CERNER CORP /MO/
Form 10-K
February 11, 2015
Table of Contents

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

FORM 10-K

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

For the fiscal year ended: 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:

Title of each class	Name of each exchange on which registered
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 [X] 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 [X]

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 [X] 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 [X] 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. [X]
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 [X] 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 [X]
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.

Class	Outstanding at February 6, 2015
Common Stock, $0.01 par value per share	342,588,295 shares

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts into Which Incorporated
Proxy Statement for the Annual Shareholders' Meeting to be held May 22, 2015	Part III

Table of Contents

CERNER CORPORATION

TABLE OF CONTENTS

Table of Contents

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 HealtheIntent™ 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 HealtheIntent 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 HealtheIntent 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.

Table of Contents

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	
Revenues by Solutions & Services				
System sales	28	%29	%34	%
Support and maintenance	21	%23	%23	%
Services	48	%46	%41	%
Reimbursed travel	3	%2	%2	%
	100	%100	%100	%
Revenues by Segment				
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.

Table of Contents

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 CernerWorks℠ 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 ITWorks℠, 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 RevWorks℠, 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 CommunityWorks™ 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.

Table of Contents

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 HealtheIntent 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.

HealtheIntent 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. HealtheIntent 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 HealtheIntent platform allows us to offer our solutions to the entire marketplace, not just existing Cerner clients.

We are investing heavily in expanding the HealtheIntent 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 HealtheRegistries™, which provides the ability to stratify patient populations based on risk, conditions, and attributed physicians. Advocate went live with HealtheRegistries 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.

Table of Contents

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.

Table of Contents

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.

Name	Age	Positions
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.

Table of Contents

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.

Table of Contents

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,

Table of Contents

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

Table of Contents

- 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

Table of Contents

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

Table of Contents

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

Table of Contents

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

Table of Contents

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

Table of Contents

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

Table of Contents

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.

Table of Contents

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,"

Table of Contents

“may,” “expect,” “hope,” “anticipate,” “goal,” “forecast,” “plan,” “guidance” or “estimate” or the negative of these words, vari 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 Healthe 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

Table of Contents

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.

Table of Contents

Item 6. Selected Financial Data

(In thousands, except per share data)	2014 (1)(2)	2013 (1)(3)	2012 (1)	2011 (1)	2010 (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.

Table of Contents

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

Table of Contents

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."

Table of Contents

Results of Operations
Fiscal Year 2014 Compared to Fiscal Year 2013

(In thousands)	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	$525,433		$398,354		32 %

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.

Table of Contents

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 HealtheIntent 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:

	For the Years Ended	
(In thousands)	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

Table of Contents

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:

(In thousands)	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,

Table of Contents

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

(In thousands)	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.

Table of Contents

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:

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

- General and administrative expenses as a percent of total revenues were 11% in 2013, compared to 6% in 2012. These expenses increased 88% to $308.2 million in 2013 from $163.6 million in 2012. 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.

Table of Contents

Operations by Segment

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

(In thousands)	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.

Table of Contents

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		
(In thousands)	2014	2013	2012
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

Table of Contents

Cash from Operating Activities

(In thousands)	For the Years Ended 2014	2013	2012
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

(In thousands)	For the Years Ended 2014	2013	2012
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.

Table of Contents

Cash from Financing Activities

(In thousands)	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

(In thousands)	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)