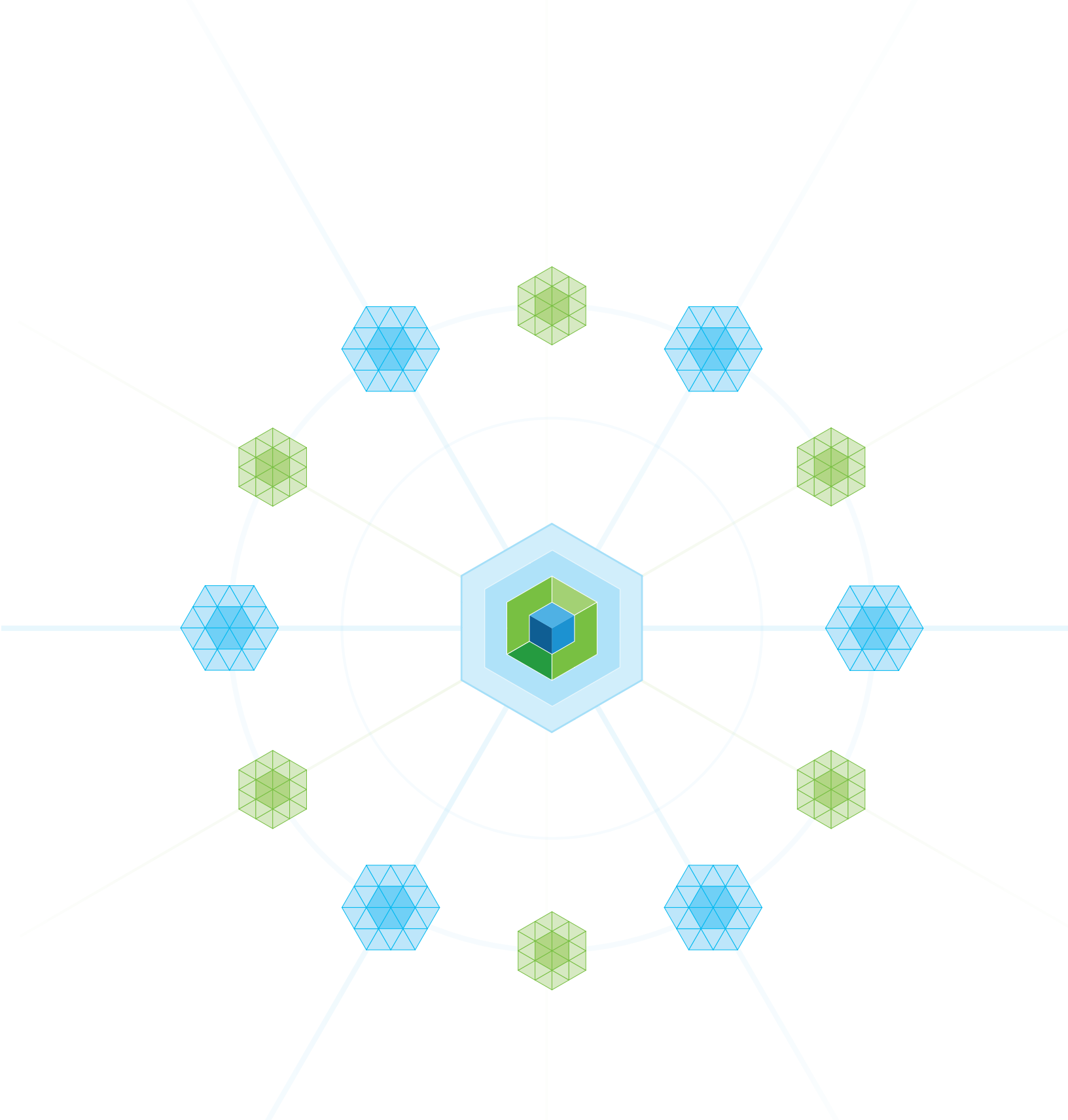


Connecting what matters™





Cerner connects people and systems through our open, powerful and versatile platforms and solutions, providing information where it's needed most. Together with our clients and industry collaborators, we're creating a future where the health system works to improve the well-being of individual people and entire populations.

Cerner Corporation
2014 Annual Report

Table of Contents: Annual Report 2014

Board of Directors	2
Leadership	3
Cerner's Long-Term Performance	4
Letter to Our Shareholders, Clients and Associates	5
Appendix: Reconciliation of 2014 Non-GAAP Results to GAAP Results	16
Form 10-K	18
Business and Industry Overview	20
Risk Factors	27
Properties	37
Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	38
Selected Financial Data	39
Management's Discussion and Analysis of Financial Condition and Results of Operations	40
Quantitative and Qualitative Disclosures About Market Risk	53
Controls and Procedures	53
Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	56
Exhibits and Financial Statement Schedules	57
Reports of Independent Registered Public Accounting Firm	62
Consolidated Balance Sheets	64
Consolidated Statements of Operations	65
Consolidated Statements of Comprehensive Income	66
Consolidated Statements of Cash Flows	67
Consolidated Statements of Changes in Shareholders' Equity	68
Notes to Consolidated Financial Statements	69
Basis of Presentation, Nature of Operations and Summary of Significant Accounting Policies ...	69
Business Acquisitions	73
Investments	76
Fair Value Measurements	77
Receivables	78
Property and Equipment	79
Goodwill and Other Intangible Assets	79
Software Development	80
Long-term Debt and Capital Lease Obligations	80
Hedging Activities	81
Contingencies	82
Other Income	83
Income Taxes	83
Earnings Per Share	85
Share-Based Compensation and Equity	86
Foundations Retirement Plan	88
Related Party Transactions	89
Commitments	90
Segment Reporting	91
Quarterly Results	92
Stock Price Performance Graph	93
Corporate Information	94



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

Retired Partner, Bryan Cave LLP, January 1995–September 2014

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, January 2005–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
John P. Glaser • Senior Vice President, Health Policy
Michael C. Neal • Senior Vice President, Professional Services
John T. Peterzalek • Senior Vice President, Client Relationships
Matthew J. Swindells • Senior Vice President, Population Health
Donald D. Trigg • Senior Vice President and President, Cerner Health Ventures

Cerner Executive Management

Don D. Bisbee • Senior Vice President, Strategic Business Units
Kathleen M. Chaffee • Senior Vice President, Population Health Advisory Services
L. Mitchell Clark • Senior Vice President and General Manager, CommunityWorks
Stephen W. Eckman • Senior Vice President, Application Services
Ed L. Enyeart • Senior Vice President, Finance
Richard J. Flanigan • Senior Vice President and President, Cerner Health Services
William E. Graff • Senior Vice President, Cerner Technology Services
Ryan R. Hamilton • Senior Vice President, Population Health 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, Intellectual Property Development
Farrell L. Sanders • Senior Vice President and Chief Operating Officer, Cerner Health Services
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
Gay M. Johannes • Vice President and Chief Quality Officer
Allan O. Kells • Vice President, Investor Relations

Client Organization

G. Ben Hilmes • Senior Vice President, US East
E. Tim Kostner • Senior Vice President, Client Development
Jay E. Linney • Senior Vice President, US West
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
Michael J. McHugh • Vice President, Cerner Health Services
Emil E. Peters • Vice President and Managing Director, Europe
Michael A. Pomerance • Vice President and General Manager, Middle East
Geoff Segal • Vice President and General Manager, United Kingdom and Ireland
Arne Westphal • Vice President and General Manager, Germany
Israel D. Armstrong • General Manager, Brazil
Holger Cordes • Chief Operating Officer, Europe
David E. Corcos • Regional General Manager, Belgium, France, Netherlands, Sweden and Switzerland
Amanda J. Green • Regional General Manager, Denmark, Ireland and Norway
Rebecca A. LaNasa • Regional General Manager, Southeast Asia
Jose Maniega • Regional General Manager, Portugal and Spain
Stefan Radatz • General Manager, Austria



Cerner's Long-Term Performance

The following table provides a view of our growth over the last decade and since we first became a publicly traded company in 1986.

				Compound Annual Growth Rates		
				Previous Decade	Since Going Public	
				2004-2014	1986-2014	
	1986	2004	2014			
Top Line	Bookings	\$18	\$917	\$4,250	17%	22%
	Revenue	\$17	\$926	\$3,403	14%	21%
	Domestic Revenue	\$17	\$862	\$3,022	13%	20%
	Global Revenue	\$0.2	\$64	\$381	20%	31%
	Revenue Backlog	\$11	\$1,539	\$10,617	21%	28%
Bottom Line	Adjusted Operating Earnings ¹	\$3	\$115	\$842	22%	22%
	Adjusted Operating Margin ¹	14.8%	12.4%	24.7%		
	Adjusted Net Earnings ¹	\$2	\$65	\$576	24%	22%
	Adjusted Diluted Earnings Per Share ¹	\$0.01	\$0.22	\$1.65	23%	20%
Balance Sheet	Total Assets	\$26	\$982	\$4,531	17%	20%
	Cash and Investments	\$8	\$190	\$1,652	24%	21%
	Days Sales Outstanding	161	104	66	-4%	-3%
	Total Debt	\$1	\$131	\$130	0%	19%
	Equity	\$16	\$597	\$3,566	20%	21%
Cash Flow	Operating Cash Flow	\$1	\$168	\$847	18%	27%
	Free Cash Flow ¹	-\$1	\$53	\$393	22%	NM
Investment in Growth	Capital Expenditures	\$1	\$56	\$277	17%	22%
	R&D Spending	\$2	\$188	\$467	10%	22%
	Associate Headcount	149	5,345	15,800	11%	18%
Market Performance	Cerner Stock Price	\$0.24	\$6.65	\$64.66	26%	22%
	Market Capitalization	\$45	\$1,948	\$22,135	28%	25%
	NASDAQ Composite Index	349	2,175	4,736	8%	10%
	S&P 500 Index	242	1,212	2,059	5%	8%

NOTES
Dollars are in millions except Adjusted Diluted Earnings Per Share and stock prices.
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, to make strategic decisions, to assess long-term trends on a comparable basis, and for management compensation purposes. Please see the appendix following the Letter to Our Shareholders, Clients and Associates for a reconciliation of these items to GAAP results.



A Letter to Our Shareholders, Clients and Associates

In 2014, Cerner had another strong year financially, operationally and strategically, which also translated into a good year for our shareholders. We continued to position our company for long-term success through significant investments in research and development focused on population health, physician experience, open platforms, revenue cycle and mobility. We also announced the acquisition of Siemens Health Services. I will share more details later in the letter, but first, I'd like to provide some highlights of our financial results.

- We had record bookings of \$4.25 billion, reflecting 13% growth over 2013.
- Our revenue backlog grew 19% and eclipsed \$10.6 billion, providing a high level of visibility into future revenue.
- Total revenue grew 17% to a record \$3.4 billion. Below is a breakdown of revenue by business model for the year:
 - Licensed Software grew 17% to \$453 million;
 - Technology Resale grew 4% to \$273 million;
 - Subscriptions and Transactions increased 12% to \$220 million;
 - Professional Services revenue grew 28% to \$1.09 billion;
 - Managed Services increased 15% to \$549 million;
 - Support & Maintenance was up 9% to \$725 million; and
 - Reimbursed Travel was \$90 million, which is up 28%.
- Our adjusted operating earnings¹ grew 15% and our adjusted EPS¹ of \$1.65 reflects growth of 17%.
- Our adjusted operating margin¹ of 24.7% reflects a slight drop from 25.1% in 2013, mainly due to a mix of revenue that had higher third-party costs in 2014 compared to 2013.

- We ended 2014 with a strong cash and investment balance of \$1.65 billion, which is up over \$200 million from 2013 even after investing over \$465 million in R&D and \$275 million in capital expenditures to support our growth. This strong cash and investment position funded our \$1.37 billion acquisition of Siemens Health Services, which closed on February 2nd of this year.

Apart from the financial growth, we grew throughout 2014 in other meaningful ways—clients, countries, patents and associates. We ended the year with nearly 16,000 associates, and that was before we added our Siemens Health Services associates in February 2015.

Cerner's success puts us on the radar to get recognized by business analysts and publications on annual lists that use superlatives like "best," "most competitive," "elite" and "top." It's fun, and it's the kind of stuff that makes parents beam. My personal philosophy (and advice to any Cerner associates reading) is to focus less on reading the press and more on being worthy of what has been said about us. As we begin 2015, we are simultaneously recognized by *Forbes* as one of the "World's Most Innovative Companies" and by *Fortune* as one of the "World's Most Admired Companies." We're honored, but we also recognize that those are tall orders to fill. Every day we see things that can and must be better.

Frankly, one of the best things about a pattern of success is that it reinforces our resolve to pursue long term objectives, knowing today's long-term is tomorrow's present. When you lead through vision, confidence that the future will be greatly different from the present is essential. Communication is also essential. In order to read a map, you need to know two pieces of information: where you are and where you're going. At least a few times a year, I use internal notes to all Cerner associates to communicate important things about both our current coordinates and our destination. And, although there is a very public audience for this note, I try to do the same thing here. There are always more potential topics than



time to write about them. For this letter, I've tried to choose some topics that will give you a sense of our year, our environment at the intersection of health care and IT, and where our journey might take us next.

THE RIGHT TIME AND PLACE FOR A BOLD MOVE: THE SIEMENS HEALTH SERVICES ACQUISITION

To understand the respect I have for the core of Siemens Health Services, you would have to travel back in time to 1979 when Cerner was founded. Shared Medical Systems (or SMS) was the dominant company then, a pioneer and innovator in health IT. In some ways, it was the strength of SMS in patient billing and revenue cycle management in the 1970s and 1980s that shaped Cerner's choice to become a "clinical systems" company. German multinational conglomerate Siemens AG bought the company in 2000, seeing the strategic nature of IT in shaping health care delivery. Siemens was right about the strategy, but I believe the pace of change of health IT, which has been accelerated by Meaningful Use in the U.S., made Siemens Health Services more of a distraction to the parent company than an asset. Health IT is our sole focus. We saw an opportunity, and we liked it.

I have said and still maintain that I don't believe you can *build* a company through acquisitions. The core must be based on your commitment to your vision, and it grows organically. For 35 years, we have built Cerner organically by investing in the development of our own intellectual property, much of it software but also valuable content,

algorithms, models and data built for a common architecture and its platforms. The belief that *Architecture Matters* has served Cerner well, and integration is a strategy that has been validated resoundingly in the marketplace. As we have grown, we've strategically acquired a few wonderful smaller companies along the way with good technology and talent, but the acquisition of a billion-dollar business unit with multiple distinct platforms and architectures was not a natural thing for us.

We didn't *need* to make the acquisition, but the reasons for *wanting* to were clear to us. It would expand the base into which we can sell our broad range of solutions and services. It would augment our non-U.S. growth opportunities through a large global presence. It would increase our ability to continue investing heavily in R&D. And it would add thousands of highly skilled associates that could enhance Cerner's capabilities.

We have been clear with the Health Services clients that we will support the Soarian platform for a very long time. All of the platforms we acquired will need support and investment sufficient to validate the investment and the choice the clients have made in selecting them. We understand their needs well, because they're the same as the rest of our clients. Having said that, *Millennium* and *HealthIntent* are our EMR and population health platforms. They're proven, powerful, flexible and scalable, and they will be our clients' paths to the future. Siemens is a major health care company outside of health IT, and it cared deeply that its clients were in the hands of

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 and is listed on NASDAQ (CERN)
\$17 million of revenue
149 associates

1987

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



an organization that could address their health IT needs in the future. Cerner’s platforms are the path to the future, but it will not be a journey of one year or even five in many cases. We will all arrive at the same destination.

The battle for talent is one of our toughest fronts. From January 2012 to January 2015, *before* the acquisition, Cerner hired more than 5,500 net new associates, with plans to add even more. The acquisition brought more than 5,000 associates with a great deal of specific health IT knowledge that is complementary to our own. I visited the Malvern, PA, headquarters of Health Services shortly after the acquisition closed, and I held back-to-back town halls with as many associates as we could fit in the auditorium there. I was very impressed with the associates I met. Their strength in billing and revenue cycle goes back decades, and there is also some wonderful expertise in workflows and a large global base of associates. We were in the same industry following paths that led to different outcomes, with different strengths. We have a great deal to learn from each other. I am convinced we will be stronger together. Together we will be focused on using IT as *the* lever to help our clients produce the best possible health outcomes at the lowest attainable cost.

Remarkably, combining our organizations allows us to not only combine talent, but also to invest an expected \$650 million a year in research and development for the rest of the decade. We believe there is no company that will match this level of investment in health IT. It’s a good thing.... we are going to need a lot of strength in the next era.

In short, the combination of Health Services with Cerner makes us a stronger company, with new opportunities to make it even better. Only time will tell how successful we are, but it is already clear that it is a wonderful set of new clients and associates.

OUR SIZE AND SKILLS

Health care is huge, and it’s worldwide. We believe that size, scale and skills are important to partner with health care providers to solve their challenges today and prepare for an uncertain future. An anecdote about size: In October, we made a difficult decision to cancel our planned companywide Town Hall, in part because it would have caused a traffic jam in downtown Kansas City. Associates still wanted to meet, so I chose to make a whistle-stop tour of a number of our campuses. Those meetings with groups of 200 to 500 associates turned out to be one of the highlights of my year. Growth can have its challenges, but it’s also exciting to expand the boundaries and see what we can create together.

As I write this memo in March 2015, we are at a size that we probably didn’t imagine even 10 years ago. Cerner is on a very short list of companies that have consistently performed well throughout a decades-long winnowing of the health IT industry. Today, we are a roughly \$25 billion market cap, highly profitable company with a strong balance sheet, growing at double digit rates in all categories. We have more than 20,000 associates and a presence in more than 30 countries. We have a singular focus on health

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)



IT. We're halfway through the biggest decade of change in health care to date—and we have seen a lot of big, change-filled decades. Every U.S. client we have is concerned about cost and quality, ICD-10, Meaningful Use Stage 3, and the transition away from fee-for-service reimbursement. Every client outside the U.S. has a similar list of critical environmental issues creating the need for fundamental change. The list of challenging work ahead is huge, but nearly all of it is resourced, with good talent driving us forward. We have a very good opportunity to finish the decade strong and make a real impact on health and care.

Size matters because health care is the largest sector in almost all worldwide economies. It has tremendous complexities, breadth and reach. Our size alone is of no value without vision, agility and real skills.

In the next section, I want to talk about a client engagement that is making use of vision, agility and skills to advance clinical computing beyond its current state, creating the v2.0 EHR and Revenue Cycle instance for the industry.

THE INTERMOUNTAIN MODEL

In last year's letter, we had already signed our multi-year strategic partnership with Intermountain Healthcare, but I chose not to write about it because it was not "live" yet. Now that we're beginning to bring sites live there, I want to share more about this very special client relationship and engagement.

Intermountain is an iconic health system with 22 hospitals and more than 180 clinics

in Utah. They are widely viewed as a model health system because of their track record of providing high quality care at low cost—the holy grail of health care. Somewhat amusingly, in 2012, Intermountain's excellence was one of the few points mutually agreed upon by both Democratic and Republican candidates Barack Obama and Mitt Romney in the first presidential debate. Intermountain also has a special claim to fame as the home of Dr. Homer Warner, one of the undisputed fathers of clinical computing. Dr. Warner was a cardiologist who saw the enormous potential impact that computing would have on the practice of medicine and acted on it, helping to pioneer the field of medical informatics. Because of Homer Warner's legacy, Intermountain has been using computers in medicine since the 1950s. That is not a typo. In the 1980s, I used to go to Salt Lake City to listen to Dr. Warner speak, soaking up some of the insights that would pour out of his prodigiously creative mind and soul.

Needless to say, when we learned in 2012 that Intermountain was looking for a commercial EHR to continue its work, our interest was beyond piqued. Throughout 2013, we participated in a highly competitive, head-to-head selection process. In the end, we were chosen. The Intermountain executive team voiced several reasons—a mix of system capabilities in the present with adaptability for the future, a commitment to support new payment models and the open interchange of information, and the ability to support the continuation of their very important innovations around quality, safety and cost. And significantly, they also spoke of something else

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 UK National Health Services Choose and Book contract



we felt from the earliest meetings—an alignment of cultures and a shared vision for the future.

The full project commenced with contract signing in late November 2013. It was slated to replace their current ambulatory, inpatient and revenue cycle systems across all facilities. They call the project *iCentra*, a combination of some letters in the names Intermountain and Cerner. Embedded in the iCentra project and platform are several triggers for helping support Intermountain’s stated goal of “helping people live the healthiest lives possible.” We converted the first phase of the project in early 2015 with two hospitals and 20 clinics coming live in February, 15 months after contract signing. In an industry where large health system conversions can take years, this is a significant accomplishment. We will continue bringing hospitals and clinics online throughout the remainder of 2015 and into 2016. The real focus, however, is less on dates on a calendar and more on creating a flexible and long-lasting platform to innovate, learn and improve.

When a health system adopts a completely integrated system, the act of conversion changes the workflow of every doctor, every nurse and almost every dollar of revenue. It also completely alters the existing ecosystem of information technologies that have been in place for decades. I have always called health IT conversions the organizational equivalent of organ transplant surgery. We are just a month or so out of the operating room at this point, but I can report that the patient is doing well. Within a couple of months post conversion, the shock to the system

usually wears off and the users gain a new level of familiarity and trust in the new systems. With 20 hospitals left to come online, we expect some bumps in the road ahead, but we are also very excited. Overall, it has been an extraordinary project that has now had an auspicious launch.

This is the first Cerner project to make use of our new Agile Deployment Methodology, a model that represents a departure from the industry-standard waterfall implementation process. In the Agile model, physicians and other end users participate in the system build and design, and never go more than six weeks without the opportunity to see, use and give feedback on the system prior to go-live. We don’t want to give away all of our secrets, but it’s a great process with benefits that will extend beyond go-live as well. We believe it might even be the keystone that supports the other elements of a *learning health system*, another of medicine’s elusive grails.

Intermountain made it clear from the start that they were enthusiastic about being an “all-in” proof point for Cerner’s capabilities. They were also excited about the potential for the iCentra work to positively impact other health systems. Using capabilities that already exist in Millennium and some that have been developed together, our combined teams have built out hundreds of health care roles and hundreds of clinical workflows across 50+ medical specialties and subspecialties. There are also 350+ financial workflows, with detailed workflows defined that are multi-role, multi-venue. In some cases, we’re getting down to the condition level. Together we’re fully leveraging

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
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 Healthe 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)



iCentra capabilities like MPages, Discern Rules and order sets to embed the evidence-based models of care that Intermountain is known for. For years Intermountain's Care Process Models and Clinical Process Guidelines have helped its clinicians achieve high quality care and low overall cost. Now they're moving from paper documents into digital workflows that are used every day. In Intermountain quality guru Brent James' terms, the goal is to provide "the best patient care currently available, at an executable level where we consistently perform on behalf of our patients." In Cerner's terms, it's to eliminate all avoidable error, variance, waste, delay and friction from health care.

This project has great visibility. As it continues to roll out, we believe it will become our version 2.0 Millennium to meet the complex needs of providers across the spectrum of health care, coordinating care any time, any place, using intelligence to inform decisions by the highest standards, connecting all of the individuals they serve seamlessly into the process. It's exciting stuff. There is far too much to explain here, but hopefully I have given you a sense of why we are so enthusiastic about it.

INTEROP: AN INSIDE STORY

There is a story within a story playing out in the health IT industry around how our health information should be shareable and accessible among our primary care physicians, specialists, hospital physicians and selves. In the past couple of years, the public discourse around the lack

of interoperability among health IT systems has at times reached an almost fevered pitch, partly because of competitive marketplaces, but principally because the decisions around the availability and safe handling of health information are very sensitive and have real consequences in terms of how care is provided when we or our loved ones are sick. In recent years, a great deal of money has been spent on health IT—over \$27 billion directly from the U.S. federal government to eligible providers and hospitals for the purpose of creating a digital health care system. And while that has largely occurred, the day-to-day lack of interoperability across health care organizations and platforms limits the benefits to us as individuals and creates huge costs to the entire system. Interoperability in health IT is not entirely comparable to the interoperability found among personal computing platforms, telephony components, music services or even banking systems, although it has some similarities. The key differences are a result of the degree of complexity, privacy, importance and data diffusion found in health care. Health information is very complex—as complex as systems of the body, the wide world of diseases, and the burgeoning sciences. It's also highly private—dealing with the most intimate details of our bodies and lives. It is critically important—in the moment you need it, it can have life or death importance. And it is highly diffused—in the United States, the average person has seen 18 different doctors, a number that increases to 28 doctors if you're over 65². Each of your physicians has pieces of your health data, but not all of it. The lack of a unified view can

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*[™]
 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 *HealthIntent*[™] 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

²Per a 2010 Practice Fusion survey conducted by GfK Roper.



lead to missed opportunities for diagnosis, delays in treatment, waste of resources and excess costs due to repeated tests.

The absence of interoperability in health care causes a significant direct and added burden on sick people and their families, who are left “holding the bag”—not the figurative bag of blame (it is certainly not *their* fault), but a very real bag of hundreds of printed pages, faxed records, radiography films and data disks they must carry between doctor’s visits. My wife Jeanne, a surviving cancer patient, has a bag like this....she actually has several of them. To further shed light on the problem, it’s typically only the better-resourced and proactive patients like Jeanne who are able to assemble their records in the first place. That’s because each set of pages and each disk in the bag represents a visit to a records department, a wait at an information desk, or a phone call that was put on hold.

In the last few years, the term “data hoarding” has entered the health care lexicon. A data hoarder is any person or organization that withholds a person’s health data for competitive reasons, stands up business practices that disincentivize interoperability, or puts up other unfair barriers to data exchange. Data hoarding occurs when an organization is *able* to share data but makes business-related choices about who to share with and how. A data hoarder can be a provider organization; it can also be a health IT vendor. I have seen provider organizations that are willing to exchange a person’s health data with anyone *but* the competing hospital across the street. I

have also seen health IT vendors that will send a person’s data for free anywhere in the country as long as it stays on their proprietary platform, but will charge provider organizations a fee if the data’s destination is a competing health IT platform.

In some industries, you might chalk this kind of behavior up to shrewd business tactics. Health care is different and should be different. In health care there is a self-evident ethical understanding that a person’s health data belongs to the *person* as much as it does to any physician or organization that holds it. For several years, this has been powerfully articulated using phrases like “Nothing About Me Without Me” and “Give Me My Damn Data,” by everyone from patient rights activists like Dave DeBronkart and Regina Holliday to health reform officials like Don Berwick and Suzanne DelBanco. At the national policy level, there is a movement to expose and penalize data hoarding practices wherever they occur.

Health care data is different. It belongs to the person, and it also has different requirements and protections under the law. The Health Insurance Portability and Accountability Act of 1996 (HIPAA) made it illegal to share personally identifiable health care information without the consent of the patient. HIPAA also mandated the creation of unique national patient identifiers (NPIs) for U.S. citizens, a move that could have greatly facilitated the kind of accurate patient matching needed for safe nationwide interoperability. Two years later, however, Congress prohibited funding the creation of NPIs because of privacy concerns. When it comes to exchanging health

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*™ suite of cloud services
Signed 1st *Cerner QualityWorks*™ 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 \$1 billion 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 Model™ 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 \$3.8 billion
Total assets surpass \$4 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 *HealthIntent Smart Registries*™ 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



data, the needs for privacy, security, accuracy and consumer control are real. It's not easy to meet all of these obligations, but it is possible.

A few years ago, the head of the Office of the National Coordinator for Health Information Technology implored the health IT industry to come together to provide a private solution to certain problems and limitations that were hamstringing progress toward interoperability. In response, Cerner and several competitors co-founded CommonWell Health Alliance, an open, not-for-profit industry consortium that brings health IT firms together for the purpose of enabling safe nationwide interoperability. The idea behind CommonWell is not to compete with federal policy, but to complement and accelerate it by providing solutions to three areas of weakness in the national standards: **identity management, record location** and **consent management**. Through CommonWell, the vendors that have profited from Meaningful Use come together and pay a fee based on their revenues that provides for an interoperability infrastructure that facilitates identity management, record location and consent management for provider organizations at commodity prices. In a world where patients desperately need interoperability, CommonWell is a practical, market-led way to achieve it relatively quickly, especially without any additional costs to taxpayers.

When I started this letter, CommonWell members represented about 50% of the acute care market share. As we go to print, the number has increased to 70%. It needs to be 100%. CommonWell

has completed the pilot projects phase where members tested transactions between all the different vendors, and it is starting to sign up health care provider organizations to use the service. It is a network, and we expect to see the "network effect" phenomenon where benefits are modest and perhaps poorly understood at first, but greatly increase in value as more providers and consumers connect.

The one vocal opponent of CommonWell is a sizable health IT vendor that has used innuendo and outright misstatements to imply that CommonWell is a "business" with a hidden purpose to make money for a group of select interests. The detractor's CEO has stated publicly that she believes CommonWell will profit from selling personal health data. The truth is that CommonWell is not a business; it's a not-for-profit. And CommonWell's terms and conditions provide CommonWell with no data rights and prohibit its service provider from selling data. The negative statements are as clear-cut an example of FUD as I have ever seen. Interestingly, in testimony before Senate in March 2015, the same company expressed no misgivings about the actual architecture of CommonWell and what it does, saying "in terms of what they're doing, architecturally there's not a problem with that."³

Other industries have worked together to solve this type of problem. The banking industry did so around the creation of ATM networks. And, as nearly everyone knows, today you can open an account in any bank, obtain a temporary debit card, travel to another city or even country, and

2014

Annual revenue grew 17% to \$3.4 billion
Repurchased \$217 million of stock under our Share Repurchase Program

Signed definitive agreement to purchase the Siemens Health Services business for \$1.3 billion

Cerner client Marina Salud became first non-U.S. hospital to earn HIMSS Davies Enterprise Award for demonstrating significant, sustainable improvement of patient outcomes through the utilization of an EHR and information technology while achieving return on investment

Cerner client Croydon Health Services NHS Trust in South London was recognized by HIMSS Europe as the first hospital in the UK to achieve Stage 6 certification

First place on *Kansas City Business Journal's* list of Healthiest Employers for companies employing over 3,500 people

Cerner client Truman Medical Center honored with HIMSS Davies Enterprise Award and The College of Healthcare Information Management Executives (CHIME) - American Hospital Association (AHA) Transformational Leadership Award

CEO Neal Patterson recognized with Industry Leader Award by CHIME

Named to top 25 of *Forbes* list of World's Most Innovative Companies

Named to *Fortune* magazine's list of World's Most Admired Companies and #1 Most Admired in Health Care industry

15,800 associates

³Full Committee Hearing - America's Health IT Transformation: Translating the Promise of Electronic Health Records Into Better Care, March 17, 2015.



use your card to safely withdraw money from your account at any ATM in the world, even if it is operated by a competing bank with no relationship with you or your bank. This is what we are trying to accomplish with CommonWell. The vision of CommonWell is for a patient to be able to visit a new doctor, give their consent, and, within moments, have his or her lifetime record assemble from all the prior places he or she has visited. No one will be left holding the bag.

The federal government is giving heavy scrutiny to interoperability. There is a 10-year roadmap to interoperability, and interop is a major focus of Meaningful Use Stage 3 rulemaking (with much of the workload appropriately falling on the vendors). Interoperability will happen. It is just now a matter of time. We hope and believe that CommonWell will play a big role in making it happen sooner versus later.

At the risk of providing too much information on this subject, one final note. We need to go beyond simply sending data between systems for review by the providers to much more sophisticated scenarios involving so-called “semantic interoperability,” where data continually flows in machine-understandable format from one platform to another, where it can be consumed into intelligent workflows, just like information that is native to that system. Today Cerner supports its clients who want to do point-to-point interfacing and connect to local health information exchanges, but we are working to advance that universal “built in” connectivity.

THE BIGGEST CHANGE FACING OUR CLIENTS IS LOOMING

We just passed the five-year anniversary of the Affordable Care Act (a.k.a. “Obamacare”), which has created the biggest decade of change that health care has ever seen in the U.S. All of our clients are reacting to the major changes in their environments. They are in the mode to protect their current revenues, find new sources of revenues, improve their measurable quality, and prepare themselves for risk by significantly reducing their cost of providing care. Many of the clients feel that they need to take 20% or more out of their cost and provide higher quality care. The biggest lever to do so is information technology.

In the last year, we have engaged with a number of our longstanding clients to drive value creation and process improvement initiatives within their organizations. Each long-term engagement has a slightly different flavor, depending on what is most important to that client. We are steadfastly committed to creating the innovations that will help them deliver the best care, every time, to every person, and at the lowest attainable cost. We are also committed to moving the boundaries of health care so that health systems can engage their communities in managing their health, right in the environments where they live. All of this, including our platform for helping providers to manage population health, should be an important part of the next phase of Cerner.

Despite the fact that the last several years have brought profound changes, the biggest change of all is yet to come. Barring unforeseen circumstances, I believe it will get here in the next three years. I am talking about a change in how doctors, hospitals and other providers get paid. For the past 100 years, fee-for-service (FFS) has been the core method for commerce in health care. The more services, the more fees. The ills of fee-for-service have been well publicized; I’m not going to rehash them all here. The biggest issue with FFS is a misalignment of incentives. The only way for physicians and hospitals to get paid is for you to become sick and for them to do things for you. No one is getting paid to keep you well, and the act of paying providers and hospitals for every procedure and treatment, rather than outcomes, produces exactly what you think it would produce—volumes of procedures and treatments, with little correlation to outcomes. I don’t think that FFS was “designed” to produce the outcomes it produces. Physicians and hospitals do very specialized work, and it is important for them to be fairly compensated for their years of education and their work. It is a blessing that they are there when the need is the greatest (when you are sick), but there is also no doubt that the system itself creates no incentive to keep people healthy and out of doctor’s offices and hospitals. On the contrary, most of the time, the system will not pay physicians for e-visits, telemedicine visits, and other technology-based delivery that would save time and resources, help prevent avoidable complications, and add



convenience. If you want to read more about FFS, there have been plenty of eye-opening articles on the subject, from Atul Gawande's 2009 *New Yorker* piece on the high cost of health care in McAllen, Texas, to Haley Sweetland Edwards' 2013 article in *Washington Monthly* about the "RUC." On a thirty-year cycle, there have been attempts to introduce new methods of payment, including a significant effort in 1986 with the introduction of DRGs. It has been 30 years since the last major effort to change.

This is the decade that many believe will see the end of FFS, or at least its diminution to a lesser-used model of payment. The lever for this change will be the Centers for Medicare and Medicaid Services (CMS), which pays more than 50% of medical bills in the U.S. In January of 2015, HHS Secretary Sylvia Burwell laid out a plan to shift 50% of Medicare payments to value-based payment models by the end of 2018, and to tie 90% of the remaining traditional FFS payments to quality measures. Tying payment to health outcomes is going to produce some really massive shifts in the way health care is provided in the next decade. You will see a greater focus on patient engagement, wellness and prevention, and the locus of health and care will shift away from high-cost venues like hospitals and into lower-cost venues like the home.

Health care providers and health systems are already actively experimenting with risk-based, value-based, bundled payment models in an attempt to prepare for the shift toward Accountable Care Organizations that many see as inevitable. What few people outside of health care seem to know is that most health care provider organizations do not actually *know* how much it costs to provide the care they give to you. How much they are paid for a particular procedure is largely determined by forces outside of their control, and there is also a great deal of cost-shifting that occurs between Medicare and Medicaid patients, insured patients and uninsured patients. As provider organizations go more "at-risk" for the outcomes within their populations, they will have an increased need to understand their own costs and control them relative to outcomes. I'm very excited that one of the focuses of our relationship with Intermountain Healthcare is

to produce a true Activity-Based Costing system for health care. In addition to implementing existing Intermountain Care Process Models and Clinical Process Guidelines inside their workflows, we have done preliminary work on this system with Intermountain's Chief Quality Officer Dr. Brent James, who is widely regarded as an expert in the subject. As health care heads toward a new era of performance-based payment models, it couldn't come at a better time.

A CO-FOUNDER RETIRES

We started Cerner 35 years ago as three twentysomethings—Cliff Illig, Paul Gorup and myself—sitting around a park bench during the summer of 1979, dreaming out loud....*if we were* to start a company, what industry would we set out to change? Back then when someone said the words *information technology*, they were talking about hardware. We started our careers "writing code" (software) working as information systems consultants. We had seen just enough to intuit that software was the real value in the stack of information technology. We wanted to start our company at the operational side of an organization, not just automating back office administrative functions. Although at first we didn't know exactly what we wanted to do, we made a list of characteristics the right industry should have. It should be in a vertical market with specialized needs. It should be highly complex. Ideally it would be an industry with a strong need for standardization. And it needed to be an industry where information played a very big role. In short, we wanted to be an application software company that automated the mission-critical processes of an information-driven industry. When we found our first health care client, it was a little bit like finding your dream date. The bonus was that health care also turned out to be important, exciting, and intensely personal. The entrepreneurial idea turned into a true calling. Since that discovery, our work has been about connecting what matters.

Although it's a fairly common story today, in the late '70s, there were not a lot of people our age starting companies. This year we are hitting another milestone, with Paul Gorup retiring. On the road to building Cerner, each of the founders has



played a critical role. One way for me to describe Paul's enormous contribution is the way I have introduced him from day one: he is the smartest of the three of us. Those who know us well have no doubt. He is simply brilliant, adapting his intelligence to create architectures, technologies and solutions for health care. The other way is to state the title he has had in the company for the last decade, Chief of Innovation. Paul is one of the most creative, passionate people you could hope to meet, certainly at Cerner and possibly in all of health information technology. Paul will continue to work with us for the remainder of this decade in a couple of areas, but his grandkids are now going to see much more of him. I am grateful for the opportunity to create and grow this company with Paul.

The founders' strengths have helped determine the core Cerner attributes of vision, innovation and culture. A more wondrous thing is how, at some point, the attributes have become imprinted on the organization. Today I see Cliff in associates who have never met Cliff, Paul in associates who have never met Paul. Even though Paul is retiring, he will still be here.

Sincerely,



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

CONCLUSION—IN THE LONG TERM

The interesting thing about the future is that it quickly becomes the present, and then, in a flash, it is our past. At Cerner we have always believed in keeping our vision of the future as our daily guidepost. A regular question for our executives is, are you getting dominated by the “windshield” of present demands, or are you also working on what's next? A quick glance back gives us reinforcement that these principles are rewarding. As CEO for all of these years, I am somewhat plagued by thoughts about mistakes we made and how much better we could have been. Despite our very human journey, we continue to be at a great place—the intersection of health care and information technology—with discipline around vision, a great culture, and an instinct to innovate. If we keep our focus on creating value for our clients, and if we keep redefining the boundaries, it is highly probable that our vision, innovation and culture will be rewarded well into the future. Thank you for the role you play in the Cerner journey.



Appendix: Reconciliation of 2014 Non-GAAP Results to GAAP Results*

(\$ in millions except Earnings Per Share)	Operating Earnings	Operating Margin %
GAAP Operating Earnings	\$763	22.4%
Share-based compensation expense	63	
Adjustments related to acquisition of Siemens Health Services	16	
Adjusted Operating Earnings (non-GAAP)	\$842	24.7%
	Net Earnings	Diluted Earnings Per Share
GAAP Net Earnings	\$525	\$1.50
Share-based compensation expense, net of tax	41	0.12
Adjustments related to acquisition of Siemens Health Services, net of tax	10	0.03
Adjusted Net Earnings (non-GAAP)	\$576	\$1.65
GAAP Operating Cash Flow		\$847
Capital purchases		(276)
Capitalized software development costs		(178)
Free Cash Flow (non-GAAP)		\$393

* More detail on these adjustments and management's use of Non-GAAP results is in our 2014 annual report on Form 10-K and our current reports on Form 8-K.



Cerner Corporation
2014 Annual Report
Form 10-K

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

FORM 10-K

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

For the fiscal year ended: **January 3, 2015**

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 28, 2014, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$15.5 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 February 6, 2015</u>
Common Stock, \$0.01 par value per share	342,588,295 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 22, 2015	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, 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 is a leading supplier of health care information technology (HCIT). Our mission is to contribute to the improvement of health care delivery and the health of communities. We offer a wide range of intelligent solutions and services that support the clinical, financial and operational needs of organizations of all sizes. We have systems in more than 18,000 facilities worldwide, including hospitals, physician practices, laboratories, ambulatory centers, behavioral health centers, cardiac facilities, radiology clinics, surgery centers, extended care facilities, retail pharmacies, and employer sites.

Cerner solutions are offered on the unified Cerner Millennium[®] architecture and on the *HealthIntent*[™] cloud-based platform. Cerner Millennium is a person-centric computing framework, which includes integrated 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. Our *HealthIntent* platform is 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 *HealthIntent* platform, we offer EHR-agnostic solutions based on sophisticated, statistical algorithms that are intended to help providers predict and improve outcomes, control costs, improve quality, and manage the health of the populations they serve.

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		
	2014	2013	2012
<i>Revenues by Solutions & Services</i>			
System sales	28%	29%	34%
Support and maintenance	21%	23%	23%
Services	48%	46%	41%
Reimbursed travel	3%	2%	2%
	100%	100%	100%
<i>Revenues by Segment</i>			
Domestic	89%	88%	88%
Global	11%	12%	12%
	100%	100%	100%

Health Care and Health Care IT Industry

There are several trends in health care that we believe 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 2014 at \$3.1 trillion, or 17.6 percent of Gross Domestic Product (GDP), and projects it to be 19.3 percent of GDP by 2023. We believe health care IT is one of few remaining levers that can change this trajectory. Further, health care providers continue to operate in an environment that includes what we call 'raining measures and mandates'. Examples of these include:

- Health Information Technology for Economic and Clinical Health (HITECH) provisions within the American Recovery and Reinvestment Act (ARRA) that offer incentives for health care organizations to modernize operations through "Meaningful Use" of HCIT and will begin to penalize for non-compliance in coming years;
- Value-Based Purchasing programs that link reimbursement to quality and outcomes;
- Increasing requirements to report quality metrics; and
- Readmission reduction programs that penalize hospitals for unnecessary readmissions.

Collectively, these measures and mandates are driving providers to focus on delivering higher quality care at a lower cost, and we believe HCIT is a key lever that can help providers accomplish this. We also 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.



Outside the United States, we believe Cerner's growth opportunities are good as most countries are also dealing with health care expenditures growing faster than their economies, which is leading to a focus on controlling costs while also improving quality of care.

Cerner Vision and Growth Strategy

For over three decades, Cerner has been continuously building intelligent solutions for the health care industry. Together with our clients, we are creating a future where the health care system works to improve the well-being of individuals and communities. Our vision has always guided our large investments in research and development (R&D), 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. The strength of our solutions and services has led to our ability to gain market share in recent years, which has contributed to our growth. We believe we are positioned to continue gaining share in coming years as regulatory requirements and industry shifts continue to pressure health care providers to improve quality while lowering costs, which will require having more sophisticated information technology than many of our competitors provide.

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, health care devices, device connectivity, emergency department, revenue cycle and surgery.

We also have an opportunity to grow by expanding penetration of services we offer 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 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 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. 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 positive impact on the health of our associates while also reducing our 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

We believe Population Health Management is more than an industry buzzword or the next big fad. It is the shift from solely automating health systems to managing a person's health. Getting there requires complete, accurate patient data and meaningfully using that data to engage individuals, exchange information between providers and ultimately drive better outcomes. This shift will shape the future of health care and enable a system driven by accountability, transparency and value.



Cerner's approach to population health is to enable organizations to:

- KNOW what is happening and predict what will happen within their population through solutions for data exchange, longitudinal record, enterprise data warehouse, analytics and quality and regulatory reporting;
- ENGAGE providers and patients in health and care delivery through personal health portals and solutions for care management, home care, long-term care, and retail pharmacy; and
- MANAGE health and improve care with capacity and workforce management, clinical research, predictive modeling, health registries, and contract and network management.

These solutions are enabled by Cerner's *HealthIntent* platform, which is a multi-purpose, programmable platform designed to scale at a population level while facilitating health and care at a person and provider level. This cloud-based platform enables organizations to aggregate, transform and reconcile data across the continuum of care, and helps improve outcomes and lower costs.

HealthIntent is scalable, secure and can be accessed anywhere, anytime. It is able to receive data from any EHR, existing HCIT system and other data sources, such as pharmacy benefits managers or insurance claims. *HealthIntent* collects data from multiple, disparate sources in near real-time, providing clarity to millions of data points in an actionable and programmable workflow. It enables organizations to identify, score and predict the risks of individual patients, allowing them to match the right care programs to the right individuals. The EHR-agnostic nature of our *HealthIntent* platform allows us to offer our solutions to the entire marketplace, not just existing Cerner clients.

We are investing heavily in expanding the *HealthIntent* 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 ("Advocate"). One of the first outcomes of this collaboration 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 more than 500,000 lives for which they have gone at risk.

In September 2013, we released *HealthRegistries*[™], which provides the ability to stratify patient populations based on risk, conditions, and attributed physicians. Advocate went live with *HealthRegistries* in January 2014 and we have since sold the solution to multiple clients. In 2014, we continued to advance our population health capabilities through our work with Advocate, including development of care management solutions that we expect to release in 2015 and a transition of care model that suggests 30 percent of the population could be sent to a more optimal venue and achieve better outcomes at a lower cost.

In summary, we believe our comprehensive architectural approach to population health is differentiated in the marketplace. We expect population health to be a large contributor to our long-term growth as health care continues to evolve towards a model that incents keeping people healthy.

Siemens Health Services Acquisition

On February 2, 2015, we acquired substantially all of the assets, and assumed certain liabilities of Siemens AG's health information technology business unit, Siemens Health Services. We believe our acquisition of Siemens Health Services enhances our organic growth opportunities discussed above. The acquisition provides a larger base into which we can sell our broad range of solutions and services, with opportunities ranging from selling Cerner's EHR into the Siemens Health Services client base, to selling EHR-agnostic solutions such as population health, to selling services such as *RevWorks* and *ITWorks*. The acquisition also augments our non-U.S. growth opportunities, increases our ability to continue investing in R&D, and adds thousands of highly-skilled associates that will enhance Cerner's capabilities.

Software Development

We commit significant resources to developing new health information system solutions and services. As of the end of 2014, approximately 4,300 associates were engaged in research and development activities. Total expenditures for the development and enhancement of our software solutions were approximately \$467.2 million, \$418.7 million and \$319.8 million during the 2014, 2013 and 2012 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 R&D 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 lead generation activities 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 2014, we had a revenue backlog of \$10.6 billion, which compares to \$8.9 billion at the end of 2013. Such backlog represents contracted revenue that has not yet been recognized. We estimate that approximately 27 percent of the backlog at the end of 2014 will be recognized as revenue during 2015.

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., Computer Programs and Systems, Inc. (CPSI), Epic Systems Corporation, GE Healthcare Technologies, Healthland, Inc., McKesson Corporation, MEDHOST, Inc. and Medical Information Technology, Inc., 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, such competitors include, without limitation, Clinovations, Inc., Dell, Inc. (Dell), Deloitte Consulting LLP (Deloitte), Encore Health Resources, LLC, IBM Corporation (IBM), Impact Advisors, LLC and Xerox Corporation Ltd., which offer HCIT services that compete directly with some of our service offerings. AmazingCharts.com, Inc., Athenahealth, Inc., eClinicalWorks LLC, e-MDs, Inc., Netsmart Technologies, Practice Fusion, Inc., Quality Systems, Inc., SRSSoft and Vitera Healthcare Solutions offer solutions to the physician practice market or niche market, but do not currently have a significant presence in the broader 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: Aesynt Inc., CapsuleTech, Inc., CareFusion Corporation, Connexall Company, Ltd., Nanthealth, LLC, Omnicell, Inc., PerfectServe, Inc., Siemens AG and Vocera Communication, Inc. We view our principal competitors in the health care revenue cycle market to include, without limitation: Accretive Health, Inc., Conifer Health Solutions, Dell, Deloitte, Emdeon Corporation, MedAssets, Inc., Optum, Inc. (Optum), Quadramed Corporation, SSI Group, Inc. and 3M Company. We view our competitors in the population health market to range from small niche competitors, to large health insurance companies including, without limitation: Aetna Inc., Evolent Health, LLC, Explorys, Inc., IBM, MedeAnalytics, Inc., NetOrange, Inc., Optum, Phytel, Inc., The Advisory Board Company, and WellCentive, Inc. Some of these competitors are larger or have more experience 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, healthcare insurance companies, accountable care organizations 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 2014, we employed approximately 15,800 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 February 6, 2015. 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	65	Chairman of the Board of Directors and Chief Executive Officer
Clifford W. Illig	64	Vice Chairman of the Board of Directors
Zane M. Burke	49	President
Marc G. Naughton	59	Executive Vice President and Chief Financial Officer
Michael R. Nill	50	Executive Vice President and Chief Operating Officer
Randy D. Sims	54	Senior Vice President, Chief Legal Officer and Secretary
Jeffrey A. Townsend	51	Executive Vice President and Chief of Staff
Julia M. Wilson	52	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. 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 interruptions 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 Cerner associate or contractor or 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. Additionally, Cerner's core systems are disaster tolerant as we have implemented redundancy across physically diverse data centers. 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 and disruptive to our operations and distracting to management. If resolved against us, such legal proceedings could result in excessive verdicts, injunctive relief or other equitable relief that may affect how we operate our business. Similarly, if we settle such legal proceedings, it may affect how we operate our business. Future court decisions, 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.

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, NetApp and IBM for our hardware technology platforms.

Most of the third party software license contracts 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 or supply chain 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 clients, future sales of solutions, devices and services, and negatively affect our revenue and operating earnings.

We may be unable to successfully integrate the Siemens Health Services business with our business or to realize the anticipated benefits of the acquisition of Siemens Health Services. On February 2, 2015, we completed the acquisition of the assets of Siemens AG's health information technology business unit, Siemens Health Services. The success of the acquisition of Siemens Health Services will depend, in part, on the ability to realize the anticipated synergies, growth opportunities and cost savings from integrating Siemens Health Services' business with our business. The integration of two independent businesses is a complex, costly and time-consuming process and involves numerous risks, including difficulties in the assimilation of operations, services, solutions and personnel, the diversion of management's attention from other business concerns, the entry into markets in which we have little or no direct prior experience, the potential loss of Siemens Health Services' key personnel, and the potential inability to maintain the goodwill of existing clients. The difficulties of combining the operations of the companies include, among other factors:

- managing a larger company;
- the possibility of faulty assumptions underlying expectations regarding the integration process, including the assumption of known and unknown liabilities;
- integrating two business cultures;
- creating uniform standards, controls, procedures, policies and information systems and minimizing the costs associated with such matters;
- integrating information systems, purchasing, accounting, finance, legal, sales, billing, payroll and regulatory compliance functions;
- preserving client, supplier, research and development, distribution, marketing, promotion and other important relationships;
- commercializing solutions under development and increasing revenues from existing marketed solutions;
- combining the sales force territories and competencies associated with the sale of solutions and services presently sold or provided by us or Siemens Health Services;
- integrating personnel from different businesses while maintaining focus on providing consistent, high-quality solutions and client support and attracting prospective clients;
- integrating complex technologies and solutions from different businesses in a manner that is seamless to clients; and
- performance shortfalls as a result of the diversion of management's attention to the Siemens Health Services acquisition.

If management is unable to successfully integrate the business of Siemens Health Services into our business in a manner that permits us to achieve the cost savings and operating synergies anticipated to result from the Siemens Health Services acquisition, such anticipated benefits of the Siemens Health Services acquisition may not be realized fully or at all or may take longer to realize than expected. Any significant diversion of management's attention away from the ongoing businesses, and any difficulties encountered in the transition and integration process, could adversely affect our financial results. Moreover, the failure to achieve the anticipated benefits of the Siemens Health Services acquisition could result in increased costs or decreases in the amount of expected revenues. Any of the above difficulties could adversely affect our ability to maintain relationships with clients, partners, suppliers and associates or our ability to achieve the anticipated benefits of the Siemens Health Services acquisition, or could reduce our earnings or otherwise adversely affect our business and financial results.

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.

We will incur significant additional expenses in connection with the integration of the Siemens Health Services business into Cerner. As we work to integrate the business, we expect to incur significant additional expenses relating to the integration of personnel, geographically diverse operations, information technology systems, accounting systems, clients, and strategic partners of each business and the implementation of consistent standards, policies, and procedures, and we may be subject to material write downs in assets and charges to earnings, which are expected to include severance pay and other costs. The integration process will be long-term and will continue to create significant expenses.

We have restrictive covenants in our debt agreements, which may restrict our flexibility to operate our business. If we do not comply with these restrictive covenants, our failure could result in material and adverse effects on our operating results and our financial condition. Our debt agreements contain customary restrictive covenants, including limitations on consolidated indebtedness, liens, investments, subsidiary investments, asset dispositions, and restricted payments, and require us to maintain certain leverage and interest coverage ratios. Failure to comply with these covenants



could result in an event of default that, if not cured or waived, could result in reduced liquidity for the Company and could have a material adverse effect on our operating results and financial condition.

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 devices, solutions and services.

The health care industry is highly regulated, and thus, we are subject to a number of laws, regulations and industry initiatives, non-compliance with certain of which could materially adversely affect our operations or otherwise adversely affect our business, financial condition and operating results. As a participant in the health care industry, our operations and relationships, and those of our clients, are regulated by a number of local, state, federal and foreign governmental entities. 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, health care 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 health care 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, 2015. 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, 2015 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 Health Care Devices. The United States Food and Drug Administration (the FDA) has determined that certain of our solutions are health care 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 health care 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 health care 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 health care 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 health care devices that are used in health care. If we are unable to obtain the required regulatory approvals for any such solutions or health care devices, our short and long term business plans for these solutions or health care devices could be delayed or canceled.

There have been eight 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, 2007 and 2014, 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 to ensure the integrity, security 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.

In Europe, we are subject to the European Union (“EU”) data protection regulations, including the EU Directive on Data Protection, which requires member states to impose minimum restrictions on the collection and use of personal data that, in some respects, are more stringent, and impose more significant burdens on subject businesses, than current privacy standards in the United States. The EU regulations establish several obligations that organizations must follow with respect to use of personal data, including a prohibition on the transfer of personal information from the EU to other countries whose laws do not protect personal data to an adequate level of privacy or security. In addition to this EU-wide legislation, certain member states have adopted more stringent data protection standards. Cerner has addressed these requirements by certification to the US - EU and US - Switzerland Safe Harbor Frameworks. The costs of compliance with, and other burdens imposed by, such laws, regulations and policies, or modifications thereto, that are applicable to us may limit the use and adoption of our solutions and could have a material adverse impact on our results of operations.

Applicable 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. Governmental 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 Office of the National Coordinator for Health Information Technology (ONC) has developed a comprehensive set of criteria for the functionality, interoperability and security of various software modules in the HCIT industry. ONC, however, continues to modify and refine those standards. Achieving 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 solutions 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. If we are unable to recognize the impact of industry consolidation, falling costs and technological advancements 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 known as the Continuous Campus, houses associates who manage and support our clients' IT systems and consists of 611,000 gross square feet of useable space located in Kansas City, Kansas. Construction of the Continuous Campus was completed in February 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.

We have purchased approximately 260 acres of land located in Kansas City, Missouri. This property, known as the Trails Campus, was acquired as a site for future office space development to further accommodate our anticipated growth. Construction on the Trails Campus began in November 2014.

As of the end of 2014, 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; Franklin, Tennessee; Salt Lake City, Utah; Burlington, Vermont; and Vienna, Virginia. Globally, we also leased office space in: Brisbane, Sydney and Melbourne, Australia; Sao Paulo, Brazil; Peterborough and Toronto, Ontario, 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.

In connection with our acquisition of Siemens Health Services on February 2, 2015, we acquired approximately 110 acres of property in Malvern, Pennsylvania. This property includes approximately 675,000 square feet of office space, and a 102,000 square foot data center. We also now lease additional office space in various locations, globally.

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.

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 2014 and 2013 as reported by The Nasdaq Stock Market[®].

	2014			2013(a)		
	High	Low	Last	High	Low	Last
First Quarter	\$ 63.07	\$ 51.65	\$ 56.15	\$ 47.37	\$ 38.76	\$ 47.37
Second Quarter	56.94	48.39	51.27	49.68	45.60	48.05
Third Quarter	60.07	50.30	58.66	52.61	46.06	52.61
Fourth Quarter	66.45	55.75	65.03	58.24	52.55	55.58

(a) Sales prices have been retroactively adjusted to give effect to the 2-for-1 stock split effective June 28, 2013.

At February 6, 2015, there were approximately 940 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 2014:

(In millions, except share data)

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 28, 2014 - October 25, 2014	—	—	—	\$ 100.0
October 26, 2014 - November 22, 2014	658	\$ 63.34	—	100.0
November 23, 2014 - January 3, 2015	—	—	—	100.0
Total	658	\$ 63.34	—	

(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 May 2014, our Board of Directors approved an amendment to the stock repurchase program that was authorized in December 2013. Under the amendment, the Company may repurchase shares of our common stock up to an aggregate of \$317.0 million, excluding transaction costs. During 2014, the Company repurchased 4.1 million shares for consideration of \$217.0 million, excluding transaction costs, pursuant to a Rule 10b5-1 plan. As of January 3, 2015, \$100.0 million remains available under the authorized 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)

	2014	2013	2012	2011	2010
	(1)(2)	(1)(3)	(1)	(1)	(1)
Statement of Operations Data:					
Revenues	\$ 3,402,703	\$ 2,910,748	\$ 2,665,436	\$ 2,203,153	\$ 1,850,222
Operating earnings	763,084	576,012	571,662	459,798	359,333
Earnings before income taxes	774,174	588,054	587,708	469,694	362,212
Net earnings	525,433	398,354	397,232	306,627	237,272
Earnings per share:					
Basic	1.54	1.16	1.16	0.91	0.72
Diluted	1.50	1.13	1.13	0.88	0.69
Weighted average shares outstanding:					
Basic	342,150	343,636	341,861	337,267	329,833
Diluted	350,386	352,281	351,394	347,734	341,695
Balance Sheet Data:					
Working capital	\$ 1,714,471	\$ 1,121,276	\$ 1,210,394	\$ 1,063,593	\$ 840,129
Total assets	4,530,565	4,098,364	3,704,468	3,000,358	2,422,790
Long-term debt and capital lease obligations, excl. current installments	62,868	111,717	136,557	86,821	67,923
Shareholders' equity	3,565,968	3,167,664	2,833,650	2,310,681	1,905,297

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

(In thousands, except share data)

	2014	2013	2012	2011	2010
Total share-based compensation expense	\$ 62,965	\$ 48,954	\$ 38,112	\$ 29,479	\$ 24,903
Amount of related income tax benefit	(22,101)	(18,607)	(14,578)	(11,256)	(9,329)
Net impact on earnings	\$ 40,864	\$ 30,347	\$ 23,534	\$ 18,223	\$ 15,574
Decrease to diluted earnings per share	\$ 0.12	\$ 0.09	\$ 0.07	\$ 0.05	\$ 0.05

(2) Includes \$15.8 million of pre-tax costs in connection with our acquisition of Siemens Health Services, as further described in Note 2 of the notes to consolidated financial statements.

(3) Includes a pre-tax settlement charge of \$106.2 million, as further described in Note 11 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 year 2014 consisted of 53 weeks and ended on January 3, 2015, and fiscal years 2013 and 2012 each consisted of 52 weeks and ended on December 28, 2013 and December 29, 2012, respectively. The additional week in fiscal 2014 impacts the results of operations discussion below, for the comparison of fiscal years 2014 and 2013. All references to years in this MD&A represent fiscal years unless otherwise noted.

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 strategic focus is the creation of 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 14% or more. This growth has also created an important strategic footprint in health care, with Cerner® solutions in more than 18,000 facilities worldwide, including hospitals, physician practices, laboratories, ambulatory centers, behavioral health centers, cardiac facilities, radiology clinics, surgery centers, extended care facilities, retail pharmacies, and employer sites. 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 solutions 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 20% or more 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 strong 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 operating cash flows in 2014.

New business bookings revenue in 2014, which reflects the value of executed contracts for software, hardware, professional services and managed services, was \$4.3 billion, which is an increase of 13% compared to \$3.8 billion in 2013. Our 2014 revenues increased 17% to \$3.4 billion compared to \$2.9 billion in 2013. The year-over-year increase in revenue reflects ongoing demand for Cerner's core solutions and services driven by our clients' needs to keep up with regulatory requirements, increased contributions from *Cerner ITWorks* and Cerner revenue cycle solutions and services, and attaining new clients.

Our 2014 net earnings were \$525.4 million compared to \$398.4 million in 2013. Diluted earnings per share were \$1.50 in 2014 compared to \$1.13 in 2013. The 2014 and 2013 net earnings and diluted earnings per share reflect the impact of stock-based compensation expense. The effect of these expenses reduced the 2014 net earnings and diluted earnings per share by \$40.9 million and \$0.12, respectively, and the 2013 net earnings and diluted earnings per share by \$30.3 million and \$0.09, respectively. The 2014 net earnings and diluted earnings per share also reflect the impact of acquisition costs related to our acquisition of Siemens Health Services, as further described below. These costs reduced net earnings and diluted



earnings per share by \$10.1 million and \$0.03, 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.

We had cash collections of receivables of \$3.5 billion in 2014 compared to \$3.1 billion in 2013. Days sales outstanding was 66 days for the 2014 fourth quarter compared to 67 days for both the 2014 third quarter and the 2013 fourth quarter. Operating cash flows for 2014 were strong at \$847.0 million compared to \$695.9 million in 2013.

Siemens Health Services

On February 2, 2015, we acquired substantially all of the assets, and assumed certain liabilities of Siemens Health Services, the health information technology business unit of Siemens AG, a stock corporation established under the laws of Germany. Siemens Health Services offers a portfolio of enterprise-level clinical and financial health care information technology solutions, as well as departmental, connectivity, population health, and care coordination solutions globally. Solutions are offered on the Soarian, Invision, and i.s.h.med platforms, among others. Siemens Health Services also offers a range of complementary and support services including hosting and managed services, implementation services, and strategic consulting.

We believe the acquisition enhances our organic growth opportunities as it provides us a larger base into which we can sell our combined portfolio of solutions and services. The acquisition also augments our non-U.S. footprint and growth opportunities, increases our ability and scale for R&D investment, and adds approximately 5,500 highly-skilled associates that will enhance our capabilities. These factors, combined with the synergies and economies of scale expected from combining the operations of Cerner and Siemens Health Services, are the basis for the acquisition.

Consideration for the acquisition was \$1.37 billion of cash, consisting of the \$1.3 billion agreed upon price plus working capital adjustments. The purchase price is subject to certain post-closing adjustments for working capital and pension obligations, as specified in the Master Sale and Purchase Agreement dated August 5, 2014, as amended.

The operating results of Siemens Health Services will be combined with our operating results subsequent to the purchase date of February 2, 2015. We expect the acquisition of Siemens Health Services to have a significant impact on our results of operations in 2015. As a reference for magnitude, we expect the Siemens Health Services business to contribute approximately \$1.0 billion of revenues in 2015. We are currently unable to provide estimates of contributions to GAAP net earnings and diluted earnings per share, primarily due to the timing of the transaction in proximity to the date of this filing. The initial accounting for the acquisition, including the preliminary allocation of purchase price, is incomplete as of the filing date.

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 2014 Compared to Fiscal Year 2013

<i>(In thousands)</i>	2014	% of Revenue	2013	% of Revenue	% Change
Revenues					
System sales	\$ 945,858	28%	\$ 847,809	29%	12 %
Support and maintenance	724,840	21%	661,979	23%	9 %
Services	1,642,119	48%	1,330,851	46%	23 %
Reimbursed travel	89,886	3%	70,109	2%	28 %
Total revenues	3,402,703	100%	2,910,748	100%	17 %
Costs of revenue					
Costs of revenue	604,377	18%	514,722	18%	17 %
Total margin	2,798,326	82%	2,396,026	82%	17 %
Operating expenses					
Sales and client service	1,395,568	41%	1,173,051	40%	19 %
Software development	392,805	12%	338,786	12%	16 %
General and administrative	246,869	7%	308,177	11%	(20)%
Total operating expenses	2,035,242	60%	1,820,014	63%	12 %
Total costs and expenses	2,639,619	78%	2,334,736	80%	13 %
Operating earnings	763,084	22%	576,012	20%	32 %
Other income, net	11,090		12,042		
Income taxes	(248,741)		(189,700)		
Net earnings	<u>\$ 525,433</u>		<u>\$ 398,354</u>		<u>32 %</u>

Revenues & Backlog

Revenues increased 17% to \$3.4 billion in 2014, as compared to \$2.9 billion in 2013.

- System sales, which include revenues from the sale of licensed software (including perpetual license sales and software as a service), technology resale (hardware, devices, and sublicensed software), deployment period licensed software upgrade rights, installation fees, transaction processing and subscriptions, increased 12% to \$945.9 million in 2014 from \$847.8 million in 2013. The increase in system sales was primarily driven by strong growth in software and subscriptions of \$65.4 million and \$22.9 million, respectively.
- Support and maintenance revenues increased 9% to \$724.8 million in 2014 compared to \$662.0 million in 2013. This increase was attributable to continued success at selling *Cerner Millennium* applications 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 23% to \$1.6 billion in 2014 from \$1.3 billion in 2013. This increase was driven by growth in *CernerWorks* managed services of \$70.0 million as a result of continued demand for our hosting services and a \$241.3 million increase in professional services due to increased implementation and consulting activities.

Revenue backlog, which reflects contracted revenue that has not yet been recognized as revenue, increased 19% to \$10.6 billion in 2014 compared to \$8.9 billion in 2013. This increase was driven by growth in new business bookings during the past four quarters, including continued strong levels of managed services, *Cerner ITWorks* and Cerner revenue cycle services bookings that typically have longer contract terms.



Costs of Revenue

Cost of revenues as a percentage of total revenues was 18% in both 2014 and 2013.

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 12% to \$2.0 billion in 2014, compared with \$1.8 billion in 2013.

- Sales and client service expenses as a percent of total revenues were 41% in 2014, compared to 40% in 2013. These expenses increased 19% to \$1.4 billion in 2014, from \$1.2 billion in 2013. Sales and client service expenses include salaries of sales, marketing, support, and services personnel, depreciation and other expenses associated with our *CernerWorks* managed service business, communications expenses, unreimbursed travel expenses, expense for share-based payments, and trade show and advertising costs. The increase as a percent of revenue reflects a higher mix of services during the period that was driven by strong services revenue growth.
- Software development expenses as a percent of revenue were 12% in 2014 and 2013. Expenditures for software development reflect ongoing development and enhancement of the *Cerner Millennium* and *HealthIntent* platforms, with a focus on supporting key initiatives to enhance physician experience, revenue cycle and population health solutions. A summary of our total software development expense in 2014 and 2013 is as follows:

(In thousands)	For the Years Ended	
	2014	2013
Software development costs	\$ 467,158	\$ 418,747
Capitalized software costs	(175,262)	(172,211)
Capitalized costs related to share-based payments	(2,538)	(2,438)
Amortization of capitalized software costs	103,447	94,688
Total software development expense	\$ 392,805	\$ 338,786

- General and administrative expenses as a percent of total revenues were 7% in 2014, compared to 11% in 2013. These expenses decreased 20% to \$246.9 million in 2014, from \$308.2 million in 2013. 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, expense for share-based payments and acquisition costs. The 2013 amount includes a \$106.2 million settlement charge, as further described in Note (11) of our notes to consolidated financial statements. The decrease of \$61.3 million was primarily driven by the 2013 settlement charge, offset by \$15.8 million of acquisition costs related to the acquisition of Siemens Health Services and a \$14.8 million increase in corporate personnel costs, as we have continued to increase such personnel to support our overall revenue growth.

Non-Operating Items

- Other income was \$11.1 million in 2014 and \$12.0 million in 2013. Refer to Note (12) of the notes to consolidated financial statements for further detail on the composition of other income.
- Our effective tax rate was 32% in both 2014 and 2013. 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 research and development tax credit was extended 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 and the credit related to 2013 as a component of the overall 2013 effective tax rate. The credit expired on December 31, 2013, but in the fourth quarter of 2014, was retroactively reinstated



from January 1, 2014 to December 31, 2014. We recognized the research and development tax credit related to 2014 in the fourth quarter of 2014. We estimate the expiration of the research and development tax credit on December 31, 2014 will negatively impact our effective tax rate for 2015 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, Finland, France, Germany, Guam, India, Ireland, Israel, Malaysia, Mexico, Netherlands, Qatar, Saudi Arabia, Singapore, Spain, Switzerland and the United Arab Emirates.

The following table presents a summary of our operating segment information for the years ended 2014 and 2013:

<i>(In thousands)</i>	2014	% of Revenue	2013	% of Revenue	% Change
Domestic Segment					
Revenues	\$ 3,021,790	100%	\$ 2,550,115	100%	18%
Costs of revenue	542,210	18%	458,540	18%	18%
Operating expenses	677,817	22%	600,341	24%	13%
Total costs and expenses	1,220,027	40%	1,058,881	42%	15%
Domestic operating earnings	1,801,763	60%	1,491,234	58%	21%
Global Segment					
Revenues	380,913	100%	360,633	100%	6%
Costs of revenue	62,167	16%	56,182	16%	11%
Operating expenses	131,096	34%	115,281	32%	14%
Total costs and expenses	193,263	51%	171,463	48%	13%
Global operating earnings	187,650	49%	189,170	52%	(1)%
Other, net	(1,226,329)		(1,104,392)		11%
Consolidated operating earnings	\$ 763,084		\$ 576,012		32%

Domestic Segment

- Revenues increased 18% to \$3.0 billion in 2014 from \$2.6 billion in 2013. This increase was driven by strong growth across most of our business.
- Cost of revenues was 18% of revenues in both 2014 and 2013.
- Operating expenses increased 13% to \$677.8 million in 2014 from \$600.3 million in 2013, due primarily to growth in professional services expenses.

Global Segment

- Revenues increased 6% to \$380.9 million in 2014 from \$360.6 million in 2013. This increase was primarily driven by increases in managed services and professional services of \$11.3 million and \$12.7 million, respectively, partially offset by a decline in software revenues of \$7.3 million.
- Cost of revenues was 16% of revenues in both 2014 and 2013.
- Operating expenses increased 14% to \$131.1 million in 2014 from \$115.3 million in 2013, due primarily to an increase in 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, acquisition costs,



depreciation and amortization. These expenses increased 11% to \$1.2 billion in 2014 from \$1.1 billion in 2013. The increase was driven by an increase in corporate personnel costs of \$182.7 million, as we have continued to increase such personnel to support our overall revenue growth, combined with \$15.8 million of acquisition costs related to our acquisition of Siemens Health Services. This is partially offset by the 2013 settlement charge of \$106.2 million, as further described in Note (11) of our notes to consolidated financial statements.

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 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.
- Services revenue increased 21% to \$1.3 billion in 2013 compared to \$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.

Revenue backlog increased 23% to \$8.9 billion in 2013 compared to \$7.3 billion in 2012. This increase was driven by growth in new business bookings during the past four quarters, including continued strong levels of managed services, *Cerner ITWorks* and *Cerner* revenue cycle services bookings that typically have longer contract terms.



Costs of Revenue

Cost of revenues as a percentage of total revenues was 18% of total revenues in 2013, as compared to 23% of total revenues in 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.

Operating Expenses

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

- Sales and client service expenses as a percent of total revenues were 40% in 2013, as compared to 38% in 2012. These expenses increased 15% to \$1.2 billion in 2013, from \$1.0 billion in 2012. 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, as compared to 11% in 2012. These expenses increased 12% in 2013 to \$338.8 million, from \$301.4 million 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>	<u>For the Years Ended</u>	
	<u>2013</u>	<u>2012</u>
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	<u>\$ 338,786</u>	<u>\$ 301,370</u>

- 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. 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 from \$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.



Operations by Segment

The following table presents a summary of our operating segment 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 the same period 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% 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% in 2013, compared to 18% 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

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.



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, commercial paper, and time deposits with original maturities of less than 90 days, and short-term investments. At the end of 2014, we had cash and cash equivalents of \$635.2 million and short-term investments of \$785.7 million, as compared to cash and cash equivalents of \$202.4 million and short-term investments of \$677.0 million at the end of 2013.

The non-U.S. subsidiaries for which we have elected to indefinitely reinvest earnings outside the U.S. held approximately 11% of our aggregate cash, cash equivalents and short-term investments at January 3, 2015. As part of our current business strategy, we plan to indefinitely reinvest the earnings of these foreign operations; however, should the earnings of these foreign operations be repatriated, we would accrue and pay tax on such earnings, which may be material.

In January 2015, we issued \$500.0 million aggregate principal amount of Senior Notes. Proceeds from the Senior Notes are available for general corporate purposes. Refer to Note (9) of the notes to consolidated financial statements for additional information regarding the Senior Notes.

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. As of the end of 2014, we had no outstanding borrowings under this agreement; however, we had \$16.6 million of outstanding letters of credit, which reduced our available borrowing capacity to \$83.4 million. Refer to Note (9) of the notes to consolidated financial statements for additional information regarding our credit facility.

On February 2, 2015 we acquired Siemens Health Services, as discussed above. Consideration for the acquisition was \$1.37 billion of cash, consisting of the \$1.3 billion agreed upon price plus working capital adjustments. We used a combination of cash on hand and proceeds from the sale of investments to fund the acquisition.

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 2015.

The following table summarizes our cash flows in 2014, 2013 and 2012:

	For the Years Ended		
	2014	2013	2012
<i>(In thousands)</i>			
Cash flows from operating activities	\$ 847,027	\$ 695,865	\$ 708,314
Cash flows from investing activities	(284,567)	(688,429)	(701,631)
Cash flows from financing activities	(120,324)	(119,389)	66,034
Effect of exchange rate changes on cash	(9,310)	(2,790)	1,257
Total change in cash and cash equivalents	432,826	(114,743)	73,974
Cash and cash equivalents at beginning of period	202,377	317,120	243,146
Cash and cash equivalents at end of period	\$ 635,203	\$ 202,377	\$ 317,120
Free cash flow (non-GAAP)	\$ 392,643	\$ 168,339	\$ 424,696



Cash from Operating Activities

	For the Years Ended		
	2014	2013	2012
(In thousands)			
Cash collections from clients	\$ 3,480,591	\$ 3,050,633	\$ 2,714,315
Cash paid to employees and suppliers and other	(2,483,559)	(2,172,418)	(1,840,682)
Cash paid for interest	(5,682)	(6,973)	(6,448)
Cash paid for taxes, net of refund	(144,323)	(175,377)	(158,871)
Total cash from operations	\$ 847,027	\$ 695,865	\$ 708,314

Cash flow from operations increased \$151.2 million in 2014 compared to 2013, due primarily to 2013 including a payment related to the previously mentioned settlement charge, along with an increase in 2014 of cash impacting earnings. Cash flow from operations decreased \$12.4 million in 2013 compared to 2012, due primarily to the aforementioned settlement charge. During 2014, 2013 and 2012, we received total client cash collections of \$3.5 billion, \$3.1 billion and \$2.7 billion, respectively, of which 2%, 2% and 3%, respectively, were received from third party client financing arrangements and non-recourse payment assignments. Days sales outstanding was 66 days in the fourth quarter of 2014, compared to 67 days for both the 2014 third quarter and the 2013 fourth quarter. Revenues provided under support and maintenance agreements represent recurring cash flows. Support and maintenance revenues increased 9% in 2014 and 10% in 2013. 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		
	2014	2013	2012
(In thousands)			
Capital purchases	\$ (276,584)	\$ (352,877)	\$ (183,429)
Capitalized software development costs	(177,800)	(174,649)	(100,189)
Purchases of investments, net of sales and maturities	190,810	(36,221)	(354,603)
Acquisition of businesses, net of cash acquired	(7,476)	(67,877)	(40,540)
Other, net	(13,517)	(56,805)	(22,870)
Total cash flows from investing activities	\$ (284,567)	\$ (688,429)	\$ (701,631)

Cash flows from investing activities consist primarily of capital spending, short-term investment, and acquisition activities.

Our capital spending in 2014 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 increase in 2015, as we continue our current capital and software development initiatives, fund equipment purchases necessary in connection with our acquisition of Siemens Health Services, and construction on our Trails Campus.

Short-term investment activity historically consists of the investment of cash generated by our business in excess of what is necessary to fund operations. The 2014 activity is impacted by a change in investment mix, whereas we have invested more heavily in cash equivalents versus short-term and long-term investments, as we prepared to fund our acquisition of Siemens Health Services. Refer to Notes (2) and (3) of the notes to consolidated financial statements. We expect short-term investment activity to moderate in 2015 as excess cash will primarily be used to fund capital spending and acquisition activity.

During 2014, we acquired 100% of the outstanding membership interests of InterMedHx, LLC for \$7.5 million. In 2013, we acquired the net assets of Kaufman & Keen, LLC (doing business as PureWellness) and 100% of the outstanding stock of Labotix Corporation for \$67.5 million, net of cash acquired. During 2012, we completed our acquisition of Anasazi Software, Inc. for \$40.5 million, net of cash acquired. We expect to continue seeking and completing strategic business acquisitions that are complementary to our business.



Cash from Financing Activities

<i>(In thousands)</i>	For the Years Ended		
	2014	2013	2012
Repayment of long-term debt and capital lease obligations	\$ (14,930)	\$ (24,700)	\$ (17,083)
Cash from option exercises (including excess tax benefits)	71,411	71,330	86,517
Treasury stock purchases	(217,082)	(170,042)	—
Contingent consideration payments for acquisition of businesses	(10,617)	(800)	(3,400)
Cash grants	48,000	—	—
Other, net	2,894	4,823	—
Total cash flows from financing activities	\$ (120,324)	\$ (119,389)	\$ 66,034

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 2015 based on the number of exercisable options at the end of 2014 and our current stock price.

In May 2014, our Board of Directors approved an amendment to the stock repurchase program that was authorized in December 2013. Under the amendment, the Company may repurchase shares of our common stock up to an aggregate of \$317.0 million, excluding transaction costs. In 2014, we purchased 4.1 million shares for total consideration of \$217.1 million. At the end of 2014, \$100.0 million remains available for purchases under the program. We may continue to purchase shares under this program in 2015, which will be dependent on a number of factors, including the price of our common 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. This program is now complete.

In September 2014 we paid \$10.6 million of the contingent consideration related to our acquisition of PureWellness. We expect additional contingent consideration payments in 2015 related to our acquisitions of PureWellness and InterMedHx. Refer to Note (2) of the notes to consolidated financial statements for additional information regarding our contingent consideration arrangements.

In January 2014 we received \$48.0 million of cash grants from the Kansas Department of Commerce for project costs in connection with the construction of our Continuous Campus. Refer to Note (17) of the notes to consolidated financial statements for additional information.

Free Cash Flow

<i>(In thousands)</i>	For the Years Ended		
	2014	2013	2012
Cash flows from operating activities (GAAP)	\$ 847,027	\$ 695,865	\$ 708,314
Capital purchases	(276,584)	(352,877)	(183,429)
Capitalized software development costs	(177,800)	(174,649)	(100,189)
Free cash flow (non-GAAP)	\$ 392,643	\$ 168,339	\$ 424,696

Free cash flow increased \$224.3 million from 2013 to 2014. This increase is largely due to an increase in cash flows from operations combined with a decrease in capital purchases, primarily due to the completion of construction on our Continuous Campus. 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 decreased \$256.4 million from 2012 to 2013. This decrease was primarily due to the previously mentioned settlement charge, combined with increased capital spending in 2013 to support our growth initiatives and facilities requirements and capitalized spending to support our ongoing software development initiatives. 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 2014, except short-term purchase order commitments arising in the ordinary course of business.

<i>(In thousands)</i>	Payments Due by Period						Total
	2015	2016	2017	2018	2019	2020 and thereafter	
Balance sheet obligations^(a):							
Long-term debt obligations ^(b)	\$ 14,233	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 14,233
Interest on long-term debt obligations	789	—	—	—	—	—	789
Capital lease obligations	53,227	34,510	19,522	6,721	2,115	—	116,095
Interest on capital lease obligations	2,741	1,458	530	156	22	—	4,907
Other obligations:							
Operating lease obligations	23,525	21,693	21,467	19,294	14,984	39,607	140,570
Purchase obligations	42,300	23,481	6,762	4,345	4,001	8,000	88,889
Total	\$ 136,815	\$ 81,142	\$ 48,281	\$ 30,516	\$ 21,122	\$ 47,607	\$ 365,483

(a) At the end of 2014, liabilities for unrecognized tax benefits were \$7.2 million.

(b) Amounts do not include the long-term debt issued in January 2015.

We have no off balance sheet arrangements as defined in Regulation S-K. The effects of inflation on our business during 2014, 2013 and 2012 were not significant.

Recent Accounting Pronouncements

Refer to Note (1) of the notes to consolidated financial statements for information regarding recently issued 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. 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 2014 and 2013 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 \$320.5 million and \$307.4 million at the end of 2014 and 2013, 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 2014, we designated all of our Great Britain Pound (GBP) denominated long-term debt (9.3 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 2014 by approximately \$0.9 million, as compared to \$1.9 million in 2013. The 2014 model assumes an exchange rate of 1.533 at January 3, 2015 and a tax rate of 38.8%. The hypothetical decrease in other comprehensive income in 2014 from 2013 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 January 3, 2015, 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 January 3, 2015. 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 January 3, 2015, 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 2015 Annual Shareholders' Meeting scheduled to be held May 22, 2015 (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 January 3, 2015:

(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⁾	25,135	\$ 27.00	8,080
Equity compensation plans not approved by security holders	—	—	—
Total	25,135		8,080

(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 January 3, 2015 and December 28, 2013

[Consolidated Statements of Operations](#) - Years Ended January 3, 2015, December 28, 2013 and December 29, 2012

[Consolidated Statements of Comprehensive Income](#) - Years Ended January 3, 2015, December 28, 2013 and December 29, 2012

[Consolidated Statements of Cash Flows](#) - Years Ended January 3, 2015, December 28, 2013 and December 29, 2012

[Consolidated Statements of Changes in Shareholders' Equity](#) - Years Ended January 3, 2015, December 28, 2013 and December 29, 2012

[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 January 3, 2015 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 11, 2015

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 11, 2015
<u>/s/ Clifford W. Illig</u> Clifford W. Illig, Vice Chairman and Director	February 11, 2015
<u>/s/ Marc G. Naughton</u> Marc G. Naughton, Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 11, 2015
<u>/s/ Michael R. Battaglioli</u> Michael R. Battaglioli, Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 11, 2015
<u>/s/ Gerald E. Bisbee, Jr.</u> Gerald E. Bisbee, Jr., Ph.D., Director	February 11, 2015
<u>/s/ Denis A. Cortese, M.D.</u> Denis A. Cortese, M.D., Director	February 11, 2015
<u>/s/ John C. Danforth</u> John C. Danforth, Director	February 11, 2015
<u>/s/ Mitchell E. Daniels</u> Mitchell E. Daniels, Director	February 11, 2015
<u>/s/ Linda M. Dillman</u> Linda M. Dillman, Director	February 11, 2015
<u>/s/ William B. Neaves</u> William B. Neaves, Ph.D., Director	February 11, 2015
<u>/s/ William D. Zollars</u> William D. Zollars, Director	February 11, 2015



INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Exhibit(s)	Filing Date SEC File No./Film No.	
3(a)	Third Restated Certificate of Incorporation dated September 12, 2013				X
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 000-15386/07658265	
10.1*	2006 Form of Indemnification Agreement for use between the Registrant and its Directors	10-K	10(a)	2/28/2007 000-15386/07658265	
10.2*	2010 Form of Indemnification Agreement for use between the Registrant and its Directors and Section 16 Officers	8-K	99.1	6/3/2010 000-15386/10875957	
10.3*	Amended & Restated Executive Employment Agreement of Neal L. Patterson dated January 1, 2008	10-K	10(c)	2/27/2008 000-15386/08646565	
10.4*	Amended Stock Option Plan D of Registrant dated December 8, 2000	10-K	10(f)	3/30/2001 000-15386/1586224	
10.5*	Amended Stock Option Plan E of Registrant dated December 8, 2000	10-K	10(g)	3/30/2001 000-15386/1586224	
10.6*	Cerner Corporation 2001 Long-Term Incentive Plan F	DEF 14A	Annex I	4/16/2001 000-15386/1603080	
10.7*	Cerner Corporation 2001 Long-Term Incentive Plan F Nonqualified Stock Option Agreement	10-K	10(v)	3/17/2005 000-15386/05688830	
10.8*	Cerner Corporation 2001 Long-Term Incentive Plan F Nonqualified Stock Option Grant Certificate	10-Q	10(a)	11/10/2005 000-15386/051193974	
10.9*	Cerner Corporation 2001 Long-Term Incentive Plan F Director Restricted Stock Agreement	10-K	10(x)	3/17/2005 000-15386/05688830	
10.10*	Cerner Corporation 2001 Long-Term Incentive Plan F Nonqualified Stock Option Director Agreement	10-K	10(w)	3/17/2005 000-15386/05688830	
10.11*	Cerner Corporation 2001 Long-Term Incentive Plan F Performance-Based Restricted Stock Agreement for Section 16 Officers	8-K	99.1	6/4/2010 000-15386/10879084	
10.12*	Cerner Corporation 2004 Long-Term Incentive Plan G (as amended on December 3, 2007)	10-K	10(g)	2/27/2008 000-15386/08646565	
10.13*	Cerner Corporation 2004 Long-Term Incentive Plan G Nonqualified Stock Option Grant Certificate	10-K	10(q)	2/27/2008 000-15386/08646565	
10.14*	Cerner Corporation 2011 Omnibus Equity Incentive Plan	S-8	4.5	5/27/2011	
10.15*	Cerner Corporation 2011 Omnibus Equity Incentive Plan - Director Restricted Stock Agreement	10-Q	10.1	7/27/2012	
10.16*	Cerner Corporation 2011 Omnibus Equity Incentive Plan - Performance Based Restricted Stock Agreement	10-K	10(u)	2/8/2013	
10.17*	Cerner Corporation 2011 Omnibus Equity Incentive Plan-Non-Qualified Stock Option Grant Certificate	10-K	10(v)	2/8/2013	



10.18*	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	
10.19*	Cerner Corporation Performance-Based Compensation Plan (as Amended and Restated March 5, 2014)				X
10.20*	Form of 2014 Executive Performance Agreement	10-Q	10.1	4/25/2014	
10.21*	Cerner Corporation Executive Deferred Compensation Plan as Amended & Restated dated January 1, 2008	10-K	10(k)	2/27/2008 000-15386/08646565	
10.22*	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	
10.23*	Cerner Corporation 2005 Enhanced Severance Pay Plan as Amended & Restated (for I.R.C. § 409A) Effective January 4, 2015				X
10.24*	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	
10.25	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	
10.26	Interparty Agreement, dated January 19, 2010, among Kansas Unified Development, LLC, OnGoal, LLC and Cerner Corporation	8-K	99.1	1/22/2010 000-153866/10543089	
10.27	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	
10.28	First Amendment to Real Estate Purchase Agreement between Cerner Property Development, Inc. and Trails Property II, Inc. dated December 23, 2013				X
10.29	Second Amendment to Real Estate Purchase Agreement between Cerner Property Development, Inc. and Trails Property II, Inc. dated October 16, 2014				X
10.30	Master Sale and Purchase Agreement between Siemens AG and Cerner Corporation dated August 5, 2014	10-Q	2.1	10/24/2014	
10.31	Amendment Agreement to the Master Sale and Purchase Agreement between Siemens AG and Cerner Corporation dated February 2, 2015	8-K	10.1	2/2/2015	
10.32	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 000-15386/051183275	
10.33	Master Note Purchase Agreement between Cerner Corporation and the Purchasers listed in Schedule A thereto dated December 4, 2014	8-K	10.1	12/5/2014	
10.34	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 000-15386/12599122	



10.35	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	
10.36	Second Amendment to Amended and Restated Credit Agreement, dated January 15, 2015, 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.				X
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 January 3, 2015, 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. 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 January 3, 2015, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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 January 3, 2015 and December 28, 2013, 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 January 3, 2015, and our report dated February 11, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/KPMG LLP
Kansas City, Missouri
February 11, 2015



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 January 3, 2015 and December 28, 2013, 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 January 3, 2015. 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 January 3, 2015 and December 28, 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended January 3, 2015, 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 January 3, 2015, 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 11, 2015 expressed an unqualified opinion on the effectiveness of Cerner Corporation and subsidiaries' internal control over financial reporting.

/s/KPMG LLP
Kansas City, Missouri
February 11, 2015



CERNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

As of January 3, 2015 and December 28, 2013

(In thousands, except share data)

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 635,203	\$ 202,377
Short-term investments	785,663	677,004
Receivables, net	672,778	582,926
Inventory	23,789	32,299
Prepaid expenses and other	209,278	175,488
Deferred income taxes, net	22,075	91,614
Total current assets	2,348,786	1,761,708
Property and equipment, net	924,260	792,781
Software development costs, net	420,199	347,077
Goodwill	320,538	307,422
Intangible assets, net	126,636	144,132
Long-term investments	231,147	554,873
Other assets	158,999	190,371
Total assets	<u>\$ 4,530,565</u>	<u>\$ 4,098,364</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 160,285	\$ 145,019
Current installments of long-term debt and capital lease obligations	67,460	54,107
Deferred revenue	209,655	209,746
Accrued payroll and tax withholdings	140,230	147,986
Other accrued expenses	56,685	83,574
Total current liabilities	634,315	640,432
Long-term debt and capital lease obligations	62,868	111,717
Deferred income taxes and other liabilities	256,601	170,392
Deferred revenue	10,813	8,159
Total liabilities	964,597	930,700
Shareholders' Equity:		
Common stock, \$.01 par value, 500,000,000 shares authorized, 346,985,811 shares issued at January 3, 2015 and 344,338,030 shares issued at December 28, 2013	3,470	3,443
Additional paid-in capital	933,446	812,853
Retained earnings	2,918,481	2,393,048
Treasury stock, 4,652,515 shares at January 3, 2015 and 570,616 shares at December 28, 2013	(245,333)	(28,251)
Accumulated other comprehensive loss, net	(44,096)	(13,429)
Total shareholders' equity	<u>3,565,968</u>	<u>3,167,664</u>
Total liabilities and shareholders' equity	<u>\$ 4,530,565</u>	<u>\$ 4,098,364</u>

See notes to consolidated financial statements.



CERNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended January 3, 2015, December 28, 2013 and December 29, 2012

	For the Years Ended		
	2014	2013	2012
<i>(In thousands, except per share data)</i>			
Revenues:			
System sales	\$ 945,858	\$ 847,809	\$ 902,799
Support, maintenance and services	2,366,959	1,992,830	1,707,329
Reimbursed travel	89,886	70,109	55,308
Total revenues	3,402,703	2,910,748	2,665,436
Costs and expenses:			
Cost of system sales	314,089	302,374	427,456
Cost of support, maintenance and services	200,402	142,239	125,433
Cost of reimbursed travel	89,886	70,109	55,308
Sales and client service	1,395,568	1,173,051	1,020,640
Software development (Includes amortization of \$103,447, \$94,688 and \$81,731, respectively)	392,805	338,786	301,370
General and administrative	246,869	308,177	163,567
Total costs and expenses	2,639,619	2,334,736	2,093,774
Operating earnings	763,084	576,012	571,662
Other income, net	11,090	12,042	16,046
Earnings before income taxes	774,174	588,054	587,708
Income taxes	(248,741)	(189,700)	(190,476)
Net earnings	\$ 525,433	\$ 398,354	\$ 397,232
Basic earnings per share	\$ 1.54	\$ 1.16	\$ 1.16
Diluted earnings per share	\$ 1.50	\$ 1.13	\$ 1.13
Basic weighted average shares outstanding	342,150	343,636	341,861
Diluted weighted average shares outstanding	350,386	352,281	351,394

See notes to consolidated financial statements.



CERNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended January 3, 2015, December 28, 2013 and December 29, 2012

	For the Years Ended		
	2014	2013	2012
<i>(In thousands)</i>			
Net earnings	\$ 525,433	\$ 398,354	\$ 397,232
Foreign currency translation adjustment and other (net of tax benefits of \$1,111, \$3,604 and \$1,396, respectively)	(30,145)	(8,185)	6,511
Change in net unrealized holding gain (loss) on available-for-sale investments (net of taxes (benefits) of \$(331), \$10 and \$125, respectively)	(522)	11	201
Comprehensive income	<u>\$ 494,766</u>	<u>\$ 390,180</u>	<u>\$ 403,944</u>

See notes to consolidated financial statements.



CERNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended January 3, 2015, December 28, 2013 and December 29, 2012

	For the Years Ended		
	2014	2013	2012
<i>(In thousands)</i>			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	\$ 525,433	\$ 398,354	\$ 397,232
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	302,353	263,538	222,580
Share-based compensation expense	59,292	46,295	36,113
Provision for deferred income taxes	106,905	(22,647)	8,342
Changes in assets and liabilities (net of businesses acquired):			
Receivables, net	(74,786)	(9,599)	(83,705)
Inventory	8,117	(8,111)	(279)
Prepaid expenses and other	(14,625)	(36,038)	(2,224)
Accounts payable	2,974	4,130	35,265
Accrued income taxes	(21,764)	14,694	(22,784)
Deferred revenue	4,346	18,053	33,277
Other accrued liabilities	(51,218)	27,196	84,497
Net cash provided by operating activities	<u>847,027</u>	<u>695,865</u>	<u>708,314</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital purchases	(276,584)	(352,877)	(183,429)
Capitalized software development costs	(177,800)	(174,649)	(100,189)
Purchases of investments	(1,214,036)	(1,106,819)	(1,286,997)
Sales and maturities of investments	1,404,846	1,070,598	932,394
Purchase of other intangibles	(13,517)	(56,805)	(22,870)
Acquisition of businesses, net of cash acquired	(7,476)	(67,877)	(40,540)
Net cash used in investing activities	<u>(284,567)</u>	<u>(688,429)</u>	<u>(701,631)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of long-term debt and capital lease obligations	(14,930)	(24,700)	(17,083)
Proceeds from excess tax benefits from share-based compensation	39,532	39,927	48,370
Proceeds from exercise of options	31,879	31,403	38,147
Treasury stock purchases	(217,082)	(170,042)	—
Contingent consideration payments for acquisition of businesses	(10,617)	(800)	(3,400)
Cash grants	48,000	—	—
Other	2,894	4,823	—
Net cash provided by (used in) financing activities	<u>(120,324)</u>	<u>(119,389)</u>	<u>66,034</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(9,310)</u>	<u>(2,790)</u>	<u>1,257</u>
Net increase (decrease) in cash and cash equivalents	432,826	(114,743)	73,974
Cash and cash equivalents at beginning of period	<u>202,377</u>	<u>317,120</u>	<u>243,146</u>
Cash and cash equivalents at end of period	<u>\$ 635,203</u>	<u>\$ 202,377</u>	<u>\$ 317,120</u>
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest	\$ 5,682	\$ 6,973	\$ 6,448
Income taxes, net of refunds	144,323	175,377	158,871
Summary of acquisition transactions:			
Fair value of net tangible assets (liabilities) acquired (assumed)	\$ (1,509)	\$ 2,550	\$ (6,375)
Fair value of intangible assets acquired	3,800	25,489	18,559
Fair value of goodwill	16,785	59,570	35,281
Less: Fair value of contingent liability payable	<u>(11,600)</u>	<u>(18,982)</u>	<u>(1,916)</u>
Cash paid for acquisitions	7,476	68,627	45,549
Cash acquired	<u>—</u>	<u>(750)</u>	<u>(5,009)</u>
Net cash used	<u>\$ 7,476</u>	<u>\$ 67,877</u>	<u>\$ 40,540</u>

See notes to consolidated financial statements.



CERNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended January 3, 2015, December 28, 2013 and December 29, 2012

	Common Stock		Additional	Retained	Treasury	Accumulated	Noncont
	Shares	Amount	Paid-in Capital	Earnings	Stock	Other Comprehensiv e Income (Loss)	rolling Interest
<i>(In thousands)</i>							
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)	—
Exercise of stock options (including net-settled option exercises)	2,648	27	21,613	—	—	—	—
Employee share-based compensation expense	—	—	59,292	—	—	—	—
Employee share-based compensation net excess tax benefit	—	—	39,688	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	—	(30,667)	—
Treasury stock purchases	—	—	—	—	(217,082)	—	—
Net earnings	—	—	—	525,433	—	—	—
Balance at January 3, 2015	346,986	\$ 3,470	\$ 933,446	\$ 2,918,481	\$ (245,333)	\$ (44,096)	\$ —

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 year 2014 consisted of 53 weeks and ended on January 3, 2015, and fiscal years 2013 and 2012 consisted of 52 weeks each and ended on December 28, 2013 and December 29, 2012, respectively. All references to years in these notes to consolidated financial statements represent fiscal years unless otherwise noted.

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, with maturities of less than one year. 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 - The majority of our cash and cash equivalents are held at three major financial institutions. The majority of our cash equivalents consist of money market funds and commercial paper. 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 2014, 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 2014, 2013 or 2012. Refer to Note (7) for more information on goodwill and other intangible assets.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) Recently Issued Accounting Pronouncements

Revenue Recognition. In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. This new guidance is effective for the Company in the first quarter of 2017, with no early adoption permitted. The standard permits the use of either the retrospective or cumulative effect transition method. At this time we have not selected a transition method. We are currently evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures.

(2) Business Acquisitions

Siemens Health Services

On February 2, 2015, we acquired substantially all of the assets, and assumed certain liabilities of Siemens Health Services, the health information technology business unit of Siemens AG ("Siemens"), a stock corporation established under the laws of Germany. Siemens Health Services offers a portfolio of enterprise-level clinical and financial health care information technology solutions, as well as departmental, connectivity, population health, and care coordination solutions globally. Solutions are offered on the Soarian, Invision, and i.s.h.med platforms, among others. Siemens Health Services also offers a range of complementary and support services including hosting and managed services, implementation services, and strategic consulting.



We believe the acquisition enhances our organic growth opportunities as it provides us a larger base into which we can sell our combined portfolio of solutions and services. The acquisition also augments our non-U.S. footprint and growth opportunities, increases our ability and scale for R&D investment, and adds approximately 5,500 of highly-skilled associates that will enhance our capabilities. These factors, combined with the synergies and economies of scale expected from combining the operations of Cerner and Siemens Health Services, are the basis for acquisition.

Consideration for the acquisition was \$1.37 billion of cash, consisting of the \$1.3 billion agreed upon price plus working capital adjustments. The purchase price is subject to certain post-closing adjustments for working capital and pension obligations, as specified in the Master Sale and Purchase Agreement ("MSPA") dated August 5, 2014, as amended.

In 2014 we incurred \$15.8 million of pre-tax costs in connection with our acquisition of Siemens Health Services, which are included in general and administrative expense in our consolidated statements of operations.

Our acquisition of Siemens Health Services will be 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. Due to the timing of the acquisition subsequent to our 2014 fiscal year-end, certain disclosures, including the preliminary allocation of purchase price, have been omitted from this Annual Report on Form 10-K because the initial accounting for the business combination is incomplete as of the filing date. We will include necessary disclosures in our Quarterly Report on Form 10-Q for our first fiscal quarter of 2015.

The operating results of Siemens Health Services will be combined with our operating results subsequent to the purchase date of February 2, 2015.

InterMedHx

On April 1, 2014, we purchased 100% of the outstanding membership interests of InterMedHx, LLC (InterMedHx). InterMedHx is a provider of health technology solutions in the areas of preventive care, patient administration, and medication history. We believe the addition of InterMedHx solutions provides additional capabilities in the market.

Consideration for the acquisition of InterMedHx is expected to total \$19.1 million, consisting of up-front cash plus contingent consideration, which is payable at a percentage of the revenue contribution from InterMedHx solutions and services. We valued the contingent consideration at \$11.6 million based on projections of revenue over the assessment period.

The allocation of purchase price to the estimated fair value of the identified tangible and intangible assets acquired and liabilities assumed resulted in goodwill of \$16.8 million and \$3.8 million in intangible assets related to the value of existing technologies. 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 period of five years.

The operating results of InterMedHx were combined with our operating results subsequent to the purchase date of April 1, 2014. Pro-forma results of operations have not been presented because the effect of this acquisition was not material to our results.

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. During 2014, we paid \$10.6 million to satisfy a portion of this contingent consideration obligation.

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 \$48.6 million and \$20.3 million in intangible assets, of which \$10.5 million and \$9.8 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 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 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 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 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 \$34.6 million and \$18.6 million in intangible assets, of which \$12.8 million and \$5.2 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 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.



(3) Investments

Available-for-sale investments at the end of 2014 were as follows:

<i>(In thousands)</i>	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash equivalents:				
Money market funds	\$ 189,137	\$ —	\$ —	\$ 189,137
Time deposits	9,989	—	—	9,989
Commercial Paper	115,638	—	—	115,638
Total cash equivalents	314,764	—	—	314,764
Short-term investments:				
Time deposits	52,830	—	(1)	52,829
Commercial paper	435,555	1	(12)	435,544
Government and corporate bonds	297,311	69	(90)	297,290
Total short-term investments	785,696	70	(103)	785,663
Long-term investments:				
Government and corporate bonds	219,439	26	(500)	218,965
Total available-for-sale investments	\$ 1,319,899	\$ 96	\$ (603)	\$ 1,319,392

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	\$ 1,287,802	\$ 715	\$ (367)	\$ 1,288,150

Investments reported under the cost method of accounting as of January 3, 2015 and December 28, 2013 were \$8.7 million and \$7.2 million, respectively. Investments reported under the equity method of accounting as of January 3, 2015 and December 28, 2013 were \$3.5 million and \$5.0 million, respectively.

We sold available-for-sale investments for proceeds of \$697.9 million and \$125.3 million in 2014 and 2013, 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 2014:

(In thousands)

Description	Balance Sheet Classification	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Money market funds	Cash equivalents	\$ 189,137	\$ —	\$ —
Time deposits	Cash equivalents	—	9,989	—
Commercial paper	Cash equivalents	—	115,638	—
Time deposits	Short-term investments	—	52,829	—
Commercial paper	Short-term investments	—	435,544	—
Government and corporate bonds	Short-term investments	—	297,290	—
Government and corporate bonds	Long-term investments	—	218,965	—

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	—

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 2014 and 2013 was approximately \$14.9 million and \$32.6 million, respectively. The carrying amount of such fixed-rate debt at the end of 2014 and 2013 was \$14.2 million and \$30.6 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 2014, 2013, and 2012 totaled \$5.3 million, \$7.0 million and \$13.5 million, respectively.

A summary of net receivables is as follows:

<i>(In thousands)</i>	2014	2013
Gross accounts receivable	\$ 641,160	\$ 583,312
Less: Allowance for doubtful accounts	25,531	36,286
Accounts receivable, net of allowance	615,629	547,026
Current portion of lease receivables	57,149	35,900
Total receivables, net	\$ 672,778	\$ 582,926

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

<i>(In thousands)</i>	2014	2013
Minimum lease payments receivable	\$ 125,906	\$ 146,566
Less: Unearned income	6,089	7,602
Total lease receivables	119,817	138,964
Less: Long-term receivables included in other assets	62,668	103,064
Current portion of lease receivables	\$ 57,149	\$ 35,900

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

<i>(In thousands)</i>	
2015	\$ 60,198
2016	36,259
2017	20,293
2018	6,986
2019	2,170

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 continue to be 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 final resolution of disputes between Fujitsu and the NHS regarding the contract termination. As of January 3, 2015, 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 2014 and 2013. 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. Nevertheless, it is reasonably possible that our estimates regarding collectability of such amounts might materially change in the near term, considering that we do not have complete knowledge of the status of the proceedings between Fujitsu and NHS and their effect on our claim.

During 2014 and 2013, we received total client cash collections of \$3.5 billion and \$3.1 billion, respectively, of which \$79.9 million and \$60.8 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>2014</u>	<u>2013</u>
Computer and communications equipment	1 — 5	\$ 1,137,497	\$ 963,301
Land, buildings and improvements	12 — 50	439,567	411,382
Leasehold improvements	1 — 15	187,351	160,030
Furniture and fixtures	5 — 12	96,244	72,601
Capital lease equipment	3 — 5	3,196	3,207
Other equipment	3 — 20	915	710
		<u>1,864,770</u>	<u>1,611,231</u>
Less accumulated depreciation and leasehold amortization		940,510	818,450
Total property and equipment, net		<u>\$ 924,260</u>	<u>\$ 792,781</u>

Depreciation and leasehold amortization expense for 2014, 2013 and 2012 was \$163.0 million, \$135.7 million and \$120.1 million, respectively.

(7) Goodwill and Other Intangible Assets

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

<i>(In thousands)</i>	<u>2014</u>	<u>2013</u>
Beginning Balance	\$ 307,422	\$ 247,616
Goodwill recorded in connection with business acquisitions	16,757	59,570
Foreign currency translation adjustment and other	(3,641)	236
Ending Balance	<u>\$ 320,538</u>	<u>\$ 307,422</u>

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

<i>(In thousands)</i>	<u>2014</u>		<u>2013</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	\$ 169,703	\$ 110,344	\$ 168,798	\$ 89,691
Customer lists	100,681	73,637	100,909	68,094
Other	68,859	28,626	45,915	13,705
Total	<u>\$ 339,243</u>	<u>\$ 212,607</u>	<u>\$ 315,622</u>	<u>\$ 171,490</u>
Intangible assets, net		<u>\$ 126,636</u>		<u>\$ 144,132</u>



Amortization expense for 2014, 2013 and 2012 was \$35.9 million, \$32.9 million and \$20.3 million, respectively.

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

<i>(In thousands)</i>	
2015	\$ 34,048
2016	29,359
2017	22,651
2018	8,494
2019	5,208

Note that the above estimate of future amortization expense does not include any impact of intangible assets that may be recorded in connection with our February 2, 2015 acquisition of Siemens Health Services, as further described in Note (2).

(8) Software Development

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

<i>(In thousands)</i>	For the Years Ended		
	2014	2013	2012
Software development costs	\$ 467,158	\$ 418,747	\$ 319,828
Capitalized software development costs	(177,800)	(174,649)	(100,189)
Amortization of capitalized software development costs	103,447	94,688	81,731
Total software development expense	\$ 392,805	\$ 338,786	\$ 301,370

Accumulated amortization as of the end of 2014 and 2013 was \$890.7 million and \$798.0 million, respectively.

(9) Long-term Debt and Capital Lease Obligations

The following is a summary of indebtedness outstanding:

<i>(In thousands)</i>	2014	2013
Note agreement, 5.54%	\$ 14,233	\$ 30,608
Capital lease obligations	116,095	135,216
Total debt and capital lease obligations	130,328	165,824
Less: current portion	(67,460)	(54,107)
Long-term debt and capital lease obligations	\$ 62,868	\$ 111,717

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 2014.

In January 2015, we issued \$500.0 million aggregate principal amount of unsecured Senior Notes ("Notes"), pursuant to a Master Note Purchase Agreement dated December 4, 2014. The issuance consisted of \$225.0 million of 3.18% Series 2015-A Notes due February 15, 2022, \$200.0 million of 3.58% Series 2015-B Notes due February 14, 2025, and \$75.0 million in floating rate Series 2015-C Notes due February 15, 2022. Interest is payable semiannually on February 15th and August 15th in each year, commencing on August 15, 2015 for the Series 2015-A Notes and Series 2015-B Notes. The Series 2015-C Notes will accrue interest at a floating rate equal to the Adjusted LIBOR Rate (as defined in the Master Note Purchase Agreement), payable quarterly on February 15th, May 15th, August 15th and November 15th in each year, commencing on May 15, 2015. The Master Note Purchase Agreement contains certain leverage and interest coverage ratio covenants and



provides certain restrictions on our ability to borrow, incur liens, sell assets, and other customary terms. Proceeds from the Notes are available for general corporate purposes.

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

Minimum annual payments under existing capital lease obligations and maturities of indebtedness outstanding at the end of 2014 are as follows:

	Capital Lease Obligations			Principal Amount of Indebtedness	Total
	Minimum Lease Payments	Less: Interest	Principal		
<i>(In thousands)</i>					
2015	\$ 55,968	\$ 2,741	\$ 53,227	\$ 14,233	\$ 67,460
2016	35,968	1,458	34,510	—	34,510
2017	20,052	530	19,522	—	19,522
2018	6,877	156	6,721	—	6,721
2019	2,137	22	2,115	—	2,115
Total	\$ 121,002	\$ 4,907	\$ 116,095	\$ 14,233	\$ 130,328

We also 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 2014, we were in compliance with all debt covenants. As of the end of 2014, we had no outstanding borrowings under this agreement; however, we had \$16.6 million of outstanding letters of credit, which reduced our available borrowing capacity to \$83.4 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:

<i>(In thousands)</i>		2014	
		Fair Value	Net Unrealized Gain
Derivatives Designated	Balance Sheet Classification		
Total net investment hedge	Short-term liabilities	\$ 14,233	\$ 929

<i>(In thousands)</i>		2013	
		Fair Value	Net Unrealized Loss
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



(11) Contingencies

We accrue estimates for resolution of any legal and other contingencies when losses are probable and estimable, in accordance with ASC 450, *Contingencies*.

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.

In addition to commitments and obligations in the ordinary course of business, we are subject to various legal proceedings and claims, including for example, employment disputes and litigation alleging solution defects, personal injury, intellectual property infringement, violations of law and breaches of contract and warranties. Many of these proceedings are at preliminary stages and many seek an indeterminate amount of damages.

No less than quarterly, we review the status of each significant matter and assess our potential financial exposure. We accrue a liability for an estimated loss if the potential loss from any legal proceeding or claim is considered probable and the amount can be reasonably estimated. Significant judgment is required in both the determination of probability and the determination as to whether the amount of an exposure is reasonably estimable, and accruals are based only on the information available to our management at the time the judgment is made. Furthermore, the outcome of legal proceedings is inherently uncertain, and we may incur substantial defense costs and expenses defending any of these matters. Should any one or a combination of more than one of these proceedings be successful, or should we determine to settle any or a combination of these matters, we may be required to pay substantial sums, become subject to the entry of an injunction or be forced to change the manner in which we operate our business, which could have a material adverse impact on our financial position or results of operations.

RLIS, Inc., a non-practicing entity, filed a complaint in the Southern District of Texas against the Company alleging that certain of the Company's electronic medical record solutions infringe two patents owned by the plaintiff. At trial, Plaintiff requested damages between \$35.3 million and \$38.2 million. Plaintiff also sought attorneys' fees, costs, and an ongoing royalty. A jury trial was conducted from January 5, 2015, to January 16, 2015. The jury rendered a verdict that all remaining patent claims asserted against the Company were invalid and not infringed by the Company. The Company continues to dispute the Plaintiff's claims and will vigorously defend itself if the Plaintiff appeals after a final judgment is entered. In the opinion of our management, if the Plaintiff were to appeal, there is a reasonable possibility that we could incur losses with respect to this matter but we are unable to estimate a range of any such possible losses at this time, and we do not believe a loss is probable. Our management will continue to evaluate the potential exposure related to this matter in future periods.

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. The 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. This matter was resolved and paid in 2013. 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		
	2014	2013	2012
Interest income	\$ 16,342	\$ 15,314	\$ 16,543
Interest expense	(3,993)	(4,226)	(5,068)
Other	(1,259)	954	4,571
Other income, net	\$ 11,090	\$ 12,042	\$ 16,046

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 2014, 2013 and 2012 consists of the following:

<i>(In thousands)</i>	For the Years Ended		
	2014	2013	2012
Current:			
Federal	\$ 114,508	\$ 178,424	\$ 164,690
State	13,504	25,148	13,302
Foreign	13,824	8,775	4,142
Total current expense	141,836	212,347	182,134
Deferred:			
Federal	95,057	(9,792)	9,035
State	8,873	(7,116)	4,453
Foreign	2,975	(5,739)	(5,146)
Total deferred expense (benefit)	106,905	(22,647)	8,342
Total income tax expense	\$ 248,741	\$ 189,700	\$ 190,476



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 2014 and 2013 relate to the following:

<i>(In thousands)</i>	<u>2014</u>	<u>2013</u>
Deferred tax assets:		
Accrued expenses	\$ 25,398	\$ 22,948
Tax credits and separate return net operating losses	28,953	25,612
Share based compensation	58,271	44,856
Contract and service revenues and costs	—	65,407
Other	10,347	12,529
Gross deferred tax assets	122,969	171,352
Less: Valuation allowance	(776)	(896)
Total deferred tax assets	122,193	170,456
Deferred tax liabilities:		
Software development costs	(163,938)	(130,583)
Depreciation and amortization	(129,684)	(113,492)
Contract and service revenues and costs	(7,511)	—
Other	(3,625)	(2,859)
Total deferred tax liabilities	(304,758)	(246,934)
Net deferred tax liability	<u>\$ (182,565)</u>	<u>\$ (76,478)</u>

At the end of 2014, we had net operating loss carry-forwards subject to Section 382 of the Internal Revenue Code for Federal income tax purposes of \$5.5 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, \$0.7 million that are available to offset future taxable income, if any, through 2033, and \$46.8 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 \$0.8 million which are available to offset future taxable income, if any, through 2034. In addition, we have a state income tax credit carry-forward of \$16.0 million available to offset income tax liabilities through 2030.

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 2014, we had not provided tax on the cumulative undistributed earnings of our foreign subsidiaries of approximately \$99 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 2014, 2013, and 2012 were 32%, 32%, and 32%, respectively. These effective rates differ from the Federal statutory rate of 35% as follows:

	For the Years Ended		
	2014	2013	2012
<i>(In thousands)</i>			
Tax expense at statutory rates	\$ 270,961	\$ 205,819	\$ 205,698
State income tax, net of federal benefit	15,715	17,502	13,856
Tax credits	(20,986)	(18,683)	(1,510)
Unrecognized tax benefit (including interest)	5,538	(20)	(12,832)
Permanent differences	(12,253)	(14,760)	(19,900)
Other, net	(10,234)	(158)	5,164
Total income tax expense	\$ 248,741	\$ 189,700	\$ 190,476

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

	2014	2013	2012
<i>(In thousands)</i>			
Unrecognized tax benefit - beginning balance	\$ 2,100	\$ 2,176	\$ 14,640
Gross decreases - tax positions in prior periods	(804)	(76)	(12,464)
Gross increases - tax positions in prior periods	5,906	—	—
Unrecognized tax benefit - ending balance	\$ 7,202	\$ 2,100	\$ 2,176

If recognized, \$5.9 million of the unrecognized tax benefit will favorably impact our effective tax rate. We anticipate that it is reasonably possible that our unrecognized tax benefits will decrease by up to \$4 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. Our federal returns for 2010 through 2012 are currently under examination by the Internal Revenue Service. We have various state and foreign returns under examination.

The 2014 beginning and ending amounts of accrued interest related to unrecognized tax benefits were \$0.2 million and \$0.6 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.

The foreign portion of our earnings before income taxes was \$68.3 million, \$4.5 million, and (\$15.4) million in 2014, 2013, and 2012 respectively, and the remaining portion was domestic.

(14) Earnings Per Share

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

	2014			2013			2012		
	Earnings (Numerator)	Shares (Denominator)	Per-Share Amount	Earnings (Numerator)	Shares (Denominator)	Per-Share Amount	Earnings (Numerator)	Shares (Denominator)	Per-Share Amount
<i>(In thousands, except per share data)</i>									
Basic earnings per share:									
Income available to common shareholders	\$ 525,433	342,150	\$ 1.54	\$ 398,354	343,636	\$ 1.16	\$ 397,232	341,861	\$ 1.16
Effect of dilutive securities:									
Stock options and non-vested shares	—	8,236		—	8,645		—	9,533	
Diluted earnings per share:									
Income available to common shareholders including assumed conversions	\$ 525,433	350,386	\$ 1.50	\$ 398,354	352,281	\$ 1.13	\$ 397,232	351,394	\$ 1.13

Options to purchase 5.7 million, 6.1 million and 4.6 million shares of common stock at per share prices ranging from \$44.05 to \$66.10, \$36.92 to \$56.39 and \$27.62 to \$42.98, were outstanding at the end of 2014, 2013 and 2012, 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 2014, 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 2014, 8.1 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:

	2014	2013	2012
Expected volatility (%)	29.7%	30.5%	34.8%
Expected term (yrs)	9.1	9.1	9.1
Risk-free rate (%)	2.9%	1.9%	2.1%

Stock option activity for 2014 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	24,407	\$ 22.24		
Granted	3,271	52.19		
Exercised	(2,719)	12.70		
Forfeited and expired	(330)	42.31		
Outstanding at end of year	<u>24,629</u>	27.00	\$ 936,584	6.00
Exercisable at end of year	14,387	\$ 14.39	\$ 728,611	4.50



(In thousands, except for grant date fair values)	For the Years Ended		
	2014	2013	2012
Weighted-average grant date fair values	\$ 22.59	\$ 19.57	\$ 18.52
Total intrinsic value of options exercised	\$ 124,828	\$ 118,051	\$ 152,117
Cash received from exercise of stock options	31,879	31,403	38,147
Tax benefit realized upon exercise of stock options	44,029	43,523	55,952

As of the end of 2014, there was \$136.1 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 3.10 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 2014 was as follows:

(In thousands, except per share data)	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding at beginning of year	552	\$ 38.54
Granted	167	55.27
Vested	(208)	33.38
Forfeited	(5)	34.48
Outstanding at end of year	<u>506</u>	<u>\$ 46.21</u>

(In thousands, except for grant date fair values)	For the Years Ended		
	2014	2013	2012
Weighted average grant date fair values for shares granted during the year	\$ 55.27	\$ 46.66	\$ 38.28
Total fair value of shares vested during the year	\$ 11,294	\$ 13,649	\$ 2,612

As of the end of 2014, there was \$11.0 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 1.29 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 ASPP (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 Company Common Stock is made through the ASPP on the open market and subsequently reissued to Participants. The difference between the open market purchase and the Participant's purchase price is recognized as compensation expense, as such difference is paid by Cerner, in cash.



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		
	2014	2013	2012
Stock option and non-vested share compensation expense	\$ 59,292	\$ 46,295	\$ 36,113
Associate stock purchase plan expense	4,603	3,704	2,859
Amounts capitalized in software development costs, net of amortization	(930)	(1,045)	(860)
Amounts charged against earnings, before income tax benefit	\$ 62,965	\$ 48,954	\$ 38,112
Amount of related income tax benefit recognized in earnings	\$ 22,101	\$ 18,607	\$ 14,578

Preferred Stock

As of the end of 2014 and 2013, we had 1.0 million shares of authorized but unissued preferred stock, \$0.01 par value.

Treasury Stock

In May 2014, our Board of Directors approved an amendment to the stock repurchase program that was authorized in December 2013. Under the amendment, the Company may repurchase shares of our common stock up to an additional \$100.0 million. This increase authorizes repurchases of up to \$317.0 million, in the aggregate, excluding transaction costs. The repurchases are to be effectuated in the open market, by block purchase, or possibly through other transactions managed by broker-dealers. No time limit was set for completion of the program.

During 2014, we repurchased 4.1 million shares for consideration of \$217.0 million, excluding transaction costs. These shares were recorded as treasury stock and accounted for under the cost method. No repurchased shares have been retired. At January 3, 2015, \$100.0 million remains available for purchases under the program.

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 our June 2013 stock split were utilized to settle a portion of the stock split distribution. This program is now complete.

(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. The Plan has 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. The Plan's first tier discretionary match expenses amounted to \$17.9 million, \$14.9 million and \$12.3 million for 2014, 2013 and 2012, 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. 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 second tier discretionary match contribution. For the years ended 2014, 2013 and 2012 we expensed \$4.9 million, \$13.5 million and \$11.9 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 is recognized as a component of operating expense as it occurs over a period not to exceed 10 years. At the end of 2014, the obligation/liability balance was \$43.0 million, the majority of which is included in deferred income taxes and other liabilities in our consolidated balance sheets.

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 \$11.5 million of sales tax on these capital purchases.

State Income Tax Credits - We expect state income tax credits to aggregate \$18.5 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 (“Grand”), 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 Grand \$0.4 million, \$1.4 million, and \$1.4 million in 2014, 2013, and 2012, respectively. This contract was completed in 2014.

We also paid Grand \$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.

Trails Campus 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 (currently known as our "Trails Campus") was acquired as a site for future office space development to further accommodate our anticipated growth. Construction on the Trails Campus began in November 2014.

In December 2014, we contracted with Grand to coordinate, supervise, schedule and assist with managing the development, design and construction of the first two phases of our Trails Campus. Under the agreement, we expect to pay Grand \$3.6 million over a period estimated at two years.

(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 2014, 2013 and 2012 was \$25.1 million, \$20.0 million and \$18.1 million, respectively. Aggregate minimum future payments under these non-cancelable operating leases are as follows:

<i>(In thousands)</i>	Operating Lease Obligations
2015	\$ 23,525
2016	21,693
2017	21,467
2018	19,294
2019	14,984
2020 and thereafter	39,607
	<u>\$ 140,570</u>

Other Obligations

We have purchase commitments with various vendors, and minimum funding commitments under collaboration agreements through 2023. Aggregate future payments under these commitments are as follows:

<i>(In thousands)</i>	Purchase Obligations
2015	\$ 42,300
2016	23,481
2017	6,762
2018	4,345
2019	4,001
2020 and thereafter	8,000
	<u>\$ 88,889</u>



Siemens Innovation Alliance

Concurrently with the execution of the MSPA, we entered into an agreement with Siemens to create a strategic alliance to jointly invest in innovative projects that integrate health information technology with medical technologies for the purpose of enhancing workflows and improving clinical outcomes. Each company will contribute up to \$50.0 million to fund projects of shared importance to both companies and their clients, over an initial term of three years, commencing on February 2, 2015.

(19) Segment Reporting

We have two operating segments, Domestic and Global. Our Chief Executive Officer is our chief operating decision maker ("CODM"). 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)), acquisition costs, 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, as our CODM reviews segment performance exclusive of these charges. 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 2014, 2013 and 2012:

<i>(In thousands)</i>	Domestic	Global	Other	Total
2014				
Revenues	\$3,021,790	\$ 380,913	\$ —	\$3,402,703
Cost of revenues	542,210	62,167	—	604,377
Operating expenses	677,817	131,096	1,226,329	2,035,242
Total costs and expenses	1,220,027	193,263	1,226,329	2,639,619
Operating earnings (loss)	<u>\$1,801,763</u>	<u>\$ 187,650</u>	<u>\$(1,226,329)</u>	<u>\$ 763,084</u>
<i>(In thousands)</i>				
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	1,058,881	171,463	1,104,392	2,334,736
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>				
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	1,055,062	190,964	847,748	2,093,774
Operating earnings (loss)	<u>\$1,286,242</u>	<u>\$ 133,168</u>	<u>\$ (847,748)</u>	<u>\$ 571,662</u>



(20) Quarterly Results (unaudited)

Selected quarterly financial data for 2014 and 2013 is set forth below:

<i>(In thousands, except per share data)</i>	Revenues	Earnings Before Income Taxes	Net Earnings	Basic Earnings Per Share	Diluted Earnings Per Share
2014 quarterly results:					
First Quarter	\$ 784,761	\$ 180,993	\$ 119,526	\$ 0.35	\$ 0.34
Second Quarter	851,762	194,370	129,033	0.38	0.37
Third Quarter ^(a)	840,149	190,335	129,002	0.38	0.37
Fourth Quarter ^(a)	926,031	208,476	147,872	0.43	0.42
Total	<u>\$ 3,402,703</u>	<u>\$ 774,174</u>	<u>\$ 525,433</u>		

^(a) Third and Fourth quarter results include pre-tax acquisition costs of \$9.4 million and \$6.4 million, respectively, as further described in Note (2).

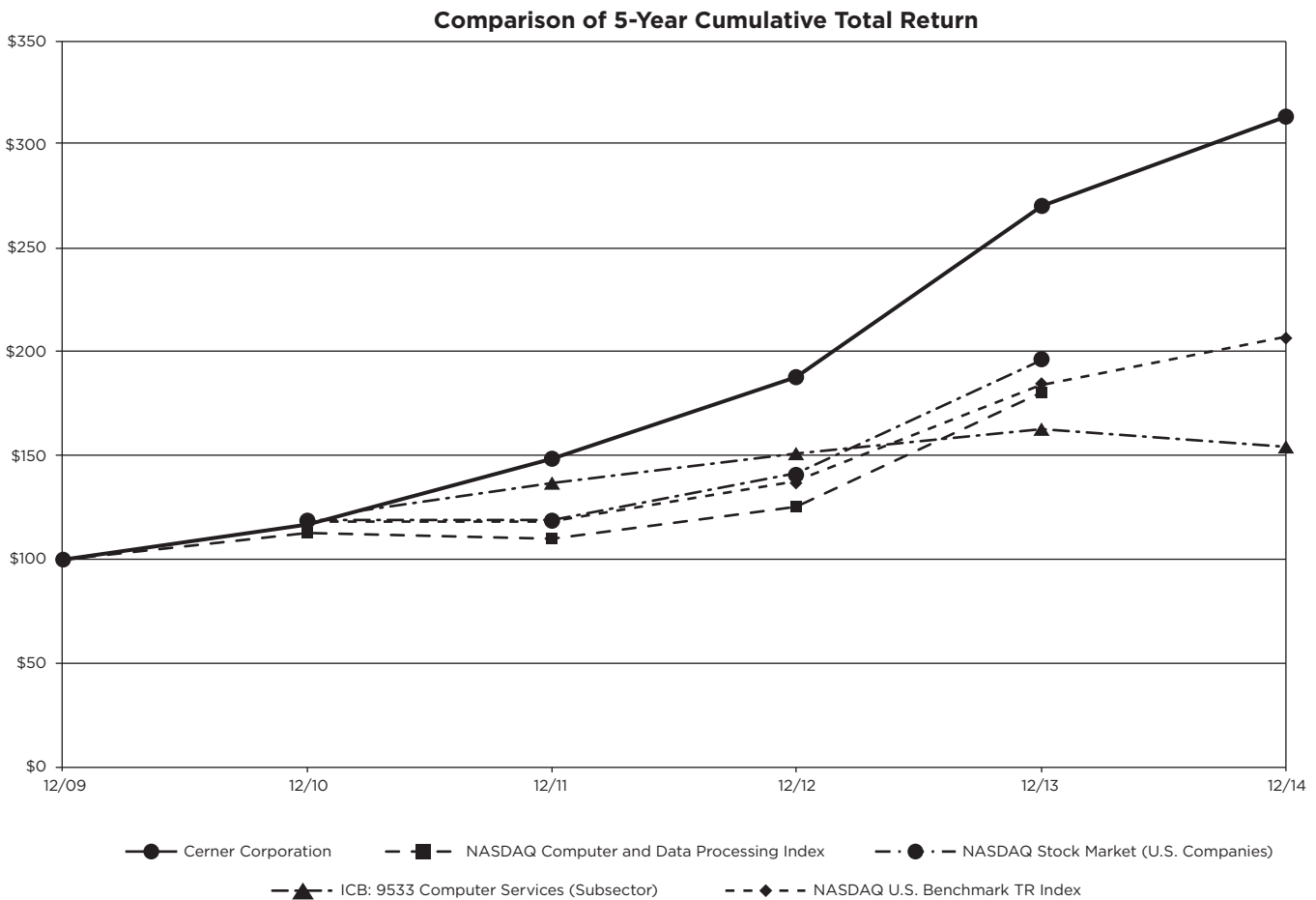
<i>(In thousands, except per share data)</i>	Revenues	Earnings Before Income Taxes	Net Earnings	Basic Earnings Per Share	Diluted Earnings Per Share
2013 quarterly results:					
First Quarter	\$ 680,029	\$ 159,613	\$ 110,040	\$ 0.32	\$ 0.31
Second Quarter	707,561	169,189	112,907	0.33	0.32
Third Quarter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

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



STOCK PRICE PERFORMANCE GRAPH

The following graph presents a comparison for the five-year period ended December 31, 2014 of the performance of the Common Stock of the Company with the NASDAQ Composite Index (U.S. Companies) (as calculated by The Center for Research in Security Prices), the NASDAQ Computer and Data Processing Index (as calculated by The Center for Research in Security Prices), the ICB: 9533 Computer Services (Subsector) Index and the NASDAQ US Benchmark TR Index. As a result of a change in the total return data made available to us through our third-party index provider, in lieu of using indices calculated by the Center for Research in Security Prices, as we have in prior years, our performance graphs going forward will be using comparable indices provided by NASDAQ OMX Global Indexes. Please note, information for the NASDAQ Computer and Data Processing Index and the NASDAQ Composite Index (U.S. Companies) is provided only from December 31, 2009 through December 31, 2013, the last day this data was available by our third-party index provider. These indices have been replaced by the ICB: 9533 Computer Services (Subsector) Index and NASDAQ U.S. Benchmark TR Index, respectively.



The above comparison assumes \$100 was invested on December 31, 2009 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 22, 2015, 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 2015.

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 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	Mexico
Austria	Netherlands
Belgium	Norway
Brazil	Portugal
Canada	Qatar
Chile	Romania
Egypt	Saudi Arabia
Finland	Singapore
France	Slovakia
Germany	Spain
India	Sweden
Ireland	United Arab Emirates
Malaysia	United Kingdom