

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

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2024

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 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



Non-accelerated filer



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 is a shell company (as defined in Rule 12b-2 of the Act.) Yes ☐ No ☒

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 April 25, 2024: 23,877,315

NATIONAL RESEARCH CORPORATION

FORM 10-Q INDEX

For the Quarter Ended March 31, 2024

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**Special Note Regarding Forward-Looking Statements**

Certain matters discussed in this Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q, 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 interest rates and 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, and the expected impact of global conflicts, 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 a pandemic will adversely affect our operations, sales, earnings, financial condition or liquidity;
- The likelihood that global conflicts 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;
- Our ability to maintain effective internal controls;
- 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 our Annual Report on Form 10-K, as such section may be updated or supplemented by Part II, Item 1A of our subsequently filed Quarterly Reports on Form 10-Q (including this Report) 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 Quarterly Report on Form 10-Q 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.

**PART I – Financial Information**
**ITEM 1. Financial Statements**

**NATIONAL RESEARCH CORPORATION AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share amounts and par value)

	March 31, 2024 (unaudited)	December 31, 2023
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,699	\$ 6,653
Trade accounts receivable, less allowance for doubtful accounts of \$ 75 and \$75, respectively	11,127	12,378
Prepaid expenses	6,377	4,228
Income taxes receivable	34	161
Other current assets	777	940
Total current assets	20,014	24,360
Property and equipment, net	31,530	28,205
Intangible assets, net	1,436	1,471
Goodwill	61,614	61,614
Operating lease right-of-use assets	1,937	2,060
Deferred contract costs, net	1,254	1,453
Other	3,126	3,274
Total assets	\$ 120,911	\$ 122,437
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Current portion of notes payable, net of unamortized debt issuance costs	\$ 7,504	\$ 7,214
Line of credit	7,000	—
Accounts payable	2,397	1,301
Accrued wages and bonuses	5,385	3,953
Accrued expenses	5,732	4,893
Dividends payable	2,865	2,906
Deferred revenue	15,194	14,834
Income taxes payable	1,968	222
Other current liabilities	805	880
Total current liabilities	48,850	36,203
Notes payable, net of current portion and unamortized debt issuance costs	27,569	29,470
Deferred income taxes	3,892	4,139
Other long-term liabilities	3,655	3,670
Total liabilities	83,966	73,482
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 31,078,202 in 2024 and 31,002,919 in 2023, outstanding 23,877,315 in 2024 and 24,219,887 in 2023	31	31
Additional paid-in capital	179,929	178,213
Retained earnings (accumulated deficit)	(27,036)	(30,530)
Treasury stock, at cost; 7,200,887 Common shares in 2024 and 6,783,032 Common shares in 2023	(115,979)	(98,759)
Total shareholders' equity	\$ 36,945	\$ 48,955
Total liabilities and shareholders' equity	\$ 120,911	\$ 122,437

See accompanying notes to condensed consolidated financial statements

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

	Three months ended March 31,	
	2024	2023
Revenue	\$ 35,313	\$ 36,473
Operating expenses:		
Direct	13,856	14,280
Selling, general and administrative	11,250	11,783
Depreciation and amortization	1,447	1,394
Total operating expenses	26,553	27,457
Operating income	8,760	9,016
Other income (expense):		
Interest income	44	250
Interest expense	(605)	(241)
Other, net	(5)	(14)
Total other income (expense)	(566)	(5)
Income before income taxes	8,194	9,011
Provision for income taxes	1,835	2,047
Net income	\$ 6,359	\$ 6,964
Earnings Per Share of Common Stock:		
Basic Earnings Per Share	\$ 0.27	\$ 0.28
Diluted Earnings Per Share	\$ 0.27	\$ 0.28
Weighted average shares and share equivalents outstanding:		
Basic	23,868	24,585
Diluted	23,963	24,738

See accompanying notes to condensed consolidated financial statements

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

	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Treasury Stock	Total
Balances at December 31, 2023	\$ 31	\$ 178,213	\$ (30,530)	\$ (98,759)	\$ 48,955
Purchase of 417,855 shares treasury stock	-	-	-	(17,220)	(17,220)
Issuance of 75,283 shares of common stock for the exercise of stock options	-	1,752	-	-	1,752
Non-cash stock compensation expense	-	(36)	-	-	(36)
Dividends declared of \$0.12 per share of common stock	-	-	(2,865)	-	(2,865)
Net income	-	-	6,359	-	6,359
Balances at March 31, 2024	<u>\$ 31</u>	<u>\$ 179,929</u>	<u>\$ (27,036)</u>	<u>\$ (115,979)</u>	<u>\$ 36,945</u>

See accompanying notes to condensed consolidated financial statements.

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

	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings (Deficit)</b>	<b>Treasury Stock</b>	<b>Total</b>
Balances at December 31, 2022	\$ 31	\$ 175,453	\$ (25,184)	\$ (78,267)	\$ 72,033
Purchase of 49,296 shares treasury stock	-	-	-	(1,983)	(1,983)
Issuance of 20,938 shares of common stock for the exercise of stock options	-	300	-	-	300
Non-cash stock compensation expense	-	304	-	-	304
Dividends declared of \$0.12 per share of common stock	-	-	(2,953)	-	(2,953)
Net income	-	-	6,964	-	6,964
Balances at March 31, 2023	<u>\$ 31</u>	<u>\$ 176,057</u>	<u>\$ (21,173)</u>	<u>\$ (80,250)</u>	<u>\$ 74,665</u>

See accompanying notes to condensed consolidated financial statements.

**NATIONAL RESEARCH CORPORATION AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands, unaudited)

	Three months ended March 31	
	2024	2023
Cash flows from operating activities:		
Net income	\$ 6,359	\$ 6,964
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,447	1,394
Deferred income taxes	(246)	(377)
Reserve for uncertain tax positions	133	124
Non-cash share-based compensation expense	(36)	304
Net changes in assets and liabilities:		
Trade accounts receivable	1,251	242
Prepaid expenses and other current assets	(1,620)	(4,117)
Deferred contract costs, net	199	206
Operating lease assets and liabilities, net	(22)	(32)
Accounts payable	(151)	171
Accrued expenses, wages and bonuses	2,491	(97)
Income taxes receivable and payable	1,872	2,273
Deferred revenue	360	698
Net cash provided by operating activities	12,037	7,753
Cash flows from investing activities:		
Purchases of property and equipment	(4,138)	(3,199)
Net cash used in investing activities	(4,138)	(3,199)
Cash flows from financing activities:		
Payments on notes payable	(1,621)	(1,114)
Borrowings on line of credit	13,000	-
Payments on line of credit	(6,000)	-
Payments on finance lease obligations	(11)	(115)
Proceeds from the exercise of share-based awards	-	301
Payment of payroll tax withholdings on share-based awards exercised	(317)	-
Repurchase of shares for treasury	(14,999)	(1,972)
Payment of dividends on common stock	(2,906)	(2,956)
Net cash used in financing activities	(12,854)	(5,856)
Effect of exchange rate changes on cash and cash equivalents	1	-
Change in cash and cash equivalents	(4,954)	(1,302)
Cash and cash equivalents at beginning of period	6,653	25,026
Cash and cash equivalents at end of period	\$ 1,699	\$ 23,724
Supplemental disclosure of cash paid for:		
Interest expense, net of capitalized amounts	\$ 521	\$ 329
Income taxes	\$ 78	\$ 27
Supplemental disclosure of non-cash investing and financing activities:		
Stock tendered to the Company for cashless exercise of stock options in connection with equity incentive plans	\$ 1,752	-
Purchase of property and equipment in accounts payable and accrued expenses	\$ 2,664	\$ 1,507
Repurchase of shares for treasury in accounts payable and accrued expenses	\$ 152	\$ 11

See accompanying notes to condensed consolidated financial statements.



**NATIONAL RESEARCH CORPORATION AND SUBSIDIARY  
NOTES TO CONDENSED 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.

Our condensed consolidated balance sheet at December 31, 2023 was derived from our audited consolidated balance sheet as of that date. All other financial statements contained herein are unaudited and, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) that we consider necessary for a fair presentation of financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States.

Information and footnote disclosures included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto that are included in our Form 10-K for the year ended December 31, 2023, filed with the Securities and Exchange Commission (the "SEC") on February 27, 2024.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

The condensed 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.

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. During December 2022, we substantially liquidated our investment in Canada. As a result, currency translation changes are recognized in Other income (expense), net in our Condensed 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 2 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 months 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, and certain implementation costs 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 \$114,000 and \$163,000 in the three-month periods ended March 31, 2024 and 2023, respectively. Deferred contract costs, net of accumulated amortization was \$1.3 million and \$1.5 million at March 31, 2024 and December 31, 2023, respectively. Total amortization by expense classification for the three-month periods ended March 31, 2024 and 2023 was as follows:

	2024	2023
	(In thousands)	
Direct expenses	\$ 67	\$ 35
Selling, general and administrative expenses	\$ 213	\$ 326
Total amortization	\$ 280	\$ 361

Additional expense included in selling, general and administrative expenses for impairment of costs capitalized due to lost clients was \$ 34,000 and \$8,000 for the three-month periods ended March 31, 2024 and 2023, respectively.

## Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount. 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 three-month periods ended March 31, 2024 and 2023 (in thousands):

	Balance at Beginning of Period	Bad Debt Expense (Benefit)	Write-offs	Recoveries	Balance at End of Period
Three months ended March 31, 2024	\$ 75	\$ (48)	\$ 1	\$ 49	\$ 75
Three months ended March 31, 2023	\$ 65	\$ -	\$ 1	\$ 1	\$ 65

## 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 condensed 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. Rent income from the sublessee is 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 March 31, 2024 and December 31, 2023:

	Level 1	Level 2	Level 3	Total
	(In thousands)			
As of March 31, 2024				
Money Market Funds	\$ 1,504	\$ -	\$ -	\$ 1,504
Total Cash Equivalents	<u>\$ 1,504</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,504</u>
As of December 31, 2023				
Money Market Funds	\$ 6,471	\$ -	\$ -	\$ 6,471
Total Cash Equivalents	<u>\$ 6,471</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,471</u>

There were no transfers between levels during the three months ended March 31, 2024.

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Our long-term debt described in Note 4 is recorded at historical cost. The fair value of fixed rate 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 fair value of our variable rate long-term debt is believed to approximate the carrying value because we believe the current rate reasonably estimates the current market rate for our debt.

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

	March 31, 2024	December 31, 2023
	(In thousands)	
Total carrying amount of long-term debt	\$ 35,166	\$ 36,787
Estimated fair value of long-term debt	\$ 34,723	\$ 36,403

The carrying amounts of accounts receivable, line of credit, 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). As of March 31, 2024 and December 31, 2023, there was no indication of impairment related to these assets.

Annually, we consider whether the recorded goodwill and indefinite lived intangibles have been impaired. However, goodwill and intangibles must be tested between annual tests if an event occurs or circumstances change to indicate that it is more likely than not that an impairment loss has been incurred ("triggering event").

#### 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 March 31, 2024 will have a material adverse effect on our consolidated financial position, results of operations or liquidity.

## (2) CONTRACTS WITH CUSTOMERS

The following table disaggregates revenue for the three-month periods ended March 31, 2024 and 2023 based on timing of revenue recognition (in thousands):

	2024	2023
Subscription services recognized ratably over time	\$ 33,271	\$ 34,433
Services recognized at a point in time	1,421	1,176
Fixed, non-subscription recognized over time	495	655
Unit price services recognized over time	126	209
Total revenue	<u>\$ 35,313</u>	<u>\$ 36,473</u>

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

	March 31, 2024	December 31, 2023
Accounts receivables	\$ 11,127	\$ 12,378
Contract assets included in other current assets	\$ 77	\$ 84
Deferred Revenue	\$ 15,194	\$ 14,834

Significant changes in contract assets and contract liabilities during the three-month periods ended March 31, 2024 and 2023 are as follows (in thousands):

	2024		2023	
	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	\$ -	\$ (7,303)	\$ -	\$ (7,056)
Increases due to invoicing of client, net of amounts recognized as revenue	-	7,672	-	7,828
Decreases due to completion of services (or portion of services) and transferred to accounts receivable	(39)	-	(37)	-
Change due to cumulative catch-up adjustments arising from changes in expected contract consideration	-	(9)	-	(74)
Increases due to revenue recognized in the period with additional performance obligations before invoicing	32	-	88	-

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 March 31, 2024 approximated \$18.6 million, of which \$6.2 million, \$7.1 million, \$5.0 million and \$230,000 are expected to be recognized during 2024, 2025, 2026 and 2027, respectively.

## (3) INCOME TAXES

The effective tax rate was 22% and 23% for the three-month periods ended March 31, 2024 and 2023, respectively. The effective tax rate decreased mainly due to increased tax benefits of \$79,000 from the exercise of share-based compensation awards partially offset by higher state income taxes of approximately \$32,000 which fluctuate based on various apportionment factors and rates for the states we operate in.

#### (4) **NOTES PAYABLE**

Our long-term debt consists of the following:

	March 31, 2024	December 31, 2023
	(In thousands)	
Term Loan	\$ 16,618	\$ 17,787
Delayed Draw Term Loan	18,548	19,000
Less: current portion	(7,504)	(7,214)
Less: unamortized debt issuance costs	(93)	(103)
Notes payable, net of current portion	<u>\$ 27,569</u>	<u>\$ 29,470</u>

Our amended and restated credit agreement (the "Credit Agreement") with First National Bank of Omaha ("FNB") 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 is payable in monthly installments of \$462,988 through May 2027 and bears interest at a fixed rate per annum of 5%.

Borrowings under the Delayed Draw Term Loan and Line of Credit, if any, bear interest at a floating rate equal to the 30-day Secured Overnight Financing Rate ("SOFR") plus 235 basis points (7.67% at March 31, 2024). Interest on the Line of Credit and Delayed Draw Term Loan 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 March 31, 2024, 2023, we had \$7,000,000 of borrowings outstanding and the availability to borrow \$ 23,000,000 on the Line of Credit. The weighted average borrowings on the Line of Credit for the three months ended March 31, 2024 was \$9.1 million. There were no borrowings on the Line of Credit in the three months ended March 31, 2023. The weighted average interest rate on borrowings on the Line of Credit during the three months ended March 31, 2024 was 7.69%.

Principal payments are due on the Delayed Draw Term Loan in monthly installments of \$ 226,190 through April 2027 and a balloon payment for the remaining balance of \$10.2 million is due in May 2027. We had the availability to borrow an additional \$ 56.0 million on the Delayed Draw Term Loan at March 31, 2024.

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.

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. In June 2023, the Credit Agreement was amended to exclude our costs associated with our building renovation from or after January 1, 2023, from the fixed charge coverage ratio calculation. 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, (iii) the portion of any acquisition consideration for a permitted acquisition paid with cash on hand, and (iv) up to \$25 million of costs associated with our building renovation from or after January 1, 2023. 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.

## (5) 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. We refer to our restricted stock awards as "non-vested" stock in these condensed consolidated financial statements.

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 non-employee director's service.

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 our common stock. Stock options granted may be either incentive stock options or nonqualified stock options. 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 stock on the date of grant.

### *Performance-Based Stock Option Awards*

We grant stock options to selected executives with vesting contingent upon meeting certain Company-wide performance goals. The performance goals for options issued in 2024 are based on reaching a total recurring contract value target, measured at the end of the performance period, December 31, 2026. Vesting is also dependent upon remaining in our employment through the performance period. The performance awards issued in 2024 have a six-year contractual term. We recognize compensation expense prospectively from the date it is deemed probable that the performance goal will be met through the end of the performance period. We granted 404,833 performance-based stock option awards during the three-month period ended March 31, 2024. No performance-based stock options were awarded in 2023.

The fair value of performance-based stock options granted was estimated using a Black-Scholes valuation model with the following weighted average assumptions:

	2024
Expected dividend yield at date of grant	1.44%
Expected stock price volatility	33.83%
Risk-free interest rate	4.13%
Expected life of options (in years)	4.0

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 performance-based stock option activity under the 2006 Equity Incentive Plan for the three-month period ended March 31, 2024:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Terms (Years)	Aggregate Intrinsic Value (In thousands)
Outstanding at December 31, 2023	-	\$ -		
Granted	404,833	\$ 39.54		
Exercised	-	\$ -		
Forfeited	-	\$ -		
Outstanding at March 31, 2024	404,833	\$ 39.54	5.80	\$ 28
Exercisable at March 31, 2024	-	\$ -	-	\$ -



### Service-Based Stock Option Awards

We also grant stock options to directors and selected executives with vesting based on specified service periods. Vesting terms vary with each grant and option awards are generally five to ten years following the date of grant. We recognize compensation expense on a straight-line basis over the service period specified in the award. We granted 59,429 service-based stock option awards during the three-month period ended March 31, 2023. No service-based stock options were awarded in three-month period ended March 31, 2024.

The following table summarizes service-based stock option activity under the 2006 Equity Incentive Plan and the 2004 Director Plan for the three-month period ended March 31, 2024:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Terms (Years)	Aggregate Intrinsic Value (In thousands)
Outstanding at December 31, 2023	569,168	\$ 35.72		
Granted	-	\$ -		
Exercised	75,283	\$ 23.27		
Forfeited	37,556	\$ 45.53		
Outstanding at March 31, 2024	456,329	\$ 36.96	5.57	\$ 2,750
Exercisable at March 31, 2024	307,070	\$ 33.45	4.41	\$ 2,725

As of March 31, 2024, the total unrecognized compensation cost related to non-vested performance-based and service-based stock option awards was approximately \$5.4 million which was expected to be recognized over a weighted average period of 2.8 years.

There was \$301,000 of cash received from stock options exercised for the three-month period ended March 31, 2023. No cash was received from stock options exercised in the three-month period ended March 31, 2024. We recognized (\$49,000) and \$276,000 of non-cash compensation expense (benefit) for three-month periods ended March 31, 2024 and 2023, respectively, which is included in selling, general and administrative expenses.

### Non-vested Stock Awards

No non-vested shares of common stock were granted under the 2006 Equity Incentive Plan during the three-month periods ended March 31, 2024 and 2023. As of March 31, 2024, we had 6,058 non-vested shares of common stock outstanding under the 2006 Equity Incentive Plan. These shares vest over five years following the date of grant and holders thereof are entitled to receive dividends from the date of grant, whether or not vested. The fair value of the awards is calculated as the fair market value of the shares on the date of grant. We recognized non-cash compensation expense of \$13,000 and \$27,000 for the three-month periods ended March 31, 2024 and 2023, respectively, related to this non-vested stock, which is included in selling, general and administrative expenses. The following table summarizes information regarding non-vested stock granted to associates under the 2006 Equity Incentive Plan for the three-month period ended March 31, 2024:

	Common Stock Outstanding	Weighted Average Grant Date Fair Value Per Share
Outstanding at December 31, 2023	6,058	\$ 42.92
Granted	-	-
Vested	-	-
Forfeited	-	-
Outstanding at March 31, 2024	6,058	\$ 42.92

As of March 31, 2024, the total unrecognized compensation cost related to non-vested stock awards was approximately \$ 91,000 and is expected to be recognized over a weighted average period of 1.75 years.

**(6) GOODWILL AND OTHER INTANGIBLE ASSETS**

The following represents the carrying amount of goodwill at March 31, 2024:

	Gross	Accumulated Impairment (In thousands)	Net
Balance at March 31, 2024	\$ 62,328	(714)	\$ 61,614

Intangible assets consisted of the following:

	March 31, 2024	December 31, 2023
	(In thousands)	
Non-amortizing intangible assets:		
Indefinite trade name	\$ 1,191	\$ 1,191
Amortizing intangible assets:		
Customer related	9,192	9,192
Technology	1,959	1,959
Trade names	1,572	1,572
Total amortizing intangible assets	12,723	12,723
Accumulated amortization	(12,478)	(12,443)
Other intangible assets, net	\$ 1,436	\$ 1,471

**(7) PROPERTY AND EQUIPMENT**

	March 31, 2024	December 31, 2023
	(In thousands)	
Property and equipment	\$ 68,610	\$ 63,874
Accumulated depreciation	37,080	35,669
Property and equipment, net	\$ 31,530	\$ 28,205

**(8) EARNINGS PER SHARE**

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

Diluted net income per share was computed using the weighted-average shares of common stock and, if dilutive, the potential common stock outstanding during the period. Potential shares of common stock consist of the incremental common stock 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 596,426 and 254,271 options of common stock for the three-month periods ended March 31, 2024 and 2023, respectively, which have been excluded from the diluted net income per share computation because their inclusion would be anti-dilutive.

	For the Three Months Ended March 31, 2024	For the Three Months Ended March 31, 2023
	(In thousands)	
Numerator for net income per share – basic:		
Net income	\$ 6,359	\$ 6,964
Allocation of distributed and undistributed income to unvested restricted stock shareholders	(1)	(4)
Net income attributable to common shareholders	6,358	6,960
Denominator for net income per share – basic:		
Weighted average shares of common stock outstanding – basic	23,868	24,585
Net income per share – basic	<u>\$ 0.27</u>	<u>\$ 0.28</u>
Numerator for net income per share – diluted:		
Net income attributable to common shareholders for basic computation	6,358	6,960
Denominator for net income per share – diluted:		
Weighted average shares of common stock outstanding – basic	23,868	24,585
Weighted average effect of dilutive securities – stock options	95	153
Denominator for diluted earnings per share – adjusted weighted average shares	23,963	24,738
Net income per share – diluted	<u>\$ 0.27</u>	<u>\$ 0.28</u>

**(9) GEOGRAPHIC INFORMATION**

The tables below present entity-wide information regarding our revenue and assets by geographic area (in thousands):

	Three months ended March 31,	
	2024	2023
Revenue:		
United States	\$ 35,313	\$ 36,473
Canada	-	-
Total	<u>\$ 35,313</u>	<u>\$ 36,473</u>
	March 31,	December 31,
	2024	2023
Long-lived assets:		
United States	\$ 100,897	\$ 98,077
Canada	-	-
Total	<u>\$ 100,897</u>	<u>\$ 98,077</u>
Total assets:		
United States	\$ 120,721	\$ 122,232
Canada	190	205
Total	<u>\$ 120,911</u>	<u>\$ 122,437</u>

**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion of our results of operations and financial conditions should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q.

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.

## Results of Operations

The following table sets forth, for the periods indicated, selected financial information derived from our condensed 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 condensed consolidated financial statements.

### Three Months Ended March 31, 2024, Compared to Three Months Ended March 31, 2023

	(In thousands, except percentages) Three Months Ended March 31,		Percentage Increase (Decrease)
	2024	2023	2024 over 2023
Revenue	\$ 35,313	\$ 36,473	(3)
Direct expenses	13,856	14,280	(3)
Selling, general, and administrative	11,250	11,783	(5)
Depreciation and amortization	1,447	1,394	4
Operating income	8,760	9,016	(3)
Total other income (expense)	(566)	(5)	11220
Provision for income taxes	1,835	2,047	(10)
Effective Tax Rate	22%	23%	(1)
Operating margin	25%	25%	-
Recurring Contract Value	\$ 139,548	\$ 146,686	(5)
Cash provided by operating activities	12,037	7,753	55

**Revenue.** Revenue in the 2024 period decreased compared to the 2023 period by \$1.2 million. This was mainly from decreased US recurring revenue of \$1.1 million in our existing client base. Of this decrease, 50% was from our non-core solutions.

**Direct expenses.** Variable expenses increased \$67,000 in the 2024 period compared to the 2023 period primarily from higher data collection expenses. Variable expenses as a percentage of revenue were 15% and 14% in the 2024 and 2023 periods, respectively. Fixed expenses decreased \$490,000 primarily due to decreased salary and benefit costs from workforce reduction and automation implemented in 2023 partially offset by increased contracted services to support investments in our Human Understanding solutions. We expect to see direct expenses increase in future quarters due to the restructuring of our service and technology areas, including additional resource investments to better support, strategize, and provide innovative solutions with AI technology to our clients.

**Selling, general and administrative expenses.** Selling, general and administrative expenses decreased in the 2024 period compared to the 2023 period primarily due to decreased marketing expenses of \$613,000. We expect to see selling, general, and administrative expenses increase in future quarters due to our new executive leadership positions, as well as additional investments made through the restructuring of our sales team.

**Depreciation and amortization.** Depreciation and amortization expenses increased in the 2024 period compared to the 2023 period primarily due to increased software investment amortization.

**Operating income and margin.** Operating income decreased in the 2024 period compared to the 2023 period primarily due to the decline in revenue, but operating margin remained consistent between periods due to the decrease in marketing expenses and salary and benefit costs offsetting the reduction in revenue.

**Total other income (expense).** Total other expense increased in the 2024 period compared to the 2023 period primarily due to lower interest income of \$206,000 from decreased money market funds investments and higher interest expense of \$364,000 mainly from borrowings on our Line of Credit and Delayed Draw Term Loan.

**Provision for income taxes and effective tax rate.** Provision for income taxes decreased in the 2024 period compared to the 2023 period primarily due to decreased taxable income. The effective tax rate decreased mainly due to increased tax benefits of \$79,000 from the exercise of share-based compensation awards partially offset by higher state income taxes of approximately \$32,000 which fluctuate based on various apportionment factors and rates for the states we operate in.

*Recurring Contract Value.* Recurring contract value declined in 2024 compared to 2023 primarily due to the lack of growth in new contracts to replace losses. Our retention rate remained fairly consistent from prior years. 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.

As of March 31, 2024, our principal sources of liquidity included \$1.7 million of cash and cash equivalents, up to \$23 million of unused borrowings under our Line of Credit and an additional \$56 million on our Delayed Draw Term Loan. Of this cash, \$143,000 was held in Canada. The Delayed Draw Term Loan 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 and amortization, deferred income taxes, share-based compensation and related taxes, reserve for uncertain tax positions and the effect of working capital changes. Cash provided by operating activities increased primarily due to working capital changes, mainly consisting of changes in trade accounts receivable primarily due to timing of initial billings and collections for new and renewal contracts, changes in accrued expenses, wages and bonuses and income taxes payable and receivable mainly due to the timing of payments, partially offset by changes in prepaid expenses and other current assets primarily due to the timing of our annual business insurance and other service agreements. Cash provided by operating activities was also partially offset by decreased net income net of non-cash items.

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

We had a working capital deficit of \$28.8 million and \$11.8 million on March 31, 2024 and December 31, 2023, respectively. The change was primarily due to decreases in cash and cash equivalents and trade accounts receivable and increases in the borrowings outstanding on our Line of Credit, accounts payable, accrued expenses, accrued wages and bonuses, and income taxes payable. These were partially offset by increases in prepaid expenses primarily due to the timing of our annual business insurance payment and other service agreements. Cash and cash equivalents decreased mainly due to the repurchase of shares of our common stock for treasury. We also borrowed on our Line of Credit to fund the share repurchases. Accounts payable, accrued expenses and accrued wages and bonuses increased primarily due to the timing of payments. Trade accounts receivable decreased due to timing of billing and collections, as well decreases in our overall recurring contract value. 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. Notwithstanding our working capital deficit on March 31, 2024, 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.

Cash used in investing activities primarily 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 Loan, Delayed Draw Term Loan, Line of Credit and finance lease obligations. We also used cash to repurchase shares of our common stock for treasury, to pay dividends on common stock and for payment of payroll tax withholdings on options exercised. This was partially offset by cash provided from borrowings on the Line of Credit.

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

Cash dividends of \$2.9 million were paid in the three months ended March 31, 2024. Dividends of \$2.9 million were declared in the three months ended March 31, 2024 and paid in April 2024. The dividends were paid from cash on hand and borrowings on our Line of Credit. Our board of directors considers whether to declare a dividend and the amount of any dividends declared on a quarterly basis.

### *Capital Expenditures*

We paid cash of \$4.1 million for capital expenditures in the three months ended March 31, 2024. These expenditures consisted mainly of computer software development for our Human Understanding solutions and building renovations to our headquarters. We estimate future costs related to our headquarters building renovations to be \$8.4 million in 2024 and \$1.4 million in 2025, which we expect to fund through operating cash flows and borrowings on the Line of Credit.

### *Debt*

Our amended and restated credit agreement (the "Credit Agreement") with First National Bank of Omaha ("FNB") 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 outstanding balance on the Term Loan was \$16.6 million at March 31, 2024 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 Delayed Draw Term Loan and Line of Credit, if any, bear interest at a floating rate equal to the 30-day Secured Overnight Financing Rate ("SOFR") plus 235 basis points (7.67% at March 31, 2024). Interest on the Line of Credit and Delayed Draw Term Loan 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 March 31, 2024, 2023, we had \$7.0 million of borrowings outstanding and the availability to borrow \$23.0 million on the Line of Credit. The weighted average borrowings on the Line of Credit for the three month period ended March 31, 2024 was \$9.1 million. There were no borrowings on the Line of Credit in the three months ended March 31, 2023. The weighted average interest rate on borrowings on the Line of Credit during the three months ended March 31, 2024 was 7.69%.

The outstanding balance on the Delayed Draw Term Loan was \$18.5 million at March 31, 2024. Principal payments are due in monthly installments of \$226,190 through April 2027 and a balloon payment for the remaining balance of \$10.2 million is due in May 2027. We had the availability to borrow an additional \$56.0 million on the Delayed Draw Term Loan at March 31, 2024.

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.

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. In June 2023, the Credit Agreement was amended to exclude our costs associated with our building renovation from or after January 1, 2023 from the fixed charge coverage ratio calculation. 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 \$5.5 million 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, (iii) the portion of any acquisition consideration for a permitted acquisition paid with cash on hand, and (iv) up to \$25 million of costs associated with our building renovation from or after January 1, 2023. 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 March 31, 2024, 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 March 31, 2024, we had fixed lease payments of \$675,000 and \$14,000 for operating and finance leases, respectively payable within 12 months.

#### *Taxes*

The liability for gross unrecognized tax benefits related to uncertain tax positions was \$2.1 million as of March 31, 2024. See Note 3, "Income Taxes", to the Condensed Consolidated Financial Statements contained in this report for income tax related information.

As of March 31, 2024, the balance of the deemed repatriation tax payable imposed by the U.S. Tax Cuts and Jobs Act of 2017 was \$10,000, which we expect to pay in the second quarter of 2024.

#### **Stock Repurchase Program**

In May 2022, our Board of Directors authorized the repurchase of 2,500,000 shares of common stock (the "2022 Program"). 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 the three months ended March 31, 2024, we repurchased 366,454 shares of our common stock under the 2022 Program for an aggregate of \$15.0 million. As of March 31, 2024, the remaining number of shares of common stock that could be purchased under the 2022 Program was 1,095,850 shares.

#### **Critical Accounting Estimates**

There have been no changes to our critical accounting estimates described in the Annual Report on Form 10-K for the year ended December 31, 2023 that have a material impact on our Condensed Consolidated Financial Statements and the related Notes.

**ITEM 3. Quantitative and Qualitative Disclosures about Market Risk**

There are no material changes to the disclosures regarding our market risk exposures made in its Annual Report on Form 10-K for the year ended December 31, 2023.

**ITEM 4. Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Principal Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report, and our Chief Executive Officer and Principal Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures were effective.

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. Accordingly, even effective internal control over financial reporting can only provide reasonable assurance of achieving its control objectives.

We have confidence in our internal controls and procedures. Nevertheless, our management, including our Chief Executive Officer and Principal 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.

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that occurred during the quarter ended March 31, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II – Other Information**

**ITEM 1. 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 condensed 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 1A. Risk Factors**

The significant risk factors known to us that could materially adversely affect our business, financial condition, or operating results are described in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2023.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

In May 2022 our Board of Directors authorized the 2022 Program.

Our Credit Agreement provides that, in order for us to pay dividends or repurchase our common stock, there must be no default or event of default existing or that would result from such payment and we must show that we would comply with the Credit Agreement's fixed charge coverage ratio and consolidated cash flow leverage ratio after giving pro forma effect to such payment.

The table below summarizes repurchases of common stock during the three months ended March 31, 2024.

Period	Total Number of Shares Purchased	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
Jan 1 – Jan 31, 2024	366,454	40.93	366,454	1,095,850
Feb 1 – Feb 29, 2024	-	-	-	1,095,850
Mar 1 – Mar 31, 2024	-	-	-	1,095,850
Total	366,454		366,454	

(1) The average price paid per share excludes excise tax incurred on stock repurchases. For the quarter ended March 31, 2024, excise tax expense totaled \$153,000.

(2) Shares were repurchased pursuant to the 2022 Program.

**ITEM 5. Other Information**

During the first quarter of 2024, no director or officer adopted or terminated a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement.

**ITEM 6. Exhibits**

The exhibits listed in the exhibit index below are filed as part of this Quarterly Report on Form 10-Q.

EXHIBIT INDEX

<b>Exhibit Number</b>	<b>Exhibit Description</b>
(3.1)	<a href="#">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)]</a>
(3.2)	<a href="#">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)]</a>
(4.1)	<a href="#">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)]</a>
(4.2)	<a href="#">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)]</a>
(10.1)**#	<a href="#">Retirement Transition Agreement, dated February 8, 2024, between National Research Corporation and Kevin Karas</a>
(10.2)**#	<a href="#">Form of Option Award Notice</a>
(10.3)**#	<a href="#">Form of Long-Term Incentive Award Notice and Severance Agreement</a>
(31.1)**	<a href="#">Certification by the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934</a>
(31.2)**	<a href="#">Certification by the Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934</a>
(32)**	<a href="#">Written Statement of the Chief Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350</a>
(101) **	Financial statements from the Quarterly Report on Form 10-Q of National Research Corporation for the quarter ended March 31, 2024, formatted in Inline eXtensible Business Reporting Language (iXBRL): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statements of Cash Flows, (v) the Notes to Condensed Consolidated Financial Statements, and (vi) document and entity information.
(104) **	Cover Page Interactive Data File (formatted in the Inline XBRL and contained in Exhibit 101).

\*\* Filed herewith

\*\*\* Furnished herewith

# Management contract or compensatory plan or arrangement

**SIGNATURES**

Pursuant to the requirements 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.

**NATIONAL RESEARCH CORPORATION**

Date: May 9, 2024

By: /s/ Michael D. Hays  
Michael D. Hays  
Chief Executive Officer  
(Principal Executive Officer)

Date: May 9, 2024

By: /s/ Linda A. Stacy  
Linda A. Stacy  
Secretary, Principal Financial Officer, and  
Principal Accounting Officer  
(Principal Financial and Accounting Officer)

**Retirement Transition Agreement**

February 8, 2024

Kevin Karas  
11003 Fairway Drive  
Omaha, NE 68136

Re: Retirement Transition Agreement

Dear Kevin:

This letter is the Retirement Transition Agreement (the "Agreement") between you and National Research Corporation (the "Company").

**Retirement Date**

You have provided notice to the Company's Board of Directors on February 8, 2024 that you intend to retire effective March 31, 2024 (the "Retirement Date").

**Purpose of Agreement**

The Agreement sets forth the post-retirement benefits to be provided and any conditions required to receive those benefits.

**Benefits**

- The Company shall pay you any accrued but unpaid base salary that you have earned through your Retirement Date including all accrued but unused paid time off.
- You will receive the equivalent to twelve (12) months of your current base salary, to be paid in biweekly installments on the Company's standard pay day for one year after your Retirement Date.
- The Company will pay for health insurance benefits for you and your family for one year after your Retirement Date.

**Release of Claims**

As a condition to receiving the benefits under the second and third bullets above, you agree to execute and deliver a signed Release of Claims, in the form attached hereto as Exhibit A, no earlier than your Retirement Date.

**Acknowledgement and Certifications**

You acknowledge and certify that:

- You have read and you understand all of the terms of this Agreement;
  - You are signing this Agreement knowingly and voluntarily;
  - You have had the opportunity to consult with an attorney before signing this Agreement; and
  - You and the Company agree that there is good and sufficient mutual consideration for each of the terms and conditions in this Agreement.
-

If this agreement is acceptable, please sign below and return the original to me.

Sincerely,

National Research Corporation

By: /s/Mike Hays  
Mike Hays, CEO

Agreed:

/s/Kevin Karas  
Kevin Karas

**Form of Option Award Notice**  
**NATIONAL RESEARCH CORPORATION**  
**2006 EQUITY INCENTIVE PLAN**

**AWARD NOTICE**

GRANTEE:	[Associate name]
TYPE OF AWARD:	Non-qualified Stock Option
NUMBER OF SHARES:	[Number of shares]
EXERCISE PRICE:	[Price] per share
DATE OF GRANT:	[Date] (the "Grant Date")
EXPIRATION DATE:	[Date]

1. Grant of Option. This Award Notice serves to notify you that National Research Corporation, a Delaware corporation (the "Company"), hereby grants to you, under the Company's 2006 Incentive Plan, as amended (the "Plan"), a stock option (the "Option") to purchase, on the terms and conditions set forth in this Award Notice and the Plan, up to the number of shares set forth above (the "Option Shares") of the Company's Common Stock, par value \$0.001 per share (the "Common Stock"), at the exercise price per Share set forth above (the "Exercise Price"). A copy of the Plan is included with this Award Notice, if it has not previously been provided to you. You should review the terms of this Award Notice and the Plan carefully.

2. Term. Unless the Option is previously terminated pursuant to the terms of the Plan, the Option will expire at the close of business on the expiration date set forth above (the "Expiration Date").

3. Restrictions and Vesting. Subject to the terms and conditions set forth in this Award Notice and the Plan, and provided you are still in the employment of or other approved service in the same or another executive or similar role at the Company or an Affiliate through [Date], the Option Shares shall vest, as of the Vesting Date (as defined hereinafter) if (and only if) the [Performance Goal] is satisfied. For purposes of this Award Notice, the term "Vesting Date" means the date the Committee shall certify that the Performance Goal was satisfied, which the Committee will undertake promptly after [Date]. You need not be employed or otherwise providing an approved service on the Vesting Date for the option to vest.

**This document constitutes part of a prospectus covering securities that have been registered under the Securities Act of 1933.**

**The date of the prospectus is [Date].**

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4. Exercise.

( a ) Method of Exercise. Subject to the terms and conditions set forth in this Award Notice and the Plan, and to the extent vested and exercisable under Section 3, the Option may be exercised, in whole or in part, only by completing and signing a written notice in substantially the following form:

(i) I hereby exercise [all/part of] the Option granted to me by National Research Corporation on [date], and elect to purchase \_\_\_\_\_ ( ) shares of the Company's Common Stock for [price] per share.

(ii) Upon determining that compliance with this Award Notice has occurred, including compliance with such reasonable requirements as the Company may impose pursuant to the Plan and payment of the Exercise Price, the Company shall issue to you a certificate or book entry for the Option Shares purchased on the earliest practicable date (as determined by the Company) thereafter.

(b) Payment of Exercise Price. To the extent permissible under the Plan, the Exercise Price may be paid as follows:

(i) In United States dollars in cash or by check, bank draft, or money order payable to the Company;

(ii) Through the delivery of shares of Common Stock with an aggregate Fair Market Value at the date of such delivery equal to the Exercise Price;

(iii) Through the surrender of part of the Option or other exercisable options having a value equal to the difference between (i) the exercise price of such surrendered Options and (ii) the Fair Market Value of the Common Stock equal to the Exercise Price;

(iv) Subject to any and all limitations imposed by the Committee from time to time (which may not be uniform), through a "cashless exercise," whereby you (i) irrevocably instruct a broker or dealer to sell, on your behalf, shares of Common Stock to be issued upon exercise pursuant to this Award Notice and to deliver cash sale proceeds therefrom to the Company in payment of the Exercise Price, and (ii) direct the Company to deliver shares of Common Stock to be issued upon such exercise of this Option directly to such broker or dealer; or

(v) Any other method approved or accepted by the Committee in its sole discretion, subject to any and all limitations imposed by the Committee from time to time (which may not be uniform).

The Committee in its sole discretion shall determine acceptable methods for surrendering Common Stock or options as payment upon exercise of the Option and may impose such limitations and conditions on the use of Common Stock or options to exercise the Option as it deems appropriate. Among other factors, the Committee will consider applicable laws and regulations, including, without limitation, the restrictions of Rule 16b-3 of the Exchange Act, Section 402 of the Sarbanes-Oxley Act, and any successor laws, rules, or regulations.

(c) Withholding. The exercise of the Option is conditioned upon your making arrangements satisfactory to the Company for the payment of the amount of all taxes required by any governmental authority to be withheld and paid over by the Company or any Affiliate to the governmental authority on account of the exercise. The payment of such withholding taxes to the Company or any Affiliate may be made by one or any combination of the following methods: (i) in cash or by check, (ii) by the Company withholding such taxes from any other compensation owed to you by the Company or any Affiliate, (iii) pursuant to a cashless exercise program as contemplated in Section 4(b)(iv) above, or (iv) or any other method approved or accepted by the Committee in its sole discretion, subject, in the case of Section 4(c)(iii) and 4(c)(iv), to any and all limitations imposed by the Committee from time to time (which may not be uniform) as contemplated in Section 4(b)(iv) and Section 4(b)(v) above.

5. Effect of termination without Cause, Resignation with Good Reason, Death, or Disability. In the event of your termination without Cause (as hereinafter defined), resignation with Good Reason (as hereinafter defined), death or disability (as defined in Section 22(e) of the Code) prior to the complete vesting of the Option, the Option Shares shall continue to be eligible for vesting and shall vest on the Vesting Date if (and only if) the Performance Goal shall have been satisfied and, in such event, the shares earned shall be prorated for the portion of the period that you were employed by or in other approved service in the same or another executive or similar role at the Company or an Affiliate between the Grant Date and December 31, 2026. Any fractional shares will be rounded to the nearest full share. In the event of your death prior to the complete exercise of the Option, the remaining portion of the Option may be exercised in whole or in part, subject to all of the conditions on exercise imposed by the Plan and this Award Notice, within the later of (i) one (1) year after the date of your death or (ii) one (1) year after the Vesting Date, but only: (a) by the beneficiary designated on your beneficiary designation form filed with the Company, or in the absence of such form, by your estate or by or on behalf of the person or persons to whom the Option passes under your will or the laws of descent and distribution and (b) prior to the close of business on the Expiration Date of the Option.

6. Effect of Change in Control.

(a) In General. The following provisions shall apply in the event of a Change in Control:

(i) To the extent the successor company (or a subsidiary or parent thereof) is publicly traded and assumes the Option, with appropriate adjustments to preserve the value of the Option, or provides a substitute for the Option on substantially the same terms and conditions, the existing vesting terms will continue to apply;

(ii) To the extent (x) the successor company (or a subsidiary or parent thereof) is publicly traded and does not assume the Option or (y) the successor company (or a subsidiary or parent thereof) is not publicly traded:

- a. if the per share value of the Change in Control price exceeds the Exercise Price, the Option outstanding as of the Change in Control will become fully vested and deemed exercised as of the Change in Control and be paid out in cash (subject to applicable withholding); or
- b. if the per share value of the Change in Control price is equal to or less than the Exercise Price, the Option outstanding as of the Change in Control will be forfeited.

(iii) To the extent the successor company (or a subsidiary or parent thereof) is publicly traded, assumes the Option, and your employment or service is terminated without Cause or with Good Reason between the date 45 days prior to the execution of a definitive agreement in contemplation of a Change in Control and continuing through the Vesting Date:

- a. any restrictions imposed on the Option outstanding as of the Change in Control shall lapse; and
- b. the Performance Goal with respect to the Option shall be deemed to have been attained in full as of the Change in Control.

( b ) "Cause" Defined. "Cause" for termination by the Company or any Affiliate of your employment or service shall mean: (i) refusal or negligent or intentional failure by you to perform the essential functions of your position with the Company or any Affiliate after written warning and reasonable opportunity to cure, other than any failure resulting from your incapacity due to physical or mental disability, it being understood that a reasonable, good faith attempt to perform but failure to do so will not be deemed a failure to perform essential functions for purposes of this definition of Cause; (ii) failure to comply with any lawful directive by the Board after written warning and opportunity to cure, it being understood that a reasonable, good faith attempt to comply with such directive but failure to do so will not be deemed a failure to comply for purposes of this definition of "Cause"; (iii) a material violation by you of the corporate governance guidelines, code of ethics, insider trading policy, governance policy, or other policy of the Company or any Affiliate; (iv) a breach of any fiduciary duty to the Company or any Affiliate; (v) misconduct in the course and scope of employment by you that is materially injurious to the Company or any Affiliate from a monetary or reputational standpoint; (vi) any attempt to willfully obtain any personal profit from any transaction which is adverse to the interests of the Company or any Affiliate or in which the Company or any Affiliate has an interest (unless your interest in the transaction has been disclosed to, and the transaction has been approved by, the Company's board of directors) or any act of fraud or embezzlement against the Company or any Affiliate or any of their respective customers or suppliers; (vii) a material breach by you of any of the covenants contained in any employment, severance or other agreement applicable to you; (viii) the repeated use of alcohol, abuse of prescription drugs, or use of illegal drugs by you that interferes with your duties, or a material violation by you of the drug and/or alcohol policies of the Company or any Affiliate; (ix) violation of any applicable law, rule or regulation, including without limitation the Sarbanes-Oxley Act of 2002 or other federal or state securities law, rule, or regulation, in each case, that is materially injurious to the Company or any Affiliate from a monetary or reputational standpoint; or (x) the conviction or plea of guilty or nolo contendere to a felony or a misdemeanor involving moral turpitude.

(c) "Change in Control" Defined. "Change in Control" means (A) a change in control of the Company of a nature that would be required to be reported in response to Item 5.01 of a Current Report on Form 8-K, pursuant to Section 13 or 15(d) of the Exchange Act, or (B) if any of the following occurs after the Grant Date:

(i) Any "person" within the meaning of Section 3(a)(9) of the Exchange Act, and as modified and used in Section 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) of the Exchange Act (but excluding the Company, any employee benefit plan sponsored or maintained by the Company (including any trustee of such plan (acting as trustee) or other fiduciary holding securities under an employee benefit plan of the Company), and any underwriter temporarily holding securities pursuant to an offering of such securities) ("Person"), other than a Permitted Holder becomes the "beneficial owner," as defined in Rule 13d-3 under the Exchange Act, directly or indirectly, of fifty percent (50%) or more of the combined voting power of the outstanding securities of the Company ordinarily having the right to vote in the election of directors; provided, however, that the following will not constitute a Change in Control: any acquisition by any corporation if, immediately following such acquisition, more than seventy-five percent (75%) of the outstanding securities of the acquiring corporation (or the parent thereof) ordinarily having the right to vote in the election of directors is beneficially owned by all or substantially all of those persons who, immediately prior to such acquisition, were the beneficial owners of the outstanding securities of the Company ordinarily having the right to vote in the election of directors;

(ii) Individuals who constitute the Board of the Company as of the Grant Date (the "Incumbent Board") have ceased for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the Grant Date, whose election or nomination for election by the Company's stockholders was approved by a vote of at least three-fourths (3/4) of the directors comprising the Incumbent Board, either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director without objection to such nomination (other than an election or nomination of an individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board of the Company, including, without limitation, in connection with a "tender offer," as such term is used in Section 14(d) of the Exchange Act), shall be, for purposes of this Award Notice, considered as though such person were a member of the Incumbent Board;

(iii) Upon the consummation by the Company of a reorganization, merger, or consolidation, other than one with respect to which all or substantially all of those persons who were the beneficial owners, immediately prior to such reorganization, merger, or consolidation, of outstanding securities of the Company ordinarily having the right to vote in the election of directors own, immediately after such transaction, more than seventy-five percent (75%) of the outstanding securities of the resulting corporation ordinarily having the right to vote in the election of directors;

(iv) Upon the approval by the Company's stockholders of a complete liquidation and dissolution of the Company or the sale or other disposition of all or substantially all of the assets of the Company other than to a subsidiary of the Company or to an entity controlled by a Permitted Holder; or

(v) Upon the consummation of a transaction subject to Rule 13e-3 of the Exchange Act (other than any such transaction in which the Permitted Holders identified in romanette (iii) of the definition of Permitted Holder hereunder are the beneficial owners of more than fifty percent (50%) of the outstanding securities of the resulting corporation ordinarily having the right to vote in the election of directors).

(d) "Good Reason" Defined. "Good Reason" means the occurrence of any of the following, without your written consent, resulting in the termination of your employment or service with the Company or any Affiliate:

(i) material diminution in the overall scope of your duties, authorities and/or responsibilities from those held by you immediately prior to the time of a Change in Control, it being understood that (A) the fact that the Company may be a subsidiary of a different public company or becomes a private company, and any diminution of duties in respect of no longer having public company related duties, and (B) a change in reporting responsibilities to the extent the Company becomes part of a larger corporate group, will not be considered a diminution;

(ii) requirement for geographic relocation of your assigned principal business location to a location greater than fifty (50) miles from the place of your principal business location immediately prior to the time of a Change in Control; or

(iii) diminution by ten percent (10%) or more of your annual base salary in effect immediately prior to the time of a Change in Control, except a decrease of not more than 15% in connection with the same percentage decrease applied to all members of the senior leadership team in response to a Company or other event or circumstance that, in the good faith determination of the Board, requires such cost saving measures.

(c) "Permitted Holder" Defined. "Permitted Holder" means: (i) the Company or a subsidiary of the Company, (ii) any employee benefit plan sponsored by the Company or a subsidiary of the Company, or (iii) Michael or Karen Hays, or their siblings, or the children or grandchildren of Michael or Karen Hays or their siblings (collectively, "Family Members") or one or more trusts, corporations, partnerships, limited partnerships, limited liability companies, or other such entities, so long as at least eighty percent (80%) of the beneficial interests of each such entity are held by Mr. or Mrs. Hays and/or one or more Family Members.

7. Issuance of Shares. Subject to Sections 4 and 12 of this Award Notice, upon the vesting and exercise of any Option Shares pursuant to this Award Notice, the Company shall issue a certificate or book-entry representing such exercised Option Shares as promptly as practicable following the date of exercise. The Option Shares may be issued during your lifetime only to you, or after your death to your designated beneficiary, or, in the absence of such beneficiary, to your duly qualified personal representative.

8. Company Policies. Except in connection with a net exercise or cashless exercise (or if such exercise methods are not then available, the sale of shares that provide sufficient proceeds to cover the exercise price and related taxes), you hereby agree that you shall not dispose of any of the Option Shares acquired upon exercise of the Option for one (1) year from the date that you exercise the Option and acquire such Option Shares. Your ability to dispose of any of the Option Shares acquired upon exercise of the Option may be further limited by stock ownership guidelines adopted by the Company for certain officers and key employees, and the Company is authorized to place a restrictive legend on such shares, issue stop-transfer instructions to the transfer agent, or take such other actions as may be advisable, in the Committee's sole discretion, to enforce such ownership guidelines. Please determine whether you are subject to the guidelines and how many of the Option Shares acquired upon exercise of the Option may be disposed of prior to attempting to dispose of any shares or other restrictions that may be applicable to you. Your rights with respect to the Option and any of the Option Shares acquired upon exercise of the Option will be subject to the Company's clawback policy.

9. Nonassignability. The Option may not be alienated, transferred, assigned, or pledged (except by will or the laws of descent and distribution). Except as otherwise provided by Section 5 of this Award Notice, the Option is only exercisable by you during your lifetime.

10. Limitation of Rights. You will not have any rights as a stockholder with respect to the Option Shares until you become the holder of record of such shares by exercising the Option.

11. Rights of the Company and Affiliates. This Award Notice does not affect the right of the Company or an Affiliate to take any corporate action whatsoever, including, without limitation, its right to recapitalize, reorganize, or make other changes in its capital structure or business, merge or consolidate, issue bonds, notes, shares of Common Stock, or other securities, including preferred stock, or options therefor, dissolve or liquidate, or sell or transfer any part of its assets or business. Nothing in this Award Notice shall create any rights to employment by the Company or any Affiliate or alter the at-will nature of your employment.

12. Restrictions on Issuance of Shares. If at any time the Company determines that the listing, registration, or qualification of the Option Shares upon any securities exchange or quotation system, or under any state or federal law, or the approval of any governmental agency, is necessary or advisable as a condition to the exercise of the Option, the Option may not be exercised in whole or in part unless and until such listing, registration, qualification, or approval shall have been effected or obtained free of any conditions not acceptable to the Company.

13. Plan Controls; Definitions. The Option is subject to all of the provisions of the Plan, which is included with this Award Notice if it has not previously been provided to you, and is further subject to all the interpretations, amendments, rules, and regulations that may from time to time be promulgated and adopted by the Committee pursuant to the Plan. The Committee's determination of whether the Performance Goal has been satisfied shall be binding and conclusive on you. In the event of any conflict among the provisions of the Plan and this Award Notice, the provisions of the Plan will be controlling and determinative. The capitalized terms used in this Award Notice and not otherwise defined herein are defined in the Plan. In the event that the Committee shall determine that any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Common Stock or other securities of the Company, issuance of warrants or other rights to purchase Common Stock or other securities of the Company, or other similar corporate transaction or event affects the Option such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Option, then the Committee may, in such manner as it may deem equitable, adjust the Option, the Exercise Price, and the Performance Goal.

14. Amendment. Except as otherwise provided by the Plan, the Company may only alter, amend, or terminate the Option with your consent.

15. Governing Law. This Award Notice shall be governed by and construed in accordance with the laws of the State of Delaware, except as superseded by applicable federal law, without giving effect to its conflicts of law provisions.

16. Notices. All notices and other communications to the Company required or permitted under this Award Notice shall be written, and shall be either delivered personally or sent by registered or certified first-class mail, postage prepaid and return receipt requested, addressed to the Company's office at 1245 Q Street, Lincoln, Nebraska 68508, Attention: Chief Executive Officer. Each such notice and other communication delivered personally shall be deemed to have been given when delivered. Each such notice and other communication delivered by mail shall be deemed to have been given when it is deposited in the United States mail in the manner specified herein.

17. Restrictive Covenants. You acknowledge and agree that during the course of your employment with or service to the Company or any Affiliate (collectively, the "Company Group"), you will have access to confidential information which, if disclosed, would assist in competition against the Company Group, and that the Company Group will be entrusting you, in your unique and special capacity, with developing the goodwill of the Company Group during the course of your employment or service. Therefore, you hereby acknowledge and agree that the following restrictive covenants (i) are necessary to protect the goodwill, confidential information, and other legitimate interests of the Company Group, (ii) are reasonable and necessary to induce the Company to enter into this Award Notice, and (iii) are of a scope (including, without limitation, the Restricted Period) that is reasonably tailored, and not broader than necessary, to protect the legitimate business interests of the Company Group, and do not prevent or preclude you from earning a suitable livelihood. You hereby agree to abide by the following restrictive covenants:

(a) Non-Competition. From the Grant Date until the date your employment with or service to the Company or any Affiliate terminates (the "Termination Date") and continuing for one (1) year immediately after Termination Date (collectively, the "Restricted Period"), you will not, directly or indirectly, without the prior written consent of the Company, which may be withheld in the Company's sole and absolute discretion, directly or indirectly engage or invest in, own, manage, operate, finance, control or participate in the ownership, management, operation, financing or control of, be employed by, serve as an agent, officer, director or consultant to, be associated with or in any manner connected with, lend your name or any similar name to, lend your credit or render services or advice to, any Competitive Business, provided, however, that nothing herein will be deemed to prevent you from acquiring through market purchases and owning, solely as an investment, less than one percent (1%) in the aggregate of the equity securities of any Competitive Business, whose shares are registered under Section 12(b) or Section 12(g) of the Exchange Act, and are listed or admitted for trading on any United States national securities exchange or are quoted on any system of automated dissemination of quotations of securities prices in common use, so long as you are not directly or indirectly a member of any "control group" (within the meaning of the rules and regulations of the Securities and Exchange Commission) of any such issuer; and provided further, however, that nothing herein will be deemed to prevent you from acquiring through market purchases and owning, solely as an investment, any shares, units or other interest in a mutual fund, exchange-traded fund, unit investment trust, or similar investment vehicle whose holdings include investments in any Competitive Business. For purposes of this Award Notice, the term "Competitive Business" means the companies listed on Exhibit A, along with their subsidiaries, affiliates, successors, and assigns.

(b) Non-Solicitation and Non-Interference. During the Restricted Period, you will not, directly or indirectly, without the prior written consent of the Company, which may be withheld in the Company's sole and absolute discretion, whether on your own behalf or on behalf of or in conjunction with any other person or entity of any nature:

(i) solicit, canvass, approach, encourage, entice or induce any customer or supplier of any member of the Company Group to cease or lessen such customer's or supplier's business with any member of the Company Group; or

(ii) solicit, canvass, approach, encourage, entice or induce any employee or contractor of any member of the Company Group to terminate his, her or its employment or engagement with any member of the Company Group; provided, however, that this prohibition shall not apply to general solicitations, in any medium, not specifically targeted at the employees or contractors of any member of the Company Group (however, you shall not (and shall cause any person or entity with which you are affiliated not to) hire any employee or contractor of any member of the Company Group who responds to such a general solicitation).

(c) Non-Disclosure. During the Restricted Period (and in the case of trade secrets, through the end of the applicable statute of limitations), you will not, directly or indirectly, without the prior written consent of the Company, which may be withheld in the Company's sole and absolute discretion:

(i) divulge, communicate, use to the detriment of any member of the Company Group, or for the benefit of any other person(s), or misuse in any way, any confidential information, documents, materials or trade secrets pertaining to any member of the Company Group, except as required or compelled by law; or



(ii) divulge, communicate, use to the detriment of any member of the Company Group, or for the benefit of any other person(s), or misuse in any way, any information, documentation, files, or other materials (written or verbal) arising out of or related to any Company Group employee, contractor, customer, shipper, vendor or supplier, except as required or compelled by law, regardless of whether such information, documents or materials are treated as confidential by any member of the Company Group.

(d) Forfeiture. If you breach any of the restrictive covenants set forth in this Section 17, any then-unexercised portion of the Option will be immediately forfeited.

(e) Enforcement. Because of the difficulty of measuring economic losses to the Company Group as a result of a breach or threatened breach of the covenants set forth in this Section 17, and because of the immediate and irreparable damage that would be caused to the members of the Company Group for which they would have no other adequate remedy, the Company and each other member of the Company Group shall be entitled to enforce the foregoing covenants, in the event of a breach or threatened breach, by injunctions and restraining orders from any court of competent jurisdiction, without the necessity of showing any actual damages or that money damages would not afford an adequate remedy, and without the necessity of posting any bond or other security. The aforementioned equitable relief shall not be the Company's or any other member of the Company Group's exclusive remedy for a breach but instead shall be in addition to all other rights and remedies available to the Company and each other member of the Company Group at law and equity. The covenants in this Section 17, and each provision and portion hereof, are severable and separate, and the unenforceability of any specific covenant (or portion thereof) shall not affect the provisions of any other covenant (or portion thereof). Moreover, in the event any arbitrator or court of competent jurisdiction shall determine that the scope, time or territorial restrictions set forth are unreasonable, then it is the intention of the parties that such restrictions be enforced to the fullest extent which such arbitrator or court deems reasonable, and this Award Notice shall thereby be reformed.

18. Ownership of Intellectual Property. You agree that the Company shall own, and you hereby assign, all right, title and interest (including patent rights, copyrights, trade secret rights, mask work rights, trademark rights, and all other intellectual and industrial property rights of any sort throughout the world) relating to any and all inventions (whether or not patentable), works of authorship, mask works, designs, know-how, ideas and information authored, created, contributed to, made or conceived or reduced to practice, in whole or in part, by you during the period in which you are or have been employed by or in service to the Company or any other member of the Company Group that either (a) relate, at the time of conception, reduction to practice, creation, derivation or development, to any member of the Company Group's businesses or actual or anticipated research or development, or (b) were developed on any amount of the Company's or any other member of the Company Group's time or with the use of any member of the Company Group's equipment, supplies, facilities or trade secret information (all of the foregoing collectively referred to herein as "Company Intellectual Property"), and you shall promptly disclose all Company Intellectual Property to the Company. All of your works of authorship and associated copyrights created during the period in which you are employed by or in service to the Company or any other member of the Company Group and in the scope of your employment or engagement shall be deemed to be "works made for hire" within the meaning of the Copyright Act, as amended. You shall perform, during and after the period in which you are or have been employed by or in service to the Company or any other member of the Company Group, all acts deemed necessary by the Company to assist each member of the Company Group, at the Company's expense, in obtaining and enforcing its rights throughout the world in the Company Intellectual Property. Such acts may include execution of documents and assistance or cooperation (i) in the filing, prosecution, registration, and memorialization of assignment of any applicable patents, copyrights, mask work, or other applications, (ii) in the enforcement of any applicable patents, copyrights, mask work, moral rights, trade secrets, or other proprietary rights, and (iii) in other legal proceedings related to the Company Intellectual Property.

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## ACKNOWLEDGEMENT

The undersigned acknowledges receipt of, and understands and agrees to be bound by, this Award Notice and the Plan. The undersigned further acknowledges that this Award Notice and the Plan set forth the entire understanding between him or her and the Company regarding the non-qualified stock options granted by this Award Notice and that this Award Notice and the Plan supersede all prior oral and written agreements on that subject.

Dated: [Date]

**Grantee:**

\_\_\_\_\_  
[Associate Name]

**National Research Corporation**

By: \_\_\_\_\_  
Michael D. Hays  
Chief Executive Officer and President

## Form of Long-Term Incentive Award Notice and Severance Agreement

## NATIONAL RESEARCH CORPORATION

## LONG-TERM INCENTIVE AWARD NOTICE AND SEVERANCE AGREEMENT

GRANTEE: [Associate Name]

TYPE OF AWARD: Cash

AMOUNT: Up to \$[Amount] (the "Maximum Amount")

DATE OF GRANT: [Date] (the "Grant Date")

1. Grant of Award. This Award Notice and Severance Agreement (this "Agreement") serves to notify you that National Research Corporation, a Delaware corporation (the "Company"), hereby grants to you the opportunity to earn a cash award up to the Maximum Amount (the "Award") on the terms and conditions set forth in this Agreement, as well as certain severance terms. You should review the terms of this Agreement carefully.

2. Payout.

( a ) In General. Subject to the terms and conditions set forth in this Agreement and provided you are still in the employment of or other approved service in the same or another executive or similar role at the Company or any entity that, directly or through one or more intermediaries, is controlled by, controls, or is under common control with, the Company (each an "Affiliate") through [Date], then, on the Payment Date, you will receive a cash payment of the Award (the "Payout") determined as follows: [Performance Goal]; provided, however, that such Payout may be reduced by the Company's Compensation and Talent Committee (the "Committee") in the exercise of its Negative Discretion if [Performance Metric] for the year ended [Date] is less than [Amount].

( b ) Equity in Lieu of Cash. Notwithstanding anything to the contrary in this Agreement, the Payout (as determined in accordance with Section 2(a) of this Agreement) or the Alternate Payout (as determined in accordance with Section 4 of this Agreement) may be made in whole or in part with shares of publicly tradable stock of the Company ("Company Shares"), in lieu of cash, if (i) the Committee determines, based on the advice of its financial and legal advisors, that payment of some or all of the Payout or Alternate Payout in cash would be materially adverse to the Company or (ii) you consent. In the case of the Payout, the Company Shares will be valued at the volume-weighted average closing price for the trading days between public announcement of the Company's financial results for [Date] and the date two business days prior to [Date], or such other date, not later than [Date], as the Committee may determine (the "Payout VWAP Period"). In the case of the Alternate Payout, the Company Shares will be valued at the volume-weighted average closing price for the 10 trading days prior to the date your employment with or service to the Company or any Affiliate terminates (the "Termination Date"). To the extent the Payout or Alternate Payout is paid in Company Shares, and insufficient shares are available under the Company's 2006 Equity Incentive Plan or any other equity incentive plan with Company Shares registered under the Securities Act of 1933, as amended, any balance will be paid in cash.

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(c) "Negative Discretion" Defined. "Negative Discretion" means the Committee's discretion to eliminate or reduce the size of the Payout or Alternate Payout if, in the Committee's good-faith belief, such action is appropriate under the circumstances. In the case of the Payout, Negative Discretion will equally impact all similar awards granted by the Company to other recipients on the Grant Date.

(d) "Payment Date" Defined. "Payment Date" means the date determined by the Committee following its certification of the Payout. The Payout will be made by [Date], unless the Payout is paid entirely or partly in Company Shares and the Committee extends the Payout VWAP period, in which case the payment will be made within two business days after the end of the Payout VWAP period.

3. Withholding and Section 409A.

( a ) Withholding. The Company may withhold and deduct from any payments made or to be made pursuant to this Agreement all federal, state, local and other taxes as may be required pursuant to any law or governmental regulation or ruling, without any gross-ups or similar payments made to you.

(b) Section 409A. Any payments made or to be made pursuant to this Agreement may be considered "nonqualified deferred compensation" that are subject to the requirements of Section 409A of the Internal Revenue Code of 1986 (the "Code") and any guidance promulgated under Section 409A of the Code (collectively, "Section 409A"). The Company intends, but does not guarantee, that any payments made or to be made pursuant to this Agreement will be paid in compliance with Section 409A or an applicable exception. Neither the time nor the schedule of any payments may be accelerated or delayed except as permitted pursuant to Section 409A and the applicable regulations. The any payments made or to be made pursuant to this Agreement shall be administered in compliance with Section 409A or an exception thereto and each provision of this Agreement shall be interpreted, to the extent possible, to comply with Section 409A and the applicable regulations.

4. Effect of Termination without Cause, Resignation with Good Reason, Death, or Disability.

( a ) Alternate Payout. Subject to the terms and conditions set forth in this Agreement, in the event of your termination without Cause (as hereinafter defined), resignation with Good Reason (as hereinafter defined), death or disability (as defined in Section 22(e) of the Code) prior to [Date], then, on a date determined by the Committee, you (or in the case of your death, the beneficiary designated on your beneficiary designation form filed with the Company, or in the absence of such form, your estate or the person or persons to whom your property passes under your will or the laws of descent and distribution) will receive a cash payment of the Award (the "Alternate Payout") determined as follows: [Performance Goal]; provided, however, that such Alternate Payout may be reduced by the Committee in the exercise of its Negative Discretion if [Performance Metric] for the most recent twelve calendar months ended prior to such termination is less than the interpolated [Performance Metric Goal]. For the avoidance of doubt, you will not be eligible for the Payout under Section 2(a) if you receive the Alternate Payout.

(b) Severance. Subject to the terms and conditions set forth in this Agreement, in the event of your termination without Cause or resignation with Good Reason prior to [Date], you will be entitled to receive the following payments (collectively, the "Severance Payments"): (i) continued payment in accordance with the Company's normal payroll procedures, practices, and policies of your then-current annual base salary for a one (1) year following the Termination Date, plus (ii) a lump sum payment equal to the actual cash bonus earned for the year in which your termination occurred (after certification of the bonus by the Committee), prorated for the number of days during the year served prior to termination as a percentage of the entire calendar year, payable in accordance with the Company's normal payroll procedures, practices, and policies.

(c) Release. As a condition to the receipt of any and all of the Severance Payments and the Alternate Payout, you shall execute and comply with the terms of a general release of all claims against the Company and its Affiliates and representatives, in form satisfactory to the Company (the "General Release"). The General Release must be signed, and the period provided therein for revocation must have expired, not later than sixty days from the Termination Date. Notwithstanding anything to the contrary contained herein, no Severance Payments or Alternate Payout shall be paid until the General Release is signed and the revocation period has expired, and any amounts that would otherwise have been paid prior to such date shall be paid within a reasonable time after such date, without interest.

5. Effect of Change in Control.

(a) In General. The following provisions shall apply in the event of a Change in Control:

(i) To the extent the successor company (or a subsidiary or parent thereof) assumes the Award, with appropriate adjustments to preserve the value of the Award or provides a substitute for the Award on substantially the same terms and conditions (including payment solely in cash and an agreement to allocate the personnel and resources and to pursue strategies intended to support maximum achievement of the Award), in each case in the good faith determination of the Committee in effect prior to the Change in Control after consultation with you, the existing terms will continue to apply.

(ii) To the extent the successor company (or a subsidiary or parent thereof) (x) does not assume the Award or provide a substitute for the Award as set forth in Section 5(a)(i) of this Agreement or (y) assumes the Award or provides a substitute for the Award as set forth in Section 5(a)(i) of this Agreement and your employment or service is terminated without Cause or with Good Reason between the date 45 days prior to the execution of a definitive agreement in contemplation of a Change in Control and continuing through the Payment Date:

- a. the Maximum Amount of the Award will be deemed earned and Negative Discretion shall not be exercised; and
- b. the Award will be paid in cash promptly after (i) the consummation of the Change in Control (if due under clause (x) of Section 5(a)(ii)) or (ii) the Termination Date (if due otherwise).

(b) "Cause" Defined. "Cause" for termination by the Company or any Affiliate of your employment or service shall mean: (i) refusal or negligent or intentional failure by you to perform the essential functions of your position with the Company or any Affiliate after written warning and reasonable opportunity to cure, other than any failure resulting from your incapacity due to physical or mental disability, it being understood that a reasonable, good faith attempt to perform but failure to do so will not be deemed a failure to perform essential functions for purposes of this definition of Cause; (ii) failure to comply with any lawful directive by the Board of Directors of the Company (the "Board") after written warning and opportunity to cure, it being understood that a reasonable, good faith attempt to comply with such directive but failure to do so will not be deemed a failure to comply for purposes of this definition of "Cause"; (iii) a material violation by you of the corporate governance guidelines, code of ethics, insider trading policy, governance policy, or other policy of the Company or any Affiliate; (iv) a breach of any fiduciary duty to the Company or any Affiliate; (v) misconduct in the course and scope of employment by you that is materially injurious to the Company or any Affiliate from a monetary or reputational standpoint; (vi) any attempt to willfully obtain any personal profit from any transaction which is adverse to the interests of the Company or any Affiliate or in which the Company or any Affiliate has an interest (unless your interest in the transaction has been disclosed to, and the transaction has been approved by, the Company's board of directors) or any act of fraud or embezzlement against the Company or any Affiliate or any of their respective customers or suppliers; (vii) a material breach by you of any of the covenants contained in any employment, severance or other agreement applicable to you; (viii) the repeated use of alcohol, abuse of prescription drugs, or use of illegal drugs by you that interferes with your duties, or a material violation by you of the drug and/or alcohol policies of the Company or any Affiliate; (ix) violation of any applicable law, rule or regulation, including without limitation the Sarbanes-Oxley Act of 2002 or other federal or state securities law, rule, or regulation, in each case, that is materially injurious to the Company or any Affiliate from a monetary or reputational standpoint; or (x) the conviction or plea of guilty or nolo contendere to a felony or a misdemeanor involving moral turpitude.

(c) "Change in Control" Defined. "Change in Control" means (A) a change in control of the Company of a nature that would be required to be reported in response to Item 5.01 of a Current Report on Form 8-K, pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or (B) if any of the following occurs after the Grant Date:

(i) Any "person" within the meaning of Section 3(a)(9) of the Exchange Act, and as modified and used in Section 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) of the Exchange Act (but excluding the Company, any employee benefit plan sponsored or maintained by the Company (including any trustee of such plan (acting as trustee) or other fiduciary holding securities under an employee benefit plan of the Company), and any underwriter temporarily holding securities pursuant to an offering of such securities) ("Person"), other than a Permitted Holder becomes the "beneficial owner," as defined in Rule 13d-3 under the Exchange Act, directly or indirectly, of fifty percent (50%) or more of the combined voting power of the outstanding securities of the Company ordinarily having the right to vote in the election of directors; provided, however, that the following will not constitute a Change in Control: any acquisition by any corporation if, immediately following such acquisition, more than seventy-five percent (75%) of the outstanding securities of the acquiring corporation (or the parent thereof) ordinarily having the right to vote in the election of directors is beneficially owned by all or substantially all of those persons who, immediately prior to such acquisition, were the beneficial owners of the outstanding securities of the Company ordinarily having the right to vote in the election of directors;

(ii) Individuals who constitute the Board of the Company as of the Grant Date (the "Incumbent Board") have ceased for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the Grant Date, whose election or nomination for election by the Company's stockholders was approved by a vote of at least three-fourths (3/4) of the directors comprising the Incumbent Board, either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director without objection to such nomination (other than an election or nomination of an individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board of the Company, including, without limitation, in connection with a "tender offer," as such term is used in Section 14(d) of the Exchange Act), shall be, for purposes of this Agreement, considered as though such person were a member of the Incumbent Board;

(iii) Upon the consummation by the Company of a reorganization, merger, or consolidation, other than one with respect to which all or substantially all of those persons who were the beneficial owners, immediately prior to such reorganization, merger, or consolidation, of outstanding securities of the Company ordinarily having the right to vote in the election of directors own, immediately after such transaction, more than seventy-five percent (75%) of the outstanding securities of the resulting corporation ordinarily having the right to vote in the election of directors;

(iv) Upon the approval by the Company's stockholders of a complete liquidation and dissolution of the Company or the sale or other disposition of all or substantially all of the assets of the Company other than to a subsidiary of the Company or to an entity controlled by a Permitted Holder; or

(v) Upon the consummation of a transaction subject to Rule 13e-3 of the Exchange Act (other than any such transaction in which the Permitted Holders identified in romanette (iii) of the definition of Permitted Holder hereunder are the beneficial owners of more than fifty percent (50%) of the outstanding securities of the resulting corporation ordinarily having the right to vote in the election of directors).

(d) "Good Reason" Defined. "Good Reason" means the occurrence of any of the following, without your written consent, resulting in the termination of your employment or service with the Company or any Affiliate:

(i) material diminution in the overall scope of your duties, authorities and/or responsibilities from those held by you immediately prior to the time of a Change in Control, it being understood that (A) the fact that the Company may be a subsidiary of a different public company or becomes a private company, and any diminution of duties in respect of no longer having public company related duties, and (B) a change in reporting responsibilities to the extent the Company becomes part of a larger corporate group, will not be considered a diminution;

(ii) requirement for geographic relocation of your assigned principal business location to a location greater than fifty (50) miles from the place of your principal business location immediately prior to the time of a Change in Control; or

(iii) diminution by ten percent (10%) or more of your annual base salary in effect immediately prior to the time of a Change in Control, except a decrease of not more than 15% in connection with the same percentage decrease applied to all members of the senior leadership team in response to a Company or other event or circumstance that, in the good faith determination of the Board, requires such cost saving measures.



(c) "Permitted Holder" Defined. "Permitted Holder" means: (i) the Company or a subsidiary of the Company, (ii) any employee benefit plan sponsored by the Company or a subsidiary of the Company, or (iii) Michael or Karen Hays, or their siblings, or the children or grandchildren of Michael or Karen Hays or their siblings (collectively, "Family Members") or one or more trusts, corporations, partnerships, limited partnerships, limited liability companies, or other such entities, so long as at least eighty percent (80%) of the beneficial interests of each such entity are held by Mr. or Mrs. Hays and/or one or more Family Members.

6. Company Policies. Your ability to dispose of any Company Shares may be limited by stock ownership guidelines adopted by the Company for certain officers and key employees, and the Company is authorized to place a restrictive legend on such shares, issue stop-transfer instructions to the transfer agent, or take such other actions as may be advisable, in the Committee's sole discretion, to enforce such ownership guidelines. Please determine whether you are subject to the guidelines and how many Company Shares may be disposed of prior to attempting to dispose of any shares or other restrictions that may be applicable to you. Your rights under this Agreement will be subject to the Company's clawback policy.

7. Nonassignability. Your rights under this Agreement may not be alienated, transferred, assigned, or pledged (except by will or the laws of descent and distribution).

8. Rights of the Company and Affiliates. This Agreement does not affect the right of the Company or an Affiliate to take any corporate action whatsoever, including, without limitation, its right to recapitalize, reorganize, or make other changes in its capital structure or business, merge or consolidate, issue bonds, notes, Company Shares, or other securities, including preferred stock, or options therefor, dissolve or liquidate, or sell or transfer any part of its assets or business. Nothing in this Agreement shall create any rights to employment by the Company or any Affiliate or alter the at-will nature of your employment.

9. Committee Discretion. The Committee has sole discretion to interpret and make all decisions in relation to this Agreement, and all such interpretations and decisions will be final and binding on you. In the event that the Committee shall determine that any dividend or other distribution (whether in the form of cash, the Company's Common Stock, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Common Stock or other securities of the Company, issuance of warrants or other rights to purchase Common Stock or other securities of the Company, or other similar corporate transaction or event affects the Award such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Award, then the Committee may, in such manner as it may deem equitable, adjust the Award, including the performance criteria thereunder, the Payout, and the Alternate Payout.

10. Amendment. The Company may only alter, amend, or terminate this Agreement with your consent.

11. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, except as superseded by applicable federal law, without giving effect to its conflicts of law provisions.

12. Notices. All notices and other communications to the Company required or permitted under this Agreement shall be written, and shall be either delivered personally or sent by registered or certified first-class mail, postage prepaid and return receipt requested, addressed to the Company's office at 1245 Q Street, Lincoln, Nebraska 68508, Attention: Chief Executive Officer. Each such notice and other communication delivered personally shall be deemed to have been given when delivered. Each such notice and other communication delivered by mail shall be deemed to have been given when it is deposited in the United States mail in the manner specified herein.

13. Restrictive Covenants. You acknowledge and agree that during the course of your employment with or service to the Company or any Affiliate (collectively, the "Company Group"), you will have access to confidential information which, if disclosed, would assist in competition against the Company Group, and that the Company Group will be entrusting you, in your unique and special capacity, with developing the goodwill of the Company Group during the course of your employment or service. Therefore, you hereby acknowledge and agree that the following restrictive covenants (i) are necessary to protect the goodwill, confidential information, and other legitimate interests of the Company Group, (ii) are reasonable and necessary to induce the Company to enter into this Agreement, and (iii) are of a scope (including, without limitation, the Restricted Period) that is reasonably tailored, and not broader than necessary, to protect the legitimate business interests of the Company Group, and do not prevent or preclude you from earning a suitable livelihood. You hereby agree to abide by the following restrictive covenants:

( a ) Non-Competition. From the grant date of the Option until the Termination Date and continuing for one (1) year immediately after Termination Date (collectively, the "Restricted Period"), you will not, directly or indirectly, without the prior written consent of the Company, which may be withheld in the Company's sole and absolute discretion, directly or indirectly engage or invest in, own, manage, operate, finance, control or participate in the ownership, management, operation, financing or control of, be employed by, serve as an agent, officer, director or consultant to, be associated with or in any manner connected with, lend your name or any similar name to, lend your credit or render services or advice to, any Competitive Business, provided, however, that nothing herein will be deemed to prevent you from acquiring through market purchases and owning, solely as an investment, less than one percent (1%) in the aggregate of the equity securities of any Competitive Business, whose shares are registered under Section 12(b) or Section 12(g) of the Exchange Act, and are listed or admitted for trading on any United States national securities exchange or are quoted on any system of automated dissemination of quotations of securities prices in common use, so long as you are not directly or indirectly a member of any "control group" (within the meaning of the rules and regulations of the Securities and Exchange Commission) of any such issuer; and provided further, however, that nothing herein will be deemed to prevent you from acquiring through market purchases and owning, solely as an investment, any shares, units or other interest in a mutual fund, exchange-traded fund, unit investment trust, or similar investment vehicle whose holdings include investments in any Competitive Business. For purposes of this Award Notice, the term "Competitive Business" means the companies listed on Exhibit A, along with their subsidiaries, affiliates, successors, and assigns.

(b) Non-Solicitation and Non-Interference. During the Restricted Period, you will not, directly or indirectly, without the prior written consent of the Company, which may be withheld in the Company's sole and absolute discretion, whether on your own behalf or on behalf of or in conjunction with any other person or entity of any nature:

(i) solicit, canvass, approach, encourage, entice or induce any customer or supplier of any member of the Company Group to cease or lessen such customer's or supplier's business with any member of the Company Group; or

(ii) solicit, canvass, approach, encourage, entice or induce any employee or contractor of any member of the Company Group to terminate his, her or its employment or engagement with any member of the Company Group; provided, however, that this prohibition shall not apply to general solicitations, in any medium, not specifically targeted at the employees or contractors of any member of the Company Group (however, you shall not (and shall cause any person or entity with which you are affiliated not to) hire any employee or contractor of any member of the Company Group who responds to such a general solicitation).

(c) Non-Disclosure. During the Restricted Period (and in the case of trade secrets, through the end of the applicable statute of limitations), you will not, directly or indirectly, without the prior written consent of the Company, which may be withheld in the Company's sole and absolute discretion:

(i) divulge, communicate, use to the detriment of any member of the Company Group, or for the benefit of any other person(s), or misuse in any way, any confidential information, documents, materials or trade secrets pertaining to any member of the Company Group, except as required or compelled by law; or

(ii) divulge, communicate, use to the detriment of any member of the Company Group, or for the benefit of any other person(s), or misuse in any way, any information, documentation, files, or other materials (written or verbal) arising out of or related to any Company Group employee, contractor, customer, shipper, vendor or supplier, except as required or compelled by law, regardless of whether such information, documents or materials are treated as confidential by any member of the Company Group.

(d) Forfeiture. If you breach any of the restrictive covenants set forth in this Section 13, any then-unpaid portion of the Payout, the Alternate Payout, or Severance Payments will be immediately forfeited.

(e) Enforcement. Because of the difficulty of measuring economic losses to the Company Group as a result of a breach or threatened breach of the covenants set forth in this Section 13, and because of the immediate and irreparable damage that would be caused to the members of the Company Group for which they would have no other adequate remedy, the Company and each other member of the Company Group shall be entitled to enforce the foregoing covenants, in the event of a breach or threatened breach, by injunctions and restraining orders from any court of competent jurisdiction, without the necessity of showing any actual damages or that money damages would not afford an adequate remedy, and without the necessity of posting any bond or other security. The aforementioned equitable relief shall not be the Company's or any other member of the Company Group's exclusive remedy for a breach but instead shall be in addition to all other rights and remedies available to the Company and each other member of the Company Group at law and equity. The covenants in this Section 13, and each provision and portion hereof, are severable and separate, and the unenforceability of any specific covenant (or portion thereof) shall not affect the provisions of any other covenant (or portion thereof). Moreover, in the event any arbitrator or court of competent jurisdiction shall determine that the scope, time or territorial restrictions set forth are unreasonable, then it is the intention of the parties that such restrictions be enforced to the fullest extent which such arbitrator or court deems reasonable, and this Award Notice shall thereby be reformed.

14. Ownership of Intellectual Property. You agree that the Company shall own, and you hereby assign, all right, title and interest (including patent rights, copyrights, trade secret rights, mask work rights, trademark rights, and all other intellectual and industrial property rights of any sort throughout the world) relating to any and all inventions (whether or not patentable), works of authorship, mask works, designs, know-how, ideas and information authored, created, contributed to, made or conceived or reduced to practice, in whole or in part, by you during the period in which you are or have been employed by or in service to the Company or any other member of the Company Group that either (a) relate, at the time of conception, reduction to practice, creation, derivation or development, to any member of the Company Group's businesses or actual or anticipated research or development, or (b) were developed on any amount of the Company's or any other member of the Company Group's time or with the use of any member of the Company Group's equipment, supplies, facilities or trade secret information (all of the foregoing collectively referred to herein as "Company Intellectual Property"), and you shall promptly disclose all Company Intellectual Property to the Company. All of your works of authorship and associated copyrights created during the period in which you are employed by or in service to the Company or any other member of the Company Group and in the scope of your employment or engagement shall be deemed to be "works made for hire" within the meaning of the Copyright Act, as amended. You shall perform, during and after the period in which you are or have been employed by or in service to the Company or any other member of the Company Group, all acts deemed necessary by the Company to assist each member of the Company Group, at the Company's expense, in obtaining and enforcing its rights throughout the world in the Company Intellectual Property. Such acts may include execution of documents and assistance or cooperation (i) in the filing, prosecution, registration, and memorialization of assignment of any applicable patents, copyrights, mask work, or other applications, (ii) in the enforcement of any applicable patents, copyrights, mask work, moral rights, trade secrets, or other proprietary rights, and (iii) in other legal proceedings related to the Company Intellectual Property.

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#### ACKNOWLEDGEMENT

The undersigned acknowledges receipt of, and understands and agrees to be bound by, this Agreement. The undersigned further acknowledges that this Agreement set forth the entire understanding between him or her and the Company regarding the subject matter of this Agreement and that this Agreement supersede all prior oral and written agreements on that subject.

Dated: [Date]

**Grantee:**

\_\_\_\_\_  
[Associate Name]

**National Research Corporation**

By: \_\_\_\_\_  
Michael D. Hays  
Chief Executive Officer and President

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 Quarterly Report on Form 10-Q 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(s) 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(s) 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: May 9, 2024

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

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

I, Linda A. Stacy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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(s) 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(s) 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: May 9, 2024

/s/ Linda A. Stacy  
Linda A. Stacy  
Principal 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 Quarterly Report on Form 10-Q of National Research Corporation (the "Company") for the three-month period ended March 31, 2024 (the "Report"), I, Michael D. Hays, Chief Executive Officer of the Company, and I, Linda A. Stacy, Principal Financial Officer, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, based on my knowledge, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael D. Hays

Michael D. Hays  
Chief Executive Officer

/s/ Linda A. Stacy

Linda A. Stacy  
Principal Financial Officer

Date: May 9, 2024

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.