

(Knowledge + Technology + People) + (Time + Place) = Optimal Health Outcome



CERNER CORPORATION  
ANNUAL REPORT

1998



*Transformations are at the heart of modern healthcare. Every year, thousands of new discoveries in science, genetics, and medical technology literally transform our ability to prevent, contain, and treat disease.*

Such discoveries do not happen by accident. They are preceded by an investment of years—even decades—of research and planning, and fueled by the unwavering commitment of individuals to whom an unsatisfactory current state is a catalyst for a future solution. There is a point in the discovery process where the elements come together, offering proof that the equation is complete, and reaffirming that the investment was worthwhile. At this moment, the transformation begins.

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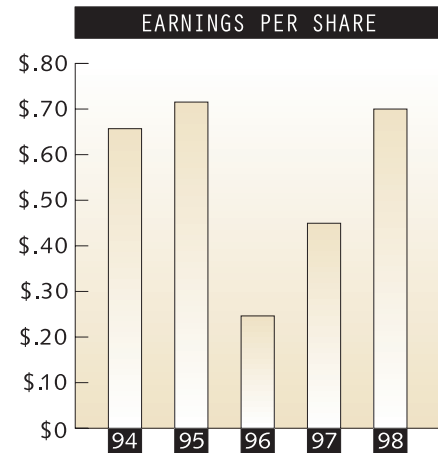
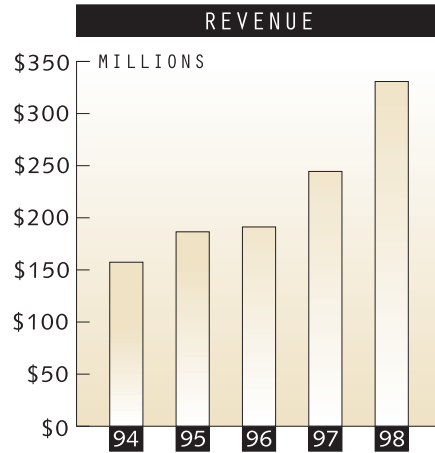
In healthcare, the need is obvious for improved information and knowledge to make better decisions. The health industry stands on the brink of a transformation driven by improved availability, usage, and analysis of information. Just as other industries have redefined themselves through information technology, today's healthcare leaders must do the same.

For the last five years, Cerner has invested heavily in designing and building an information system that will enable the transformation of healthcare. Our intent with this investment was deliberate: to create the ability to connect the appropriate person, knowledge, and resources—at the appropriate time and location, to achieve the optimal health outcome. We reinvented our solutions around a single, intelligent information architecture with that equation in mind.

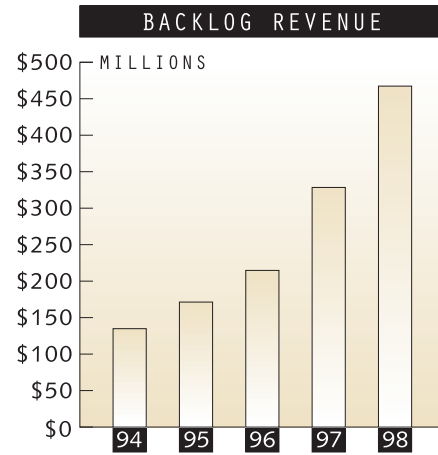
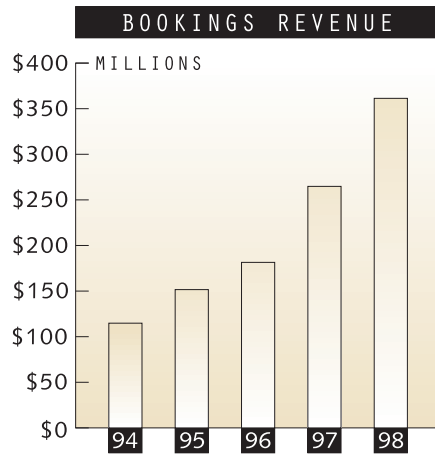
In 1998, this investment came into its own, as *Health Network Architecture (HNA) Millennium* proved itself and started driving substantial benefits to our health system partners. What no one else in the health industry has attempted, Cerner has successfully done. Unique in its design, *HNA Millennium* has the power to transform the business and practice of healthcare.

# FINANCIAL HIGHLIGHTS

# 1998



1998 EXCLUDES ACQUISITION RELATED CHARGES



# A LETTER TO OUR SHAREHOLDERS, CLIENTS, AND ASSOCIATES

1998 was a paradoxical year, with great highs and lows:

- For the year ended January 2, 1999, revenues increased 35 percent to a record \$330.9 million;
- Net earnings (excluding acquisition related charges) increased 56 percent to \$23.7 million;
- Diluted earnings per share (excluding acquisition related charges) increased 56 percent to \$0.70 per share;
- Operating margins (excluding acquisition related charges) improved from 9 percent to 12 percent;
- We completed our long development cycle for the *HNA Millennium* version of Cerner's Health Network Architecture (HNA), which we believe is the industry standard for the next generation of information technology;
- Cerner was recognized by *Fortune* magazine as one of the Top 100 Companies to Work for in America;
- External surveys identified Cerner as the Best Telephone Support provider in the industry;
- And, as we compose this letter in March 1999, Cerner's shareholder value is near a five-year low.

Left to right:

**Glenn P. Tobin**, *Executive Vice President & Chief Operating Officer*

**Neal L. Patterson**, *Chairman of the Board, President & Chief Executive Officer*

**Clifford W. Illig**, *Vice Chairman*





Cerner's 1998 imperative was to finish the development cycle of our new system architecture, *HNA Millennium*. While the year brought disappointments in the areas of enterprisewide sales and shareholder value, Cerner and our clients realized the significant benefits of *HNA Millennium* and we forged several strategic, long-term relationships with leading companies. We believe, with confidence, that Cerner's future is bright.

### Shareholder Value

We are extremely disappointed with Cerner's current shareholder value. During 1997 and 1998, Cerner's stock outperformed the S&P 500 average. However, this changed in February 1999 when Cerner's stock price declined significantly. We believe that Cerner's current stock price reflects that we missed the target for large, enterprisewide new client bookings in the latter half of 1998, and broader concerns regarding the impact of year 2000 issues on the healthcare information technology marketplace. In the balance of this letter, we will discuss the key characteristics of the healthcare information technology marketplace, 1998 events, and Cerner's plan for 1999.

Our current stock price does not reflect the value we have created through *HNA Millennium* and Cerner's leadership within the industry. This leads us to believe we have not been successful in communicating Cerner's basic core strategies and our relative marketplace position. It is crucial that you understand that the investments we have made together in *HNA Millennium* uniquely position Cerner to transform healthcare, and we expect them to eventually transform Cerner's shareholder value.



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### Change in Demand for Large Systems

Over the last half of 1998, there was a noticeable decrease in the healthcare industry's demand for large strategic information systems. Though we anticipated this shift to some degree, we underestimated the impact of this trend upon Cerner's sales of large, enterprisewide systems.

As discussed throughout the year in a number of venues, year 2000 issues had a significant impact upon the sales of information system solutions throughout all industries, including healthcare. As healthcare organizations recognized that year 2000 preparedness was central to their survival, they diverted resources from the purchase of new, strategic information systems to year 2000 issues. In addition to the diversion of these potential resources, Cerner's sales of enterprisewide systems were clearly hindered by the lack of a large, complex reference site using significant portions of *HNA Millennium* applications during 1998. However, in January of 1999, Cerner converted its first large tertiary care organization using *HNA Millennium* applications. This achievement clearly drove the stake into the ground that *HNA Millennium* is industrial strength.

## HNA Millennium Development Cycle

Software is never finished. Our clients' business requirements evolve and software engineers continue to design more efficient methods of performing the same functions. In addition, Cerner's clients continue to be a source for new innovations when they propose improvements to existing products. Computing, storage, and communication technologies also are enhanced, making the impossible, possible. Cerner always will be in the process of developing innovative applications for new and changing markets. Software is never finished—this truth is a part of the dynamics of the evolving industry of information systems and of software technology.

In the mid-1990s, Cerner committed to build the industry's first fully integrated, enterprisewide, single architecture using client/server, object-oriented, relational data technologies. After five years of enormous investments in research and development, Cerner completed the major developmental cycle of *HNA Millennium*, the industry's most comprehensive set of fully integrated clinical and business management solutions. *HNA Millennium* is designed to manage health and automate processes across the continuum of care. This is a significant milestone for Cerner, moving us into a position of clear technological leadership within our industry.

This accomplishment within the healthcare information technology industry was achieved only through the vision, wisdom, courage, resources, and perseverance of Cerner, our associates, our shareholders, and our client partners. As of March 1999, Cerner successfully completed this part of the journey with 23 of *HNA Millennium's* 30 product lines live at client sites. In comparison, *HNA Classic* had seven product lines. We believe that *HNA Millennium* will be an "engine for growth" for Cerner's client partners and shareholders for years to come.

In last year's annual report, we said that Cerner expected to convert 150 *HNA Millennium* applications by the end of 1998. We are pleased to report that 187 *HNA Millennium* applications were in operation by the end of 1998. Through large-scale conversions with two of Cerner's valued client partners, Cerner proved *HNA Millennium* performs and can be scaled. More importantly, *HNA Millennium* creates the opportunity for healthcare organizations to change the way healthcare is practiced and delivered across their communities. We estimate that Cerner will have more than 400 *HNA Millennium* applications converted by the end of 1999, demonstrating the power and completeness of our solutions.

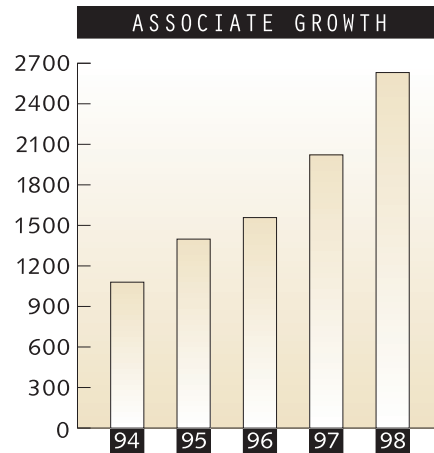
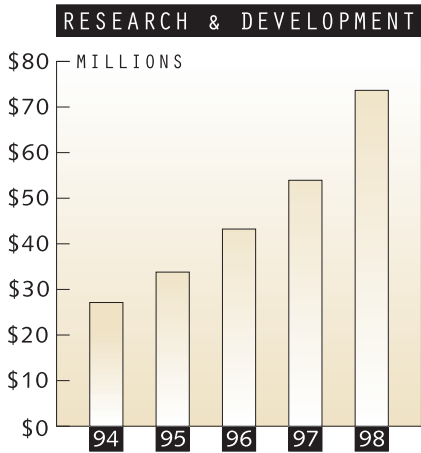
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ANNUAL REPORT CERNER CORPORATION





### Building Cerner's Executive Management Team

Cerner's associate base continued to grow steadily in 1998. In fact, the number of Cerner associates has doubled every two to four years for nearly 20 years. In 1998, we recruited and appointed a number of talented executives to our senior management team. These additions reflect our strategy to meet the evolving needs of Cerner's growth, product development and management, sales and implementation, and people practices. The following are five of Cerner's newest executive appointments:

- **Jeff Townsend**, 35, was appointed Chief of Engineering for Cerner in March 1998. Jeff joined Cerner in 1985 and is one of the brightest young software executives in the country. Jeff is one of the architects of *HNA Millennium*.
- **Glenn Tobin, PhD**, 37, joined Cerner in May 1998, and was appointed Chief Operating Officer in October 1998. Glenn brings a unique blend of skills and experience to this position, including depth of experience in both information technology and healthcare strategy. Glenn is responsible for the core of Cerner's business with engineering, professional and client services, and marketing organizations reporting to him.
- **Marvin Pember, CPA, MM**, 45, joined Cerner as Senior Vice President and General Manager following nearly 20 years of experience in healthcare organizations. Prior to joining Cerner, Marvin served as a senior executive in a billion-dollar health system, gaining significant background in both the financial and operational areas of hospitals, physician practices, and managed care organizations. Marvin is responsible for Cerner's provider-based and managed care Enterprise Business Units.
- **Stan Sword**, 37, joined Cerner in October 1998 as our first Chief People Officer. Cerner is committed to becoming 'The Place to Be' for professionals who want to improve the way healthcare is delivered in the world today. Stan has extensive experience in change management, education, and human resources. The creation and designation of a Chief People Officer confirms Cerner's commitment to attract the industry's best knowledge workers, invest in the future of our associates, and retain our current knowledge workers.
- **Paul Black**, 40, was promoted to Chief Sales Officer in December 1998. Paul has been one of the most outstanding performers in our sales organization over the last five years, and served as Area General Manager and Vice President prior to his appointment as CSO. Paul is responsible for worldwide sales for Cerner.

## Development of Significant Strategic Relationships

### Synetic Healthcare Communications

Cerner's first new strategic relationship in 1998 occurred in October when we announced our intent to form a relationship with Synetic, Inc. The vision of Synetic's management team is very similar and synergistic with that of Cerner. At the end of 1998, a subsidiary company to Synetic, Synetic Healthcare Communications, Inc. (SHC), was formed for the purpose of creating Internet-based physician connectivity and electronic commerce. We licensed *HNA Millennium* functionality to SHC in return for a 19.9 percent equity interest in the company. At Cerner, we believe strongly in the future of SHC.

### General Electric Company

In November 1998, Cerner announced a major technology and marketing agreement with General Electric Company acting through its GE Medical Systems division. Cerner is a leader in radiology information systems (RIS), and GE is a leader in radiology imaging systems, as well as picture archiving communication systems (PACS). PACS systems are designed to store, retrieve, and enhance digital images produced by modern radiology imaging systems, such as CAT scans, MRIs, and ultrasound medical technology. This agreement is focused upon building the next generation of solutions in the radiology suite, a fully integrated RIS and PACS system.

Today's buyers in the radiology marketplace are more discriminating, demanding increased functionality. These buyers also appreciate architecture. So, the integration of both RIS and PACS is a logical new segment of the marketplace. GE's significantly larger sales force also has the potential to increase the sales of Cerner's radiology systems on a stand-alone and integrated basis, as well as boosting the sales of Cerner's broad *HNA Millennium* architecture into healthcare organizations.

### The Global Marketplace

Cerner continues to value its relationship with Siemens Health Services GmbH & Co. KG in the European marketplace. As a valued business partner, Siemens continues to increase Cerner's presence within the European health community. At the beginning of 1999, Siemens completed its first European conversion of *HNA Millennium* at a large health system in Berlin, Germany. This project is the pilot site for *HNA Millennium* in Europe. Siemens' completion of the first phase of *HNA Millennium* installation at this pilot site is a milestone for both Siemens and the European healthcare community. In addition to the live *HNA Millennium* site in Berlin, Siemens has three additional *HNA Millennium* sites being implemented in France, Austria, and the United Kingdom.



*HNA Millennium*, the most powerful, complete and technologically advanced health information solution available today, has more than 15.2 million lines of code embedded in it. The power of *HNA Millennium* has been realized through the automation of more than 200 broad processes, which consist of more than 11,500 discrete tasks.

## The State of Healthcare

Cerner's business environment continues to be extremely dynamic. Healthcare was radically re-sculpted in the 1990s, while information technology proliferated throughout society due to the microprocessor and the explosion of the Internet. This trend offered organizations and individuals new methods of connecting and communicating. There are a number of broad trends currently affecting the healthcare environment:

- The healthcare landscape continues to evolve at an accelerated rate.
- The United States has entitlement funding issues with key programs such as Medicare and Medicaid, which will be exacerbated by changes in demographics during the next decade as baby boomers retire.
- Insurance companies became managed care organizations and promised better medicine and healthier populations at lower costs. They failed to deliver fundamental, systemic, sustainable improvements in each of these areas.
- Hospitals have consolidated into local and regional health systems, representing themselves as "systems of care" to their communities. However, few of these health systems have the technology to share information across their systems or between physicians and hospitals.

There is a fundamental need for technological strategies that can transform the healthcare industry. Cerner believes that our vision is the only fundamental strategy that will enable our clients to transform their organizations into true systems of care. Long-term opportunities exist to transform healthcare using information architectures. Cerner plans to lead with a set of innovative new strategies that address the needs of the evolving healthcare landscape.

## The Healthcare Information Technology Industry

While the healthcare industry struggled to find methods to transform itself, a significant consolidation of healthcare information technology companies also occurred. The prevailing strategy used by the majority of Cerner's major competitors is to obtain a portfolio of products through the acquisition of companies. There is little new value created for the healthcare industry when companies purchase existing, outdated technology. In contrast, Cerner's marketplace strategy is founded upon our commitment to transform healthcare through the development of the superior solution for today's health challenges, *HNA Millennium*.

Today, there are only four or five major healthcare information technology companies that have the technology, resources, and skills necessary to compete for large, integrated, enterprisewide marketplace opportunities. Cerner is one of these companies. We believe Cerner is the best-positioned company to succeed because we have the only person-centric, single-system architecture in the industry.

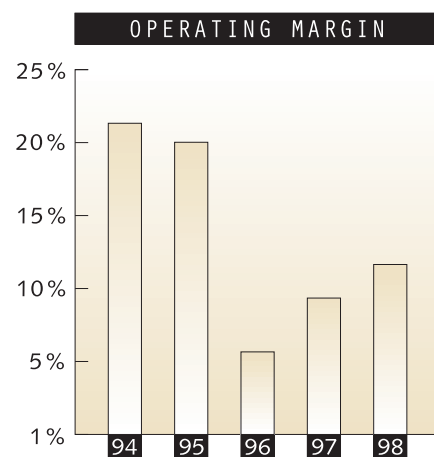
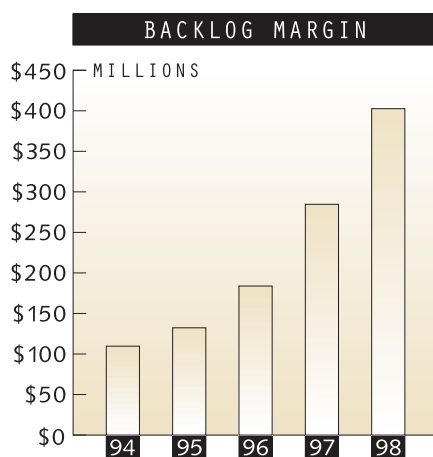
In all growing marketplaces, new players will emerge. In the healthcare technology industry, Cerner believes these new players will be derived from two different directions. First, we expect the large, service-based companies to attempt to differentiate their services by purchasing information technology. This strategy will put these companies in direct competition with Cerner. Secondly, we expect competition from the pure, Internet-based, start-up companies. We believe the Internet will significantly decrease the amount of infrastructure necessary for our clients to implement community-based health systems. However, the Internet does not decrease clients' needs for Cerner systems.

## Cerner's Plan for 1999 & Beyond

During 1999, we believe that the issues and complexity around the year 2000 will distract some of our clients and potential clients. We expect the financial community to flee from the uncertainty and continue to undervalue Cerner and the healthcare information technology industry as a whole. However, we believe we can continue Cerner's growth in both revenues and earnings. In addition, we are confident that Cerner is extremely well positioned for growth entering the new millennium.

Here is a summary of Cerner's plan for 1999:

- In terms of expected new business revenues and corporate spending, Cerner has a conservative 1999 business plan. However, we expect that the plan will yield growth in top line revenues, expansion of Cerner's operating margins, and growth in earnings.
- In Cerner's early *HNA Millennium* projects, a number of our clients were contracted on a fixed-fee basis for implementation services. Due to delays in completing these projects, earnings from these implementation services were significantly reduced. In 1997, Cerner discontinued contracting implementation services on a fixed-fee basis and began offering these services on a fee-for-service model. Over the next year, Cerner's commitments to clients under the fixed-fee model will be substantially completed and will be replaced with contracts using the fee-for-service model for implementation services. We expect this swing within Cerner's business model to generate growth in our operating margin.
- Since 1995, we have invested heavily in software development to build *HNA Millennium*. As a percent of revenue, Cerner spent 22 percent of its revenues on development in 1998. We are now at the end of this large development cycle. Over the next three years, we anticipate Cerner will increase the total amount of dollars being spent on development. However, we expect the percentage of revenue that Cerner spends on development to decline.



1998 EXCLUDES ACQUISITION RELATED CHARGES

The remaining question: Can Cerner continue to grow its revenues far beyond 1999? We believe that the answer to this question is, "yes." Here are some of the compelling reasons why Cerner should experience growth into the new millennium:

- 1) Cerner has a great history of organic growth. Cerner grew from approximately \$50 million in revenues to more than \$330 million during this decade. Cerner has never been in a better position in its entire history to create future growth in revenues and earnings.
- 2) Cerner is in a marketplace with tremendous potential—healthcare information technology. Most analysts fully expect that the overall healthcare information technology marketplace will grow at least 20 percent per year for the five years following the millennium.
- 3) We expect the clinical information system segments to grow faster than the general market. Cerner now has the only fully integrated enterprisewide, single-system architecture in the marketplace. We believe that we have a major competitive advantage. We also believe this will accelerate Cerner's growth past the general marketplace.
- 4) *HNA Millennium* moves Cerner into new markets. Cerner's *HNA Classic* architecture had seven major product lines. Today, *HNA Millennium* has 30 product lines and should continue to grow over the next few years. For example, patient accounting represents an estimated \$2- to \$3-billion marketplace. Cerner has no market share in this niche today. However, by this time next year, we plan to have *HNA Millennium ProFit* out into the marketplace. We believe that *ProFit* is a substantially improved solution over other patient accounting systems currently available.

Yes, we expect 1999 to be an unpredictable year due to the nature and complexity of year 2000 issues.

However, we also believe Cerner's technological investments position us as the clear leader in healthcare information technology for the next millennium.

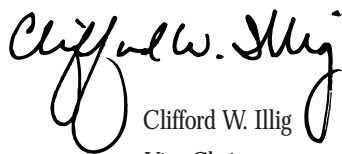
We are looking forward to the future.

*Yours Very Truly,*



Neal L. Patterson

*Chairman of the Board, President & Chief Executive Officer*



Clifford W. Illig

*Vice Chairman*



Glenn P. Tobin

*Executive Vice President & Chief Operating Officer*

# BUILDING AN INFORMATION ARCHITECTURE FOR HEALTHCARE

**T**oday's health organizations must share enormous amounts of clinical and financial information across an increasingly complex network of care providers. More than ever, they are being challenged to improve the quality of care and overall performance of their organizations while squeezing costs from operations. The balance between cost and quality is so delicate that separating the two could prove disastrous. The only effective way to meet these demands is with an integrated information architecture.

Only Cerner has made the investment needed to create the health enterprise information system of the 21st century. In 1998, we emerged from a five-year development cycle and a \$130-million investment to become the clear leader in the healthcare information technology industry. Today, *HNA Millennium* is the only fully integrated information and knowledge system that spans the entire health continuum and the complete healthcare enterprise. This gives Cerner a competitive advantage in the fastest-growing segment of the health industry—enterprise clinical solutions. With growth estimated at 25 to 30 percent per year, this market could reach \$6 billion by 2002.

## An Architecture for the Future

*HNA Millennium* reaches across all phases of the care process, connecting clinical, management, and operational processes into one intelligent system. From the most advanced clinical and management systems for hospitals and physicians' offices to innovative solutions for payers, employers, and consumers, *HNA Millennium* seamlessly connects people with the information they need to arrange, deliver, and manage care. *HNA Millennium* has one architecture, one set of core processes, and one data model as its foundation. Across more than 30 different end-user applications that extend from the laboratory to the intensive care unit and even into the home, that same architecture, core processes, and data model are used. With a lifetime electronic medical record at the center of its open architecture, *HNA Millennium* is a powerful enabling tool that allows progressive health organizations to achieve real clinical and economic benefits.

During 1998, *HNA Millennium*'s engineering design and core functionality were tested and proven. Following 1997's successful launch with 32 *HNA Millennium* conversions, in 1998 the number grew by almost 500 percent. By year-end, Cerner had exceeded its own goals with 187 conversions at 50 client sites across the country. Throughout the year, complex implementations involving multiple end-user applications in large health system settings validated the scalability and performance of *HNA Millennium*.

## Innovation Through Seamless Integration

*HNA Millennium* solutions are engineered for seamless integration to synchronize care in every area across the health enterprise. Through common process design and shared functionality, *HNA Millennium* allows integrated health organizations to improve processes and eliminate the costly redundancies inherent in the process of delivering care.



LEFT SUBCLAVIAN ARTERY

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AXILLARY ARTERY

BRACHIAL ARTERY

CELIAC TRUNK

GASTRIC ARTERY

SPLenic ARTERY

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## GENERAL ELECTRIC AND CERNER

After an extensive evaluation of the future, GE Medical Systems, a leader in the radiology field, and Cerner announced a partnership in 1998 to develop the next generation of solutions for the radiology suite. Through this partnership Cerner's industry-leading *RadNet Radiology Information System* will be integrated with GE Medical Systems' Picture Archive and Communication Systems (PACS) technology.

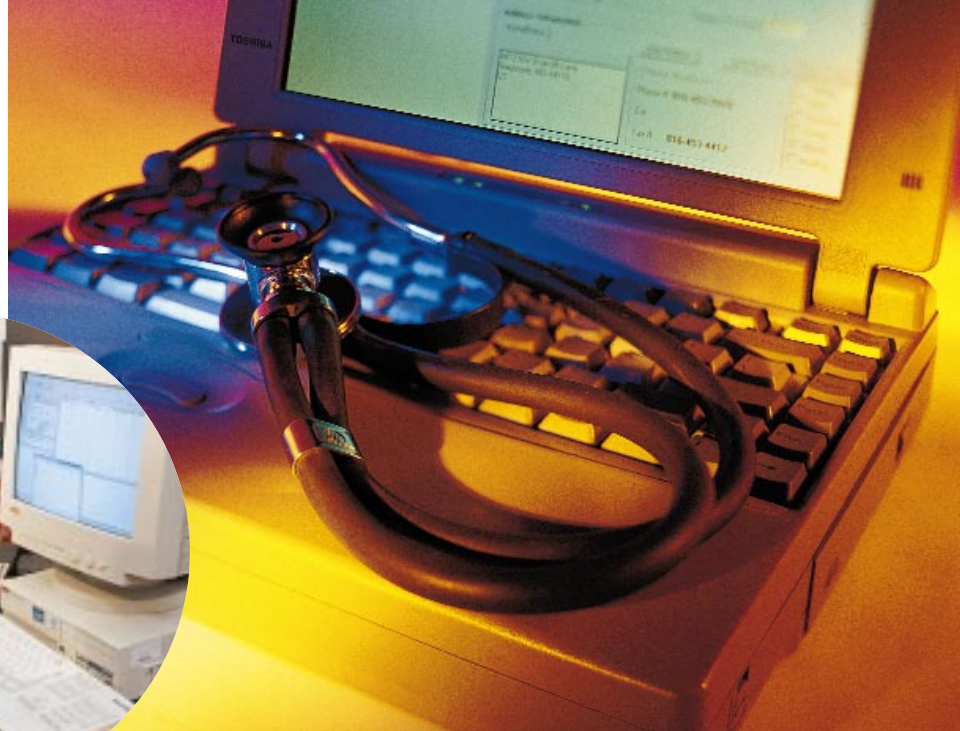
GE Medical Systems, through its own sales force, will market this new solution. "We've built a relationship with Cerner because we want to be involved long-term with an organization that really understands how information moves around the enterprise," says Vishal Wanchoo, General Manager, Integrated Imaging Solutions, GE Medical Systems.

Radiologists and other clinicians will benefit from the new solution as they access information and images in a seamless fashion on common workstations. Healthcare organizations will benefit from improved productivity and enhanced decision making by clinicians, and the elimination of unnecessary technology investment.

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Cerner makes it possible for health organizations to maximize their current investment while taking incremental steps toward building an information infrastructure. Our unique architecture is completely open, allowing Cerner systems to connect easily to the legacy systems that generate the majority of a health organization's information. At the end of 1998, Cerner systems openly interfaced to more than 120 foreign systems, through 2,500 active interfaces.

Information technology departments that must run a patchwork of different computing platforms and operating systems require highly skilled, expensive technical professionals to maintain each of them. *HNA Millennium* is different. By using one operating system and one database across all applications, *HNA Millennium* streamlines systems management and can substantially reduce an organization's labor costs for systems support. *HNA Millennium* supports both IBM® AIX and Compaq OpenVMS computing platforms and utilizes the industry leading Oracle® database. At the forefront of innovation, Cerner's approach combines multi-tier client/server solutions with thin client and web technologies to deliver the right tool for the right job.



## Improving Access to Healthcare

Managing a patient across a single episode of care requires a highly coordinated set of access, clinical, and financial services. Now faced with the challenge of managing thousands of individuals through multiple episodes across numerous providers and venues of care, healthcare executives are learning what other industries have known for years. Business and information integration efforts must begin with processes that effectively manage interaction with consumers as they move into and throughout the health enterprise. A health enterprise must be able to seamlessly orchestrate services across the continuum to increase customer satisfaction and optimize utilization of its finite resources. In 1998, Cerner introduced *CapStone Enterprise Access Management System*, a suite of solutions that automate and integrate the processes of person identification, registration, scheduling, eligibility verification, and referral and authorization management across the enterprise.

## Clinical Solutions

Cerner continued to expand its leadership in 1998 with advanced clinical information solutions that support the delivery of high-quality, efficient patient care. One such solution is *CareNet Order Management*, which allows ordering information to be distributed to the entire enterprise—seamlessly and immediately. *CareNet Documentation Management* automates the information gathering, recording, and reporting of patient care activities, eliminating paperwork and the need for redundant charting in multiple systems. *PowerChart Electronic Medical Record System* provides the whole care team with desktop access to a lifetime of data collected on individuals across care providers and locations. Thousands of clinicians at major health systems across the country, such as Sisters of Mercy Health System, St. Louis, Missouri; and Martha Jefferson Hospital, Charlottesville, Virginia, are using *PowerChart* to improve the care process and establish a framework for creating a complete and active electronic medical record.

*HNA Millennium* supports the needs of today's progressive health enterprise with fully integrated clinical systems for the broad health spectrum, including laboratory, radiology, pharmacy, emergency, surgery, cardiology, intensive care, acute care, home health, and physician offices.





## SEAMLESS ACCESS

It is estimated that about 40 percent of the time, relevant medical information is not available to physicians when seeing patients on an outpatient basis. It may be captured in another system, in a paper chart that is missing, or simply not available. Without the appropriate information, clinicians cannot make effective care decisions. With advanced information technologies and seamless enterprise solutions from Cerner, that is changing.

Through *HNA Millennium* solutions, healthcare organizations have seamless access to an individual's personal history, medical record, insurance information, employer, and demographic information. As care is delivered, information is immediately updated. When the physician provides a referral to a specialty clinic, referral forms are automatically generated, the individual's next appointment is confirmed, and insurance eligibility is verified. In the future, at the end of the visit, charges for the care from all providers at various locations within the health system will be consolidated into one easily understood bill.

## Managerial and Financial Solutions

In today's increasingly risk-based environment, understanding the real costs of labor, equipment, and supplies is essential. Through the Balanced Budget Act's reduction in subsidies for Medicare and Medicaid, United States healthcare organizations will lose \$115 billion over the next five years. Organizations must take steps to manage costs and find ways to combat this loss of revenue. Cerner made substantial investments in the development of managerial and financial solutions throughout 1998 to help organizations overcome these challenges.

Cerner's *ProCare Medical Management System* integrates clinical and financial information at the point of care to impact decisions and improve economic and quality outcomes. *ProCare* supports data aggregation and analysis, real-time case management, utilization management, outcomes reporting, disease management, physician profiling, regulatory reporting, and risk management. Benchmark and satisfaction data can be integrated with clinical and financial information to deliver a more complete picture of the health system.

The increased penetration of managed care across the country intensifies the need for new age systems to deal with the multiplicity of reimbursement methodologies. As more integrated health organizations move to centralized business processes in response, they are demanding a system that combines all venues and providers of care in one billing statement the consumer can clearly understand.

With *ProFit Enterprise Financial System*, Cerner is creating the first truly integrated, enterprisewide financial solution for the healthcare industry that helps organizations manage reimbursement mechanisms across the continuum of care. By using this solution, the financial office can view, manage, and analyze patient accounts, and in the future will be able to consolidate charges from across the health system into one easily understood bill.

# LEVERAGING KNOWLEDGE AND LINKING THE COMMUNITY

**N**early 30 years ago, when pioneers in medical informatics promised computers would revolutionize medicine, they primarily saw information systems as an enabler for automation. As a leader in the automation revolution, Cerner quickly recognized that information technology delivers its greatest value when the information in the system is used to directly impact health outcomes and improve the quality of clinical decision making. With that understanding, Cerner already has distinguished itself as a pioneer in the integration of information technology and knowledge.

It has been said that “information is knowledge.” Unfortunately in healthcare, too often information is just data. To become knowledge, information must be placed into clinical or economic context and made available at the right point in time. When that happens, information can help establish causes, make comparisons, improve results, and impact decisions. Information is then transformed into knowledge with real power to influence health outcomes.

## Transforming Information Into Knowledge

Cerner continued its investments in knowledge in 1998, and brought substantial innovation to the market for how best to codify, analyze, and use information in clinical practices. *Cerner Knowledge Index (CKI)* is the industry’s most advanced methodology for establishing a common clinical nomenclature within healthcare systems. All terminology, events, and concepts used by the system are in a standardized format, and referenced in a single unambiguous manner that easily is mapped to industry standards. As a result, all systems speak the same language and different organizations can use their own terminology without losing data integrity. Through the use of sophisticated mapping techniques and unique identifiers, *CKI* enables healthcare data to be gathered, represented, stored, and retrieved in a single method, and also makes clear the relationships between that data.

Another significant achievement of 1998 was the implementation of *PowerNote* and *Care Designs*, Cerner’s content-rich, structured clinical documentation solution that truly delivers knowledge to the point of care at a time when it is most needed and most valuable. *PowerNote* guides clinicians through *Care Designs*, which work with the electronic medical record to sift through information and present the clinician with data that is most likely to be relevant to a given patient encounter.

These innovations enhance Cerner’s proven expert-knowledge and decision-support systems. Cerner’s *Discern Expert*, *Discern Dialogue*, and *Insights* provide clinicians with a view of clinical and financial data from throughout the health system, then integrate event monitors, alerts, and detailed clinical knowledge that are executable at the point of care to help clinicians make intelligent, evidence-based decisions.

With the 1998 purchase of *Multum*® Information Systems, Inc., a Denver-based supplier of drug knowledge databases and intelligent software components, Cerner added another important component to its growing knowledge architecture. *Multum’s MediSource™* solution is the only commercially available drug-dosing tool that supplies expert,





## REDUCING ADVERSE DRUG EVENTS

Adverse drug events, or ADEs, are the most common cause of unintentional injury or death in hospitals. Each year, an estimated 2.2 million people are seriously injured and 100,000 die because of ADEs. Good Samaritan Regional Medical Center in Phoenix, Arizona, received national attention with a study that demonstrates that a computerized decision support system that monitors clinical events can significantly reduce the occurrence of, and injuries associated with, ADEs.

Robert Raschke, MD, working with colleagues from pharmacy, nursing, and information systems, wrote a set of computer alerts using Cerner's *Discern Expert* decision-support system. During the six-month study that included 9,306 admissions, the system generated 1,116 alerts. These alerts identified potentially dangerous clinical situations at a rate of 64 per 1,000 admissions. In 44 percent of these cases, physicians stated they were unaware of the potential ADE before the alert notification.

The benefits of a highly effective ADE prevention program are enormous. Conservatively, 28 percent of ADEs, in general, and 42 percent of life-threatening ADEs are preventable. If ADEs occur in approximately 7 percent of admissions, an average 650-bed hospital could experience as many as 1,800 ADEs a year. Raschke and his colleagues suggest that in a 650-bed hospital, as many as 36 lives and \$3 million might be saved annually with the implementation of a fully functional system for detecting preventable ADEs.

The results of this study were published in the October 21, 1998, issue of the *Journal of the American Medical Association (JAMA)*.



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person-specific clinical and drug utilization review data. MediSource allows physicians, pharmacists, and other clinicians to anticipate potentially harmful drug interactions before they occur, precluding ADE-related injuries, disabilities, and even deaths. Multum also offers a comprehensive database of drug information, disease-therapeutic pathways, and patient education materials.

## Web-Enabled Healthcare

Through its ability to instantly connect people with the information they need, the Internet is shattering the physical boundaries that once defined healthcare. From providing remote access for physicians and exchanging data with payers, to empowering consumers to more actively manage their health, its effects are widespread.

As the Internet has become an important channel for delivering solutions and for connecting the healthcare continuum, *HNA Millennium* has proven that is ready for the web. Using Cerner's web-based solutions, caregivers and providers are using networks, intranets, and the Internet to connect to healthcare organizations' information systems, and to access information and perform transactions. In 1998, Cerner's Internet versions of its *PowerChart Electronic Medical Record System* and *ProVide Physician Practice Management System* became deployable over the web. These complement Cerner's existing *PowerLink Health Enterprise Network* physician access solution, which connects community physicians to payers and health systems for referrals, authorizations, claims, eligibility, and reporting.



## CONNECTING WITH CONSUMERS

Approximately 50 million people in the world use e-mail today, and that number is expected to double by 2000. Yet, only about 1 percent of physicians take advantage of this technology to communicate with patients. Connecting the right people at the right time and place is part of the equation for optimal health, and electronic communications is becoming part of the answer. This medium of communication is becoming more accepted, and its effects on the quality and efficiency of the doctor-patient relationship has become the focus of an ongoing study at the University of Michigan Health System.

Healthcare organizations of the future must find ways to keep the populations they serve connected. Electronic communication adds another avenue to keep them connected.

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*HNA Millennium's* proven technology platform opened the door in 1998 to the electronic commerce market. In an agreement with Syntec, Inc., of Elmwood Park, New Jersey, Cerner's *HNA Millennium* will provide the infrastructure for Syntec Healthcare Communications, Inc., (SHC), an Internet-based company focused on clinical e-commerce. SHC provides web-based solutions for physicians that facilitate the confidential online exchange of clinical information between physicians and managed care organizations, pharmacy benefit managers, clinical laboratories, and pharmacies. As part of this agreement, Cerner acquired an equity position in SHC, and will contribute engineering and systems expertise to the development of future solutions.

### Connecting to the Consumer

Optimal health outcomes start when individuals become proactive in managing their health. In 1998, Cerner continued its commitment to the development of solutions that are designed to support a system in which consumers, physicians, and their health providers are all connected. One of these solutions, *Vitality*, is a comprehensive health management system that helps consumers monitor their health status and make more informed health decisions. Other consumer health services that gained momentum in 1998 include Cerner's *Health Risk Assessments*, *Health Connections* telecare services, and *Health Directory* automated registration referral and authorization services.

In 1998, Cerner reached consumers in a very personal way through an agreement with a major pharmaceutical company. Cerner's *ProLink* call center solution is providing the backbone for an innovative disease-management program that offers telephone support and services to individuals with multiple sclerosis. Nurse counselors provide free information, make referrals, and answer questions about living with the disease. The center handles nearly 8,000 calls each month.

# CREATING A UNIQUE COMPANY AND CULTURE

**C**erner was started by three individuals who believed that information technology could transform healthcare. Their passion for excellence and innovation established the framework for this unique company and its associates. As the company has continued to grow, Cerner has remained committed to a culture that breeds innovation and success through the strong contributions of individuals and teams.

Nearly two decades old, we have not wavered in our commitment to transforming healthcare, and remain dedicated to helping health systems achieve their strategic visions through information and knowledge solutions. This environment has resulted in the industry's most advanced solutions, as well as the best group of associates who help to build, sell, implement, and provide services for those solutions. Cerner associates are committed to building a legacy in healthcare.

## Accelerating Business Results

Coming off a very strong year in 1997, Cerner met its three imperatives for 1998—to increase top line growth, increase margin percentages, and make significant progress in the rollout of *HNA Millennium*.

This was another year of growth as the breadth of *HNA Millennium* made its way into the market. Revenues for the year grew by 35 percent to reach a record high of \$330.9 million. New business bookings increased by \$94 million to \$362 million in 1998. Net earnings increased 56 percent to \$23.7 million (excluding acquisition related charges). Strong performance in Cerner's core clinical markets, which grew by more than 60 percent over 1997, contributed to the year's success. We also saw very strong contributions from consulting and professional services, and from new markets that were developed in 1998.

## Investing in Associates

Cerner's culture is reflected in its associate body. With a 30 percent growth rate in 1998, Cerner reached a new milestone of more than 2,600 associates worldwide. To stay at the top of the industry, we compete with some of the largest technology companies in the world for the most qualified candidates. Our success in attracting new associates is directly related to our culture. Cerner prides itself in building and maintaining a positive, flexible work environment where everyone has the chance to contribute. Associates respect one another's accomplishments and work hard to achieve success. When one team reaches a milestone, everyone celebrates.

Associates have known for a long time that Cerner is "the place to be," but when *Fortune* magazine named Cerner as one of the Top 100 Best Companies to Work for in America in December 1998, the world learned that Cerner is a special place. For the Cerner community, this award reflects the company's commitment to a corporate culture that values associates as its greatest assets. Cerner received this special honor by not only investing in associates' careers, but also by promoting health and wellness. Associates and their families have access to a world-class fitness center and an on-site Montessori childcare center. Cerner offers comprehensive continuing education opportunities, flexible work schedules, and stock ownership programs.



## FORTUNE SELECTS CERNER AS ONE OF THE BEST

Cerner received a substantial honor in December 1998 when *Fortune* magazine named the company as one of the “100 Best Companies to Work for in America.” This award recognizes Cerner’s commitment and investments in creating a culture that values associates as its greatest assets. The award is especially significant as the company celebrates its 20th anniversary in 1999.

The “100 Best” list rankings were compiled through extensive research, analysis, and a poll of more than 27,000 employees at more than 1,000 companies nationwide. The review process included interviews with randomly selected employees, completion of a written questionnaire, as well as documentation of the company’s best “people practices.” Competing firms had to supply supplementary materials, such as newsletters, employee handbooks, and videos. *Fortune* used a 175-point scoring system to rank the companies.

This comprehensive study shows that Cerner successfully has created an empowered workplace where associates believe they are making a difference and are proud of their contributions. Associates are given a lot of responsibility, and are willing to go the extra mile to get things done. Cerner’s friendly environment, world-class fitness center, and on-site children’s center contribute to making Cerner a great place to work.

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### Investing in the Future

Cerner’s investment in the development of *HNA Millennium* is matched by its commitment to ensure that we have the appropriate resources in Cerner Consulting to implement these solutions. Today Cerner Consulting is the fastest growing area of the company. With more than 770 associates, the organization grew by 40 percent over 1997. With that growth, Cerner also has added considerable experience to its consulting ranks. On average, the consultant leading an *HNA Millennium* project has 16 years of industry experience. Adding to their industry knowledge, Cerner associates spent the equivalent of 11,000 days in the *HNA Millennium* Certification Lab receiving training and certification in 1998, up significantly from 1997.

In 1998, the four practices within Cerner Consulting were substantially improved. The Implementation Services Practice offers the ability to convert a significant capital investment into a prudent benefits-realization strategy. The Benefits Realization Practice mentors a client through the change process, working side-by-side with clients to drive real, measurable benefits. Cerner’s Learning Services Practice seeks to increase client knowledge and competence by providing projectwide, customized, and prepackaged training opportunities. The mission of the Technical Services Practice is to develop and deploy technology capability essential to effectively implement and manage our clients’ technology infrastructures.

# BUILDING STRONG CLIENT RELATIONSHIPS

**W**hile the true measure of a product or service can be determined by whether it delivers the intended benefits to the user, the value of partnership is evaluated in a different way. Partners do not measure success simply by the performance of their products. True success only can be achieved when the mutual goals that have been established by the partners are reached. In 1998, Cerner demonstrated the value of solutions and of partnership to clients around the world.

## Partners for Success

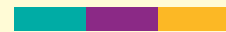
Cerner was privileged in 1998 to work in partnership with a growing number of progressive health organizations including Detroit Medical Center, Detroit, Michigan; Aurora Health Care, Milwaukee, Wisconsin; Health Midwest, Kansas City, Missouri; and the UPMC Health System, Pittsburgh, Pennsylvania. These organizations have selected Cerner's *HNA Millennium* as the foundation for their enterprise information architecture.

With more than 1,000 organizations using Cerner's *HNA Classic* solutions to run parts of their health systems, Cerner remains committed to the ongoing development and support of this platform. Although many of these organizations already are making the shift to *HNA Millennium* to take advantage of its broad enterprise architecture, others will remain on the *HNA Classic* platform for years to come.

Health systems and health partners recognize the clinical excellence and management capabilities of *HNA Millennium*. AmeriNet, one of the nation's largest and most respected healthcare purchasing organizations with 7,210 member facilities, named Cerner as its preferred supplier of laboratory, radiology, and pharmacy solutions. Also in 1998, the Greater New York Hospital Association (GNYHA) endorsed *HNA Millennium* solutions to its more than 175 member hospitals. In a continuing relationship with the nation's largest strategic alliance of leading hospitals and healthcare systems, Premier, Inc., endorses *HNA Millennium OCF/PowerChart* to its more than 1,700 members.

## Industry-Leading Service and Support

Connecting people to the information and resources they need to keep their systems running at peak performance is critical in health-care. Cerner's commitment to excellence in client service consistently ranks among the highest in the industry. The Immediate Response Center (IRC) provides 24-hour, 7-day-a-week access to technicians who can solve mission critical issues. Qualified technicians in Cerner's Immediate Answer Center (IAC) respond to non-critical issues. Seventy percent of calls to the IRC and IAC are resolved the same day they are received—an outstanding achievement in complex environments that utilize technologies from multiple suppliers.



### HNA Millennium Goes International

The first *HNA Millennium* conversion outside the United States was at a hospital in Sydney, Australia. The momentum continued with the conversion of the first of five hospitals in a 2,300-bed organization in Sydney. Cerner's growing presence in the Australian market was further strengthened when the State of New South Wales designated Cerner as one of its preferred suppliers.



After being ranked as a leader in the industry for client service in 1997, Cerner's efforts were recognized again in 1998. *Inside Healthcare Computing* magazine named Cerner as having the "Best Telephone Support" in the industry. Most importantly, clients have given Cerner record-high satisfaction ratings in the mid-90 percent range for two years in a row.

### Educating Our End-Users

Cerner Virtual University (CVU) offers comprehensive educational programs and knowledge-transfer opportunities by integrating technology and proven learning strategies. CVU works with clients, associates, and business partners to design, develop, and support innovative learning strategies. Through a combination of computer-based training (CBT), classroom and innovative training techniques that incorporate performance-based training,

Cerner is ensuring that client organizations are prepared to use and manage their Cerner systems.

An extension of CVU, the Cerner Knowledge Network (CKN) gives clients 24-hour access to a powerful web-based repository of information on Cerner applications, technologies, and training programs. Use of CKN increased almost 100 percent in 1998. Approximately 10 percent of Cerner clients use CKN daily to check the status of service requests, collaborate with other Cerner users via discussion forums, and order parts and equipment for their systems.

### Strong Commitment to Continuous Improvement

Building software is an evolutionary process of development and refinement. The process is never complete. In mid-1998 Cerner launched the first phase of a performance strategy designed to verify that the technical and application

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architectures of *HNA Millennium* would effectively handle the HIS workload processing of the largest hospital systems. A multimillion-dollar investment was made in an in-house testing environment capable of replicating every aspect of the client environment. Real code and real client databases are used to systematically test and tune the system, capturing accurate baseline statistics for user-response time, stability, fault tolerance, throughput, and scalability for the *HNA Millennium* application suite. Through this sophisticated approach, which leverages input from performance experts outside the company, Cerner proved conclusively that the architecture will scale to the largest client environments and perform to the expectations of clients. The Performance Lab also offers a unique opportunity to drive continuous improvement in the system. Areas for enhancement are pinpointed, improved and then rapidly implemented across Cerner's cohesive architecture.

Cerner is committed to continuously improving the implementation of *HNA Millennium*. In 1998, we established the Project Implementation Lab, where the implementation methodology of *HNA Millennium* is being scrutinized to identify best practices. By establishing and perfecting a repeatable, predictable process, Cerner is creating a proven methodology to reduce the total cost, work effort, and time required to realize benefits and better support rapid installations.

Healthcare organizations already are realizing benefits quickly due to recordbreaking implementations. For example, Cerner's *OCF/PowerChart* has been implemented in six months at such organizations as Grey Bruce Health Services, Ontario, Canada; and Health Midwest, Kansas City, Missouri. Once the core architecture is implemented, subsequent applications can be implemented much more rapidly. For example, building off a foundation of Cerner solutions, Bridgeport Hospital, Bridgeport, Connecticut, was able to implement *FirstNet Emergency Care Information System* in nine weeks.



# ESTABLISHING NEW BOUNDARIES

**C**erner is positioned to lead the healthcare industry into the next millennium. As the industry is poised for a major transformation, Cerner celebrates almost 20 years of innovation. Healthcare executives who are preparing for this journey can do so with the confidence that Cerner has been preparing for this transformation for close to two decades.

## The Millennium Health Imperative

In 1998, Cerner sponsored the creation of the Millennium Health Imperative (MHI), a think-tank of executives from leading healthcare organizations across the country. Through this imperative, Cerner is pooling the knowledge and thought leadership of these individuals and others in the industry to help shape how information technology will aid in this transformation.

Results from an initial research project conducted in partnership with *Modern Healthcare* magazine provide valuable insight from the executive suites of 43 of the nation's leading integrated delivery systems. Overwhelmingly these leaders recognize the need for greater investments in information technology in order to advance healthcare, and believe the critical link for success is a closer connection between an organization's information technology strategy and strategic business plan. As their average information technology investment increases to \$20 million over the next two to three years, nearly three-fourths of respondents site a preference for one or a "select few" supplier relationships. Future information and knowledge investment priorities include results viewing by clinicians, outcomes analysis, electronic medical records, person identification, and physician office connectivity.

Early conclusions from the MHI indicate enlightened organizations will stress "value creation" over ROI measurement, with these objectives: improving the quality of patient care and clinical outcomes; impacting the timeliness, availability of information for decision support and documentation; and increasing patient satisfaction and customer service.

## Community, Physicians, and the Future

What must the equation for optimal healthcare look like in 2010? Nobody knows the answer, but it is evident that the most effective health systems will focus on the individual. They will not only focus on changing physician behavior but also their approach to technology and willingness to adopt solutions. Physicians must make computers a part of their normal workflow, and begin utilizing decision support systems to provide knowledge to them in the critical two seconds when a clinical decision is being made. Health systems, providers, payers, and employers must work collaboratively to reduce costs and implement programs that will change behaviors that lead to health problems, before those problems arise. They must work together to leverage the collective knowledge that resides in their information systems, and they must involve the community in this initiative. Cerner's information and knowledge solutions have been developed with this goal in mind.



## Creating Virtual Health Systems

Used to its full potential, information technology can alter the structure of how care is delivered to individuals. We believe that over time healthcare will shift away from the structured delivery systems of today toward more “virtual health systems” where consumers can construct and reconstruct a care delivery system that meets their individual or family needs. The medical record, ultimately, will be the property of the individual, with each person determining who has access to that record. Those who need the information will be able to get to it, regardless of their location or prior affiliation with the person.

Through the creation of a single cohesive architecture for healthcare, the walls between care centers will become transparent as information travels seamlessly between offices and settings. Individuals will give personal information once, and will no longer fill out numerous forms at each care setting. Data collected at one setting will be available to others across the country. While the long-term vision of a virtual health system is still on the horizon, the solutions Cerner is developing today are bringing that picture closer to reality. This transformation will not be complete until every individual in every part of the care process is connected to the right knowledge, resources, and persons at the appropriate time and place.



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*There are other boundaries to conquer. With solutions that span the continuum of care and seamlessly unify health systems, payers, and the community, Cerner will lead the way. The transformation of healthcare has begun.*

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## CONSOLIDATED BALANCE SHEETS

January 2, 1999 and January 3, 1998

(Dollars in thousands)

	1998	1997
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 42,658	77,543
Receivables	167,374	125,516
Inventory	2,651	1,743
Prepaid expenses and other	4,234	3,553
<b>Total current assets</b>	<b>216,917</b>	<b>208,355</b>
Property and equipment, net	77,292	65,724
Software development costs, net	54,971	40,566
Intangible assets, net	8,884	6,402
Investments, net	71,719	2,534
Other assets	6,702	8,200
	<b>\$ 436,485</b>	<b>331,781</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 14,092	11,330
Current installments of long-term debt	5,030	35
Deferred revenue	33,921	8,290
Income taxes	26,057	18,245
Accrued payroll and tax withholdings	16,625	11,610
Other accrued expenses	2,511	2,037
<b>Total current liabilities</b>	<b>98,236</b>	<b>51,547</b>
Long-term debt, net	25,000	30,026
Deferred income taxes	22,106	16,461
Deferred revenue	20,000	—
Stockholders' Equity:		
Common stock, \$.01 par value, 150,000,000 shares authorized, 34,674,164 shares issued in 1998 and 33,816,829 shares in 1997	347	338
Additional paid-in capital	165,239	148,074
Retained earnings	126,862	106,273
Treasury stock, at cost (1,201,518 shares in 1998 and 1997)	(20,796)	(20,796)
Accumulated other comprehensive income:		
Foreign currency translation adjustment	(243)	(142)
Unrealized loss on available-for-sale equity security (net of deferred tax liability of \$165)	(266)	—
<b>Total stockholders' equity</b>	<b>271,143</b>	<b>233,747</b>
	<b>\$ 436,485</b>	<b>331,781</b>

Commitments (Note 11)

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended January 2, 1999, January 3, 1998, and December 28, 1996

(In thousands, except per share data)

		1998	1997	1996
<b>REVENUES</b>				
System sales	\$	245,490	170,906	122,836
Support and maintenance		76,755	68,713	57,430
Other		8,657	5,438	8,841
Total revenues		330,902	245,057	189,107
<b>COSTS AND EXPENSES</b>				
Cost of revenues		89,544	71,943	58,892
Sales and client service		117,107	83,788	65,005
Software development		59,754	44,086	35,890
General and administrative		25,929	23,070	18,719
Write-off of acquired in-process research and development		5,038	—	—
Total costs and expenses		297,372	222,887	178,506
<b>OPERATING EARNINGS</b>		33,530	22,170	10,601
Interest income (expense), net		(262)	2,314	2,301
<b>EARNINGS BEFORE INCOME TAXES</b>		33,268	24,484	12,902
Income taxes		12,679	9,336	4,651
<b>NET EARNINGS</b>	\$	20,589	15,148	8,251
<b>BASIC EARNING PER SHARE</b>	\$	.63	.46	.25
<b>DILUTED EARNINGS PER SHARE</b>	\$	.61	.45	.25

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended January 2, 1999, January 3, 1998, and December 28, 1996

(In thousands)

	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Retained earnings	Treasury stock amount	Accumulated other comprehensive income	Comprehensive income
Balance at December 30, 1995	33,002	\$ 330	143,876	82,874	(5,693)	(13)	
Exercise of options	402	4	805	—	—	—	
Tax benefit from disqualifying dispositions of stock options	—	—	260	—	—	—	
Foreign currency translation adjustment	—	—	—	—	—	41	41
Net earnings	—	—	—	8,251	—	—	8,251
Comprehensive income							<u>8,292</u>
Balance at December 28, 1996	33,404	334	144,941	91,125	(5,693)	28	
Exercise of options	311	3	978	—	—	—	
Issuance of common stock grants as compensation	2	—	48	—	—	—	
Issuance of restricted common stock	100	1	1,586	—	—	—	
Tax benefit from disqualifying dispositions of stock options	—	—	521	—	—	—	
Purchase of 688,500 shares of treasury stock	—	—	—	—	(15,103)	—	
Foreign currency translation adjustment	—	—	—	—	—	(170)	(170)
Net earnings	—	—	—	15,148	—	—	15,148
Comprehensive income							<u>14,978</u>
Balance at January 3, 1998	33,817	338	148,074	106,273	(20,796)	(142)	
Exercise of options	185	2	1,248	—	—	—	
Issuance of common stock grants as compensation	2	—	44	—	—	—	
Issuance of common stock	670	7	14,867	—	—	—	
Non-employee stock option compensation expense	—	—	385	—	—	—	
Tax benefit from disqualifying dispositions of stock options	—	—	621	—	—	—	
Foreign currency translation adjustment	—	—	—	—	—	(101)	(101)
Unrealized loss on available-for-sale equity security, net of deferred tax liability of \$165	—	—	—	—	—	(266)	(266)
Net earnings	—	—	—	20,589	—	—	20,589
Comprehensive income							<u>20,222</u>
Balance at January 2, 1999	<u>34,674</u>	<u>\$ 347</u>	<u>165,239</u>	<u>126,862</u>	<u>(20,796)</u>	<u>(509)</u>	

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended January 2, 1999, January 3, 1998, and December 28, 1996

(In thousands)

	1998	1997	1996
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net earnings	\$ 20,589	15,148	8,251
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	25,411	18,075	15,498
Common stock received as consideration for sale of license software	(70,000)	—	—
Write-off of acquired in-process research and development	5,038	—	—
Issuance of common stock grants as compensation	44	48	—
Non-employee stock option compensation expense	385	—	—
Equity in losses (income) of investee companies	1,601	864	(89)
Provision for deferred income taxes	15,816	8,246	2,894
Tax benefit from disqualifying dispositions of stock options	621	521	260
Loss on disposal of capital equipment	223	110	99
Changes in assets and liabilities:			
Receivables, net	(39,481)	(27,931)	2,376
Inventory	(908)	(127)	630
Prepaid expenses and other	(3,970)	(2,075)	(340)
Accounts payable	2,620	1,984	(5,586)
Accrued income taxes	(2,334)	—	—
Deferred revenue	45,410	479	1,649
Other current liabilities	4,828	3,350	2,620
Total adjustments	(14,696)	3,544	20,011
Net cash provided by operating activities	5,893	18,692	28,262
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of capital equipment	(20,846)	(14,896)	(14,962)
Purchase of land, buildings, and improvements	(2,767)	(86)	(379)
Acquisition of business	(6,874)	—	—
Investment in investee companies	(1,217)	(4,500)	(1,650)
Proceeds on disposal of capital equipment	—	212	33
Capitalized software development costs	(25,052)	(18,373)	(13,240)
Net cash used in investing activities	(56,756)	(37,643)	(30,198)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of long-term debt	(45)	(116)	(130)
Proceeds from sale of common stock	14,874	—	—
Proceeds from exercise of options	1,250	981	809
Purchase of treasury stock	—	(15,103)	—
Net cash provided by (used in) financing activities	16,079	(14,238)	679
Foreign currency translation adjustment	(101)	(170)	41
Net decrease in cash and cash equivalents	(34,885)	(33,359)	(1,216)
Cash and cash equivalents at beginning of year	77,543	110,902	112,118
Cash and cash equivalents at end of year	\$ 42,658	77,543	110,902
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>			
Cash paid (received) during the year for:			
Interest	\$ 2,504	2,473	2,517
Income taxes, net of refund	(2,112)	1,024	685
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>			
Acquisition of equipment through capital leases	\$ —	73	—
Issuance of restricted common stock and grants	44	1,635	—

See notes to consolidated financial statements.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (a) **Principles of Consolidation** – The consolidated financial statements include the accounts of Cerner Corporation and its wholly owned subsidiaries (the Company). All significant intercompany transactions and balances have been eliminated in consolidation.
- (b) **Revenue Recognition** – Revenues are derived primarily from the sale of clinical information systems. The Company also provides project implementation and consulting services. In addition, revenue is generated from servicing installed clinical information systems, which generally includes support of software and maintenance of hardware. The Company also derives revenue from the sale of computer hardware.

Clinical information system sales contracts are negotiated separately and generally include the licensing of the Company's clinical information system software, project-related services associated with the installation of the systems, and the sale of computer hardware. Clinical information system sales contracts are noncancelable and provide for a right of return only in the event the system fails to meet the performance criteria set forth in the contracts. The Company recognizes revenue from sales of clinical information systems using a percentage-of-completion method based on meeting key milestone events over the term of the contracts in accordance with Statement of Position 97-2, "Software Revenue Recognition."

Revenue associated with project implementation and consulting services is recognized as the services are performed. Revenue from the licensing of additional software is recognized upon installation at the client's site. Revenue from the sale of computer hardware is recognized upon shipment. Revenue from ongoing software support and equipment maintenance is recognized as the services are rendered.

- (c) **Fiscal Year** – The Company's fiscal year ends on the Saturday closest to December 31. Fiscal year 1998, ended January 2, 1999, consisted of 52 weeks, fiscal year 1997 consisted of 53 weeks, and fiscal year 1996 consisted of 52 weeks. All references to years in these notes to consolidated financial statements represent fiscal years unless otherwise noted.
- (d) **Software Development Costs** – Costs incurred internally in creating computer software products are expensed until technological feasibility has been established upon completion of a detail program design. Thereafter, all software development costs are capitalized and subsequently reported at the lower of amortized cost or net realizable value. Capitalized costs are amortized based on current and future revenue for each product with minimum annual amortization equal to the straight-line amortization over the estimated economic life of the product. The Company is amortizing capitalized costs on a straight-line basis over five years. During 1998, 1997, and 1996, the Company capitalized \$25,052,000, \$18,373,000, and \$13,240,000, respectively, of total software development costs of \$74,159,000, \$54,524,000, and \$43,133,000, respectively. Amortization expense of capitalized software development costs in 1998, 1997, and 1996 was \$10,647,000, \$7,935,000, and \$5,997,000, respectively, and accumulated amortization was \$43,542,000, \$32,895,000, and \$24,960,000, respectively.
- (e) **Cash Equivalents** – Cash equivalents consist of short-term marketable securities with original maturities less than ninety days.
- (f) **Investments** – The Company accounts for its investments in equity securities which have readily determinable fair values as available-for-sale. Available-for-sale securities are reported at fair value with unrealized gains and losses reported, net of tax, as a separate component of accumulated other comprehensive income. Investments in other equity securities are reported at cost. All equity securities are reviewed by the Company for declines in fair value. If such declines are considered to be other than temporary, the cost basis of the individual security is written down to fair value as a new cost basis, and the amount of the write-down is included in earnings.
- (g) **Inventory** – Inventory consists primarily of computer hardware held for resale and is recorded at the lower of cost (first-in, first-out) or market.
- (h) **Property and Equipment** – Property, equipment, and leasehold improvements are stated at cost. Depreciation of property and equipment is computed using the straight-line method over periods of 5 to 39 years. Amortization of leasehold improvements is computed using a straight-line method over the lease terms, which range from periods of two to twelve years.
- (i) **Earnings per Common Share** – Basic earnings per share (EPS) excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. A reconciliation of the numerators and the denominators of the basic and diluted per-share computations is as follows:



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)

	1998			1997			1996		
	Earnings (Numerator)	Shares (Denominator)	Per Share Amount	Earnings (Numerator)	Shares (Denominator)	Per Share Amount	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per share									
Income available to common stockholders	\$ 20,589	32,825	<u>\$ .63</u>	15,148	32,881	<u>\$ .46</u>	8,251	32,729	<u>\$ .25</u>
Effect of dilutive securities									
Stock options	—	842		—	787		—	891	
Diluted earnings per share									
Income available to stockholders including assumed conversions	<u>\$ 20,589</u>	<u>33,667</u>	<u>\$ .61</u>	<u>15,148</u>	<u>33,668</u>	<u>\$ .45</u>	<u>8,251</u>	<u>33,620</u>	<u>\$ .25</u>

Options to purchase 1,652,000, 1,149,000 and 494,000 shares of common stock at per share prices ranging from \$25.00 to \$31.00, \$21.50 to \$31.00, and \$18.50 to \$29.63 were outstanding at the end of 1998, 1997 and 1996, respectively, but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares.

- (j) **Foreign Currency** – Assets and liabilities in foreign currencies are translated into dollars at rates prevailing at the balance sheet date. Revenues and expenses are translated at average rates for the year. The net exchange differences resulting from these translations are reported in accumulated other comprehensive income. Gains and losses resulting from foreign currency transactions are included in the consolidated statements of earnings. The net loss resulting from foreign currency transactions was \$673,000, \$762,000, and \$274,000 in 1998, 1997, and 1996, respectively.
- (k) **Income Taxes** – Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.
- (l) **Goodwill** – Excess of cost over net assets acquired (goodwill) is being amortized on a straight-line basis over seven to eight years. Accumulated amortization was \$4,037,000 and \$2,733,000 at the end of 1998 and 1997, respectively. The Company assesses the recoverability of goodwill based on forecasted undiscounted future operating cash flows.
- (m) **Comprehensive Income** – The Company adopted statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" at the beginning of 1998. This statement establishes requirements for reporting and display of comprehensive income and its components. The adoption of this statement had no effect on the previously reported net earnings or stockholders' equity.
- (n) **Use of Estimates** – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- (o) **Reclassifications** – Certain 1997 and 1996 amounts have been reclassified to conform with the 1998 presentations.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 2 ACQUISITION OF BUSINESS

On March 16, 1998, the Company purchased all of the outstanding common stock of Multum Information Systems, Inc., (Multum) for \$6.9 million. Multum is a supplier to the healthcare industry of drug knowledge databases and intelligent software components designed to improve the quality and cost-effectiveness of medical care. The Company plans to incorporate Multum's drug information and expert dosing component into its Health Network Architecture Millennium solutions to enable Multum's expert knowledge to become executable within the process of care delivery.

The acquisition has been accounted for using the purchase method of accounting with the operating results of Multum included in the Company's consolidated statement of earnings since the date of acquisition. Approximately \$5,000,000 of the purchase price was allocated to in-process research and development that had not reached technological feasibility and was treated as a one-time charge to earnings reducing after tax income for 1998 by \$3.1 million or \$.09 per share on a diluted basis. This acquisition would not have materially affected revenues, net earnings, or net earnings per share on a pro forma basis for any period presented.

The acquired in-process research and development related to Multum's component based, drug information software development kit (SDK) for use in clinical information systems. Its components are designed for use in a variety of configurations and to provide complete control over the retrieval of drug information from Multum's knowledge databases. SDK was approximately 80% complete at the time of the acquisition. When Multum was acquired, it was projected that SDK would be completed in 12-18 months at an estimated cost of \$1.9 million. The risks associated with completing SDK are like any other software development project and include changes in technology and competition. The SDK project was valued using the income approach with the following assumptions: material net cash inflows are expected to commence in 2000; no material changes from historical pricing, margins or expense levels are anticipated; and, a 20% risk adjusted discount rate was applied to estimated net cash flows. SDK was approximately 90% complete at the end of 1998; management expects it to be completed in 1999.

The allocation of the purchase price to the estimated fair values of the identified tangible and intangible assets acquired and liabilities assumed, resulted in goodwill of \$1,581,000. The goodwill is being amortized straight-line over seven years.

### 3 RECEIVABLES

Receivables consist of accounts receivable and contracts receivable. Accounts receivable represent recorded revenues that have been billed. Contracts receivable represent recorded revenues that are billable by the Company at future dates under the terms of a contract with a client. Billings and other consideration received on contracts in excess of related revenues recognized under the percentage-of-completion method are recorded as deferred revenue. A summary of receivables is as follows:

(In thousands)	1998	1997
Accounts receivable	\$ 72,747	54,908
Contracts receivable	94,627	70,608
Total receivables	\$ <u>167,374</u>	<u>125,516</u>

Substantially all receivables are derived from sales and related support and maintenance of the Company's clinical information systems to healthcare providers located throughout the United States and in certain foreign countries. Included in receivables at the end of 1998 and 1997 are amounts due from healthcare providers located in foreign countries of \$12,071,000 and \$9,950,000, respectively. Consolidated revenues include foreign sales of \$17,545,000, \$16,272,000, and \$15,874,000, during 1998, 1997, and 1996, respectively. Consolidated long-lived assets at the end of 1998 and 1997, include foreign long-lived assets of \$290,000 and \$265,000, respectively. Revenues and long-lived assets from any one foreign country are not material.

The Company provides an allowance for estimated uncollectible accounts based upon historical experience and management's judgment. At the end of 1998 and 1997 the estimated allowance for uncollectible accounts was \$3,405,000 and \$1,490,000, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 4 PROPERTY AND EQUIPMENT

A summary of property, equipment, and leasehold improvements stated at cost, less accumulated depreciation and amortization, is as follows:

(In thousands)		1998	1997
Furniture and fixtures	\$	19,153	17,496
Computer and communications equipment		59,280	41,898
Marketing equipment		1,913	1,222
Leasehold improvements		13,543	10,803
Capital lease equipment		713	673
Land, buildings, and improvements		32,437	29,669
		<u>127,039</u>	<u>101,761</u>
Less accumulated depreciation and amortization		49,747	36,037
Total property and equipment, net	\$	<u>77,292</u>	<u>65,724</u>

### 5 INVESTMENTS

Investments consist of the following:

(In thousands)		1998	1997
Investments in available-for-sale equity securities	\$	503	503
Less unrealized holding loss		431	—
Investment in available-for-sale equity securities, at fair value		72	503
Investments in other equity securities, at cost		71,647	2,031
Total investments, net	\$	<u>71,719</u>	<u>2,534</u>

Included in investments in other equity securities in 1998 is common stock received as consideration for the sale of license software. There is no current market for the common stock. As a result, it was valued at \$70,000,000 based on a methodology which utilized both a comparable company and the expected underlying discounted future cash flows. The common stock is subject to certain lock-up provisions.

### 6 INDEBTEDNESS

The Company has a loan agreement with two banks that provides for a long-term revolving line of credit for working capital purposes. The long-term revolving line of credit is unsecured and requires monthly payments of interest only. Interest is payable at the Company's option at a rate based on prime (7.75% at January 2, 1999) or LIBOR (5.094% at January 2, 1999) plus 1.75%. The interest rate may be reduced by up to .5% if certain net worth ratios are maintained. At January 2, 1999, the Company had no outstanding borrowings under this agreement and had \$18,000,000 available for working capital purposes. The agreement contains certain net worth, current ratio, and fixed charge coverage covenants and provides certain restrictions on the Company's ability to borrow, incur liens, sell assets, and pay dividends. A commitment fee of 3/16% is payable quarterly on the unused portion of the revolving line of credit.

The Company has \$30,000,000 of Senior Notes. The Senior Notes are payable in six equal annual installments beginning in August 1999. Interest is payable on February 1 and August 1 at a rate of 8.3%. The note agreement contains certain net worth, current ratio, and fixed charge coverage covenants and provides certain restrictions on the Company's ability to borrow, incur liens, sell assets, and pay dividends.

The Company also has an obligation under a capital lease agreement, which is secured by the related equipment, for \$30,000 (\$61,000 at January 3, 1998) with interest at 8.5%, payable in monthly installments through September 1999.

The fair value of the Company's Senior Notes is estimated to be \$31,848,000 based on current rates offered to the Company for debt of the same remaining maturities.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 7 INTEREST INCOME AND EXPENSE

A summary of interest income and expense is as follows:

(In thousands)		1998	1997	1996
Interest income	\$	2,242	4,755	4,839
Interest expense		(2,504)	(2,441)	(2,538)
Interest income (expense), net	\$	<u>(262)</u>	<u>2,314</u>	<u>2,301</u>

### 8 STOCK OPTIONS AND WARRANTS

At January 2, 1999, the Company had four fixed stock option plans. Under Stock Option Plan B, the Company could grant to associates options to purchase up to 5,600,000 shares of common stock through November 30, 1993. The options are exercisable at the fair market value on the date of grant for a period determined by the Board of Directors (not more than ten years from the date granted). The options contain restrictions as to transferability and exercisability after termination of employment.

Under Stock Option Plan C, the Company is authorized to grant to associates options to purchase up to 95,000 shares of common stock through May 18, 2003. The options are exercisable at the fair market value on the date of grant for a period determined by the Board of Directors (not more than ten years from the date granted). The options contain restrictions as to transferability and exercisability after termination of employment. The Company has committed not to issue any more stock options under Stock Option Plan C.

Initially under Stock Option Plan D, the Company was authorized to grant to associates, directors, consultants, or advisors to the Company options to purchase up to 2,600,000 shares of common stock through January 1, 2000. An additional 2,000,000 shares were approved by the Company's shareholders on May 22, 1998, increasing the total authorized to grant to 4,600,000 shares. The options are exercisable at a price and during a period determined by the Stock Option Committee. Options under this plan currently vest over periods of up to ten years and are exercisable for periods of up to 25 years.

Under Stock Option Plan E, the Company is authorized to grant to associates who are not officers subject to the provisions of Section 16(a) of the Securities and Exchange Act of 1934, consultants, or advisors to the Company options to purchase up to 2,000,000 shares of common stock through January 1, 2005. The options are exercisable at a price and during a period determined by the Stock Option Committee. Options under this plan currently vest over periods of up to ten years and are exercisable for periods of up to 25 years.

The Company has also granted 210,362 other non-qualified stock options under separate agreements to certain third parties. These options are exercisable at a price equal to or greater than the fair market value on the date of grant. These options vest over periods of up to six years and are exercisable for periods of up to ten years.

The Company accounts for stock options in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. On December 31, 1995, the Company adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (FAS 123), which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, FAS 123 allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net earnings and pro forma earnings per share disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based method defined in FAS 123 had been applied. The Company has elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of FAS 123.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A combined summary of the status of the Company's four fixed stock option plans and other stock options at the end of 1998, 1997, and 1996, and changes during these years ended is presented below:

	1998		1997		1996	
	Number of shares	Weighted-average exercise price	Number of shares	Weighted-average exercise price	Number of shares	Weighted-average exercise price
Fixed options						
Outstanding at beginning of year	4,179,258	\$ 17.74	3,196,072	\$ 16.50	2,730,786	\$ 15.95
Granted	1,932,710	24.15	1,592,363	18.22	941,130	15.97
Exercised	(185,335)	6.88	(310,531)	3.12	(401,754)	2.02
Forfeited	(438,442)	17.57	(298,646)	17.50	(74,090)	12.52
Outstanding at end of year	<u>5,488,191</u>	\$ 20.38	<u>4,179,258</u>	\$ 17.74	<u>3,196,072</u>	\$ 16.50
Options exercisable at year-end	1,111,943		876,376		838,143	

The following table summarizes information about fixed and other stock options outstanding at January 2, 1999.

Options outstanding				Options exercisable	
Range of exercise prices	Number outstanding at 01/02/99	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at 01/02/99	Weighted-average exercise price
\$ 1.25-12.56	374,494	6.3 years	\$ 5.01	312,793	\$ 3.52
12.63-17.56	1,578,226	19.9	14.98	367,862	14.92
18.13-26.63	2,434,960	15.7	22.44	235,411	20.76
27.00-31.00	<u>1,100,511</u>	17.6	28.81	<u>195,877</u>	29.52
1.25-31.00	<u>5,488,191</u>	16.7	20.38	<u>1,111,943</u>	15.52

The per share weighted-average fair value of stock options granted during 1998, 1997 and 1996 was \$14.97, \$10.99 and \$7.89, respectively, on the date of grant using the Black Scholes option-pricing model with the following weighted-average assumptions:

	1998	1997	1996
Expected years until exercise	8	8	8
Risk-free interest rate	5.0%	6.2%	6.3%
Expected stock volatility	58.5%	56.9%	49.2%
Expected dividend yield	0%	0%	0%

Since the Company applies APB Opinion No. 25 in accounting for its plans, no compensation cost has been recognized for its stock options issued to employees. Had the Company recorded compensation expense based on the fair value at the grant date for its stock options under FAS 123, the Company's net earnings and earnings per share on a diluted basis would have been reduced by approximately \$5,929,000 or \$.18 per share in 1998, approximately \$3,965,000 or \$.12 per share in 1997 and approximately \$3,023,000 or \$.09 per share in 1996.

Pro forma net earnings reflects only options granted since January 1, 1995. Therefore, the full impact of calculating compensation expense for stock options under FAS 123 is not reflected in the pro forma net earnings amounts presented above, because compensation cost is reflected over the options' vesting period of ten years for these options. Compensation expense for options granted prior to January 1, 1995 is not considered.

In November 1998, the Company entered into an agreement with General Electric Company (GE) to integrate the Company's *Health Network Architecture (HNA) Millennium RadNet* Radiology Information System with GE Medical Systems' Picture Archive and Communication Systems technology. In conjunction with the agreement, the Company sold GE 670,000 shares of common stock for \$14,874,000 and granted warrants for the purchase of 500,000 shares of common stock at an exercise price equal to the fair value of the stock at the grant date (\$25.49). The warrants become exercisable provided certain conditions are met, including achievement of certain levels of revenue. The warrants expire after seven years or thirty days after termination of the agreement.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 9 INCOME TAXES

Income tax expense (benefit) for the years ended 1998, 1997, and 1996, consist of the following:

(In thousands)		1998	1997	1996
Current:				
Federal	\$	(1,929)	916	1,403
State		(1,061)	80	136
Foreign		(147)	94	218
Total current		(3,137)	1,090	1,757
Deferred:				
Federal		13,634	7,338	2,553
State		1,565	908	341
Foreign		617	—	—
Total deferred		15,816	8,246	2,894
Total income tax expense	\$	<u>12,679</u>	<u>9,336</u>	<u>4,651</u>

Temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities that give rise to significant portions of deferred income taxes at the end of 1998 and 1997 relate to the following:

(In thousands)		1998	1997
Deferred tax assets			
Acquisition accrual	\$	2,033	—
Accrued expenses		3,223	2,028
Separate return net operating losses		1,577	1,577
Other		1,076	2,190
Total deferred tax assets		7,909	5,795
Deferred tax liabilities			
Software development costs		(20,695)	(15,205)
Contract and service revenues and costs		(32,255)	(23,316)
Depreciation and amortization		(3,856)	(1,577)
Other		(2,867)	(1,645)
Total deferred tax liabilities		(59,673)	(41,743)
Net deferred tax liability	\$	<u>(51,764)</u>	<u>(35,948)</u>

The effective income tax rates for 1998, 1997, and 1996 were 38%, 38%, and 36%, respectively. These effective rates differ from the federal statutory rate of 35% as follows:

(In thousands)		1998	1997	1996
Tax expense at statutory rates	\$	11,644	8,569	4,516
State income tax, net of federal benefit		1,280	632	310
Other, net		(245)	135	(175)
Total income tax expense	\$	<u>12,679</u>	<u>9,336</u>	<u>4,651</u>

Income taxes payable are reduced by the tax benefit resulting from disqualifying dispositions of stock acquired under the Company's stock option plans. The 1998, 1997, and 1996 benefits of \$621,000, \$521,000, and \$260,000, respectively, are treated as increases to additional paid-in capital.

**10 ASSOCIATE STOCK PURCHASE RETIREMENT PLAN**

The Cerner Corporation Associate Stock Purchase Retirement Plan (the Plan) is established under Section 401(k) of the Internal Revenue Code. All full-time associates are eligible to participate. Participants may elect to make pretax contributions from 1% to 15% of compensation to the Plan, subject to annual limitations determined by the Internal Revenue Service. Participants may direct contributions into mutual funds, a money market fund, or a Company stock fund. The Company makes matching contributions to the Plan, on behalf of participants, in an amount equal to 20% of the participant's contribution, limited to an annual maximum of \$600 per participant. The Company's expense for the plan amounted to \$1,005,000, \$761,000, and \$560,000 for 1998, 1997, and 1996, respectively.

**11 COMMITMENTS**

The Company is committed under operating leases for office space through December 2004. Rent expense for office and warehouse space for the Company's regional and international offices for 1998, 1997, and 1996 was \$1,847,000, \$1,759,000, and \$1,580,000, respectively. Aggregate minimum future payments (in thousands) under these noncancelable leases are as follows:

Years		
1999	\$	2,438
2000		1,437
2001		935
2002		438
2003		238
2004		171

**12 REAL ESTATE LEASE REVENUE**

The Company leases space to unrelated parties in its Kansas City headquarters complex under noncancelable operating leases. Included in other revenues is rental income of \$1,795,000, \$1,694,000, and \$2,383,000 in 1998, 1997, and 1996, respectively. Future minimum lease revenues (in thousands) under these noncancelable operating leases expiring through 2002 are as follows:

Years		
1999	\$	685
2000		303
2001		32
2002		26

**13 STOCKHOLDERS' EQUITY**

At the end of 1998 and 1997, the Company had 1,000,000 shares of authorized but unissued preferred stock, \$.01 par value.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 14 QUARTERLY RESULTS (UNAUDITED)

Selected quarterly financial data for 1998 and 1997 is set forth below:

(In thousands, except per share data)

	Revenues	Earnings before income taxes	Net earnings	Basic earnings per share	Diluted earnings per share
1998 quarterly results:					
April 4	\$ 73,674	1,106	671	.02	.02
July 4	79,152	8,726	5,369	.16	.16
October 3	82,832	10,185	6,348	.19	.19
January 2	95,244	13,251	8,201	.26	.24
Total	\$ <u>330,902</u>	<u>33,268</u>	<u>20,589</u>	<u>.63</u>	<u>.61</u>
1997 quarterly results:					
March 29	\$ 51,129	3,123	1,936	.06	.06
June 28	63,320	5,478	3,324	.10	.10
September 27	60,777	7,203	4,445	.13	.13
January 3	69,831	8,680	5,443	.17	.16
Total	\$ <u>245,057</u>	<u>24,484</u>	<u>15,148</u>	<u>.46</u>	<u>.45</u>



### Introduction

1998 reflected major accomplishments that will provide long-term financial and strategic benefits for the Company, but also included disappointments in bookings and stock performance despite a 35% increase in revenues and 56% increase in net earnings (excluding acquisition related charges) as compared to 1997. Most notably, the Company completed the major development cycle of HNA Millennium. The Company believes HNA Millennium provides a significant competitive advantage because it utilizes the only fully integrated, large-scale, enterprise-wide architecture in the industry and thus can deliver a superior combination of functionality, efficiency, cost-containment and quality control through intrarelated clinical and management information systems.

The Company is now effectively positioned to meet the complex needs of a dynamic and consolidating health-care industry that requires sophisticated, powerful and comprehensive solutions to information sharing and process automation. Many analysts expect that the overall health information marketplace will grow at least 20% per year for the next five years following the millennium. The Company expects that the clinical information segments of this marketplace will grow even faster. With over 30 product lines currently in HNA Millennium, which will grow over the next few years, the Company believes it can sustain its technological leadership and capitalize on this opportunity. These 30 product lines will include, early in 2000, patient accounting and other business and management systems, where the Company currently has no or limited market share.

In the fourth quarter of 1998, the Company licensed a broad set of HNA Millennium applications to Syntec Healthcare Communications, Inc. (SHC) which is focused on clinical e-commerce through an Internet platform that connects payers, physicians and patients. In exchange for granting this license and entering into related marketing and other agreements, the Company received 19.9% of SHC's common stock which the Company valued at \$70 million. In November of 1998, the Company entered into an agreement with GE Medical Systems division of General Electric Company (GE) to develop and market the next generation of solutions in the radiology suite that combines the Company's leadership in radiology information systems with GE's leadership in radiology imaging systems and picture archival communication systems. These alliances create the potential to leverage the Company's access to customers, emerging markets and technology.

The Company's human resources were augmented significantly during 1998. The Company recruited and promoted a number of talented executives to its senior management team last year, including: Jeff Townsend, Chief of Engineering; Glenn Tobin, Chief Operating Officer; Marvin Pember, responsible for provider-based and managed cared Enterprise Business Units; Stan Sword, Chief People Officer; and Paul Black, promoted to Chief Sales Officer. The Company also added approximately 550 associates. The Company's ability to recruit and retain such talent was recognized in 1998 by Fortune Magazine with its award as "One of the Top 100 Companies" to work for in the United States. The quality and service-orientation of our associates was also validated by external surveys which identified the Company as the "Best Client Service" support provider in the industry.

Despite the many positive developments that occurred in 1998, the Company was disappointed with its financial performance. The Company did not fully anticipate the decrease in demand for large-scale systems within the health care industry resulting from the diversion of capital and human resources to solve Year 2000 compliance issues. It is currently expected that this decline in demand will likely persist during 1999 as customers continue to focus on efforts to update their current systems to become Year 2000 compliant. However, after January 1, 2000, the Company expects that this problem will quickly dissipate. Sales of enterprise wide systems were negatively impacted during 1998 because the Company did not have a large, complex reference site using significant portions of HNA Millennium applications until January of 1999.

While the Company is quite optimistic about its financial performance heading into the new millennium, it is taking a conservative view for 1999. This cautiousness is predicated primarily on the continued uncertainty that Year 2000 compliance issues create for the buyers of health care information systems. Nevertheless, the Company believes that its revenues and earnings will exceed those of 1998. Earnings from implementation services are expected to increase as more projects are billed under a closely-scoped fee-for-service approach. Approximately 43% of the aggregate backlog of \$468,418,000 is expected to be recognized as revenues during 1999.

### Results of Operations

*Year Ended January 2, 1999, Compared to Year Ended January 3, 1998*

The Company's revenues increased 35% to \$330,902,000 in 1998 from \$245,057,000 in 1997.

Net earnings increased 36% to \$20,589,000 in 1998 from \$15,148,000 in 1997. Excluding acquisition related charges, net earnings increased 56% to \$23,687,000 in 1998 relative to 1997.

*Revenues* – In 1998, revenues increased due to an increase in system sales and support of installed systems. System sales increased 44% to \$245,490,000 in 1998 from \$170,906,000 in 1997. This increase in system sales resulted primarily from an increase in installations under Health Network Architecture (HNA) contracts. Revenue from HNA contracts increased 23% compared to 1997. The sale of additional hardware and software products to the installed client base increased 30% in 1998 as compared to 1997.

Total sales to the installed base in 1998, including new systems, incremental hardware and software, support and maintenance services, and discrete services, were 69% of total revenues in 1998 compared to 73% in 1997. The lower percentage was primarily due to the increase in system sales to new clients.

At January 2, 1999, the Company had \$314,965,000 in contract backlog and \$153,453,000 in support and maintenance backlog, compared to \$198,274,000 in contract backlog and \$132,842,000 in support and maintenance backlog at the end of 1997.

Support and maintenance revenues increased 12% in 1998 compared to 20% in 1997. These revenues represented 23% of 1998 total revenues and 28% of 1997 total revenues. The lower percentage was primarily due to the increase in system sales.

Other revenues increased 59% to \$8,657,000 in 1998 from \$5,438,000 in 1997. This increase was due primarily to services performed beyond contracted requirements for existing clients.

*Cost of Revenues* – The cost of revenues includes the cost of computer hardware and sublicensed software purchased from computer and software manufacturers for delivery to clients. It also includes the cost of hardware maintenance and sublicensed software support subcontracted to the manufacturers. The cost of revenues was 27% of total revenues in 1998 and 29% of total revenues in 1997. Such costs, as a percent of revenues, typically have varied as the mix of revenue (software, hardware, services and support) components carrying different margin rates changes from period to period. The decrease in the cost of revenue as a percent of total revenues resulted principally from a decrease in the percent of revenue from computer hardware and sublicensed software, which carry a higher cost of revenue percentage.

*Sales and Client Service* – Sales and client service expenses include salaries of client service personnel, communications expenses, and unreimbursed travel expenses. Also included are sales and marketing salaries, travel expenses, trade show costs, and advertising costs. These expenses as a percent of total revenues were 35% in 1998 and 34% in 1997. The increase in total sales and client service expenses is attributable to the cost of a larger field sales and services organization and marketing of new products.

*Software Development* – Software development expenses include salaries, documentation, and other direct expenses incurred in product development and amortization of software development costs. Total expenditures for software development, including both capitalized and noncapitalized portions, for 1998 and 1997 were \$74,159,000 and \$54,524,000, respectively. These amounts exclude amortization. Capitalized software costs were \$25,052,000 and \$18,373,000 for 1998 and 1997, respectively. The increase in aggregate expenditures for software development in 1998 is due to development of HNA Millennium products and development of community care products.

*General and Administrative* – General and administrative expenses include salaries for corporate, financial, and administrative staffs, utilities, communications expenses, and professional fees. These expenses as a percent of total revenues were 8% in 1998 and 9% in 1997.

*Write-off of In-Process Research and Development* – Write-off of in-process research and development is a one-time expense resulting from the acquisition of Multum.

*Interest Income (Expense), Net* – Net interest expense was \$262,000 in 1998 compared to net interest income of \$2,314,000 in 1997. The decrease is due primarily to a decrease in invested cash.

*Income Taxes* – The Company's effective tax rate was 38% in 1998 and 1997.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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### *Year Ended January 3, 1998, Compared to Year Ended December 28, 1996*

The Company's revenues increased 30% to \$245,057,000 in 1997 from \$189,107,000 in 1996.

Net earnings increased 84% to \$15,148,000 in 1997 from \$8,251,000 in 1996. Net earnings from the Company's foreign operations decreased to \$2,389,000 in 1997 from \$2,897,000 in 1996.

*Revenues* – In 1997, revenues increased due to an increase in system sales and support of installed systems. System sales increased 39% to \$170,906,000 in 1997 from \$122,836,000 in 1996. This increase in system sales resulted primarily from an increase in installations under Health Network Architecture (HNA) contracts. HNA contracts were 57% of total systems sales in 1997, compared to 43% in 1996. The sale of additional hardware and software products to the installed client base decreased 8% in 1997 as compared to 1996.

Total sales to the installed base in 1997, including new systems, incremental hardware and software, support and maintenance services, and discrete services, were 73% of total revenues in 1997 compared to 79% in 1996. The lower percentage was primarily due to the increase in system sales to new clients.

At January 3, 1998, the Company had \$198,274,000 in contract backlog and \$132,842,000 in support and maintenance backlog, compared to \$110,330,000 in contract backlog and \$107,255,000 in support and maintenance backlog at the end of 1996.

Support and maintenance revenues increased 20% in 1997 compared to 16% in 1996. This increase was due primarily to the increase in the Company's installed and converted client base. These revenues represented 28% of 1997 total revenues and 30% of 1996 total revenues.

Other revenues decreased 38% to \$5,438,000 in 1997 from \$8,841,000 in 1996. This decrease was due primarily to a decrease in real estate lease revenues from the rental to outside tenants, as the Company utilizes more office space, and the reporting of certain services revenue as system sales in 1997.

*Cost of Revenues* – The cost of revenues includes the cost of computer hardware and sublicensed software purchased from computer and software manufacturers for delivery to clients. It also includes the cost of hardware maintenance and sublicensed software support subcontracted to the manufacturers. The cost of revenues was 29% of total revenues in 1997 and 31% of total revenues in 1996. Such costs, as a percent of revenues, typically have varied as the mix of revenue (software, hardware, services and support) components carrying different margin rates changes from period to period. The decrease in the cost of revenue as a percent of total revenues resulted principally from a decrease in the percent of revenue from computer hardware and sublicensed software, which carry a higher cost of revenue percentage.

*Sales and Client Service* – Sales and client service expenses include salaries of client service personnel, communications expenses, and unreimbursed travel expenses. Also included are sales and marketing salaries, travel expenses, trade show costs, and advertising costs. These expenses as a percent of total revenues were 34% in 1997 and 1996. The increase in total sales and client service expenses is attributable to the cost of a larger field sales and services organization and marketing of new products.

*Software Development* – Software development expenses include salaries, documentation, and other direct expenses incurred in product development and amortization of software development costs. Total expenditures for software development, including both capitalized and noncapitalized portions, for 1997 and 1996 were \$54,524,000 and \$43,133,000, respectively. These amounts exclude amortization. Capitalized software costs were \$18,373,000 and \$13,240,000 for 1997 and 1996, respectively. The increase in aggregate expenditures for software development in 1997 is due to development of HNA Millennium products and development of community care products.

*General and Administrative* – General and administrative expenses include salaries for corporate, financial, and administrative staffs, utilities, communications expenses, and professional fees. These expenses as a percent of total revenues were 9% in 1997 and 10% in 1996.

*Interest Income, Net* – Net interest income was \$2,314,000 in 1997 compared to \$2,301,000 in 1996.

*Income Taxes* – The Company's effective tax rates were 38% and 36% for 1997 and 1996, respectively. The lower 1996 tax rate is due to the utilization of foreign net operating losses.

### Liquidity and Capital Resources

The Company had total cash and cash equivalents of \$42,658,000 at the end of 1998 and working capital of \$118,681,000, compared to cash and cash equivalents of \$77,543,000 at the end of 1997, and working capital of \$156,808,000. The decrease in working capital resulted primarily from the Company's investment in software development, the purchase of capital equipment and the acquisition of Multum. In November 1998, the Company sold 670,000 shares of common stock to General Electric Company, which resulted in cash proceeds of \$14,874,000.

The Company generated cash of \$5,893,000, \$18,692,000, and \$28,262,000 from operations in 1998, 1997, and 1996, respectively. Cash flow from operations decreased in 1998 and 1997, due primarily to increases in receivables from increased revenues, and, in 1998 from non-cash consideration received for the sale of license software.

Revenues provided under support and maintenance agreements represent recurring cash flows. Support and maintenance revenues increased 12%, 20%, and 16%, in 1998, 1997, and 1996, respectively, and the Company expects these revenues to continue to grow as the base of installed systems grows.

The Company's liquidity is influenced by many factors, including the amount and timing of the Company's revenues, its cash collections from its clients as implementation of its products proceed and the amounts the Company invests in software development and capital expenditures. The Company's liquidity has decreased over the three year period ended January 2, 1999 due primarily to increased investment in software development and increase in receivables due to increased sales. The Company expects that its cash position will decrease during the first half of 1999 as it continues its investment in software development, but the Company expects to have an increase in its cash position for the fourth quarter of 1999. The Company believes that its present cash position, together with cash generated from operations, will be sufficient to meet anticipated cash requirements during 1999. The Company has an \$18,000,000 line of credit available but may obtain additional debt capital in order to provide greater financial flexibility.

The effects of inflation were minimal on the Company's business.

### Factors that may Affect Future Results of Operations, Financial Condition or Business

Statements made in this report, other reports and proxy statements filed with the Securities and Exchange Commission, communications to stockholders, press releases and oral statements made by representatives of the Company that are not historical in nature, or that state the Company's or management's intentions, hopes, beliefs, expectations, or predictions of the future, are "forward-looking statements" within the meaning of Section 21E of the Securities and Exchange Act of 1934, as amended, and involve risks and uncertainties. The words "should," "will be," "intended," "continue," "believe," "may," "expect," "hope," "anticipate," "goal," "forecast" and similar expressions are intended to identify such forward-looking statements. It is important to note that any such performance, and actual results, financial condition or business could differ materially from those expressed in such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below as well as those discussed elsewhere in reports filed with the Securities and Exchange Commission. The Company undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in future operating results, financial condition or business over time.

*Quarterly Operating Results May Vary* – The Company's quarterly operating results have varied in the past and may continue to vary in future periods. Quarterly operating results may vary for a number of reasons including demand for the Company's products and services, the Company's long sales cycle, the long installation and implementation cycle for these larger, more complex and costlier systems and other factors described in this section and elsewhere in this report. As a result of healthcare industry trends and the market for the Company's HNA Millennium products, a large percentage of the Company's revenues are generated by the sale and installation of larger, more complex and costlier systems. The sales process for these systems is lengthy and involves a significant technical evaluation and commitment of capital and other resources by the customer. The sale may be subject to delays due to customers' internal budgets and procedures for approving large capital expenditures and by competing needs for other capital expenditures and deploying new technologies or personnel resources. Delays in the expected sale or installation of these large contracts may have a significant impact on the Company's anticipated quarterly revenues and consequently its earnings, since a significant percentage of the Company's expenses are relatively fixed.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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These larger, more complex and costlier systems are installed and implemented over time periods ranging from approximately nine months to three years and involve significant efforts both by the Company and the client. In addition, implementation of the Company's Millennium products is a new and evolving process. The Company recognizes revenue upon the completion of standard milestone conditions and the amount of revenue recognized in any quarter depends upon the Company's and the client's ability to meet these project milestones. Delays in meeting these milestone conditions or modification of the contract relating to one or more of these systems could result in a shift of revenue recognition from one quarter to another and could have a material adverse effect on results of operations for a particular quarter. In addition, support payments by clients for the Company's products do not commence until the product is in use.

The Company's revenues from system sales historically have been lower in the first quarter of the year and greater in the fourth quarter of the year.

*Stock Price May Be Volatile* – The trading price of the Company's common stock may be volatile. The market for the Company's common stock may experience significant price and volume fluctuations in response to a number of factors including actual or anticipated quarterly variations in operating results, changes in expectations of future financial performance or changes in estimates of securities analysts, governmental regulatory action, healthcare reform measures, client relationship developments and other factors, many of which are beyond the Company's control.

Furthermore, the stock market in general, and the market for software, healthcare and high technology companies in particular, has experienced extreme volatility that often has been unrelated to the operating performance of particular companies. These broad market and industry fluctuations may adversely affect the trading price of the Company's common stock, regardless of actual operating performance.

*Market Risk of Investments* – The Company accounts for its investments in equity securities which have readily determinable fair values as available-for sale. Available-for-sale securities are reported at fair value with unrealized gains and losses reported, net of tax, as a separate component of accumulated other comprehensive income. Investments in other equity securities are reported at cost. All equity securities are reviewed by the Company for declines in fair value. If such declines are considered to be other than temporary, the cost basis of the individual security is written down to fair value as a new cost basis, and the amount of the write-down is included in earnings.

Included in the Company's investments is the ownership of 19.9% of the common stock of Syntec Healthcare Communications, Inc. (SHC). There is no current market for this common stock and it is not accounted for as available-for-sale. As a result, the stock was valued at \$70,000,000 based on a methodology which utilized both a comparable company and the expected underlying discounted future cash flows. The common stock is subject to certain lock-up provisions. A permanent impairment in the value of SHC stock would result in a charge to earnings in either the then current or future periods. There would be no effect on cash flows because the revenue was earned through contractual rights granted in exchange for SHC stock. An increase in the value of the SHC stock would have no effect on reported earnings. Syntec, Inc., the parent of SHC, has publicly announced that SHC plans to conduct an initial public offering of its shares. The Company has agreed to purchase additional SHC shares in that offering which may maintain its proportionate ownership of SHC. The Company has not engaged in equity swaps or other hedging techniques to manage the equity risk inherent in the SHC shares.

The Company is exposed to market risk from changes in marketable securities (which consist of money market and commercial paper). At January 2, 1999, marketable securities of the Company were recorded at a fair value of approximately \$43 million, with an overall average return of approximately 5% and an overall weighted maturity of less than 90 days. The marketable securities held by the Company are not subject to price risk as they are held to maturity.

The Company is not exposed to material future earnings or cash flow exposures from changes in interest rates on long-term debt since 100% of its long-term debt is at a fixed rate. To date, the Company has not entered into any derivative financial instruments to manage interest rate risk and is currently not evaluating the future use of any financial instruments.

The Company conducts business in several foreign jurisdictions. However, the business transacted is in the local functional currency and the Company does not currently have any material exposure to foreign currency transaction gains or losses. All other business transactions are in U.S. dollars. To date, the Company has not entered into any derivative financial instrument to manage foreign currency risk and is currently not evaluating the future use of any such financial instruments.

*Changes in the Healthcare Industry* – The healthcare industry is highly regulated and is subject to changing political, economic and regulatory influences. For example, The Balanced Budget Act of 1997 (Public Law 105-32) contains significant changes to Medicare and Medicaid and began to have its initial impact in 1998 due to limitations on reimbursement, resulting cost containment initiatives, and effects on pricing and demand for capital intensive systems. These factors affect the purchasing practices and operation of healthcare organizations. Federal and state legislatures have periodically considered programs to reform or amend the U.S. healthcare system at both the federal and state level and to change healthcare financing and reimbursement systems. These programs may contain proposals to increase governmental involvement in healthcare, lower reimbursement rates or otherwise change the environment in which healthcare industry participants operate. Healthcare industry participants may respond by reducing their investments or postponing investment decisions, including investments in the Company's products and services.

Many healthcare providers are consolidating to create integrated healthcare delivery systems with greater market power. These providers may try to use their market power to negotiate price reductions for the Company's products and services. As the healthcare industry consolidates, the Company's customer base could be eroded, competition for customers could become more intense and the importance of acquiring each customer becomes greater.

*Significant Competition* – The market for healthcare information systems is intensely competitive, rapidly evolving and subject to rapid technological change. The Company believes that the principal competitive factors in this market include the breadth and quality of system and product offerings, the stability of the information systems provider, the features and capabilities of the information systems, the ongoing support for the system, and the potential for enhancements and future compatible products.

Certain of the Company's competitors have greater financial, technical, product development, marketing and other resources than the Company and some of its competitors offer products that it does not offer. The Company's principle existing competitors include Shared Medical Systems Corporation, IDX Systems Corporation, McKesson HBOC, Inc. and Eclipsys Corporation, each of which offers a suite of products that compete with many of the Company's products. There are other competitors that offer a more limited number of competing products.

In addition, the Company expects that major software information systems companies, large information technology consulting service providers and system integrators, Internet-based start-up companies and others specializing in the healthcare industry may offer competitive products or services. The pace of change in the healthcare information systems market is rapid and there are frequent new product introductions, product enhancements and evolving industry standards and requirements. As a result, the Company's success will depend upon its ability to keep pace with technological change and to introduce, on a timely and cost-effective basis, new and enhanced products that satisfy changing customer requirements and achieve market acceptance.

*Proprietary Technology May Be Subjected to Infringement Claims or May Be Infringed Upon* – The Company relies upon a combination of trade secret, copyright and trademark laws, license agreements, confidentiality procedures, employee nondisclosure agreements and technical measures to maintain the trade secrecy of its proprietary information. The Company has not historically filed patent applications or copyrights covering its software technology. As a result, the Company may not be able to protect against misappropriation of its intellectual property.

In addition, the Company could be subject to intellectual property infringement claims as the number of competitors grows and the functionality of its products overlaps with competitive offerings. These claims, even if not meritorious, could be expensive to defend. If the Company becomes liable to third parties for infringing their intellectual property rights, it could be required to pay a substantial damage award and to develop noninfringing technology, obtain a license or cease selling the products that contain the infringing intellectual property.

*Government Regulation* – The United States Food and Drug Administration (the FDA) has declared that software products that are intended for the maintenance of data used in making decisions regarding the suitability of blood donors and the release of blood or blood components for transfusion are medical devices under the 1976 Medical Device Amendments to the Federal Food, Drug and Cosmetic Act and the Safe Medical Devices Act of 1990. As a consequence, the Company is subject to extensive regulation by the FDA with regard to its blood bank software. If other of the Company's products are deemed to be medical devices by the FDA, the Company could be subject to extensive requirements governing pre- and post- marketing conditions, such as device investigation, approval, labeling and manufacturing. Complying with these FDA regulations would be time consuming, burdensome and expensive. The Company expects that the FDA is likely to become more active in regulating computer software that is used in healthcare.

Following an inspection by the FDA in March of 1998, the Company received a two-item Form FDA 483 (Notice of Inspectional Observations) containing observations of non-compliance with the Federal Food, Drug and Cosmetic Act (the Act) with respect to the Company's PathNet HNA Blood Bank Transfusion and Donor products (the Blood Bank Products). The Company subsequently received a Warning Letter, dated April 29, 1998, as a result of the same inspection. The Company responded promptly to the FDA and undertook a number of actions in response to the Form 483 and Warning Letter, including an audit by a third party of the Company's Blood Bank Products. A copy of the third party audit was submitted to the FDA in October of 1998 and, at the request of the FDA, additional information and clarification was submitted to the FDA in January of 1999.

There can be no assurance, however, that the Company's actions taken in response to the Form 483 and Warning Letter will be deemed adequate by the FDA or that additional actions on behalf of the Company will not be required. In addition, the Company remains subject to periodic inspections and there can be no assurances that the Company will not be required to undertake additional actions to comply with the Act and any other applicable regulatory requirements. Any failure by the Company to comply with the Act and any other applicable regulatory requirements could have a material adverse effect on the Company's ability to continue to manufacture and distribute its products, and in more serious cases, could result in seizure, recall, injunction and/or civil fines. Any of the foregoing would have a material adverse effect on the Company's business, results of operations or financial condition.

*Product Related Liabilities* – Many of the Company's products provide data for use by healthcare providers in providing care to patients. Although no such claims have been brought against the Company to date regarding injuries related to the use of its products, such claims may be made in the future. Although the Company maintains product liability insurance coverage in an amount that it believes is sufficient for its business, there can be no assurance that such coverage will prove to be adequate or that such coverage will continue to remain available on acceptable terms, if at all. A successful claim brought against the Company which is uninsured or under-insured could materially harm its business, results of operations or financial condition.

*Year 2000* – The following statements are a "Year 2000 Readiness Disclosure" within the meaning of the Year 2000 Information and Readiness Disclosure Act. Computer programs that use two digits to identify a year may fail or create errors in the year 2000, leading to system failures or miscalculations causing disruptions to the operations of the user. The Company has conducted a Year 2000 review of its operations focusing on the Company's products and their use by its clients, the computers, operating systems and data bases used in conjunction with its products and the Company's internal operations.

The Company's software products currently being marketed are Year 2000 compliant. The costs incurred to make the Company's current versions compliant have occurred in the ordinary course of software development and enhancement and have not been material. All of the Company's clients using older versions of its software products are entitled to upgrade to the compliant versions with no charge for the compliant version. However, some have elected not to do so for a variety of reasons. The Company is working with the clients who wish to upgrade to address Year 2000 issues. These clients have either been upgraded to compliant versions or are scheduled to be upgraded to compliant versions of the Company's software by August 1999. The Company is assisting those clients to upgrade using electronic access from the Company's facilities without charge. If the client desires on-site assistance, the Company is assessing its normal charges. These services are being conducted in the ordinary course of the Company's business by its employees, and the costs to the Company are not expected to be material. The Company is also engaged in many projects to implement its products at client sites. These projects require efforts both by the Company and its clients. For some of these clients, these projects constitute their solution to Year 2000 issues. Substantially all of these projects are planned to be completed by September 1999. The Company is working with its clients, or the clients are working independently, on contingency plans for Year 2000 issues where there is a reasonable likelihood the project may not be completed by the end of 1999.

As clients and potential customers focus on efforts to update their current systems, they may elect to delay capital investments in information systems in order to focus their capital budgets on the expenditures necessary to bring their existing systems into Year 2000 compliance. As a result, the Company may not achieve expected sales revenues and its business, financial condition and results of operations could be materially adversely affected.

The Company believes that its internal third-party software applications, operating systems and telephone systems are Year 2000 compliant. The Company did have some internally developed software applications that required upgrading to be Year 2000 compliant. These upgrades were done internally and have been completed. The Company has also replaced some older computers and operating systems that were not Year 2000 compliant in the normal course of infrastructure maintenance.

The suppliers of the computers, operating systems and data bases necessary to operate the current versions of the Company's software products have indicated to the Company that those products either are Year 2000 compliant or they would be by the end of 1999. The Company has conducted tests of such computers, operating systems and databases with its products now being marketed and currently has no reasonable cause to believe that the Company's products are not Year 2000 compliant when operated with such computers, operating systems and databases. However, in operation at clients' sites, the Company's software products interchange data with many third party systems through interfaces that may be unique to the client or the third party system. Such interfaces or data interchanged may contain inaccuracies or such data may not be in a format that allows the Company's system to correctly identify the date. There can be no assurance that the Company will not be subject to claims that result from the failure of third party systems or their related interfaces to be Year 2000 compliant. These claims, even if not meritorious, could be expensive to defend.

Although the Company believes its Year 2000 review and the actions it has taken and plans to take in response to the review are appropriate, there can be no assurance that the review identified all possible issues or that all identified issues will be satisfactorily resolved. A material failure of the Company's internal systems to be Year 2000 compliant, a material failure in suppliers of the computers, operating systems and databases used in conjunction with the Company's products to be Year 2000 compliant or a material delay in client projects related to Year 2000 issues could have a material adverse effect on the Company's business, results of operations or financial condition.

*System Errors and Warranties* – The Company's systems, particularly the Millennium versions, are very complex. As with complex systems offered by others, the Company's systems may contain errors, especially when first introduced. Although the Company conducts extensive testing, it has discovered software errors in its products after their introduction. The Company's systems are intended for use in collecting and displaying clinical information used in the diagnosis and treatment of patients. Therefore, users of the Company products have a greater sensitivity to system errors than the market for software products generally. The Company's agreements with its clients typically provide warranties against material errors and other matters. Failure of a client's system to meet these criteria could constitute a material breach under such contracts allowing the client to cancel the contract, or could require the Company to incur additional expense in order to make the system meet these criteria. The Company's contract with its clients generally limit the Company's liability arising from such claims but such limits may not be enforceable in certain jurisdictions.

*Anti-Takeover Defenses* – The Company's charter, bylaws, shareholders' rights plan and certain provisions of Delaware law contain certain provisions that may have the effect of delaying or preventing an acquisition of the Company. Such provisions are intended to encourage any person interested in acquiring the Company to negotiate with and obtain the approval of the Board of Directors in connection with any such transaction. These provisions include (i) a Board of Directors that is staggered into three classes to serve staggered three-year terms, (ii) blank check preferred stock, (iii) supermajority voting provisions, (iv) inability of stockholders to act by written consent or call a special meeting, (v) limitations on the ability of stockholders to nominate directors or make proposals at stockholder meetings, and (vi) triggering the exercisability of stock purchase rights on a discriminatory basis, which may invoke extensive economic and voting dilution of a potential acquirer if its beneficial ownership of the Company's common stock exceeds a specified threshold. Certain of these provisions may discourage a future acquisition of the Company not approved by the Board of Directors in which shareholders might receive a premium value for their shares.



## INDEPENDENT AUDITORS' REPORT

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The Board of Directors and Stockholders  
Cerner Corporation:

We have audited the accompanying consolidated balance sheets of Cerner Corporation and subsidiaries as of January 2, 1999 and January 3, 1998, and the related consolidated statements of earnings, changes in equity, and cash flows for each of the years in the three-year period ended January 2, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cerner Corporation and subsidiaries as of January 2, 1999 and January 3, 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended January 2, 1999, in conformity with generally accepted accounting principles.

**KPMG LLP**

Kansas City, Missouri  
February 3, 1999

## MANAGEMENT'S REPORT

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The management of Cerner Corporation is responsible for the consolidated financial statements and all other information presented in this report. The financial statements have been prepared in conformity with generally accepted accounting principles appropriate to the circumstances, and, therefore, included in the financial statements are certain amounts based on management's informed estimates and judgments. Other financial information in this report is consistent with that in the consolidated financial statements. The consolidated financial statements have been audited by Cerner Corporation's independent certified public accountants and have been reviewed by the audit committee of the Board of Directors.

## SELECTED FINANCIAL DATA

(In thousands, except per share data)

		1998 <sup>(1)</sup>	1997	1996	1995	1994
Statement of Earnings Data:						
Revenues	\$	330,902	245,057	189,107	186,901	155,917
Operating earnings		38,568	22,170	10,601	37,265	33,779
Earnings before income taxes		38,306	24,484	12,902	37,220	32,451
Net earnings		23,687	15,148	8,251	22,521	19,501
Earnings per share:						
Basic		.72	.46	.25	.75	.71
Diluted		.70	.45	.25	.72	.66
Weighted average shares outstanding:						
Basic		32,825	32,881	32,729	29,845	27,651
Diluted		33,667	33,668	33,620	31,448	29,762
Balance Sheet Data:						
Working capital	\$	118,681	156,808	171,204	174,064	52,370
Total assets		436,485	331,781	314,753	303,945	156,410
Long-term debt, net		25,000	30,026	30,000	30,104	30,235
Stockholders' equity		271,143	233,747	230,735	221,374	85,777

<sup>(1)</sup>1998 Statement of Earnings Data excludes acquisition related charges.

## COMMON STOCK INFORMATION

The Company's common stock trades on The Nasdaq Stock Market<sup>SM</sup> under the symbol CERN. The following table sets forth the high, low, and last sales prices for the fiscal quarters of 1998 and 1997 as reported by The Nasdaq National Market System. These quotations represent prices between dealers and do not include retail mark-up, mark-down, or commissions, and do not necessarily represent actual transactions.

	1998			1997		
	High	Low	Last	High	Low	Last
First quarter	24 <sup>9</sup> / <sub>16</sub>	19 <sup>1</sup> / <sub>16</sub>	21 <sup>15</sup> / <sub>16</sub>	16 <sup>1</sup> / <sub>4</sub>	13 <sup>1</sup> / <sub>4</sub>	13 <sup>1</sup> / <sub>4</sub>
Second quarter	29 <sup>15</sup> / <sub>16</sub>	20 <sup>7</sup> / <sub>8</sub>	27 <sup>7</sup> / <sub>8</sub>	22 <sup>1</sup> / <sub>8</sub>	11 <sup>7</sup> / <sub>8</sub>	21 <sup>3</sup> / <sub>8</sub>
Third quarter	31 <sup>7</sup> / <sub>16</sub>	22	22 <sup>5</sup> / <sub>8</sub>	32 <sup>7</sup> / <sub>8</sub>	20 <sup>3</sup> / <sub>4</sub>	25
Fourth quarter	27 <sup>1</sup> / <sub>16</sub>	20 <sup>1</sup> / <sub>2</sub>	26 <sup>3</sup> / <sub>4</sub>	30 <sup>1</sup> / <sub>2</sub>	20 <sup>1</sup> / <sub>4</sub>	22

At February 3, 1999, there were approximately 1,300 owners of record. To date, the Company has paid no dividends and it does not intend to pay dividends in the foreseeable future. Management believes it is in the stockholders' best interest to reinvest funds in the operation of the business.

## CERNER LEADERSHIP AND CORPORATE INFORMATION

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### BOARD OF DIRECTORS

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**Neal L. Patterson**  
Chairman of the Board, President  
& Chief Executive Officer  
Cerner Corporation

**Clifford W. Illig**  
Vice Chairman  
Cerner Corporation

**Gerald E. Bisbee Jr., Ph.D.**  
Chairman & Chief Executive  
Officer  
ReGen Biologics Inc.  
Redwood City, CA

**John C. Danforth**  
Partner  
Bryan Cave LLP  
St. Louis, MO

**Michael E. Herman**  
Chairman, Investment  
Committee  
The Kauffman Foundation  
President, Kansas City Royals  
Baseball Club  
Kansas City, MO

**Thomas A. McDonnell**  
President & Chief Executive  
Officer  
DST Systems Inc.  
Kansas City, MO

**Thomas C. Tinstman, M.D.**  
Senior Vice President &  
Chief Medical Officer  
Cerner Corporation

### Annual Meeting of Shareholders

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The annual meeting will be held at 10:00 a.m. on May 28, 1999, at the Cerner Associate Center, located on the Cerner campus at 2901 Rockcreek Parkway, Kansas City, Missouri. A formal notice of the meeting, with a proxy statement and proxy form, will be mailed to each shareholder in April 1999.

### Annual Report/10-K Report

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Publications of interest to current and potential Cerner investors are available upon written request or via Cerner's Web site at [www.cerner.com](http://www.cerner.com). These include annual and quarterly reports and the Form 10-K filed with the Securities and Exchange Commission.

Such requests should be made to:  
Administrator of  
Shareholder Relations  
Cerner Corporation  
2800 Rockcreek Parkway  
Kansas City, MO  
64117-2551

Inquiries of an administrative nature relating to shareholder accounting records, stock transfer, change of address, and miscellaneous shareholder requests should be directed to the transfer agent and registrar, UMB Bank, at (816) 860-7786.

### Transfer Agent and Registrar

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Securities Transfer Division  
UMB Bank  
P.O. Box 410064  
Kansas City, MO 64141-0064  
(816) 860 7786

### Stock Listings

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Cerner Corporation's common stock trades on The Nasdaq Stock Market<sup>SM</sup> under the symbol CERN.

### Independent Accountants

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KPMG LLP  
Kansas City, MO

### Legal Counsel

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Stinson, Mag & Fizzell  
Kansas City, MO

### MANAGEMENT

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#### Executive Officers & Corporate Management

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**Neal L. Patterson**  
Chairman of the Board, President  
& Chief Executive Officer

**Clifford W. Illig**  
Vice Chairman

**Glenn P. Tobin, Ph.D.**  
Executive Vice President &  
Chief Operating Officer

**Marc G. Naughton**  
Vice President &  
Chief Financial Officer

**Jack A. Newman Jr.**  
Executive Vice President

**Stanley M. Sword**  
Vice President & Chief People  
Officer

**Randy D. Sims**  
Vice President, Chief Legal  
Counsel & Secretary

**Thomas C. Tinstman, M.D.**  
Senior Vice President &  
Chief Medical Officer

#### Client Organization

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**Paul M. Black**  
Senior Vice President &  
Chief Sales Officer

**Douglas M. Krebs**  
Senior Vice President &  
Area Manager

**Richard J. Flanigan Jr.**  
Vice President &  
Area Manager

**Alan D. Dietrich**  
Senior Vice President

#### Cerner Consulting

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**Stephen D. Garver**  
Vice President & Managing  
Partner

**Paul J. Sinclair**  
Vice President, Senior Partner &  
North American Operations  
Officer

**Robert J. Campbell**  
Vice President of Learning

#### Client Services Organization

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**Stephen M. Goodrich**  
Senior Vice President

#### Product Organization

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**Robert C. Dieterle**  
Senior Vice President,  
General Manager & Interim Chief  
Information Officer

**Marvin G. Pember**  
Senior Vice President &  
General Manager

**Jeffrey A. Townsend**  
Vice President & Chief  
Engineering Officer

**David P. McCallie Jr., M.D.**  
Vice President Medical  
Informatics & Chief Scientist

ENTERPRISE SOLUTIONS

**CapStone™**

Health organizations solutions for creating enterprisewide master person identification (EMPI), referrals, registration, and scheduling; and health plan member eligibility and coverage information

**PowerChart™**

The electronic medical record, including charts, flow sheets, ordering, and clinical documentation

**ePowerChart**

The Internet web-enabled version of PowerChart

**PowerLink™**

Connection solutions for connecting physicians to payers and health systems for referrals, authorization, claims, eligibility, clinical information, and reporting

**PowerVision**

Manager's desktop for managerial accounting information and decision support

ENTERPRISE REPOSITORIES

**Open Person Foundation™**

Open, person-centric EMPI repository for enterprisewide person/patient identification and reconciliation that creates the foundation for integrating the person throughout all clinical and financial systems

**Open Clinical Foundation®**

Open repository to manage clinical information providing the foundation for the electronic medical record

**Open Management Foundation™**

Open repository to store management information of enterprise financial, operational and process results, creating the foundation for the enterprisewide management and executive information system

**Open Outcomes Foundation™**

Open repository to store clinical, medical, process, economic, and satisfaction outcomes results creating the foundation for an enterprisewide outcomes management system

**Open Agreement Foundation™**

Open repository to manage health plan contracts and agreements, and member information

CLINICAL SOLUTIONS

Patient Care Systems

**CareNet®**

Care team workflow automation that includes task management, order entry, clinical documentation, care planning and coordination, and chart viewing

**INet™**

Automated clinical information system for intensive and critical care units with high levels of real-time patient monitoring equipment

**ProVide™**

Physician office workflow management systems for clinical, business, and support needs, including electronic medical records, care plans, registration orders, clinical documentation, scheduling, and billing

**eProVide™**

Web-enabled version of ProVide with expanded Internet functionality

**ProCall®**

Home care workflow and management system that seamlessly integrates clinical and financial information from all venues of home care while meeting stringent regulatory requirements

CLINICAL INFORMATION SYSTEMS for CARE RESOURCE CENTERS

**FirstNet™**

Emergency care information system that provides customized and automated patient and provider tracking, patient and medical assessment charting, and clinical and management reporting

**SurgiNet®**

Surgery information system that enables booking of multiple resources, checking scheduling conflicts, and patient scheduling

**RadNet®**

Clinical radiology information system that automates departmental operations including patient registration, order entry, exam tracking, film tracking, transcription, electronic signatures, and report distribution

**ProLink™**

Call center system for triage and disease management centers that assists with demand management, patient education, medication and treatment plan compliance monitoring, and physician office answering and scheduling services

**CVNet™**

Clinical cardiology information system that automates and integrates clinical and business processes

**PathNet®**

Laboratory information system that automates the clinical and management processes of the entire laboratory including microbiology, anatomic pathology, HLA, blood bank services, outreach services, and lab management

**PharmNet®**

Clinical pharmacy information system that automates the medication process across the continuum of care

IMAGE MANAGEMENT SYSTEMS

**ProView™**

Clinical image viewer and document management system

**Document Imaging**

Integrated enterprise document storage and management

FINANCIAL, OPERATIONAL, and MANAGEMENT SYSTEMS

**ProFit™**

Enterprise billing and accounts receivable system

**ProForm™**

Enterprise financial/operational decision support for performance profiling, productivity analysis, and executive key indicator dashboard

Managed Care Systems

**ProFile™**

Health information management department system for medical records storage, tracking, and accessing

**ProCure™**

Automated materials management system integrated into the clinical processes

**ProCare™**

Enterprise decision support for medical management, including performance profiling of providers, clinics, and hospitals

**ProRate™**

Managed care system for membership and eligibility tracking, claims processing, and contract management

**ProCost™**

Enterprise cost management, including cost analysis, cost accounting, variance tracking and integration with overall decision support solutions

**ProTrack™**

Automated equipment management system integrated into the clinical processes

**The SHC system**

Connects payers, providers, and physicians to perform electronic commerce and a set of managed care and clinical transactions

## KNOWLEDGE SOLUTIONS

### Clinical Decision Support Systems

#### **PowerNote™**

Automates the creation of clinical documentation using Structured Care Designs across the various care settings within an integrated or disparate health system

#### **Discern Expert®**

Built-in expert rule-based event monitor to perform clinical and management alerts

#### **Discern Dialogue™**

Built-in point of care expert system providing real-time, interactive guidelines and reminders

#### **Discern Explorer®**

Versatile tool for performing ad hoc or pre-defined queries and reports against the *HNA Millennium* data model

### Executable Knowledge, Knowledge-Bases and Content

#### **MediSource™**

Integrates comprehensive drug information with information technology to provide person-centric clinical, drug utilization review, and clinical decision support

#### **Care Designs™**

Domain-specific encounter pathways that support real-time structured clinical documentation, assessments, and plans of care

#### **Cerner Knowledge Index™**

A standard and flexible data dictionary used to assign unique identifiers to, and map and express the relationships between, the following types of reference content: clinical concepts, terms, medications, diagnostic and treatment procedures, and billing and diagnosis classification schemes

#### **Insights™**

Real-time, actionable alerts that present patient-specific and situation-specific information

#### **Health Facts™**

Comparative data for benchmarking and process improvement

## COMMUNITY HEALTH SERVICES

### Personal Health Systems

#### **IQ HealthSM**

Personal health assessments and interventions to promote self-care and health maintenance

#### **Vitality™**

Personal health management software to access and maintain health records, wellness plans, and information

### Internet-Based Systems

#### **Vitality.com**

Internet-based system for Vitality

#### **IQRx.com**

Physician, pharmacist and consumer portal to medication information and services for physicians, pharmacists, and consumers

#### **IQHealth.com**

Consumer and physician portal to health and medical information and services

#### **Cerner Health Connections™**

Disease management and triage telecare services

## SYSTEM INTEGRATION SOLUTIONS

### Interface Technologies

#### **Open Engine Application Gateway System™**

Foreign system interface and communication services

#### **Open Port Interface System™**

Foreign system and medical device interfaces

## CERNER CONSULTING SERVICES

#### **Implementation Services**

Provides on-site technical resources and implementation personnel for project management, database design, installation, and readiness testing

#### **Learning Services**

Supports client education needs from computer-based training for clinical end-users of Cerner systems to hands-on learning labs for system installers and support specialists

#### **Technical Services**

Offers technical architecture design, readiness assessments, and overall enterprise system management to ensure system and network organization and performance

#### **Benefits Realization Services**

Consultants to assist clients with change management, process redesign, operational improvement, and evidence-based care management

## CERNER TECHNOLOGIES

#### **Computer and Network Equipment**

Designer and provider of technology infrastructure for large system integration projects

#### **Licensed Software**

System integration services and provider of operating systems, databases, and other software components





CERNER CORPORATION  
2800 Rockcreek Parkway  
Kansas City, MO 64117-2551  
(816) 221 1024  
(816) 474 1742 (Fax)  
<http://www.cerner.com>

## U N I T E D S T A T E S

### SOUTHWEST REGION

Cerner Corporation  
Century Centre  
2603 Main Street, Suite 700  
Irvine, CA 92614-6232  
(714) 250 1024

### GREAT LAKES REGION

Cerner Corporation  
28333 Telegraph Road, Suite 500  
Southfield, MI 48034-1903  
(248) 357 1818

### MIDWEST REGION

Cerner Corporation  
2702 Rockcreek Parkway, Suite 200  
Kansas City, MO 64117-2534  
(816) 474 2055

### SOUTH CENTRAL REGION

Cerner Corporation  
8235 Douglas, Suite 1000  
Dallas, TX 75225-6010  
(214) 706 6400

### NORTHEAST REGION

Cerner Corporation  
One New England Executive Park  
Burlington, MA 01803-5005  
(617) 270 0340

### MID-ATLANTIC REGION

Cerner Corporation  
2201 Cooperative Way, Suite 301  
Herndon, VA 22071-3024  
(703) 925 4500

### SOUTHEAST REGION

Cerner Corporation  
800 Mount Vernon Highway  
Suite 400  
Atlanta, GA 30328  
(678) 443 0000

## I N T E R N A T I O N A L

### AUSTRALIA

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Level 10, 52 Alfred Street  
Milsons Point, New South Wales  
2061  
Australia  
+61 2 9925 0988

### MALAYSIA

Cerner Malaysia Sdn Bhd  
c/o Team Vantage Sdn Bhd  
3rd Floor, Wisma Awal  
171 Jalan Raja Muda Abdul Aziz  
50300 Kuala Lumpur  
Malaysia  
+60 3 291 9139

### SAUDI ARABIA

Cerner Arabia Ltd.  
P.O. Box 62433  
Riyadh 11585  
Kingdom of Saudi Arabia  
+966 1 460 0510

### SINGAPORE

Cerner Singapore Ltd.  
30 Bideford Road  
# 03-02 Thongsia Building  
Singapore 229922  
+65 734 3566

CERNER IS REPRESENTED BY  
SIEMENS HEALTH SERVICES  
IN THE FOLLOWING LOCATION:

### GERMANY

Siemens Health Services GmbH & Co. KG  
Henkestrasse 127  
91052 Erlangen  
Germany  
+49 9131 84 2438