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2022 ANNUAL REPORT | 2023 PROXY STATEMENT



Company Profile

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

Jenn Abrom	Jenna Carlson	Lauren Fix	Elisabeth Hurst	Jo Mcelwain	Elizabeth Phillips	DeAnn Stephan
Emily Adamson Koemans	Karol Carlson	Coleman Fleming-Dumas	Jessica Jahen	Jen McHargue	Spencer Phillips	Jake Stephens
Alexis Aguileraortiz	Kathy Carroll	Aliya Flores	Todd Jarchow	Dillon McKinney	Sara Pickrel	Erin Steuben
Anna Ahrens	Mary Ann Castillo	Michelle Folken	Colton Johnson	Maggie Mendoza	June Plemons	Jackie Stevens
Lindsey Akiyama	Joanna Castro	Jake Francis	Eric Johnson	Simeon Menso	Rachel Pollreis	Stan Sticka
Sophia Ali	Erin Cerretta	Travis Freeburg	Jean Johnson	Jason Messerli	Devika Pondicherry	Lisa Stolzenburg
Ben Allemann	Isak Chai	Ben Frodyma	Katie Johnson	Julia Messineo	Bailey Pons	Abby Stonehocker
Karen Althouse	Claire Chavez	Sarah Fryda	Mariah Johnson	Amber Meyer	Elliot Presnell	Lindsay Stoner
Tracy Alward	Samantha Cheek	Jing Fu	Ilsa Jones	Lindsay Meyer	Molly Preston	Ryan Stoner
Eliot Anderson	Stella Chen	Cortney Galvin	Nygel Jones	Emilio Meza	Lin Quach	Melissa Summers
Ellie Anderson	Anna Chitepu	Michelle Rubio	Jamie Jorgenson	Joe Michalski	Jona Raasch	Sean Swanson
Mike Anderson	Bryan Christianity	John Garcia	Kayce Kahl	Amanda Mickle	Zac Rabe	Will Swiston
Kathy Anstine	Jared Chulufas	Nicole Garcia	Kathy Kalkwarf	Missy Middleton	Judy Radford	Jon Tanner
Laura Arentz	Brianne Clark	Kaley Gates	Ryan Kalkwarf	Erin Miles	Nicole Ramer	Kim Taruc
Ayat Aribi	Alayna Clouston	Alex Gerch	Mel Kamm	Ian Miller	Cydney Rand	Megan Taruc
Hannah Arington	Sam Cole	Tim Gerken	Grace Kanel	Matthew Miller	Angie Rauner	Blaine Taylor
Vaida Armanaviciute	Andrew Colling	Jeff Gill	Kevin Karas	Lisa Minchow	Ashley Read	Jen Taylor
Susan Armbruster	Kirsten Coniglio	Dave Gilsdorf	Dana Kearse	Cami Mitelman	Ryan Real	Jake Tegler
Jess Arter	Alyssa Conn	Matt Ginting	Whitney Keirns	Kade Mohrman	Elizabeth Reid	Allison Thomas
Rachel Ayalon	Kelsey Cook	Andy Glenn	Kevin Kelly	Sheena Mommens	Carlie Reineke	Sean Thomas
Michelle Bachman	Meagan Cook	Candi Glover	Madeline Kelly	Alex Moore	Luisa Restrepo	Chris Thornton
Suzanne Baidoo	Tim Cook	Geeta Goenka	Dawain Kendrick	Addie Mortensen	Desiree Reutzel	James Tobey
Desarie Ball	Heather Costa-Greger	Eddie Gonzales	Triet Khuc	Ken Morton	Auli Reyes	Leslie Tristan
Cindy Ballow	Teresa Costello-Raddatz	Aislinn Goodrich	Kagan Kiesel	Shelly Morton	Melissa Riley	Fernando Urena
Emily Barker	Jennifer Cothran	Sarah Gordon	Kate Kimmons	Zeb Moseman	Sarah Ritchey	Ashlee Uttecht-Lierman
Jackie Barnhart	Joshua Cowan	Toya Gorley	Abby Kincaon	Laura Moulton	Dylan Ritchie	Max Van Arsdall
Steve Barton	Chase Craddock	Jenny Grant	Alicia King	Archana Muduganti	Samantha Roach	Marci Vander Tuig
Anna Bates	Karla Cram	Jane Gray	Shawnelle King	Kathy Mummert	Andre Rodrigues Ferreira	Ismael Vasquez
Amanda Beardsley	Brad Crockett	Patrick Griffin	Sam Kingsley	Pete Mundt	Teresa Rodriguez	Mike Vaughn
Rachel Beavers	Ainslee Curtis	Abbie Grim	Bill Kossack	Ana Munoz	Kegan Ronholt	Natalie Summers
Jack Beery	Pat Dabney	Lydia Grossenbacher	Pete Kostelnick	Simba Mupfayi	Kim Ruff	Sabrina Vels
Heidi Behrens	Kathleen Damme	Lupita Guerrero	Devin Kozicki	Chloe Murphy	John Rusch	Gunter Voelker
Nick Beiermann	Jake Daniel	Meghan Gull	Glenn Kramer	Luanne Murphy	Katie Rust	Mary Volkmer
Jocelyn Belden	Rob Davis	Miguel Gutierrez Cornejo	Isaac Kramer	Molly Murphy	Tiffany Ryck	Vicki Vopalensky
Cindy Bell	Alex DeDea	Ashley Haas	Annie Krein	Kaitlyne Nash	Trevin Saathoff	Kayla Wagner
Sara Bennett	Tyler Dempsay	Kellen Habegger	Justin Kubick	Chidinma Nebo	Judd Salem	Jessica Walters
India Bercey	Zoe Deoudes	Candis Hager	Billy Kuehn	Andrew Nelson	Sarah Satre	Maxia Webb
Tim Betlach	Lauryn Dermit	Marty Hager	Nate Kumwenda	Jordan Nelson	Sean Scarfo	Alex Wechsler
Dan Biggs	Sam Desh	Ted Hailer	Bridget Lamb	Pam Nelson	Kelsey Schneider	Tiffany Weitzenkamp
Tracy Black	Lauri Dettmer	Dan Halverson	Heather Lannin	Sara Nelson	Wes Schoenfelder	Andie Westling
Stephanie Blodgett	Julie Diaz	Rachel Hamilton	Lindsay Laug	Taylor Nelson	Rana Schreiber	Deb Weyers
Margaret Blueford	Jennifer Dietze	Tracy Hanger	Bridget Leake	Taylor Neuhalfen	Amy Schroeder	Connie White
Ashley Bock	Cassy Dodd	Hailey Hanlin	McKenna Lee	Emma Newcomb	Justin Schuerman	Michele Whitehouse
Kasy Bodfield	Ryan Donohue	Andria Hannula	Brett Lenners	James Newton	Ashley Schultz	Madison Whitmill
Jeff Bogner	John Dorn	Jon Hanseling	Jia Li	Jennifer Nguyen	April Schulz	Jenny Wieseler
Ava Bohlender	Mike Dowd	Dave Hansen	Christina Liendro	Joan Niemann	Hannah Schwanebeck	Karen Wilken
Ryan Bondegard	Austin Edstrom	Courtney Harper	Garth Lienemann	Courtney Nitzel	Tawna Schwarz	Minon Wilkinson
Jon Boumstein	TJ Ehlers	Ryan Harpham	Richard Lierman	Courtney Nore	Cali Scott	Tanner Wilkinson
Kassandra Braaten	Sara Ehnes	Malik Harrison	Sheri Life	Keshia Norris	Maggie Sexson	Brinn Williams
Lindsey Bradley	Zane Ehnes	Shannon Hasemann	Tom Lipari	Adam Northrup	Abby Sharp	Melissa Williams
Nick Brandt	Matthew Elliott	Kylee Hasenauer	Lu Liu	Roxana Novoa	Mary Shaw	Daniel Windham
Nicki Bratten	Jhordan Elsberry	Ryan Hatt	Anne Loethen	Ashlee Nunnenkamp	Evan Sheaff	Rob Wirth
Leanne Bristol	William England	Britt Hayes	Scott Logan	Oksana Nupreichyk	Ruth Shegigan	Kendall Witt
Dawn Brock	Matt Engler	Shannon Hayes	Grant Longoria-Shinn	Bethann Oberlander	Ben Shelton	Jessie Wolfe
Erin Brodhagen	Joe Epperson	Mike Hays	Michelle Lopez	Tim O'Brien	Liz Shotkoski	Kelli Woods
Ryan Broker	Rayna Erbst	Marypat Heineman	Amanda Loseke	Laura Olinger	Kenzy Showalter	Miranda Wotipka
Tyler Brothers	Jon Ergun	Bret Hermesen	Greg Ludvik	Drew Oliver	Evan Shuey	Joe Xiao
Sandrina Brown	Andy Essink	Jimmy Hilaire	Adrienne Lurvey	Levi Olson	Laura Simmons	Josh Yeoman
Dustin Bruce	Maggie Essink	James Hill	Maggie Lyle	Tony Ong	Jessi Sims	Alisha York
Dawn Brunke Helmstadter	Hanna Estep	Orlando Hill	Manasa Madabhusi	Tim Ottersburg	Hannah Skiff	Ian York
Jenny Brunke	Jared Eubank	Deb Hinds	Linda Magin	Justin Palmer	Ted Smidberg	Ilze Young
Katie Bruss	Kayla Evans	Carmen Hinseth	Greg Makoul	Emy Pandoff	Jason Smith	Jon Young
Haley Bucknell	Heather McCulloch	Danny Hipskind	Laine Makoul	Caleb Parker	Juwan Smith	Natalia Yunge Ossenkop
Tyler Burbach	Cris Ewell	Trevor Holmes	Nathan Marra	Cate Parrish	Jake Sola	Kirsten Zimmerman
Julie Busekist	Jillian Fast	Kaitlyn Hopkins	Jake Mastera	Sheri Patterson	Drew Soukup	JP Zuhur
Kenzie Busekist	Ashley Felker	Kim Houle	Corey Matejka	Shane Patterson	Linda Stacy	
Chris Butler	Beki Ferguson	Helen Hrdy	Bridget Matthiessen	Connie Pautz	Zaidee Stansberry	
Sarah Callicoat	Bobbie Ficken	Dena Hughes	Larry Mayer	Jordan Pedersen	Carla Steadman	
Allison Camm	Travis Ficken	Greg Humlicek	Shannon McCann	Kathryn Peisert	Andy Steffen	
Nick Canino	Micaela Fikar	Katie Hunke	Tracy McClarnon	Michelle Peters	Amber Steffen	
Corry Caouette	Thomas Fitts	Brandon Hurlay	Jennifer McCready	Dana Petersen	Jenelle Stein	

Annual Meeting

The annual meeting of shareholders will be held on May 11, 2023, at 3:00 p.m. Central Time, live via the Internet at www.virtualshareholdermeeting.com/nrc2023.

NATIONAL RESEARCH CORPORATION
D/B/A NRC Health

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held May 11, 2023

To the Shareholders of
National Research Corporation:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of National Research Corporation will be held on Thursday, May 11, 2023, at 3:00 P.M., Central Time, via the Internet at www.virtualshareholdermeeting.com/NRC2023, for the following purposes:

1. To elect two directors to hold office until the 2026 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 2023.
3. To conduct a non-binding, advisory vote to approve the compensation of our named executive officers as disclosed in the accompanying proxy statement.
4. To conduct a non-binding, advisory vote on the frequency of future non-binding, advisory votes on named executive officer compensation.
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 March 24, 2023, 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

/s/ Kevin R. Karas

Kevin R. Karas

Secretary

Lincoln, Nebraska
April 6, 2023

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting To Be Held on May 11, 2023. The National Research Corporation proxy statement for the 2023 Annual Meeting of Shareholders and the 2022 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.

YOU MAY ALSO VOTE ON THE INTERNET BY COMPLETING THE ELECTRONIC VOTING INSTRUCTION FORM FOUND AT WWW.PROXYVOTE.COM OR BY TELEPHONE USING A TOUCH-TONE TELEPHONE AND CALLING 1-800-690-6903. VOTE BY 11:59 P.M. ET ON MAY 10, 2023.

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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 11, 2023

This proxy statement is being furnished to shareholders by the Board of Directors (the “Board”) of National Research Corporation, doing business as NRC Health (“NRC Health,” the “Company,” “we,” “our,” “us” or similar terms), beginning on or about April 6, 2023, in connection with a solicitation of proxies by the Board for use at the Annual Meeting of Shareholders to be held on Thursday, May 11, 2023, at 3:00 P.M., Central Time, virtually via the Internet at www.virtualshareholdermeeting.com/NRC2023, and all adjournments or postponements thereof (the “Annual Meeting”) for the purposes set forth in the attached Notice of Annual Meeting of Shareholders.

Execution of a proxy given in response to this solicitation will not affect a shareholder’s right to vote their shares during the Annual Meeting. Participation at the Annual Meeting of a shareholder who has signed a proxy does not in itself revoke a proxy. Any shareholder giving a proxy may revoke it at any time before it is exercised by giving notice thereof to us in writing or in open meeting. You may also vote on the internet by completing the electronic voting instruction form found at www.proxyvote.com or by telephone using a touch-tone telephone and calling 1-800-690-6903. Vote by 11:59 p.m. ET on May 10, 2023. Instructions on how to vote while participating in the Annual Meeting live via the Internet are posted at www.virtualshareholdermeeting.com/NRC2023.

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

- FOR the 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 2023;
- FOR the non-binding, 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);
- ONE YEAR, regarding the non-binding, advisory vote on the frequency of future non-binding, advisory votes to approve the compensation of our named executive officers; and
- On such other business or matters which may properly come before the Annual Meeting in accordance with the best judgment of the persons named as proxies in the enclosed form of proxy.

Other than the election of two directors, the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for 2023, the non-binding, advisory vote to approve the compensation of our named executive officers, and the non-binding, advisory vote on the frequency of future non-binding, advisory votes to approve the compensation of our named executive officers, the Board has no knowledge of any matters to be presented for action by the shareholders at the Annual Meeting.

Only holders of record of our common stock, \$.001 par value per share (the “Common Stock”), at the close of business on March 24, 2023 (the “Record Date”), are entitled to vote at the Annual Meeting. On that date, we had outstanding and entitled to vote 24,599,815 shares of Common Stock, each of which is entitled to one vote per share. The presence at the Annual Meeting, via live webcast or by proxy, of a majority of the votes entitled to be cast shall constitute a quorum for the purpose of transacting business at the Annual Meeting. Abstentions and broker non-votes will be counted as present in determining whether there is a quorum.

Information Regarding Participation in the Annual Meeting via the Internet

We will be hosting the Annual Meeting live via the Internet. You will not be able to attend the Annual Meeting in person. Any shareholder can listen to and participate in the Annual Meeting live via the Internet at www.virtualshareholdermeeting.com/NRC2023. The Annual Meeting webcast will begin promptly at 3:00 P.M., Central Time. We encourage you to access the Annual Meeting webcast prior to the start time. Online check-in will begin, and shareholders may begin submitting written questions, at 2:45 P.M., Central Time, and you should allow ample time for the check-in procedures.

You will need the 16-digit control number included on your proxy card or voting instruction form, or included in the e-mail to you if you received the proxy materials by e-mail, in order to be able to vote your shares or submit questions during the Annual Meeting. Instructions on how to connect to the Annual Meeting and participate via the Internet, including how to demonstrate proof of stock ownership, are posted at www.virtualshareholdermeeting.com/NRC2023. If you do not have your 16-digit control number, you will be able to access and listen to the Annual Meeting but you will not be able to vote your shares or submit questions during the Annual Meeting. Our virtual meeting platform vendor will have technicians ready to assist you with any technical difficulties you may have accessing the virtual meeting or submitting questions. If you encounter any difficulties accessing the virtual meeting during the check-in or meeting time, please call the technical support number that will be posted on the Virtual Shareholder Meeting login page.

PROPOSAL NO. 1 – ELECTION OF DIRECTORS

Our Bylaws 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 2026 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 majority of the votes cast at the Annual Meeting (assuming a quorum is present) in an uncontested election. 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 about the Board's nominees for election at the Annual Meeting and each director of the Company whose term will continue after the Annual Meeting.

Nominees for Election at the Annual Meeting

Term expiring at the 2026 Annual Meeting

Parul Bhandari, 47, has served as a director of the Company since May 2022. Ms. Bhandari has more than 20 years of experience driving growth and innovation at the world's leading technology and business development companies. Since 2012, she has held various leadership roles at Microsoft Corporation (NASDAQ: MSFT). Currently, Ms. Bhandari is the Director, Partner Strategy, Worldwide Media and Communications at Microsoft, where she contributes to global partner recruiting, enablement and engagement. Previously, Ms. Bhandari was focused on leading Data and AI for Microsoft's Worldwide Public Sector. Prior to joining Microsoft, Ms. Bhandari served as Vice President of Business Development and Alliances for the management consulting firm Acelsior, teaming with large defense contractors. Ms. Bhandari has served as a director of Timberland Bancorp, Inc. (NASDAQ: TSBK) since 2021. Ms. Bhandari has also served as a director of Cartica Acquisition Corp (NASDAQ: CITE), a blank check company, since January 2022. Ms. Bhandari's expertise as an accomplished technology leader, leveraging data and AI, as well as her experience driving industry solutions and engaging in digital transformation initiatives, led to the conclusion that she should serve as a director of the Company.

Penny A. Wheeler, 64, has served as a director of the Company since May 2021. From 2015 to 2021, Dr. Wheeler served as the chief executive officer of Allina Health, a not-for-profit healthcare system serving over 1.5 million individuals in Minnesota and western Wisconsin. Prior to that role she served as chief clinical officer since 2006. For 20 years, Dr. Wheeler has also served as a board certified obstetrician/gynecologist where she spent considerable time interacting with, and caring for, patients and the community. In 2015, Minnesota Governor Mark Dayton appointed Dr. Wheeler to the Taskforce for Health Care Financing, and Dr. Wheeler has been named as one of the top 25 women in health care by Modern Healthcare magazine. Dr. Wheeler also serves on the board of Portico Healthnet, a not-for-profit organization dedicated to helping uninsured Minnesotans receive affordable health coverage and care, St. Thomas University, and the University of Minnesota Foundation. She is also on the Board of Cedar Cares, an organization that eases the patient billing experience through customized engagement. Dr. Wheeler's past leadership experiences in the healthcare industry led to the conclusion that she should serve as a director of the Company.

THE BOARD UNANIMOUSLY 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 2024 Annual Meeting

Michael D. Hays, 68, 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, from July 2008 to July 2011, and from October 2020 to present. Prior to founding the Company, Mr. Hays served for seven years as a Vice President and a director of SRI Research Center, Inc. (n/k/a the Gallup Organization). Mr. Hays' background as founder of the Company, and his long and successful tenure as Chief Executive Officer and a director, led to the conclusion that he should serve as a director of the Company.

John N. Nunnally, 70, has served as a director of the Company since December 1997. Mr. Nunnally is a retired Group President from McKesson Corporation, a leader in pharmaceutical distribution and healthcare information technology. During his 28-year career at McKesson, Mr. Nunnally served in a variety of other positions, including Vice President of Strategic Planning and Business Development, Vice President and General Manager of the Amherst Product Group and Vice President of Sales-Decision Support. These responsibilities included leading several business units, including one with over \$360 million in annual revenue. In addition, he was involved in managing a number of mergers and acquisitions. Mr. Nunnally has also served as an adjunct professor at the University of Massachusetts, School of Nursing, advising students and faculty on matters pertaining to healthcare information technology. These experiences and Mr. Nunnally's expertise as a professional and educator in the field of healthcare information technology led to the conclusion that he should serve as a director of the Company.

Terms expiring at the 2025 Annual Meeting

Donald M. Berwick, 76, 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.

Stephen H. Lockhart, 64, has served as a director of the Company since May 2021. Dr. Lockhart served as senior vice president and chief medical officer for Sutter Health Network, a not-for-profit system of hospitals, physician organizations, and research institutions in Northern California, from 2015 to 2021. Prior to that role, Dr. Lockhart served as Sutter Health Network's regional chief medical officer for the East Bay Region from 2010 to 2015. From 2008 to 2010, Dr. Lockhart served as the chief administrative officer at the St. Luke's campus of Sutter's California Pacific Medical Center. In 2017, Dr. Lockhart was named to California Governor Brown's Advisory Committee on Precision Medicine as part of California's effort to use advanced computing and technology to better understand, treat, and prevent disease. Dr. Lockhart serves on the board of Molina Healthcare, Inc. (NYSE: MOH), a health plan

provider under Medicaid and Medicare programs and in state insurance marketplaces. Dr. Lockhart also serves on the boards of the ECRI Institute, Recreational Equipment, Inc., the David and Lucile Packard Foundation, and is chairman of Parks California – a nonprofit dedicated to supporting California's parks and public lands. Dr. Lockhart's 36 years of experience in the healthcare industry and his background as medical provider and administrator in a large healthcare system led to the conclusion that he should serve as a director of the Company.

Board Diversity Matrix

The Company is committed to diversity and inclusion, and the diverse nature of the Board reflects our commitment. The Company believes that a variety of backgrounds, experiences, perspectives, and points of view contribute to a more effective decision-making process and the Board is committed to considering diversity of race, ethnicity, gender, age, cultural background, and professional experiences in evaluating the composition of the Board. The Board Diversity Matrix below reports self-identified diversity statistics of the Board in accordance with NASDAQ rules.

Board Diversity Matrix (as of April 6, 2023)				
Total Number of Directors	6			
	Female	Male	Non-Binary	Did Not Disclose Gender
Part I: Gender Identity				
Directors	2	4	0	0
Part II: Demographic Background				
African American or Black	0	1	0	0
Alaskan Native or Native American	0	0	0	0
Asian	1	0	0	0
Hispanic or Latinx	0	0	0	0
Native Hawaiian or Pacific Islander	0	0	0	0
White	1	3	0	0
Two or More Races or Ethnicities	0	0	0	0
LGBTQ+	0			
Did Not Disclose Demographic Background	0			

CORPORATE GOVERNANCE

Independent Directors and Annual Meeting Attendance

Of the six directors currently serving on the Board, the Board has determined that Donald M. Berwick, Parul Bhandari, John N. Nunnally, Stephen H. Lockhart, and Penny A. Wheeler are “independent directors” as that term is defined in the listing standards of The NASDAQ Stock Market.

Directors are typically expected to attend our annual meeting of shareholders each year. For the 2023 Annual Meeting, such attendance will be through the Internet via live webcast. Each of the directors attended our 2022 annual meeting of shareholders.

Currently, we do not have a chairman, and the Board does not have a policy on whether the roles of chief executive officer and chairman should be separate. The Board has, however, designated a lead director since 2007, with Mr. Nunnally serving as the lead director since May 2012. The Board believes its current leadership structure is appropriate at this time since it establishes our chief executive officer as

the primary executive leader with one vision and eliminates ambiguity as to who has primary responsibility for our performance.

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

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

Committees

The Board held seven meetings in 2022. All incumbent directors attended at least 75% of the meetings of the Board and the committees on which they served during 2022.

The Board has a standing Audit Committee, Compensation and Talent Committee, Nominating Committee, and Strategic Planning Committee. Each of these committees has the responsibilities set forth in formal written charters adopted by the Board. We make available copies of each of these charters free of charge on our website located at www.nrhealth.com/investor-relations/corporate-governance/. The contents of our website are not incorporated by reference into this proxy statement.

The Audit Committee's primary function is to assist the Board in fulfilling its oversight responsibilities by overseeing our systems of internal controls regarding finance, accounting, legal compliance and ethics that management and the Board have established; our accounting and financial reporting processes; and the audits of our financial statements. The Audit Committee presently consists of John N. Nunnelly (Chairperson), Penny A. Wheeler, and Donald M. Berwick, each of whom meets the independence standards of The NASDAQ Stock Market and the Securities and Exchange Commission for audit committee members. The Board has determined that John N. Nunnelly qualifies as an "audit committee financial expert," as Mr. Nunnelly (i) meets the Audit Committee member independence criteria under applicable SEC rules, (ii) is independent, as independence for Audit Committee members is defined under applicable NASDAQ listing standards, and (iii) has sufficient knowledge, experience and sophistication in financial and auditing matters under relevant SEC and NASDAQ rules. The Audit Committee held five meetings in 2022.

The Compensation and Talent Committee determines compensation programs for our executive officers, reviews management's recommendations as to the compensation to be paid to other key personnel and administers our equity-based compensation plans. The Compensation and Talent Committee presently consists of Stephen H. Lockhart (Chairperson), Donald M. Berwick, Parul Bhandari, and John N. Nunnelly, each of whom meets the independence standards of The NASDAQ Stock Market and the Securities and Exchange Commission for compensation committee members. The Compensation and Talent Committee held three meetings in 2022. From time to time, with the last time being in 2015, the Compensation and Talent Committee or our management has engaged a nationally recognized compensation consultant to assist us in our review of our compensation and benefits programs, including

the competitiveness of pay levels against similarly sized companies, executive compensation design issues, market trends and technical considerations. The Compensation and Talent Committee, however, did not use this information in setting the compensation of our executive officers in 2022 and does not use a peer group given the absence of any publicly traded peers.

The Nominating Committee presently consists of Donald M. Berwick (Chairperson), Parul Bhandari, Stephen H. Lockhart, Penny A. Wheeler, and John N. Nunnally, each of whom meets the independence standards of The NASDAQ Stock Market for nominating committee members. The Nominating Committee's primary functions are to: (1) recommend persons to be selected by the Board as nominees for election as directors and (2) recommend persons to be elected to fill any vacancies on the Board. The Nominating Committee held one meeting in 2022.

The Strategic Planning Committee assists the Board in reviewing and, as necessary, altering, our strategic plan, reviewing industry trends and their effects, if any, on us and assessing our products, services and offerings and the viability of such portfolio in meeting the needs of the markets that we serve. John N. Nunnally (Chairperson), Donald M. Berwick, Parul Bhandari, Stephen H. Lockhart, and Penny A. Wheeler are the current members of the Strategic Planning Committee. The Strategic Planning Committee did not hold any meetings in 2022.

Board Oversight of Risk

The full Board is responsible for the oversight of our operational and strategic risk management process. The Board relies on its Audit Committee to address significant financial risk exposures facing us and the steps management has taken to monitor, control, and report such exposures, with appropriate reporting of these risks to be made to the full Board. The Audit Committee also inquires of management, our independent accountants, and our internal auditor about significant risks and exposures, including risks and exposures relating to data privacy, information security, and cybersecurity, and assesses the steps management has taken to minimize such risks and exposures. The Board relies on its Compensation and Talent Committee to address significant risk exposures facing us with respect to compensation, with appropriate reporting of these risks to be made to the full Board. The Board's role in our risk oversight has not affected the Board's leadership structure.

Majority Vote Policy

As a matter of robust and effective corporate governance, our Bylaws require that for directors to be elected (or reelected) to serve on the Company's Board, in an uncontested election, they must receive support from holders of a majority of shares voted. Pursuant to our Bylaws, if a director does not receive at least a majority of the votes cast in an uncontested election, such director is required to submit his or her offer of resignation for consideration by the Board. Following submission of such offer of resignation and within sixty days following certification of the shareholder's vote, the Nominating Committee shall recommend to the Board the action to be taken with respect to such offer of resignation. In determining whether or not to recommend that the Board accept a resignation offer, the Nominating Committee may consider all factors believed to be relevant by the Committee's members, including without limitation: (1) any stated reasons for the director not receiving the required majority vote and whether the underlying cause or causes are curable; (2) the factors, if any, set forth in the guidelines or other policies that are to be considered by the Nominating Committee in evaluating potential candidates for the Board as such factors relate to each director who has so offered his or her resignation; (3) the length of service of such director, (4) the effect of such resignation on the Company's compliance with any law, rule, regulation, stock exchange listing standards, or contractual obligations, (5) such director's contributions to the Company, and (6) any other factors that the Nominating Committee believes are in the best interest of the Company. Following submission of the Nominating Committee's recommendation and within ninety days of certification of the shareholder's vote, the Board shall act on the Nominating Committee's recommendation and publicly disclose their decision and reasons therefor. In determining whether or not

to accept any resignation offer, the Board shall take into account the factors considered by the Nominating Committee and any additional information and factors the Board believes relevant.

Proxy Access

In accordance with our Bylaws, eligible shareholders who have continuously owned at least 3% of our outstanding Common Stock for at least the three immediately preceding years may submit director nominees for inclusion in our proxy materials. Up to 20 eligible shareholders may aggregate their holdings together to reach the 3% ownership threshold. The number of director nominees nominated by an eligible shareholder or a group of eligible shareholders may not be more than 20% of the total number of directors of the Company, but not less than two. Notice of nominations must be received no earlier than 150 days and no later than 120 days prior to the anniversary of the date the Company mailed its proxy for the immediately preceding annual meeting of shareholders, provided that if the current year's annual meeting is not scheduled to be held within a period that commences 30 days before the anniversary date of the immediately preceding annual meeting of shareholders and ending within 30 days after such anniversary, notice of nominations must be given by the later of the close of business on the date which is 180 days prior to the date of the current year's annual meeting or the 10th day following the date the current year's annual meeting is first publicly announced or disclosed.

Nominations of Directors

The Nominating Committee will consider persons recommended by shareholders to become nominees for election as directors. Recommendations for consideration by the Nominating Committee should be sent to the Secretary of the Company in writing together with appropriate biographical information concerning each proposed nominee. Our Bylaws also set forth certain requirements for shareholders wishing to nominate director candidates directly for consideration by the shareholders. With respect to an election of directors to be held at an annual meeting, a shareholder must, among other things, give notice of intent to make such a nomination to the Secretary of the Company not less than 60 days or more than 90 days prior to the second Wednesday in the month of April. In the event, however, that the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from the second Wednesday in the month of April, in order to be timely notice by the shareholder must be received not earlier than the 90th day prior to the date of such annual meeting and not later than the close of business on the later of (i) the 60th day prior to such annual meeting and (ii) the 10th day following the day on which public announcement of the date of such meeting is first made.

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

- A director must display high personal and professional ethics, integrity, and values.
- A director must have the ability to exercise sound business judgment.

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

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

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

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

Compensation Committee Interlocks and Insider Participation

Mr. Nunnally, Dr. Lockhart, Dr. Berwick, and Ms. Bhandari served on the Compensation and Talent Committee during 2022. None of such individuals were our officers or employees at any time during 2022 or as of the date of this Proxy Statement, nor was any such individual a former officer of the Company. In 2022, no member of our Compensation and Talent Committee had any relationship or transaction with us that would require disclosure as a "related person transaction" under Item 404 of Securities and Exchange Commission Regulation S-K in this Proxy Statement under the section entitled *Transactions with Related Persons*.

During 2022, none of our executive officers served as a member of the board of directors or compensation committee (or other board committee performing equivalent functions) of another entity, one of whose executive officers served on our Compensation and Talent Committee. Additionally, during 2022, none of our executive officers served as a member of the compensation committee (or other board committee performing equivalent functions) of another entity, one of whose executive officers served as a member of our Board or Compensation and Talent Committee.

Transactions with Related Persons

Except as otherwise disclosed in this section, we had no related person transactions during 2022, 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.

Mr. Hays, our Chief Executive Officer and director, is an owner of approximately 13% of the equity interests of Nebraska Global Investment Company LLC (“Nebraska Global”). In connection with routine business operations, we purchased certain services from Don’t Panic Labs, LLC (“Don’t Panic Labs”), which was a subsidiary of Nebraska Global for a portion of the year ended December 31, 2022. During the portion of the year ended December 31, 2022 that Don’t Panic Labs was a subsidiary of Nebraska Global, the total value of the purchases from Don’t Panic Labs was \$196,000. These transactions were conducted at arms’ length and approved by the Audit Committee pursuant to our related person transaction policies and procedures.

Communications with the Board of Directors

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

Information About Our Executive Officers

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

Kevin R. Karas, 65, has served as our Chief Financial Officer, Treasurer and Secretary since September 2011, and as Senior Vice President Finance since he joined us in December 2010. From 2005 to 2010, he served as Vice President of Finance for Lifetouch Portrait Studios, Inc., a national retail photography company. Mr. Karas also previously served as Chief Financial Officer at CARSTAR, Inc., an automobile collision repair franchise business, from 2000 to 2005, Chief Financial Officer at Rehab

Designs of America, Inc., a provider of orthotic and prosthetic services, from 1993 to 2000, and as a regional Vice President of Finance and Vice President of Operations at Novacare, Inc., a provider of physical rehabilitation services, from 1988 to 1993. He began his career as a Certified Public Accountant at Ernst & Young.

Jona S. Raasch, 64, has served as our Chief Operating Officer from 1988 to 2011 and from 2014 to present. She has also served as Chief Executive Officer of the Governance Institute, one of our divisions, since May 2006.

Helen L. Hrdy, 58, has served as our Chief Growth Officer since January 2020. Prior to that position Ms. Hrdy served as our Senior Vice President, Customer Success, from January 2012 to January 2020. Prior to this Ms. Hrdy held various positions of increasing responsibility with the Company since 2000.

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

Employee, Officer and Director Hedging

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

2022 DIRECTOR COMPENSATION

Directors who are executive officers of the Company receive no compensation for service as members of either the Board or committees thereof. Directors who are not executive officers of the Company receive an annual fixed fee of \$75,000 for the lead director and \$50,000 for each other director. Directors are also reimbursed for out-of-pocket expenses associated with attending meetings of the Board and committees thereof. Mr. Nunnally has served as our lead director since May 2012.

Pursuant to the National Research Corporation 2004 Non-Employee Director Stock Plan, as amended (the “Director Plan”), each director who is not an associate (i.e., employee) of the Company also receives an annual grant of an option to purchase shares of our Common Stock on the date of each Annual Meeting of Shareholders. For the period from January 1, 2022 to December 31, 2022, each director continuing in office who was not an associate of the Company received a grant of options to purchase shares of our Common Stock with a target grant date fair value of approximately \$100,000, rounded to the nearest whole share and computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation-Stock Compensation (“FASB ASC Topic 718”), or successor rule, on the date of our 2022 annual meeting of shareholders (May 18, 2022). The options were granted with an exercise price equal to the fair market value of our common stock on the date of grant, are scheduled to vest the day immediately preceding the Annual Meeting, and expire on May 18, 2032.

On May 18, 2022 as a discretionary award pursuant to the Director Plan and in connection with her appointment to the Board, the Board granted Ms. Bhandari nonqualified stock options with a grant date fair value of approximately \$100,000, rounded to the nearest whole share and computed in accordance with FASB ASC Topic 718. The options become exercisable on the day immediately preceding the Annual Meeting and expire on May 18, 2032. The grant was made to compensate Ms. Bhandari for agreeing to serve and her future service on the Board and to further align the interests, perspectives and decision-making of our Board with the interests of our shareholders. While the grant was discretionary, it has been the Company’s practice to make such grants to newly appointed directors to assure our Board can recruit and retain the best personnel.

The options granted to our directors during 2022 were granted in accordance with our Board’s standard practice of making annual options grants effective on the date of the annual meeting of shareholders (and, in the case of the discretionary award to Ms. Bhandari, the Board’s standard practice of making discretionary option awards on the date a new director joins the Board). The timing of the grants was not tied to the timing of any release of material nonpublic information.

The following table sets forth information regarding the compensation received by each of our directors during 2022:

<u>Name</u>	<u>Fees Earned or Paid in Cash</u>	<u>Option Awards⁽¹⁾</u>	<u>Total</u>
Donald M. Berwick	\$ 50,000	\$ 100,006	\$ 150,006
Parul Bhandari	\$ 18,733	\$ 200,012 ⁽²⁾	\$ 218,745
Stephen H. Lockhart	\$ 50,000	\$ 100,006	\$ 150,006
John N. Nunnelly	\$75,000	\$ 100,006	\$ 175,006
Penny A. Wheeler	\$ 50,000	\$ 100,006	\$ 150,006

⁽¹⁾ Represents the aggregate grant date fair value of option awards granted during the year, computed in accordance with FASB ASC Topic 718. See Note 9 to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2022, for a discussion of assumptions made in the valuation of share-based compensation. As of December 31, 2022, the outstanding option awards for each director were as follows: Dr. Berwick – 33,367 options; Ms. Bhandari – 24,156 options; Dr. Lockhart – 26,189 options; Mr. Nunnelly – 46,205 options; and Dr. Wheeler – 26,189 options.

⁽²⁾ Includes a one-time discretionary option award granted to Ms. Bhandari upon becoming a member of the Board.

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 2022 Annual Report on Form 10-K with the Company's management and independent registered public accounting firm. Management is responsible for the financial statements and the reporting process, including the system of internal controls. The independent registered public accounting firm is responsible for expressing an opinion on the audited financial statements in conformity with U.S. generally accepted accounting principles and on the Company's internal control over financial reporting.

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

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board (and the Board has approved) that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022, 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 the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

AUDIT COMMITTEE

John N. Nunnally, Chairperson
Donald M. Berwick
Penny A. Wheeler

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding the beneficial ownership of Common Stock as of the Record Date (i.e., March 24, 2023) 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 24,599,815 shares of Common Stock outstanding.

Name of Beneficial Owner	Shares Beneficially Owned	
	Shares	% ⁽¹⁾
Directors and Executive Officers ⁽²⁾		
Michael D. Hays.....	155,869 ⁽³⁾⁽⁴⁾	*
Kevin R. Karas	54,187 ⁽⁴⁾⁽⁵⁾	*
Jona S. Raasch.....	113,253 ⁽⁴⁾⁽⁶⁾	*
Helen L. Hrdy.....	73,145 ⁽⁴⁾	*
Donald M. Berwick	33,367 ⁽⁴⁾	*
Parul Bhandari.....	24,156 ⁽⁴⁾	*
Stephen H. Lockhart.....	26,189 ⁽⁴⁾	*
John N. Nunnelly.....	73,099 ⁽⁴⁾	*
Penny A. Wheeler.....	26,189 ⁽⁴⁾	*
All directors, nominees and executive officers as a group (nine persons).....	579,454 ⁽⁴⁾	2.4%
Other Holders		
Amandla MK Trust and Patrick E. Beans, as the Special Holdings Direction Advisor under this Trust ⁽⁷⁾	5,329,189	21.7%
Common Property Trust, Common Property Trust LLC and Thomas Richardson, as Trustee of Common Property Trust and Manager of Common Property Trust LLC ⁽⁸⁾	4,772,522	19.4%
Kayne Anderson Rudnick Investment Management LLC ⁽⁹⁾	3,224,166	13.1%

* Denotes less than 1%.

⁽¹⁾ In accordance with applicable rules under the Securities Exchange Act of 1934, as amended, the number of shares indicated as beneficially owned by a person includes shares of common stock and shares underlying options that are currently exercisable or will be exercisable within 60 days of March 24, 2023. Shares of common stock underlying stock options that are currently exercisable or will be exercisable within 60 days of March 24, 2023 are deemed to be outstanding for purposes of computing the percentage ownership of the person holding such options, but are not deemed outstanding for purposes of computing the percentage ownership of any other person.

⁽²⁾ The address of all directors and officers is 1245 Q Street, Lincoln, Nebraska 68508.

⁽³⁾ Includes 76,095 shares of Common Stock held by Mr. Hays' wife. Mr. Hays disclaims beneficial ownership of the shares held by his wife.

⁽⁴⁾ Includes shares of Common Stock that may be purchased under stock options which are currently exercisable or exercisable within 60 days of March 24, 2023, as follows: Mr. Hays, 34,734 shares; Mr. Karas, 48,803 shares; Ms. Raasch, 51,371 shares; Ms. Hrdy, 33,729 shares; Dr. Berwick, 33,367 options; Ms. Bhandari, 24,156 options; Dr. Lockhart, 26,189 options; Mr. Nunnelly, 46,205 options; and Dr. Wheeler, 26,189 options; and all directors, nominees and executive officers as a group, 324,743 shares.

⁽⁵⁾ Includes 17,296 shares of Common Stock pledged as security.

⁽⁶⁾ Includes 50,619 shares of Common Stock held indirectly through a trust.

- (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 address for the Common Property Trust and Common Property Trust LLC is 4535 Normal Boulevard, Suite 195, Lincoln, Nebraska 68506. The trustee of Common Property Trust and the manager of Common Property Trust LLC is Thomas Richardson. Mr. Richardson's address is 601 Massachusetts Avenue, NW, Washington, D.C. 20001.
- (9) The number of shares owned set forth above in the table is as of or about December 31, 2022 as reported by Kayne Anderson Rudnick Investment Management LLC ("Kayne Anderson") in its amended Schedule 13G filed with the Securities and Exchange Commission. The address for Kayne Anderson is 2000 Avenue of the Stars, Suite 1110, Los Angeles, California 90067. Kayne Anderson reports sole voting power with respect to 480,018 of these shares; sole dispositive power with respect to 535,249 of these shares; and shared voting and dispositive power with respect to 2,688,917 of these shares. The amended Schedule 13G further provides that the shares noted as beneficially owned by Kayne Anderson include: (i) 2,688,917 shares beneficially owned by Virtus Investment Advisers, Inc., One Financial Plaza, Hartford, Connecticut 06103, for which such person has shared voting and dispositive power, and (ii) 2,409,518 shares beneficially owned by Virtus Equity Trust, on behalf of Virtus KAR Small Cap Growth Fund, 101 Munson Street, Greenfield, Massachusetts 01301, for which such person has shared voting and dispositive power.

DELINQUENT SECTION 16(A) REPORTS

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors, executive officers and any owner of greater than 10% of our Common Stock to file reports with the Securities and Exchange Commission concerning their ownership of our Common Stock. Based solely upon information provided to us by individual directors and executive officers, we believe that, during the fiscal year ended December 31, 2022, all of our directors and executive officers and owners of greater than 10% of our Common Stock complied with the Section 16(a) filing requirements, except that Mr. Hays filed a late Form 4 on March 1, 2023, to report two separate gifts of shares by his spouse that occurred during the fiscal year ended December 31, 2022.

**PROPOSAL NO. 2 – 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, 2023.

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

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

Assuming a quorum is present at the Annual Meeting, the number of votes cast for the ratification of the Audit Committee's appointment of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2023 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 UNANIMOUSLY RECOMMENDS A VOTE "FOR" RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM. SHARES OF THE COMPANY'S COMMON STOCK REPRESENTED BY EXECUTED BUT UNMARKED PROXIES WILL BE VOTED "FOR" RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

COMPENSATION DISCUSSION AND ANALYSIS

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

Overview of Executive Compensation Philosophy

Key features of our compensation program include the following:

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

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

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

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

Role of the Compensation and Talent Committee

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

- Stephen H. Lockhart (Chairperson)
- Donald M. Berwick
- Parul Bhandari
- John N. Nunnally

The Committee is responsible for discharging the Board’s responsibilities with respect to all significant aspects of our compensation policies, programs and plans, and accordingly the Committee determines compensation programs for our executive officers or recommends such programs to the full Board for approval. The Committee also reviews management’s recommendations as to the compensation to be paid to other key personnel and administers our equity-based compensation plans. Periodically, the Committee reviews and determines our compensation and benefit programs, with the objective of ensuring the executive compensation and benefits programs are consistent with our compensation philosophy. The Committee has authority to carry out the foregoing responsibilities under its charter and may delegate such authority to subcommittees of the Committee.

At the time the Committee approved our named executive officers’ 2022 compensation, our most recent review of our compensation and benefit programs was in late 2015, when the Committee engaged Aon Hewitt to review our programs before determining compensation for 2016. In determining compensation levels for our named executive officers in 2022, the Committee did not engage Aon Hewitt or any other compensation consultant to provide advice concerning executive officer compensation.

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

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

In fulfilling its objectives as described above, the Committee took the following steps in determining 2022 compensation levels for our named executive officers:

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

2022 Say on Pay Vote

In May 2022 (after the 2022 executive compensation actions described in this Compensation Discussion and Analysis had taken place), we held our annual non-binding, 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 98% 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 2022 was consistent with our financial performance and the individual performance of each of our executive officers. We also believe that this total compensation was reasonable in its totality and is consistent with our compensation philosophies described above.

CEO Compensation

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

Elements of Compensation

Base Salary

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

Consistent with this practice, the Committee left base salaries unchanged in 2022 for Mr. Hays, Mr. Karas, Ms. Raasch and Ms. Hrdy, maintaining the salary levels in place since 2016 for all named executive officers with the exception of Ms. Hrdy, whose salary level has been unchanged since her appointment as Chief Growth Officer in 2020. 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 the other named executive

officers, the decision was based on our performance and the belief that such named executive officer's salaries were at an appropriate level to retain their talent.

Base salaries paid to our named executive officers 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	70%
Kevin R. Karas	71%
Jona S. Raasch	71%
Helen L. Hrdy	71%

For 2022, base salaries as a percentage of total compensation reflect the fact that no bonuses were earned under the 2022 incentive compensation program, as discussed below.

Annual Cash Incentive

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

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

- Provides total cash compensation to attract and retain key executive talent;
- Aligns pay with organizational performance;
- Focuses executive attention on key business metrics; and
- Provides a significant incentive for achieving and exceeding performance goals.

Under our incentive compensation program, the Committee establishes performance measures for our named executive officers at the beginning of each year. For 2022, the Committee used our overall revenue and net income as performance measures because the Committee believes these are key measures of our ability to deliver value to our shareholders for which our named executive officers have primary responsibility. The Committee weighted the two performance measures equally in determining bonus payouts. The Committee structured the incentive compensation program so that our named executive officers would receive a bonus based on the percentage of growth or decline in overall revenue and net income in 2022 over 2021. Consistent with past years, the Committee structured the incentive compensation program for our named executive officers to require performance representing growth in revenue or net income for any payout to be received.

The Committee structured the incentive compensation program to permit payouts to be earned for any growth in revenue and net income because it believed that providing an incentive to achieve growth

in these measures would provide an effective incentive to the executive officers in 2022. The Committee determined that the bonuses under the incentive compensation program would be equal to the following (subject to a maximum of 200% of base salary): the product of the executive officer's base salary (i) multiplied by the sum of the percentage year over year increase (or decrease) in overall revenue plus the percentage year over year increase (or decrease) in overall net income (ii) multiplied by 2.5. If the foregoing calculation results in a negative amount, then no bonus would be paid under the 2022 incentive compensation plan.

In determining the potential bonus amounts for our named executive officers described above, the Committee concluded that their payouts determined by these formulas were likely to produce results consistent with our past practice of setting annual target payouts at 50% of base salary, and would continue to provide competitive compensation consistent with our goals for annual incentive awards.

The Committee determined that overall revenue grew by 2.4% in 2022 over 2021, while net income declined by 15.1%, therefore no bonuses were earned by our named executive officers for 2022.

Long-Term Equity Incentive

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

- Annual Awards. To provide an additional performance incentive for our executive officers and other key management personnel, our executive compensation package generally includes annual grants of stock options with respect to our common stock.
- New Hire or Promotion Awards. We also award restricted stock grants to newly hired or promoted executive officers during their first year of participation in our equity incentive program to provide greater alignment between the officers' interests and those of our shareholders, and to assist in retention.

Options to purchase shares of common stock are typically granted with a per-share exercise price equal to the closing price of our common stock on the trading day immediately prior to the date of the grant. The value of the option will be dependent on the future market value of the common stock, which we believe helps to align the economic interests of our key management personnel with the interests of our shareholders. To encourage our key management personnel to continue in employment with us, when we grant restricted stock under the 2006 Equity Incentive Plan to executive officers, we generally impose a 5-year restriction period on the grant, pursuant to which the options do not become fully vested and exercisable until the fifth anniversary of the grant date.

In determining equity incentive awards for 2022, the Committee concluded that setting annual equity awards for our named executive officers at a grant date target fair value of approximately 50% of their respective then-current base salaries would provide competitive compensation consistent with our goals for equity awards. The Committee generally grants stock options effective on a date in the first week of January. Accordingly, effective January 4, 2022, the Committee granted options to each of our named executive officers. The timing of grants was not tied to the timing of any release of material nonpublic information. To determine the number of option shares with a grant date target fair value approximately equal to 50% of an executive officer's base salary, the Committee divided 50% of the current base salary by the most recent Common Stock closing price to determine the number of shares that equal 50% of the current base salary. The number of shares were then multiplied by a factor of three

to determine the number of option shares to be granted. The number of options granted to our named executive officers is shown in the Grants of Plan-Based Awards Table.

For 2022, no performance-based equity awards were granted to our named executive officers. The 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. In 2022, we also provided a new associate empowerment benefit (“AEB”) giving associates the option of a \$2,000 401k contribution, Health Savings account contribution or lifestyle spending (cash option).

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.

2022 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 and President; Kevin R. Karas, our Senior Vice President Finance, Chief Financial Officer, Treasurer and Secretary; Jona S. Raasch, our Chief Operating Officer; and Helen L. Hrdy, our Chief Growth Officer. We had no other executive officers, as defined in Rule 3b-7 of the Securities Exchange Act of 1934, as amended, whose total compensation exceeded \$100,000 during 2022. The identification of such named executive officers is determined based on the individual's total compensation for 2022, 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 2022, 2021, and 2020: (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 FASB ASC Topic 718; (3) the dollar value of earnings for services pursuant to awards granted during the year under non-equity incentive plans; (4) all other compensation for the year; and (5) the dollar value of total compensation for the year.

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary (\$)</u>	<u>Option Awards (\$)⁽¹⁾</u>	<u>Non-Equity Incentive Plan Compensation (\$)</u>	<u>All Other Compensation (\$)⁽²⁾</u>	<u>Total (\$)</u>
Michael D. Hays Chief Executive Officer President	2022	\$ 127,400	\$ 49,527	--	\$ 4,246	\$ 181,173
	2021	\$ 127,400	\$ 49,595	\$ 35,672	\$ 4,427	\$ 217,094
	2020	\$ 127,400	\$ 60,258	\$ 62,426	\$ 4,420	\$ 254,504
Kevin R. Karas Senior Vice President Finance, Chief Financial Officer, Treasurer and Secretary	2022	\$ 285,000	\$ 110,792	--	\$ 7,814	\$ 403,606
	2021	\$ 285,000	\$ 110,954	\$ 79,800	\$ 6,798	\$ 482,552
	2020	\$ 285,000	\$ 134,813	\$ 139,650	\$ 6,868	\$ 566,331
Jona S. Raasch Chief Operating Officer	2022	\$ 300,000	\$ 116,628	--	\$ 8,008	\$ 424,636
	2021	\$ 300,000	\$ 116,803	\$ 84,000	\$ 5,351	\$ 506,154
	2020	\$ 300,000	\$ 141,909	\$ 147,000	\$ 6,914	\$ 595,823
Helen L. Hrdy Chief Growth Officer	2022	\$ 285,000	\$ 110,792	--	\$ 6,305	\$ 402,097
	2021	\$ 285,000	\$ 110,954	\$ 79,800	\$ 6,943	\$ 482,697
	2020	\$ 285,000	\$ 118,254	\$ 139,650	\$ 5,410	\$ 548,314

⁽¹⁾ Represents the aggregate grant date fair value of the option awards granted during the year, computed in accordance with FASB ASC Topic 718. See Note 9 to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2022 for a discussion of assumptions made in the valuation of share-based compensation.

⁽²⁾ Includes, for each of our named executive officers, the amount of our 401(k) matching contributions and our health saving account matching contributions including AEB benefits; for Mr. Karas and Mses. Raasch and Hrdy, the amount of our technology allowance; and a lifestyle spending AEB benefit for Ms. Raasch.

GRANTS OF PLAN-BASED AWARDS IN 2022

We maintain the 2006 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 2022.

<u>Name</u>	<u>Grant Date</u>	<u>Date of Committee Action</u>	<u>Threshold (\$)⁽²⁾</u>	<u>Estimated Future Payouts Under Non-Equity Incentive Plan Awards⁽¹⁾</u>		<u>All Other Option Awards: No. of Underlying Options (#)⁽³⁾</u>	<u>Exercise or Base Price of Option Awards (\$)⁽²⁾</u>	<u>Closing Price on Date of Grant (\$)</u>	<u>Grant Date Fair Value of Stock and Option Awards (\$)</u>
				<u>Target (\$)</u>	<u>Maximum (\$)</u>				
Michael D. Hays	1/4/2022	11/16/2021	--	\$ 63,700	\$ 254,800	4,523	\$ 42.25	\$ 41.67	\$ 49,527
Kevin R. Karas	1/4/2022	11/16/2021	--	\$ 142,500	\$ 570,000	10,118	\$ 42.25	\$ 41.67	\$ 110,792
Jona S. Raasch	1/4/2022	11/16/2021	--	\$ 150,000	\$ 600,000	10,651	\$ 42.25	\$ 41.67	\$ 116,628
Helen L. Hrdy	1/4/2022	11/16/2021	--	\$ 142,500	\$ 570,000	10,118	\$ 42.25	\$ 41.67	\$ 110,792

⁽¹⁾ These amounts represent only potential payments under the 2022 incentive plan awards; the actual amounts received (if any) are shown in the Summary Compensation Table above.

⁽²⁾ There were no thresholds for payments under these 2022 incentive plan awards; payments below target would be made for any year-over-year increase in any of the applicable performance measures.

⁽³⁾ The stock option awards were granted under the 2006 Equity Incentive Plan. The exercise price of the stock option awards was equal to the closing stock price on January 3, 2022, the day immediately prior to the grant date.

OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2022

The following table sets forth information on outstanding option awards held by the named executive officers at December 31, 2022, 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.

<u>Name</u>	<u>No. of Securities Underlying Unexercised Options (Exercisable) (#)</u>	<u>Option Awards</u>		
		<u>No. of Securities Underlying Unexercised Options (Unexercisable) (#)</u>	<u>Option Exercise Price (\$)</u>	<u>Option Expiration Date</u>
Michael D. Hays	10,938 ⁽¹⁾⁽²⁾	-	\$ 14.50	01/07/23
	2,904 ⁽¹⁾⁽³⁾	-	\$ 18.80	01/07/24
	10,014 ⁽¹⁾⁽⁴⁾	-	\$ 13.17	01/06/25
	9,145 ⁽¹⁾⁽⁵⁾	-	\$ 15.23	01/05/26
	7,478 ⁽¹⁾⁽⁶⁾	-	\$ 18.80	01/04/27
	-	5,193 ⁽¹⁾⁽⁷⁾	\$ 36.80	01/03/28
	-	4,990 ⁽¹⁾⁽⁸⁾	\$ 38.30	01/03/29
Kevin R. Karas	-	2,904 ⁽¹⁾⁽⁹⁾	\$ 65.80	01/03/30
	-	4,452 ⁽¹⁾⁽¹⁰⁾	\$ 42.92	01/05/31
	-	4,523 ⁽¹⁾⁽¹¹⁾	\$ 42.25	01/04/32
	20,458 ⁽¹⁾⁽⁵⁾	-	\$ 15.23	01/05/26
	16,728 ⁽¹⁾⁽⁶⁾	-	\$ 18.80	01/04/27
	-	11,617 ⁽¹⁾⁽⁷⁾	\$ 36.80	01/03/28
	-	11,162 ⁽¹⁾⁽⁸⁾	\$ 38.30	01/03/29
Jona S. Raasch	-	6,497 ⁽¹⁾⁽⁹⁾	\$ 65.80	01/03/30
	-	9,960 ⁽¹⁾⁽¹⁰⁾	\$ 42.92	01/05/31
	-	10,118 ⁽¹⁾⁽¹¹⁾	\$ 42.25	01/04/32
	21,535 ⁽¹⁾⁽⁵⁾	-	\$ 15.23	01/05/26
	17,608 ⁽¹⁾⁽⁶⁾	-	\$ 18.80	01/04/27
	-	12,228 ⁽¹⁾⁽⁷⁾	\$ 36.80	01/03/28
	-	11,749 ⁽¹⁾⁽⁸⁾	\$ 38.30	01/03/29

Option Awards

<u>Name</u>	<u>No. of Securities</u> <u>Underlying</u> <u>Options</u> <u>(Exercisable) (#)</u>	<u>No. of Securities</u> <u>Underlying</u> <u>Options</u> <u>(Unexercisable)</u> <u>(#)</u>	<u>Option</u> <u>Exercise</u> <u>Price (\$)</u>	<u>Option</u> <u>Expiration Date</u>
	-	6,839 ⁽¹⁾⁽⁹⁾	\$ 65.80	01/03/30
	-	10,485 ⁽¹⁾⁽¹⁰⁾	\$ 42.92	01/05/31
	-	10,651 ⁽¹⁾⁽¹¹⁾	\$ 42.25	01/04/32
Helen L. Hrdy	12,346 ⁽¹⁾⁽⁵⁾	-	\$ 15.23	01/05/26
	12,619 ⁽¹⁾⁽⁶⁾	-	\$ 18.80	01/04/27
	-	8,764 ⁽¹⁾⁽⁷⁾	\$ 36.80	01/03/28
	-	8,420 ⁽¹⁾⁽⁸⁾	\$ 38.30	01/03/29
	-	5,699 ⁽¹⁾⁽⁹⁾	\$ 65.80	01/03/30
	-	9,960 ⁽¹⁾⁽¹⁰⁾	\$ 42.92	01/05/31
	-	10,118 ⁽¹⁾⁽¹¹⁾	\$ 42.25	01/04/32

⁽¹⁾ Option to purchase shares of common stock.

- ⁽²⁾ Options vest in full on the fifth anniversary of the grant date. These options vested on January 7, 2018.
⁽³⁾ Options vest in full on the fifth anniversary of the grant date. These options vested on January 7, 2019.
⁽⁴⁾ Options vest in full on the fifth anniversary of the grant date. These options vested on January 6, 2020.
⁽⁵⁾ Options vest in full on the fifth anniversary of the grant date. These options vested on January 5, 2021.
⁽⁶⁾ Options vest in full on the fifth anniversary of the grant date. These options vested on January 4, 2022.
⁽⁷⁾ Options vest in full on the fifth anniversary of the grant date. These options vested on January 3, 2023.
⁽⁸⁾ Options vest in full on the fifth anniversary of the grant date. These options will vest on January 3, 2024.
⁽⁹⁾ Options vest in full on the fifth anniversary of the grant date. These options will vest on January 3, 2025.
⁽¹⁰⁾ Options vest in full on the fifth anniversary of the grant date. These options will vest on January 5, 2026.
⁽¹¹⁾ Options vest in full on the fifth anniversary of the grant date. These options will vest on January 4, 2027.

OPTION EXERCISES AND STOCK VESTED IN 2022

<u>Name</u>	<u>Option Awards</u>	
	<u>Number of Shares Acquired on Exercise (#)⁽¹⁾</u>	<u>Value Realized on Exercise (\$)⁽²⁾</u>
Michael D. Hays	-	-
Kevin R. Karas	-	-
Jona S. Raasch	23,581	\$ 648,242
Helen L. Hrdy	-	-

⁽¹⁾ Shares of common stock.

⁽²⁾ Amounts represent the product of the number of shares acquired on exercise multiplied by the excess of the market value on the date of exercise over the exercise price per share.

PAY VERSUS PERFORMANCE

<u>Year</u>	<u>Summary Compensation Table Total for PEO</u>	<u>Compensation Actually Paid to PEO ⁽¹⁾</u>	<u>Value of initial fixed \$100 investment based on:</u>				<u>Net Income</u>	<u>Revenue</u>
			<u>Average Summary Compensation Table Total for Non-PEO NEOs</u>	<u>Average Compensation Actually Paid to Non-PEO NEOs ⁽²⁾</u>	<u>Total Shareholder Return</u>	<u>Peer group Total Shareholder Return⁽³⁾</u>		
2022	\$181,173	\$184,526	\$410,113	\$418,936	59.60	109.59	\$31,800	\$151,568
2021	\$217,094	\$207,809	\$490,467	\$469,883	64.98	137.74	\$37,466	\$147,954
2020	\$254,504	\$(329,929)	\$524,435	\$(1,183,288)	65.91	119.96	\$37,260	\$133,277

⁽¹⁾ Mr. Hays was the Principal Executive Officer (“PEO”) for 2022, 2021, and 2020. The following amounts were deducted and added to determine the compensation actually paid to the PEO:

<u>Year</u>	<u>Summary Compensation Table Total for PEO</u>	<u>Deduct Stock and Option Awards Reported in the Summary Compensation Table</u>	<u>Add Awards Granted During the Covered FY that are Outstanding and Unvested as of the End of the Covered FY</u>	<u>Add Change in Fair Value as of the End of the Covered FY for Awards Granted in a Prior FY that are Outstanding and Unvested as of the Covered FY</u>	<u>Add Change in Fair Value as of the Vesting Date for Awards Granted in a Prior FY that Vested During the Covered FY</u>	<u>Compensation Actually Paid to PEO</u>
2022	\$181,173	\$(49,527)	\$54,018	\$(2,257)	1,119	\$184,526
2021	\$217,094	\$(49,595)	\$45,549	\$(7,756)	2,517	\$207,809
2020	\$254,504	\$(60,258)	\$18,190	\$(564,781)	22,416	\$(329,929)

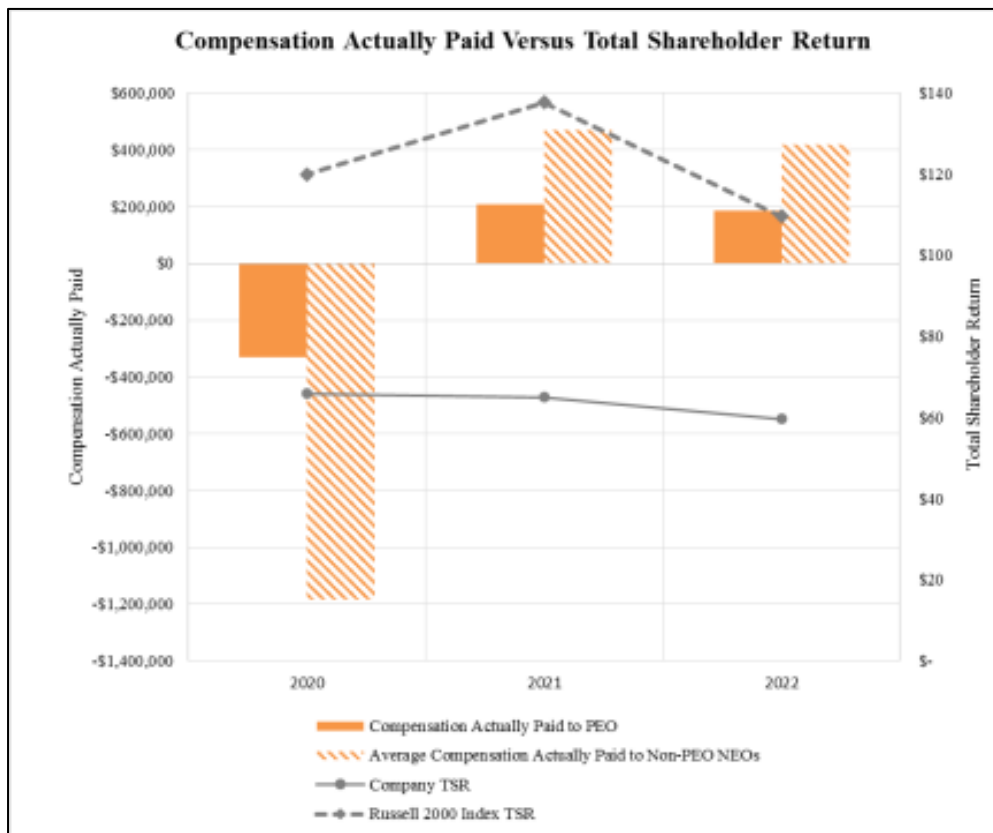
⁽²⁾ Mr. Karas and Ms. Raasch and Hrdy were Non-PEO Named Executive Officers (“NEOs”) during 2022, 2021, and 2020. Steven D. Jackson, our former President, was a non-PEO NEO during 2020. The following average amounts were deducted and added to determine the average compensation actually paid to the non-PEO NEOs:

<u>Year</u>	<u>Average Summary Compensation Table Total for Non-PEO NEOs</u>	<u>Deduct Stock and Option Awards Reported in the Summary Compensation Table</u>	<u>Add Awards Granted During the Covered FY that are Outstanding and Unvested as of the End of the Covered FY</u>	<u>Add Change in Fair Value as of the End of the Covered FY for Awards Granted in a Prior FY that are Outstanding and Unvested as of the Covered FY</u>	<u>Add Change in Fair Value as of the Vesting Date for Awards Granted in a Prior FY that Vested During the Covered FY</u>	<u>Subtract Awards Granted in a Prior FY that Failed to Meet the Applicable Vesting Conditions During the Covered FY</u>	<u>Add Dividends Paid on Awards in the Covered FY Prior to the Vesting Date that are Not Otherwise Included in Total Compensation for the Covered FY</u>	<u>Average Compensation Actually Paid to Non-PEO NEOs</u>
2022	\$410,113	\$(112,737)	\$122,960	\$(3,742)	\$2,342	-	-	\$418,936
2021	\$490,467	\$(112,904)	\$103,693	\$(16,358)	\$4,985	-	-	\$469,883
2020	\$524,435	\$(134,221)	\$29,808	\$(869,318)	\$(98,275)	\$(637,647) ⁽⁴⁾	\$1,930	\$(1,183,288)

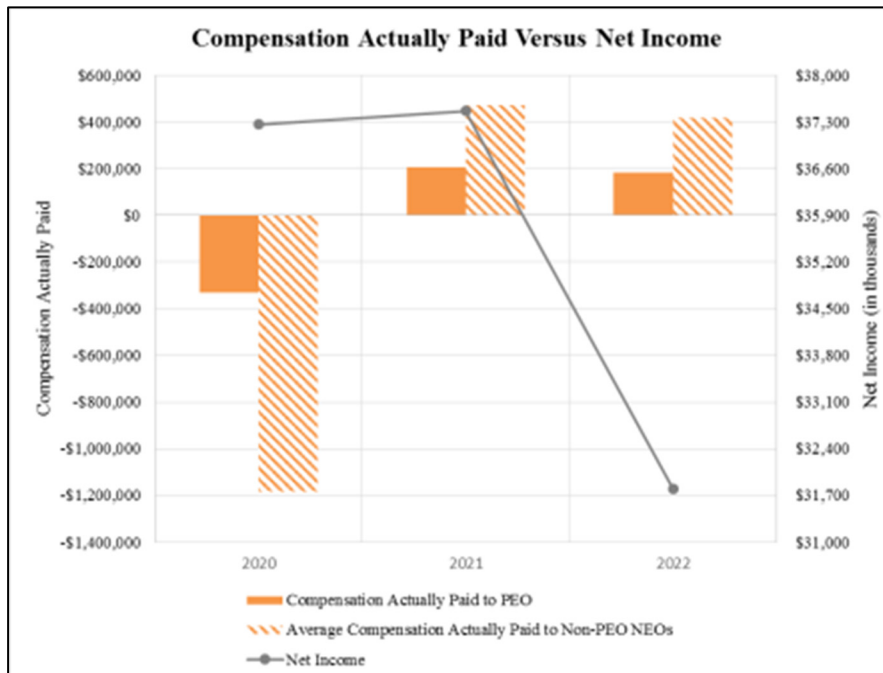
⁽³⁾ Utilizes the Russell 2000 Index, which we also utilize in the stock performance graph required by Item 201(e) of Regulation S-K included in our Form 10-K for the year ended December 31, 2022. Because of the uniqueness of our markets and products and lack of publicly traded peers, we do not believe that a combination of peer issuers can be selected on an industry or line-of-business basis to provide a meaningful basis for comparing shareholder return. Accordingly, the Russell 2000 Index, which is comprised of issuers with generally similar market capitalizations to that of the Company, is included in the table as permitted by applicable regulations. The comparison assumes \$100 was invested for the period starting December 31, 2019, through the end of the listed year in the Company and in the Russel 2000 Index, respectively. Historical stock performance is not necessarily indicative of future stock performance.

⁽⁴⁾ Represents options held by Mr. Jackson that were forfeited upon his resignation in October 2020.

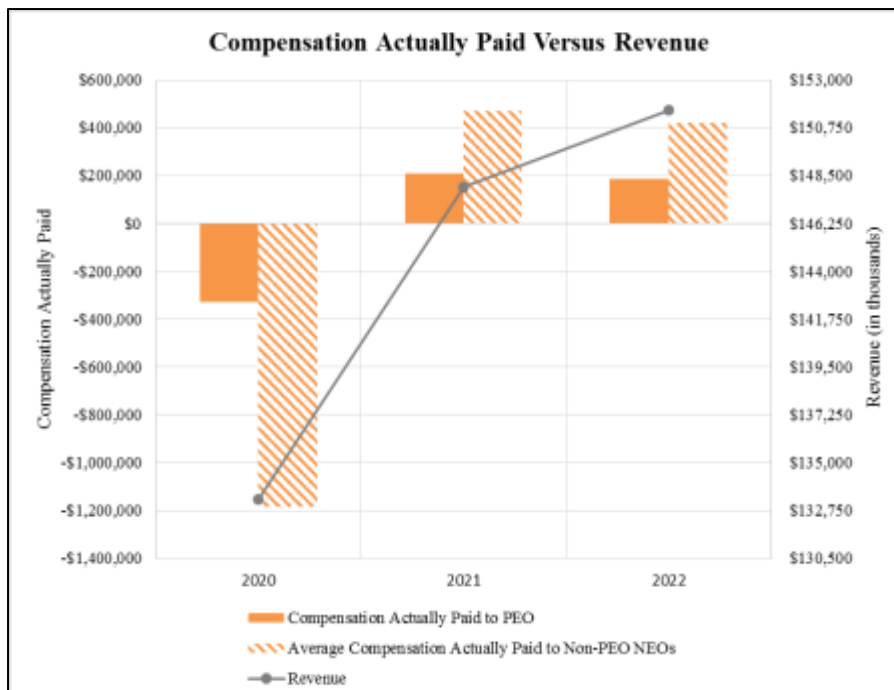
The relationship between the compensation actually paid to the PEO and the average compensation actually paid to the non-PEO NEOs and the cumulative total shareholder return of the Company and the Russell 2000 Index for 2022, 2021, and 2020 is represented by the graph below:



The relationship between the compensation actually paid to the PEO and the average compensation actually paid to the non-PEO NEOs and the Company's net income for 2022, 2021, and 2020 is represented by the graph below:



The relationship between the compensation actually paid to the PEO and the average compensation actually paid to the non-PEO NEOs and the Company's revenue for 2022, 2021, and 2020 is represented by the graph below:



The following tabular list includes the financial performance measures which in the Company's assessment represent the most important financial performance measures used by the Company to link compensation actually paid to the Company's NEO's for 2022 to Company performance.

Important Financial Measures

Net Income
Revenue
Company Stock Price

Risk Assessment of Compensation Policies and Practices

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

COMPENSATION COMMITTEE REPORT

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

Stephen H. Lockhart, Chairperson
Donald M. Berwick
Parul Bhandari
John N. Nunnally

PROPOSAL NO. 3 – NON-BINDING, 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 amended. As discussed in the Compensation Discussion and Analysis above, beginning on page 18, we have designed our executive compensation and benefit programs for our executive officers, including our named executive officers, to advance the following core principles:

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

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

The Board invites you to review carefully the Compensation Discussion and Analysis beginning on page 18 and the tabular and other disclosures on compensation beginning on page 24, and cast a non-binding, advisory vote either for or against the following resolution:

“Resolved, that shareholders approve, on a non-binding, 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, advisory 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, advisory resolution and will be disregarded in the calculation of votes cast. A broker non-vote occurs when a broker submits a proxy card with respect to shares that the broker holds on behalf of another person but declines to vote on a particular matter, either because the broker elects not to exercise its discretionary authority to vote on the matter or does not have authority to vote on the matter.

Based on the outcome of the non-binding, advisory vote on the frequency of shareholder votes on executive compensation at our 2017 annual shareholders meeting, the Company has asked its shareholders to consider a non-binding, advisory vote on the compensation of our named executive officers every year since 2017. When we hold our next non-binding, advisory vote on the compensation of our named executive officers will depend on the outcome of Proposal 4 and our Board’s determination based on those results.

THE BOARD UNANIMOUSLY 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.

PROPOSAL NO. 4 – NON-BINDING, ADVISORY VOTE ON THE FREQUENCY OF FUTURE NON-BINDING, ADVISORY VOTES ON NAMED EXECUTIVE OFFICER COMPENSATION

In accordance with the requirements of Section 14A of the Securities Exchange Act of 1934, as amended, we are also including in this proxy statement a separate resolution to request our shareholders to recommend, in a non-binding, advisory vote, whether a non-binding, advisory shareholder vote to approve executive compensation (that is, a vote similar to the non-binding, advisory vote in Proposal 3 on pages 32 through 33) should occur every one, two, or three years. At the 2017 Annual Meeting, the shareholders voted to hold a non-binding, advisory shareholder vote to approve executive compensation every year.

The Board believes annual non-binding, advisory votes on executive compensation is the best choice for the Company based upon, among other things, the following:

- Our compensation decisions are made annually;
- Annual votes allow our shareholders to provide their feedback on our executive compensation program more frequently;
- Annual votes give us the opportunity of address any shareholder concerns regarding our executive compensation program in a more timely manner; and
- Annual votes are consistent with best governance practices and market preferences.

Accordingly, we are asking our shareholders to approve, in a non-binding, advisory vote, the following resolution in respect of this Proposal 3:

"RESOLVED, that the shareholders be requested to recommend, in a non-binding, advisory vote, whether to approve the compensation of the Company's named executive officers every one, two, or three years."

With respect to Proposal 4 (the non-binding, advisory vote on the frequency of future shareholder non-binding, advisory votes on named executive compensation), shareholders may indicate which of three frequency options (every one year, every two years, or every three years) they prefer, or they may abstain from casting a vote on this proposal. Approval of this matter presented to our shareholders requires a majority of votes cast with respect to the proposal. However, because Proposal 4 contains more than two options for votes cast, if none of the frequency options receives a majority of the votes cast, the option receiving the greatest number of votes will be considered the frequency recommended by our shareholders. Abstentions and broker non-votes will be counted as present in determining whether there is a quorum; however, they will have no effect in determining whether any frequency option has been approved 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 UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE "ONE YEAR" WITH RESPECT TO THE FREQUENCY OF A NON-BINDING, ADVISORY SHAREHOLDER VOTE TO APPROVE THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS. SHARES OF THE COMPANY'S COMMON STOCK REPRESENTED BY EXECUTED BUT UNMARKED PROXIES WILL BE VOTED FOR "ONE YEAR" WITH RESPECT TO THE FREQUENCY OF A NON-BINDING, ADVISORY SHAREHOLDER VOTE TO APPROVE THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS.

CEO PAY RATIO

As required by Item 402(u) of Regulation S-K promulgated under the Securities Exchange Act of 1934, as amended, 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, 2022:

- the median of the annual total compensation of all associates of the Company was reasonably estimated to be \$79,482; and
- the annual total compensation of Mr. Hays was \$181,173.
- 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 2.28 to 1.

Our median associate was originally determined for 2021. For 2022, we used the same median associate, as there has been no change in our associate population or associate compensation arrangements that we believe would significantly impact the pay ratio disclosure.

To calculate the 2022 annual total compensation of our median associate for purposes of this disclosure, we added together all of the elements of our median associate's compensation for 2022 in the same way that we calculate the annual total compensation of our named executive officers in the Summary Compensation Table. To calculate Mr. Hays' annual total compensation, we used the amount reported in the "Total" column of our 2022 Summary Compensation Table. To calculate our ratio, we divided Mr. Hays' annual total compensation by the annual total compensation of our median associate.

MISCELLANEOUS

Independent Registered Public Accounting Firm

KPMG LLP acted as the independent registered public accounting firm for us in 2022. The Audit Committee is solely responsible for the selection, retention, oversight and, when appropriate, termination of our independent registered public accounting firm.

The fees to KPMG LLP for the fiscal years ended December 31, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Audit Fees ⁽¹⁾	\$486,500	\$524,750
Audit-Related Fees ⁽²⁾	146,000	139,000
Tax Fees ⁽³⁾	103,031	111,460
All Other Fees	--	--
Total	<u>\$735,531</u>	<u>\$775,210</u>

(1) Audit of annual financial statements, review of financial statements included in Form 10-Q and other services normally provided in connection with statutory and regulatory filings, including out-of-pocket expenses.

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

(3) Tax consultations and tax return preparation including out-of-pocket expenses. Of this amount, \$88,697 and \$80,630 related to tax return preparation services and \$14,334 and \$30,830 related to tax consulting services in 2022 and 2021, respectively.

The Audit Committee has established pre-approval policies and procedures with respect to audit and permitted non-audit services to be provided by our independent registered public accounting firm. Pursuant to these policies and procedures, the Audit Committee may form, and delegate authority to,

subcommittees consisting of one or more members when appropriate to grant such pre-approvals, provided that decisions of such subcommittee to grant pre-approvals are presented to the full Audit Committee at its next scheduled meeting. The Audit Committee's pre-approval policies do not permit the delegation of the Audit Committee's responsibilities to management. In 2022, the Audit Committee pre-approved all services provided by our independent registered public accounting firm, and no fees to the independent registered public accounting firm were approved pursuant to the de minimis exception under the Securities and Exchange Commission's rules.

Expenses

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

Multiple Shareholders Sharing the Same Address

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

Shareholder Proposals

Matters for Inclusion in the Proxy Materials for the 2024 Annual Meeting of Shareholders

Matters for inclusion in the proxy materials for the 2024 Annual Meeting of Shareholders, other than nominations of directors, must be received by the Company by the close of business on December 8, 2023. All proposals must comply with Rule 14a-8 under the Securities Exchange Act of 1934, as amended.

Matters for Consideration at the 2024 Annual Meeting of Shareholders, but not for Inclusion in the Proxy Materials

Matters for consideration at the 2024 Annual Meeting of Shareholders, but not for inclusion in the proxy materials, must be received by the Company no earlier than January 11, 2024, and no later than February 10, 2024. In the event, however, that the date of the 2024 Annual Meeting of Shareholders, is advanced by more than 30 days or delayed by more than 60 days from the second Wednesday in the month of April, in order to be timely notice by the shareholder must be received no earlier than the 90th day prior to the date of such annual meeting and not later than the close of business on the later of (i) the 60th day prior to such annual meeting and (ii) the 10th day following the day on which public announcement of the date of such meeting is first made. The proposal must meet all the requirements set forth in our Bylaws.

Nominations of Individuals for Election as Directors at the 2024 Annual Meeting of Shareholders Using Proxy Access

Our Bylaws include a proxy access provision. Shareholders who meet the requirements set forth in our Bylaws may submit director nominations for inclusion in the proxy materials. Proxy access nominations for the 2024 Annual Meeting of Shareholders must be received by the Company no earlier than November 8, 2023 and no later than December 8, 2023. However, if the date of the 2024 Annual Meeting of Shareholders is more than thirty days before or after May 11, 2024, then the deadline for submitting any such proxy access nominations is the later of the close of business on the date that is 180 days prior to the date of the 2024 Annual Meeting of Shareholders or the tenth day following the date that such date of the 2024 Annual Meeting of Shareholders is first publicly announced or disclosed. Proxy access nominations must meet all the requirements set forth in our Bylaws and include the additional information required by Rule 14a-19(b) under the Securities Exchange Act of 1934, as amended.

Nominations of Individuals for Election as Directors at the 2024 Annual Meeting of Shareholders (other than through Proxy Access)

Under our Bylaws, notice by shareholders who intend to nominate directors at the 2024 Annual Meeting of Shareholders (other than through proxy access as described above) must be received by the Company no earlier than January 11, 2024, and no later than February 10, 2024. In the event, however, that the date of the 2024 Annual Meeting of Shareholders, is advanced by more than 30 days or delayed by more than 60 days from the second Wednesday in the month of April, in order to be timely notice by the shareholder must be received no earlier than the 90th day prior to the date of such annual meeting and not later than the close of business on the later of (i) the 60th day prior to such annual meeting and (ii) the 10th day following the day on which public announcement of the date of such meeting is first made. The notice of director nomination must meet all the requirements set forth in our Bylaws.

By Order of the Board of Directors
NATIONAL RESEARCH CORPORATION

/s/ Kevin R. Karas

Kevin R. Karas

Secretary

April 6, 2023

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2022

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)

Delaware

(State or other jurisdiction of
incorporation or organization)

47-0634000

(I.R.S. Employer
Identification No.)

1245 Q Street, Lincoln, Nebraska 68508

(Address of principal executive offices) (Zip Code)

(402) 475-2525

(Registrant's telephone number, including area code)

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

Title of Each Class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$.001 par value	NRC	The NASDAQ stock market

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer 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(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

Aggregate market value of the common stock held by non-affiliates of the registrant at June 30, 2022: \$444,018,792.

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

Common Stock, \$.001 par value, outstanding as of February 23, 2023: 24,594,390

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2023 Annual Meeting of Shareholders are incorporated by reference into Part III.

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PART I

Item 1. Business

Special Note Regarding Forward-Looking Statements

Certain matters discussed in this Annual Report on Form 10-K are “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements can generally be identified as such because the context of the statement includes phrases such as National Research Corporation, doing business as NRC Health (“NRC Health,” the “Company,” “we,” “our,” “us” or similar terms), “believes,” “expects,” “may,” “could,” “anticipates,” “estimates,” “plans,” “intends,” or the use of words such as “would,” “will,” “may,” “could,” “goal,” “focus,” or “should,” or other words of similar import. Similarly, statements that describe our future plans, objectives or goals are also forward-looking statements. In this Annual Report on Form 10-K, statements regarding the value and utility of, and market demand for, our service offerings, future opportunities for growth with respect to new and existing clients, our future ability to compete and the types of firms with which we will compete, future consolidation in the healthcare industry, future adequacy of our liquidity sources, future revenue sources, future revenue growth, future revenue estimates used to calculate recurring contract value, the expected impact of economic factors, including inflation, future capital expenditures including, without limitation, our headquarters renovation costs, and the timing, amount, and sources of cash to fund such capital expenditures, future stock repurchases and dividends, the expected impact of pending claims and contingencies, the future outcome of uncertain tax positions, our future use of owned and leased real property, the expected impact of the conflict in Ukraine, and the expected impact of the COVID-19 pandemic, among others, are forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties which could cause actual results or outcomes to differ materially from those currently anticipated. Factors that could affect actual results or outcomes include, without limitation, the following factors:

- The possibility of non-renewal of our client service contracts, reductions in services purchased or prices, and failure to retain key clients;
- Our ability to compete in our markets, which are highly competitive with new market entrants, and the possibility of increased price pressure and expenses;
- The likelihood that the COVID-19 or other pandemic will adversely affect our operations, sales, earnings, financial condition and liquidity;
- The likelihood that the ongoing Russian-Ukraine conflict will adversely affect our operations, sales, earnings, financial condition and liquidity;
- The effects of an economic downturn;
- The impact of consolidation in the healthcare industry;
- The impact of federal healthcare reform legislation or other regulatory changes;
- Our ability to attract and retain key managers and other personnel;
- The possibility that our intellectual property and other proprietary information technology could be copied or independently developed by our competitors;
- The possibility for failures or deficiencies in our information technology platform;
- The possibility that we or our third-party providers could be subject to cyber-attacks, 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 and various disclosures in our press releases, stockholder reports, and other filings with the Securities and Exchange Commission.

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

General

For more than 40 years, NRC Health has led the charge to humanize healthcare and support organizations in their understanding of each unique individual. NRC Health's commitment to Human Understanding® helps leading healthcare systems get to know each person they serve not as point-in-time insights, but as an ongoing relationship. Guided by its uniquely empathic heritage, NRC Health's patient-focused approach, unmatched market research, and emphasis on consumer preferences are transforming the healthcare experience, creating strong outcomes for patients and entire healthcare systems.

Our end-to-end solutions enable our clients to understand what matters most to each person they serve – before, during, after, and beyond clinical encounters – to gain a longitudinal understanding of how life and health intersect, with the goal of developing lasting, trusting relationships. Our ability to measure what matters most and systematically capture, analyze, and deliver insights based on self-reported information from patients, families, and consumers is critical in today's healthcare market. We believe access to and analysis of our extensive consumer-driven information is increasingly valuable as healthcare providers need to better understand and engage the people they serve to create long-term relationships and build loyalty.

Our expertise includes the efficient capture, transmittal, analysis, and interpretation of critical data elements from millions of healthcare consumers. Using our solutions, our partners gain insights into what people think and feel about their organizations in real-time, allowing them to build on their strengths and implement service recovery with greater speed and personalization. We also provide legacy experience-based solutions and shared intelligence from industry thought leaders and the nation's largest member network focused on healthcare governance and strategy to member boards and executives.

Our portfolio of subscription-based solutions provides actionable information and analysis to healthcare organizations across a range of mission-critical, constituent-related elements, including patient experience, service recovery, care transitions, employee engagement, reputation management, and brand loyalty. We partner with clients across the continuum of healthcare services and believe this cross-continuum positioning is a unique and an increasingly important capability as evolving payment models drive healthcare providers and payers towards a more collaborative and integrated service model.

We have a broad and diversified client base that is distributed primarily across the United States. Our ten largest clients collectively accounted for 15%, 14%, and 14% of our total revenue in 2022, 2021 and 2020, respectively. Approximately 1%, 2% and 2% of our revenue was derived from foreign customers in 2022, 2021, and 2020, respectively.

We have achieved a market leadership position through our more than 40 years of industry innovation and experience, as well as our long-term, recurring revenue relationships (solutions that are used or required by a client each year) with many of the healthcare industry's largest organizations. Since our founding in 1981, we have focused on meeting the evolving information needs of the healthcare industry through internal product development, as well as select acquisitions. We are a Delaware corporation headquartered in Lincoln, Nebraska.

Human Understanding Solutions

NRC Health recognizes that behind every person is a story. We help our partners get to know each person they serve - their behaviors, preferences, wants, and needs—not as point-in-time insights, but as an ongoing relationship.

With the complexity and demands associated with healthcare delivery today, seeing the whole picture is now more important than ever. The end-to-end Human Understanding solutions are designed to help capture and act on what matters most to patients and their families.

The Human Understanding solutions deliver the capabilities needed to turn strategic aspiration into action in critical focus areas. Each set of capabilities unlocks Human Understanding at the right time and place to improve care, enhance performance, and catalyze growth.

Our digital solutions consist of three primary solution categories which can be implemented both collectively as an enterprise solution or individually to meet specific needs within the organization. The primary solution categories include Marketing, Reputation, and Experience.

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

Experience Solutions – Our Experience solutions are provided on a subscription basis via a cross-continuum multi-mode digital platform that collects and measures data and then delivers business intelligence that our clients utilize to improve patient experience, engagement and loyalty. Patient experience data can also be collected on a periodic basis using Consumer Assessment of Healthcare Providers and Systems (“CAHPS”) compliant mail and telephone survey methods for regulatory compliance purposes and to monitor and measure improvement in CAHPS survey scores. CAHPS survey data can be collected and measured as an integrated service within our digital platform or independently as a legacy service offering. Our Experience solutions provide healthcare systems with the ability to receive and act on customer and employee feedback across all care settings in real-time. Experience solutions include patient experience, workforce engagement, health risk assessments, care transition, and improvement tools. These solutions enable clients to comply with regulatory requirements and to improve their reimbursement under value-based purchasing models. More importantly, our Experience solutions provide quantitative and qualitative real-time feedback, improvement plans, and coaching insights. By illuminating the complete care journey in real time, our clients can ensure each individual receives the care, respect, and experience they deserve. Developing a longitudinal profile of what healthcare customers want and need allows for organizational improvement and increased customer loyalty.

Our Experience solutions also include tools to drive effective communication between healthcare providers and patients in the critical 24-72 hours post discharge using an automated discharge call workflow supported by our digital platform. 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.

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

The Governance Institute

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

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

Markets

Growth Strategy

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

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

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

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

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

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

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

Competition

The healthcare information and market research services industry is highly competitive. We have traditionally competed with healthcare organizations' internal marketing, market research, and/or quality improvement departments which create their own performance measurement tools, and with relatively small specialty research firms which provide survey-based healthcare market research and/or performance assessment. Our primary competitors among such specialty firms include Press Ganey, which we believe has significantly higher annual revenue than us, and several other organizations that we believe have less annual revenue than us. We also compete with market research firms and technology solutions which provide survey-based, general market research or voice of the customer feedback capabilities and firms that provide services or products that complement healthcare performance assessments such as healthcare software or information systems.

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

Although only a few of these competitors have offered specific services that compete directly with our solutions, many of these competitors have substantially greater financial, information gathering, and marketing resources than us and could decide to increase their resource commitments to our market. There are relatively few barriers to entry into our market, and we expect increased competition in our market which could adversely affect our operating results through pricing pressure, increased marketing expenditures, and market share losses, among other factors. There can be no assurance that we will continue to compete successfully against existing or new competitors.

We believe that our competitive strengths include the following:

A leading provider of patient experience solutions for healthcare providers and other healthcare organizations. Our history is based on capturing the voice of the consumer in healthcare markets. Our solutions build on the “Eight Dimensions of Patient-Centered Care,” a philosophy developed by noted patient advocate Harvey Picker, who believed patients’ experiences are integral to quality healthcare. This foundation has been enhanced through our digital platform offering that provides the delivery of data and insights on a real time basis to understand what matters most to each individual. Based on our more than 40 years of experience, we are able to deliver unique and relevant healthcare domain expertise to the clients we serve.

Established client base of leading healthcare organizations. Our client portfolio encompasses a majority of the leading healthcare systems across the United States. Over 270 of the top 400 healthcare systems based on net patient revenue are currently using one or more of our solutions. Our client base provides a unique network effect to share best practices among existing clients and to attract new clients. Our existing client base also provides a significant organic growth opportunity to upsell and cross sell additional solutions.

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

Comprehensive portfolio of solutions. Our portfolio of subscription-based solutions provides actionable information and analysis to healthcare organizations across a range of mission-critical, constituent-related elements, including patient experience, service recovery, care transitions, employee engagement, reputation management, and brand loyalty. Our end-to-end solutions enable our clients to understand what matters most to each person they serve – before, during, after, and beyond clinical encounters – to gain a longitudinal understanding of each individual. We partner with clients across the continuum of healthcare services and believe this cross-continuum positioning is a unique and an increasingly important capability as evolving payment models drive healthcare providers and payers towards a more collaborative and integrated service model.

Exclusive focus on healthcare. We focus exclusively on healthcare and serving the unique needs of healthcare organizations across the continuum, which we believe gives us a distinct competitive advantage compared to other survey and analytics software providers. Our value proposition incorporates the benefits to clients derived from our deep subject matter expertise that has been built from helping healthcare organizations over the past 40 years. Our platform includes features and capabilities built specifically for healthcare providers, including a library of performance improvement content which can be tailored to the provider based on their specific customer feedback profile.

Experienced senior management team led by our founder. Our senior management team has extensive industry and leadership experience. Michael D. Hays, our Chief Executive Officer and President, founded NRC Health in 1981. Prior to launching the Company, Mr. Hays served as Vice President and as a Director of SRI Research Center, Inc. (now known as the Gallup Organization). Our Chief Financial Officer, Kevin Karas, CPA, has extensive financial experience having served as CFO at two previous companies, along with healthcare experience at Rehab Designs of America, Inc. and NovaCare, Inc. Jona Raasch has served as our Chief Operating Officer for most of the last 31 years and as Chief Executive Officer of the Governance Institute for more than 15 years. Helen Hrdy was appointed as our Chief Growth Officer in 2020. Prior to this position Ms. Hrdy served as our Senior Vice President, Customer Success, for eight years.

Resources

Our success depends in part upon our data collection processes, 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 for most of our intellectual property. Consequently, we rely on a combination of copyright and trade secret laws and associate nondisclosure agreements to protect our systems, survey instruments and procedures. There can be no assurance that the steps we have taken to protect our rights will be adequate to prevent misappropriation of such rights or that third parties will not independently develop functionally equivalent or superior systems or procedures. We believe that our systems and procedures and other proprietary rights do not infringe upon the proprietary rights of third parties. There can be no assurance, however, that third parties will not assert infringement claims against us in the future or that any such claims will not result in protracted and costly litigation, regardless of the merits of such claims or whether we are ultimately successful in defending against such claims.

Government Regulation

According to the Centers for Medicare and Medicaid Services (“CMS”), health expenditures in the United States were approximately \$4.3 trillion in 2021, or \$12,914 per person. In total, health spending accounted for 18.3% of the nation’s Gross Domestic Product in 2021. Addressing this growing expenditure burden continues to be a major policy priority at both federal and state levels. In addition, increased co-pays and deductibles in healthcare plans have focused even more consumer attention on health spending and affordability. In the public sector, Medicare provides health coverage for individuals aged 65 and older, while Medicaid provides coverage for low-income families and other individuals in need. Both programs are administered by the CMS. With the aging of the U.S. population, Medicare enrollment has increased significantly. In addition, longer life spans and greater prevalence of chronic illnesses among both the Medicare and Medicaid populations have placed tremendous demands on the health care system.

An increasing percentage of Medicare reimbursement and reimbursement from commercial payers has been determined under value payment models, based on factors such as patient readmission rates and provider adherence to certain quality-related protocols. At the same time, many hospitals and other providers are creating new models of care delivery to improve patient experience, reduce cost and provide better clinical outcomes. These new models are based on sharing financial risk and managing the health and behaviors of large populations of patients and consumers. This transformation towards value-based payment models and increased engagement of healthcare consumers is resulting in a greater need for existing healthcare providers to deliver more customer-centric healthcare. At the same time, organizations that have successfully developed effective customer service models and brand loyalty in other industry verticals are entering the healthcare services market.

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

Human Capital

As of December 31, 2022, we employed a total of 491 associates. None of our associates are represented by a collective bargaining unit. The majority of our associates work remotely. We attract a passionate team of associates who care deeply about making a difference in advancing “Human Understanding” in healthcare. We consider our relationships with our associates to be good.

We are committed to providing a workplace free of harassment or discrimination based on race, color, religion, sex, sexual orientation, gender identity, national origin, genetic information, ancestry, veteran status, or disability. We are an equal opportunity employer committed to inclusion and diversity.

Available Information

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

Item 1A. Risk Factors

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

Risks Related to our Business

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

We expect that a substantial portion of our revenue for the foreseeable future will continue to be derived from renewable service contracts. Substantially all contracts are renewable annually at the option of our clients, although contracts with clients under unit-based arrangements generally have no minimum purchase commitments. Client contracts are generally cancelable on short notice without penalty, however we are entitled to payment for services through the cancellation date. To the extent that clients fail to renew or defer their renewals, we anticipate our results may be materially adversely affected. We rely on a limited number of key clients for a substantial portion of our revenue. Our ten largest clients collectively accounted for 15%, 14%, and 14% of our total revenue in 2022, 2021 and 2020, 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.

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

The healthcare information and market research services industry is highly competitive. We have traditionally competed with healthcare organizations' internal marketing, market research and/or quality improvement departments that create their own performance measurement tools, and with relatively small specialty research firms that provide survey-based healthcare market research and/or performance assessment. Our primary competitors among such specialty firms include Press Ganey, which we believe has significantly higher annual revenue than us, and three or four other firms that we believe have lower annual revenue than us. We also compete with market research firms and technology solutions which provide survey-based, general market research or voice of the customer feedback capabilities and firms that provide services or products that complement healthcare performance assessments, such as healthcare software or information systems. Although only a few of these competitors have offered specific services that compete directly with our services, many of these competitors have substantially greater financial, information gathering, and marketing resources than us and could decide to increase their resource commitments to our market. Furthermore, we do not have a publicly traded group of peers, which makes it difficult to compare and benchmark performance to other similar companies. There are relatively few barriers to entry into our market, and we expect increased competition in our market which could adversely affect our operating results through pricing pressure, increased marketing expenditures, and market share losses, among other factors. There can be no assurance that we will continue to compete successfully against existing or new competitors.

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

Substantially all of our revenue is derived from clients in the healthcare industry. As a result, our business, financial condition and results of operations are influenced by conditions affecting this industry, including changing political, economic, competitive and regulatory influences that may affect the procurement practices and operation of healthcare providers and payers. Future legislative changes, including additional provisions to control healthcare costs, improve healthcare quality and expand access to health insurance, could result in lower reimbursement rates and otherwise change the environment in which providers and payers operate. In addition, large private purchasers of healthcare services are placing increasing cost pressure on providers. Healthcare providers may react to these cost pressures and other uncertainties by curtailing or deferring purchases, including purchases of our services.

Moreover, there has been consolidation of companies in the healthcare industry, a trend which we believe will continue to grow. Consolidation in this industry, including the potential acquisition of certain of our clients, could adversely affect aggregate client budgets for our services, could result in clients performing more marketing, market research and/or quality improvement functions internally or could result in the termination of a client's relationship with us. The impact of these developments on the healthcare industry is difficult to predict and could have an adverse effect on our revenue and a corresponding effect on our operating and net income.

We could be negatively impacted by the Coronavirus or "COVID-19" pandemic or other outbreaks or pandemics.

The outbreak of COVID-19, and the associated responses, have impacted our business in a variety of ways, including business and travel restrictions, recommended social distancing and other guidelines. During the COVID-19 pandemic or other outbreaks or pandemics, businesses, including our clients, may de-emphasize external business opportunities and restrict in-person meetings while shifting their attention toward addressing COVID-19 or pandemic planning, business disruptions, higher costs, and revenue shortfalls. We rely on third-party service providers and business partners, for services or supplies that are critical to providing our clients' services. These third parties are also subject to risks and uncertainties related to the COVID-19 pandemic or similar outbreaks, which may interfere with their ability to provide their services in a timely manner and in accordance with the agreed-upon terms or our agreements, which could interfere with our ability to operate our business.

To the extent the COVID-19 pandemic or other similar outbreaks adversely affects the Company's business, results of operations, financial condition and stock price, it may also have the effect of heightening many of the other risks described in this Part I, Item 1A of this Form 10-K.

We could be negatively impacted by the Russian-Ukraine conflict or similar global events.

The Russian-Ukraine conflict, and any expansion of the Russian-Ukraine conflict, could adversely affect our business and operations. We outsource certain software development services to third parties in the Ukraine. Since the onset of the active Russian-Ukraine conflict, our contractors have been able to continue their work. However, those services could be more negatively impacted in the future.

Civil unrest, political instability or uncertainty, military activities, utility service breakdowns or broad-based sanctions, should they continue for the long term or escalate, could interrupt our contractors' ability to provide services and require our associates to perform the services or replace the contractors which could have an adverse effect on our operations and financial performance, including higher volatility in foreign currency exchange rates, increased use of less cost-efficient resources and negative impacts to our business resulting from deteriorating general economic conditions. Further, we cannot predict the impact of the military actions and any heightened military conflict or geopolitical instability that may follow, including additional sanctions or countersanctions, heightened inflation, cyber disruptions or attacks, higher energy costs, and supply chain disruptions.

General economic factors could adversely impact our profitability.

Negative changes in general economic conditions, in the geographic areas in which we operate may reduce our profitability. An economic downturn and inflationary pressures can reduce the demand for our services and result in termination as well as slower client payments or client defaults on receivables. Additionally, in 2022, we experienced increased costs including the costs of labor, contracted services, costs associated with our building improvements and equipment purchases and we expect elevated levels of inflation to continue in 2023. Inflation may increase our costs without a corresponding increase in our contract revenue due to fixed contract arrangements, which could result in decreased margins and profitability.

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. If survey operations are disrupted and we are unable to process surveys in a timely manner, then our revenue and net income could be negatively impacted. 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 outreach and data collection 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.

If receptivity to our survey 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.

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 do not hold patents for our intellectual property. Consequently, we rely on a combination of copyright, trade secret laws and associate nondisclosure agreements to protect our systems, survey instruments and procedures. We cannot assure you that the steps we have taken to protect our rights will be adequate to prevent misappropriation of such rights, or that third parties will not independently develop functionally equivalent or superior systems or procedures. We believe that our systems and procedures and other proprietary rights do not infringe upon the proprietary rights of third parties. We cannot assure you, however, that third parties will not assert infringement claims against us in the future, or that any such claims will not result in protracted and costly litigation, regardless of the merits of such claims, or whether we are ultimately successful in defending against such claims.

Failures, interruptions or deficiencies in our information technology and communications systems could negatively impact our business and operating results.

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

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

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

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

In addition, the risk of cyber-attacks has increased in connection with the military conflict between Russia and Ukraine and the resulting geopolitical conflict. In light of those and other geopolitical events, nation-state actors or their supporters may launch retaliatory cyber-attacks, and may attempt to cause supply chain and other third-party service provider disruptions, or take other geopolitically motivated retaliatory actions that may disrupt our business operations, result in data compromise, or both. Nation-state actors have in the past carried out, and may in the future carry out, cyber-attacks to achieve their aims and goals, which may include espionage, information operations, monetary gain, ransomware, disruption, and destruction. In February 2022, the U.S. Cybersecurity and Infrastructure Security Agency issued a "Shields Up" alert for American organizations noting the potential for Russia's cyber-attacks on Ukrainian government and critical infrastructure organizations to impact organizations both within and beyond the United States, particularly in the wake of sanctions imposed by the United States and its allies. These circumstances increase the likelihood of cyber-attacks and/or security breaches.

We were the target of an external cyber-attack in February 2020 (the "February incident") which resulted in a temporary suspension of our services to clients. One of our third-party service providers was the target of an external cyber-attack in December 2022 which resulted in a temporary suspension of certain services to our clients. In both instances no protected data was compromised or exfiltrated. We, and our service providers, will likely continue to be the target of other attempted cyber-attacks and security threats. Such cyber-attacks may subject us to litigation and regulatory risk, civil and criminal penalties, additional costs and diversion of management attention due to investigation, remediation efforts and engagement of third-party consultants and legal counsel in connection with such incidents, payment of "ransoms" to regain access to our systems and information, loss of clients, damage to client relationships, reduced revenue and profits, refunds of client charges and damage to our reputation, any of which could have a material adverse effect on our business, cash flows, financial condition and results of operations. While we have contingency plans and insurance coverage for potential liabilities of this nature, they may not be sufficient to cover all claims and liabilities and in some cases are subject to deductibles and layers of self-insured retention.

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

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

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

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

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

Our ability to maintain a positive 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; failure to adequately preserve information security; 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.

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.

Risks Related to our Common Stock

Our principal shareholders effectively control the Company.

A majority of our common stock and voting power was historically owned and/or held by Michael D. Hays, our Chief Executive Officer and President. However, over the years Mr. Hays, for estate planning purposes, gifted and/or transferred almost all of his directly owned shares to trusts for the benefit of his family. Currently, the principal holders of shares previously owned by Mr. Hays are the Common Property Trust and the Amandla MK Trust (collectively the “Trusts”).

As of February 23, 2022, approximately 41.1% of our outstanding common stock was owned by the Trusts and approximately 50.8% of our outstanding common stock was held by the Trusts and other entities owned or controlled by members of Mr. Hays’ family. As a result, the Trusts and these other entities have the power to indirectly control decisions such as whether to issue additional shares or declare and pay dividends and can control matters requiring shareholder approval, including the election of directors and the approval of significant corporate matters such as change of control transactions. The effects of such influence could be to delay or prevent a change of control of the Company unless the terms are approved by the Trusts and these other entities.

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

The market price and trading volume of our common stock has historically been and may continue to be highly volatile, and investors in our common stock may experience a decrease in the value of their shares, including decreases that are in response to factors beyond our control, including, but not limited to:

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

Any of these factors, among others, may result in changes in the trading volume and/or market price of our common stock. Following periods of volatility in the market price of 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.

General Risk Factors

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

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

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 and President, 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. 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.

Like many other companies, we experienced higher attrition rates the last two years. We may incur higher costs to attract, train and retain these associates. Attrition in our sales and service areas can also impact our ability to retain and attract new business. We may need to develop or adapt to new ways of doing business that challenge our leadership, our associate training, our human resources, and our business practices, and we cannot assure you that we will be successful in doing so. The short and long-term costs associated with these potential changes are difficult to quantify.

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.

Item 1B. Unresolved Staff Comments

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

Item 2. Properties

Our headquarters is located in an owned office building in Lincoln, Nebraska, of which 62,000 square feet have been used for operations. Our credit facilities are secured by this property and our other assets. We are currently renovating the building and expect renovations to complete in 2024. In February 2021, we began leasing 19,300 square feet of space in Lincoln, Nebraska for our mail survey processing operations that were previously housed at our headquarters.

We are leasing 4,000 square feet of office space in Markham, Ontario through February 2024, which we vacated as of October 2022. In addition, we lease 1,000 square feet of office space in Bethel, Connecticut. We are subleasing as a sublessor 4,300 square feet of office space in Seattle, Washington. We were leasing 300 square feet of office space in Atlanta, Georgia on a month-to-month lease which we ended in February 2023.

Item 3. Legal Proceedings

From time to time, we are involved in certain claims and litigation arising in the normal course of business. Management assesses the probability of loss for such contingencies and recognizes a liability when a loss is probable and estimable. For additional information, see Note 1, under the heading “Commitments and Contingencies,” to our consolidated financial statements. Regardless of the final outcome, any legal proceedings, claims, inquiries and investigations, however, can impose a significant burden on management and employees, may include costly defense and settlement costs, and could cause harm to our reputation and brand, and other factors.

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

We have one class of outstanding capital stock, which is our Common Stock, par value \$.001 per share (“Common Stock”). Our Common Stock trades on the NASDAQ Global Select Market under the symbol “NRC”.

Cash dividends in the aggregate amount of \$20.9 million, \$12.2 million and \$5.3 million were declared in 2022, 2021 and 2020 respectively. The payment and amount of future dividends, if any, is at the discretion of our Board of Directors and will depend on our future earnings, financial condition, general business conditions, alternative uses of our earnings and cash and other factors.

On February 14, 2023, there were approximately 10 shareholders of record and approximately 13,661 beneficial owners of our Common Stock.

In February 2006 and subsequently amended in May 2013, our Board of Directors authorized the repurchase of up to 2,250,000 shares of Common Stock in the open market or in privately negotiated transactions under a stock repurchase program (the “2006 Program”). In 2022, we repurchased all the remaining shares authorized for repurchase under the 2006 Program. In May 2022, our Board of Directors approved a new stock repurchase authorization of 2,500,000 shares of Common Stock (the “2022 Program”).

The table below summarizes repurchases of Common Stock during the three-month period ended December 31, 2022.

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(1)</u>
Oct 1 – Oct 31, 2022	—	—	—	1,987,517
Nov 1 – Nov 30, 2022	51,083	36.69	51,083	1,936,434
Dec 1 – Dec 31, 2022	11,990	36.96	11,990	1,924,444
Total	63,073		63,073	

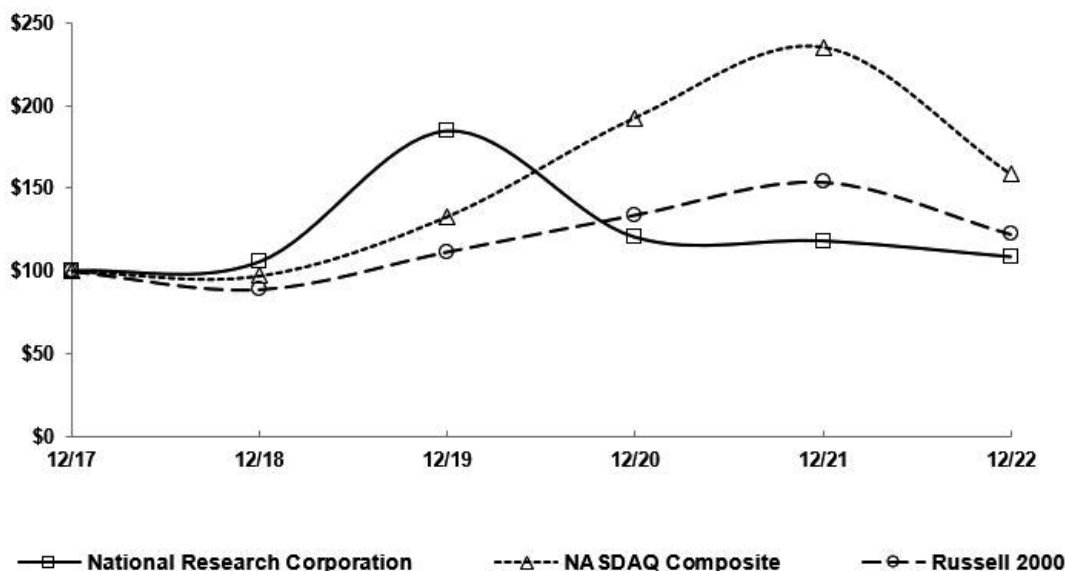
(1) Shares were repurchased pursuant to the 2022 program.

See Item 12 in Part III of this Annual Report on Form 10-K for certain information concerning shares of our Common Stock authorized for issuance under our equity compensation plans.

The following graph compares the cumulative 5-year total return provided shareholders on our Common Stock relative to the cumulative total returns of the NASDAQ Composite Index and the Russell 2000 Index. Because of the uniqueness of our markets and products and lack of publicly traded peers, we do not believe that a combination of peer issuers can be selected on an industry or line-of-business basis to provide a meaningful basis for comparing shareholder return. Accordingly, the Russell 2000 Index, which is comprised of issuers with generally similar market capitalizations to that of the Company, is included in the graph as permitted by applicable regulations. 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, 2017, and our relative performance is tracked through December 31, 2022.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

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



*\$100 invested on 12/31/17 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

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

	12/17	12/18	12/19	12/20	12/21	12/22
National Research Corporation						
Common Stock (1)	100.00	105.36	184.87	120.42	118.22	108.51
NASDAQ Composite	100.00	97.16	132.81	192.47	235.15	158.65
Russell 2000	100.00	88.99	111.70	134.00	153.85	122.41

(1) Prior to a recapitalization that took place in 2018, our Common Stock was referred to as Class A Common Stock.

Item 6. [Reserved]

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

The following discussion and analysis provides a summary of significant factors relevant to our financial performance and condition. It should be read in conjunction with the consolidated financial statements and accompanying notes included in Part II, Item 8 of this Form 10-K. This section of this Form 10-K generally discusses 2022 and 2021 items and year-to-year comparisons between 2022 and 2021. Discussions of 2020 items and year-to-year comparisons between 2021 and 2020 are not included in this Form 10-K, and can be found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

Overview

Our purpose is to humanize healthcare and support organizations in their understanding of each unique individual. Our commitment to Human Understanding® helps leading healthcare systems get to know each person they serve not as point-in-time insights, but as an ongoing relationship. Our end-to-end solutions enable our clients to understand what matters most to each person they serve – before, during, after, and beyond clinical encounters – to gain a longitudinal understanding of how life and health intersect, with the goal of developing lasting, trusting relationships. Our ability to measure what matters most and systematically capture, analyze, and deliver insights based on self-reported information from patients, families, and consumers is critical in today’s healthcare market. We believe access to and analysis of our extensive consumer-driven information is increasingly valuable as healthcare providers need to better understand and engage the people they serve to create long-term relationships and build loyalty.

Our portfolio of subscription-based solutions provides actionable information and analysis to healthcare organizations across a range of mission-critical, constituent-related elements, including patient experience, service recovery, care transitions, employee engagement, reputation management, and brand loyalty. We partner with clients across the continuum of healthcare services and believe this cross-continuum positioning is a unique and an increasingly important capability as evolving payment models drive healthcare providers and payers towards a more collaborative and integrated service model.

The outbreak of COVID-19, and the associated responses, have impacted our business in a variety of ways. Many businesses, including many of our clients, have de-emphasized external business opportunities and restricted in-person meetings while shifting their attention toward addressing COVID-19 planning, business disruptions, higher costs, and revenue shortfalls. The on-going impacts of the COVID-19 pandemic and associated impacts on our business, including the impact on our revenue, expenses, and cash flows, cannot be predicted at this time.

Critical Accounting Policies and Estimates

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

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

Revenue Recognition

We derive a majority of our revenue from annually renewable subscription-based service agreements with our customers. Such agreements are generally cancelable on short or no notice without penalty. We also derive revenue from fixed, non-subscription arrangements. Our revenue recognition policy requires management to estimate, among other factors, the future contract consideration we expect to receive under variable consideration subscription arrangements as well as future total estimated contract costs over the contract term with respect to fixed, non-subscription arrangements. If management made different judgments and estimates, then the amount and timing of revenue for any period could differ from the reported revenue. See Notes 1 and 3 to our consolidated financial statements for a description of our revenue recognition policies.

Valuation of Goodwill and Identifiable Intangible Assets

Intangible assets include customer relationships, trade names, technology, and goodwill. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment with other long-lived assets in the related asset group whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. We review intangible assets with indefinite lives for impairment annually as of October 1 and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. This review requires management to assess qualitative factors to determine whether an impairment may have occurred, which inherently involves management's judgment. This assessment also requires a determination of the fair value of the asset, which often includes several significant estimates and assumptions, including future cash flow estimates, determination of appropriate discount rates, and other assumptions that management believed reasonable under the circumstances. Changes in these estimates and assumptions could materially affect the determination of fair value and/or impairment of goodwill or other intangible assets. See Notes 1 and 6 to our consolidated financial statements for a description of our goodwill and intangible asset valuation and impairment policies and associated impacts for the reported periods.

In March 2021, we changed our operating segments from six to one to reflect a change in the way we operated and managed our business, including changes to our corporate reporting structure to the Company's Chief Executive Officer and chief operating decision maker. In connection with the revision to our operating segments, we performed an interim qualitative analysis immediately before and after the reorganization and concluded that the fair value of our reporting units likely exceeded the carrying values and no impairments were recorded. Following the reorganization, we considered the current and expected future economic and market conditions, including the impact of the COVID-19 pandemic, on our reporting unit. We also assessed our current market capitalization compared to book value, forecasts and margins in our last quantitative impairment testing. We concluded that a triggering event had not occurred which would require an additional interim impairment test to be performed as it is not more likely than not that an impairment loss had been incurred at December 31, 2022.

Key Financial Metrics and Results of Operations

The following table sets forth, for the periods indicated, selected financial information derived from our consolidated financial statements and the percentage change in such items versus the prior comparable period, as well as other key financial metrics. The discussion that follows the information should be read in conjunction with our consolidated financial statements.

Due to changes in our corporate reporting structure in 2021, certain associates moved between departments. As a result, the related salaries and benefits and company incentive expenses are included in Selling, general and administrative expenses in the 2022 and 2021 periods instead of Direct as in the 2020 periods. The total amount of the reclassified expenses approximates \$1.9 million in 2021.

	(In thousands, except percentages)			Percentage	
	Year Ended December 31,			Increase (Decrease)	
	2022	2021	2020	2022 over 2021	2021 over 2020
Revenue	\$ 151,568	\$ 147,954	\$ 133,277	2.4	11.0
Direct expenses	57,049	52,350	49,187	9.0	6.4
Selling, general, and administrative	42,699	38,960	34,441	9.6	13.1
Depreciation, amortization and impairment	5,277	6,374	7,505	(17.2)	(15.1)
Operating income	46,543	50,270	42,677	(7.4)	17.8
Total other income (expense)	(3,728)	(1,649)	(1,210)	126.1	36.3
Provision for income taxes	11,015	11,155	4,207	(1.3)	165.2
Effective Tax Rate	25.7%	22.9%	10.1%	2.8	12.8
Operating Margin	30.7%	34.0%	32.0%	(3.3)	2.0
Recurring Contract Value	146,839	150,937	145,079	(2.7)	4.0
Cash provided by operating activities	36,265	46,344	40,636	(21.7)	14.0

Revenue. Revenue in 2022 increased compared to 2021 due to an increase in US revenue of \$5.8 million partially offset by decreased Canadian revenue of \$2.2 million due to the closure of the Canadian office in 2022. US revenue increased due to growth in recurring revenue in our existing client base of \$13.1 million partially offset by decreases in US recurring revenue from new customer sales of \$6.8 million and non-recurring revenues of \$557,000. We do not expect Canadian revenues in the future due to the closure of the Canadian office.

Direct expenses. Variable expenses increased \$584,000 in 2022 compared to 2021 primarily due to growth in conference expenses of \$1.3 million due to additional conferences being held in 2022 compared to 2021 and the shift to allow live or virtual attendance at conferences partially offset by lower survey and other subscription services of \$801,000. Variable expenses as a percentage of revenue were 14.4% in 2022 and 2021. Fixed expenses increased \$4.1 million primarily as a result of increased salary and benefit costs to attract and retain associates of \$3.3 million, contracted services to support our Human Understanding Solutions of \$547,000 and increased travel costs of \$376,000 due to COVID travel restrictions being lifted.

Selling, general and administrative expenses. Selling, general and administrative expenses increased in 2022 compared to 2021 primarily due to innovation investments to support further development of our Human Understanding Solutions of \$1.5 million, new marketing initiatives of \$2.3 million, increased travel costs of \$645,000 due to COVID travel restrictions being lifted, and new associate coaching benefit expense of \$561,000, as well as increased business insurance costs of \$405,000, partially offset by decreases in public company and other legal and accounting costs of \$861,000.

Depreciation, amortization and impairment. Depreciation, amortization and impairment expenses decreased in 2022 compared to 2021 primarily due to a decrease in building depreciation expense of \$352,000 resulting from shortening the estimated useful lives of certain building assets, incurring a right-of-use asset impairment of \$324,000 from subleasing a remote office location in 2021 and a decrease of \$460,000 due to certain software development and intangible assets being fully amortized after 2021.

Operating income and margin. Operating income and margin decreased in 2022 compared to 2021 primarily due to growth in salary and benefit costs to attract and retain associates including a new associate benefit, as well as additional investments in our Human Understanding Solutions and marketing initiatives outpacing our revenue growth.

Total other income (expense). Total other expense increased in 2022 compared to 2021 primarily due the reclassification of the cumulative foreign currency translation adjustment of \$2.6 million to other expense as a result of the substantial liquidation of our investment in our Canadian subsidiary in December 2022. Any future currency changes related to our Canadian subsidiary will be recognized in Other income (expense), net in our Consolidated Statements of Income. This expense was partially offset by a \$458,000 decrease in interest expense due to the declining balance on our term loan.

Provision for income taxes and effective tax rate. Provision for income taxes decreased in 2022 compared to 2021 primarily due to decreased taxable income. The effective tax rate increased in 2022 compared to 2021 mainly due to decreased tax benefits from share-based compensation awards of \$540,000, the non-deductible reclassification of cumulative foreign currency translation adjustment into earnings of \$539,000 and \$383,000 in higher state income taxes. See Note 7, "Income Taxes," to our Consolidated Financial Statements contained in this report for additional information on the change in the effective tax rates.

Recurring Contract Value. Recurring contract value declined in 2022 compared to 2021 primarily from a decrease in new client sales as well as a 2.0% decrease in our client retention rate partially due to our strategy to focus on our core digital solutions. The recurring contract value of our core digital solutions declined 1.1% at December 31, 2022 compared to December 31, 2021. Our recurring contract value metric represents the total revenue projected under all renewable contracts for their respective next annual renewal periods, assuming no upsells, downsells, price increases, or cancellations, measured as of the most recent quarter end.

Liquidity and Capital Resources

Our Board of Directors has established priorities for capital allocation, which prioritize funding of innovation and growth investments, including merger and acquisition activity as well as internal projects. The secondary priority is capital allocation for quarterly dividends and share repurchases. We believe that our existing sources of liquidity, including cash and cash equivalents, borrowing availability, and operating cash flows will be sufficient to meet our projected capital and debt maturity needs for the foreseeable future.

As of December 31, 2022, our principal sources of liquidity included \$25.0 million of cash and cash equivalents, up to \$30 million of unused borrowings under our line of credit and up to \$75 million on our delayed draw term note. Of this cash, \$78,000 was held in Canada. The delayed draw term note can only be used to fund permitted future business acquisitions or repurchasing our Common Stock.

Our cash flows from operating activities consist of net income adjusted for non-cash items including depreciation, amortization, and impairments, reclassification of cumulative foreign currency translation adjustment into earnings, deferred income taxes, share-based compensation and related taxes, reserve for uncertain tax positions, loss on disposal of property and equipment and the effect of working capital changes. Cash provided by operating activities decreased mainly due to decreased net income net of non-cash items. Cash provided by operating activities also decreased due to working capital changes, mainly consisting of changes in deferred revenue primarily due to timing of initial billings on new and renewal contracts and decreased overall recurring contract value and changes in accrued expenses, wages and bonuses mainly due to decreased bonuses, partially offset by changes in prepaid expenses and other current assets primarily due to the timing of our annual business insurance payment.

See the Consolidated Statements of Cash Flows included in this report for the detail of our operating cash flows.

We had a working capital surplus of \$10.3 million and \$33.3 million on December 31, 2022 and 2021, respectively. The change was primarily due to decreases in cash and cash equivalents and prepaid expenses partially offset by decreases in accrued wages and bonuses, accrued expenses and deferred revenue. Cash and cash equivalents decreased mainly due to repurchase of shares of our Common Stock for treasury. Prepaid expenses decreased primarily due to the timing of our annual business insurance payment. Accrued expenses decreased due to timing of payment for services and supplies. Accrued wages and bonuses decreased due to less bonuses being earned in 2022 and the final payment of employer social security taxes that were deferred due to the Coronavirus Aid, Relief, and Economic Security Act. Our working capital is significantly impacted by our large deferred revenue balances which will vary based on the timing and frequency of billings on annual agreements.

Cash used in investing activities consisted of purchases of property and equipment including computer software and hardware, building improvements and furniture and equipment.

Cash used in financing activities consisted of payments for borrowings under the term note, finance lease obligations and debt issuance costs. We also used cash to pay deferred acquisition consideration related to our 2021 acquisition of PatientWisdom, repurchase shares of our Common Stock for treasury, to pay dividends on Common Stock and to pay employee payroll tax withholdings on share-based awards exercised.

Our material cash requirements include the following contractual and other obligations:

Dividends

Cash dividends in the aggregate amount of \$20.9 million, \$12.2 million and \$5.3 million were declared in 2022, 2021 and 2020 respectively. All dividends were paid from cash on hand. The payment and amount of future dividends, if any, is at the discretion of our Board of Directors and will depend on our future earnings, financial condition, general business conditions, alternative uses of our earnings and cash and other factors.

Acquisition Consideration

On January 4, 2021, we acquired substantially all assets and assumed certain liabilities of PatientWisdom, Inc., a company with a health engagement solution that will further our purpose of operationalizing human understanding through tangible and actionable insights. \$3.0 million of the total \$5.0 million all-cash consideration was paid at closing. We paid the remaining \$2.0 million in January 2022. All payments were made with cash on hand.

Capital Expenditures

We paid cash of \$9.8 million for capital expenditures in the year ended December 31, 2022. These expenditures consisted mainly of computer software development for our Human Understanding solutions and building renovations to our headquarters of \$3.6 million and \$5.1 million, respectively. We estimate future costs related to our headquarters building renovations to be \$16.1 million and \$2.9 million in 2023 and 2024, respectively, which we expect to fund through operating cash flows.

Debt

Our amended and restated credit agreement (the "Credit Agreement") with First National Bank of Omaha ("FNB") was amended and restated on September 30, 2022 and includes (i) a \$30,000,000 revolving credit facility (the "Line of Credit"), (ii) a \$23,412,383 term loan (the "Term Loan") and (iii) a \$75,000,000 delayed draw-down term facility (the "Delayed Draw Term Loan" and, together with the Line of Credit and the Term Loan, the "Credit Facilities"). We may use the Delayed Draw Term Loan to fund any permitted future business acquisitions or repurchases of our Common Stock and the Line of Credit to fund ongoing working capital needs and for other general corporate purposes.

The Term Loan has an outstanding balance of \$22.3 million and is payable in monthly installments of \$462,988 through May 2027. The Term Loan bears interest at a fixed rate per annum of 5%.

Borrowings under the Line of Credit and the Delayed Draw Term Loan, if any, bear interest at a floating rate equal to the 30-day Secured Overnight Financing Rate ("SOFR") plus 235 basis points (6.10% at December 31, 2022). Interest on the Line of Credit accrues and is payable monthly. Principal amounts outstanding under the Line of Credit are due and payable in full at maturity, in May 2025. As of December 31, 2022, the Line of Credit did not have a balance. There were no borrowings on the Line of Credit during the years ended December 31, 2022 or 2021. There have been no borrowings on the Delayed Draw Term Loan since origination.

We are obligated to pay ongoing unused commitment fees quarterly in arrears pursuant to the Line of Credit and the Delayed Draw Term Loan facility at a rate of 0.20% per annum based on the actual daily unused portions of the Line of Credit and the Delayed Draw Term Loan facility, respectively.

The Credit Agreement contains customary representations, warranties, affirmative and negative covenants (including financial covenants) and events of default. The negative covenants include, among other things, restrictions regarding the incurrence of indebtedness and liens, repurchases of our Common Stock and acquisitions, subject in each case to certain exceptions. Pursuant to the Credit Agreement, we are required to maintain a minimum fixed charge coverage ratio of 1.10x for all testing periods throughout the term(s) of the Credit Facilities, which calculation excludes, unless our liquidity falls below a specified threshold, (i) any cash dividend in a fiscal quarter that, together with all other cash dividends paid or declared during such fiscal quarter, exceeds \$5,500,000 in total cash dividends paid or declared, (ii) the portion of the purchase price for any permitted share repurchase of our shares paid with cash on hand, and (iii) the portion of any acquisition consideration for a permitted acquisition paid with cash on hand. We are also required to maintain a cash flow leverage ratio of 3.00x or less for all testing periods throughout the term(s) of the Credit Facilities. All obligations under the Credit Facilities are to be guaranteed by each of our wholly owned domestic subsidiaries, if any, and, to the extent required by the Credit Agreement, direct and indirect wholly owned foreign subsidiaries. As of December 31, 2022, we were in compliance with our financial covenants.

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

Leases

We have lease arrangements for certain computer, office, printing and inserting equipment as well as office and data center space. As of December 31, 2022, we had fixed lease payments of \$547,000 and \$315,000 for operating and finance leases, respectively payable within 12 months. A summary of our operating and finance lease obligations as of December 31, 2022 can be found in Note 10, "Leases", to the Consolidated Financial Statements contained in this report.

Taxes

The liability for gross unrecognized tax benefits related to uncertain tax positions was \$1.6 million as of December 31, 2022. See Note 7, "Income Taxes", to the Consolidated Financial Statements contained in this report for income tax related information.

As of December 31, 2022, the balance of the deemed repatriation tax payable imposed by the U.S. Tax Cuts and Jobs Act of 2017 was \$82,000, which we expect to pay in the next year.

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

Stock Repurchase Program

In February 2006 and subsequently amended in May 2013, our Board of Directors authorized the repurchase of up to 2,250,000 shares of Common Stock in the open market or in privately negotiated transactions under a stock repurchase program under the 2006 Program. In 2022, we repurchased all the remaining shares authorized for repurchase under the 2006 Program. In May 2022, our Board of Directors approved the 2022 Program with a repurchase authorization of 2,500,000 shares of Common Stock. Under the 2022 Program we are authorized to repurchase from time-to-time shares of our outstanding Common Stock on the open market or in privately negotiated transactions. The timing and amount of stock repurchases will depend on a variety of factors, including market conditions as well as corporate and regulatory considerations. The 2022 Program may be suspended, modified, or discontinued at any time and we have no obligation to repurchase any amount of Common Stock in connection with the 2022 Program. The 2022 Program has no set expiration date.

During 2022, we repurchased 744,499 shares of our Common Stock for an aggregate of \$27.6 million, of which 168,943 shares were repurchased under the 2006 Program and 575,556 shares were repurchased under the 2022 Program. As of December 31, 2022, the remaining number of shares of Common Stock that could be purchased under the 2022 Program was 1,924,444 shares.

Recent Accounting Pronouncements

There are no recently issued accounting pronouncements we believe will have a material impact on our financial position, results of operations or cash flows.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

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

Our Canadian subsidiary uses Canadian dollars as its functional currency. It translates its assets and liabilities into U.S. dollars at the exchange rate in effect at the balance sheet date. We translate its revenue and expenses at the average exchange rate during the period. We included foreign currency translation gains and losses in accumulated other comprehensive income (loss), a component of shareholders' equity. During December 2022, we substantially liquidated our investment in Canada. As a result, we reclassified the cumulative foreign currency translation adjustment balance into earnings and recognized a net cumulative foreign currency translation loss of \$2.6 million, which is included in Other income (expense), net in our Consolidated Statements of Income. Foreign currency translation gains (losses) were (\$194,000), \$24,000, and (\$190,000) in 2022, 2021, and 2020, respectively. Gains and losses related to transactions denominated in a currency other than the functional currency of the countries in which we operate and short-term intercompany accounts are included in other income (expense) in the consolidated statements of income and amounted to (\$65,000), \$10,000, and (\$333,000) in 2022, 2021, and 2020, respectively. The change is primarily the result of exchange rate fluctuation applied to an intercompany loan from our Canadian subsidiary which was paid off in September 2020. 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 versus the Canadian dollar would impact our reported cash balance by approximately \$8,000. Any future currency changes, related to our Canadian subsidiary will be recognized in Other income (expense), net in our Consolidated Statements of Income. However, due to the substantial liquidation of the subsidiary, we do not expect the amounts to be significant after 2022. We have not entered into any foreign currency hedging transactions. We do not purchase or hold any currency exchange related derivative financial instruments.

We are exposed to interest rate risk with both our fixed-rate Term Loan and variable rate Line of Credit. Interest rate changes for borrowings under our fixed-rate Term Loan would impact the fair value of such debt, but do not impact earnings or cash flow. At December 31, 2022, our fixed-rate Term Loan totaled \$22.3 million. Based on a sensitivity analysis, a one percent per annum change in market interest rates as of December 31, 2022, would impact the estimated fair value of our fixed-rate Term Loan outstanding at December 31, 2022 by approximately \$470,000.

Borrowings under our Line of Credit and Delayed Draw Term Loan, if any, bear interest at a floating rate equal to the 30-day SOFR plus 235 basis points. Borrowings under the Line of Credit and Delayed Draw Term Note may not exceed \$30.0 million and \$75.0 million, respectively. There were no borrowings outstanding under the Line of Credit at December 31, 2022, or at any time during 2022. There were no borrowings outstanding under the Delayed Draw Term Note at December 31, 2022, or at any time during 2022. A sensitivity analysis assuming a hypothetical 10% movement in interest rates applied to the average daily borrowings and the maximum borrowings available under the Line of Credit for 2022 indicated that such a movement would not have a material impact on our consolidated financial position, results of operations or cash flows. We have not entered into any interest rate swaps or hedging transactions.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors
National Research Corporation:

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

We have audited the accompanying consolidated balance sheets of National Research Corporation and subsidiary (the Company) as of December 31, 2022 and 2021, 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, 2022, and the related notes (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2022, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022 based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Basis for Opinions

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

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Sufficiency of audit evidence over new and modified subscription-based service agreement terms

As discussed in Notes 1 and 3 to the consolidated financial statements, revenue consists of service arrangement contracts with customers that can include more than one separately identifiable performance obligation. The Company's revenue for the year ended December 31, 2022 included \$142.0 million for subscription-based service agreements, a portion of which was revenue from new and modified subscription-based service agreements, that was recognized ratably over the subscription period and which agreements are renewable at the option of the customer. Subscription-based service agreements represent a single promise to stand ready to provide reporting, tools and services throughout the subscription period.

We identified the evaluation of the sufficiency of audit evidence over the key terms within new and modified subscription-based service agreements as a critical audit matter. Specifically, the nature and extent of procedures performed over the key terms within the new and modified subscription-based service agreements required subjective auditor judgment as recognition of revenue by the Company is dependent on the accuracy of the key terms within the related information technology (IT) application used to calculate revenue. The key terms within the new subscription-based service agreements included the description of service, transaction price, renewal price and contract term, and the key terms within the modified subscription-based service agreements were the transaction price and contract term.

The following are the primary procedures we performed to address this critical audit matter. We applied auditor judgment to determine the nature and extent of procedures to be performed over the accuracy of key terms within the IT application, including the identification of key terms. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's subscription-based service revenue process, including controls related to the key terms within the new and modified subscription-based service agreements. We also tested certain internal controls over the accurate input of the underlying key terms of the subscription-based service agreement into the related IT application. For a sample of revenue transactions, we compared the key terms used in the revenue calculation to the underlying contract with the customer. We evaluated the sufficiency of audit evidence obtained over the key terms within new and modified subscription-based service agreements by assessing the results of procedures performed, including the appropriateness of the nature and extent of audit effort.

/s/ KPMG LLP

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

Lincoln, Nebraska
March 3, 2023

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

	2022	2021
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 25,026	\$ 54,361
Trade accounts receivable, less allowance for doubtful accounts of \$65 and \$94, respectively	14,461	13,728
Prepaid expenses	2,386	3,884
Income taxes receivable	733	752
Other current assets	1,110	982
Total current assets	43,716	73,707
Net property and equipment	17,248	12,391
Intangible assets, net	1,611	1,790
Goodwill	61,614	61,614
Operating lease right-of-use assets	556	975
Deferred contract costs, net	2,441	3,772
Deferred income taxes	14	14
Other	3,261	3,277
Total assets	\$ 130,461	\$ 157,540
<u>Liabilities and Shareholders' Equity</u>		
Current liabilities:		
Current portion of notes payable, net of unamortized debt issuance costs	\$ 4,491	\$ 4,278
Accounts payable	1,153	1,943
Accrued wages and bonuses	4,551	7,139
Accrued expenses	3,983	5,450
Dividends payable	2,956	3,044
Deferred revenue	15,198	17,213
Other current liabilities	1,085	1,321
Total current liabilities	33,417	40,388
Notes payable, net of current portion and unamortized debt issuance costs	17,690	22,269
Deferred income taxes	5,274	7,002
Other long-term liabilities	2,047	2,544
Total liabilities	58,428	72,203
Shareholders' equity:		
Preferred stock, \$0.01 par value, authorized 2,000,000 shares, none issued	—	—
Common stock, \$0.001 par value; authorized 110,000,000 shares, issued 30,922,181 in 2022 and 30,898,600 in 2021, outstanding 24,628,173 in 2022 and 25,361,409 in 2021	31	31
Additional paid-in capital	175,453	173,942
Retained earnings (accumulated deficit)	(25,184)	(36,112)
Accumulated other comprehensive loss, foreign currency translation adjustment	—	(2,375)
Treasury stock, at cost; 6,294,008 Common shares in 2022 and 5,537,191 Common shares in 2021	(78,267)	(50,149)
Total shareholders' equity	72,033	85,337
Total liabilities and shareholders' equity	\$ 130,461	\$ 157,540

See accompanying notes to consolidated financial statements.

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Revenue	\$ 151,568	\$ 147,954	\$ 133,277
Insurance recoveries	—	—	533
Operating expenses:			
Direct	57,049	52,350	49,187
Selling, general and administrative	42,699	38,960	34,441
Depreciation, amortization and impairment	5,277	6,374	7,505
Total operating expenses	<u>105,025</u>	<u>97,684</u>	<u>91,133</u>
Operating income	<u>46,543</u>	<u>50,270</u>	<u>42,677</u>
Other income (expense):			
Interest income	168	14	18
Interest expense	(1,209)	(1,667)	(1,813)
Reclassification of cumulative foreign currency translation adjustment into earnings	(2,569)	—	—
Other, net	<u>(118)</u>	<u>4</u>	<u>585</u>
Total other income (expense)	<u>(3,728)</u>	<u>(1,649)</u>	<u>(1,210)</u>
Income before income taxes	42,815	48,621	41,467
Provision for income taxes	<u>11,015</u>	<u>11,155</u>	<u>4,207</u>
Net income	<u>\$ 31,800</u>	<u>\$ 37,466</u>	<u>\$ 37,260</u>
Earnings per share of common stock:			
Basic earnings per share	<u>\$ 1.28</u>	<u>\$ 1.47</u>	<u>\$ 1.48</u>
Diluted earnings per share	<u>\$ 1.27</u>	<u>\$ 1.46</u>	<u>\$ 1.45</u>
Weighted average shares and share equivalents outstanding			
Basic	<u>24,922</u>	<u>25,422</u>	<u>25,170</u>
Diluted	<u>25,052</u>	<u>25,640</u>	<u>25,696</u>

See accompanying notes to consolidated financial statements.

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

	2022	2021	2020
Net income	\$ 31,800	\$ 37,466	\$ 37,260
Other comprehensive income (loss):			
Cumulative foreign currency translation adjustment	\$ (194)	\$ 24	\$ (190)
Reclassification of cumulative foreign currency translation into earnings	2,569	—	—
Other comprehensive income (loss)	\$ 2,375	\$ 24	\$ (190)
Comprehensive income	\$ 34,175	\$ 37,490	\$ 37,070

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)

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings (Accumulated Deficit)</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Treasury Stock</u>	<u>Total</u>
Balances at December 31, 2019	\$ 30	\$ 162,154	\$ (93,357)	\$ (2,209)	\$ (33,726)	\$ 32,892
Purchase of 180,112 shares of treasury stock	—	—	—	—	(10,001)	(10,001)
Issuance of 630,373 common shares for the exercise of stock options	1	8,951	—	—	—	8,952
Forfeiture of 6,793 restricted common shares	—	—	—	—	—	—
Non-cash stock compensation expense	—	680	—	—	—	680
Dividends declared of \$0.21 per common share	—	—	(5,278)	—	—	(5,278)
Other comprehensive loss, foreign currency translation adjustment	—	—	—	(190)	—	(190)
Net income	—	—	37,260	—	—	37,260
Balances at December 31, 2020	\$ 31	\$ 171,785	\$ (61,375)	\$ (2,399)	\$ (43,727)	\$ 64,315
Purchase of 153,005 shares treasury stock	—	—	—	—	(6,422)	(6,422)
Issuance of 116,753 common shares for the exercise of stock options	—	1,534	—	—	—	1,534
Non-cash stock compensation expense	—	623	—	—	—	623
Dividends declared of \$0.48 per common share	—	—	(12,203)	—	—	(12,203)
Other comprehensive income, foreign currency translation adjustment	—	—	—	24	—	24
Net income	—	—	37,466	—	—	37,466
Balances at December 31, 2021	\$ 31	\$ 173,942	\$ (36,112)	\$ (2,375)	\$ (50,149)	\$ 85,337
Purchase of 756,817 shares treasury stock	—	—	—	—	(28,118)	(28,118)
Issuance of 23,581 common shares for the exercise of stock options	—	311	—	—	—	311
Non-cash stock compensation expense	—	1,200	—	—	—	1,200
Dividends declared of \$0.84 per common share	—	—	(20,872)	—	—	(20,872)
Other comprehensive income, foreign currency translation adjustment	—	—	—	(194)	—	(194)
Reclassification of cumulative foreign currency translation adjustment into earnings	—	—	—	2,569	—	2,569
Net income	—	—	31,800	—	—	31,800
Balances at December 31, 2022	\$ 31	\$ 175,453	\$ (25,184)	\$ —	\$ (78,267)	\$ 72,033

See accompanying notes to consolidated financial statements.

NATIONAL RESEARCH CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	2022	2021	2020
Cash flows from operating activities:			
Net income	\$ 31,800	\$ 37,466	\$ 37,260
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and impairment	5,277	6,374	7,505
Reclassification of cumulative translation adjustment into earnings	2,569		
Deferred income taxes	(1,729)	(277)	(134)
Reserve for uncertain tax positions	488	310	185
Gain on insurance recoveries for damaged property	—	—	(260)
Loss on disposal of property and equipment	11	7	12
Non-cash share-based compensation expense	1,200	623	680
Change in assets and liabilities:			
Trade accounts receivable	(733)	343	(2,271)
Prepaid expenses and other current and long-term assets	1,634	(842)	(827)
Operating lease assets and liability, net	(39)	(34)	16
Deferred contract costs, net	1,331	783	(351)
Accounts payable	(589)	4	(247)
Accrued expenses, wages and bonuses	(2,947)	(285)	1,370
Income taxes receivable and payable	6	484	(1,529)
Deferred revenue	(2,014)	1,388	(773)
Net cash provided by operating activities	36,265	46,344	40,636
Cash flows from investing activities:			
Purchases of property and equipment	(9,835)	(5,514)	(3,984)
Acquisition consideration	—	(3,000)	—
Insurance proceeds for damaged property	—	—	260
Net cash used in investing activities	(9,835)	(8,514)	(3,724)
Cash flows from financing activities:			
Payments on notes payable	(4,305)	(4,093)	(3,568)
Payment of debt issuance costs	(92)	—	(36)
Payments on finance lease obligations	(469)	(493)	(332)
Proceeds from the exercise of stock options	—	446	1,734
Payment of payroll tax withholdings on share-based awards exercised	(190)	(721)	(2,784)
Payment of deferred acquisition consideration	(1,950)	—	—
Repurchase of shares for treasury	(27,616)	(4,142)	—
Payment of dividends on common stock	(20,961)	(9,159)	(10,517)
Net cash used in financing activities	(55,583)	(18,162)	(15,503)
Effect of exchange rate changes on cash	(182)	3	(236)
Net increase (decrease) in cash and cash equivalents	(29,335)	19,671	21,173
Cash and cash equivalents at beginning of period	54,361	34,690	13,517
Cash and cash equivalents at end of period	\$ 25,026	\$ 54,361	\$ 34,690
Supplemental disclosure of cash paid for:			
Interest expense, net of capitalized amounts	\$ 1,342	\$ 1,554	\$ 1,735
Income taxes	\$ 12,233	\$ 10,644	\$ 5,217
Supplemental disclosure of non-cash investing and financing activities:			
Finance lease obligations originated for property and equipment	\$ —	\$ 40	\$ 817
Purchase of property and equipment in accounts payable and accrued expenses	\$ 1,109	\$ 979	\$ 127
Stock tendered to the Company for cashless exercise of stock options in connection with equity incentive plans	\$ 311	\$ 1,088	\$ 7,217
Deferred acquisition consideration	\$ —	\$ 1,950	\$ —

See accompanying notes to consolidated financial statements.

**NATIONAL RESEARCH CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(1) Summary of Significant Accounting Policies

Description of Business and Basis of Presentation

National Research Corporation, doing business as NRC Health (“NRC Health,” the “Company,” “we,” “our,” “us” or similar terms), is a leading provider of analytics and insights that facilitate measurement and improvement of the patient and employee experience while also increasing patient engagement and customer loyalty for healthcare organizations in the United States. Our purpose is to humanize healthcare and support organizations in their understanding of each person they serve not as point-in-time insights, but as an ongoing relationship. We believe that understanding the story is the key to unlocking the highest-quality and truly personalized care. Our end-to-end solutions enable health care organizations to understand what matters most to each person they serve – before, during, after, and outside of clinical encounters – to gain a longitudinal understanding of how life and health intersect, with the goal of developing lasting, trusting relationships. Our portfolio of solutions represents a unique set of capabilities that individually and collectively provide value to our clients.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and our wholly-owned subsidiary, National Research Corporation Canada. All significant intercompany transactions and balances have been eliminated.

Use of Estimates

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

Translation of Foreign Currencies

Gains and losses related to transactions denominated in a currency other than the functional currency of the country in which we operate and short-term intercompany accounts are included in other income (expense) in the consolidated statements of income. Our Canadian subsidiary uses Canadian dollars as its functional currency. We translate its assets and liabilities into U.S. dollars at the exchange rate in effect at the balance sheet date. We translate its revenue and expenses at the average exchange rate during the period. We included foreign currency translation gains and losses in accumulated other comprehensive income (loss), a component of shareholders’ equity. During December 2022, we substantially liquidated our investment in Canada. As a result, we reclassified the cumulative foreign currency translation adjustment balance into earnings and recognized a net cumulative foreign currency translation loss of \$2.6 million, which is included in Other income (expense), net in our Consolidated Statements of Income. Any future currency changes, will be recognized in Other income (expense), net in our Consolidated Statements of Income.

Revenue Recognition

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

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

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

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

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

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

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

Unit-price services – These arrangements typically require us to perform certain services on a periodic basis as requested by the customer for a per-unit amount which is typically billed in the month following the performance of the service. Revenue under these arrangements is recognized over the time the services are performed at the per-unit amount.

Revenue is presented net of any sales tax charged to our clients that we are required to remit to taxing authorities. We recognize contract assets or unbilled receivables related to revenue recognized for services completed but not invoiced to the clients. Unbilled receivables are classified as receivables when we have an unconditional right to contract consideration. A contract liability is recognized as deferred revenue when we invoice clients in advance of performing the related services under the terms of a contract. Deferred revenue is recognized as revenue when we have satisfied the related performance obligation.

Deferred Contract Costs

Deferred contract costs, net is stated at gross deferred costs less accumulated amortization. We defer commissions and incentives, including payroll taxes, if they are incremental and recoverable costs of obtaining a renewable customer contract. Deferred contract costs are amortized over the estimated term of the contract, including renewals, which generally ranges from three to five years. The contract term was estimated by considering factors such as historical customer attrition rates and product life. The amortization period is adjusted for significant changes in the estimated remaining term of a contract. An impairment of deferred contract costs is recognized when the unamortized balance of deferred contract costs exceeds the remaining amount of consideration we expect to receive net of the expected future costs directly related to providing those services. We have elected the practical expedient to expense contract costs when incurred for any nonrenewable contracts with a term of one year or less. We deferred incremental costs of obtaining a contract of \$454,000, \$1.9 million and \$3.7 million in the years ended December 31, 2022, 2021 and 2020, respectively. Deferred contract costs, net of accumulated amortization was \$2.4 million and \$3.8 million at December 31, 2022 and 2021, respectively. In 2021 we changed our sales compensation structure, reducing the incremental costs associated with obtaining a contract, decreasing the amount of incremental costs to defer and the balance of deferred contract costs. Total amortization by expense classification for the years ended December 31, 2022, 2021 and 2020 was as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
	(In thousands)		
Direct expenses	\$ 146	\$ 157	\$ 272
Selling, general and administrative expenses	\$ 1,625	\$ 2,494	\$ 2,970
Total amortization	<u>\$ 1,771</u>	<u>\$ 2,651</u>	<u>\$ 3,242</u>

Additional expense included in selling, general and administrative expenses for impairment of costs capitalized due to lost clients was \$14,000, \$31,000 and \$63,000 for the years December 31, 2022, 2021 and 2020, respectively.

Trade Accounts Receivable

The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable, determined based on our historical write-off experience, current economic conditions and reasonable and supportable forecasts about the future. We review the allowance for doubtful accounts monthly. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

The following table provides the activity in the allowance for doubtful accounts for the years ended December 31, 2022, 2021 and 2020 (in thousands):

	<u>Balance at Beginning of Year</u>	<u>Bad Debt Expense</u>	<u>Write-offs, net of Recoveries</u>	<u>Balance at End of Year</u>
Year Ended December 31, 2020	\$ 144	\$ 46	\$ 70	\$ 120
Year Ended December 31, 2021	\$ 120	\$ 38	\$ 64	\$ 94
Year Ended December 31, 2022	\$ 94	\$ 19	\$ 48	\$ 65

Property and Equipment

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

We capitalize certain costs incurred in connection with obtaining or developing internal-use software, including payroll and payroll-related costs for employees who are directly associated with the internal-use software projects and external direct costs of materials and services. Capitalization of such costs ceases when the project is substantially complete and ready for its intended purpose. Costs incurred during the preliminary project and post-implementation stages, as well as software maintenance and training costs are expensed as incurred. We capitalized approximately \$3.6 million, \$2.8 million and \$2.7 million of costs incurred for the development of internal-use software for the years ended December 31, 2022, 2021 and 2020, respectively.

When a software license is included in a cloud computing arrangement and we have the legal right, ability and feasibility to download the software, it is accounted for as software, included in property and equipment, and amortized. If a software license is not included or we do not have the ability or feasibility to download software included in a cloud computing arrangement, it is accounted for as a service contract, which is expensed to direct expenses or selling, general and administrative expenses during the service period.

We provide for depreciation and amortization of property and equipment using annual rates which are sufficient to amortize the cost of depreciable assets over their estimated useful lives. We use the straight-line method of depreciation and amortization over estimated useful lives of two to ten years for furniture and equipment, three to five years for computer equipment, one to five years for capitalized software, and seven to forty years for our office building and related improvements. Software licenses are amortized over the term of the license.

Impairment of Long-Lived Assets and Amortizing Intangible Assets

Long-lived assets, such as property and equipment and purchased intangible assets subject to depreciation or amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, we first compare undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. No significant impairments were recorded during the years ended December 31, 2022, 2021, or 2020.

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

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

Goodwill and Intangible Assets

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

When performing the impairment assessment, we will first assess qualitative factors to determine whether it is necessary to determine the fair value of the intangible assets with indefinite lives. If we believe, as a result of the qualitative assessment, that it is more likely than not that the fair value of an indefinite-lived intangible is less than its carrying amount, we calculate the fair value using a market or income approach. If the carrying value of the indefinite-lived intangible asset exceeds its fair value, then the intangible asset is written-down to its fair value. We did not recognize any impairments related to indefinite-lived intangibles during 2022, 2021 or 2020.

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

We review goodwill for impairment by first assessing qualitative factors to determine whether any impairment may exist. If we believe, as a result of the qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, a quantitative analysis will be performed, and the fair value of the reporting unit is compared with its carrying value (including goodwill). If the carrying value of the reporting unit exceeds the fair value, then goodwill is written down by this difference. We performed a qualitative analysis as of October 1, 2022 and determined the fair value of our reporting unit likely exceeded the carrying value. No impairments were recorded during the years ended December 31, 2022 or 2021. A substantial portion of the revenue earned by our Canadian subsidiary was concentrated with one customer. While the customer exercised its option to extend its existing contract to September 2022, during December 2020 we chose not to enter into a new contract with this customer or otherwise extend the term of the contract beyond September 2022. We closed the Canada office at the end of the contract in September 2022. As a result, we tested for impairment of the then Canada reporting unit's goodwill at December 31, 2020. We recognized an impairment of \$714,000 for the excess of the then Canada reporting unit's carrying value over the fair value, using discounted cash flows.

In March 2021, we changed our operating segments from six to one to reflect a change in the way we operated and managed our business, including changes to our corporate reporting structure to the Company's Chief Executive Officer and chief operating decision maker. In connection with this change, our previous reporting units were combined into one reporting unit. We performed an interim qualitative analysis immediately before and after the reorganization and concluded that the fair value of our reporting units likely exceeded the carrying values and no impairments were recorded. Following the reorganization, we considered the current and expected future economic and market conditions, including the impact of the COVID-19 pandemic, on our reporting unit. We also assessed our current market capitalization compared to book value, forecasts and margins in our last quantitative impairment testing. We concluded that a triggering event has not occurred which would require an additional interim impairment test to be performed as it is not more likely than not that an impairment loss had been incurred at December 31, 2022.

Insurance Recoveries

We record insurance recoveries when the realization of the claim is probable. In 2020 we received \$3.3 million in insurance recoveries, and \$447,000 was paid directly to certain vendors from the insurer related to a cyber-attack in February 2020 (the "February incident"). We recorded \$533,000, representing reimbursement for lost revenues, as insurance recoveries, and the remainder as a reduction to operating expenses. Due to insurance recoveries, the February incident did not have a significant impact on our consolidated financial statements. In 2020, we also recorded a gain in other income of \$260,000 from insurance recoveries for property damage due to a flooding.

Income Taxes

We use the asset and liability method of accounting for income taxes. Under that method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis using enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances, if any, are established when necessary to reduce deferred tax assets to the amount that is more likely than not to be realized. We use the deferral method of accounting for our investment tax credits related to state tax incentives. During the years ended December 31, 2022, 2021, and 2020, we recorded income tax benefits relating to these tax credits of \$36,000, \$10,000, and \$45,000, respectively. Interest and penalties related to income taxes are included in income taxes in the Consolidated Statements of Income.

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

In 2021, we adopted ASU 2019-12, Simplifying the Accounting for Income Taxes (Topic 740). Among other clarifications and simplifications related to income tax accounting, this ASU simplifies the accounting for income taxes by eliminating certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, hybrid taxes and the recognition of deferred tax liabilities for outside basis differences. The adoption of this standard had no material impact to our consolidated financial statements.

Share-Based Compensation

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

	2022	2021	2020
		(In thousands)	
Amounts charged against income, before income tax benefit	\$ 1,200	\$ 623	\$ 680
Amount of related income tax benefit	(436)	(919)	(6,764)
Net (benefit) expense to net income	<u>\$ 764</u>	<u>\$ (296)</u>	<u>\$ (6,084)</u>

We refer to our restricted stock awards as “non-vested” stock in these consolidated financial statements.

Cash and Cash Equivalents

We consider all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents were \$24.9 million and \$6.3 million as of December 31, 2022, and 2021, respectively, consisting primarily of money market accounts. At certain times, cash equivalent balances may exceed federally insured limits.

Leases

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

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

Due to remote working arrangements, we reassessed our office needs and subleased our Seattle location under an agreement considered to be an operating lease beginning in May 2021. We have not been legally released from our primary obligations under the original lease and therefore we continue to account for the original lease separately. We recorded an ROU asset impairment charge in 2021 of \$324,000, which was the amount by which the carrying value of the Seattle office lease ROU asset exceeded the fair value. We estimated the fair value based on the discounted cash flows of estimated net rental income for the office space subleased. The ROU asset impairment charge is included in depreciation, amortization and impairment expenses. There were no ROU asset impairment charges in 2022 or 2020. Rent income from the sublessee are included in the statement of operations on a straight-line basis as an offset to rent expense associated with the original operating lease included in other expenses.

Fair Value Measurements

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

The following details our financial assets within the fair value hierarchy at December 31, 2022 and 2021:

	Level 1	Level 2	Level 3	Total
	(In thousands)			
<u>As of December 31, 2022</u>				
Money Market Funds	\$ 24,927	\$ —	\$ —	\$ 24,927
Total Cash Equivalents	<u>\$ 24,927</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 24,927</u>
<u>As of December 31, 2021</u>				
Money Market Funds	\$ 6,306	\$ —	\$ —	\$ 6,306
Total Cash Equivalents	<u>\$ 6,306</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,306</u>

There were no transfers between levels during the years ended December 31, 2022 and 2021.

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

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

	December 31, 2022	December 31, 2021
	(In thousands)	
Total carrying amount of long-term debt	\$ 22,315	\$ 26,620
Estimated fair value of long-term debt	\$ 21,668	\$ 27,708

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 ROU assets, 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). We estimated the fair value of the Seattle office ROU asset using discounted cash flows of the sublease based on management's most recent projections, which are considered level 3 inputs in the fair value hierarchy and recorded an ROU asset impairment charge of \$324,000 during 2021. As of December 31, 2022 and 2021, there was no indication of impairment related to these assets. As discussed above, we recognized an impairment of \$714,000 for the then Canada reporting unit's goodwill at December 31, 2020. We estimated the fair value of the Canada reporting unit using discounted cash flows based on management's most recent projections which are considered level 3 inputs in the fair value hierarchy.

Commitments and Contingencies

From time to time, we are involved in certain claims and litigation arising in the normal course of business. Management assesses the probability of loss for such contingencies and recognizes a liability when a loss is probable and estimable. Legal fees, net of estimated insurance recoveries, are expensed as incurred. We do not believe the final disposition of claims at December 31, 2022 will have a material adverse effect on our consolidated financial position, results of operations or liquidity.

We are self-insured for group medical and dental insurance. We carry excess loss coverage in the amount of \$150,000 per covered person per year for group medical insurance. We do not self-insure for any other types of losses, and therefore do not carry any additional excess loss insurance. In addition, we had aggregate claims loss coverage with a minimum aggregate deductible of \$4.7 million, \$3.2 million and \$2.8 million, in 2022, 2021 and 2020, respectively. We record a reserve for our group medical and dental insurance for all unresolved claims and for an estimate of incurred but not reported (“IBNR”) claims. On a quarterly basis, we adjust our accrual based on a review of our claims experience and a third-party actuarial IBNR analysis. As of December 31, 2022 and 2021, our accrual related to self-insurance was \$424,000 and \$406,000, respectively.

Earnings Per Share

Basic net income per share was computed using the weighted-average number of common shares outstanding during the period.

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

We had 83,070, 127,185 and 65,127 options of Common Stock for the years ended December 31, 2022, 2021 and 2020, respectively which have been excluded from the diluted net income per share computation because their inclusion would be anti-dilutive.

	<u>2022</u>	<u>2021</u>	<u>2020</u>
	(In thousands, except per share data)		
Numerator for net income per share - basic:			
Net income	\$ 31,800	\$ 37,466	\$ 37,260
Allocation of distributed and undistributed income to unvested restricted stock shareholders	(16)	(18)	(57)
Net income attributable to common shareholders	<u>\$ 31,784</u>	<u>\$ 37,448</u>	<u>\$ 37,203</u>
Denominator for net income per share - basic:			
Weighted average common shares outstanding – basic	<u>24,922</u>	<u>25,422</u>	<u>25,170</u>
Net income per share – basic	<u>\$ 1.28</u>	<u>\$ 1.47</u>	<u>\$ 1.48</u>
Numerator for net income per share - diluted:			
Net income attributable to common shareholders for basic computation	<u>\$ 31,784</u>	<u>\$ 37,448</u>	<u>\$ 37,203</u>
Denominator for net income per share - diluted:			
Weighted average common shares outstanding – basic	24,922	25,422	25,170
Weighted average effect of dilutive securities – stock options	<u>130</u>	<u>218</u>	<u>526</u>
Denominator for diluted earnings per share – adjusted weighted average shares	<u>25,052</u>	<u>25,640</u>	<u>25,696</u>
Net income per share – diluted	<u>\$ 1.27</u>	<u>\$ 1.46</u>	<u>\$ 1.45</u>

(2) **ACQUISITION**

On January 4, 2021, we acquired substantially all assets and assumed certain liabilities of PatientWisdom, Inc., a company with a health engagement solution that will further our purpose of operationalizing human understanding through tangible and actionable insights. \$3.0 million of the total \$5.0 million all-cash consideration was paid at closing. We paid the remaining \$2.0 million in January 2022. All payments were made with cash on hand. The acquisition was accounted for as a business combination, using the acquisition method of accounting, which requires, among other things, certain assets acquired and liabilities assumed to be recognized at their fair values as of the acquisition date. The following table summarizes the fair value of assets acquired and liabilities assumed at the acquisition date.

<u>Amount of Identified Assets Acquired and Liabilities Assumed</u>	
	(\$ in thousands)
Current Assets	\$ 184
Property and equipment	10
Customer related	100
Technology	600
Goodwill	4,340
Total assets acquired	<u>\$ 5,234</u>
Current liabilities	<u>284</u>
Net assets acquired	<u>\$ 4,950</u>

The identifiable intangible assets are being amortized over their estimated useful lives of 5 years. The goodwill and identifiable intangible assets are deductible for tax purposes. Goodwill related to the acquisition was primarily attributable to anticipated synergies and other intangibles that do not qualify for separate recognition.

The financial results associated with the PatientWisdom assets we acquired and liabilities we assumed are included in our consolidated financial statements from the date of acquisition, although the amounts are insignificant for 2022 and 2021. Pro-forma information has not been presented because the amounts for 2021 are insignificant. Acquisition-related costs of \$119,000 are included in selling, general and administrative expenses for the year ended December 31, 2021.

(3) Contracts with Customers

The following table disaggregates revenue for the years ended December 31, 2022, 2021 and 2020 based on timing of revenue recognition (In thousands):

	2022	2021	2020
Subscription services recognized ratably over time	\$ 141,981	\$ 137,008	\$ 122,499
Services recognized at a point in time	4,231	3,216	2,932
Fixed, non-subscription recognized over time	3,134	3,065	2,907
Unit price services recognized over time	2,222	4,665	4,939
Total revenue	<u>\$ 151,568</u>	<u>\$ 147,954</u>	<u>\$ 133,277</u>

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

	December 31, 2022	December 31, 2021
Accounts receivables	\$ 14,461	\$ 13,728
Contract assets included in other current assets	\$ 102	\$ 99
Deferred revenue	\$ 15,198	\$ 17,213

Significant changes in contract assets and contract liabilities during the years ended December 31, 2022 and 2021 are as follows (in thousands):

	2022		2021	
	Contract Asset	Deferred Revenue	Contract Asset	Deferred Revenue
	Increase (Decrease)			
Revenue recognized that was included in deferred revenue at beginning of year due to completion of services	\$ -	\$ (17,170)	\$ -	\$ (15,631)
Increases due to invoicing of client, net of amounts recognized as revenue	-	15,081	-	16,694
Decreases due to completion of services (or portion of services) and transferred to accounts receivable	(99)	-	(311)	-
Change due to cumulative catch-up adjustments arising from changes in expected contract consideration	-	74	-	326
Increases due to revenue recognized in the period with additional performance obligations before invoicing	102	-	99	-

We have elected to apply the practical expedient to not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less. Total remaining contract revenue for contracts with original duration of greater than one year expected to be recognized in the future related to performance obligations that are unsatisfied at December 31, 2022 approximated \$1.6 million of which \$972,000, \$621,000, and \$15,000 is expected to be recognized during 2023, 2024, and 2025, respectively.

(4) Equity Investments

We make equity investments to promote business and strategic objectives. For investments that do not have a readily determinable fair value, we apply either cost or equity method of accounting depending on the nature of our investment and our ability to exercise significant influence. Investments are periodically analyzed to determine whether or not there are any indicators of impairment and written down to fair value if the investment has incurred an other than temporary impairment. Our investment of \$1.3 million in convertible preferred stock of PracticingExcellence.com, Inc., a privately-held Delaware corporation (“PX”) is included in non-current assets. It is not practicable for us to estimate fair value at each reporting date due to the cost and complexity of the calculations for this non-public entity. Therefore, it is carried at cost less impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer, if any. We have a seat on PX's board of directors and our investment, which is not considered to be in-substance common stock, represents approximately 13.8% of the issued and outstanding equity interests in PX.

(5) Property and Equipment

At December 31, 2022, and 2021, property and equipment consisted of the following:

	2022	2021
	(In thousands)	
Furniture and equipment	\$ 4,753	\$ 4,901
Computer equipment	2,639	2,672
Computer software	29,876	27,828
Building	12,561	9,271
Leaseholds	502	502
Land	425	425
Property and equipment at cost	50,756	45,599
Less accumulated depreciation and amortization	33,508	33,208
Net property and equipment	<u>\$ 17,248</u>	<u>\$ 12,391</u>

Depreciation and amortization expense related to property and equipment, including assets under capital lease, for the years ended December 31, 2022, 2021, and 2020 was \$5.1 million, \$5.7 million, and \$6.5 million, respectively. We capitalize interest expense on major construction and development projects while in progress. Interest capitalized for 2022 was \$216,000. We did not capitalize interest in 2021 or 2020. There were no significant impairments in property and equipment during 2022, 2021, and 2020. However, we did shorten the useful lives of certain assets to reflect our best estimate of when assets are expected to be disposed of or replaced.

(6) **Goodwill and Intangible Assets**

Goodwill and intangible assets consisted of the following at December 31, 2022:

		<u>Gross</u>	<u>Accumulated Impairment</u>	<u>Net</u>
Goodwill		\$ 62,328	\$ (714)	\$ 61,614
			(In thousands)	
	<u>Useful Life</u>	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Net</u>
	(In years)		(In thousands)	
Non-amortizing intangible assets:				
Indefinite trade name		1,191		1,191
Amortizing intangible assets:				
Customer related	5 - 15	9,192	9,132	60
Technology	3 - 7	1,959	1,599	360
Trade names	10	1,572	1,572	—
Total amortizing intangible assets		<u>12,723</u>	<u>12,303</u>	<u>420</u>
Total intangible assets other than goodwill		<u>\$ 13,914</u>	<u>\$ 12,303</u>	<u>\$ 1,611</u>

Goodwill and intangible assets consisted of the following at December 31, 2021:

		<u>Gross</u>	<u>Accumulated Impairment</u>	<u>Net</u>
Goodwill		\$ 62,328	\$ (714)	\$ 61,614
			(In thousands)	
	<u>Useful Life</u>	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Net</u>
	(In years)		(In thousands)	
Non-amortizing intangible assets:				
Indefinite trade name		1,191		1,191
Amortizing intangible assets:				
Customer related	5 - 15	9,445	9,325	120
Technology	3 - 7	1,959	1,480	479
Trade names	10	1,572	1,572	—
Total amortizing intangible assets		<u>12,976</u>	<u>12,377</u>	<u>599</u>
Total intangible assets other than goodwill		<u>\$ 14,167</u>	<u>\$ 12,377</u>	<u>\$ 1,790</u>

The following represents a summary of changes in the carrying amount of goodwill for the years ended December 31, 2022 and 2021 (in thousands):

Balance as of December 31, 2020	\$ 57,255
Goodwill acquired	4,340
Foreign currency translation	19
Balance as of December 31, 2021	<u>\$ 61,614</u>

There were no changes in goodwill during 2022 from the net carrying amount of \$61,614 at December 31, 2021.

As discussed in Note 1, we recorded an impairment of \$714,000 to the Canada reporting unit's goodwill in December 2020.

Aggregate amortization expense for customer related intangibles, trade names, and technology for the years ended December 31, 2022, 2021 and 2020 was \$180,000, \$320,000, and \$318,000, respectively. Estimated future amortization expense for 2023, 2024, and 2025 is \$140,000, \$140,000 and \$140,000, respectively. No amortization expense is projected beyond 2025.

(7) **Income Taxes**

For the years ended December 31, 2022, 2021, and 2020, income before income taxes consists of the following:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
		(In thousands)	
U.S. Operations	\$ 43,156	\$ 48,145	\$ 41,357
Foreign Operations	(341)	476	110
Income before income taxes	<u>\$ 42,815</u>	<u>\$ 48,621</u>	<u>\$ 41,467</u>

Income tax expense consisted of the following components:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
		(In thousands)	
<u>Federal:</u>			
Current	\$ 9,988	\$ 9,092	\$ 3,546
Deferred	(1,427)	(224)	(308)
Total	<u>\$ 8,561</u>	<u>\$ 8,868</u>	<u>\$ 3,238</u>
<u>Foreign:</u>			
Current	\$ (90)	\$ 143	\$ 225
Deferred	—	(17)	(6)
Total	<u>\$ (90)</u>	<u>\$ 126</u>	<u>\$ 219</u>
<u>State:</u>			
Current	\$ 2,846	\$ 2,197	\$ 578
Deferred	(302)	(36)	172
Total	<u>\$ 2,544</u>	<u>\$ 2,161</u>	<u>\$ 750</u>
Total	<u>\$ 11,015</u>	<u>\$ 11,155</u>	<u>\$ 4,207</u>

As a result of the Tax Cuts and Jobs Act (the "Tax Act"), we determined that we would no longer indefinitely reinvest the earnings of our Canadian subsidiary. Our Canadian subsidiary declared a deemed dividend to the Company for \$1.4 million and \$9.6 million in 2022 and 2020, respectively. Additionally, a withholding tax of 5% was paid for the dividend distribution. Due to the closure of the Canadian office, we also processed a return of capital from the Canadian subsidiary to the Company of \$1.2 million.

We qualify for tax incentives through the Nebraska Advantage LB312 Act ("NAA"). The NAA provides direct refunds of sales tax on qualified property, as well as investment credits and employment credits that can be claimed through credits of Nebraska income tax, employment tax, and sales tax on non-qualified property. For the year ended December 31, 2022, 2021 and 2020, adjustments for credits reduced operating expenses by approximately \$510,000, \$473,000 and \$435,000, respectively. In addition, income tax credits of \$36,000, \$10,000 and \$45,000 were recorded as a reduction to income tax expense for the years ended December 31, 2022, 2021 and 2020, respectively.

The differences between income taxes expected at the U.S. federal statutory income tax rate of 21 percent and the reported income tax (benefit) expense are summarized as follows:

	2022	2021	2020
	(In thousands)		
Expected federal income taxes	\$ 8,991	\$ 10,210	\$ 8,708
Foreign tax rate differential	(24)	26	6
State income taxes, net of federal benefit and state tax credits	2,100	1,531	607
Share-based compensation	(120)	(660)	(5,713)
Compensation limit for covered employees	—	—	463
Federal tax credits	(408)	(272)	(261)
Uncertain tax positions	22	254	157
Reclassification of cumulative translation adjustment into earnings	539	—	—
Goodwill Impairment	—	—	184
Withholding tax on repatriation of foreign earnings	(100)	8	18
GILTI	—	—	10
Other	15	58	28
	<u>\$ 11,015</u>	<u>\$ 11,155</u>	<u>\$ 4,207</u>

Deferred tax assets and liabilities at December 31, 2022 and 2021, were comprised of the following:

	2022	2021
	(In thousands)	
Deferred tax assets:		
Allowance for doubtful accounts	\$ 16	\$ 24
Accrued expenses	691	687
Share-based compensation	1,072	740
Accrued bonuses	96	267
Employer payroll tax deferral	—	200
Uncertain tax positions	256	161
Research & experimental expenditures	856	—
Other	78	66
Gross deferred tax assets	<u>3,065</u>	<u>2,145</u>
Less valuation allowance	—	—
Deferred tax assets	<u>3,065</u>	<u>2,145</u>
Deferred tax liabilities:		
Prepaid expenses	135	89
Deferred contract costs	601	945
Property and equipment	1,066	1,579
Intangible assets	6,523	6,338
Repatriation withholding	—	182
Deferred tax liabilities	<u>8,325</u>	<u>9,133</u>
Net deferred tax liabilities	<u>\$ (5,260)</u>	<u>\$ (6,988)</u>

In March 27, 2020, the U.S. federal government enacted the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”). The CARES Act is an emergency economic stimulus package in response to the coronavirus outbreak which, among other things, contains numerous income tax provisions. As a result of the CARES Act, we had deferred \$1.3 million of employer social security tax payments as of December 31, 2020. In accordance with the CARES Act, we paid half of this liability in December 2021, and paid the remaining \$656,000 in December 2022. We have had no other impacts to our consolidated financial statements or related disclosures from the CARES Act.

On August 16, 2022, the Inflation Reduction Act of 2022 (“IRA”) was signed into U.S. law. The IRA includes implementation of a new alternative minimum tax, an excise tax on stock buybacks, and significant tax incentives for energy and climate initiatives, among other provisions. After evaluating the provisions included under the IRA, the Company does not expect the provisions to have a material impact to the Company’s consolidated financial statements.

In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We consider projected future taxable income, carry-back opportunities, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, we believe it is more likely than not that we will realize the benefits of these deductible differences excluding the foreign tax credit carryforward. In 2020, we wrote off the deferred tax asset for prior year foreign tax credit carryforwards of \$535,000 and the related valuation allowance. We made the assessment that due to our Canadian subsidiary's decreased projected future income and the lower US tax rate compared to the Canadian tax rate, it was unlikely we would realize this asset.

The Tax Act amended Section 174 rules for the federal tax treatment of research or experimental ("R&E") expenditures paid or incurred during the taxable year. The new Section 174 rules require taxpayers to capitalize and amortize specified R&E expenditures over a period of five years (attributable to domestic research) or 15 years (attributable to foreign research), beginning with the midpoint of the taxable year in which the expenses are paid or incurred. Software development costs are expressly included in the definition of specified R&E expenditures after 2021. Due to this change in legislation the Company has deferred costs of \$3.5 million for tax purposes, resulting in a deferred tax asset of \$856,000 at December 31, 2022. The Company also recorded a deferred tax asset of \$52,000 related to software development costs included in the overall fixed asset deferred tax liability.

We had an unrecognized tax benefit at December 31, 2022 and 2021, of \$1.6 million and \$1.1 million, respectively, excluding interest of \$25,000 and \$19,000 at December 31, 2022 and 2021, respectively. Of these amounts, \$1.3 million and \$918,000 at December 31, 2022 and 2021, 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 2022 and 2021 was as follows:

	<u>(In thousands)</u>
Balance of unrecognized tax benefits at December 31, 2020	\$ 768
Reductions due to lapse of applicable statute of limitations	(38)
Reductions due to tax positions of prior years	—
Reductions due to settlement with taxing authorities	—
Additions based on tax positions related to the current year	345
Balance of unrecognized tax benefits at December 31, 2021	\$ 1,075
Reductions due to lapse of applicable statute of limitations	(76)
Additions due to tax positions of prior years	—
Reductions due to settlement with taxing authorities	—
Additions based on tax positions related to the current year	558
Balance of unrecognized tax benefits at December 31, 2022	\$ 1,557

We file income tax returns in the U.S. federal jurisdiction, various state jurisdictions, and Canada federal and provincial jurisdictions. Tax years 2019 and forward remain subject to U.S. federal examination. Tax years 2016 and forward remain subject to state examination. Tax years 2018 and forward remain subject to Canadian federal and provincial examination.

(8) Notes Payable

Our long-term debt consists of the following:

	<u>2022</u>	<u>2021</u>
	<u>(In thousands)</u>	
Term Loans	\$ 22,315	\$ 26,620
Less: current portion	(4,491)	(4,278)
Less: unamortized debt issuance costs	(134)	(73)
Notes payable, net of current portion	<u>\$ 17,690</u>	<u>\$ 22,269</u>

Our amended and restated credit agreement (the "Credit Agreement") with First National Bank of Omaha ("FNB") was amended and restated on September 30, 2022 and includes (i) a \$30,000,000 revolving credit facility (the "Line of Credit"), (ii) a \$23,412,383 term loan (the "Term Loan") and (iii) a \$75,000,000 delayed draw-down term facility (the "Delayed Draw Term Loan" and, together with the Line of Credit and the Term Loan, the "Credit Facilities"). We may use the Delayed Draw

Term Loan to fund any permitted future business acquisitions or repurchases of our Common Stock and the Line of Credit to fund ongoing working capital needs and for other general corporate purposes.

The amended Term Loan revised the remaining payments for the then existing outstanding balance at September 30, 2022 to monthly installments of \$462,988 through May 2027. The Term Loan bears interest at a fixed rate per annum of 5%.

Borrowings under the Line of Credit and the Delayed Draw Term Loan, if any, bear interest at a floating rate equal to the 30-day Secured Overnight Financing Rate (“SOFR”) plus 235 basis points (6.10% at December 31, 2022). Interest on the Line of Credit accrues and is payable monthly. Principal amounts outstanding under the Line of Credit are due and payable in full at maturity, in May 2025. As of December 31, 2022, the Line of Credit did not have a balance. There were no borrowings on the Line of Credit during 2022. There have been no borrowings on the Delayed Draw Term Loan since origination.

We are obligated to pay ongoing unused commitment fees quarterly in arrears pursuant to the Line of Credit and the Delayed Draw Term Loan facility at a rate of 0.20% per annum based on the actual daily unused portions of the Line of Credit and the Delayed Draw Term Loan facility, respectively.

The Credit Agreement is collateralized by substantially all of our assets, subject to permitted liens and other agreed exceptions, and contains customary representations, warranties, affirmative and negative covenants (including financial covenants) and events of default. The negative covenants include, among other things, restrictions regarding the incurrence of indebtedness and liens, repurchases of our Common Stock and acquisitions, subject in each case to certain exceptions. Pursuant to the Credit Agreement, we are required to maintain a minimum fixed charge coverage ratio of 1.10x for all testing periods throughout the term(s) of the Credit Facilities, which calculation excludes, unless our liquidity falls below a specified threshold, (i) any cash dividend in a fiscal quarter that, together with all other cash dividends paid or declared during such fiscal quarter, exceeds \$5,500,000 in total cash dividends paid or declared, (ii) the portion of the purchase price for any permitted share repurchase of our shares paid with cash on hand, and (iii) the portion of any acquisition consideration for a permitted acquisition paid with cash on hand. We are also required to maintain a cash flow leverage ratio of 3.00x or less for all testing periods throughout the term(s) of the Credit Facilities. All obligations under the Credit Facilities are to be guaranteed by each of our direct and indirect wholly owned domestic subsidiaries, if any, and, to the extent required by the Credit Agreement, direct and indirect wholly owned foreign subsidiaries. As of December 31, 2022, we were in compliance with our financial covenants.

Scheduled maturities of notes payable at December 31, 2022 are as follows:

2023	\$	4,529
2024		4,762
2025		5,011
2026		5,271
2027		2,742

(9) Share-Based Compensation

We measure and recognize compensation expense for all share-based payments based on the grant-date fair value of those awards. All of our existing stock option awards and unvested stock awards have been determined to be equity-classified awards. We account for forfeitures as they occur.

Our 2004 Non-Employee Director Stock Plan, as amended (the “2004 Director Plan”), is a nonqualified plan that provides for the granting of options with respect to 3,000,000 shares of our Common Stock. The 2004 Director Plan provides for grants of nonqualified stock options to each of our directors who we do not employ. On the date of each annual meeting of shareholders, options to purchase shares of Common Stock equal to an aggregate grant date fair value of \$100,000 are granted to each non-employee director that is elected or retained as a director at each such meeting. Stock options vest approximately one year following the date of grant and option terms are generally the earlier of ten years following the date of grant, or three years from the termination of the outside director’s service. At December 31, 2022, there were 707,862 shares of Common Stock available for issuance pursuant to future grants under the 2004 Director Plan. We have accounted for grants of 2,292,138 shares of Common Stock under the 2004 Director Plan using the date of grant as the measurement date for financial accounting purposes.

Our 2006 Equity Incentive Plan (the “2006 Equity Incentive Plan”), as amended, provides for the granting of stock options, stock appreciation rights, restricted stock, performance shares and other share-based awards and benefits up to an aggregate of 1,800,000 shares of Common Stock. 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, 2022, there were 751,778 shares of Common Stock available for issuance pursuant to future grants under the 2006 Equity Incentive Plan. We have accounted for grants of 1,048,222 shares of Common Stock and restricted stock under the 2006 Equity Incentive Plan using the date of grant as the measurement date for financial accounting purposes.

During 2022, 2021 and 2020, we granted options to purchase 127,227, 101,091, and 70,471 shares of Common Stock, respectively. Options to purchase shares of common stock are typically granted with exercise prices equal to the fair value of the common stock on the date of grant. We do, in certain limited situations, grant options with exercise prices that exceed the fair value of the common shares on the date of grant. The fair value of stock options granted was estimated using a Black-Scholes valuation model with the following weighted average assumptions:

	2022	2021	2020
Expected dividend yield at date of grant	3.39 %	2.15 %	1.84 %
Expected stock price volatility	35.52 %	34.85 %	33.62 %
Risk-free interest rate	2.33 %	0.91 %	1.35 %
Expected life of options (in years)	6.3	7.01	7.39

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

The following table summarizes stock option activity under 2006 Equity Incentive Plan and the 2004 Director Plan for the year ended December 31, 2022:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Terms (Years)	Aggregate Intrinsic Value (In thousands)
<u>Common Stock</u>				
Outstanding at December 31, 2021	477,640	\$ 30.88		
Granted	127,227	\$ 36.67		
Exercised	23,581	\$ 13.17		
Outstanding at December 31, 2022	<u>581,286</u>	\$ 32.86	5.44	\$ 4,739
Exercisable at December 31, 2022	<u>323,140</u>	\$ 26.97	3.55	\$ 4,369

The following table summarizes information related to stock options for the years ended December 31, 2022, 2021 and 2020:

	2022	2021	2020
Weighted average grant date fair value of stock options granted	\$ 9.43	\$ 12.55	\$ 18.67
Intrinsic value of stock options exercised (in thousands)	\$ 648	\$ 3,535	\$ 25,912
Intrinsic value of stock options vested (in thousands)	\$ 4,369	\$ 4,805	\$ 1,965

As of December 31, 2022, the total unrecognized compensation cost related to non-vested stock option awards was approximately \$1.2 million which was expected to be recognized over a weighted average period of 2.63 years.

There was \$446,000 and \$1.7 million in cash received from stock options exercised for the years ended December 31, 2021 and 2020, respectively. No cash was received for stock options exercised for the year ended December 31, 2022. We recognized \$1.1 million, \$607,000, and \$680,000 of non-cash compensation for the years ended December 31, 2022, 2021, and 2020, respectively, related to options, which is included in direct and selling, general and administrative expenses. The actual tax benefit realized for the tax deduction from stock options exercised was \$160,000, \$862,000, and \$6.3 million for the years ended December 31, 2022, 2021, and 2020, respectively.

During 2021 we granted 12,698 non-vested shares of Common Stock under the 2006 Equity Incentive Plan. No shares of non-vested Common Stock were granted during the years ended December 31, 2022 or 2020. As of December 31, 2022, we had 12,698 non-vested shares of Common Stock outstanding under the 2006 Equity Incentive Plan. These shares vest five years following the date of grant and holders thereof are entitled to receive dividends from the date of grant, whether or not vested. The fair value of the awards is calculated as the fair market value of the shares on the date of grant. We recognized \$109,000, \$17,000, and \$23,000 of non-cash compensation for the years ended December 31, 2022, 2021, and 2020, respectively, related to this non-vested stock, which is included in direct and selling, general and administrative expenses. The actual tax benefit realized for the tax deduction from vesting of restricted stock was \$235,000 for the year ended December 31, 2020. No restricted stock vested during the years end December 31, 2022 and 2021.

The following table summarizes information regarding non-vested stock granted to associates under the 2006 Equity Incentive Plans for the year ended December 31, 2022:

	Common Stock Outstanding	Common Stock Weighted Average Grant Date Fair Value Per Share
Outstanding at December 31, 2021	12,698	\$ 42.92
Granted	—	\$ —
Vested	—	\$ —
Forfeited	—	\$ —
Outstanding at December 31, 2022	<u>12,698</u>	<u>\$ 42.92</u>

As of December 31, 2022, the total unrecognized compensation cost related to non-vested stock awards was approximately \$327,000 and is expected to be recognized over a weighted average period of 3.00 years.

(10) Leases

We lease printing, computer, other equipment and office space in the United States and Canada. The leases remaining terms as of December 31, 2022 range from less than one year to 3.93 years.

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

The components of lease expense for the years ended December 31, 2022, 2021 and 2020 included (in thousands):

	2022	2021	2020
Operating leases	\$ 527	\$ 669	\$ 600
Finance leases:			
Asset amortization	462	489	355
Interest on lease liabilities	19	34	37
Variable lease cost	95	99	62
Short-term lease cost	87	59	42
Sublease income	(123)	(81)	—
Total net lease cost	<u>\$ 1,067</u>	<u>\$ 1,269</u>	<u>\$ 1,096</u>

In 2020, we adjusted the useful life of the operating right of use assets associated with our Atlanta, Georgia and Markham, Ontario office leases based on the expectation that we will vacate the office space before the end of the lease term.

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

	December 31, 2022	December 31, 2021
<u>Operating leases:</u>		
Operating ROU assets	\$ 556	\$ 975
Current operating lease liabilities	522	493
Noncurrent operating lease liabilities	333	820
Total operating lease liabilities	\$ 855	\$ 1,313
	December 31, 2022	December 31, 2021
<u>Finance leases:</u>		
Furniture and equipment	\$ 1,042	\$ 1,042
Computer Equipment	659	659
Computer Software	207	207
Property and equipment under finance lease, gross	1,908	1,908
Less accumulated amortization	1,537	1,074
Property and equipment under finance lease, net	\$ 371	\$ 834
Current obligations of finance leases	\$ 311	\$ 470
Noncurrent obligations of finance leases	39	348
Total finance lease liabilities	\$ 350	\$ 818
Weighted average remaining lease term (in years):		
Operating leases	1.95	2.80
Finance leases	1.15	1.93
Weighted average discount rate:		
Operating leases	3.97%	3.85%
Finance leases	3.54%	3.42%

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

	2022	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	\$ 563	\$ 680	\$ 596
Operating cash flows from finance leases	18	34	36
Financing cash flows from finance leases	469	493	332
ROU assets obtained in exchange for operating lease liabilities	83	560	276
ROU assets obtained in exchange for finance lease liabilities	—	40	817

Undiscounted payments under non-cancelable finance and operating leases at December 31, 2022 were as follows (in thousands):

	<u>Finance Leases</u>	<u>Operating Leases</u>
2023	\$ 315	\$ 547
2024	23	227
2025	11	118
2026	10	—
2027	—	—
Thereafter	—	—
Total minimum lease payments	<u>359</u>	<u>892</u>
Less: Amount representing interest	<u>9</u>	<u>37</u>
Present value of minimum lease payments	350	855
Less: Current portion	311	522
Lease obligations, net of current portion	<u>\$ 39</u>	<u>\$ 333</u>

Undiscounted cash receipts due under the sublease agreement at December 31, 2022 are as follows (in thousands):

	<u>Operating Lease</u>
2023	\$ 122
2024	127
2025	65
Total minimum lease receipts	<u>\$ 314</u>

(11) Related Party

Mr. Hays, our Chief Executive Officer and director, is an owner of approximately 13% of the equity interests of Nebraska Global Investment Company LLC (“Nebraska Global”). We purchased certain services from Don’t Panic Labs, LLC, which was a subsidiary of Nebraska Global for a portion of the year ended December 31, 2022. The total value of these purchases was \$196,000 in the year ended December 31, 2022.

A director who began serving on our board in May 2021, also served until her retirement at the end of 2021 as chief executive officer of Allina Health, a not-for-profit healthcare system. In connection with its routine business operations, Allina Health purchases certain of our products and services. Total revenue we earned from Allina Health in the year ended December 31, 2021 approximated \$1.7 million.

A director, who served on our board through October 2021, also served as an officer and director of Ameritas Life Insurance Corp. (“Ameritas”) until January 2020 and continued to serve on the board of directors of Ameritas until October 2021. In connection with our regular assessment of our insurance-based associate benefits, which is conducted by an independent insurance broker, and the costs associated therewith, we purchase dental and vision insurance for certain of our associates from Ameritas. The total value of these purchases was \$278,000 and \$248,000 in 2021 and 2020 respectively.

A director, who served on our board through May 2020, also served as a board member of IMA Financial Group. In connection with our regular assessment of our liability coverage, during 2020 we began purchasing directors and officers and employment practices liability insurance through IMA Financial Group. Total payments for these services totaled \$1.1 million in 2020.

During 2017, we acquired a cost method investment in convertible preferred stock of Practicing Excellence.com, Inc., a privately-held Delaware Corporation (“PX”), which is included in other non-current assets and is carried at cost, adjusted for changes resulting from observable price changes in orderly transactions of the same investment in PX, if any. We also have an agreement with PX which commenced in 2016 under which we act as a reseller of PX services and PX receives a portion of the revenues. The total revenue earned from the PX reseller agreement in the years ended December 31, 2021 and 2020 was \$35,000, and \$294,000, respectively. We no longer earn revenue under this agreement after June 30, 2021 due to termination of the reseller agreement.

(12) Associate Benefits

We sponsor a qualified 401(k) plan covering substantially all associates with no eligibility service requirement. Under the 401(k) plan, we match 25.0% of the first 6.0% of compensation contributed by each associate. Employer contributions, which are discretionary, vest to participants at a rate of 20% per year. We contributed \$588,000, \$531,000, and \$521,000 in 2022, 2021, and 2020, respectively, as a matching percentage of associate 401(k) contributions.

(13) Segment Information

In March 2021, we changed our operating segments from six to one to reflect a change in the way we operated and managed our business, including changes to our corporate reporting structure to the Company's Chief Executive Officer and chief operating decision maker.

Our Canada office was closed in 2022. As a result, no Canadian revenue is expected to be generated after 2022. The table below presents entity-wide information regarding our revenue and assets by geographic area (in thousands):

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Revenue:			
United States	\$ 150,775	\$ 144,987	\$ 130,305
Canada	793	2,967	2,972
Total	<u>\$ 151,568</u>	<u>\$ 147,954</u>	<u>\$ 133,277</u>
Long-lived assets:			
United States	\$ 86,718	\$ 83,722	\$ 77,448
Canada	27	111	1,863
Total	<u>\$ 86,745</u>	<u>\$ 83,833</u>	<u>\$ 79,311</u>
Total assets:			
United States	\$ 130,151	\$ 153,879	\$ 128,319
Canada	310	3,661	5,104
Total	<u>\$ 130,461</u>	<u>\$ 157,540</u>	<u>\$ 133,423</u>

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

Not applicable.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the “Exchange Act”), our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2022. 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, 2022.

Management’s Report on Internal Control over Financial Reporting

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our internal control over financial reporting using the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on such evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2022.

The effectiveness of our internal control over financial reporting as of December 31, 2022, 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.

We have confidence in our internal controls and procedures. Nevertheless, our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure procedures and controls or our internal controls will prevent all errors or intentional fraud. An internal control system, no matter how well-conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of such internal controls are met. Further, the design of an internal control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. As a result of the inherent limitations in all internal control systems, no evaluation of controls can provide absolute assurance that all our control issues and instances of fraud, if any, have been detected.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2022, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

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

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

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

The remaining information required by this Item will be included in our definitive proxy statement to be filed with the SEC within 120 days after December 31, 2022, in connection with the solicitation of proxies for the Company's 2023 Annual Meeting of Stockholders (the "2023 Proxy Statement"), and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this Item will be included in our definitive 2023 Proxy Statement, and is incorporated herein by reference.

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

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, 2022.

<u>Plan Category Common Shares</u>	<u>Number of Securities to be issued upon the exercise of outstanding options, warrants and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)</u>
Equity compensation plans approved by security holders(1)	581,286	\$ 32.86	1,459,640(2)
Equity compensation plans not approved by security holders	—	—	—
Total	<u>581,286</u>	<u>\$ 32.86</u>	<u>1,459,640</u>

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

(2) Under the 2006 Equity Incentive Plan, we had authority to award up to 325,181 additional shares of restricted Common Stock provided that the total of such shares awarded may not exceed the total number of shares remaining available for issuance under the 2006 Equity Incentive Plan, which totaled 751,778 shares of Common Stock as of December 31, 2022. The Director Plan provides for granting options for 3,000,000 shares of Common Stock. Option awards through December 31, 2022 totaled 2,292,138 shares of Common Stock.

The remaining information required by this Item will be included in our definitive 2023 Proxy Statement and is incorporated herein by reference.

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

The information required by this Item will be included in our definitive 2023 Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this Item will be included in our definitive 2023 Proxy Statement, and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

1. Consolidated financial statements. The consolidated financial statements listed in the accompanying index to the consolidated financial statements are filed as part of this Annual Report on Form 10-K.
2. Financial statement schedules. All financial statement schedules have been omitted because they are not applicable or the required information is included in the consolidated financial statements and the related notes thereto.
3. Exhibits. The exhibits listed in the exhibit index below are filed as part of this Annual Report on Form 10-K.

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Exhibit Description</u>
(3.1)	Certificate of Incorporation of National Research Corporation, effective June 30, 2021 [Incorporated by reference to Exhibit 3.3 to National Research Corporation's Current Report on Form 8-K dated June 29, 2021, and filed on July 2, 2021 (File No. 001-35929)]
(3.2)	Bylaws of National Research Corporation, as amended to date [Incorporated by reference to Exhibit 3.4 to National Research Corporation's Current Report on Form 8-K dated June 29, 2021 and filed on July 2, 2021 (File No. 001-35929)]
(4.1)	Certificate of Incorporation of National Research Corporation, effective June 30, 2021 [Incorporated by reference to Exhibit 3.3 to National Research Corporation's Current Report on Form 8-K dated June 29, 2021, and filed on July 2, 2021 (File No. 001-35929)]
(4.2)	Bylaws of National Research Corporation, as amended to date [Incorporated by reference to Exhibit 3.4 to National Research Corporation's Current Report on Form 8-K dated June 29, 2021 and filed on July 2, 2021 (File No. 001-35929)]
(4.3)	Description of the Securities of the Registrant. [Incorporated by reference to Exhibit 4.3 to National Research Corporation's Annual Report on Form 10-K for the year ended December 31, 2021 and filed on March 4, 2022 (File No. 001-35929)]
(10.1)	Amended and Restated Credit Agreement dated May 28, 2020, between National Research Corporation and First National Bank of Omaha [Incorporated by reference to Exhibit 10.1 to National Research Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 and filed on August 7, 2020 (File No. 001-35929)]
(10.2)	First Amendment to Amended and Restated Credit Agreement between National Research Corporation and First National Bank of Omaha dated September 30, 2022 [Incorporated by reference to Exhibit 10.1 to National Research Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2022 and filed on November 4, 2022 (File No. 001-35929)]
(10.3)*	National Research Corporation 2004 Non-Employee Director Stock Plan, as amended [Incorporated by reference to Appendix A to National Research Corporation's Proxy Statement for the 2018 Annual Meeting of Shareholders filed on April 27, 2018 (File No. 001-35929)]
(10.4)*	Form of Nonqualified Stock Option Agreement used in connection with the National Research Corporation 2006 Equity Incentive Plan [Incorporated by reference to Exhibit 10.14 to National Research Corporation's Annual Report on Form 10-K for the year ended December 31, 2006 and filed on April 2, 2007 (File No. 000-29466)]
(10.5)*	Form of Restricted Stock Agreement used in connection with the National Research Corporation 2006 Equity Incentive Plan [Incorporated by reference to Exhibit 10.15 to National Research Corporation's Annual Report on Form 10-K for the year ended December 31, 2006 and filed on April 2, 2007 (File No. 000-29466)]
(10.6)*	National Research Corporation 2006 Equity Incentive Plan, [Incorporated by reference to Appendix A to National Research Corporation's Proxy Statement for the 2006 Annual Meeting of Shareholders filed on April 3, 2006 (File No. 000-29466)]

Exhibit**Number** **Exhibit Description**

- (10.7)* Form of Grant used in connection with the National Research Corporation 2004 Non-Employee Director Stock Plan, as amended [Incorporated by reference to Exhibit 10.1 to National Research Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2021 and filed on November 5, 2021 (File No. 001-35929)]
- (21)** Subsidiary of National Research Corporation
- (23)** Consent of Independent Registered Public Accounting Firm
- (31.1)** Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (31.2)** Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (32)** Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- (101)** Financial statements from the Annual Report on Form 10-K of National Research Corporation for the year ended December 31, 2022, formatted in Inline eXtensible Business Reporting Language (iXBRL): (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.
- (104)** Cover Page Interactive Data File (formatted in the Inline XBRL and contained in Exhibit 101).

* A management contract or compensatory plan or arrangement.

** Filed herewith.

*** Furnished herewith.

Item 16. Form 10-K Summary

None.

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 3rd day of March 2023.

NATIONAL RESEARCH CORPORATION

By: /s/ Michael D. Hays

Michael D. Hays
Chief Executive Officer and President

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Michael D. Hays</u> Michael D. Hays	Chief Executive Officer, President and Director (Principal Executive Officer)	March 3, 2023
<u>/s/ Kevin R. Karas</u> Kevin R. Karas	Senior Vice President Finance, Chief Financial Officer, Treasurer and Secretary (Principal Financial and Accounting Officer)	March 3, 2023
<u>/s/ Donald M. Berwick</u> Donald M. Berwick	Director	March 3, 2023
<u>/s/ John N. Nunnally</u> John N. Nunnally	Director	March 3, 2023
<u>/s/ Penny A. Wheeler</u> Penny A. Wheeler	Director	March 3, 2023
<u>/s/ Stephen H. Lockhart</u> Stephen H. Lockhart	Director	March 3, 2023
<u>/s/ Parul Bhandari</u> Parul Bhandari	Director	March 3, 2023

Subsidiary of National Research Corp.

National Research Corporation's subsidiary as of December 31, 2022 is listed below:

<u>Subsidiary</u>	<u>Jurisdiction of organization</u>
National Research Corporation Canada	Ontario

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the registration statements (Nos. 333-52143, 333-52135, 333-120530, 333-137763, 333-137769, 333-173097, 333-189139, 333-189140, 333-189141, 333-209934, 333-226715, and 333-226716) on Form S-8 and (Nos. 333-120529 and 333-232534) on Form S-3 of our report dated March 3, 2023, with respect to the consolidated financial statements of National Research Corporation and the effectiveness of internal control over financial reporting.

/s/ KPMG LLP

Lincoln, Nebraska
March 3, 2023

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 3, 2023

By: /s/ Michael D. Hays

Michael D. Hays

Chief Executive Officer and President

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 3, 2023

By: /s/ Kevin R. Karas

Kevin R. Karas
Chief Financial Officer

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

In connection with the accompanying Annual Report on Form 10-K of National Research Corporation (the “Company”) for the year ended December 31, 2022 (the “Report”), I, Michael D. Hays, Chief Executive Officer and President 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 and President

/s/ Kevin R. Karas

Kevin R. Karas
Chief Financial Officer

Date: March 3, 2023

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

President and Chief Executive Officer
National Research Corporation

John N. Nunnely, Lead Director

Retired Group President
McKesson Corporation
*Member of the Strategic Planning (Chair),
Audit (Interim Chair), Nominating, and
Compensation and Talent Committees*

Penny A. Wheeler, M.D.

Retired Chief Executive Officer
Allina Health
*Member of the Strategic Planning, Audit,
and Nominating Committees*

Donald M. Berwick, M.D.

President Emeritus and Senior Fellow
Institute for Healthcare Improvement
*Member of the Strategic Planning, Audit,
Nominating (Chair), and Compensation and
Talent Committees*

Stephen H. Lockhart, M.D., Ph.D.

Retired Senior Vice President and
Chief Medical Officer
Sutter Health Network
*Member of the Strategic Planning, Nominating,
and Compensation and Talent (Chair) Committees*

Parul Bhandari

Director, Partner Strategy,
Worldwide Media and Communications
Microsoft
*Member of the Strategic Planning, Nominating,
and Compensation and Talent Committees*

Executive Officers

Michael D. Hays

President and Chief Executive Officer

Jona S. Raasch

Chief Operating Officer
Chief Executive Officer,
The Governance Institute

Kevin R. Karas

Chief Financial Officer,
Treasurer and Secretary

Helen L. Hrdy

Chief Growth Officer

Corporate Data

Corporate Headquarters

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

Transfer Agent

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

Corporate Counsel

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

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



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@NRCHHealth