Incentive Plan [Incorporated by reference to Exhibit (10.15) to National Research Corporation's Annual Report on Form 10-K for the year ended December 31, 2006 and filed on April 2, 2007 (File No. 0-29466)]
(11)	Computation of per share earnings (contained in Note 1 of "Notes to Consolidated Financial Statements" of the Company's Annual Report in Form 10-K for the year ended December 31, 2017).
(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 2018 Annual Meeting of Shareholders [To be filed with the Securities and Exchange Commission under Regulation 14A within 120 days after December 31, 2017; except to the extent specifically incorporated by reference, the Proxy Statement for the 2018 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]

Exhibit Number	Exhibit Description
(101)**	Financial statements from the Annual Report on Form 10-K of National Research Corporation for the year ended December 31, 2017, formatted in eXtensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, (vi) the Notes to the Consolidated Financial Statements, and (vii) document and entity information.

* A management contract or compensatory plan or arrangement.

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

Item 16. Form 10-K Summary

None.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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 14th day of March 2018.

NATIONAL RESEARCH CORPORATION

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

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

Signature	Title	Date
/s/ Michael D. Hays Michael D. Hays	Chief Executive Officer and Director (Principal Executive Officer)	March 14, 2018
/s/ Kevin R. Karas Kevin R. Karas	Senior Vice President Finance, Chief Financial Officer, Treasurer and Secretary (Principal Financial and Accounting Officer)	March 14, 2018
/s/ Donald M. Berwick Donald M. Berwick	Director	March 14, 2018
/s/ JoAnn M. Martin JoAnn M. Martin	Director	March 14, 2018
/s/ Barbara J. Mowry Barbara J. Mowry	Director	March 14, 2018
/s/ John N. Nunnelly John N. Nunnelly	Director	March 14, 2018

Exhibit 21

Subsidiary of National Research Corp.

National Research Corporation's subsidiary as of December 31, 2017 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, 333-189141, and 333-209934) on Forms S-8 and (File Nos. 333-120529 and 333-211190) on Forms S-3 of National Research Corporation of our reports dated March 14, 2018, with respect to the consolidated balance sheets of National Research Corporation and subsidiary as of December 31, 2017 and 2016, 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, 2017, and the related notes (collectively, the consolidated financial statements), and the effectiveness of internal control over financial reporting as of December 31, 2017, which reports appear in the December 31, 2017 annual report on Form 10-K of National Research Corporation.

/s/ KPMG LLP

Lincoln, Nebraska
March 14, 2018

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 14, 2018

/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 14, 2018

/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, 2017 (the "Report"), I, Michael D. Hays, Chief Executive Officer of the Company, and I, Kevin R. Karas, Chief Financial Officer, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, based on my knowledge, that:

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

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

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

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

Date: March 14, 2018

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.

Directors and Officers

Board of Directors

Michael D. Hays
Chief Executive Officer
National Research Corporation

John N. Nunnelly, Lead Director
Adjunct Professor
University of Massachusetts
Member of Strategy (Chair), Audit, Nominating, Compensation and Talent Committees

Donald M. Berwick, M.D.
President Emeritus and Senior Fellow
Institute for Healthcare Improvement
Member of Strategy, Nominating (Chair) Committees

JoAnn M. Martin
President and Chief Executive Officer
Ameritas Mutual Holding Company
Member of Strategy, Audit (Chair), Compensation and Talent Committees

Barbara J. Mowry
Chief Executive Officer
GoreCreek Advisors
Member of Strategy, Audit, Nominating, Compensation and Talent (Chair) Committees

Executive Officers

Michael D. Hays
Chief Executive Officer

Kevin R. Karas
Chief Financial Officer
Treasurer and Secretary

Steven D. Jackson
President

Corporate Data

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

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

Corporate Counsel
Foley & Lardner LLP
Milwaukee, Wisconsin

Woods & Aitken LLP
Lincoln, Nebraska

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

Independent Registered Public Accounting Firm
KPMG LLP
Lincoln, Nebraska

1.800.388.4264 | nrchealth.com
1245 Q Street | Lincoln, Nebraska | 68508

NRC HEALTH