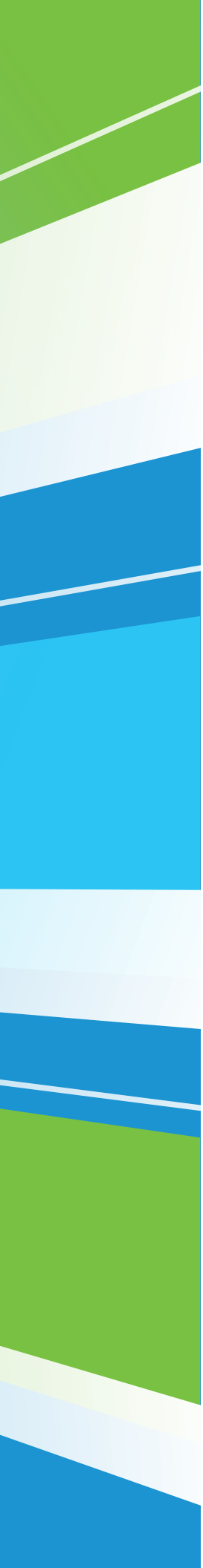


Anticipate **Innovate**
Accelerate





Anticipating the needs of the health care industry, we're focused on accelerating the development of innovative technologies that help create a healthier tomorrow, today.

Cerner Corporation
2013 Annual Report

Table of Contents: Annual Report 2013

Board of Directors	4
Leadership	5
Cerner's Long-Term Performance	6
Letter to Our Shareholders	7
Appendix: Cerner's Business Model and Financial Assessment	15
Form 10-K	23
Business and Industry Overview	25
Risk Factors	32
Properties	41
Market for the Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities	42
Selected Financial Data	43
Management's Discussion and Analysis of Financial Condition and Results of Operations	44
Quantitative and Qualitative Disclosures About Market Risk	56
Controls and Procedures	56
Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	59
Exhibits	60
Reports of Independent Registered Public Accounting Firm	65
Consolidated Balance Sheets	67
Consolidated Statements of Operations	68
Consolidated Statements of Comprehensive Income	69
Consolidated Statements of Cash Flows	70
Consolidated Statements of Changes in Shareholders' Equity	71
Notes to Consolidated Financial Statements	72
Basis of Presentation, Nature of Operations and Summary of Significant Accounting Policies	72
Business Acquisitions	77
Investments	80
Fair Value Measurements	81
Receivables	82
Property and Equipment	84
Goodwill and Other Intangible Assets	84
Software Development	85
Long-term Debt and Capital Lease Obligations	85
Hedging Activities	86
Settlement Charge	87
Other Income	87
Income Taxes	87
Earnings Per Share	89
Share-Based Compensation and Equity	90
Foundations Retirement Plan	92
Related Party Transactions	93
Commitments	94
Segment Reporting	94
Quarterly Results	96
Stock Price Performance Graph	97
Corporate Information	98

Board of Directors

Neal L. Patterson

Chairman of the Board, Chief Executive Officer,
and Co-founder, Cerner Corporation

Clifford W. Illig

Vice Chairman and Co-founder, Cerner Corporation

Gerald E. Bisbee Jr., Ph.D.

Chairman, Chief Executive Officer, and Co-founder,
The Health Management Academy

Former Chairman, Chief Executive Officer and President,
ReGen Biologics, Inc., 1998-September 2011

Denis A. Cortese, M.D.

Emeritus President and Chief Executive Officer, Mayo Clinic

Foundation Professor, Arizona State University School
of Health Management and Policy

Director of Arizona State University's Health Care
Delivery & Policy Program

President of the Healthcare Transformation Institute

The Honorable John C. Danforth

Partner, Bryan Cave LLP

Ambassador to the United Nations, July 2004-January 2005

U.S. Senator - Missouri, 1976-1995

Mitchell E. Daniels, Jr.

President, Purdue University

Governor of the State of Indiana, 2004 - January 2013

Linda M. Dillman

Chief Information Officer, QVC, Inc.

Senior Vice President of Enterprise Services/Global Functions IT,
Hewlett-Packard Company, August 2009-January 2012

Executive Vice President of Benefits and Risk Management,
Wal-Mart Stores, Inc., April 2006-July 2009

Executive Vice President and Chief Information Officer,
Wal-Mart Stores, Inc., August 2002-April 2006

William B. Neaves, Ph.D.

President Emeritus and Director, The Stowers Institute for
Medical Research

William D. Zollars

Former Chairman, Chief Executive Officer and President,
YRC Worldwide, November 1999-July 2011

Leadership

Cerner Executive Cabinet

Neal L. Patterson • Chairman of the Board, Chief Executive Officer and Co-founder
Clifford W. Illig • Vice Chairman and Co-founder
Zane M. Burke • President
Marc G. Naughton • Executive Vice President and Chief Financial Officer
Michael R. Nill • Executive Vice President and Chief Operating Officer
Jeffrey A. Townsend • Executive Vice President and Chief of Staff
Julia M. Wilson • Executive Vice President and Chief People Officer
Joanne M. Burns • Senior Vice President and Chief Strategy Officer
Kathleen M. Chaffee • Senior Vice President, Worldwide Consulting
Paul N. Gorup • Senior Vice President, Chief of Innovation and Co-founder
Michael C. Neal • Senior Vice President, Strategic Business Units
John T. Peterzalek • Senior Vice President, Client Relationships
Matthew J. Swindells • Senior Vice President, Population Health and Global Strategy
Donald D. Trigg • Senior Vice President, Cerner Corporation and President, Cerner Health Ventures

Cerner Executive Management

Don D. Bisbee • Senior Vice President, DeviceWorks
L. Mitchell Clark • Senior Vice President and General Manager, CommunityWorks
Stephen W. Eckman • Senior Vice President, Application Services and Physician Experience
Ed L. Enyeart • Senior Vice President, Finance
William E. Graff • Senior Vice President, Cerner Technology Services
Ryan R. Hamilton • Senior Vice President, Intellectual Property Development
Richard W. Heise • Senior Vice President, Revenue Cycle
Eva L. Karp • Senior Vice President, Chief Clinical Operations Officer and General Manager, Clinical ABUs
David P. McCallie, Jr., M.D. • Senior Vice President, Medical Informatics
Douglas S. McNair, M.D. & Ph.D. • Senior Vice President, Cerner Corporation and President, Cerner Math
Rama Nadimpalli • Senior Vice President and General Manager, Cerner India
Max A. Reinig • Senior Vice President, Physician Solutions Development
Farrell L. Sanders • Senior Vice President and General Manager, Cerner ITWorks
Kent C. Scheuler • Senior Vice President, CernerWorks
Randy D. Sims • Senior Vice President, Chief Legal Officer and Secretary
Shellee K. Spring • Senior Vice President, Ambulatory and Client Experience
Michael R. Battaglioli • Vice President and Chief Accounting Officer
Joseph Chow • Vice President, RevWorks
Eric W. Geis • Vice President, Clinical Solutions Development
Cheryl A. Hertel • Vice President, Population Health Markets
Kimberly K. Hlobik • Vice President and General Manager, Ambulatory
Gay M. Johannes • Vice President and Chief Quality Officer
Allan O. Kells • Vice President, Investor Relations
Lisa A. McDermott • Vice President, Population Health Advisory Services
J. Randall Nelson • Vice President, Life Sciences
David T. Nill • Vice President and Chief Medical Officer, Cerner Health
Clay A. Patterson • Vice President and Managing Director, Cerner Capital
Bharat B. Sutariya • Vice President and Chief Medical Officer, Population Health

Client Organization

Jay E. Linney • Senior Vice President, US West
Richard J. Flanigan • Senior Vice President, Premier Focus
E. Tim Kostner • Senior Vice President, Client Development
Sam P. Pettijohn • Senior Vice President and General Manager, Investor Owned
Robert J. Shave • Senior Vice President, Cerner Corporation and President, Cerner Canada
Cameron D. Burt • Vice President and General Manager, Australia
Lisa A. Campbell • Vice President, Premier Focus
Marcos Garcia • Vice President and General Manager, Global Markets
G. Ben Hilmes • Vice President, US East
Emil E. Peters • Vice President and General Manager, United Kingdom
Michael A. Pomerance • Vice President and General Manager, Middle East
Holger Cordes • General Manager, Germany
Amanda J. Green • Managing Director, Ireland
David E. Corcos • General Manager, France
Rebecca A. LaNasa • Managing Director, Southeast Asia

Cerner's Long-Term Performance

Before we review 2013, we invite you to study Cerner's remarkable long-term performance. We have a saying: create real value and good things will happen.

	Compound Annual Growth Rates					
	1986	2003	2013	Previous Decade	Since Going Public	
				2003-2013	1986-2013	
Top Line	Bookings	\$18	\$811	\$3,772	17%	22%
	Revenue	\$17	\$840	\$2,911	13%	21%
	Domestic Revenue	\$17	\$786	\$2,550	12%	20%
	Global Revenue	\$0.2	\$54	\$361	21%	32%
	Revenue Backlog	\$11	\$1,251	\$8,914	22%	28%
Bottom Line	Adjusted Operating Earnings ¹	\$3	\$78	\$731	25%	23%
	Adjusted Operating Margin ¹	14.8%	9.3%	25.1%		
	Adjusted Net Earnings ¹	\$2	\$43	\$497	28%	23%
	Adjusted Diluted Earnings Per Share ¹	\$0.01	\$0.15	\$1.41	25%	19%
Balance Sheet	Total Assets	\$26	\$859	\$4,098	17%	21%
	Cash and Investments	\$8	\$123	\$1,434	28%	21%
	Days Sales Outstanding	161	103	67	-4%	-3%
	Total Debt	\$1	\$146	\$166	1%	21%
	Equity	\$16	\$495	\$3,168	20%	22%
Cash Flow	Operating Cash Flow	\$1	\$134	\$696	18%	27%
	Free Cash Flow ¹	-\$1	-\$8	\$168	NM	NM
Investment in Growth	Capital Expenditures	\$1	\$84	\$353	15%	24%
	R&D Spending	\$2	\$180	\$419	9%	22%
	Associate Headcount	149	5,077	14,200	11%	18%
Market Performance	Cerner Stock Price	\$0.24	\$4.73	\$55.74	28%	22%
	Market Capitalization	\$45	\$1,346	\$19,162	30%	25%
	Nasdaq Composite Index	349	2,003	4,177	8%	10%
	S&P 500 Index	242	1,112	1,848	5%	8%

Notes
Dollars are in millions except Diluted Earnings Per Share and stock prices.
The per share amounts for all periods presented reflect the two-for-one stock split effective June 28, 2013.
Free Cash Flow represents cash flows from operating activities less capital purchases and capitalized software development costs.
NM=Not Meaningful

¹Adjusted operating earnings, adjusted operating margin, adjusted net earnings, adjusted diluted earnings per share, and free cash flow reflect adjustments compared to results reported on a Generally Accepted Accounting Principles (GAAP) basis. Non-GAAP results should not be substituted as a measure of our performance but instead should be used along with GAAP results as a supplemental measure of financial performance. Non-GAAP results are used by management along with GAAP results to analyze our business, make strategic decisions, assess long-term trends on a comparable basis, and for management compensation purposes. Please see the appendix to this letter for a reconciliation of these items to GAAP results.

A Letter to our Shareholders, Clients and Associates

In 2013, Cerner had another solid year financially, operationally and strategically, and our shareholders had a good year. We also shared some exciting moments with our clients. It wasn't a perfect year, but it was a fast-paced year with a lot of satisfying progress. As we enter our 35th year, it would be tempting to step back, catch our breath, catalog our long-term accomplishments and recreate some of the stories of how we built the largest health information technology company in the world. But given the universal importance of health care, its critical role in world economies, and the increasing rate of technological change, the sentiment at Cerner is quite the opposite. We think our progress needs to be even faster. In this letter, I will explain why.

But first, let's take a high-level look at Cerner's numbers. A detailed description of our financial results appears in the Appendix that follows this letter. Here are some highlights:

- Record bookings of \$3.77 billion reflected 20% growth over 2012.
- Our revenue backlog, representing contracted but not yet recognized revenue, is approaching \$9 billion, which provides a high level of visibility into future revenue.
- Total revenue grew to a record \$2.9 billion. Revenue excluding technology resale, which is a better reflection of the core business, grew 16%.
- Our gross margin dollars grew 16%, reflecting growth of higher margin revenue streams.
- Our adjusted operating earnings¹ grew 20%, reflecting an increase in efficiencies as we successfully scale our company, and our adjusted EPS¹ of \$1.41 reflects growth of 18%.
- Our adjusted operating margin¹ of 25.1% reflects a 220 basis point improvement over 2012, with the strength driven by good growth in higher margin revenue sources and a lower mix of technology resale.
- We ended the year with a strong cash and investment balance of \$1.4 billion, even after investing over \$400 million in R&D and \$350 million in capital expenditures to support our growth.
- At one layer deeper in the numbers, we have increased our investment in IP development 44% since 2011, reflecting the enormous opportunities we see ahead.

I could easily spend the rest of this letter giving detailed status updates on Cerner's major initiatives, and sometimes I do. That report gets very broad and deep rather quickly, so I will sum this year up by saying we have made a lot of progress across the board. Plus, I am certain that many of our competitors read this letter carefully, and sometimes it is good to leave a little mystery. They will learn soon enough in the marketplace. We have another tradition of using this letter as a forum to communicate our vision for the future of health care—putting a stake in the ground about the role we want to play in that future. That is what I want to do with this letter, even though I know our rivals benefit from this as well. The future is very persistent; it gets here before you can blink—one of the many lessons we have learned over 35 years. You see, the future is tomorrow's present. The business terrain is littered with the remains of once-powerful companies that were surprised by a bend in the road that they didn't see coming. I have had a front row seat as a version of this has played out in health IT. In each major era in our company history, this being the fourth, the marketplace has evolved into a faceoff between Cerner and a single competitor. For those who were not around to see it, these were vicious fights for clients and market share, and Cerner was not always considered to be in first place. But at some point, each of our prior major competitors failed to see around a corner, and they slipped out of contention. While their legacy systems are still part of the health IT landscape, they are no longer leaders in the industry. It's a great lesson in treating the future with as much respect as the present. Our favored approach for dealing with the future is simply to create it. The key is to balance the need to execute extremely well in the present against the desire to create the future. This is not science—I believe it is much closer to an art. It is a way of thinking we have tried to hardwire into our culture.

In the present, we are competing daily and gaining market share, but still have to be better. We were recently named by KLAS as one of just two companies well-positioned for a significant EMR replacement market opportunity over the next three to five years.² In our client base, we have relationships with hundreds of health care organizations that depend daily on Cerner technologies to be available to meet their core mission of delivering quality, efficient care. For many of these organizations, we become strategic allies who help them achieve their plans for building future state organizations, delivering high quality, efficient care and evolving new business models to support changes in their environments.

As for the future, well, we are creating it. We are defining the next generation of the EMR, how it must progress from the “glorified typewriter” that doctors use to produce their orders, documentation and billing information to the interactive medium for practicing medicine based on the highest standards in the community and world. We are preparing our clients for the upcoming era of population health management, when they will have to manage both health and care, and their largest incentive will become keeping us healthy. We are also taking leadership positions in defining the concepts of “open EMR” and “interoperability.” These are past-due needs to the broader health care community that have been suppressed by companies who use proprietary systems to their private advantage, at the expense of society. Pardon my rant, but I think it is immoral to put up barriers to the liquidity of any person’s medical information for the benefit

of single for-profit companies. Anyone who has been put in the position to manage their own health or that of a loved one, anyone who has had to manually carry paper copies of records around so that the next physician can try to understand the past care that has been given, understands my outrage.

As Cerner’s co-founder, Chairman of the Board and CEO, I have a personal sense of urgency that is driven by several things: entrepreneurial impatience, a sense of responsibility to improve the overall system, competitiveness and age. But my fellow Cerner associates are also impatient, and in 2014 there are compelling reasons to keep our foot on the gas. I don’t think it is an exaggeration to say that this decade—the last half of this decade in particular—could give rise to more changes in health care than have already occurred in the past six decades *combined*. For society, those changes can be good, they can be bad, or they can be mixed. Whether we appreciate it or not, there will be a great opportunity cost for even the slightest pause or delay in the progression of technology. At Cerner, our role has always been to *anticipate* the future of health care and *innovate* solutions to meet those needs. Now is the time to use all of our size and skill to *accelerate* progress for all of health care.

CURRENT STATE FUNDAMENTALS CREATE A CLEAR FUTURE

In the U.S., the health care headlines for the past four and a half years have been dominated by Obamacare, or the Affordable Care Act (ACA), and related struggles both with the technical glitches and enrollments in the health insurance

1979

Neal Patterson, Paul Gorup, and Cliff Illig leave Arthur Andersen & Co. to form their own company

1982

PathNet[®] is installed in the lab at St. John Medical Center in Tulsa, Oklahoma

1984

Cerner secures \$1.5 million venture capital funding from First Chicago Capital Corporation

1986

Cerner goes public on NASDAQ (CERN)
\$17 million of revenue
149 associates

1987

Cerner listed as one of Inc. magazine’s 100 fastest-growing companies

²KLAS: *Epic, Cerner Ride the Buying Wave While Others Struggle to Stay Afloat*, HealthSystemCIO.com, February 2014

exchanges. Read further than the headlines and you'll note a divide along red and blue state lines around implementation at the state level, focused on parameters of enacting the program. After a three-year all-out war, what are now largely gone from the headlines are the constitutional challenges, the big swings at repealing the law. It is very clear that the ACA is the law of the land and the vehicle that will drive significant changes inside the U.S. health care system. Certainly still ahead are volumes of political rhetoric and some minor tuning of the legislation, along with a heavy dose of regulatory interpretation and rulemaking. As evidenced by the fairly breathtaking caveats and decisions to delay major pieces such as the employer mandate, we are entering into an era of regulatory adaptation with a lot of fiat by the Secretary of Health. In other words, it will be raining measures and mandates on health care for the next two decades.

At the macro level, both in the U.S. and around the globe, the fundamental forces and pressures are not going to change. Populations will grow, demographic changes will put larger groups into higher risk categories, science and technology will continuously redefine what is possible in managing our human biology, health care costs will continue to rise faster than our economies grow,^{3,4} and our governments will pay for an increasing portion of the health care for growing populations, financed by growing federal deficits that all agree must not continue to grow. Health care will be forced to change.

Health care organizations (our clients) face a future that most certainly will contain pressures

to decrease cost, or at least slow the growth of costs. At the same time, they must deliver higher quality, which is increasingly being measured. The term "value" will be used a lot. Value will be defined fairly broadly. It will not just be a rush to make each encounter more efficient and higher quality—the physician office visit, the emergency room visit, the hospital stay, the home health visit. The definition of value will become increasingly specific around providing the necessary care to produce satisfactory outcomes in the lowest cost environment required to deliver that care. Have you noticed that CVS, Walgreens and Walmart have been putting clinics into their stores so that you don't have to go to the doctor's office? Everyone is eager to be part of the transformation. The physician practices, too, are open longer hours so that you don't have to go to the emergency room. It's less visible to us as consumers, but there are dozens of regulatory changes that are using both carrots and sticks designed to keep people out of the highest cost venues, the hospitals.

One of the biggest structural problems with health care is the business model. Historically the policy and practice were for providers to get paid only for doing something that requires their time and resources. That sounds logical enough at first. But in health care, real value is created only when I stay well enough to *avoid* seeing the doctor, or when I *don't* go to the emergency room for something that can be done at Walgreens. But without a real system design, or at least true interoperability, we risk lowering the cost of the one visit by fragmenting health care even more. It's reasonable to hear "health care system" and think that there must be a real system design

1990

Revenues surpass \$50 million

1992

2 for 1 stock split (May 12)
Cerner Vision Center opens
Revenues surpass \$100 million

1993

2 for 1 stock split
(March 1)

1994

1,000 associates

1995

2 for 1 stock split (August 7)

³Public Spending on Health and Long-Term Care: A New Set of Projections, OECD, June 2013

⁴U.S. health expenditures at 18% of GDP and rising, per *National Health Expenditure Projections 2012-2022*, Office of the Actuary in the Centers for Medicare & Medicaid Services, November 2013

behind it. But much of the so-called “system” has never been designed. Instead, it evolved from what was there before. Quality, cost, payments and connectedness—there will be big swings aimed at addressing all of these before the end of this decade.

In health care, there are market drivers that will never evaporate. On one hand there is a basic human desire to be healthy, vibrant and alive—to cure and mitigate diseases—and to have both quantity and quality of years in our lives. On the other hand is a very pragmatic and essential social need to control the costs of care, which extends to every corner of the globe. In the perpetual tension caused by a clash of wants and needs is a market for innovative, high quality care at an affordable cost. This market for health care will never go away. It is not that it’s too big to fail; it *can’t* fail. And it is too important to stay the same.

DIGITIZING THE CONTENT OF AN ENTIRE INDUSTRY

It has been more than five years since the HITECH Act⁵ of the 2009 Stimulus Package was signed into law. The embedded concept of Meaningful Use advanced health IT by three decades by mandating that physicians order and document their work using a certified electronic health record in order to qualify for federal incentive payments. Without a doubt, this impacted physicians’ productivity (and in the current volume-based reimbursement model, their incomes), moving usability to the front of all agendas. While much of the attention is oriented to this dynamic, in the background nearly all of the processes in health care are being automated, and the content of an

entire industry is being digitized. There is still a great deal of work ahead, but we have passed the tipping point. Physician adoption of electronic records is becoming *de rigueur* in the rest of the world as well. Let’s peek around the corner. With a completely digitized health system, what will change? We think a lot. And the differences will be apparent in almost all aspects of how we engage, partner, trust and use the vast resources we are blessed to have in our communities and countries.

Today, the single greatest lever that exists for organizations to create systemic change and deliver more value is information technology. This was not always the case. Progress always looks clearer through the sharpening lens of history—after the dust has settled. There is now enough elapsed time to know that the invention of the computer has created an information age in society. The modern version of the computer once was manifested in the mainframe, a machine housed in specially designed rooms and seen only by a chosen few. The invention of the microprocessor launched versions of the computer that quickly found their way onto our desktops, then onto our laps. By the end of 2014, more than two billion people will have smartphones in their pockets, and the projections to have five billion are not that far out;⁶ each smartphone with more computing power than the “big iron” mainframes of the past. The power comes not only from the advancement of individual components but also from the entire computing ecosystem that supports it. Even as CPUs continue to shrink and speed up, the evolution and convergence of the entire “stack”

1999

HNA Millennium® Phase 1 is completed
Cerner makes *Fortune* list of
“Best 100 Companies to Work For”

2000

3,000 associates

2001

Revenues surpass \$500 million

2002

4,000 associates

2003

Cerner and Atos Origin
awarded U.K. National
Health Services Choose
and Book contract

⁵Health Information Technology for Economic and Clinical Health Act, part of the American Recovery and Reinvestment Act of 2009

⁶*Ericsson Mobility Report*, November 2013

of technologies—such as operating systems, user interfaces, databases, networks and vast, low-cost storage systems, as well as remarkable advances in such software components as search engines, social networks, online shopping, contacts, calendars, email, spreadsheets and word processing—all contribute to our modern-day experience of limitless computing power.

As you know, Cerner lives at the intersection of health care—a complex social system dedicated to an even more complex biologic system—and information technology—the fastest-moving part of our world. It is at this intersection full of opportunity that we grow our company. The lever is being put into place. The history has not been written yet on the impact of IT on health care. Some, including me, believe it will be transformational, redefining how we as individuals interact with “the system.”

How big of a lever IT will be for health care is not yet known. Certainly, digitizing the content of other, less complex industries has advanced those industries a great deal. Think of the impact of content digitization on the following:

- **Music:** Gone are the vinyl records, even the digital CDs, the retail record stores, the record labels, and my stack of Neil Diamond albums near my turntable in my home. My personalized music collection is now available at the beach, in a plane, in a car, at the gym, anytime and anyplace.

- **Books:** More books are now bought online than through historical physical retail distribution channels. And the trend continues – increasingly more books are in digital form, available anytime and anyplace.
- **Banking:** When is the last time you stood in a line inside your bank to deposit or withdraw money? Again, anytime, anyplace—I can find an ATM.
- **Retail commerce:** This is huge and still being defined. Many of us have crossed over. The impulse to jump in the car and look for a store that *might* have what we want or need has been replaced by a trust in a high value, extraordinarily convenient alternative that is open anytime, anyplace.

These impacts have been fairly rapid and transformational, even disruptive. At the same time, consider that the very first steps away from analog formats did not always foreshadow the huge changes that were in store for users. The initial shift in music from vinyl records to digital CDs changed the consumer’s experience only a little. The CD was still a hard bit of plastic, perhaps a little more robust, with audio qualities similar to vinyl records and portability similar to cassette tapes. The magnitude of change enabled by a shift to digital format would still take a few technology development cycles to play out. When it did, it was truly transformative. Without any doubt, the digitization of other industries has created enormous value for the consumer: greater choice, lower price and an unbelievable ability to access anytime, anyplace. Will this happen in health care?

2004

Cerner celebrates 25th anniversary
Cerner ranks third among software companies in *The Wall Street Journal's* Top 50 Returns over a five-year period
5,000 associates

2005

Revenues surpass \$1 billion
Cerner signs contract with Fujitsu for southern region of NHS Connecting for Health program in England
Nearly 7,000 associates

2006

2 for 1 stock split (Jan. 10)
Introduced *CareAware*® device architecture and line of devices
Cerner signs contract with BT for London region of NHS program
First *Cerner Millennium*® site in France
Opened Cerner Health Clinic at World Headquarters

2007

Revenues surpass \$1.5 billion
Shipped first production units of *RxStation*® medication dispensing devices; 25 clients purchase *CareAware iBus*® device connectivity
Delivered new *Cerner ProVision*® PACS Workstation
Opened new Data Center at World Headquarters
Signed first clients in Spain and Egypt; opened office in Dublin, Ireland
Acquired Etreby Computer Company (retail pharmacy solutions)

LOTS OF NEW DATA, THE WORLD OF BIG DATA, NEW TYPES OF EVIDENCE

For many of us, our first direct touch of “big data” was Amazon.com recommending books based on the books we had already purchased. What was not as visible was that data about us and our habits—not only what we bought, but also what we browsed, where we lived, and the birth dates we disclosed—made it possible to figure out additional items we would be very inclined to purchase. They got this by looking at a broader set of data and finding recognizable patterns that, when matched up with behaviors from other people, could *predict* other books that might be of interest to me. Without knowing us or ever having seen us, they seemingly understood us. Good for me, good for them.

Being able to use information to predict what is likely to happen to me in the future is a very big deal. Predicting the future is the most powerful dimension enabled by information, because in it is the possibility that something might be done today that will change tomorrow for the better. With regard to our health, the IT platform of the future will have hundreds of behind-the-scenes algorithms and models that will use available information to predict our likely health-related events in time to impact both diagnostic and therapeutic decisions. Some of the predictions will be long-term in nature. For example, the presence of BRCA1 and BRCA2 genetic pathways will help predict the chances of developing breast or ovarian cancer in future years. Other predictions will be aimed at very short-term and immediate dangers. Sepsis is a good example

and a leading cause of death⁷. Once the body has an infection in the bloodstream, there are about six hours in which aggressive active treatment can be effective before the condition takes a huge impact on one’s health, up to and including multiple organ failure and death. And yet sepsis is predictable using information that is readily available. All health care organizations are aware of the risk and know that they need to take action. But the mortality rate of unrecognized sepsis is close to 30%, and when cases progress to septic shock, the mortality rate increases to 60%. Detecting and treating sepsis “as fast as humanly possible” is, in many cases, simply too slow.

Cerner is already walking down the path of being able to predict and prevent. Our current algorithm we use to predict sepsis relies on more than 20 variables. It has been curated using Cerner Health Facts, a HIPAA-compliant, de-identified and EMPI-linked data warehouse we started in 1996 that today contains millions of actual histories—truly big and useful data. The sepsis algorithm starts by looking at three vital elements. If they are not in expected ranges, it fires off downstream action and logic accordingly. With remarkable accuracy, it can alert caregivers to the likelihood of sepsis as soon as the clues are present in the electronic medical record. Coupled with an empiric therapy advisor, which Cerner also provides, this simply saves lives. When there are only six hours to act, waiting for busy people to focus on the “right” information is just too slow. Today this is helping to save lives in the acute care setting⁸ but we are working to make this available—you guessed it—anytime and anyplace. Sepsis often begins at

2008

Free Cash Flow surpasses \$100 million
Smart Semi, a mobile hospital room of the future, introduced and made 93 stops, hosting nearly 9,000 client attendees
Signed first agreement for the *Cerner Smart Room*TM
Expanded footprint in Middle East with signing of Ministry of Health in United Arab Emirates
Signed first hosted client in France
Signed first client in Latin America

2009

Cerner Celebrates 30th Anniversary
American Recovery & Reinvestment Act becomes law and includes \$35 billion in incentives for the adoption of health care IT
First two *Cerner ITWorks*SM contracts signed
University of Missouri and Cerner create Tiger Institute for Health Innovation
Announced acquisition of IMC Health Care
Cerner clients connect with HHS and CDC to fight spread of influenza
Introduced *uCern*[®] platform and opened uCern Store
Cerner added to NASDAQ 100 Index

2010

Announced new mission statement, “To contribute to the systemic improvement of health care delivery and the health of communities”
Introduced *Health the Intent*[™] cloud-based platform
Patient Protection and Affordable Care Act becomes law in an effort to reform how health care is delivered in the U.S.
Announced agreement with CareFusion to better integrate medical devices and electronic health records
Fisher-Titus Medical Center and Magruder Hospital partner with Cerner to become first all-digital, smart hospitals in the U.S.
First two *Cerner RevWorks*SM contracts signed
Cerner honored as one of the best employers for healthy lifestyles by The National Business Group on Health
Neal Patterson recognized by *Forbes* as one of “America’s Best-Performing Bosses” for providing shareholders with the “biggest bang for the buck”
Cerner added to S&P 500 index
8,000 associates

⁷Deaths: Preliminary Data for 2011. NVSR Volume 61, Number 06. 65 pp. (PHS) 2013-1120

⁸*Life-Saving Partnership to Reduce Sepsis Mortality Recognized with CHIME Collaboration Award*, www.cerner.com, October 2013

home, so we are working toward being able to include home readings of vital signs like blood pressure and pulse rate in the model.

In the future, we expect the *Cerner*[®] platform to be home to hundreds of such algorithms and models integrated together to unify the intelligence of the system. There are dozens already. As health care's venues continue to shift away from acute settings, our homes will become hot zones for monitoring our health-related measurements and managing our known conditions. I fully expect to see more and more "apps" for procedures such as EKGs that were once the exclusive domain of clinical labs in the labyrinth of the medical world. Our physicians, as part of the multidisciplinary teams that have become our medical homes, will willingly use secure email and text to manage our known conditions, keeping us out of the world of waiting rooms and clipboards. Every time we touch the health care system, our records will be up to date. Whereas today we have our doctors, they have our records, and they direct our care, tomorrow we will have an entire personalized health system that *knows us*, knows our health challenges, knows our goals in life and will partner with us to be healthy, productive, active members of our family and community. And when circumstances of life or genetics program us to have medical issues, our health system will guide us to the right place, at the right time, for the right reasons.

A RACE AGAINST TIME

The U.S. health care system is the most expensive in the world, both in terms of relative measurement, such as percentage of GDP, and absolute terms, such as cost per capita. Pressures will continue to mount to confine the growth rate within the growth rate of the overall economy. I think the race is on between transformation via innovation and budgeting to set limits on care through major changes in policy. We believe health IT is the biggest lever for change, and we need to find the fulcrum and put our full weight on the handle *now*. The political pressure will grow if health care fails to get to a value-based system by the end of the decade. If that occurs, then the U.S. will join most of the rest of the world in having a system driven entirely by our federal and state governments. If you accept the notion that the pluralistic U.S. health system drives a large share of the world's medical innovations and research, then a lot will be lost. Our children and their children will get to live with the results. We have a generational responsibility to leave behind a health system that will keep advancing the sciences to discover cures for major diseases, that will work to keep people healthy and out of the hospital, and that will use all available information to predict, prevent and protect. At Cerner, we understand what is at stake, and that is why we want to go faster.

2011

2 for 1 stock split (June 27)
Acquired Resource Systems (long-term care solutions)
Acquired Clairvia (workforce management solutions)
Revenue and Bookings surpass \$2 billion
Introduced new logo and tagline: Health care is too important to stay the same.[™]
Launched *Cerner Skybox*SM suite of cloud services
Signed 1st *Cerner QualityWorks*SM client
Cerner associates shed more than 20,000 pounds during Slimdown Throwdown weight-loss competition
Cerner clients begin receiving stimulus funds related to achieving Meaningful Use

2012

Surpassed \$3B in annual bookings, including over \$1B in Q4
Announced \$170 million Share Repurchase Program
Acquisition of behavioral health company Anasazi Software
86% of clients attested or in process of attesting for Stage 1 Meaningful Use
Nearly double the number of client sites achieved HIMSS Analytics Electronic Medical Records Adoption ModelSM Stage 6 or 7 in 2012 than our closest competitor; most stage 6 or 7 clients outside the U.S. as well
PowerChart+Touch[™] went live at 13 early adopter clients
Advocate Health Care partnership led to more than 20% improvement in ability to predict readmissions
Partnered with NBA to provide *HealthAthlete*[®] an organization-wide automated health care management system
Healthy Nevada project is creating a culture of health, digitizing health care and establishing integrated communication among all providers in the community

2013

2 for 1 stock split (July 1)
Annual bookings grew 20% to \$3.8B
Total assets surpass \$4.0 billion
Completed \$170 million Share Repurchase Program and announced another \$217 million Share Repurchase Program
Announced partnership with Intermountain Healthcare for clinical systems, revenue cycle and population health
Signed first client in Brazil, Hospital Israelita Albert Einstein
Acquisitions of wellness company PureWellness and laboratory automation company Labotix
Associates who manage and support our clients' IT systems moved into new Continuous Campus facility
Purchased 237 acres adjacent to Innovations Campus in Kansas City, MO, for long-term plan to add 15,000 associates
Released *Health Intent Smart Registries*SM on Cerner's cloud-based population health platform
#4 on Top 100 Healthiest Companies in America
#13 on *Forbes* list of World's Most Innovative Companies, ahead of Google and Apple
14,000 associates

ONE DECISION AWAY

There are a number of positives in the current environment. The amount of innovation going on inside health care is remarkable. The ACA has a number of different potential business models for providers embedded in the legislation that can be triggered without future politically toxic debate. The Secretary of Health has discretion to change how care is reimbursed for all Medicare enrollees. Most of the new business models at her disposal have the providers taking greater risk for the quality and cost of health care while rewarding them with outcomes-based reimbursement. In other words, they pay doctors and hospitals to keep people well enough to remain out of hospitals and even doctors' offices. Once the provider organizations are paid for keeping us healthy, the industry will have tipped. The states and most commercial insurers will follow suit. Innovation will accelerate. And we will have advanced the system for our children.

The headlines in the mainstream media will continue to focus on the politics of health care. But for the observant, there is much to do.

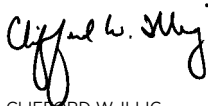
Thanks for your ongoing support for Cerner. As I told my fellow associates earlier this year, what we do makes a big difference, and it is a gift and a privilege to be a part of this together.

At the intersection of health care and information technology, the work is hard, complex and ambiguous at best ... but it is also filled with opportunity. We believe in investing both in the present and the future, managing both to the best of our abilities. The present has enormous pressures and responsibilities. The future is persistent and will arrive. Balancing both, we are going to keep our foot on the gas.

Sincerely,



NEAL L. PATTERSON
Chairman, Chief Executive Officer
& Co-founder



CLIFFORD W. ILLIG
Vice Chairman & Co-founder



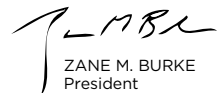
PAUL N. GORUP
Senior Vice President, Chief
of Innovation & Co-founder



JEFFREY A. TOWNSEND
Executive Vice President
& Chief of Staff



MICHAEL R. NILL
Executive Vice President
& Chief Operating Officer



ZANE M. BURKE
President



MARC G. NAUGHTON
Executive Vice President
& Chief Financial Officer



JULIA M. WILSON
Executive Vice President
& Chief People Officer

Appendix: Cerner's Business Model and Financial Assessment

INTRODUCTION

This appendix contains our annual discussion of our business model and financial performance. Some of the results in this discussion reflect adjustments compared to results reported on a Generally Accepted Accounting Principles (GAAP) basis in our annual report on Form 10-K. Non-GAAP results should not be substituted as a measure of our performance but instead may be used along with GAAP results as a supplemental measure of financial performance. Non-GAAP results are used by management along with GAAP results to analyze our business, make strategic decisions, assess long-term trends on a comparable basis, and for management compensation purposes. Please see the end of this appendix for a reconciliation of non-GAAP financial measures to GAAP results.

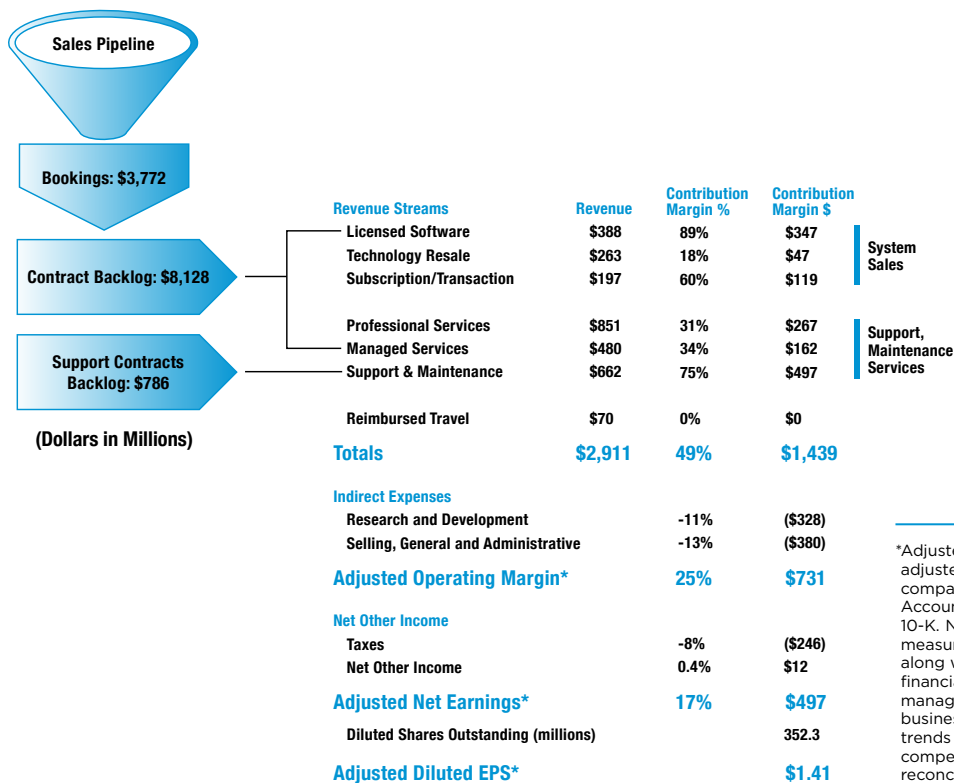
CERNER'S BUSINESS MODEL

The core of our business model is the creation of intellectual property (IP) in the form of software and other types of digital content. Our software is bundled with other technologies and services to create complete clinical and business solutions for health care providers. In short, we build, sell, deliver, run and support solutions for health care

provider organizations around the world. Below is a graphical representation of our business model showing a top-to-bottom flow of how we convert new business opportunities and our backlog into revenue and earnings.

At the top of our model is our **Sales Pipeline** of potential future business opportunities we have identified in the marketplace. Our pipeline has increased substantially over the past several years, reflecting a strong market for our solutions as providers invest in health care information technology (HCIT) to meet regulatory requirements, qualify for incentives, and position themselves for a transition from fee-for-service reimbursement to value-based reimbursement.

During each quarter, we sign new contracts to deliver our solutions to clients. These contract signings are reported as **Bookings** and become part of our contract backlog. A typical new contract will impact our revenues in the current quarter and for the next several quarters, or even years, depending on how the licenses, technology, subscriptions/transactions, managed services, and professional services are delivered. For longer term contracts, such as for our Remote Hosting,



*Adjusted operating margin, adjusted net earnings and adjusted diluted earnings per share reflect adjustments compared to results reported on a Generally Accepted Accounting Principles (GAAP) basis in our 2013 Form 10-K. Non-GAAP results should not be substituted as a measure of our performance but instead should be used along with GAAP results as a supplemental measure of financial performance. Non-GAAP results are used by management along with GAAP results to analyze our business, make strategic decisions, assess long-term trends on a comparable basis, and for management compensation purposes. Please see page 20 for a reconciliation of these items to GAAP results.

ITWorks, and RevWorks offerings, contract lengths are typically more than five years. Our bookings have grown at strong compounded annual rates of 24%, 20%, and 17% over the past 3, 5, and 10 years.

Almost all of our client contracts also contain provisions for **Support Contracts** in which Cerner agrees to provide a broad set of services that support our clients' use of our solutions in demanding clinical settings. This support includes addressing technical issues related to our software and providing access to future releases of licensed software. We also provide support and maintenance agreements for third party software and hardware that we resell to our clients.

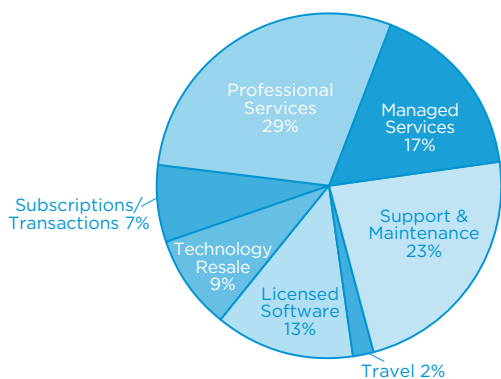
Continuing with our top-down business model flow, the value of the new contract bookings and support contracts rolls into our **Contract Backlog** and **Support Backlog**, respectively. Even though almost all of our systems are in service for decades, our reported Support Backlog only includes the expected value for one year of support and maintenance revenue for all of our client support contracts. Our total backlog (signed contracts with unrecognized revenues and one year of support for all support contracts) ended 2013 at \$8.9 billion and has grown at healthy compounded annual rates of 22%, 21%, and 22% over the past 3, 5, and 10 years.

At the core of our business model are our various revenue streams and the contribution each stream makes toward the profitability of Cerner. The contribution is stated as the recognized revenue less the direct cost to produce that revenue. On our business model graphic, we have depicted six revenue categories that roll into the two revenue line items on our income statement. **Licensed**

Software, Technology, and Subscriptions/Transactions make up the **System Sales** line of our income statement, and **Professional Services, Managed Services, and Support & Maintenance** make up the **Support, Maintenance and Services** line. Here is a description of each revenue stream:

- **Licensed Software.** We develop and license IP (our architectures, application software, executable and referential knowledge, data and algorithms) to our clients. Our standard license is perpetual—providing our clients permanent rights to use the software they purchase. This approach contrasts with the approach of many of our competitors who are always trying to sell “upgrades” to their clients. We believe our approach is part of the reason we have so many long-term client relationships—some lasting over three decades. We recognize revenues from licensed software as we achieve pre-defined client engagement milestones, such as delivery and installation of our software. In 2013, this type of revenue represented 13% of our total revenues with a profit contribution of 89%. Revenues from licensed software grew 12% in 2013.
- **Technology Resale.** We bundle licensed software with other companies' IP (e.g., that of HP, IBM, Microsoft, Oracle) in the form of sublicenses to create complete technology solutions for our clients. We also resell bundled computer equipment (hardware) from technology companies to create a completely functional system. Additionally, we resell medical devices for a growing list of medical device companies. After increasing 59% in 2012, technology revenue decreased 33% in 2013, driven by a decline in the resale of medical devices that had driven the strong growth in 2012. We generally recognize revenues from technology resale as the equipment is delivered to our clients. In 2013, these revenues represented 9% of our total revenue with a profit contribution of 18%. Even at lower margins than the rest of our businesses, technology resale is valuable to Cerner as it is a driver of other high margin, high visibility revenue, such as technical services, sublicensed software support, and equipment maintenance.

2013 Revenue Mix



- **Subscriptions/Transactions.** Another method by which we provide IP is based on a subscription model that has a periodic usage charge. This is the primary way we package and provide medical knowledge, which changes frequently based on research and can be updated independently from the software in which it is embedded. Also included in this category of revenue is our Electronic Data Interchange (EDI) transaction revenue. EDI is the electronic transfer of data between health care providers and payers. Subscription and transaction revenue streams are generally recognized monthly. In 2013, they grew 19% and represented 7% of our total revenues with a profit contribution of 60%.
- **Professional Services.** We provide a wide range of professional services to assist our clients in the implementation of our information systems in their organizations. These services are in the form of project management, technical and application expertise, clinical process optimization, regulatory consulting and education and training of our clients' workforce to assist in the design and implementation of our systems. We recognize revenues associated with these consulting activities as they are provided to our clients. In 2013, these revenues increased 24% due to increased implementation activity and growth in new services, such as Cerner ITWorksSM and Cerner RevWorksSM. Professional services represented 29% of our total 2013 revenue, and the profit contribution for this business model was 31%.
- **Managed Services.** Under our CernerWorksSM suite of solutions, we offer a set of technical services that include Remote Hosting, Application Management Services, Operational Management Services, and Disaster Recovery. Remote Hosting is the largest of these offerings, and it involves Cerner buying the necessary equipment, installing it in one of our data centers, and operating the entire system on the client's behalf. The revenues for this service and our charge for the equipment are recognized monthly as we provide the services. Most of our clients still choose to own their own software license, so that portion of the revenue is unchanged. We own the equipment

rather than selling it upfront to the client, which impacts the technology resale portion of revenue. Managed Services revenue grew 15% in 2013 and represented 17% of our total revenue with the profit contribution of 34%.

- **Support & Maintenance.** The final business model is comprised of the ongoing support and maintenance services we provide our client organizations. Almost all of our clients contract for these services. Clients with support contracts get 24x7 access to our Immediate Response Center, which serves as our "emergency room," as well as access to a very knowledgeable base of associates in our SolutionWorks organization for less urgent issues. In addition, our clients' support payments give them ongoing access to the latest releases of our IP. We also provide support for sublicensed software and maintenance for third party hardware. In 2013, support and maintenance revenues grew 10%. This revenue stream represented 23% of total revenue with a profit contribution of 75% (note that this profit contribution does not include a charge for research and development, which is treated as an indirect expense).

The revenue categories discussed above add up to 98% of total revenue. The remaining 2% is revenue from reimbursed travel expenses related to our associates traveling to client locations. This revenue contributes no margin as it is simply a pass-through of our client-related travel expenses that are billed to our clients and required to be reported as revenue.

The two large indirect expenses in our business model are the costs of our **Research and Development (R&D)**, which was equal to 11% of revenue in 2013, and the indirect portion of **Selling, General and Administrative (SG&A)** activities, which represented 13% of revenue in 2013. Our R&D investments increased significantly in 2013 and we expect an increase in 2014 as we continue to invest in key areas, such as physician experience, revenue cycle, and population health. We have a long history of investing heavily in R&D and using that investment to create organic growth. Our SG&A spending grew less than revenue, reflecting our scalable business infrastructure.

In 2013, our adjusted operating margin of \$731 million was 25.1% of revenue, an increase of 220 basis points compared to 2012. The remaining items in our business model are taxes and net other income, which totaled \$234 million in 2013, leaving \$497 million of adjusted net earnings, or \$1.41 of adjusted diluted earnings per share.

ASSESSMENT OF 2013 FINANCIAL RESULTS

Our financial objectives each year include growing the top line, expanding operating margins, and generating free cash flow.

Growing the Top Line

Cerner has delivered strong revenue growth over the long term. Both our new business bookings and revenue have grown at more than 13% compound annual rates over the past 10 years. In 2013, we grew our new business bookings 20%, to a record \$3.77 billion. Revenue grew 9% in 2013 to a record \$2.91 billion. This revenue growth was slightly below our targeted levels due to the previously discussed decline in device resale, but we still delivered expected levels of adjusted net earnings due to strength in higher-margin software and services components of our business. Looking at revenue by geographic segment, domestic revenue increased 9% and global revenue increased 11% in 2013.

In 2014, we expect double-digit top-line growth. In the U.S., we expect continued strong demand for our solutions both inside and outside our current client base as health care providers invest

in solutions and services to meet regulatory requirements, qualify for incentives, and position themselves for a transition from fee-for-service reimbursement to value-based reimbursement. We also expect continued increases in contribution from solutions and services we have introduced in the last few years. Additionally, we expect our global business to continue to grow as the global economy strengthens and governments invest in HCIT in an effort to improve quality and control the cost of care. For more information on our growth strategy, refer to the Cerner Vision and Growth Strategy section in Part I, Item 1 of our annual report on Form 10-K.

Expanding Operating Margins

In February of 2004, we mapped out a path from the 2003 level of 9% adjusted operating margins to a target of 20%. We surpassed this target in 2010 and have continued to drive solid margin expansion since, with an adjusted operating margin of 25.1% in 2013, reflecting almost 440 basis points of improvement since 2010. The following table details our margin expansion since 2004, showing how a combination of growth in margins across the previously discussed business models and leverage of indirect expenses have contributed to margin expansion.

Highlights of the margin expansion drivers include:

- **Expanding margins in Subscriptions / Transactions.** This business model has had good recent growth in revenue and profitability has also increased as the fixed

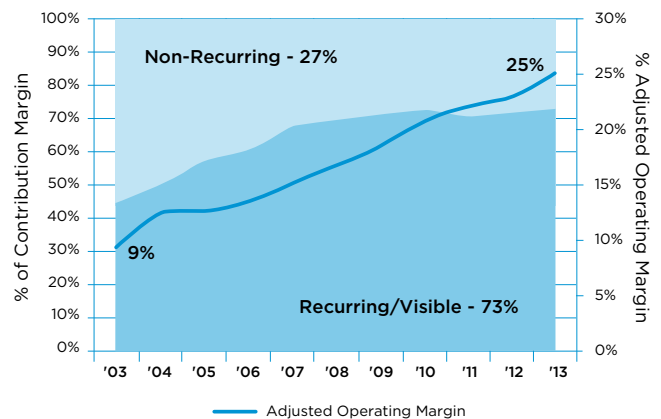
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Contribution Margin										
Licensed Software	88%	85%	84%	89%	88%	88%	87%	87%	88%	89%
Technology Resale	20%	13%	11%	12%	12%	11%	11%	13%	13%	18%
Subscriptions/Transactions	12%	37%	43%	49%	50%	52%	52%	56%	58%	60%
Professional Services	23%	27%	27%	29%	29%	28%	30%	30%	30%	31%
Managed Services	20%	25%	25%	25%	26%	28%	29%	31%	33%	34%
Support & Maintenance	57%	62%	65%	69%	72%	74%	76%	76%	75%	75%
Total Contribution Margin	45%	46%	46%	47%	48%	50%	50%	49%	47%	49%
Indirect Expense % of Revenue										
R&D	19%	18%	18%	17%	16%	16%	14%	13%	11%	11%
SG&A	14%	15%	15%	15%	15%	16%	15%	14%	13%	13%
Total	33%	33%	32%	32%	31%	32%	29%	27%	24%	24%
Adjusted Operating Margin	12.4%	12.6%	13.4%	15.1%	16.6%	18.5%	20.8%	22.2%	22.9%	25.1%

costs associated with supporting it are spread over a higher revenue base.

- **Improving Professional Services margins.** We have leveraged tools and methodologies to make our implementation processes more efficient, predictable, and profitable. This has led to continued strong margins even though this business model has absorbed some of the lower margin components of *Cerner ITWorks* and *Cerner RevWorks*. These newer business models have lower initial margins, but we expect them to increase as the businesses gain scale.
- **Improving Managed Services margins.** As we have grown our remote hosting business, we have increased profitability through scale and by transitioning to newer, less expensive technologies.
- **Increased profitability of Support & Maintenance.** As we have hardened the *Cerner Millennium* platform, our incremental cost to support each additional client has declined, leading to increased margins on Support and Maintenance. The margin percent can fluctuate some depending on third-party costs, but this business model is still very accretive to overall margins. Note that the contribution margin for support and maintenance does not include the cost of R&D, which is included as an indirect expense.
- **Leverage R&D investments.** We have leveraged our significant R&D investments by growing R&D slower than our top-line growth rate, while still maintaining industry-leading levels of R&D investment and innovation. Efficiencies from our operations in India have also contributed to our ability to control the rate of R&D growth. The recent increase and expected continued increases in R&D investments will likely reduce the amount of leverage from R&D in the near-term, but we expect to resume gaining leverage from our R&D investments in the next few years.
- **Leverage Sales, General, and Administrative expenses.** We have built a scalable business infrastructure that has allowed us to keep our SG&A spending growth rate lower than our top-line growth rate in recent years.

We expect to continue to drive margin expansion going forward through ongoing efficiencies across our business models and additional leverage of R&D investments and SG&A expenses.

A key point regarding our margin expansion is that we have accomplished it while our business model has transitioned to more visible and recurring revenue components. For example, in 2003, approximately 61% of our revenue (before reimbursed travel) came from what we consider visible or recurring sources such as Professional Services, Managed Services, Subscriptions/Transactions, and Support & Maintenance. In 2013, 77% of our revenue came from these sources. Similarly, Contribution Margin from recurring or visible sources increased from 45% to 73%. This is a result of the strong growth and margin expansion in our services and support business models.

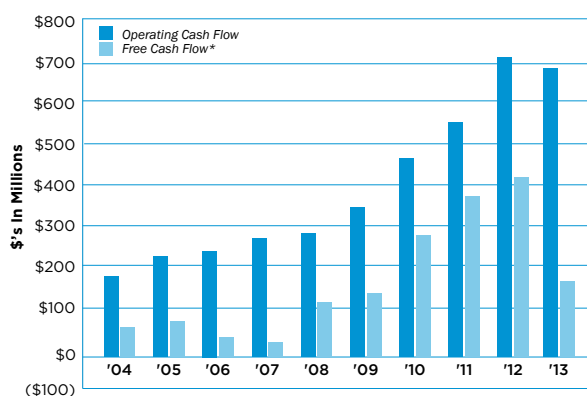


Earnings Growth

Strong revenue growth and margin expansion drove adjusted net earnings growth of 18% in 2013. Our 3-, 5-, and 10-year compound annual earnings growth rates of 25%, 22%, and 28%, respectively, reflect our ability to drive long-term earnings growth. Going forward, we believe our top-line growth strategies coupled with continued focus on productivity enhancements and margin expansion position us well for continued strong earnings growth.

Generating Cash Flow

Our 2013 operating cash flow of \$696 million was slightly below 2012 due to a settlement charge in the fourth quarter of 2013. Our \$168 million of free cash flow (operating cash flow less capital expenditures and capitalized software development costs), was down from 2012 due to higher capital investments tied to our cloud infrastructure, higher spending on land and facilities to support our growth, higher capitalized software related to investments in our growth initiatives and the settlement charge. For 2014, we expect stronger free cash flow, driven by growth in operating cash flow, a decline in capital expenditures, and flat to slightly higher capitalized software.



Stock Price

At Cerner, we manage the company, not the stock price. In the short-term, the stock price can be influenced by many factors beyond our control, but we believe that in the long-term it will closely reflect the quality of our decisions. We believe it is important for our shareholders that we focus on delivering strong long-term results, but we also understand the importance of delivering consistently against short-term targets.

2013 was a very strong year for the stock market overall and for Cerner stock. The NASDAQ Composite Index ended the year up 38% and the S&P 500 ended the year up 30%. Cerner's stock price increased 44% in 2013, reflecting our delivery of strong results. When measuring our stock performance over the 5-, 10- and 20-year periods using compound annual growth rates, the returns are 42%, 28%, and 16%, respectively. These returns are significantly greater than the returns over the same time frames for the NASDAQ Composite Index (22%, 8%, and 9%) and S&P 500 (15%, 5%, 7%).

Reconciliation of 2013 Non-GAAP Results to GAAP Results*

(\$ in millions except Earnings Per Share)	Operating Earnings	Operating Margin %
GAAP Operating Earnings	\$ 576	19.8%
Share-based compensation expense	49	
Settlement charge	106	
Adjusted Operating Earnings (Non-GAAP)	\$ 731	25.1%
	Net Earnings	Diluted Earnings Per Share
GAAP Net Earnings	\$ 398	\$ 1.13
Share-based compensation expense, net of tax	31	0.09
Settlement charge, net of tax	68	0.19
Adjusted Net Earnings (Non-GAAP)	\$ 497	\$ 1.41
GAAP Operating Cash Flow		\$ 696
Capital purchases		(353)
Capitalized software development costs		(175)
Free Cash Flow (Non-GAAP)		\$ 168

*More detail on these adjustments and management's use of Non-GAAP results is in our 2013 annual report on Form 10-K and our current reports on Form 8-K.

Cerner Corporation
2013 Annual Report
Form 10-K

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

FORM 10-K

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

For the fiscal year ended: **December 28, 2013**

OR

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

For the transition period from _____ to _____

Commission File Number: **0-15386**

CERNER CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

43-1196944

(I.R.S. Employer Identification
Number)

**2800 Rockcreek Parkway
North Kansas City, MO**

(Address of principal executive offices)

64117

(Zip Code)

(816) 201-1024

(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 par value per share	The NASDAQ Stock Market LLC

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of June 29, 2013, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$14.6 billion based on the closing sale price as reported on the NASDAQ Global Select Market.

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

<u>Class</u>	<u>Outstanding at January 31, 2014</u>
Common Stock, \$0.01 par value per share	343,946,094 shares

DOCUMENTS INCORPORATED BY REFERENCE

<u>Document</u>	<u>Parts into Which Incorporated</u>
Proxy Statement for the Annual Shareholders' Meeting to be held May 23, 2014	Part III

PART I.

Item 1. Business

Overview

Cerner Corporation started doing business in 1980, and it was organized as a Delaware corporation in 1986. Unless the context otherwise requires, references in this report to “Cerner,” the “Company,” “we,” “us” or “our” mean Cerner Corporation and its subsidiaries.

Our corporate world headquarters is located in a Company-owned office park in North Kansas City, Missouri, with our principal place of business located at 2800 Rockcreek Parkway, North Kansas City, Missouri 64117. Our telephone number is 816.201.1024. Our Web site address, which we use to communicate important business information, can be accessed at: www.cerner.com. We make our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports available free of charge on or through this Web site as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (SEC).

Cerner’s mission is to contribute to the systemic improvement of health care delivery and the health of communities. We are a leading supplier of health care information technology (HCIT), and offer a comprehensive range of software, professional services, medical device integration, remote hosting and employer health and wellness services. Cerner systems are used by everyone from individual consumers, to single-doctor practices, hospitals, employers and entire countries. Taking what we’ve learned over more than three decades, Cerner is building on the knowledge that is in the system to support evidence-based clinical decisions, prevent medical errors and empower patients in their care.

Cerner® solutions are licensed by approximately 14,000 facilities around the world, including more than 3,000 hospitals; 4,900 physician practices; 60,000 physicians; 590 ambulatory facilities, such as laboratories, ambulatory centers, behavioral health centers, cardiac facilities, radiology clinics and surgery centers; 3,500 extended care facilities; 150 employer sites and 1,790 retail pharmacies.

Cerner solutions are offered on the unified Cerner Millennium® architecture, a person-centric computing framework, which combines clinical, financial and management information systems. This architecture allows providers to securely access an individual’s electronic health record (EHR) at the point of care, and it organizes and proactively delivers information to meet the specific needs of physicians, nurses, laboratory technicians, pharmacists, front- and back-office professionals and consumers. In recent years, we have extended this platform to include the next evolution of *Cerner Millennium*, *Millennium +™*, which leverages the cloud and enables greater mobility. We have also created the *Health Intent™* platform, a cloud-based platform that enables a new generation of solutions to leverage the increasing amount of data being captured as the health care industry is digitized. On the *Health Intent* platform, we are building EHR-agnostic solutions based on sophisticated, statistical algorithms that are intended to help providers predict and improve outcomes, control costs, and improve quality.

We offer a broad range of services, including implementation and training, remote hosting, operational management services, revenue cycle services, support and maintenance, health care data analysis, clinical process optimization, transaction processing, employer health centers, employee wellness programs and third party administrator (TPA) services for employer-based health plans.

In addition to software and services, we offer a wide range of complementary hardware and devices, both directly from Cerner and as a reseller for third parties.

The following table presents our consolidated revenues by major solutions and services and by segment, as a percentage of total revenues:

	For the Years Ended		
	2013	2012	2011
<i>Revenues by Solutions & Services</i>			
System sales	29%	34%	32%
Support and maintenance	23%	23%	25%
Services	46%	41%	41%
Reimbursed travel	2%	2%	2%
	100%	100%	100%
<i>Revenues by Segment</i>			
Domestic	88%	88%	86%
Global	12%	12%	14%
	100%	100%	100%

Health Care and Health Care IT Industry

We believe there are several ongoing trends in health care that create a favorable environment for Cerner. One is the unsustainable rate of growth in health care spending. The Centers for Medicare and Medicaid Services (CMS) estimates United States health care spending in 2013 at \$2.9 trillion, or 18.0 percent of Gross Domestic Product (GDP), and projects it to be 19.9 percent of GDP by 2022. We believe health care IT is one of few remaining levers that can change this trajectory. Further, most United States health care providers recognize that they must invest in HCIT to meet regulatory requirements, adapt to shifting reimbursement structures, and qualify for incentives. The importance of HCIT in facilitating this compliance along with the benefits of improving safety, efficiency and reducing costs, leads to investments in HCIT being viewed as more strategic than many other capital purchases and supports our belief that we are positioned for continued growth.

An ongoing contributor to our growth is the inclusion of HCIT incentives in the American Recovery and Reinvestment Act (ARRA). The Health Information Technology for Economic and Clinical Health (HITECH) provisions within ARRA include more than \$35 billion in incentives for health care organizations to modernize operations through "Meaningful Use" of HCIT. Hospitals and physicians that met the first of three stages of Meaningful Use criteria of the ARRA began receiving incentive funds in 2011, and the ongoing incentive program is contributing to continued demand for HCIT solutions and services in the United States. In addition to the demand created by existing clients seeking solutions and services to ensure they are positioned to qualify for incentives, we are seeing significant demand outside of our installed base from hospitals that previously chose a system from another supplier. We believe these hospitals are looking to change to a platform that better positions them for success as later stages of Meaningful Use and other regulatory requirements require more sophisticated IT systems.

Another trend in the United States marketplace that we believe will contribute to demand is the shift away from fee-for-service or volume-based reimbursement towards value-based or outcomes-based reimbursement. Payers, including health insurance companies and federal and state governments, are implementing programs to link reimbursement to quality measurements and outcomes, and we believe this alignment creates significant financial motivation for HCIT adoption. Ultimately, we believe all of these shifts are leading to an environment in which health care providers will become accountable for proactively managing the health of the populations they serve, and this will require ongoing investment in sophisticated information technology solutions that will enable them to predict when intervention is needed so they can improve outcomes and lower the cost of providing care.

As providers position themselves for these shifts, there has been an increase in industry consolidation, with health systems acquiring hospitals, physician practices, and other venues to control more of the care continuum and achieve economies of scale. We believe this is a positive trend for Cerner as we have relationships with the majority of the largest health systems responsible for most of the acquisition activity, creating an opportunity to offer our solutions and services to the acquired facilities.

The increasingly complex and more clinical outcomes-based reimbursement environment is also contributing to a heightened demand for revenue cycle solutions and a desire for these solutions to be closely aligned with clinical solutions. We believe

this trend is positive for Cerner because our revenue cycle solutions are integrated with our clinical solutions, creating a clinically driven revenue cycle solution that has had significant adoption in recent years.

We have also seen a shift in the United States marketplace towards a preference for a single platform across inpatient and ambulatory settings. The number of physicians employed by hospitals has increased significantly as hospitals have acquired physician groups in order to ensure a consistent stream of referrals, and health systems are recognizing the benefit of having a single patient record at the hospital and the physician office. We are benefiting from this trend due to our unified *Cerner Millennium* platform that spans multiple venues and due to significant enhancements we have made to our physician solutions in recent years.

Another industry observation is that operational and financial pressures on health care providers continue to increase. It is a challenge for them to keep up with Meaningful Use, health care reform, Value-Based Purchasing, and other requirements - all while facing ongoing pressure on reimbursement. As discussed, we believe our solutions and services are well aligned with helping our clients navigate these challenges, which is why we continue to have a positive outlook.

Outside the United States, the economic downturn of the last several years has impacted and could continue to impact our results of operations. However, we have observed improving conditions in many global markets and believe long-term revenue growth opportunities outside the United States remain significant because other countries are also focused on controlling health care spending while improving the efficiency and quality of care that is delivered, and many of these countries recognize HCIT as an important piece of the solution to these issues.

Cerner Vision and Growth Strategy

For more than 30 years, Cerner has been executing its vision to make health care safer and more efficient. We started with the foundation of digitizing paper processes and now offer what we believe to be the most comprehensive array of solutions, services, hardware, and devices to the health care industry. Since our company began, we have been committed to transformational change in the vital task of keeping people healthy. We focus on developing innovations that will help improve the entire health care system, as we believe health care is personal and nothing matters more than our health and the health of our families.

Our vision has always guided our large investments in research and development, which have created strong levels of organic growth throughout our history. Our proven ability to innovate has led to what we believe to be industry-leading solution and device architectures and an unmatched breadth and depth of solutions and services. We believe these strengths position us well to gain market share in the United States during a period of expected strong demand driven by the HITECH provisions of ARRA, the nation's focus on improving the efficiency and quality of health care and the need for continued investments in solutions and services to adapt to ongoing changes in reimbursement structures that will require the ability to proactively manage the health of populations, not just reactively provide care. We also have a strong global brand and a presence in more than 25 countries and believe we have a strong opportunity to gain market share outside of the United States.

In addition to growth by gaining market share, we have a significant opportunity to grow revenues by expanding our solution footprint with existing clients. There is opportunity to expand penetration of our core solutions, such as EHRs and computerized physician order entry, and increase penetration of our broad range of complementary solutions that can be offered into our existing client base. Examples include women's health, anesthesiology, imaging, clinical process optimization, critical care, medical devices, device connectivity, emergency department, revenue cycle and surgery.

We have also introduced services in recent years that are targeted at capturing a larger percentage of our clients' existing IT spending. These services leverage our proven operational capabilities and the success of our CernerWorksSM managed services business, where we have demonstrated the ability to improve our clients' service levels at a cost that is at or below amounts they were previously spending. One of these services is Cerner ITWorksSM, a suite of solutions and services that improve the ability of hospital IT departments to meet their organization's needs while also creating a closer alignment between Cerner and our clients. A second example is Cerner RevWorksSM, which includes solutions and services to help health care organizations improve their revenue cycle functions.

We have made progress over the past several years at reducing the total cost of ownership of our solutions, which expands our end market opportunities by allowing us to offer lower-cost, higher-value solutions and services to smaller community hospitals, critical access hospitals and physician practices. For example, our CommunityWorksTM offering leverages a shared instance of the *Cerner Millennium* platform across multiple clients, which decreases the total cost of ownership for these clients.

We also expect to drive growth over the course of the next decade through initiatives outside the core HCIT market. For example, we offer clinic, pharmacy, wellness and third-party administrator services directly to employers. These offerings have been shaped by what we have learned from changes we have implemented at Cerner over the past six years. We have removed our third-party administrator and become self-administered, launched an on-site clinic and pharmacy, incorporated biometric measurements for our population, realigned the economic incentives for associates in our health plan, and implemented a data-driven wellness management program. These changes have had a significant impact on the health of our associates and have allowed us to do what all employers want to do - reduce health care costs.

As discussed below, another opportunity for future growth, and a significant area of investment for Cerner, is leveraging the vast amounts of data being created as the health care industry is digitized and using this data to help providers manage the health of populations.

Population Health

Today's system of episodic, fee-for-service care is characterized by episodic visits to providers for an acute illness, rather than an ongoing focus on maintaining health. We believe information technology will play a key role in providing real time and predictive information to providers which will facilitate the promotion and management of health and result in lower costs and higher quality interventions.

For health care providers, population health management means serving patients with more precision. It means preventing potentially avoidable complications by developing prescriptive personalized health plans and applying preventive care to keep more people in a state of health, delaying and possibly preventing or reversing the effects of chronic disease.

While this approach is logical and desirable, our system of care is still mostly structured so that physicians and hospitals are paid when people experience illness, not when they remain healthy. This is beginning to change through the formation of organizations, often called Accountable Care Organizations, which reward health systems for keeping healthy people healthy and for delivering higher quality and lower cost care to a defined population. As the industry continues down this path of creating incentives for managing the health of populations, we believe there will be significant new opportunities for Cerner.

We are already providing solutions and services to many of our clients that are foundational elements for population health. Examples of these include data liquidity through our *Cerner Network* interoperability and health information exchange offerings, Lighthouse Enterprise Data Warehousing and Quality solutions, our patient portal platform and personal health record solutions that offer a range of device and provider connectivity options and wellness offerings.

Supporting these solutions is *Health Intent*, which is our cloud-based platform for population health that is agnostic to the source EHR and is also able to capture research, evidence, and financial and operational data. *Health Intent* also supports *Chart Search*, which leverages knowledge of the clinical meanings of words located within the EHR as well as the context in which those words occur to create algorithms that identify and rank the most important information contextually. This capability allows the physician to efficiently search through a patient's health record and identify relevant information in a matter of seconds.

The *Health Intent* platform also provides the ability to apply sophisticated, statistical algorithms against contextual clinical activity to recommend clinical action. We have illustrated this with our sepsis agent, which can assist in detecting the conditions that indicate a patient may be developing sepsis, a potentially fatal condition in which the bloodstream is overwhelmed by bacteria. Clients that have implemented this agent as part of a comprehensive sepsis prevention process have experienced significant reductions in sepsis mortality rates, and the adoption in our client base continues to steadily increase.

We are investing heavily in expanding the *Health Intent* platform and our overall capabilities to support population health. One of the ways we are expanding our capabilities is working closely with clients that are early movers at taking accountability for keeping the populations they serve healthy. A key partner with whom we are working is Advocate Health Care. One of the first outcomes of this partnership was the joint development in 2012 of a predictive agent for readmissions that has demonstrated significant improvement in predictive power as compared to the majority of existing models. Our relationship expanded in early 2013 to further advance clinical integration and population health management capabilities across the continuum of care for the 500,000 lives for which they have gone at risk. We are enabling them to identify who in their population meets criteria across 16 specific registries and 60 performance improvement scorecards with parameters Advocate has created. As members needing care are identified, we will facilitate personalized interventions, enrollment in care management programs, and ongoing monitoring to allow Advocate to keep people healthy.

This work with Advocate is going at a fast pace and is very complex. An example of the complexity is that we are aggregating and normalizing data from more than 50 different data sources, including multiple EHRs, private and public payers, third party billing and registration systems, and physician specialty scorecards. This requires the ability to take both structured and unstructured data and run it through our big data engine using medical language processing, not just the more commonly used natural language processing, or NLP. This allows us to enhance the data and map it to a normalized standard, resulting in a highly structured, longitudinal record that enables real-time analytics.

In September 2013, Cerner and Advocate took a major step forward in delivering our shared vision for population health when we released our *Heath Intent Smart Registries™* solution to Advocate after just seven months of development. *Heath Intent Smart Registries* provide the capability to stratify patient populations based on risk, conditions, and attributed physicians. In addition, the registries enable care managers to quickly determine what key quality measures specific to the designated condition of the patient have been met. It is also noteworthy that *Heath Intent Smart Registries* and our other population health solutions are EHR agnostic, which substantially broadens our addressable market. We have already sold these solutions outside of our installed client base, and there is a good pipeline both inside and outside of our client base.

In summary, we believe our comprehensive architectural approach to population health is differentiated in the marketplace. We expect this platform to create significant opportunities for Cerner as health care continues to evolve towards a model that incents keeping people healthy.

Software Development

We commit significant resources to developing new health information system solutions and services. As of the end of 2013, approximately 3,800 associates were engaged in research and development activities. Total expenditures for the development and enhancement of our software solutions were approximately \$418.7 million, \$319.8 million and \$290.6 million during the 2013, 2012 and 2011 fiscal years, respectively. These figures include both capitalized and non-capitalized portions and exclude amounts amortized for financial reporting purposes.

As discussed above, continued investment in research and development remains a core element of our strategy. This will include ongoing enhancement of our core solutions and development of new solutions and services.

Sales and Marketing

The markets for Cerner HCIT solutions, health care devices and services include integrated delivery networks, physician groups and networks, managed care organizations, hospitals, medical centers, free-standing reference laboratories, home health agencies, blood banks, imaging centers, pharmacies, pharmaceutical manufacturers, employers, governments and public health organizations. The majority of our sales are sales of clinical and revenue cycle solutions and services to hospitals and health systems, but our solutions and services are highly scalable and sold to organizations ranging from physician practices, to community hospitals, to complex integrated delivery networks, to local, regional and national government agencies.

Sales to large health systems typically take approximately nine to 18 months, while the sales cycle is often shorter when selling to smaller hospitals and physician practices. In some instances, the HITECH provisions of ARRA have shortened the sales process due to the timeline required for hospitals to qualify for stimulus incentives.

Our executive marketing management is located at our Innovation Campus in Kansas City, Missouri, while our client representatives are deployed across the United States and globally. In addition to the United States, through our subsidiaries, we have sales associates and/or offices giving us a presence in more than 25 countries.

We support our sales force with technical personnel who perform demonstrations of Cerner solutions and services and assist clients in determining the proper hardware and software configurations. Our primary direct marketing strategy is to generate sales contacts from our existing client base and through presentations at industry seminars and tradeshows. We market the PowerWorks® solutions, offered on a subscription basis, directly to the physician practice market using telemarketing, channel partners and through existing acute care clients that are looking to extend Cerner solutions to affiliated physicians. We attend a number of major tradeshows each year and sponsor executive user conferences, which feature industry experts who address the HCIT needs of large health care organizations.

Client Services

Substantially all of Cerner's clients that buy software solutions also enter into software support agreements with us for maintenance and support of their Cerner systems. In addition to immediate software support in the event of problems, these agreements allow clients to access new releases of the Cerner solutions covered by support agreements. Each client has

24-hour access to the client support team located at our world headquarters in North Kansas City, Missouri, our Continuous Campus in Kansas City, Kansas and our global support organizations in England and Ireland.

Most clients who buy hardware through Cerner also enter into hardware maintenance agreements with us. These arrangements normally provide for a fixed monthly fee for specified services. In the majority of cases, we utilize subcontractors to meet our hardware maintenance obligations. We also offer a set of managed services that include remote hosting, operational management services and disaster recovery.

Backlog

At the end of 2013, we had a contract backlog of \$8.1 billion as compared to \$6.5 billion at the end of 2012. Such backlog represents system sales and services from signed contracts that have not yet been recognized as revenue. At the end of 2013, we had a software support and maintenance backlog of \$786.0 million as compared to \$738.2 million at the end of 2012. Such backlog represents contracted software support and hardware maintenance services for a period of 12 months. We estimate that approximately 28 percent of the aggregate backlog at the end of 2013 of \$8.9 billion will be recognized as revenue during 2014.

Competition

The market for HCIT solutions, devices and services is intensely competitive, rapidly evolving and subject to rapid technological change. Our principal competitors in the health care solutions and services market include, but are not limited to: Allscripts Healthcare Solutions, Inc. (Allscripts), Computer Programs and Systems, Inc. (CPSI), Epic Systems Corporation (Epic), GE Healthcare Technologies (GE), Healthcare Management Systems, Inc. (HMS), Healthland, Inc., Computer Sciences Corporation (iSoft), McKesson Corporation (McKesson), Medical Information Technology, Inc. (Meditech), Siemens Medical Solutions Health Services Corporation (Siemens), and Quadramed Corporation (Quadramed), each of which offers a suite of software solutions that compete with many of our software solutions and services.

Other competitors focus on only a portion of the market that we address. For example, competitors, without limitation, such as Accenture plc, Clinovations, Inc., Dell, Inc. (Dell), Deloitte Consulting LLP (Deloitte), Encore Health Resources, LLC, IBM Corporation, Leidos Holding, Inc. and Xerox Corporation Ltd. offer HCIT services that compete directly with some of our service offerings. Allscripts, AmazingCharts.com, Inc., Athenahealth, Inc., eClinicalWorks LLC, e-MDs, Inc., MED3000, Inc., Practice Fusion, Inc., Quality Systems, Inc., SRSsoft and Vitera Healthcare Solutions offer solutions to the physician practice market but do not currently have a significant presence in the health systems and independent hospital market.

Cerner partners with third parties as a reseller of devices and markets its own competing proprietary health care devices. We view our principal competitors in the health care device market to include, without limitation: API Healthcare, CapsuleTech, Inc., CareFusion Corporation, GE, iSirona, LLC, McKesson and Omnicell, Inc. We view our principal competitors in the health care revenue cycle transactions market to include, without limitation: Accretive Health, Inc., Allscripts, Confier Health Solutions, Dell, Deloitte, Emdeon Corporation, Epic, GE, McKesson, MedAssets, Inc., Meditech, Optum, Inc., Quadramed, Siemens, SSI Group, Inc. and 3M Company with almost all of these competitors being substantially larger or having more experience and market share than us in their respective markets.

In addition, we expect that major software information systems companies, large information technology consulting service providers and system integrators, start-up companies, managed care companies and others specializing in the health care industry may offer competitive software solutions, devices or services. The pace of change in the HCIT market is rapid and there are frequent new software solutions, devices or services introductions, enhancements and evolving industry standards and requirements. We believe that the principal competitive factors in this market include the breadth and quality of solution and service offerings, the stability of the solution provider, the features and capabilities of the information systems and devices, the ongoing support for the systems and devices and the potential for enhancements and future compatible software solutions and devices.

Number of Employees (Associates)

At the end of 2013, we employed approximately 14,200 associates worldwide.

Operating Segments

Information about our operating segments, which are geographically based, may be found in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" below and in Note (19) to the consolidated financial statements.

Executive Officers of the Registrant

The following table sets forth the names, ages, positions and certain other information regarding the Company's executive officers as of January 31, 2014. Officers are elected annually and serve at the discretion of the Board of Directors.

<u>Name</u>	<u>Age</u>	<u>Positions</u>
Neal L. Patterson	64	Chairman of the Board of Directors and Chief Executive Officer
Clifford W. Illig	63	Vice Chairman of the Board of Directors
Zane M. Burke	48	President
Marc G. Naughton	58	Executive Vice President and Chief Financial Officer
Michael R. Nill	49	Executive Vice President and Chief Operating Officer
Randy D. Sims	53	Senior Vice President, Chief Legal Officer and Secretary
Jeffrey A. Townsend	50	Executive Vice President and Chief of Staff
Julia M. Wilson	51	Executive Vice President and Chief People Officer

Neal L. Patterson, co-founder of the Company, has been Chairman of the Board of Directors and Chief Executive Officer of the Company for more than five years. Mr. Patterson served as President of the Company from July 2010 to September 2013, which position he also held from March of 1999 until August of 1999.

Clifford W. Illig, co-founder of the Company, has been a Director of the Company for more than five years. He previously served as Chief Operating Officer of the Company until October 1998 and as President of the Company until March of 1999. Mr. Illig was appointed Vice Chairman of the Board of Directors in March of 1999.

Zane M. Burke joined the Company in September 1996. Since that time, he has held a variety of client-facing sales, implementation and support roles, including Corporate Controller and Vice President of Finance. He was promoted to President of the Company's West region in 2002 and Senior Vice President of National Alignment in 2006. He was further promoted to Executive Vice President - Client Organization in July 2011 and to President of the Company in September 2013.

Marc G. Naughton joined the Company in November 1992 as Manager of Taxes. In November 1995 he was named Chief Financial Officer and in February 1996 he was promoted to Vice President. He was promoted to Senior Vice President in March 2002 and promoted to Executive Vice President in March 2010.

Michael R. Nill joined the Company in November 1996. Since that time he has held several positions in the Technology, Intellectual Property and CernerWorks Client Hosting Organizations. He was promoted to Vice President in January 2000, promoted to Senior Vice President in April 2006 and promoted to Executive Vice President and named Chief Engineering Officer in February 2009. Mr. Nill was appointed Chief Operating Officer in May 2011.

Randy D. Sims joined the Company in March 1997 as Vice President and Chief Legal Officer and was promoted to Senior Vice President in March 2011. Prior to joining the Company, Mr. Sims worked at Farmland Industries, Inc. for three years where he last served as Associate General Counsel. Prior to Farmland, Mr. Sims was in-house legal counsel at The Marley Company for seven years, holding the position of Assistant General Counsel when he left to join Farmland.

Jeffrey A. Townsend joined the Company in June 1985. Since that time he has held several positions in the Intellectual Property Organization and was promoted to Vice President in February 1997. He was appointed Chief Engineering Officer in March 1998, promoted to Senior Vice President in March 2001, named Chief of Staff in July 2003 and promoted to Executive Vice President in March 2005.

Julia M. Wilson first joined the Company in July 1990. Since that time, she has held several positions in the Functional Group Organization. She was promoted to Vice President and Chief People Officer in August 2003, to Senior Vice President in March 2007 and to Executive Vice President in March 2013.

Item 1A. Risk Factors

Risks Related to our Business

We may incur substantial costs related to product-related liabilities. Many of our software solutions, health care devices or services (including life sciences/research services) are intended for use in collecting, storing and displaying clinical and health care-related information used in the diagnosis and treatment of patients and in related health care settings such as admissions, billing, etc. We attempt to limit by contract our liability; however, the limitations of liability set forth in the contracts may not be enforceable or may not otherwise protect us from liability for damages. We may also be subject to claims that are not covered by contract, such as a claim directly by a patient. Although we maintain liability insurance coverage, there can be no assurance that such coverage will cover any particular claim that has been brought or that may be brought in the future, 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 material claim or series of claims brought against us, if uninsured or under-insured, could materially harm our business, results of operations and financial condition. Product-related claims, even if not successful, could damage our reputation, cause us to lose existing clients, limit our ability to obtain new clients, divert management's attention from operations, result in significant revenue loss, create potential liabilities for our clients and us and increase insurance and other operational costs.

We may be subject to claims for system errors and warranties. Our software solutions and health care devices are very complex and may contain design, coding or other errors, especially when first introduced. It is not uncommon for HCIT providers to discover errors in software solutions and/or health care devices after their introduction to the market. Similarly, the installation of our software solutions and health care devices is very complex and errors in the implementation and configuration of our systems can occur. Our software solutions and health care devices are intended for use in collecting, storing, and displaying clinical and health care-related information used in the diagnosis and treatment of patients and in related health care settings such as admissions, billing, etc. Therefore, users of our software solutions and health care devices have a greater sensitivity to errors than the market for software products and devices generally. Our client agreements typically provide warranties concerning material errors and other matters. Should a client's Cerner software solution or health care device fail to meet these warranties or lead to faulty clinical decisions or injury to patients, it could 1) constitute a material breach under the client agreement, allowing the client to terminate the agreement and possibly obtain a refund or damages or both, or require us to incur additional expense in order to make the software solution or health care device meet these criteria or 2) subject us to claims or litigation by our clients or clinicians or directly by the patient. Additionally, such failures could damage our reputation and could negatively affect future sales. Our client agreements generally limit our liability arising from such claims but such limits may not be enforceable in certain jurisdictions or circumstances. Although we maintain liability insurance coverage, there can be no assurance that such coverage will cover any particular claim that has been brought or that may be brought in the future, 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 material claim or series of claims brought against us, if uninsured or under-insured, could materially harm our business, results of operations and financial condition.

We may experience interruption at our data centers or client support facilities. Our business relies on the secure electronic transmission, data center storage and hosting of sensitive information, including protected health information, financial information and other sensitive information relating to our clients, company and workforce. We perform data center and/or hosting services for certain clients, including the storage of critical patient and administrative data and support services through various client support facilities. If any of these systems are interrupted, damaged or breached by an unforeseen event or actions of a third party, including a cyber-attack, or fail for any extended period of time, it could have a material adverse impact on our results of operations. Complete failure of all local public power and backup generators, impairment of all telecommunications lines, a concerted denial of service cyber-attack, a significant data breach, damage, injury or impairment (environmental, accidental, intentional or pandemic) to the buildings, the equipment inside the buildings housing our data centers, the personnel operating such facilities or the client data contained therein, or errors by the personnel trained to operate such facilities could cause a disruption in operations and negatively impact clients who depend on us for data center and system support services. We offer our clients disaster recovery services for additional fees to protect clients from isolated data center failures, leveraging our multiple data center facilities, however only a small percentage of our hosted clients choose to contract for these services. Any interruption in operations at our data centers and/or client support facilities could damage our reputation, cause us to lose existing clients, hurt our ability to obtain new clients, result in significant revenue loss, create potential liabilities for our clients and us and increase insurance and other operating costs.

Our proprietary technology may be subject to claims for infringement or misappropriation of intellectual property rights of others, or may be infringed or misappropriated by others. We rely upon a combination of license agreements, confidentiality policies and procedures, confidentiality provisions in employment agreements, confidentiality agreements with

third parties and technical security measures to maintain the confidentiality, exclusivity and trade secrecy of our proprietary information. We also rely on trademark and copyright laws to protect our intellectual property rights in the United States and abroad. We continue to develop our patent portfolio of United States and global patents, but these patents do not provide comprehensive protection for the wide range of solutions, devices and services we offer. Despite our protective measures and intellectual property rights, we may not be able to adequately protect against theft, copying, reverse-engineering, misappropriation, infringement or unauthorized use or disclosure of our intellectual property, which could have an adverse effect on our competitive position.

In addition, we are routinely involved in intellectual property infringement or misappropriation claims and we expect this activity to continue or even increase as the number of competitors, patents and patent enforcement organizations in the HCIT market increases, the functionality of our software solutions and services expands, the use of open-source software increases and we enter new geographies and new markets such as health care device innovation, health care transactions, revenue cycle, population health management and life sciences. These claims, even if not meritorious, are expensive to defend and are often incapable of prompt resolution. If we become liable to third parties for infringing or misappropriating their intellectual property rights, we could be required to pay a substantial damage award, develop alternative technology, obtain a license or cease using, selling, offering for sale, licensing, importing, implementing or supporting the solutions, devices and services that violate the intellectual property rights.

We may become subject to legal proceedings that could have a material adverse impact on our financial position and results of operations. From time to time and in the ordinary course of our business, we and certain of our subsidiaries may become involved in various legal proceedings. All such legal proceedings are inherently unpredictable and, regardless of the merits of the claims, litigation may be expensive, time-consuming, disruptive to our operations and distracting to management. If resolved against us, such legal proceedings could result in excessive verdicts, injunctive or other equitable relief that may affect how we operate our business, or settlements of claims for monetary damages. Future court decisions, or alternative dispute resolution awards, business expansion or legislative activity may increase our exposure to litigation and regulatory investigations. In some cases, substantial non-economic remedies or punitive damages may be sought. Although we maintain liability insurance coverage, there can be no assurance that such coverage will cover any particular verdict, judgment or settlement that may be entered against us, that such coverage will prove to be adequate or that such coverage will continue to remain available on acceptable terms, if at all. If we incur liability that exceeds our insurance coverage or that is not within the scope of the coverage in legal proceedings brought against us, it could have an adverse effect on our business, financial condition and results of operations. For additional information regarding certain legal proceedings in which we are involved, see Part I, Item 3 "Legal Proceedings".

We are subject to risks associated with our non-U.S. operations. We market, sell and service our solutions, devices and services globally. We have established offices around the world, including in the Americas, Europe, the Middle East and the Asia Pacific region. We plan to continue to expand our non-U.S. operations and enter new global markets. This expansion will require significant management attention and financial resources to develop successful direct and indirect non-U.S. sales and support channels. Our business is generally transacted in the local functional currency. In some countries, our success will depend in part on our ability to form relationships with local partners. There is a risk that we may sometimes choose the wrong partner. For these and other reasons, we may not be able to maintain or increase non-U.S. market demand for our solutions, devices and services.

Non-U.S. operations are subject to inherent risks, and our future results could be adversely affected by a variety of uncontrollable and changing factors. These include, but are not limited to:

- Greater difficulty in collecting accounts receivable and longer collection periods
- Difficulties and costs of staffing and managing non-U.S. operations
- The impact of global economic conditions
- Effects of sovereign debt conditions, including budgetary constraints
- Unfavorable or volatile foreign currency exchange rates
- Legal compliance costs or business risks associated with our global operations where: i) local laws and customs differ from those in the United States, or ii) risk is heightened with respect to laws prohibiting improper payments and bribery, including without limitation the U.S. Foreign Corrupt Practices Act, the U.K. Anti-Bribery Act and similar laws and regulations in foreign jurisdictions
- Certification, licensing or regulatory requirements
- Unexpected changes in regulatory requirements

- Changes to or reduced protection of intellectual property rights in some countries
- Potentially adverse tax consequences and difficulties associated with repatriating cash generated or held abroad in a tax-efficient manner
- Different or additional functionality requirements or preferences
- Trade protection measures
- Export control regulations
- Health service provider or government spending patterns
- Natural disasters, war or terrorist acts
- Labor disruptions that may occur in a country
- Poor selection of a partner in a country
- Political conditions which may impact sales or threaten the safety of associates or our continued presence in these countries

Our failure to effectively hedge exposure to fluctuations in foreign currency exchange rates could unfavorably affect our performance. We currently utilize a non-derivative instrument to hedge our exposure to fluctuations in certain foreign currency exchange rates. This instrument may involve elements of market risk in excess of the amounts recognized in the Consolidated Financial Statements. For additional information about market risk on financial instruments, see Item 7A “Quantitative and Qualitative Disclosures about Market Risk”. Further, our financial results from non-U.S. operations may be negatively affected if we fail to execute or if we improperly hedge our exposure to currency fluctuations.

We are subject to tax legislation in numerous countries; tax legislation initiatives or challenges to our tax positions could adversely affect our results of operations and financial condition. We are a global corporation with a presence in more than 25 countries. As such, we are subject to tax laws, regulations and policies of the United States federal, state and local governments and of other country jurisdictions. From time to time, various legislative initiatives may be proposed that could adversely affect our tax positions and/or our tax liabilities. There can be no assurance that our effective tax rate or tax payments will not be adversely affected by these initiatives. In addition, United States federal, state and local, as well as other countries’ tax laws and regulations are extremely complex and subject to varying interpretations. There can be no assurance that our tax positions will not be challenged by relevant tax authorities or that we would be successful in any such challenge, which could result in double taxation, penalties and interest payments.

Our success depends upon the recruitment and retention of key personnel. To remain competitive in our industries, we must attract, motivate and retain highly skilled managerial, sales, marketing, consulting and technical personnel, including executives, consultants, programmers and systems architects skilled in the HCIT, health care devices, health care transactions, population health management, revenue cycle and life sciences industries and the technical environments in which our solutions, devices and services are needed. Competition for such personnel in our industries is intense in both the United States and abroad. Our failure to attract additional qualified personnel to meet our needs could have a material adverse effect on our prospects for long-term growth. In addition, we invest significant time and expense in training our associates, which increases their value to clients and competitors who may seek to recruit them and increases the cost of replacing them. Our success is dependent to a significant degree on the continued contributions of key management, sales, marketing, consulting and technical personnel. The unexpected loss of key personnel could have a material adverse impact on our business and results of operations, and could potentially inhibit development and delivery of our solutions, devices and services and market share advances.

We depend on third party suppliers and our revenue and operating earnings could suffer if we fail to manage suppliers properly. We license or purchase intellectual property and technology (such as software, hardware and content) from third parties, including some competitors, and incorporate such third party software, hardware or content into or sell or license it in conjunction with our solutions, devices and services. We depend on some of the third party software, hardware or content in the operation and delivery of our solutions, devices and services. For instance, we currently depend on Microsoft and IBM technologies for portions of the operational capabilities of our *Millennium* solutions. Our remote hosting and cloud services businesses also rely on a limited number of suppliers for certain functions of these businesses, such as Oracle database technologies, CITRIX technologies and Cisco networking technologies. Additionally, we rely on EMC, Hewlett Packard and IBM for our hardware technology platforms.

Most of the third party software licenses we have expire within one to five years, can be renewed only by mutual consent and may be terminated if we breach the terms of the license and fail to cure the breach within a specified period of time.

Most of these third party software licenses are non-exclusive; therefore, our competitors may obtain the right to use any of the technology covered by these licenses and use the technology to compete directly with us.

If any of the third party suppliers were to change product offerings, cease actively supporting the technologies, fail to update and enhance the technologies to keep pace with changing industry standards, encounter technical difficulties in the continuing development of these technologies, significantly increase prices, terminate our licenses or supply contracts, suffer significant capacity constraints or suffer significant disruptions, we would need to seek alternative suppliers and incur additional internal or external development costs to ensure continued performance of our solutions, devices and services. Such alternatives may not be available on attractive terms, or may not be as widely accepted or as effective as the intellectual property or technology provided by our existing suppliers. If the cost of licensing, purchasing or maintaining the third party intellectual property or technology significantly increases, our operating earnings could significantly decrease. In addition, interruption in functionality of our solutions, devices or services as a result of changes in third party suppliers could adversely affect our commitments to customers, future sales of solutions, devices and services, and negatively affect our revenue and operating earnings.

We intend to continue strategic business acquisitions and other combinations, which are subject to inherent risks.

In order to expand our solutions, device offerings and services and grow our market and client base, we may continue to seek and complete strategic business acquisitions and other combinations that we believe are complementary to our business. Acquisitions have inherent risks which may have a material adverse effect on our business, financial condition, operating results or prospects, including, but not limited to: 1) failure to successfully integrate the business and financial operations, services, intellectual property, solutions or personnel of an acquired business and to maintain uniform standard controls, policies and procedures; 2) diversion of management's attention from other business concerns; 3) entry into markets in which we have little or no direct prior experience; 4) failure to achieve projected synergies and performance targets; 5) loss of clients or key personnel; 6) incurrence of debt or assumption of known and unknown liabilities; 7) write-off of software development costs, goodwill, client lists and amortization of expenses related to intangible assets; 8) dilutive issuances of equity securities; and, 9) accounting deficiencies that could arise in connection with, or as a result of, the acquisition of an acquired company, including issues related to internal control over financial reporting and the time and cost associated with remedying such deficiencies. If we fail to successfully integrate acquired businesses or fail to implement our business strategies with respect to these acquisitions, we may not be able to achieve projected results or support the amount of consideration paid for such acquired businesses.

We could suffer losses due to asset impairment charges. We assess our goodwill for impairment during the second quarter every year and on an interim date should events or changes in circumstances indicate the carrying value of goodwill may not be recoverable in accordance with provisions of Accounting Standards Codification Topic 350, *Intangibles – Goodwill and Other*. Declines in business performance or other factors could cause the fair value of a reporting unit to be revised downward and could result in a non-cash impairment charge. This could negatively affect our reported net earnings.

Volatility and disruption resulting from global economic conditions could negatively affect our business, results of operations and financial condition. Although certain indices and economic data have shown signs of stabilization in the United States and certain global markets, there can be no assurance that these improvements will be broad-based or sustainable, nor is it clear how, if at all, they will affect the markets relevant to us. As a result, our operating results may be impacted by the health of the global economy. Volatility and disruption in global capital and credit markets may lead to slowdowns or declines in client spending which could adversely affect our business and financial performance. Our business and financial performance, including new business bookings and collection of our accounts receivable, may be adversely affected by current and future economic conditions (including a reduction in the availability of credit, higher energy costs, rising interest rates, financial market volatility and lower than expected economic growth) that cause a slowdown or decline in client spending. Reduced purchases by our clients or changes in payment terms could adversely affect our revenue growth and cause a decrease in our cash flow from operations. Bankruptcies or similar events affecting clients may cause us to incur bad debt expense at levels higher than historically experienced. Further, volatility and disruption in global financial markets may also limit our ability to access the capital markets at a time when we would like, or need, to raise capital, which could have an impact on our ability to react to changing economic and business conditions. Accordingly, if global financial and economic volatility continues or worsens, our business, results of operations and financial condition could be materially and adversely affected.

If we are unable to manage our growth in the new markets in which we offer solutions, health care devices or services, our business and financial results could suffer. Our future financial results will depend in part on our ability to profitably manage our business in the new markets that we enter. Over the past several years, we have engaged in the identification of, and competition for, growth and expansion opportunities in the areas of analytics, revenue cycle and population health.

In order to achieve those initiatives, we will need to, among other things, recruit, train, retain and effectively manage associates, manage changing business conditions and implement and improve our technical, administrative, financial control and reporting systems for offerings in those areas. Difficulties in managing future growth in new markets could have a significant negative impact on our business, financial condition and results of operations.

Risks Related to the Health Care Information Technology, Health Care Device, Health Care Transaction and Population Health Management Industry

The health care industry is subject to changing political, economic and regulatory influences. For example, the Health Insurance Portability and Accountability Act of 1996 (as modified by The Health Information Technology for Economic and Clinical Health Act (HITECH) provisions of the American Recovery and Reinvestment Act of 2009) (collectively, HIPAA) continues to have a direct impact on the health care industry by requiring national provider identifiers and standardized transactions/code sets, operating rules and necessary security and privacy measures in order to ensure the appropriate level of privacy of protected health information. These regulatory factors affect the purchasing practices and operation of health care organizations.

Many health care providers are consolidating to create integrated health care delivery systems with greater market power. These providers may try to use their market power to negotiate price reductions for our solutions, health care devices and services. As the health care industry consolidates, our client base could be eroded, competition for clients could become more intense and the importance of landing new client relationships becomes greater.

The Patient Protection and Affordable Care Act, which was amended by the Health Care and Education Reconciliation Act of 2010, became law in 2010. This comprehensive health care reform legislation included provisions to control health care costs, improve health care quality, and expand access to affordable health insurance. Together with ongoing statutory and budgetary policy developments at a federal level, this health care reform legislation could include changes in Medicare and Medicaid payment policies and other health care delivery administrative reforms that could potentially negatively impact our business and the business of our clients. Because not all the administrative rules implementing health care reform under the legislation have been finalized, and because of ongoing federal fiscal budgetary pressures yet to be resolved for federal health programs, the full impact of the health care reform legislation and of further statutory actions to reform healthcare payment on our business is unknown, but there can be no assurances that health care reform legislation will not adversely impact either our operational results or the manner in which we operate our business. Health care industry participants may respond by reducing their investments or postponing investment decisions, including investments in our solutions and services.

The health care industry is highly regulated at the local, state and federal level. The impact of these regulations on us is direct, to the extent that we are ourselves subject to these laws and regulations, and is also indirect because, in a number of situations, even though we may not be directly regulated by specific health care laws and regulations, our solutions, devices and services must be capable of being used by our clients in a way that complies with those laws and regulations. There is a significant and wide-ranging number of regulations both within the United States and abroad, such as regulations in the areas of health care fraud, e-prescribing, claims processing and transmission, medical devices, the security and privacy of patient data and interoperability standards, that may be directly or indirectly applicable to our operations and relationships or the business practices of our clients. Specific risks include, but are not limited to, the following:

Health Care Fraud. Federal and state governments continue to enhance regulation of and increase their scrutiny over practices involving health care fraud, waste and abuse affecting health care providers whose services are reimbursed by Medicare, Medicaid and other government health care programs. Our health care provider clients, as well as our provision of products and services to government entities subject our business to laws and regulations on fraud and abuse which, among other things, prohibit the direct or indirect payment or receipt of any remuneration for patient referrals, or arranging for or recommending referrals or other business paid for in whole or in part by these federal or state health care programs. Federal enforcement personnel have substantial funding, powers and remedies to pursue suspected or perceived fraud and abuse. The effect of this government regulation on our clients is difficult to predict. Many of the regulations applicable to our clients and that may be applicable to us, including those relating to marketing incentives offered in connection with medical device sales, are vague or indefinite and have not been interpreted by the courts. They may be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that could broaden their applicability to us or require our clients to make changes in their operations or the way in which they deal with us. If such laws and regulations are determined to be applicable to us and if we fail to comply with any applicable laws and regulations, we could be subject to civil and criminal penalties, sanctions or other liability, including exclusion from government health programs, which could have a material adverse effect on our business, results of operations and financial condition. Even an unsuccessful challenge by a regulatory or prosecutorial

authority of our activities could result in adverse publicity, could require a costly response from us and could adversely affect our business, financial condition and results of operations.

Preparation, Transmission and Submission of Medical Claims for Reimbursement. Our solutions are capable of electronically transmitting claims for services and items rendered by a physician to many patients' payers for approval and reimbursement. We also provide services to our clients that include the coding, preparation and submission of claims for medical service to payers for reimbursement. Such claims are governed by federal and state laws. Federal law provides civil liability to any person that knowingly submits a claim to a payer, including Medicare, Medicaid and private health plans, seeking payment for any services or items that have not been provided to the patient. Federal law may also impose criminal penalties for intentionally submitting such false claims. We have policies and procedures in place that we believe result in the accurate and complete preparation, transmission, submission and collection of claims, provided that the information given to us by our clients is also accurate and complete. The HIPAA security, privacy and transaction standards, as discussed below, also have a potentially significant effect on our claims preparation, transmission and submission services, since those services must be structured and provided in a way that supports our clients' HIPAA compliance obligations. In connection with these laws, we may be subjected to federal or state government investigations and possible penalties may be imposed upon us; false claims actions may have to be defended; private payers may file claims against us; and we may be excluded from Medicare, Medicaid or other government-funded health care programs. Any investigation or proceeding related to these laws, even if unwarranted or without merit, may have a material adverse effect on our business, results of operations and financial condition.

Implementation of ICD-10 Coding for Medical Coding. The Centers for Medicare & Medicaid Services (CMS) has mandated that all providers, payers, clearinghouses and billing services implement the use of new patient codes for medical coding, referred to as ICD-10 codes on or before October 1, 2014. This mandate substantially increases the number of medical billing codes by which providers will seek reimbursement, increasing the complexity of submitting claims for reimbursement. Claims submitted after October 1, 2014 must use ICD-10 codes or they will not be paid. Our efforts to provide services and solutions that enable our clients to comply with the ICD-10 mandate could be time consuming and expensive. In addition, due to the effort and expense of complying with the ICD-10 mandate, our clients may postpone or cancel decisions to purchase our solutions and services. Either of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

Regulation of Medical Devices. The United States Food and Drug Administration (the FDA) has determined that certain of our solutions are medical devices that are actively regulated under the Federal Food, Drug and Cosmetic Act (Act) and amendments to the Act. Other countries have similar regulations in place related to medical devices, that now or may in the future apply to certain of our solutions. If other of our solutions are deemed to be actively regulated medical devices by the FDA or similar regulatory agencies in countries where we do business, we could be subject to extensive requirements governing pre- and post-marketing activities including pre-market notification clearance. Complying with these medical device regulations on a global perspective is time consuming and expensive and could be subject to unanticipated and significant delays. Further, it is possible that these regulatory agencies may become more active in regulating software and medical devices that are used in health care. If we are unable to obtain the required regulatory approvals for any such solutions or medical devices, our short and long term business plans for these solutions or medical devices could be delayed or canceled.

There have been six FDA inspections at various Cerner sites since 2003. Inspections conducted at our world headquarters and Innovations Campus in 2010 resulted in the issuance of an FDA Form 483 observation to which we responded promptly. The FDA has taken no further action with respect to the Form 483 observation that was issued in 2010. The remaining FDA inspections, including inspections at our world headquarters in 2006 and 2007, resulted in no issuance of a Form 483. We remain subject to periodic FDA inspections and we could be required to undertake additional actions to comply with the Act and any other applicable regulatory requirements. Our failure to comply with the Act and any other applicable regulatory requirements could have a material adverse effect on our ability to continue to manufacture, distribute and deliver our solutions, services and devices. The FDA has many enforcement tools including recalls, product corrections, seizures, injunctions, refusal to grant pre-market clearance of products, civil fines and criminal prosecutions. Any of the foregoing could have a material adverse effect on our business, results of operations and financial condition.

Security and Privacy of Patient Information. Federal, state, local and foreign laws regulate the confidentiality of patient records and the circumstances under which those records may be used and released. These regulations govern both the disclosure and use of confidential patient medical record information and require the users of such information to implement specified security and privacy measures. United States regulations currently in place governing electronic health data transmissions continue to evolve and are often unclear and difficult to apply. Laws in non-U.S. jurisdictions may have similar or even stricter requirements related to the treatment of patient information.

In the United States, HIPAA regulations require national standards for some types of electronic health information transactions and the data elements used in those transactions, security standards to ensure the integrity and confidentiality of health information and standards to protect the privacy of individually identifiable health information. Covered entities under HIPAA, which include health care organizations such as our clients, our employer clinic business model and our claims processing, transmission and submission services, are required to comply with the privacy standards, the transaction regulations and the security regulations. Moreover, the HITECH provisions of ARRA, and associated regulatory requirements, extend many of the HIPAA obligations, formerly imposed only upon covered entities, to business associates as well. As a business associate of our clients who are covered entities, we were in most instances already contractually required to ensure compliance with the HIPAA regulations as they pertain to handling of covered client data. However, the extension of these HIPAA obligations to business associates by law has created additional liability risks related to the privacy and security of individually identifiable health information.

Evolving HIPAA and HITECH-related laws or regulations in the U.S. and data privacy and security laws or regulations in non-U.S. jurisdictions could restrict the ability of our clients to obtain, use or disseminate patient information. This could adversely affect demand for our solutions if they are not re-designed in a timely manner in order to meet the requirements of any new interpretations or regulations that seek to protect the privacy and security of patient data or enable our clients to execute new or modified health care transactions. We may need to expend additional capital, software development and other resources to modify our solutions and devices to address these evolving data security and privacy issues. Furthermore, our failure to maintain confidentiality of sensitive personal information in accordance with the applicable regulatory requirements could damage our reputation and expose us to claims, fines and penalties.

Federal and state statutes and regulations have granted broad enforcement powers to regulatory agencies to investigate and enforce our compliance with these privacy and security laws and regulations. Federal and state enforcement personnel have substantial funding, powers and remedies to pursue suspected or perceived violations. If we fail to comply with any applicable laws or regulations, we could be subject to civil penalties, sanctions or other liability. Enforcement investigations, even if meritless, could have a negative impact on our reputation, cause us to lose existing clients or limit our ability to attract new clients.

Interoperability Standards. Our clients are concerned with and often require that our software solutions and health care devices be interoperable with other third party HCIT suppliers. Market forces or governmental/regulatory authorities could create software interoperability standards that would apply to our solutions, health care devices or solutions, and if our software solutions, health care devices or services are not consistent with those standards, we could be forced to incur substantial additional development costs to conform. The Certification Commission for Healthcare Information Technology (CCHIT) has developed a comprehensive set of criteria for the functionality, interoperability and security of various software modules in the HCIT industry. CCHIT, however, continues to modify and refine those standards. Achieving CCHIT certification is becoming a competitive requirement, resulting in increased software development and administrative expense to conform to these requirements.

ARRA Meaningful Use Program. Various federal, state and non-U.S. government agencies are also developing standards that could become mandatory for systems purchased by these agencies. For example, ARRA requires “meaningful use of certified electronic health record technology” by health care providers in order to receive stimulus funds from the U.S. federal government. Regulations have been issued that identify standards and implementation specifications and establish the certification standards for qualifying electronic health record technology. Nevertheless, these standards and specifications are subject to interpretation by the entities designated to certify such technology. While a combination of our solutions have been certified as meeting the initial standards for certified health record technology, the regulatory standards to achieve certification will continue to evolve over time. We may incur increased development costs and delays in delivering solutions if we need to upgrade our software, devices or health care devices to be in compliance with these varying and evolving standards. In addition, delays in interpreting these standards may result in postponement or cancellation of our clients’ decisions to purchase our solutions or health care devices. If our software solutions, devices or health care devices are not compliant with these evolving standards, our market position and sales could be impaired and we may have to invest significantly in changes to our software solutions, devices or health care devices.

We operate in intensely competitive and dynamic industries, and our ability to successfully compete and continue to grow our business depends on our ability to respond quickly to market changes and changing technologies and to bring competitive new solutions, devices, features and services to market in a timely fashion. The market for health care information systems, health care devices and services to the health care industry is intensely competitive, dynamically evolving and subject to rapid technological and innovative changes. Development of new proprietary technology or services

is complex, entails significant time and expense and may not be successful. We cannot guarantee that we will be able to introduce new solutions, devices or services on schedule, or at all, nor can we guarantee that such solutions, devices or services will achieve market acceptance. Moreover, we cannot guarantee that errors will not be found in our new solution releases, devices or services before or after commercial release, which could result in solution, device or service delivery redevelopment costs, harm to our reputation, lost sales, license terminations or renegotiations, product liability claims, diversion of resources to remedy errors and loss of, or delay in, market acceptance.

Certain of our competitors have greater financial, technical, product development, marketing or other resources than us and some of our competitors offer software solutions, devices or services that we do not offer. Our principal existing competitors are set forth above under Part I, Item 1 "Competition".

In addition, we expect that major software information systems companies, large information technology consulting service providers and system integrators, start-up companies and others specializing in the health care industry may offer competitive software solutions, devices or services. As we continue to develop new health care devices and services to address areas such as analytics, transaction services, HCIT and device integration, revenue cycle and population health management, we expect to face new competitors, and these competitors may have more experience in these markets and/or more established relationships with prospective clients. We face strong competition and often face downward price pressure, which could adversely affect our results of operations or liquidity. Additionally, the pace of change in the health care information systems market is rapid and there are frequent new software solution introductions, software solution enhancements, device introductions, device enhancements and evolving industry standards and requirements. There are a limited number of hospitals and other health care providers in the United States market and in recent years, the health care industry has been subject to increasing consolidation. As the industry consolidates, costs fall, technology improves, and market factors continue to compel investment by health care organizations in solutions and services like ours, market saturation in the United States may change the competitive landscape in favor of larger, more diversified competitors with greater scale. If we are unable to recognize these changes in a timely manner, or we are too inflexible to rapidly adjust our business models, our growth ambitions and financial results could be negatively affected materially.

Risks Related to Our Common Stock

Our quarterly operating results may vary, which could adversely affect our stock price. Our quarterly operating results have varied in the past and may continue to vary in future periods, including variations from guidance, expectations or historical results or trends. Quarterly operating results may vary for a number of reasons including demand for our solutions, devices and services, the financial condition of our current and potential clients, our long sales cycle, potentially long installation and implementation cycles for larger, more complex systems, accounting policy changes and other factors described in this section and elsewhere in this report. As a result of health care industry trends and the market for our solutions, a large percentage of our revenues are generated by the sale and installation of larger, more complex and higher-priced systems. The sales process for these systems is lengthy and involves a significant technical evaluation and commitment of capital and other resources by the client. Sales may be subject to delays due to changes in clients' internal budgets, procedures for approving large capital expenditures, competing needs for other capital expenditures, additions or amendments to federal, state or local regulations, availability of personnel resources or by actions taken by competitors. Delays in the expected sale, installation or implementation of these large systems may have a significant negative impact on our anticipated quarterly revenues and consequently our earnings, since a significant percentage of our expenses are relatively fixed.

Revenue recognized in any quarter may depend upon our or our clients' abilities to meet project milestones. Delays in meeting these milestone conditions or modification of the project plan 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.

Our revenues from system sales historically have been lower in the first quarter of the year and greater in the fourth quarter of the year, primarily as a result of clients' year-end efforts to make final capital expenditures for the then-current year.

Our sales forecasts may vary from actual sales in a particular quarter. We use a "pipeline" system, a common industry practice, to forecast sales and trends in our business. Our sales associates monitor the status of all sales opportunities, such as the date when they estimate that a client will make a purchase decision and the potential dollar amount of the sale. These estimates are aggregated periodically to generate a sales pipeline. We compare this pipeline at various points in time to evaluate trends in our business. This analysis provides guidance in business planning and forecasting, but these pipeline estimates are by their nature speculative. Our pipeline estimates are not necessarily reliable predictors of revenues in a particular quarter or over a longer period of time, partially because of changes in the pipeline and in conversion rates of the pipeline into contracts that can be very difficult to estimate. A negative variation in the expected conversion rate or timing of

the pipeline into contracts, or in the pipeline itself, could cause our plan or forecast to be inaccurate and thereby adversely affect business results. For example, a slowdown in information technology spending, adverse economic conditions, new federal, state or local regulations related to our industry or a variety of other factors can cause purchasing decisions to be delayed, reduced in amount or cancelled, which would reduce the overall pipeline conversion rate in a particular period of time. Because a substantial portion of our contracts are completed in the latter part of a quarter, we may not be able to adjust our cost structure quickly enough in response to a revenue shortfall resulting from a decrease in our pipeline conversion rate in any given fiscal quarter.

The trading price of our common stock may be volatile. The market for our common stock may experience significant price and volume fluctuations in response to a number of factors including actual or anticipated variations in operating results, articles or rumors about our performance or solutions, devices or services, announcements of technological innovations or new services or products by our competitors or us, changes in expectations of future financial performance or estimates of securities analysts, governmental regulatory action, health care reform measures, client relationship developments, economic conditions and changes occurring in the securities markets in general and other factors, many of which are beyond our control. For instance, our quarterly operating results have varied in the past and may continue to vary in future periods, due to a number of reasons including, but not limited to, demand for our solutions, devices and services, the financial condition of our current and potential clients, our long sales cycle, potentially long installation and implementation cycles for larger, more complex and higher-priced systems, accounting policy changes and other factors described herein. As a matter of policy, we do not generally comment on our stock price or rumors.

Furthermore, the stock market in general, and the markets for software, health care devices, other health care solutions and services and information technology companies in particular, have 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 our common stock, regardless of actual operating performance.

Our Directors have authority to issue preferred stock and our corporate governance documents contain anti-takeover provisions. Our Board of Directors has the authority to issue up to 1,000,000 shares of preferred stock and to determine the preferences, rights and privileges of those shares without any further vote or action by the shareholders. The rights of the holders of common stock may be harmed by rights granted to the holders of any preferred stock that may be issued in the future.

In addition, some provisions of our Certificate of Incorporation and Bylaws could make it more difficult for a potential acquirer to acquire a majority of our outstanding voting stock. These include provisions that provide for a classified board of directors, prohibit shareholders from taking action by written consent and restrict the ability of shareholders to call special meetings. We are also subject to provisions of Delaware law that prohibit us from engaging in any business combination with any interested shareholder for a period of three years from the date the person became an interested shareholder, unless certain conditions are met, which could have the effect of delaying or preventing a change of control.

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

Statements made in this report, the Annual Report to Shareholders of which this report is made a part, other reports and proxy statements filed with the Securities and Exchange Commission (SEC), communications to shareholders, 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, plans, goals or predictions of future events or performance, may constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements can often be identified by the use of forward-looking terminology, such as "could," "should," "will," "intended," "continue," "believe," "may," "expect," "hope," "anticipate," "goal," "forecast," "plan," "guidance" or "estimate" or the negative of these words, variations thereof or similar expressions. Forward-looking statements are not guarantees of future performance or results. They involve risks, uncertainties and assumptions. 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 in this Item 1A. Risk Factors and elsewhere herein or in other reports filed with the SEC. Other unforeseen factors not identified herein could also have such an effect. We undertake 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.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

Our properties consist mainly of owned and leased office and data center facilities.

Our United States corporate world headquarters is located in a Company-owned office park (the Headquarters Campus) in North Kansas City, Missouri. The Headquarters Campus and three other nearby locations, collectively contain approximately 2.22 million gross square feet of useable space situated on 278 acres of land. The Headquarters Campus and the nearby properties primarily house office space, but also include space for other business needs, such as our Health Clinic and our Headquarters Campus data centers.

Company-owned office space, known as the Innovation Campus, houses associates from our intellectual property organization and consists of 790,000 gross square feet of useable space located in Kansas City, Missouri.

Owned office space currently under construction, known as the Continuous Campus, houses associates who manage and support our clients' IT systems and, when completed, will consist of 611,000 gross square feet of useable space located in Kansas City, Kansas. In June 2013, associates began occupying the first of two towers. We expect the second tower to be completed in early 2014.

Our Cerner-operated data center facilities, which are used to provide remote hosting, disaster recovery and other services to our clients, are located at the Headquarters Campus and a leased facility in Lee's Summit, Missouri.

In December 2013, we purchased approximately 237 acres of land located in Kansas City, Missouri. This property was acquired as a site for future office space development to further accommodate our anticipated growth.

As of the end of 2013, we leased additional office space in Tempe, Arizona; Carlsbad, Culver City and Garden Grove, California; Denver, Colorado; Lenexa, Kansas; Waltham, Massachusetts; Minneapolis and Rochester, Minnesota; Columbia, Nevada, Lee's Summit and Kansas City, Missouri; Durham, North Carolina; New Concord, Ohio; Burlington, Vermont; and Vienna, Virginia. Globally, we also leased office space in: Brisbane, Sydney and Melbourne, Australia; Sao Paulo, Brazil; Ontario and Toronto, Canada; Cairo, Egypt; London, England; Paris, France; Idstein, Germany; Bangalore, India; Dublin, Ireland; Kuala Lumpur, Malaysia; Riyadh, Saudi Arabia; Singapore; Madrid, Spain; Doha, Qatar; and Abu Dhabi and Dubai, United Arab Emirates.

Item 3. Legal Proceedings

We are not a party to and none of our property is subject to any material pending legal proceedings, other than ordinary routine litigation incidental to our business.

On April 19, 2012, Trinity Medical Center in Minot, North Dakota (Trinity) advised that it was transitioning away from Cerner's patient accounting software solution and certain IT services provided by Cerner, alleging that the patient accounting solution purchased in 2008 was defective and did not deliver the promised benefits. Cerner disputed the allegations. Following discussions, the parties agreed to arbitrate the dispute, including Cerner's counterclaim, and a hearing commenced October 9, 2013. On December 10, 2013, Cerner received an interim ruling on the arbitration awarding Trinity damages and awarding Cerner part of its counterclaim to collect accounts receivable. As of December 28, 2013, this matter has been resolved and paid. We recognized a gross pre-tax charge of \$106.2 million in the fourth quarter of 2013, which is included in general and administrative expense in our consolidated statements of operations. Trinity is continuing as a client of Cerner for its clinical solutions.

Item 4. Mine Safety Disclosures

Not applicable

Part II

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

Our common stock trades on *The NASDAQ Global Select Market*SM under the symbol CERN. The following table sets forth the high, low and last sales prices for the fiscal quarters of 2013 and 2012 as reported by The Nasdaq Stock Market[®].

	2013(a)			2012(a)		
	High	Low	Last	High	Low	Last
First Quarter	\$ 47.37	\$ 38.76	\$ 47.37	\$ 39.06	\$ 29.89	\$ 38.08
Second Quarter	49.68	45.60	48.05	43.46	36.13	41.33
Third Quarter	52.61	46.06	52.61	41.78	35.50	38.69
Fourth Quarter	58.24	52.55	55.58	40.56	34.00	38.04

(a) Sales prices have been retroactively adjusted to give effect to the stock split, as further described in Note 1 of the notes to consolidated financial statements.

At January 31, 2014, there were approximately 960 owners of record. To date, we have paid no cash dividends and we do not intend to pay cash dividends in the foreseeable future. We believe it is in the shareholders' best interest for us to reinvest funds in the operation of the business.

The following table provides information with respect to Common Stock purchases by the Company during the fourth fiscal quarter of 2013:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (b)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (b)
September 29, 2013 - October 26, 2013	—	\$ —	—	—
October 27, 2013 - November 23, 2013	679	56.03	—	—
November 24, 2013 - December 28, 2013	—	—	—	—
Total	679	56.03	—	—

- (a) All of the shares of common stock, par value \$0.01 per share, presented on the table above were originally granted to employees as restricted stock pursuant to our 2011 Omnibus Equity Incentive Plan (the Omnibus Plan). The Omnibus Plan allows for the withholding of shares to satisfy minimum tax obligations due upon the vesting of restricted stock. Pursuant to the Omnibus Plan, the shares reflected above were relinquished by employees in exchange for our agreement to pay federal and state withholding obligations resulting from the vesting of the Company's restricted stock.
- (b) In December 2013, our Board of Directors authorized a stock repurchase program for an aggregate purchase of up to \$217.0 million of our Common Stock. As of December 28, 2013, \$217.0 million remains available under the authorized program. There were no shares repurchased by us under the program during the quarter ended December 28, 2013.

The previous stock repurchase program approved by the Company's Board of Directors in 2012 was completed in the third quarter of 2013. During the year ended December 28, 2013, the Company repurchased 3.6 million shares for total consideration of \$170.0 million pursuant to a plan adopted in accordance with Rule 10b5-1. Refer to Note (15) of the notes to consolidated financial statements for further information regarding our stock repurchase program.

See Part III, Item 12 for information relating to securities authorized for issuance under our equity compensation plans.

Item 6. Selected Financial Data

(In thousands, except per share data)

	2013	2012	2011	2010	2009
	(1)(2)	(1)(3)	(1)(3)	(1)(3)	(1)(3)
Statement of Operations Data:					
Revenues	\$ 2,910,748	\$ 2,665,436	\$ 2,203,153	\$ 1,850,222	\$ 1,671,864
Operating earnings	576,012	571,662	459,798	359,333	292,006
Earnings before income taxes	588,054	587,708	469,694	362,212	292,681
Net earnings	398,354	397,232	306,627	237,272	193,465
Earnings per share:					
Basic	1.16	1.16	0.91	0.72	0.60
Diluted	1.13	1.13	0.88	0.69	0.58
Weighted average shares outstanding:					
Basic	343,636	341,861	337,267	329,833	323,925
Diluted	352,281	351,394	347,734	341,695	335,527
Balance Sheet Data:					
Working capital	\$ 1,121,276	\$ 1,210,394	\$ 1,063,593	\$ 840,129	\$ 788,232
Total assets	4,098,364	3,704,468	3,000,358	2,422,790	2,148,567
Long-term debt and capital lease obligations, excl. current installments	111,717	136,557	86,821	67,923	95,506
Cerner Corporation shareholders' equity	3,167,664	2,833,650	2,310,681	1,905,297	1,580,678

(1) Includes share-based compensation expense. The impact of this expense is as follows:

(In thousands, except share data)

	2013	2012	2011	2010	2009
Total share-based compensation expense	\$ 48,954	\$ 38,112	\$ 29,479	\$ 24,903	\$ 16,842
Amount of related income tax benefit	(18,607)	(14,578)	(11,256)	(9,329)	(6,274)
Net impact on earnings	\$ 30,347	\$ 23,534	\$ 18,223	\$ 15,574	\$ 10,568
Decrease to diluted earnings per share (3)	\$ 0.09	\$ 0.07	\$ 0.05	\$ 0.05	\$ 0.03

(2) Includes a pre-tax settlement charge of \$106.2 million, as further described in Note 11 of the notes to consolidated financial statements.

(3) All share and per share data have been retroactively adjusted to give effect to the stock split, as further described in Note 1 of the notes to consolidated financial statements.

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

The following Management Discussion and Analysis (MD&A) is intended to help the reader understand our results of operations and financial condition. This MD&A is provided as a supplement to, and should be read in conjunction with, our financial statements and the accompanying notes to the financial statements (Notes).

Our fiscal year ends on the Saturday closest to December 31. Fiscal years 2013, 2012 and 2011 each consisted of 52 weeks and ended on December 28, 2013, December 29, 2012 and December 31, 2011, respectively. All references to years in this MD&A represent fiscal years unless otherwise noted.

On May 24, 2013, the Board of Directors of the Company approved a two-for-one split of our common stock in the form of a one hundred percent (100%) stock dividend, which was distributed on or about June 28, 2013 to shareholders of record as of June 17, 2013. In connection with the stock split, 3.0 million treasury shares, which represents the amount held in treasury on June 28, 2013, were utilized to settle a portion of the distribution. All share and per share data have been retroactively adjusted for all periods presented to reflect the stock split including the use of treasury shares, as if the stock split had occurred at the beginning of the earliest period presented.

Management Overview

Our revenues are primarily derived by selling, implementing and supporting software solutions, clinical content, hardware, devices and services that give health care providers secure access to clinical, administrative and financial data in real time, allowing them to improve quality, safety and efficiency in the delivery of health care.

Our fundamental strategy centers on creating organic growth by investing in research and development (R&D) to create solutions and services for the health care industry. This strategy has driven strong growth over the long-term, as reflected in five- and ten-year compound annual revenue growth rates of 12% or more. This growth has also created an important strategic footprint in health care, with Cerner® solutions licensed by approximately 14,000 facilities around the world, including more than 3,000 hospitals; 4,900 physician practices; 60,000 physicians; 590 ambulatory facilities, such as laboratories, ambulatory centers, behavioral health centers, cardiac facilities, radiology clinics and surgery centers; 3,500 extended care facilities; 150 employer sites and 1,790 retail pharmacies. Selling additional solutions back into this client base is an important element of our future revenue growth. We are also focused on driving growth through market share expansion by strategically aligning with health care providers that have not yet selected a supplier and by displacing competitors in health care settings that are looking to replace their current supplier.

We expect to drive growth through new initiatives and services that reflect our ongoing ability to innovate and expand our reach into health care. Examples of these include our CareAware® health care device architecture and devices, *Cerner ITWorks* services, revenue cycle solutions and services, and population health solutions and services. Finally, we believe there is significant opportunity for growth outside of the United States, with many non-U.S. markets focused on health care information technology as part of their strategy to improve the quality and lower the cost of health care.

Beyond our strategy for driving revenue growth, we are also focused on earnings growth. Similar to our history of growing revenue, our net earnings have increased at compound annual rates of more than 16% over the most recent five- and ten-year periods. We expect to drive continued earnings growth through ongoing revenue growth coupled with margin expansion, which we expect to achieve through efficiencies in our implementation and operational processes and by leveraging R&D investments and controlling general and administrative expenses.

We are also focused on continuing to deliver good levels of cash flow, which we expect to do by continuing to grow earnings and prudently managing capital expenditures.

Results Overview

The Company delivered strong levels of bookings, revenues, earnings and cash flows in 2013.

New business bookings revenue in 2013, which reflects the value of executed contracts for software, hardware, professional services and managed services, was \$3.8 billion, which is an increase of 20% compared to \$3.1 billion in 2012. Our 2013 revenues increased 9% to \$2.9 billion compared to \$2.7 billion in 2012. The year-over-year increase in revenue reflects ongoing demand for Cerner's core solutions and services driven by the HITECH Act and other regulatory requirements, and increased contributions from newer areas, such as *Cerner ITWorks* and Cerner revenue cycle solutions and services.

Our 2013 net earnings were \$398.4 million compared to \$397.2 million in 2012. Diluted earnings per share were \$1.13 in both 2013 and 2012. The 2013 and 2012 net earnings and diluted earnings per share reflect the impact of stock-based compensation expense. The effect of these expenses reduced the 2013 net earnings and diluted earnings per share by \$30.3 million and \$0.09, respectively, and the 2012 earnings and diluted earnings per share by \$23.5 million and \$0.07, respectively. The 2013 net earnings and diluted earnings per share also reflect the impact of a settlement charge, as further described in Note (11) of our notes to consolidated financial statements. The effect of this charge reduced 2013 net earnings and diluted earnings per share by \$68.1 million and \$0.19, respectively. Absent this charge, there was growth in net earnings and diluted earnings per share driven by strong growth in services and higher margin components of system sales that more than offset a decline in technology resale. Additionally, our margin expansion initiatives, which include creating efficiencies in our implementation and operational processes, have contributed to earnings growth.

We had cash collections of receivables of \$3.1 billion in 2013 compared to \$2.7 billion in 2012. Days sales outstanding was 67 days for the 2013 fourth quarter compared to 66 days for the 2013 third quarter and 74 days for the 2012 fourth quarter. Operating cash flows for 2013 were strong at \$695.9 million compared to \$708.3 million in 2012, with the primary reason for the decline being the aforementioned settlement charge.

Health Care Information Technology Market Outlook

We have provided an assessment of the health care information technology market under "Health Care and Health Care IT Industry" in Part I, Item 1 "Business."

Results of Operations

Fiscal Year 2013 Compared to Fiscal Year 2012

<i>(In thousands)</i>	2013	% of Revenue	2012	% of Revenue	% Change
Revenues					
System sales	\$ 847,809	29%	\$ 902,799	34%	(6)%
Support and maintenance	661,979	23%	604,247	23%	10 %
Services	1,330,851	46%	1,103,082	41%	21 %
Reimbursed travel	70,109	2%	55,308	2%	27 %
Total revenues	2,910,748	100%	2,665,436	100%	9 %
Costs of revenue					
Costs of revenue	514,722	18%	608,197	23%	(15)%
Total margin	2,396,026	82%	2,057,239	77%	16 %
Operating expenses					
Sales and client service	1,173,051	40%	1,020,640	38%	15 %
Software development	338,786	12%	301,370	11%	12 %
General and administrative	308,177	11%	163,567	6%	88 %
Total operating expenses	1,820,014	63%	1,485,577	56%	23 %
Total costs and expenses	2,334,736	80%	2,093,774	79%	12 %
Operating earnings	576,012	20%	571,662	21%	1 %
Other income, net	12,042		16,046		
Income taxes	(189,700)		(190,476)		
Net earnings	\$ 398,354		\$ 397,232		— %

Revenues & Backlog

Revenues increased 9% to \$2.9 billion in 2013, as compared to \$2.7 billion in 2012.

- System sales, which include revenues from the sale of licensed software, software as a service, technology resale (hardware, devices, and sublicensed software), deployment period licensed software upgrade rights, installation fees, transaction processing and subscriptions, decreased 6% to \$847.8 million in 2013 from \$902.8 million in 2012. The decrease in system sales was driven by lower levels of technology resale, which more than offset growth in licensed software, subscriptions, and software as a service.
- Support and maintenance revenues increased 10% to \$662.0 million in 2013 compared to \$604.2 million in 2012. This increase was attributable to continued success at selling *Cerner Millennium* systems and implementing them at client sites. We expect that support and maintenance revenues will continue to grow as the base of installed *Cerner Millennium* systems grows.
- Services revenue, which includes professional services, excluding installation, and managed services, increased 21% to \$1.3 billion in 2013 from \$1.1 billion in 2012. This increase was driven by growth in *CernerWorks* managed services as a result of continued demand for our hosting services and an increase in professional services due to increased implementation and consulting activities and growth in *Cerner ITWorks* and *Cerner RevWorks* services.

Contract backlog, which reflects new business bookings that have not yet been recognized as revenue, increased 24% in 2013 when compared to 2012. This increase was driven by growth in new business bookings during the past four quarters, including continued strong levels of managed services and *Cerner ITWorks* and *Cerner RevWorks* services bookings that typically have longer contract terms.

A summary of total backlog at the end of 2013 and 2012 follows:

(In thousands)	2013	2012
Contract backlog	\$ 8,127,936	\$ 6,534,564
Support and maintenance backlog	786,041	738,154
Total backlog	\$ 8,913,977	\$ 7,272,718

Costs of Revenue

Cost of revenues as a percentage of total revenues was 18% in 2013, compared to 23% in the same period of 2012. The lower cost of revenues as a percent of revenue was driven by a lower mix of technology resale, which carries a higher cost of revenue.

Cost of revenues includes the cost of reimbursed travel expense, sales commissions, third party consulting services and subscription content and computer hardware, devices and sublicensed software purchased from manufacturers for delivery to clients. It also includes the cost of hardware maintenance and sublicensed software support subcontracted to the manufacturers. Such costs, as a percent of revenues, typically have varied as the mix of revenue (software, hardware, devices, maintenance, support, services and reimbursed travel) carrying different margin rates changes from period to period. Cost of revenues does not include the costs of our client service personnel who are responsible for delivering our service offerings. Such costs are included in sales and client service expense.

Operating Expenses

Total operating expenses increased 23% to \$1.8 billion in 2013, compared with \$1.5 billion in 2012.

- Sales and client service expenses as a percent of total revenues were 40% in 2013, compared to 38% in 2012. These expenses increased 15% to \$1.2 billion in 2013, from \$1.0 billion in 2012. Sales and client service expenses include salaries of sales and client service personnel, depreciation and other expenses associated with our *CernerWorks* managed service business, communications expenses, unreimbursed travel expenses, expense for share-based payments, sales and marketing salaries and trade show and advertising costs. The increase as a percent of revenue reflects a higher mix of services during 2013 that was driven by strong services revenue growth and the decline in technology resale revenue.

- Software development expenses as a percent of revenue were 12% in 2013, compared to 11% in 2012. The increase in both expensed and capitalized software development expenditures reflects a focus on development and enhancement of solutions that support key initiatives to enhance physician experience, revenue cycle, and population health. A summary of our total software development expense in 2013 and 2012 is as follows:

<i>(In thousands)</i>	For the Years Ended	
	2013	2012
Software development costs	\$ 418,747	\$ 319,828
Capitalized software costs	(172,211)	(98,067)
Capitalized costs related to share-based payments	(2,438)	(2,122)
Amortization of capitalized software costs	94,688	81,731
Total software development expense	\$ 338,786	\$ 301,370

- General and administrative expenses as a percent of total revenues were 11% in 2013, compared to 6% in 2012. These expenses increased 88% to \$308.2 million in 2013, from \$163.6 million in 2012. General and administrative expenses include salaries for corporate, financial and administrative staffs, utilities, communications expenses, professional fees, depreciation and amortization, transaction gains or losses on foreign currency and expense for share-based payments. The 2013 amount includes a \$106.2 million settlement charge, as further described in Note (11) of our notes to consolidated financial statements. Absent this charge, the increase in general and administrative expenses was primarily driven by an increase in corporate personnel costs, as we have continued to increase such personnel to support our overall revenue growth, and an increase in amortization expense due to acquired intangibles.

Non-Operating Items

- Interest income decreased to \$15.3 million in 2013 from \$16.5 million in 2012 due primarily to a slight decrease in investment returns. Interest expense decreased to \$4.2 million in 2013 compared to \$5.1 million in 2012 due primarily to payments on our long-term debt, offset by increased capital lease obligations. Other income in 2012 also includes a \$4.5 million gain recognized on the disposition of one of our cost-method investments.
- Our effective tax rate was 32% in both 2013 and 2012. The rate includes net favorable permanent differences recognized in both periods. Refer to Note (13) of the notes to consolidated financial statements for further information regarding our effective tax rate.

In January 2013, the *American Taxpayer Relief Act of 2012* (Act) became law. The Act reinstates the research and development tax credit retroactively from January 1, 2012 to December 31, 2013. In the first quarter of 2013, we recognized the research and development tax credit related to 2012 as a favorable discrete item. Research and development tax credits generated in 2013 were recognized pro-rata over that year as a component of the overall 2013 effective tax rate. We estimate the expiration of the research and development tax credit on December 31, 2013 will negatively impact our effective tax rate for 2014 by approximately one percentage point, unless such credit is reinstated.

Operations by Segment

We have two operating segments: Domestic and Global. The Domestic segment includes revenue contributions and expenditures associated with business activity in the United States. The Global segment includes revenue contributions and expenditures linked to business activity in Aruba, Australia, Austria, Brazil, Canada, Cayman Islands, Chile, Egypt, England, France, Germany, Guam, India, Ireland, Israel, Malaysia, Mexico, Qatar, Saudi Arabia, Singapore, Spain, Switzerland and the United Arab Emirates.

The following table presents a summary of the operating information for the years ended 2013 and 2012:

<i>(In thousands)</i>	2013	% of Revenue	2012	% of Revenue	% Change
Domestic Segment					
Revenues	\$2,550,115	100%	\$2,341,304	100%	9%
Costs of revenue	458,540	18%	548,813	23%	(16)%
Operating expenses	600,341	24%	506,249	22%	19%
Total costs and expenses	1,058,881	42%	1,055,062	45%	—%
Domestic operating earnings	1,491,234	58%	1,286,242	55%	16%
Global Segment					
Revenues	360,633	100%	324,132	100%	11%
Costs of revenue	56,182	16%	59,384	18%	(5)%
Operating expenses	115,281	32%	131,580	41%	(12)%
Total costs and expenses	171,463	48%	190,964	59%	(10)%
Global operating earnings	189,170	52%	133,168	41%	42%
Other, net	(1,104,392)		(847,748)		30%
Consolidated operating earnings	\$ 576,012		\$ 571,662		1%

Domestic Segment

- Revenues increased 9% to \$2.6 billion in 2013 from \$2.3 billion in 2012. This increase was primarily driven by strong growth across most of our business, partially offset by lower levels of technology resale.
- Cost of revenues was 18% of revenues in 2013, compared to 23% of revenues in 2012. The lower cost of revenues as a percent of revenue was primarily driven by a lower mix of technology resale, which carries a higher cost of revenue.
- Operating expenses increased 19% to \$600.3 million in 2013 from \$506.2 million in 2012, due primarily to growth in managed services and professional services expenses.

Global Segment

- Revenues increased 11% to \$360.6 million in 2013 from \$324.1 million in 2012. This increase was primarily driven by growth across most of our business, partially offset by lower levels of technology resale.
- Cost of revenues was 16% of revenues in 2013, compared to 18% of revenues in 2012. The lower cost of revenues as a percent of revenue was primarily driven by a lower mix of technology resale, which carries a higher cost of revenue.
- Operating expenses decreased 12% to \$115.3 million in 2013 from \$131.6 million in 2012, due primarily to a decrease in non-personnel and bad debt expense.

Other, net

Operating results not attributed to an operating segment include expenses, such as centralized professional services costs, software development, marketing, general and administrative, stock-based compensation, depreciation and amortization. These expenses increased 30% to \$1.1 billion in 2013 from \$847.7 million in 2012. The 2013 amount includes a \$106.2 million settlement charge, as further described in Note (11) of our notes to consolidated financial statements. Absent this charge, the increase was primarily due to growth in corporate and development personnel costs, along with increased depreciation and amortization related to acquired intangibles. This was partially offset by increased software capitalization.

Fiscal Year 2012 Compared to Fiscal Year 2011

<i>(In thousands)</i>	2012	% of Revenue	2011	% of Revenue	%
Revenues					
System sales	\$ 902,799	34%	\$ 706,714	32%	28%
Support and maintenance	604,247	23%	550,554	25%	10%
Services	1,103,082	41%	901,193	41%	22%
Reimbursed travel	55,308	2%	44,692	2%	24%
Total revenues	2,665,436	100%	2,203,153	100%	21%
Costs of revenue					
Costs of revenue	608,197	23%	441,672	20%	38%
Total margin	2,057,239	77%	1,761,481	80%	17%
Operating expenses					
Sales and client service	1,020,640	38%	869,962	39%	17%
Software development	301,370	11%	286,801	13%	5%
General and administrative	163,567	6%	144,920	7%	13%
Total operating expenses	1,485,577	56%	1,301,683	59%	14%
Total costs and expenses	2,093,774	79%	1,743,355	79%	20%
Operating earnings	571,662	21%	459,798	21%	24%
Other income, net	16,046		9,896		
Income taxes	(190,476)		(163,067)		
Net earnings	\$ 397,232		\$ 306,627		30%

Revenues & Backlog

Revenues increased 21% to \$2.7 billion in 2012, as compared to \$2.2 billion in 2011.

- System sales increased 28% to \$902.8 million in 2012 from \$706.7 million in 2011. The increase in system sales was driven by record levels of technology resale and solid growth in subscriptions and software.
- Support and maintenance revenues increased 10% to \$604.2 million in 2012 compared to \$550.6 million in 2011. This increase was attributable to continued success at selling *Cerner Millennium* systems and implementing them at client sites.
- Services revenue increased 22% to \$1.1 billion in 2012 compared to \$0.9 billion in 2011. This increase was driven by growth in *CernerWorks* managed services as a result of continued demand for our hosting services and an increase in professional services due to increased implementation activities and growth in *Cerner ITWorks* services.

Contract backlog increased 21% in 2012 compared to 2011. This increase was driven by growth in new business bookings during 2012, including continued strong levels of managed services and *Cerner ITWorks* bookings that typically have longer contract terms.

A summary of total backlog at the end of 2012 and 2011 follows:

<i>(In thousands)</i>	2012	2011
Contract backlog	\$ 6,534,564	\$ 5,401,427
Support and maintenance backlog	738,154	705,744
Total backlog	\$ 7,272,718	\$ 6,107,171

Costs of Revenue

Cost of revenues as a percentage of total revenues was 23% of total revenues in 2012, as compared to 20% of total revenues in 2011. The higher cost of revenues as a percent of revenue was primarily driven by a higher mix of technology resale, which carries a higher cost of revenue.

Operating Expenses

Total operating expenses increased 14% in 2012 to \$1.5 billion as compared to \$1.3 billion in 2011.

- Sales and client service expenses as a percent of total revenues were 38% in 2012, as compared to 39% in 2011. These expenses increased 17% to \$1.0 billion in 2012, from \$870.0 million in 2011. The decrease as a percent of revenue reflects ongoing efficiencies in our implementation and operational processes.
- Software development expenses as a percent of revenue were 11% in 2012, as compared to 13% in 2011. These expenses increased 5% in 2012 to \$301.4 million, from \$286.8 million in 2011. Expenditures for software development reflect ongoing development and enhancement of the *Cerner Millennium* platform, including investments in the next evolution of *Cerner Millennium*, *Millennium+*, which leverages the cloud and enables greater mobility. The reduction as a percentage of revenue reflects our efforts to control spending relative to revenue growth. Because of the strong platform we have built, we are able to continue advancing our solutions and investing in new solutions without large increases in spending. Expense was also limited by a higher percentage of our software development investments being capitalized, as a higher percent of our development initiatives are focused on new functionality versus maintenance. A summary of our total software development expense in 2012 and 2011 is as follows:

<i>(In thousands)</i>	For the Years Ended	
	2012	2011
Software development costs	\$ 319,828	\$ 290,645
Capitalized software costs	(98,067)	(81,417)
Capitalized costs related to share-based payments	(2,122)	(1,525)
Amortization of capitalized software costs	81,731	79,098
Total software development expense	<u>\$ 301,370</u>	<u>\$ 286,801</u>

- General and administrative expenses as a percent of total revenues were 6% in 2012, compared to 7% in 2011. These expenses increased 13% to \$163.6 million in 2012 from \$144.9 million in 2011. The increase in general and administrative expenses was primarily driven by an increase in corporate personnel costs, as we have continued to increase such personnel to support our overall revenue growth.

Non-Operating Items

- Interest income increased to \$16.5 million in 2012 from \$15.2 million in 2011 due primarily to growth in investments. Interest expense decreased to \$5.1 million in 2012 from \$5.3 million in 2011 due primarily to payments on our long-term debt, offset by increased capital lease obligations. Other income in 2012 also includes a \$4.5 million gain recognized on the disposition of one of our cost-method investments.
- Our effective tax rate was 32% in 2012, as compared to 35% in 2011. This decrease was primarily due to an increase in net favorable permanent differences, along with a favorable adjustment to our unrecognized tax benefits, partially offset by the expiration of the research and development tax credit on December 31, 2011.

Operations by Segment

The following table presents a summary of our operating segment information for the years ended 2012 and 2011:

<i>(In thousands)</i>	2012	% of Revenue	2011	% of Revenue	% Change
Domestic Segment					
Revenues	\$2,341,304	100%	\$1,894,454	100%	24%
Costs of revenue	548,813	23%	387,466	20%	42%
Operating expenses	506,249	22%	439,465	23%	15%
Total costs and expenses	1,055,062	45%	826,931	44%	28%
Domestic operating earnings	1,286,242	55%	1,067,523	56%	20%
Global Segment					
Revenues	324,132	100%	308,699	100%	5%
Costs of revenue	59,384	18%	54,206	18%	10%
Operating expenses	131,580	41%	126,997	41%	4%
Total costs and expenses	190,964	59%	181,203	59%	5%
Global operating earnings	133,168	41%	127,496	41%	4%
Other, net	(847,748)		(735,221)		15%
Consolidated operating earnings	\$ 571,662		\$ 459,798		24%

Domestic Segment

- Revenues increased 24% to \$2.3 billion in 2012 from \$1.9 billion in the same period in 2011. This increase was primarily driven by strong growth in technology resale and professional services.
- Cost of revenues increased to 23% of revenues in 2012, compared to 20% in 2011. The higher cost of revenues as a percent of revenue was primarily driven by a higher mix of technology resale, which carries a higher cost of revenue.
- Operating expenses increased 15% to \$506.2 million in 2012, from \$439.5 million in 2011, due primarily to growth in managed services and professional services expenses.

Global Segment

- Revenues increased 5% to \$324.1 million in 2012 from \$308.7 million in 2011. This increase was primarily driven by growth in technology resale and managed services, along with a higher level of support services. Growth in our Global Segment revenues has lagged our faster rate of revenue growth in our Domestic Segment due to the more significant impact of the economic downturn of the last several years on the non-U.S. countries in which we conduct operations.
- Cost of revenues was 18% in 2012 and 2011, due to a similar mix of sales.
- Operating expenses increased 4% to \$131.6 million in 2012 from \$127.0 million in 2011, primarily due to overall growth in our Global segment.

Other, net

These expenses increased 15% to \$847.7 million in 2012 from \$735.2 million in 2011. This increase was primarily due to growth in corporate and development personnel costs.

Liquidity and Capital Resources

Our liquidity is influenced by many factors, including the amount and timing of our revenues, our cash collections from our clients and the amount we invest in software development, acquisitions and capital expenditures.

Our principal sources of liquidity are our cash, cash equivalents, which primarily consist of money market funds and time deposits with original maturities of less than 90 days, and short-term investments. At the end of 2013, we had cash and cash

equivalents of \$202.4 million and short-term investments of \$677.0 million, as compared to cash and cash equivalents of \$317.1 million and short-term investments of \$719.7 million at the end of 2012.

Approximately 15% of our aggregate cash, cash equivalents and short-term investments at December 28, 2013 were held outside of the United States. As part of our business strategy, we plan to indefinitely reinvest the earnings of our foreign operations; however, should the earnings of our foreign operations be repatriated, we would accrue and pay tax on such earnings, which may be material.

Additionally, we maintain a \$100.0 million multi-year revolving credit facility, which expires in February 2017. The facility provides an unsecured revolving line of credit for working capital purposes, along with a letter of credit facility. Interest is payable at a rate based on prime, LIBOR, or the U.S. federal funds rate, plus a spread that varies depending on the leverage ratios maintained. The agreement provides certain restrictions on our ability to borrow, incur liens, sell assets and pay dividends and contains certain cash flow and liquidity covenants. As of the end of 2013, we were in compliance with all debt covenants. As of the end of 2013, we had no outstanding borrowings under this agreement; however, we had \$17.1 million of outstanding letters of credit, which reduced our available borrowing capacity to \$82.9 million.

We believe that our present cash position, together with cash generated from operations, short-term investments and, if necessary, our available line of credit, will be sufficient to meet anticipated cash requirements during 2014.

The following table summarizes our cash flows in 2013, 2012 and 2011:

	For the Years Ended		
	2013	2012	2011
<i>(In thousands)</i>			
Cash flows from operating activities	\$ 695,865	\$ 708,314	\$ 546,294
Cash flows from investing activities	(688,429)	(701,631)	(565,091)
Cash flows from financing activities	(119,389)	66,034	48,853
Effect of exchange rate changes on cash	(2,790)	1,257	(1,421)
Total change in cash and cash equivalents	(114,743)	73,974	28,635
Cash and cash equivalents at beginning of period	317,120	243,146	214,511
Cash and cash equivalents at end of period	\$ 202,377	\$ 317,120	\$ 243,146
Free cash flow (non-GAAP)	\$ 168,339	\$ 424,696	\$ 358,557

Cash from Operating Activities

	For the Years Ended		
	2013	2012	2011
<i>(In thousands)</i>			
Cash collections from clients	\$ 3,050,633	\$ 2,714,315	\$ 2,211,361
Cash paid to employees and suppliers and other	(2,172,418)	(1,840,682)	(1,543,414)
Cash paid for interest	(6,973)	(6,448)	(5,786)
Cash paid for taxes, net of refund	(175,377)	(158,871)	(115,867)
Total cash from operations	\$ 695,865	\$ 708,314	\$ 546,294

Cash flow from operations decreased \$12.4 million in 2013 compared to 2012, due primarily to the previously mentioned payment related to a settlement charge, further described in Note (11) of our notes to consolidated financial statements. Cash flow from operations increased \$162.0 million in 2012 compared to 2011, due primarily to the increase in cash impacting earnings, along with cash provided by working capital changes. During 2013, 2012 and 2011, we received total client cash collections of \$3.1 billion, \$2.7 billion and \$2.2 billion, respectively, of which 2%, 3% and 3%, respectively, were received from third party client financing arrangements and non-recourse payment assignments. Days sales outstanding was 67 days in the fourth quarter of 2013, 66 days in the third quarter of 2013 and 74 days in the fourth quarter of 2012. Revenues provided under support and maintenance agreements represent recurring cash flows. Support and maintenance revenues increased 10% in 2013 and 10% in 2012. We expect these revenues to continue to grow as the base of installed *Cerner Millennium* systems grows.

Cash from Investing Activities

	For the Years Ended		
	2013	2012	2011
(In thousands)			
Capital purchases	\$ (352,877)	\$ (183,429)	\$ (104,795)
Capitalized software development costs	(174,649)	(100,189)	(82,942)
Purchases of investments, net of sales and maturities	(36,221)	(354,603)	(291,393)
Other, net	(124,682)	(63,410)	(85,961)
Total cash flows from investing activities	\$ (688,429)	\$ (701,631)	\$ (565,091)

Cash flows from investing activities consist primarily of capital spending and our short-term investment activities. The increased level of capital spending has been driven by capitalized equipment purchases primarily to support growth in our *CernerWorks* managed services business, investments in a cloud infrastructure to support cloud-based solutions, building and improvement purchases to support our facilities requirements and capitalized spending to support our ongoing software development initiatives. Capital spending is expected to remain elevated in 2014, but is expected to moderate by the third or fourth quarter of the year, at which point free cash flow is expected to strengthen.

Short-term investment activity consists of the investment of cash generated by our business in excess of what is necessary to fund operations. The decline in net investment activity from 2012 to 2013 is primarily due to the increased capital spending discussed above, along with cash used for the stock repurchase program described below. We expect to continue short-term investment activity in 2014, as we expect strong levels of cash flow.

During 2013, we acquired the net assets of PureWellness and 100% of the outstanding stock of Labotix for \$67.5 million, net of cash acquired. During 2012, we completed our acquisition of Anasazi for \$40.5 million, net of cash acquired. During 2011, we completed our acquisitions of Resource Systems and Clairvia for approximately \$28.1 million and \$37.2 million, net of cash acquired, respectively. We expect to continue seeking and completing strategic business acquisitions that are complementary to our business.

Cash from Financing Activities

	For the Years Ended		
	2013	2012	2011
(In thousands)			
Repayment of long-term debt and capital lease obligations	\$ (24,700)	\$ (17,083)	\$ (25,701)
Cash from option exercises (including excess tax benefits)	71,330	86,517	75,333
Treasury stock purchases	(170,042)	—	—
Other, net	4,023	(3,400)	(779)
Total cash flows from financing activities	\$ (119,389)	\$ 66,034	\$ 48,853

Cash inflows from stock option exercises are dependent on a number of factors, including the price of our common stock, grant activity under our stock option and equity plans, and overall market volatility. We expect cash inflows from stock option exercises to continue in 2014 based on the number of exercisable options at the end of 2013 and our current stock price.

In December 2012, our Board of Directors authorized a stock repurchase program of up to \$170.0 million of our common stock. During 2013, we repurchased 3.6 million shares for total consideration of \$170.0 million. All of the repurchased shares at the time of the stock split were utilized to settle a portion of the stock split distribution, as further described in Note (1) of our notes to consolidated financial statements. This program is now complete.

In December 2013, our Board of Directors authorized a stock repurchase program of up to \$217.0 million of our common stock. We may purchase shares under this program in 2014, which will be dependent on a number of factors, including the price of our common stock.

Free Cash Flow

(In thousands)	For the Years Ended		
	2013	2012	2011
Cash flows from operating activities (GAAP)	\$ 695,865	\$ 708,314	\$ 546,294
Capital purchases	(352,877)	(183,429)	(104,795)
Capitalized software development costs	(174,649)	(100,189)	(82,942)
Free cash flow (non-GAAP)	\$ 168,339	\$ 424,696	\$ 358,557

Free cash flow decreased \$256.4 million from 2012 to 2013. This decrease is primarily due to increased capital spending in 2013 to support our growth initiatives and facilities requirements and capitalized spending to support our ongoing software development initiatives. Free cash flow for 2013 also includes a payment related to the settlement charge, described in Note (11) of our notes to consolidated financial statements. Free cash flow increased \$66.1 million from 2011 to 2012. This increase was primarily due to the increase in cash impacting earnings. We believe our free cash flow levels reflect continued strength in our earnings. Free cash flow is a non-GAAP financial measure used by management along with GAAP results to analyze our earnings quality and overall cash generation of the business. The presentation of free cash flow is not meant to be considered in isolation, nor as a substitute for, or superior to, GAAP results and investors should be aware that non-GAAP measures have inherent limitations and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. Free cash flow may also be different from similar non-GAAP financial measures used by other companies and may not be comparable to similarly titled captions of other companies due to potential inconsistencies in the method of calculation. We believe free cash flow is important to enable investors to better understand and evaluate our ongoing operating results and allows for greater transparency in the review of our overall financial, operational and economic performance, because free cash flow takes into account the capital expenditures necessary to operate our business.

Contractual Obligations, Commitments and Off Balance Sheet Arrangements

The following table represents a summary of our contractual obligations and commercial commitments at the end of 2013, except short-term purchase order commitments arising in the ordinary course of business.

(In thousands)	Payments Due by Period						
	2014	2015	2016	2017	2018	2019 and thereafter	Total
Balance sheet obligations ^(a) :							
Long-term debt obligations	\$ 15,304	\$ 15,304	\$ —	\$ —	\$ —	\$ —	\$ 30,608
Interest on long-term debt obligations	1,696	848	—	—	—	—	2,544
Capital lease obligations	38,803	39,086	36,372	18,066	2,889	—	135,216
Interest on capital lease obligations	3,550	2,311	1,089	265	23	—	7,238
Other obligations ^(b) :							
Operating lease obligations	20,488	19,485	17,819	17,234	14,691	48,381	138,098
Purchase obligations	46,680	23,375	9,506	2,151	2,000	2,000	85,712
Total	\$ 126,521	\$ 100,409	\$ 64,786	\$ 37,716	\$ 19,603	\$ 50,381	\$ 399,416

(a) At the end of 2013, liabilities for unrecognized tax benefits were \$2.1 million.

(b) At the end of 2013, we had certain obligations related to the construction of office space in Kansas City, Kansas. Refer to Note (17) of the notes to consolidated financial statements for information regarding the construction.

We have no off balance sheet arrangements as defined in Regulation S-K. The effects of inflation on our business during 2013, 2012 and 2011 were not significant.

Recent Accounting Pronouncements

Refer to Note (1) of the notes to consolidated financial statements for information regarding recently adopted accounting pronouncements.

Critical Accounting Policies

We believe that there are several accounting policies that are critical to understanding our historical and future performance, as these policies affect the reported amount of revenue and other significant areas involving our judgments and estimates. These significant accounting policies relate to revenue recognition, software development, potential impairments of goodwill, and income taxes. These policies and our procedures related to these policies are described in detail below and under specific areas within this MD&A. In addition, Note (1) to the consolidated financial statements expands upon discussion of our accounting policies.

Revenue Recognition

We recognize revenue within our multiple element arrangements, including software and software-related services, using the residual method. Key factors in our revenue recognition model are our assessments that installation services are essential to the functionality of our software, whereas implementation services are not, and the length of time it takes for us to achieve the delivery and installation milestones for our licensed software. If our business model were to change such that implementation services are deemed to be essential to the functionality of our software, the period of time over which our licensed software revenue would be recognized would lengthen.

We generally recognize revenue from the sale of our licensed software over two key milestones, delivery and installation, based on percentages that reflect the underlying effort from planning to installation. Generally, both milestones are achieved in the quarter the contracts are executed. If the period of time to achieve our delivery and installation milestones for our licensed software were to lengthen, our milestones would be adjusted and the timing of revenue recognition for our licensed software could materially change.

We also recognize revenue for certain projects in which services are deemed essential to the functionality of the software using the percentage of completion method. Our revenue recognition is dependent upon our ability to reliably estimate the direct labor hours to complete a project which generally can span several years. We utilize our historical project experience and detailed planning process as a basis for our future estimates to complete current projects. Significant delays in completion of the projects, unforeseen cost increases or penalties could result in significant reductions to revenue and margins on these contracts. The actual project results can be significantly different from the estimated results. When adjustments are identified near or at the end of a project, the full impact of the change in estimate is recognized in that period. This can result in a material impact on our results for a single reporting period.

Software Development Costs

Costs incurred internally in creating computer software solutions and enhancements to those solutions are expensed until completion of a detailed program design, which is when we determine that technological feasibility has been established. Thereafter, all software development costs are capitalized until such time as the software solutions and enhancements are available for general release, and the capitalized costs subsequently are reported at the lower of amortized cost or net realizable value.

Net realizable value is computed as the estimated gross future revenues from each software solution less the amount of estimated future costs of completing and disposing of that product. Because the development of projected net future revenues related to our software solutions used in our net realizable value computation is based on estimates, a significant reduction in our future revenues could impact the recovery of our capitalized software development costs. We historically have not experienced significant inaccuracies in computing the net realizable value of our software solutions and the difference between the net realizable value and the unamortized cost has grown over the past three years. We expect this trend to continue in the future. If we missed our estimates of net future revenues by 10%, the amount of our capitalized software development costs would not be impaired.

Capitalized costs are amortized based on current and expected net future revenue for each software solution with minimum annual amortization equal to the straight-line amortization over the estimated economic life of the software solution. We are amortizing capitalized costs over five years. The five-year period over which capitalized software development costs are amortized is an estimate based upon our forecast of a reasonable useful life for the capitalized costs. Historically, use of our software programs by our clients has exceeded five years and is capable of being used a decade or more.

We expect that major software information systems companies, large information technology consulting service providers and systems integrators and others specializing in the health care industry may offer competitive products or services. The pace of change in the HCIT market is rapid and there are frequent new product introductions, product enhancements and

evolving industry standards and requirements. As a result, the capitalized software solutions may become less valuable or obsolete and could be subject to impairment.

Goodwill

Goodwill is not amortized but is evaluated for impairment annually or whenever there is an impairment indicator. All goodwill is assigned to a reporting unit, where it is subject to an annual impairment assessment. We assess goodwill for impairment in the second quarter of each fiscal year and evaluate impairment indicators at each quarter end. We assessed our goodwill for impairment in the second quarters of 2013 and 2012 and concluded that goodwill was not impaired. The assessments consisted of a qualitative analysis in accordance with new guidance effective in 2012. A key consideration in conducting those analyses was the growth in both the revenues and operating earnings of our reporting units since our last quantitative assessment. Our last quantitative assessment was performed in 2011, in which the fair values of each of our reporting units exceeded their carrying amounts by a significant margin. We used a discounted cash flow analysis utilizing Level 3 inputs, to determine the fair value of the reporting units in 2011. Goodwill amounted to \$307.4 million and \$247.6 million at the end of 2013 and 2012, respectively. If future anticipated cash flows from our reporting units that recognized goodwill do not materialize as expected, our goodwill could be impaired, which could result in significant charges to earnings.

Income Taxes

We make a number of assumptions and estimates in determining the appropriate amount of expense to record for income taxes. These assumptions and estimates consider the taxing jurisdictions in which we operate as well as current tax regulations. Accruals are established for estimates of tax effects for certain transactions, business structures and future projected profitability of our businesses based on our interpretation of existing facts and circumstances. If these assumptions and estimates were to change as a result of new evidence or changes in circumstances, the change in estimate could result in a material adjustment to the consolidated financial statements.

We have discussed the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors and the Audit Committee has reviewed our disclosure contained herein.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We use a foreign-currency denominated debt instrument to reduce our foreign currency exchange rate exposure in the U.K. As of the end of 2013, we designated all of our Great Britain Pound (GBP) denominated long-term debt (18.6 million GBP) as a net investment hedge of our U.K. operations. Because the borrowing is denominated in pounds, we are exposed to movements in the foreign currency exchange rate between the U.S. dollar (USD) and the GBP. We estimate that a hypothetical 10% adverse change in the foreign currency exchange rate between the USD and GBP would have impacted the unrealized loss, net of related income tax effects, of the net investment hedge recognized in other comprehensive income in 2013 by approximately \$1.9 million, as compared to \$2.8 million in 2012. The 2013 model assumes an exchange rate of 1.648 at December 28, 2013 and a tax rate of 38.8%. The hypothetical decrease in other comprehensive income in 2013 from 2012 is a result of a lower amount of GBP denominated debt outstanding. Actual results may differ. Please refer to Notes (9) and (10) to the Consolidated Financial Statements for a more detailed discussion of the foreign-currency denominated debt instrument.

Item 8. Financial Statements and Supplementary Data

The Financial Statements and Notes required by this Item are submitted as a separate part of this report. See Note (20) to the Consolidated Financial Statements for supplementary financial information.

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

N/A

Item 9A. Controls and Procedures

- a) The Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Annual Report (the Evaluation Date). They have concluded that, as of the Evaluation Date and based on the evaluation of these controls and procedures required by paragraph (b) of Exchange Act Rule 13a-15 or 15d-15, these disclosure controls and procedures were effective to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within

those entities and would be disclosed on a timely basis. The CEO and CFO have concluded that the Company's disclosure controls and procedures are designed, and are effective, to give reasonable assurance that the information required to be disclosed by the Company in reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the rules and forms of the SEC. They have also concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that are filed or submitted under the Exchange Act are accumulated and communicated to the Company's management to allow timely decisions regarding required disclosure.

- b) There were no changes in the Company's internal controls over financial reporting during the three months ended December 28, 2013, that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.
- c) The Company's management, including its CEO and CFO, have concluded that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at that reasonable assurance level. However, the Company's management can provide no assurance that our disclosure controls and procedures or our internal control over financial reporting can prevent all errors and all fraud under all circumstances. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been or will be detected. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 28, 2013. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its Internal Control-Integrated Framework (1992). The Company's management has concluded that, as of December 28, 2013, the Company's internal control over financial reporting is effective based on these criteria. The Company's independent registered public accounting firm that audited the consolidated financial statements included in this annual report has issued an audit report on the effectiveness of the Company's internal control over financial reporting, which is included herein under "Report of Independent Registered Public Accounting Firm".

Item 9B. Other Information

N/A

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item 10 regarding our Directors and any nominees to become Directors will be set forth under the caption "Information Concerning Directors" in our Proxy Statement in connection with the 2014 Annual Shareholders' Meeting scheduled to be held May 23, 2014 (the Proxy Statement), and is incorporated in this Item 10 by reference. The information required by this Item 10 regarding family relationships between any Director, Executive Officer or other person nominated to become a Director or Executive Officer will be set forth under the caption "Certain Transactions" in our Proxy Statement and is incorporated in this Item 10 by reference. The information required by this Item 10 concerning compliance with Section 16(a) of the Securities Exchange Act of 1934 will be set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement and is incorporated in this Item 10 by reference.

The information required by this Item 10 concerning our Code of Business Conduct and Ethics will be set forth under the caption "Corporate Governance: Code of Business Conduct and Ethics" in our Proxy Statement and is incorporated in this Item 10 by reference. The information required by this Item 10 concerning our Audit Committee and our Audit Committee financial expert will be set forth under the caption "Committees of the Board: Audit Committee" in our Proxy Statement and is incorporated in this Item 10 by reference.

There have been no material changes to the procedures by which security holders may recommend nominees to our Board of Directors since our last disclosure thereof. The information required by this Item 10 regarding our Executive Officers is set forth under the caption "Executive Officers of the Registrant" in Part I above.

Item 11. Executive Compensation

The information required by this Item 11 concerning our executive compensation will be set forth under the caption "Compensation Discussion and Analysis" in our Proxy Statement and is incorporated in this Item 11 by reference. The information required by this Item 11 concerning Director compensation will be set forth under the caption "Director Compensation" in our Proxy Statement and is incorporated in this Item 11 by reference. The information required by this Item 11 concerning Compensation Committee interlocks and insider participation will be set forth under the caption "Compensation Committee Interlocks and Insider Participation" in our Proxy Statement and is incorporated in this Item 11 by reference. The information required by this Item 11 concerning Compensation Committee report will be set forth under the caption "Compensation Committee Report" in our Proxy Statement and is incorporated in this Item 11 by reference.

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

The information required by this Item 12 will be set forth under the caption “Security Ownership of Certain Beneficial Owners and Management” in our Proxy Statement and is incorporated in this Item 12 by reference.

The following table provides information about our common stock that may be issued under our equity compensation plans as of December 28, 2013:

(In thousands, except per share data)

Plan category	Securities to be issued upon exercise of outstanding options and rights ⁽¹⁾	Weighted average exercise price per share ⁽²⁾	Securities available for future issuance⁽³⁾
Equity compensation plans approved by security holders ⁽⁴⁾	24,959	\$ 22.24	11,425
Equity compensation plans not approved by security holders	—	—	—
Total	24,959		11,425

(1) Includes grants of stock options, time-based and performance-based restricted stock.

(2) Includes weighted-average exercise price of outstanding stock options only.

(3) Excludes securities to be issued upon exercise of outstanding options and rights.

(4) Includes the Stock Option Plan D, Stock Option Plan E, 2001 Long-Term Incentive Plan F, 2004 Long-Term Incentive Plan G and 2011 Omnibus Equity Incentive Plan. All new grants are made under the 2011 Omnibus Equity Incentive Plan, as the previous plans are no longer active.

All other information required by this Item is incorporated by reference from the Proxy Statement under the section entitled “Principal Security Ownership and Certain Beneficial Owners.”

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

The information required by this Item 13 concerning our transactions with related parties will be set forth under the caption “Certain Transactions” in our Proxy Statement and is incorporated in this Item 13 by reference. The information required by this Item 13 concerning director independence will be set forth under the caption “Meetings of the Board and Committees” in our Proxy Statement and is incorporated in this Item 13 by reference.

Item 14. Principal Accountant Fees and Services

The information required by this Item 14 will be set forth under the caption “Relationship with Independent Registered Public Accounting Firm” in our Proxy Statement and is incorporated in this Item 14 by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

a) Financial Statements and Exhibits

(1) Consolidated Financial Statements:

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets - As of December 28, 2013 and December 29, 2012

Consolidated Statements of Operations - Years Ended December 28, 2013, December 29, 2012 and December 31, 2011

Consolidated Statements of Comprehensive Income - Years Ended December 28, 2013, December 29, 2012 and December 31, 2011

Consolidated Statements of Cash Flows - Years Ended December 28, 2013, December 29, 2012 and December 31, 2011

Consolidated Statements of Changes in Shareholders' Equity - Years Ended December 28, 2013, December 29, 2012 and December 31, 2011

Notes to Consolidated Financial Statements

(2) The following financial statement schedule and Report of Independent Registered Public Accounting Firm of the Registrant for the three-year period ended December 28, 2013 are included herein:

Schedule II—Valuation and Qualifying Accounts, Report of Independent Registered Public Accounting Firm

All other schedules are omitted, as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes.

(3) See the Index to Exhibits immediately following the signature page of this Annual Report on Form 10-K.

SIGNATURES

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

CERNER CORPORATION

Date: February 5, 2014

By: /s/ Neal L. Patterson
Neal L. Patterson
Chairman of the Board and
Chief Executive Officer

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

<u>Signature and Title</u>	<u>Date</u>
<u>/s/ Neal L. Patterson</u> Neal L. Patterson, Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	February 5, 2014
<u>/s/ Clifford W. Illig</u> Clifford W. Illig, Vice Chairman and Director	February 5, 2014
<u>/s/ Marc G. Naughton</u> Marc G. Naughton, Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 5, 2014
<u>/s/ Michael R. Battaglioli</u> Michael R. Battaglioli, Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 5, 2014
<u>/s/ Gerald E. Bisbee, Jr.</u> Gerald E. Bisbee, Jr., Ph.D., Director	February 5, 2014
<u>/s/ Denis A. Cortese, M.D.</u> Denis A. Cortese, M.D., Director	February 5, 2014
<u>/s/ John C. Danforth</u> John C. Danforth, Director	February 5, 2014
<u>/s/ Linda M. Dillman</u> Linda M. Dillman, Director	February 5, 2014
<u>/s/ William B. Neaves</u> William B. Neaves, Ph.D., Director	February 5, 2014
<u>/s/ William D. Zollars</u> William D. Zollars, Director	February 5, 2014
<u>/s/ Mitchell E. Daniels</u> Mitchell E. Daniels, Director	February 5, 2014

INDEX TO EXHIBITS

Incorporated by Reference

Exhibit Number	Exhibit Description	Form	Exhibit(s)	Filing Date SEC File No./Film No.	Filed Herewith
3(a)	Second Restated Certificate of Incorporation, as amended	10-Q	3.1	7/26/2013	
3(b)	Amended & Restated Bylaws as of September 16, 2008 (as amended March 31, 2010, March 9, 2011 and December 23, 2013)	8-K	3.2	12/23/2013	
4(a)	Specimen stock certificate	10-K	4(a)	2/28/2007 0-15386/08646565	
4(b)	Amended and Restated Credit Agreement, dated February 10, 2012, among Cerner Corporation and U.S. Bank National Association, Bank of America, N.A., Commerce Bank, N.A., UMB Bank, N.A. and RBS Citizens, N.A.	8-K	99.1	2/13/2012 0-15386/12599122	
4(c)	First Amendment to Amended and Restated Credit Agreement, dated December 28, 2012, among Cerner Corporation and U.S. Bank National Association, Bank of America, N.A., Commerce Bank, N.A., UMB Bank, N.A. and RBS Citizens, N.A.	10-K	4(c)	2/8/2013	
4(d)	Note Purchase Agreement, dated November 1, 2005, among Cerner Corporation, as issuer, and AIG Annuity Insurance Company, American General Life Insurance Company and Principal Life Insurance Company, as purchasers	8-K	99.1	11/7/2005 0-15386/051183275	
10(a)*	2006 Form of Indemnification Agreement for use between the Registrant and its Directors	10-K	10(a)	2/28/2007 0-15386/07658265	
10(b)*	2010 Form of Indemnification Agreement for use between the Registrant and its Directors and Section 16 Officers	8-K	99.1	6/3/2010	
10(c)*	Amended & Restated Executive Employment Agreement of Neal L. Patterson dated January 1, 2008	10-K	10(c)	2/27/2008 0-15386/08646565	
10(d)*	Cerner Corporation 2001 Long-Term Incentive Plan F	DEF 14A	Annex I	4/16/2001 0-15386/1603080	
10(e)*	Cerner Corporation 2004 Long-Term Incentive Plan G (as amended on December 3, 2007)	10-K	10(g)	2/27/2008 0-15386/08646565	
10(f)*	Cerner Corporation 2011 Omnibus Equity Incentive Plan	S-8	4.5	5/27/2011	
10(g)*	Cerner Corporation 2001 Associate Stock Purchase Plan as Amended and Restated March 1, 2010 and May 27, 2011	S-8	4.6	5/27/2011	
10(h)*	Cerner Corporation Qualified Performance-Based Compensation Plan (as Amended and Restated) dated May 28, 2010	DEF 14A	Annex I	4/16/2010	
10(i)*	Form of 2013 Executive Performance Agreement	10-Q	10.1	4/26/2013	
10(j)*	Cerner Corporation Executive Deferred Compensation Plan as Amended & Restated dated January 1, 2008	10-K	10(k)	2/27/2008 0-15386/08646565	

10(l)*	Cerner Corporation 2005 Enhanced Severance Pay Plan as Amended & Restated (for I.R.C. § 409A) Effective December 31, 2012	10-K	10(l)	2/8/2013	
10(m)*	Exhibit A Severance Matrix, effective April 1, 2011 to the Cerner Corporation 2005 Enhanced Severance Pay Plan as Amended & Restated dated August 15, 2010	10-Q	10(a)	4/29/2011	
10(n)*	Cerner Corporation 2001 Long-Term Incentive Plan F Nonqualified Stock Option Agreement	10-K	10(v)	3/17/2005 0-15386/05688830	
10(o)*	Cerner Corporation 2001 Long-Term Incentive Plan F Nonqualified Stock Option Grant Certificate	10-Q	10(a)	11/10/2005 0-15386/051193974	
10(p)*	Cerner Corporation 2001 Long-Term Incentive Plan F Director Restricted Stock Agreement	10-K	10(x)	3/17/2005 0-15386/05688830	
10(q)*	Cerner Corporation 2001 Long-Term Incentive Plan F Nonqualified Stock Option Director Agreement	10-K	10(w)	3/17/2005 0-15386/05688830	
10(r)*	Cerner Corporation 2001 Long-Term Incentive Plan F Performance-Based Restricted Stock Agreement for Section 16 Officers	8-K	99.1	6/4/2010	
10(s)*	Cerner Corporation 2004 Long-Term Incentive Plan G Nonqualified Stock Option Grant Certificate	10-K	10(q)	2/27/2008 0-15386/08646565	
10(t)*	Cerner Corporation 2011 Omnibus Equity Incentive Plan - Director Restricted Stock Agreement	10-Q	10.1	7/27/2012	
10(u)	Cerner Corporation 2011 Omnibus Equity Incentive Plan - Performance Based Restricted Stock Agreement	10-K	10(u)	2/8/2013	
10(v)*	Cerner Corporation 2011 Omnibus Equity Incentive Plan-Non-Qualified Stock Option Grant Certificate	10-K	10(v)	2/8/2013	
10(w)	Second Amended and Restated Aircraft Time Sharing Agreement between Cerner Corporation and Neal L. Patterson dated July 24, 2013	10-Q	10.1	7/26/2013	
10(x)	Interparty Agreement, dated January 19, 2010, among Kansas Unified Development, LLC, OnGoal, LLC and Cerner Corporation	8-K	99.1	1/22/2010	
10(y)	Real Estate Purchase Agreement between Cerner Property Development, Inc. and Trails Property II, Inc. dated July 30, 2013	8-K	10.1	8/1/2013	
21	Subsidiaries of Registrant				X
23	Consent of Independent Registered Public Accounting Firm				X
31.1	Certification of Neal L. Patterson pursuant to Section 302 of Sarbanes-Oxley Act of 2002				X
31.2	Certification of Marc G. Naughton pursuant to Section 302 of Sarbanes-Oxley Act of 2002				X
32.1	Certification of Neal L. Patterson pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002				X
32.2	Certification of Marc G. Naughton pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002				X

101.INS	XBRL Instance Document	X
101.SCH	XBRL Taxonomy Extension Schema Document	X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	X
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document	X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	X

* Indicates a management contract or compensatory plan or arrangement required to be identified by Part IV, Item 15(a)(3).

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Cerner Corporation:

We have audited Cerner Corporation and subsidiaries' internal control over financial reporting as of December 28, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Cerner Corporation and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting, appearing in Item 9A. Our responsibility is to express an opinion on Cerner Corporation and subsidiaries' internal control over financial reporting based on our audit.

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

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

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

In our opinion, Cerner Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 28, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Cerner Corporation and subsidiaries as of December 28, 2013 and December 29, 2012, and the related consolidated statements of operations, comprehensive income, cash flows and changes in shareholders' equity for each of the years in the three-year period ended December 28, 2013, and our report dated February 5, 2014 expressed an unqualified opinion on those consolidated financial statements.

/s/KPMG LLP
Kansas City, Missouri
February 5, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Cerner Corporation:

We have audited the accompanying consolidated balance sheets of Cerner Corporation and subsidiaries as of December 28, 2013 and December 29, 2012, and the related consolidated statements of operations, comprehensive income, cash flows and changes in shareholders' equity for each of the years in the three-year period ended December 28, 2013. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cerner Corporation and subsidiaries as of December 28, 2013 and December 29, 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 28, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Cerner Corporation and subsidiaries' internal control over financial reporting as of December 28, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 5, 2014 expressed an unqualified opinion on the effectiveness of Cerner Corporation and subsidiaries' internal control over financial reporting.

/s/KPMG LLP
Kansas City, Missouri
February 5, 2014

CERNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of December 28, 2013 and December 29, 2012

(In thousands, except share data)

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 202,377	\$ 317,120
Short-term investments	677,004	719,665
Receivables, net	582,926	577,848
Inventory	32,299	23,681
Prepaid expenses and other	175,488	113,572
Deferred income taxes, net	91,614	38,620
Total current assets	1,761,708	1,790,506
Property and equipment, net	792,781	569,708
Software development costs, net	347,077	267,307
Goodwill	307,422	247,616
Intangible assets, net	144,132	132,045
Long-term investments	554,873	509,467
Other assets	190,371	187,819
Total assets	<u>\$ 4,098,364</u>	<u>\$ 3,704,468</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 145,019	\$ 141,212
Current installments of long-term debt and capital lease obligations	54,107	59,582
Deferred revenue	209,746	189,652
Accrued payroll and tax withholdings	147,986	125,253
Other accrued expenses	83,574	64,413
Total current liabilities	640,432	580,112
Long-term debt and capital lease obligations	111,717	136,557
Deferred income taxes and other liabilities	170,392	143,212
Deferred revenue	8,159	10,937
Total liabilities	930,700	870,818
Shareholders' Equity:		
Cerner Corporation shareholders' equity:		
Common stock, \$.01 par value, 500,000,000 shares authorized, 344,338,030 shares issued at December 28, 2013 and 344,178,702 shares issued at December 29, 2012	3,443	3,442
Additional paid-in capital	812,853	840,769
Retained earnings	2,393,048	1,994,694
Treasury stock, 570,616 shares at December 28, 2013	(28,251)	—
Accumulated other comprehensive loss, net	(13,429)	(5,255)
Total shareholders' equity	3,167,664	2,833,650
Total liabilities and shareholders' equity	<u>\$ 4,098,364</u>	<u>\$ 3,704,468</u>

See notes to consolidated financial statements.

CERNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 28, 2013, December 29, 2012 and December 31, 2011

	For the Years Ended		
	2013	2012	2011
<i>(In thousands, except per share data)</i>			
Revenues:			
System sales	\$ 847,809	\$ 902,799	\$ 706,714
Support, maintenance and services	1,992,830	1,707,329	1,451,747
Reimbursed travel	70,109	55,308	44,692
Total revenues	2,910,748	2,665,436	2,203,153
Costs and expenses:			
Cost of system sales	302,374	427,456	296,561
Cost of support, maintenance and services	142,239	125,433	100,419
Cost of reimbursed travel	70,109	55,308	44,692
Sales and client service	1,173,051	1,020,640	869,962
Software development (Includes amortization of \$94,688, \$81,731 and \$79,098, respectively)	338,786	301,370	286,801
General and administrative	308,177	163,567	144,920
Total costs and expenses	2,334,736	2,093,774	1,743,355
Operating earnings	576,012	571,662	459,798
Other income, net	12,042	16,046	9,896
Earnings before income taxes	588,054	587,708	469,694
Income taxes	(189,700)	(190,476)	(163,067)
Net earnings	\$ 398,354	\$ 397,232	\$ 306,627
Basic earnings per share	\$ 1.16	\$ 1.16	\$ 0.91
Diluted earnings per share	\$ 1.13	\$ 1.13	\$ 0.88
Basic weighted average shares outstanding	343,636	341,861	337,267
Diluted weighted average shares outstanding	352,281	351,394	347,734

See notes to consolidated financial statements.

CERNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 28, 2013, December 29, 2012 and December 31, 2011

	For the Years Ended		
	2013	2012	2011
<i>(In thousands)</i>			
Net earnings	\$ 398,354	\$ 397,232	\$ 306,627
Foreign currency translation adjustment and other (net of tax benefits of \$3,604, \$1,396 and \$2,162, respectively)	(8,185)	6,511	(7,776)
Change in net unrealized holding gain (loss) on available-for-sale investments (net of taxes of \$10, \$125 and \$0, respectively)	11	201	—
Comprehensive income	<u>\$ 390,180</u>	<u>\$ 403,944</u>	<u>\$ 298,851</u>

See notes to consolidated financial statements.

CERNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 28, 2013, December 29, 2012 and December 31, 2011

	For the Years Ended		
	2013	2012	2011
<i>(In thousands)</i>			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	\$ 398,354	\$ 397,232	\$ 306,627
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	263,538	222,580	212,556
Share-based compensation expense	46,295	36,113	27,919
Provision for deferred income taxes	(22,647)	8,342	(22,113)
Changes in assets and liabilities (net of businesses acquired):			
Receivables, net	(9,599)	(83,705)	(128,979)
Inventory	(8,111)	(279)	(12,329)
Prepaid expenses and other	(36,038)	(2,224)	9,974
Accounts payable	4,130	35,265	17,504
Accrued income taxes	14,694	(22,784)	26,053
Deferred revenue	18,053	33,277	33,792
Other accrued liabilities	27,196	84,497	75,290
Net cash provided by operating activities	<u>695,865</u>	<u>708,314</u>	<u>546,294</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital purchases	(352,877)	(183,429)	(104,795)
Capitalized software development costs	(174,649)	(100,189)	(82,942)
Purchases of investments	(1,106,819)	(1,286,997)	(1,083,274)
Sales and maturities of investments	1,070,598	932,394	791,881
Purchase of other intangibles	(56,805)	(22,870)	(20,620)
Acquisition of businesses, net of cash acquired	(67,877)	(40,540)	(65,341)
Net cash used in investing activities	<u>(688,429)</u>	<u>(701,631)</u>	<u>(565,091)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of long-term debt and capital lease obligations	(24,700)	(17,083)	(25,701)
Proceeds from excess tax benefits from share-based compensation	39,927	48,370	36,433
Proceeds from exercise of options	31,403	38,147	38,900
Treasury stock purchases	(170,042)	—	—
Contingent consideration payments for acquisition of businesses	(800)	(3,400)	(779)
Other	4,823	—	—
Net cash provided by (used in) financing activities	<u>(119,389)</u>	<u>66,034</u>	<u>48,853</u>
Effect of exchange rate changes on cash and cash equivalents	(2,790)	1,257	(1,421)
Net increase (decrease) in cash and cash equivalents	(114,743)	73,974	28,635
Cash and cash equivalents at beginning of period	317,120	243,146	214,511
Cash and cash equivalents at end of period	<u>\$ 202,377</u>	<u>\$ 317,120</u>	<u>\$ 243,146</u>
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest	\$ 6,973	\$ 6,448	\$ 5,786
Income taxes, net of refunds	175,377	158,871	115,867
Summary of acquisition transactions:			
Fair value of net tangible assets (liabilities) acquired (assumed)	\$ 2,550	\$ (6,375)	\$ (8,464)
Fair value of intangible assets acquired	25,489	18,559	32,264
Fair value of goodwill	59,570	35,281	50,751
Less: Fair value of contingent liability payable	(18,982)	(1,916)	(5,235)
Less: Fair value of working capital settlement payable	—	—	(939)
Cash paid for acquisitions	68,627	45,549	68,377
Cash acquired	(750)	(5,009)	(3,036)
Net cash used	<u>\$ 67,877</u>	<u>\$ 40,540</u>	<u>\$ 65,341</u>

See notes to consolidated financial statements.

CERNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 28, 2013, December 29, 2012 and December 31, 2011

	Common Stock		Additional	Retained	Treasury	Accumulated	Noncont
	Shares	Amount	Paid-in Capital	Earnings	Stock	Other Comprehensive Income (Loss)	rolling Interest
<i>(In thousands)</i>							
Balance at January 1, 2011	332,958	\$ 3,330	\$ 615,323	\$ 1,290,835	\$ —	\$ (4,191)	\$ 120
Exercise of stock options (including net-settled option exercises)	6,174	62	38,838	—	—	—	—
Employee share-based compensation expense	—	—	27,919	—	—	—	—
Employee share-based compensation net excess tax benefit	—	—	39,714	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	—	(7,776)	—
Net earnings	—	—	—	306,627	—	—	—
Balance at December 31, 2011	339,132	3,392	721,794	1,597,462	—	(11,967)	120
Exercise of stock options (including net-settled option exercises)	5,047	50	32,536	—	—	—	—
Employee share-based compensation expense	—	—	36,113	—	—	—	—
Employee share-based compensation net excess tax benefit	—	—	50,326	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	—	6,712	—
Dissolution of underlying entity	—	—	—	—	—	—	(120)
Net earnings	—	—	—	397,232	—	—	—
Balance at December 29, 2012	344,179	3,442	840,769	1,994,694	—	(5,255)	—
Exercise of stock options (including net-settled option exercises)	3,204	32	27,056	—	—	—	—
Employee share-based compensation expense	—	—	46,295	—	—	—	—
Employee share-based compensation net excess tax benefit	—	—	40,493	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	—	(8,174)	—
Treasury stock purchases	—	—	—	—	(170,042)	—	—
Distribution of treasury stock in stock split	(3,045)	(31)	(141,760)	—	141,791	—	—
Net earnings	—	—	—	398,354	—	—	—
Balance at December 28, 2013	344,338	\$ 3,443	\$ 812,853	\$ 2,393,048	\$ (28,251)	\$ (13,429)	\$ —

See notes to consolidated financial statements.

CERNER CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation, Nature of Operations and Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include all the accounts of Cerner Corporation (Cerner, the Company, we, us or our) and its subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

The consolidated financial statements were prepared using accounting principles generally accepted in the United States. These principles require us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Our fiscal year ends on the Saturday closest to December 31. Fiscal years 2013, 2012 and 2011 consisted of 52 weeks and ended on December 28, 2013, December 29, 2012 and December 31, 2011, respectively. All references to years in these notes to consolidated financial statements represent fiscal years unless otherwise noted.

On May 24, 2013, the Board of Directors of the Company approved a two-for-one split of our common stock in the form of a one hundred percent (100%) stock dividend, which was distributed on or about June 28, 2013 to shareholders of record as of June 17, 2013. In connection with the stock split, 3.0 million treasury shares, which represents the amount held in treasury on June 28, 2013, were utilized to settle a portion of the distribution. All share and per share data have been retroactively adjusted for all periods presented to reflect the stock split including the use of treasury shares, as if the stock split had occurred at the beginning of the earliest period presented.

Under the terms of our outstanding equity awards, the stock split increased the number of shares of our common stock issuable upon exercise or vesting of such awards in proportion to the stock split ratio and caused a proportionate decrease in the exercise price of such awards to the extent they were stock options.

Nature of Operations

We design, develop, market, install, host and support health care information technology, health care devices, hardware and content solutions for health care organizations and consumers. We also provide a wide range of value-added services, including implementation and training, remote hosting, operational management services, revenue cycle services, support and maintenance, health care data analysis, clinical process optimization, transaction processing, employer health centers, employee wellness programs and third party administrator services for employer-based health plans.

Summary of Significant Accounting Policies

(a) Revenue Recognition - We recognize software related revenue in accordance with the provisions of Accounting Standards Codification (ASC) 985-605, *Software – Revenue Recognition* and non-software related revenue in accordance with ASC 605, *Revenue Recognition*. In general, revenue is recognized when all of the following criteria have been met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred or services have been rendered;
- Our fee is fixed or determinable; and
- Collection of the revenue is reasonably assured.

The following are our major components of revenue:

- System sales – includes the licensing of computer software, software as a service, deployment period upgrades, installation, content subscriptions, transaction processing and the sale of computer hardware and sublicensed software;
- Support, maintenance and service – includes software support and hardware maintenance, remote hosting and managed services, training, consulting and implementation services; and

- Reimbursed travel – includes reimbursable out-of-pocket expenses (primarily travel) incurred in connection with our client service activities.

We provide for several models of procurement of our information systems and related services. The predominant model involves multiple deliverables and includes a perpetual software license agreement, project-related installation services, implementation and consulting services, software support and either hosting services or computer hardware and sublicensed software, which requires that we allocate revenue to each of these elements.

Allocation of Revenue to Multiple Element Arrangements

For multiple element arrangements that contain software and non-software elements, we allocate revenue to software and software-related elements as a group and any non-software element separately. After the arrangement consideration has been allocated to the non-software elements, revenue is recognized when the basic revenue recognition criteria are met for each element. For the group of software and software-related elements, revenue is recognized under the guidance applicable to software transactions.

Since we do not have vendor specific objective evidence (VSOE) of fair value on software licenses within our multiple element arrangements, we recognize revenue on our software and software-related elements using the residual method. Under the residual method, license revenue is recognized in a multiple-element arrangement when vendor-specific objective evidence of fair value exists for all of the undelivered elements in the arrangement, when software is delivered, installed and all other conditions to revenue recognition are met. We allocate revenue to each undelivered element in a multiple-element arrangement based on the element's respective fair value, with the fair value determined by the price charged when that element is sold separately. Specifically, we determine the fair value of the software support, hardware maintenance, sublicensed software support, remote hosting, subscriptions and software as a service portions of the arrangement based on the substantive renewal price for these services charged to clients; professional services (including training and consulting) portion of the arrangement, other than installation services, based on hourly rates which we charge for these services when sold apart from a software license; and sublicensed software based on its price when sold separately from the software. The residual amount of the fee after allocating revenue to the fair value of the undelivered elements is attributed to the licenses for software solutions, including project-related installation services. If evidence of the fair value cannot be established for the undelivered elements of a license agreement using VSOE, the entire amount of revenue under the arrangement is deferred until these elements have been delivered or VSOE of fair value can be established.

We also enter into arrangements that include multiple non-software deliverables. For each element in a multiple element arrangement that does not contain software-related elements to be accounted for as a separate unit of accounting, the following must be met: the delivered products or services have value to the client on a stand-alone basis; and for an arrangement that includes a general right of return relative to the delivered products or services, delivery or performance of the undelivered product or service is considered probable and is substantially controlled by the Company. We allocate the arrangement consideration to each element based on the selling price hierarchy of VSOE of fair value, if it exists, or third-party evidence (TPE) of selling price. If neither VSOE nor TPE are available, we use estimated selling price. After the arrangement consideration has been allocated to the elements, we account for each respective element in the arrangement as described below.

For certain arrangements, revenue for software, implementation services and, in certain cases, support services for which VSOE of fair value cannot be established are accounted for as a single unit of accounting. The revenue recognized from single units of accounting are typically allocated and classified as system sales and support, maintenance and services. If available, the VSOE of fair value of the services provides the basis for support, maintenance and services allocation, and the remaining residual consideration provides the basis for system sales revenue allocations. In cases where VSOE cannot be established, revenue is classified based on the nature of related costs incurred.

Revenue Recognition Policies for Each Element

We provide project-related installation services when licensing our software solutions, which include project-scoping services, conducting pre-installation audits and creating initial environments. We have deemed installation services to be essential to the functionality of the software and, therefore, recognize the software license over the software installation period using the percentage-of-completion method. We measure the percentage-of-completion based on output measures that reflect direct labor hours incurred, beginning at software delivery and culminating at completion of installation. Installation generally occurs in the same period the contracts are executed but in the past has been extended over a longer period of time depending on client specific factors.

We provide implementation and consulting services. These services vary depending on the scope and complexity of the engagement. Examples of such services may include database consulting, system configuration, project management, testing assistance, network consulting, post conversion review and application management services. Except for limited arrangements where our software requires significant modifications or customization, implementation and consulting services generally are not deemed to be essential to the functionality of the software and, thus, do not impact the timing of the software license recognition. However, if software license fees are tied to implementation milestones, then the portion of the software license fee tied to implementation milestones is deferred until the related milestone is accomplished and related fees become due and payable and non-forfeitable. Implementation fees are recognized over the service period, which may extend from nine months to several years for multi-phased projects.

Remote hosting and managed services are marketed under long-term arrangements generally over periods of five to 10 years. These services are typically provided to clients that have acquired a perpetual license for licensed software and have contracted with us to host the software in our data center. Under these arrangements, the client generally has the contractual right to take possession of the licensed software at any time during the hosting period without significant penalty and it is feasible for the client to either run the software on its own equipment or contract with another party unrelated to us to host the software. Additionally, these services are not deemed to be essential to the functionality of the licensed software or other elements of the arrangement and as such, we allocate a portion of the services fee to the software and recognize it once the client has the ability to take possession of the software. The remaining services fee in these arrangements, as well as the services fee for arrangements where the client does not have the contractual right or the ability to take possession of the software at any time, is generally recognized ratably over the hosting service period.

We also offer our solutions on a software as a service model, providing time-based licenses for our software solutions available within an environment that we manage from our data centers. The data centers provide system and administrative support as well as processing services. Revenue on these services is combined and recognized on a monthly basis over the term of the contract. We capitalize related pre-contract direct set-up costs consisting of third party costs and direct software installation and implementation costs associated with the initial set up of a software as a service client. These costs are amortized over the term of the arrangement.

Software support fees are marketed under annual and multi-year arrangements and are recognized as revenue ratably over the contractual support term. Hardware and sublicensed software maintenance revenues are recognized ratably over the contractual maintenance term.

Subscription and content fees are generally marketed under annual and multi-year agreements and are recognized ratably over the contractual terms.

Hardware and sublicensed software sales are generally recognized when title and risk of loss have transferred to the client.

The sale of equipment under sales-type leases is recorded as system sales revenue at the inception of the lease. Sales-type leases also produce financing income, which is included in system sales revenue and is recognized at consistent rates of return over the lease term.

Where we have contractually agreed to develop new or customized software code for a client, we utilize percentage-of-completion accounting, labor-hours method.

Revenue generally is recognized net of any taxes collected from clients and subsequently remitted to governmental authorities.

Payment Arrangements

Our payment arrangements with clients typically include an initial payment due upon contract signing and date-based licensed software payment terms and payments based upon delivery for services, hardware and sublicensed software. Revenue recognition on support payments received in advance of the services being performed are deferred and classified as either current or long term deferred revenue depending on whether the revenue will be earned within one year.

We have periodically provided long-term financing options to creditworthy clients through third party financing institutions and have directly provided extended payment terms to clients from contract date. These extended payment term arrangements typically provide for date based payments over periods ranging from 12 months up to seven years. As a significant portion of the fee is due beyond one year, we have analyzed our history with these types of arrangements and have concluded that we have a standard business practice of using extended payment term arrangements and a long history of successfully collecting under the original payment terms for arrangements with similar clients, product offerings, and economics without granting concessions. Accordingly, we consider the fee to be fixed and determinable in these extended payment term arrangements and, thus, the timing of revenue is not impacted by the existence of extended payments.

Some of these payment streams have been assigned on a non-recourse basis to third party financing institutions. We account for the assignment of these receivables as sales of financial assets. Provided all revenue recognition criteria have been met, we recognize revenue for these arrangements under our normal revenue recognition criteria, and if appropriate, net of any payment discounts from financing transactions.

(b) Cash Equivalents - Cash equivalents consist of short-term marketable securities with original maturities less than 90 days.

(c) Investments – Our short-term investments are primarily invested in time deposits, commercial paper, government and corporate bonds. Our long-term investments are primarily invested in government and corporate bonds with maturities of less than two years. All of our investments, other than a small portion accounted for under the cost and equity methods, are classified as available-for-sale.

Available-for-sale securities are recorded at fair value with the unrealized gains and losses reflected in accumulated other comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities, if any, are determined on a specific identification basis.

We regularly review investment securities for impairment based on both quantitative and qualitative criteria that include the extent to which cost exceeds fair value, the duration of any market decline, and the financial health of and specific prospects for the issuer. Unrealized losses that are other than temporary are recognized in earnings.

Premiums are amortized and discounts are accreted over the life of the security as adjustments to interest income for our investments. Interest income is recognized when earned.

Refer to Note (3) and Note (4) for further description of these assets and their fair value.

(d) Concentrations - Substantially all of our cash and cash equivalents are held at five major financial institutions. The majority of our cash equivalents consist of money market funds. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally these deposits may be redeemed upon demand.

As of the end of 2013, we had a significant concentration of receivables owed to us by Fujitsu Services Limited, which are currently in dispute. Refer to Note (5) for additional information.

(e) Inventory - Inventory consists primarily of computer hardware and sublicensed software, held for resale. Inventory is recorded at the lower of cost (first-in, first-out) or market.

(f) Property and Equipment - We account for property and equipment in accordance with ASC 360, *Property, Plant, 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 one to 50 years. Amortization of leasehold improvements is computed using a straight-line method over the shorter of the lease terms or the useful lives, which range from periods of one to 15 years.

(g) Software Development Costs - Software development costs are accounted for in accordance with ASC 985-20, *Costs of Software to be Sold, Leased or Marketed*. Software development costs incurred internally in creating computer software products are expensed until technological feasibility has been established upon completion of a detailed program design. Thereafter, all software development costs incurred through the software's general release date are capitalized and subsequently reported at the lower of amortized cost or net realizable value. Capitalized costs are amortized based on current and expected future revenue for each software solution with minimum annual amortization equal to the straight-line amortization over the estimated economic life of the solution. We amortize capitalized software development costs over five years.

(h) Goodwill - We account for goodwill under the provisions of ASC 350, *Intangibles – Goodwill and Other*. Goodwill is not amortized but is evaluated for impairment annually or whenever there is an impairment indicator. All goodwill is assigned to a reporting unit, where it is subject to an annual impairment assessment. Based on these evaluations, there was no impairment of goodwill in 2013, 2012 or 2011. Refer to Note (7) for more information of Goodwill and other intangible assets.

(i) Contingencies - We accrue estimates for resolution of any legal and other contingencies when losses are probable and estimable, in accordance with ASC 450, *Contingencies*. We currently have no material pending litigation.

The terms of our software license agreements with our clients generally provide for a limited indemnification of such clients against losses, expenses and liabilities arising from third party claims based on alleged infringement by our solutions of an intellectual property right of such third party. The terms of such indemnification often limit the scope of and remedies for such indemnification obligations and generally include a right to replace or modify an infringing solution. To date, we have not had to reimburse any of our clients for any losses related to these indemnification provisions pertaining to third party intellectual property infringement claims. For several reasons, including the lack of prior indemnification claims and the lack of a monetary liability limit for certain infringement cases under the terms of the corresponding agreements with our clients, we cannot determine the maximum amount of potential future payments, if any, related to such indemnification provisions.

From time to time we are involved in routine litigation incidental to the conduct of our business, including for example, employment disputes and litigation alleging solution defects, personal injury, intellectual property infringement, violations of law and breaches of contract and warranties. We believe that no such routine litigation currently pending against us, if adversely determined, would have a material adverse effect on our consolidated financial position, results of operations or cash flows.

(j) Derivative Instruments and Hedging Activities - We account for our hedging activities in accordance with ASC 815, *Derivatives and Hedging*. Historically, our use of hedging instruments has primarily been to hedge foreign currency denominated assets and liabilities. We record all hedging instruments on our consolidated balance sheets at fair value. For hedging instruments that are designated and qualify as a net investment hedge, the effective portion of the gain or loss on the hedging instrument is reported in the foreign currency translation component of other comprehensive income (loss). Any ineffective portion of the gain or loss on the hedging instrument is recorded in the results of operations immediately. Refer to Note (10) for more information on our hedging activities.

(k) Income Taxes - Income taxes are accounted for in accordance with ASC 740, *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. Refer to Note (13) for additional information regarding income taxes.

(l) Earnings per Common Share - Basic earnings per share (EPS) excludes dilution and is computed, in accordance with ASC 260, *Earnings Per Share*, by dividing income available to common shareholders 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 our earnings. Refer to Note (14) for additional details of our earnings per share computations.

(m) Accounting for Share-based Payments - We recognize all share-based payments to associates, directors and consultants, including grants of stock options, restricted stock and performance shares, in the financial statements as compensation cost based on their fair value on the date of grant, in accordance with ASC 718, *Compensation-Stock Compensation*. This compensation cost is recognized over the vesting period on a straight-line basis for the fair value of awards that actually vest. Refer to Note (15) for a detailed discussion of share-based payments.

(n) Foreign Currency - In accordance with ASC 830, *Foreign Currency Matters*, assets and liabilities of non-U.S. subsidiaries whose functional currency is the local currency are translated into U.S. dollars at exchange rates prevailing at the balance sheet date. Revenues and expenses are translated at average exchange rates during 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 operations.

(o) Collaborative Arrangements - In accordance with ASC 808, *Collaborative Arrangements*, third party costs incurred and revenues generated by arrangements involving joint operating activities of two or more parties that are each actively involved and exposed to risks and rewards of the activities are classified in the consolidated statements of operations on a gross basis only if we are determined to be the principal participant in the arrangement. Otherwise, third party revenues and costs generated by collaborative arrangements are presented on a net basis. Payments between participants are recorded and classified based on the nature of the payments.

(p) Recently Adopted Accounting Pronouncements

Comprehensive Income. In the first quarter of 2013, we adopted Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (AOCI). ASU 2013-02 requires an entity to disclose, either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of AOCI into net income and the income statement line items affected by the reclassification. If a component is not required to be reclassified to net income in its entirety, an entity would instead cross reference to the related footnote for additional information. The adoption of this standard did not impact disclosures in these consolidated financial statements, as AOCI reclassification amounts are not material to the Company.

(2) Business Acquisitions

PureWellness

On March 4, 2013, we purchased the net assets of Kaufman & Keen, LLC (doing business as PureWellness). PureWellness is a health and wellness company that develops solutions for the administration and management of wellness programs, and to enable plan member engagement strategies. Our acquisition of PureWellness will further expand what we believe to be a robust offering of solutions to manage and improve the health of populations.

Consideration for the acquisition of PureWellness is expected to total \$69.2 million consisting of up-front cash plus contingent consideration, which is payable if we achieve certain revenue milestones from PureWellness solutions and services during the period commencing on August 1, 2013 and ending April 30, 2015. We valued the contingent consideration at \$19.0 million based on a probability-weighted assessment of potential contingent consideration payment scenarios.

The acquisition of PureWellness is being treated as a purchase in accordance with ASC 805, *Business Combinations*, which requires allocation of the purchase price to the estimated fair values of assets and liabilities acquired in the transaction.

The final allocation of purchase price is summarized below:

<i>(In thousands)</i>	Allocation Amount
Tangible assets and liabilities	
Current assets	\$ 1,443
Property and equipment	240
Current liabilities	(1,315)
Total net tangible assets	368
Intangible assets	
Customer relationships	10,464
Existing technologies	9,805
Total intangible assets	20,269
Goodwill	48,555
Total purchase price	<u>\$ 69,192</u>

The fair values of the acquired intangible assets were estimated by applying the income approach. Such estimations required the use of inputs that were unobservable in the market place (Level 3), including a discount rate that we estimated would be used by a market participant in valuing these assets, projections of revenues and cash flows, and client attrition rates, among others. See Note (4) for further information about the fair value level hierarchy.

The goodwill of \$48.6 million arising from the acquisition consists largely of the synergies and economies of scale, including the value of the assembled workforce, expected from combining the operations of Cerner and PureWellness. All of the goodwill was allocated to our Domestic operating segment and is expected to be deductible for tax purposes. Identifiable intangible assets are being amortized over a weighted-average period of seven years. The operating results of PureWellness were combined with our operating results subsequent to the purchase date of March 4, 2013. Pro-forma results of operations, assuming this acquisition was made at the beginning of the earliest period presented, have not been presented because the effect of this acquisition was not material to our results.

Labotix

On March 18, 2013, we purchased 100% of the outstanding stock of Labotix Corporation (together with its wholly owned subsidiary Labotix Automation, Inc., Labotix). Labotix is a developer of laboratory automation solutions for clinical laboratories. We believe the combination of Cerner Millennium, Cerner Copath, and Labotix will allow us to offer a comprehensive set of capabilities to support high volume laboratory testing.

Consideration for the acquisition of Labotix was \$18.0 million, which was paid in cash. The preliminary allocation of purchase price to the estimated fair value of the identified tangible and intangible assets acquired and liabilities assumed resulted in goodwill of \$11.7 million and \$5.2 million in intangible assets related to the value of existing technologies. The allocation of purchase price is subject to changes as a working capital adjustment is finalized and additional information becomes available; however, we do not expect material changes. The goodwill was allocated to our Domestic operating segment and is not expected to be deductible for tax purposes. Identifiable intangible assets are being amortized over a period of five years.

The operating results of Labotix were combined with our operating results subsequent to the purchase date of March 18, 2013. Pro-forma results of operations have not been presented because the effect of this acquisition was not material to our results.

Anasazi Software, Inc.

On November 26, 2012, we completed the purchase of 100% of the outstanding stock of Anasazi Software, Inc. (Anasazi). Anasazi is a provider of behavioral health technology solutions. We believe the combination of Cerner Millennium, including in-patient behavioral health, and Anasazi's community behavioral health solutions create a more comprehensive offering in the market.

Consideration for the acquisition of Anasazi was \$47.7 million consisting of up-front cash plus contingent consideration, which was payable upon the achievement of certain revenue milestones during 2013 from Anasazi solutions and services. During 2013, we paid \$0.8 million to satisfy all contingent consideration obligations.

The acquisition of Anasazi was treated as a purchase in accordance with ASC 805, *Business Combinations*. The final allocation of purchase price is summarized below:

<i>(In thousands)</i>	Allocation Amount
Tangible assets and liabilities	
Current assets	\$ 5,962
Property and equipment	798
Current liabilities	(6,365)
Deferred income taxes, net	(5,851)
Total net tangible liabilities	(5,456)
Intangible assets	
Customer relationships	12,829
Existing technologies	5,218
Trade names	512
Total intangible assets	18,559
Goodwill	34,595
Total purchase price	<u>\$ 47,698</u>

The fair values of the acquired intangible assets were estimated by applying the income approach. Such estimations required the use of inputs that were unobservable in the market place (Level 3), including a discount rate that we estimated would be used by a market participant in valuing these assets, projections of revenues and cash flows, and client attrition rates, among others. See Note (4) for further information about the fair value level hierarchy.

The goodwill of \$34.6 million arising from the acquisition consists largely of the synergies and economies of scale, including the value of the assembled workforce, expected from combining the operations of Cerner and Anasazi. All of the goodwill was allocated to our Domestic operating segment and is not expected to be deductible for tax purposes. Identifiable intangible assets are being amortized over a weighted-average period of 12 years. The operating results of Anasazi were combined with our operating results subsequent to the purchase date of November 26, 2012. Pro-forma results of operations, assuming this acquisition was made at the beginning of the earliest period presented, have not been presented because the effect of this acquisition was not material to our results.

Clairvia, Inc.

On October 17, 2011, we purchased the net assets of Clairvia, Inc. Clairvia is a developer of health care workforce management solutions, including Care Value Management™ and Physician Scheduler™. The Care Value Management suite was integrated into our broader cloud-based and interoperability platforms, Cerner Health Intent and CareAware, which allows us to offer a comprehensive suite of resource management solutions.

Consideration for the acquisition of Clairvia was \$38.3 million, which was paid in cash. The allocation of the purchase price to the estimated fair value of the identified tangible and intangible assets acquired and liabilities assumed resulted in goodwill of \$24.6 million and \$14.1 million in intangible assets, of which \$6.8 million and \$6.1 million was related to the value of established customer relationships and existing technologies, respectively. The goodwill was allocated to our Domestic operating segment and is expected to be deductible for tax purposes. Identifiable intangible assets are being amortized over a weighted-average period of seven years.

The operating results of Clairvia were combined with our operating results subsequent to the purchase date of October 17, 2011.

Resource Systems, Inc.

On May 23, 2011, we completed the purchase of 100% of the outstanding common shares of Resource Systems, Inc., developer of the CareTracker® point-of-care electronic documentation system primarily used within skilled nursing and assisted living facilities. Cerner believes that there is significant market opportunity for information technology solutions in the long-term care market as the U.S. population ages and life expectancy continues to increase.

Consideration for the acquisition of Resource Systems was \$36.3 million consisting of up-front cash plus additional contingent consideration, which was payable upon the achievement of certain revenue and bookings milestones. During 2012, we paid \$3.4 million to satisfy all contingent consideration obligations.

The allocation of the purchase price to the estimated fair value of the identified tangible and intangible assets acquired and liabilities assumed resulted in goodwill of \$26.1 million and \$18.2 million in intangible assets, of which \$11.2 million and \$6.4 million was related to the value of established customer relationships and existing technologies, respectively. The goodwill was allocated to our Domestic operating segment and is not expected to be deductible for tax purposes. Identifiable intangible assets are being amortized over five years.

The operating results of Resource Systems were combined with our operating results subsequent to the purchase date of May 23, 2011.

(3) Investments

Available-for-sale investments at the end of 2013 were as follows:

<i>(In thousands)</i>	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash equivalents:				
Money market funds	\$ 57,254	\$ —	\$ —	\$ 57,254
Time deposits	7,771	—	—	7,771
Commercial Paper	3,000	—	—	3,000
Government and corporate bonds	410	—	—	410
Total cash equivalents	68,435	—	—	68,435
Short-term investments:				
Time deposits	70,303	12	—	70,315
Commercial paper	33,750	1	(9)	33,742
Government and corporate bonds	572,670	356	(79)	572,947
Total short-term investments	676,723	369	(88)	677,004
Long-term investments:				
Government and corporate bonds	542,644	346	(279)	542,711
Total available-for-sale investments	<u>\$ 1,287,802</u>	<u>\$ 715</u>	<u>\$ (367)</u>	<u>\$ 1,288,150</u>

Available-for-sale investments at the end of 2012 were as follows:

<i>(In thousands)</i>	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash equivalents:				
Money market funds	\$ 68,267	\$ —	\$ —	\$ 68,267
Time deposits	24,068	—	—	24,068
Total cash equivalents	92,335	—	—	92,335
Short-term investments:				
Time deposits	90,535	17	(2)	90,550
Commercial paper	86,500	15	(57)	86,458
Government and corporate bonds	542,236	497	(76)	542,657
Total short-term investments	719,271	529	(135)	719,665
Long-term investments:				
Time deposits	6,190	10	(3)	6,197
Government and corporate bonds	496,845	324	(399)	496,770
Total long-term investments	503,035	334	(402)	502,967
Total available-for-sale investments	<u>\$ 1,314,641</u>	<u>\$ 863</u>	<u>\$ (537)</u>	<u>\$ 1,314,967</u>

Investments reported under the cost method of accounting as of December 28, 2013 and December 29, 2012 were \$7.2 million and \$6.5 million, respectively. Investments reported under the equity method of accounting as of December 28, 2013 were \$5.0 million.

We sold available-for-sale investments for proceeds of \$125.3 million and \$28.6 million in 2013 and 2012, respectively, resulting in insignificant gains.

(4) Fair Value Measurements

We determine fair value measurements used in our consolidated financial statements based upon the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

- Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.
- Level 2 – Valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.
- Level 3 – Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table details our financial assets measured and recorded at fair value on a recurring basis at the end of 2013:

(In thousands)

Description	Balance Sheet Classification	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Money market funds	Cash equivalents	\$ 57,254	\$ —	\$ —
Time deposits	Cash equivalents	—	7,771	—
Commercial paper	Cash equivalents	—	3,000	—
Government and corporate bonds	Cash equivalents	—	410	—
Time deposits	Short-term investments	—	70,315	—
Commercial paper	Short-term investments	—	33,742	—
Government and corporate bonds	Short-term investments	—	572,947	—
Government and corporate bonds	Long-term investments	—	542,711	—

The following table details our financial assets measured and recorded at fair value on a recurring basis at the end of 2012:

(In thousands)

Description	Balance Sheet Classification	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Money market funds	Cash equivalents	\$ 68,267	\$ —	\$ —
Time deposits	Cash equivalents	—	24,068	—
Time deposits	Short-term investments	—	90,550	—
Commercial paper	Short-term investments	—	86,458	—
Government and corporate bonds	Short-term investments	—	542,657	—
Time deposits	Long-term investments	—	6,197	—
Government and corporate bonds	Long-term investments	—	496,770	—

We estimate the fair value of our long-term, fixed rate debt using a Level 3 discounted cash flow analysis based on current borrowing rates for debt with similar maturities. The fair value of our long-term debt, including current maturities, at the end of 2013 and 2012 was approximately \$32.6 million and \$59.0 million, respectively. The carrying amount of such fixed-rate debt at the end of 2013 and 2012 was \$30.6 million and \$54.8 million, respectively.

(5) Receivables

Receivables consist of accounts receivable and the current portion of amounts due under sales-type leases. Accounts receivable represent recorded revenues that have been billed. Billings and other consideration received on contracts in excess of related revenues recognized are recorded as deferred revenue. Substantially all receivables are derived from sales and related support and maintenance and professional services of our clinical, administrative and financial information systems and solutions to health care providers located throughout the United States and in certain non-U.S. countries.

We perform ongoing credit evaluations of our clients and generally do not require collateral from our clients. We provide an allowance for estimated uncollectible accounts based on specific identification, historical experience and our judgment. Provisions for losses on uncollectible accounts for 2013, 2012, and 2011 totaled \$7.0 million, \$13.5 million and \$11.4 million, respectively.

A summary of net receivables is as follows:

<i>(In thousands)</i>	2013	2012
Gross accounts receivable	\$ 583,312	\$ 581,386
Less: Allowance for doubtful accounts	36,286	33,230
Accounts receivable, net of allowance	547,026	548,156
Current portion of lease receivables	35,900	29,692
Total receivables, net	<u>\$ 582,926</u>	<u>\$ 577,848</u>

Lease receivables represent our net investment in sales-type leases resulting from the sale of certain medical devices to our clients. The components of our net investment in sales-type leases are as follows:

<i>(In thousands)</i>	2013	2012
Minimum lease payments receivable	\$ 146,566	\$ 152,112
Less: Unearned income	7,602	8,206
Total lease receivables	138,964	143,906
Less: Long-term receivables included in other assets	103,064	114,214
Current portion of lease receivables	<u>\$ 35,900</u>	<u>\$ 29,692</u>

Future minimum lease payments to be received under existing sales-type leases for the next five years are as follows:

<i>(In thousands)</i>	
2014	\$ 43,089
2015	43,015
2016	38,536
2017	18,910
2018	3,016

During the second quarter of 2008, Fujitsu Services Limited's (Fujitsu) contract as the prime contractor in the National Health Service (NHS) initiative to automate clinical processes and digitize medical records in the Southern region of England was terminated by the NHS. This had the effect of automatically terminating our subcontract for the project. We are in dispute with Fujitsu regarding Fujitsu's obligation to pay the amounts comprised of accounts receivable and contracts receivable related to that subcontract, and we are working with Fujitsu to resolve these issues based on processes provided for in the contract. Part of that process requires resolution of disputes between Fujitsu and the NHS regarding the contract termination. As of December 28, 2013, it remains unlikely that our matter with Fujitsu will be resolved in the next 12 months. Therefore, these receivables have been classified as long-term and represent less than the majority of other long-term assets at the end of 2013 and 2012. While the ultimate collectability of the receivables pursuant to this process is uncertain, we believe that we have valid and equitable grounds for recovery of such amounts and that collection of recorded amounts is probable.

During 2013 and 2012, we received total client cash collections of \$3.1 billion and \$2.7 billion, respectively, of which \$60.8 million and \$69.1 million were received from third party arrangements with non-recourse payment assignments.

(6) Property and Equipment

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

<i>(In thousands)</i>	<u>Depreciable Lives (Yrs)</u>	<u>2013</u>	<u>2012</u>
Computer and communications equipment	1 — 5	\$ 963,301	\$ 817,186
Land, buildings and improvements	12 — 50	411,382	281,798
Leasehold improvements	1 — 15	160,030	146,004
Furniture and fixtures	5 — 12	72,601	63,848
Capital lease equipment	3 — 5	3,207	3,194
Other equipment	3 — 20	710	575
		<u>1,611,231</u>	<u>1,312,605</u>
Less accumulated depreciation and leasehold amortization		818,450	742,897
Total property and equipment, net		<u>\$ 792,781</u>	<u>\$ 569,708</u>

Depreciation and leasehold amortization expense for 2013, 2012 and 2011 was \$135.7 million, \$120.1 million and \$117.9 million, respectively.

(7) Goodwill and Other Intangible Assets

The changes in the carrying amounts of goodwill were as follows:

<i>(In thousands)</i>	<u>2013</u>	<u>2012</u>
Beginning Balance	\$ 247,616	\$ 211,826
Goodwill recorded in connection with business acquisitions	59,570	35,281
Foreign currency translation adjustment and other	236	509
Ending Balance	<u>\$ 307,422</u>	<u>\$ 247,616</u>

Our intangible assets subject to amortization are amortized on a straight-line basis, and are summarized as follows:

<i>(In thousands)</i>	<u>2013</u>		<u>2012</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulat ed Amortizati on</u>	<u>Gross Carrying Amount</u>	<u>Accumulat ed Amortizati on</u>
Purchased software	\$ 168,798	\$ 89,691	\$ 153,330	\$ 67,178
Customer lists	100,909	68,094	90,376	62,403
Other	45,915	13,705	27,296	9,376
Total	<u>\$ 315,622</u>	<u>\$ 171,490</u>	<u>\$ 271,002</u>	<u>\$ 138,957</u>
Intangible assets, net		<u>\$ 144,132</u>		<u>\$ 132,045</u>

Amortization expense for 2013, 2012 and 2011 was \$32.9 million, \$20.3 million and \$14.7 million, respectively.

Estimated aggregate amortization expense for each of the next five years is as follows:

<i>(In thousands)</i>	
2014	\$ 33,371
2015	30,930
2016	26,364
2017	19,625
2018	5,387

(8) Software Development

Information regarding our software development costs is included in the following table:

<i>(In thousands)</i>	For the Years Ended		
	2013	2012	2011
Software development costs	\$ 418,747	\$ 319,828	\$ 290,645
Capitalized software development costs	(174,649)	(100,189)	(82,942)
Amortization of capitalized software development costs	94,688	81,731	79,098
Total software development expense	\$ 338,786	\$ 301,370	\$ 286,801

Accumulated amortization as of the end of 2013 and 2012 was \$798.0 million and \$703.1 million, respectively.

(9) Long-term Debt and Capital Lease Obligations

The following is a summary of indebtedness outstanding:

<i>(In thousands)</i>	2013	2012
Note agreement, 5.54%	\$ 30,608	\$ 45,045
Senior Notes, Series B, 6.42%	—	9,750
Capital lease obligations	135,216	141,344
Total debt and capital lease obligations	165,824	196,139
Less: current portion	(54,107)	(59,582)
Long-term debt and capital lease obligations	\$ 111,717	\$ 136,557

In November 2005, we completed a £65.0 million unsecured private placement of debt at 5.54% pursuant to a Note Agreement. The Note Agreement is payable in seven equal annual installments, which commenced November 2009. The proceeds were used to repay the outstanding amount under our credit facility and for general corporate purposes. The Note Agreement contains certain net worth and fixed charge coverage covenants and provides certain restrictions on our ability to borrow, incur liens, sell assets and pay dividends. We were in compliance with all covenants at the end of 2013.

In December 2002, we completed a \$60.0 million unsecured private placement of debt pursuant to a Note Agreement. The Series A Senior Notes, with a \$21.0 million principal amount at 5.57% were paid in full in 2008. The Series B Senior Notes, with a \$39.0 million principal amount at 6.42%, were paid in full in 2013.

Our capital lease obligations are primarily related to the procurement of hardware and medical devices, and generally have a term of five years.

Minimum annual payments under existing capital lease obligations and maturities of indebtedness at the end of 2013 are as follows:

	Capital Lease Obligations			Principal Amount of Indebtedness	Total
	Minimum Lease Payments	Less: Interest	Principal		
<i>(In thousands)</i>					
2014	\$ 42,353	\$ 3,550	\$ 38,803	\$ 15,304	\$ 54,107
2015	41,397	2,311	39,086	15,304	54,390
2016	37,461	1,089	36,372	—	36,372
2017	18,331	265	18,066	—	18,066
2018	2,912	23	2,889	—	2,889
Total	\$ 142,454	\$ 7,238	\$ 135,216	\$ 30,608	\$ 165,824

We maintain a \$100.0 million multi-year revolving credit facility, which expires in February 2017. The facility provides an unsecured revolving line of credit for working capital purposes, along with a letter of credit facility. Interest is payable at a rate based on prime, LIBOR, or the U.S. federal funds rate, plus a spread that varies depending on the leverage ratios maintained. The agreement provides certain restrictions on our ability to borrow, incur liens, sell assets and pay dividends and contains certain cash flow and liquidity covenants. As of the end of 2013, we were in compliance with all debt covenants. As of the end of 2013, we had no outstanding borrowings under this agreement; however, we had \$17.1 million of outstanding letters of credit, which reduced our available borrowing capacity to \$82.9 million.

(10) Hedging Activities

We designated all of our Great Britain Pound (GBP) denominated long-term debt as a net investment hedge of our U.K. operations. The objective of the hedge is to reduce our foreign currency exposure in our U.K. subsidiary investment. Changes in the exchange rate between the United States Dollar (USD) and GBP, related to the notional amount of the hedge, are recognized as a component of other comprehensive income (loss), to the extent the hedge is effective. The following tables represent the fair value of our net investment hedge included within the consolidated balance sheets and the related unrealized gain or loss, net of related income tax effects, on the net investment hedge recognized in comprehensive income:

		2013	
		Fair Value	Net Unrealized Loss
<i>(In thousands)</i>			
Derivatives Designated	Balance Sheet Classification		
Net investment hedge	Short-term liabilities	\$ 15,304	\$ 178
Net investment hedge	Long-term liabilities	15,304	178
Total net investment hedge		\$ 30,608	\$ 356

		2012	
		Fair Value	Net Unrealized Loss
<i>(In thousands)</i>			
Derivatives Designated	Balance Sheet Classification		
Net investment hedge	Short-term liabilities	\$ 15,015	\$ 451
Net investment hedge	Long-term liabilities	30,030	981
Total net investment hedge		\$ 45,045	\$ 1,432

(11) Settlement Charge

On December 10, 2013, the Company received an interim ruling on a pending arbitration matter between Cerner and a client, awarding the client damages and awarding us part of our counterclaim to collect accounts receivable. This client dispute arose from allegations that a certain patient accounting software solution sold to the client in 2008 was defective and did not deliver the promised benefits. As of December 28, 2013, this matter has been resolved and paid. We recognized a gross pre-tax charge of \$106.2 million in the fourth quarter of 2013, which is included in general and administrative expense in our consolidated statements of operations.

(12) Other Income

A summary of other income is as follows:

<i>(In thousands)</i>	For the Years Ended		
	2013	2012	2011
Interest income	\$ 15,314	\$ 16,543	\$ 15,191
Interest expense	(4,226)	(5,068)	(5,341)
Other	954	4,571	46
Other income, net	\$ 12,042	\$ 16,046	\$ 9,896

Other income in 2012 includes a \$4.5 million gain recognized on the disposition of one of our cost-method investments.

(13) Income Taxes

Income tax expense (benefit) for 2013, 2012 and 2011 consists of the following:

<i>(In thousands)</i>	For the Years Ended		
	2013	2012	2011
Current:			
Federal	\$ 178,424	\$ 164,690	\$ 162,288
State	25,148	13,302	19,061
Foreign	8,775	4,142	3,831
Total current expense	212,347	182,134	185,180
Deferred:			
Federal	(9,792)	9,035	(15,927)
State	(7,116)	4,453	(5,410)
Foreign	(5,739)	(5,146)	(776)
Total deferred expense (benefit)	(22,647)	8,342	(22,113)
Total income tax expense	\$ 189,700	\$ 190,476	\$ 163,067

Temporary differences between the financial statement carrying amounts and tax basis of assets and liabilities that give rise to significant portions of deferred income taxes at the end of 2013 and 2012 relate to the following:

<i>(In thousands)</i>	2013	2012
Deferred tax assets:		
Accrued expenses	\$ 22,948	\$ 20,346
Tax credits and separate return net operating losses	25,612	21,412
Share based compensation	44,856	35,323
Contract and service revenues and costs	65,407	17,339
Other	12,529	6,890
Gross deferred tax assets	171,352	101,310
Less: Valuation allowance	(896)	—
Total deferred tax assets	170,456	101,310
Deferred tax liabilities:		
Software development costs	(130,583)	(101,393)
Depreciation and amortization	(113,492)	(96,695)
Other	(2,859)	(5,537)
Total deferred tax liabilities	(246,934)	(203,625)
Net deferred tax liability	<u>\$ (76,478)</u>	<u>\$ (102,315)</u>

At the end of 2013, we had net operating loss carry-forwards subject to Section 382 of the Internal Revenue Code for Federal income tax purposes of \$6.5 million that are available to offset future Federal taxable income, if any, through 2020. We had net operating loss carry-forwards from foreign jurisdictions of \$0.4 million that are available to offset future taxable income, if any, through 2024 and \$52.4 million that are available to offset future taxable income, if any, with no expiration. We had a deferred tax asset for state net operating loss carry-forwards of \$0.6 million which are available to offset future taxable income, if any, through 2033. In addition, we have a state income tax credit carry-forward of \$8.5 million available to offset income tax liabilities through 2029.

During 2013, we recorded a valuation allowance of \$0.9 million against our deferred tax asset for certain foreign net operating losses, generated in prior years, because we concluded that it is not more likely than not that we will generate income of the appropriate character to utilize these losses. We expect to fully utilize all the remaining net operating loss and tax credit carry-forwards in future periods.

At the end of 2013, we had not provided tax on the cumulative undistributed earnings of our foreign subsidiaries of approximately \$107 million, because it is our intention to reinvest these earnings indefinitely. If these earnings were distributed, we would be subject to U.S. taxes and foreign withholding taxes, net of U.S. foreign tax credits which may be available. The calculation of this unrecognized deferred tax liability is complex and not practicable.

The effective income tax rates for 2013, 2012, and 2011 were 32%, 32%, and 35%, respectively. These effective rates differ from the Federal statutory rate of 35% as follows:

	For the Years Ended		
	2013	2012	2011
<i>(In thousands)</i>			
Tax expense at statutory rates	\$ 205,819	\$ 205,698	\$ 164,393
State income tax, net of federal benefit	17,502	13,856	11,439
Tax credits	(18,683)	(1,510)	(5,520)
Unrecognized tax benefit (including interest)	(20)	(12,832)	102
Permanent differences	(14,760)	(19,900)	(2,472)
Other, net	(158)	5,164	(4,875)
Total income tax expense	\$ 189,700	\$ 190,476	\$ 163,067

A reconciliation of the beginning and ending amount of unrecognized tax benefit is presented below:

	2013	2012	2011
<i>(In thousands)</i>			
Unrecognized tax benefit - beginning balance	\$ 2,176	\$ 14,640	\$ 14,100
Gross increases (decreases) - tax positions in prior periods	(76)	(12,464)	540
Unrecognized tax benefit - ending balance	\$ 2,100	\$ 2,176	\$ 14,640

All of the unrecognized tax benefit will favorably impact our effective tax rate if recognized. We anticipate that it is reasonably possible that our unrecognized tax benefits will decrease by up to \$2 million within the next twelve months due to the potential settlement of examinations and lapse of the statutes of limitations in various taxing jurisdictions. Our federal returns have been examined by the Internal Revenue Service through 2009. We have various state and foreign returns under examination.

The 2013 beginning and ending amounts of accrued interest related to unrecognized tax benefits were \$0.1 million and \$0.2 million, respectively. We classify interest and penalties as income tax expense in our consolidated statement of operations. No accrual for tax penalties was recorded at the end of the year.

(14) Earnings Per Share

A reconciliation of the numerators and the denominators of the basic and diluted per share computations are as follows:

	2013			2012			2011		
	Earnings	Shares	Per-Share	Earnings	Shares	Per-Share	Earnings	Shares	Per-Share
	(Numerator)	(Denominator)	Amount	(Numerator)	(Denominator)	Amount	(Numerator)	(Denominator)	Amount
<i>(In thousands, except per share data)</i>									
Basic earnings per share:									
Income available to common shareholders	\$398,354	343,636	\$ 1.16	\$397,232	341,861	\$ 1.16	\$306,627	337,267	\$ 0.91
Effect of dilutive securities:									
Stock options and non-vested shares	—	8,645		—	9,533		—	10,467	
Diluted earnings per share:									
Income available to common shareholders including assumed conversions	\$398,354	352,281	\$ 1.13	\$397,232	351,394	\$ 1.13	\$306,627	347,734	\$ 0.88

Options to purchase 6.1 million, 4.6 million and 4.2 million shares of common stock at per share prices ranging from \$36.92 to \$56.39, \$27.62 to \$42.98 and \$19.68 to \$34.23, were outstanding at the end of 2013, 2012 and 2011, respectively, but were not included in the computation of diluted earnings per share because they were anti-dilutive.

(15) Share-Based Compensation and Equity

Stock Option and Equity Plans

As of the end of 2013, we had five fixed stock option and equity plans in effect for associates and directors. This includes one plan from which we could issue grants, the Cerner Corporation 2011 Omnibus Equity Incentive Plan (the Omnibus Plan); and four plans from which no new grants are permitted, but some awards remain outstanding (Plans D, E, F, and G).

Awards under the Omnibus Plan may consist of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, performance grants and bonus shares. At the end of 2013, 11.4 million shares remain available for awards. Stock options granted under the Omnibus Plan are exercisable at a price not less than fair market value on the date of grant. Stock options under the Omnibus Plan typically vest over a period of five years and are exercisable for periods of up to 10 years.

Stock Options

The fair market value of each stock option award is estimated on the date of grant using a lattice option-pricing model. The pricing model requires the use of the following estimates and assumptions:

- Expected volatilities under the lattice model are based on an equal weighting of implied volatilities from traded options on our shares and historical volatility. We use historical data to estimate the stock option exercise and associate departure behavior used in the lattice model; groups of associates (executives and non-executives) that have similar historical behavior are considered separately for valuation purposes.
- The expected term of stock options granted is derived from the output of the lattice model and represents the period of time that stock options granted are expected to be outstanding.
- The risk-free rate is based on the zero-coupon U.S. Treasury bond with a term equal to the contractual term of the awards.

The weighted-average assumptions used to estimate the fair market value of stock options are as follows:

	2013	2012	2011
Expected volatility (%)	30.5%	34.8%	36.5%
Expected term (yrs)	9.1	9.1	8.6
Risk-free rate (%)	1.9%	2.1%	2.2%

Stock option activity for 2013 was as follows:

(In thousands, except per share data)	Number of Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Remaining Contractual Term (Yrs)
Outstanding at beginning of year	24,072	\$ 16.99		
Granted	3,684	47.86		
Exercised	(3,084)	10.51		
Forfeited and expired	(265)	37.66		
Outstanding at end of year	<u>24,407</u>	22.24	\$ 813,779	6.22
Exercisable at end of year	14,149	\$ 10.68	\$ 635,337	4.77

(In thousands, except for grant date fair values)	For the Years Ended		
	2013	2012	2011
Weighted-average grant date fair values	\$ 19.57	\$ 18.52	\$ 14.45
Total intrinsic value of options exercised	\$ 118,051	\$ 152,117	\$ 117,601
Cash received from exercise of stock options	31,403	38,147	38,900
Tax benefit realized upon exercise of stock options	43,523	55,952	44,908

As of the end of 2013, there was \$121.6 million of total unrecognized compensation cost related to stock options granted under all plans. That cost is expected to be recognized over a weighted-average period of 3.22 years.

Non-vested Shares

Non-vested shares are valued at fair market value on the date of grant and will vest provided the recipient has continuously served on the Board of Directors through such vesting date or, in the case of an associate, provided that performance measures are attained. The expense associated with these grants is recognized over the period from the date of grant to the vesting date, when achievement of the performance condition is deemed probable.

Non-vested share activity for 2013 was as follows:

(In thousands, except per share data)	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding at beginning of year	602	\$ 28.41
Granted	238	46.66
Vested	(278)	24.10
Forfeited	(10)	22.73
Outstanding at end of year	<u>552</u>	<u>\$ 38.54</u>

(In thousands, except for grant date fair values)	For the Years Ended		
	2013	2012	2011
Weighted average grant date fair values for shares granted during the year	\$ 46.66	\$ 38.28	\$ 27.04
Total fair value of shares vested during the year	\$ 13,649	\$ 2,612	\$ 2,527

As of the end of 2013, there was \$11.4 million of total unrecognized compensation cost related to non-vested share awards granted under all plans. That cost is expected to be recognized over a weighted-average period of 1.49 years.

Associate Stock Purchase Plan

We established an Associate Stock Purchase Plan (ASPP) in 2001, which qualifies under Section 423 of the Internal Revenue Code. Each individual employed by us and associates of our United States based subsidiaries, except as provided below, are eligible to participate in the Plan (Participants). The following individuals are excluded from participation: (a) persons who, as of the beginning of a purchase period under the Plan, have been continuously employed by us or our domestic subsidiaries for less than two weeks; (b) persons who, as of the beginning of a purchase period, own directly or indirectly, or hold options or rights to acquire under any agreement or Company plan, an aggregate of 5% or more of the total combined voting power or value of all outstanding shares of all classes of Company Common Stock; and, (c) persons who are customarily employed by us for less than 20 hours per week or for less than five months in any calendar year. Participants may elect to make contributions from 1% to 20% of compensation to the ASPP, subject to annual limitations determined by the Internal Revenue Service. Participants may purchase Company Common Stock at a 15% discount on the last business day of the option period. The purchase of our Common Stock is made through the ASPP on the open market and subsequently reissued to the associates. The difference of the open market purchase and the participant's purchase price is being recognized as compensation expense.

Share Based Compensation Cost

Our stock option and non-vested share awards qualify for equity classification. The costs of our ASPP, along with participant contributions, are recorded as a liability until open market purchases are completed. The amounts recognized in the consolidated statements of operations with respect to stock options, non-vested shares and ASPP are as follows:

<i>(In thousands)</i>	For the Years Ended		
	2013	2012	2011
Stock option and non-vested share compensation expense	\$ 46,295	\$ 36,113	\$ 27,919
Associate stock purchase plan expense	3,704	2,859	2,180
Amounts capitalized in software development costs, net of amortization	(1,045)	(860)	(620)
Amounts charged against earnings, before income tax benefit	\$ 48,954	\$ 38,112	\$ 29,479
Amount of related income tax benefit recognized in earnings	\$ 18,607	\$ 14,578	\$ 11,256

Preferred Stock

As of the end of 2013 and 2012, we had 1.0 million shares of authorized but unissued preferred stock, \$0.01 par value.

Treasury Stock

In December 2012, our Board of Directors authorized a stock repurchase program of up to \$170.0 million, excluding transaction costs, of our common stock. During 2013, we repurchased 3.6 million shares for total consideration of \$170.0 million. All of the repurchased shares at the time of the stock split were utilized to settle a portion of the stock split distribution, as further described in Note (1) of our notes to consolidated financial statements. This program is now complete.

In December 2013, our Board of Directors authorized a stock repurchase program for an aggregate purchase of up to \$217.0 million of our common stock. We have yet to repurchase any shares under this program.

Authorized Shares

Effective May 24, 2013, we amended our Second Restated Certificate of Incorporation of Cerner Corporation to increase the number of authorized shares of our common stock from 250,000,000 to 500,000,000 shares.

(16) Foundations Retirement Plan

The Cerner Corporation Foundations Retirement Plan (the Plan) was established under Section 401(k) of the Internal Revenue Code. All associates age 18 and older and who are not a member of an excluded class are eligible to participate. Participants may elect to make pretax contributions from 1% to 80% of eligible compensation to the Plan, subject to annual limitations determined by the Internal Revenue Service. Participants may direct contributions into mutual funds, a stable value fund, a Company stock fund, or a self-directed brokerage account. We have a first tier discretionary match that is made on behalf of participants in an amount equal to 33% of the first 6% of the participant's salary contribution. Our first tier discretionary match expenses for the Plan amounted to \$14.9 million, \$12.3 million and \$10.5 million for 2013, 2012 and 2011, respectively.

We added a second tier discretionary match to the Plan in 2000. Contributions are based on attainment of established earnings per share goals for the year or the established financial metric for the Plan. Only participants who defer 2% of their paid base salary, are actively employed as of the last day of the Plan year and are employed before October 1st of the Plan year are eligible to receive the discretionary match contribution. For the years ended 2013, 2012 and 2011 we expensed \$13.5 million, \$11.9 million and \$10.5 million for the second tier discretionary distributions, respectively.

(17) Related Party Transactions

Continuous Campus

During 2009, as part of our long-term space planning analysis, we determined that we would require additional office space for associates to accommodate our anticipated growth. We evaluated various sites in the Kansas City metropolitan area and negotiated with several different governmental entities regarding available incentives. Upon completion of this review, we decided to proceed with an office development (known as our "Continuous Campus") in Wyandotte County, Kansas. In order to maximize available incentives, we agreed to pursue the office development in conjunction with the development of an 18,000 seat, multi-sport stadium complex and related recreational athletic complex.

The stadium complex was developed by Kansas Unified Development, LLC (the "Developer"), an entity controlled by Neal Patterson, Chairman of the Board of Directors and Chief Executive Officer of the Company, and Clifford Illig, Vice Chairman of the Board of Directors of the Company. Sporting Kansas City ("Sporting KC") is the principal tenant of the stadium complex. OnGoal LLC ("OnGoal"), the owner of the Sporting KC professional soccer club, is also controlled by Messrs. Patterson and Illig.

The Company currently estimates it will receive incentives in the aggregate of \$82.0 million from the Developer, the Unified Government of Wyandotte County/Kansas City, Kansas (the "Unified Government") and the Kansas Department of Commerce. Components of the \$82.0 million of incentives are described below:

Cash Grants - In January 2014 we received \$48.0 million of cash grants from the Kansas Department of Commerce for project costs. The State of Kansas has issued bonds in order to fund these incentives and has incurred costs of issuance and debt service obligations. As consideration for the grant, we made certain new job and state payroll tax withholding commitments. Should aggregate state payroll tax withholdings (related to associates at our Continuous Campus) over a 10-year period commencing in January 2014 be less than \$51.9 million (the \$48.0 million of cash we received plus amounts representing debt service costs incurred by the State of Kansas), we would be required to repay the shortfall. The \$51.9 million maximum repayment amount will be adjusted up or down during the 10-year period, based on any future change to Kansas payroll tax withholding rates.

Under a separate agreement, the Developer and OnGoal have agreed to be responsible for certain shortfall payments that may become due. If no payment from Developer or OnGoal becomes due at the end of the 10-year period, the Developer or OnGoal will pay us a success fee of \$4.0 million.

We recorded the cash grants as an obligation/liability at \$48.0 million, upon receipt in January 2014. Over time this liability will accrete, utilizing the effective interest method, up to the maximum repayment amount, offset by reductions based on actual state payroll tax withholdings generated by our Continuous Campus associates. This activity will be recognized as a component of operating expense as it occurs over a period not to exceed 10 years.

Sales Tax Exemptions - We have received a sales tax exemption on materials and other fixed assets purchased in connection with the construction. As such, we will not be required to remit an aggregate of \$13.0 million of sales tax on these capital purchases.

State Income Tax Credits - We expect state income tax credits to aggregate \$17.0 million. Such credits are available to offset our Kansas state income tax in the future, and will be recognized as a reduction of income tax expense as we are eligible to claim them.

Land - We acquired the land for our Continuous Campus from the Unified Government with certain contingencies upon which the office complex was being constructed. The purchase price of the land, equal to the site's fair market value, is being paid by the Developer. In the second quarter of 2012, we commenced vertical construction on the office development, which resolved contingencies and the land contributed to the Company from the Unified Government was recorded at its \$4.0 million appraisal value.

In 2012, we contracted with GRAND Construction, LLC ("Coordinator"), a limited liability company owned in part by an entity controlled by Messrs. Patterson and Illig, to coordinate, supervise, schedule and assist with managing the development, design and construction of our Continuous Campus. Under the agreement, we paid Coordinator \$1.4 million in both 2013 and 2012. Amounts due in future periods under this arrangement are not expected to be material.

We also paid Coordinator \$0.3 million in both 2013 and 2012 for separate projects to make improvements to parking facilities utilized by one of our other office campuses.

Future Office Development

In December 2013, we purchased approximately 237 acres of land located in Kansas City, Missouri, from Trails Properties II, Inc. ("Trails"), for \$42.5 million. Trails is an entity controlled by Messrs. Patterson and Illig. The property was acquired as a site for future office space development to further accommodate our anticipated growth.

(18) Commitments

Leases

We are committed under operating leases primarily for office and data center space and computer equipment through October 2027. Rent expense for office and warehouse space for our regional and global offices for 2013, 2012 and 2011 was \$20.0 million, \$18.1 million and \$17.6 million, respectively. Aggregate minimum future payments under these non-cancelable operating leases are as follows:

<i>(In thousands)</i>	Operating Lease Obligations
2014	\$ 20,488
2015	19,485
2016	17,819
2017	17,234
2018	14,691
2019 and thereafter	48,381
	<u>\$ 138,098</u>

Purchase Obligations

We have purchase commitments with various vendors through 2019. These commitments represent non-cancellable commitments primarily to provide ongoing support, maintenance and service to our clients. Aggregate future payments under these commitments are as follows:

<i>(In thousands)</i>	Purchase Obligations
2014	\$ 46,680
2015	23,375
2016	9,506
2017	2,151
2018	2,000
2019 and thereafter	2,000
	<u>\$ 85,712</u>

(19) Segment Reporting

We have two operating segments, Domestic and Global. Revenues are derived primarily from the sale of clinical, financial and administrative information systems and solutions. The cost of revenues includes the cost of third party consulting services, computer hardware, devices and sublicensed software purchased from manufacturers for delivery to clients. It also includes the cost of hardware maintenance and sublicensed software support subcontracted to the manufacturers. Operating expenses incurred by the geographic business segments consist of sales and client service expenses including salaries of sales and client service personnel, communications expenses and unreimbursed travel expenses. "Other" includes expenses that have

not been allocated to the operating segments, such as software development, marketing, general and administrative (including the settlement charge discussed in Note (11)), share-based compensation expense and depreciation. Performance of the segments is assessed at the operating earnings level and, therefore, the segment operations have been presented as such. Items such as interest, income taxes, capital expenditures and total assets are managed at the consolidated level and thus are not included in our operating segment disclosures.

Accounting policies for each of the reportable segments are the same as those used on a consolidated basis. The following table presents a summary of our operating segments and other expense for 2013, 2012 and 2011:

<i>(In thousands)</i>	Domestic	Global	Other	Total
2013				
Revenues	\$2,550,115	\$ 360,633	\$ —	\$2,910,748
Cost of revenues	458,540	56,182	—	514,722
Operating expenses	600,341	115,281	1,104,392	1,820,014
Total costs and expenses	<u>1,058,881</u>	<u>171,463</u>	<u>1,104,392</u>	<u>2,334,736</u>
Operating earnings (loss)	<u>\$ 1,491,234</u>	<u>\$ 189,170</u>	<u>\$(1,104,392)</u>	<u>\$ 576,012</u>
<i>(In thousands)</i>	Domestic	Global	Other	Total
2012				
Revenues	\$2,341,304	\$ 324,132	\$ —	\$2,665,436
Cost of revenues	548,813	59,384	—	608,197
Operating expenses	506,249	131,580	847,748	1,485,577
Total costs and expenses	<u>1,055,062</u>	<u>190,964</u>	<u>847,748</u>	<u>2,093,774</u>
Operating earnings (loss)	<u>\$ 1,286,242</u>	<u>\$ 133,168</u>	<u>\$ (847,748)</u>	<u>\$ 571,662</u>
<i>(In thousands)</i>	Domestic	Global	Other	Total
2011				
Revenues	\$ 1,894,454	\$ 308,699	\$ —	\$2,203,153
Cost of revenues	387,466	54,206	—	441,672
Operating expenses	439,465	126,997	735,221	1,301,683
Total costs and expenses	<u>826,931</u>	<u>181,203</u>	<u>735,221</u>	<u>1,743,355</u>
Operating earnings (loss)	<u>\$ 1,067,523</u>	<u>\$ 127,496</u>	<u>\$ (735,221)</u>	<u>\$ 459,798</u>

(20) Quarterly Results (unaudited)

Selected quarterly financial data for 2013 and 2012 is set forth below:

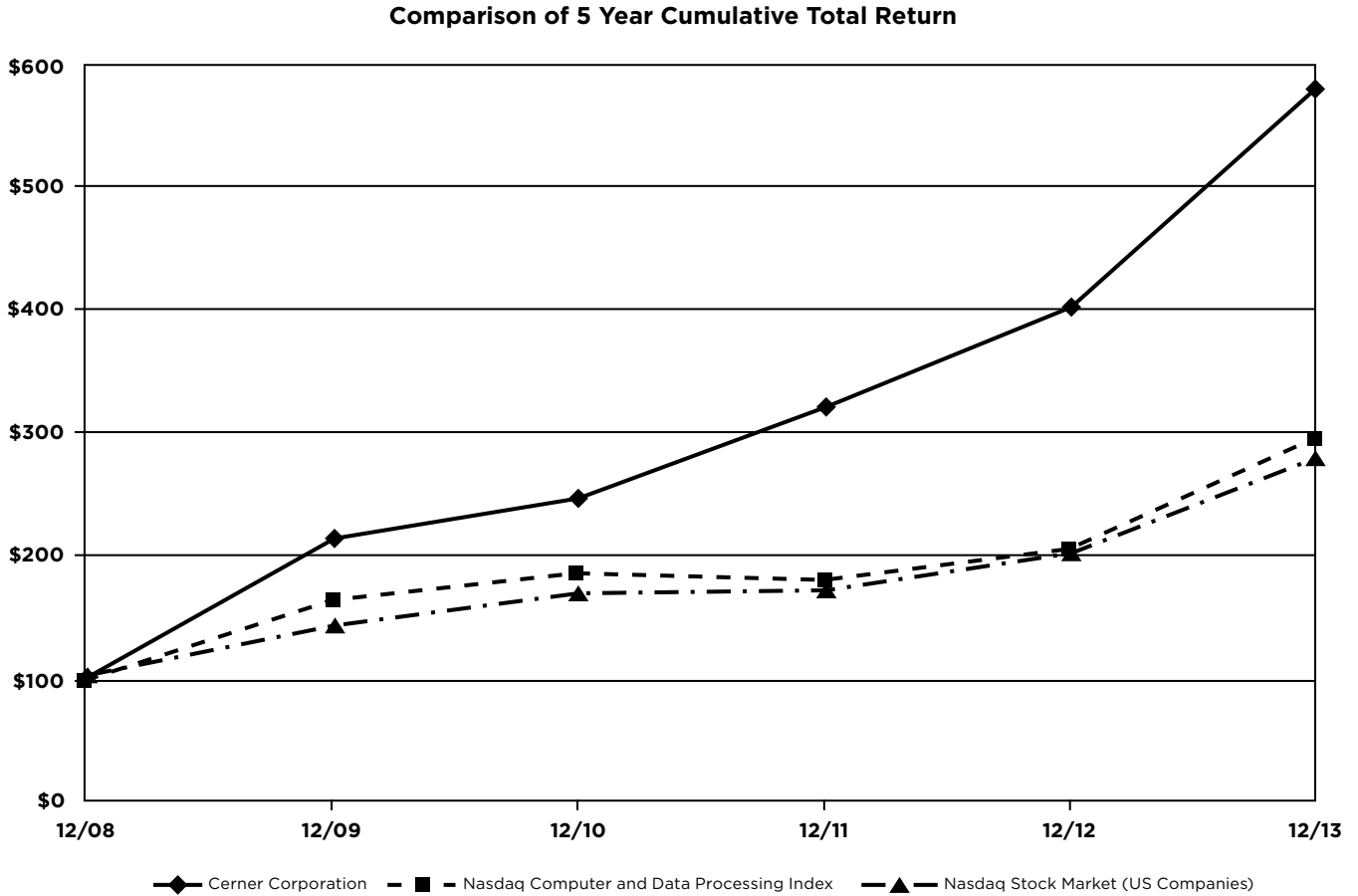
	Revenues	Earnings Before Income Taxes	Net Earnings	Basic Earnings Per Share	Diluted Earnings Per Share
<i>(In thousands, except per share data)</i>					
2013 quarterly results:					
First Quarter	\$ 680,029	\$ 159,613	\$ 110,040	\$ 0.32	\$ 0.31
Second Quarter	707,561	169,189	112,907	0.33	0.32
Third Quarter	727,830	172,747	115,344	0.34	0.33
Fourth Quarter ^(a)	795,328	86,505	60,063	0.17	0.17
Total	<u>\$ 2,910,748</u>	<u>\$ 588,054</u>	<u>\$ 398,354</u>		

^(a) Fourth quarter results include a pre-tax settlement charge of \$106.2 million, as further described in Note (11).

	Revenues	Earnings Before Income Taxes	Net Earnings	Basic Earnings Per Share	Diluted Earnings Per Share
<i>(In thousands, except per share data)</i>					
2012 quarterly results:					
First Quarter	\$ 641,212	\$ 130,063	\$ 88,708	\$ 0.26	\$ 0.25
Second Quarter	637,358	138,897	97,829	0.29	0.28
Third Quarter	676,482	151,047	98,887	0.29	0.28
Fourth Quarter	710,384	167,701	111,808	0.33	0.32
Total	<u>\$ 2,665,436</u>	<u>\$ 587,708</u>	<u>\$ 397,232</u>		

STOCK PRICE PERFORMANCE GRAPH

The following graph presents a comparison for the five-year period ended December 31, 2013 of the performance of the Common Stock of the Company with the NASDAQ Composite Index (US Companies) (as calculated by The Center for Research in Security Prices) and the NASDAQ Computer/Data Processing Group (as calculated by The Center for Research in Security Prices):



The above comparison assumes \$100 was invested on December 31, 2008 in Common Stock of the Company and in each of the foregoing indices and assumes reinvestment of dividends. The results of each component issuer of each group are weighted according to such issuer’s stock market capitalization at the beginning of each year.

Corporate Information

ANNUAL SHAREHOLDERS' MEETING

The Annual Shareholders' Meeting will be held at 10:00 a.m. local time on May 23, 2014, in The Cerner Round Auditorium in the Cerner Vision Center, located on the Cerner campus at 2850 Rockcreek Parkway, North Kansas City, Missouri, 64117. A formal notice of the Meeting, with a Proxy Statement and Proxy Card, will be available, to each shareholder of record, in April 2014.

ANNUAL REPORT/FORM 10-K

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

Written requests should be made to:

Cerner Corporation
Investor Relations
2800 Rockcreek Parkway
North 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, Computershare Trust Company, at 1-800-884-4225.

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company, N.A.
P.O. Box 43078
Providence, RI 02940-3078
1-800-884-4225

STOCK LISTINGS

Cerner Corporation's common stock trades on The NASDAQ Stock Market LLC under the symbol CERN.

INDEPENDENT ACCOUNTANTS

KPMG LLP
Kansas City, MO

World Headquarters

Cerner Corporation
2800 Rockcreek Parkway
Kansas City, MO USA 64117
816.201.1024

Worldwide

Australia
Brazil
Canada
Chile
Egypt
France
Germany
India
Ireland
Malaysia
Mexico
Qatar
Saudi Arabia
Singapore
Spain
United Arab Emirates
United Kingdom