CERNER CORP /MO/
Form 10-Q
August 01, 2011

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended July 2, 2011

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	43-1196944
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

2800 Rockcreek Parkway
North Kansas City, Missouri 64117
(816) 201-1024

(Address of Principal Executive Offices, including zip code;
registrant s telephone number, including area code)

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 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 [ ] (Do not check if a smaller	Smaller reporting company [ ]

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]

There were 169,052,633 shares of Common Stock, $.01 par value, outstanding at July 28, 2011.

CERNER CORPORATION AND SUBSIDIARIES
I N D E X

Part I.	Financial Information:	
Item 1.	Financial Statements:	
	Condensed Consolidated Balance Sheets as of July 2, 2011 (unaudited) and January 1, 2011	1
	Condensed Consolidated Statements of Operations for the three and six months ended July 2, 2011 and July 3, 2010 (unaudited)	2
	Condensed Consolidated Statements of Cash Flows for the six months ended July 2, 2011 and July 3, 2010 (unaudited)	3
	Notes to Condensed Consolidated Financial Statements (unaudited)	4
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	25
Item 4.	Controls and Procedures	25
Part II.	Other Information:	26
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	26
Item 6.	Exhibits	26

EX-31.1
EX-31.2
EX-32.1
EX-32.2
EX-101 INSTANCE DOCUMENT
EX-101 SCHEMA DOCUMENT
EX-101 CALCULATION LINKBASE DOCUMENT
EX-101 LABELS LINKBASE DOCUMENT
EX-101 PRESENTATION LINKBASE DOCUMENT
EX-101 DEFINITION LINKBASE DOCUMENT

Table of Contents

Part I. Financial Information
Item 1. Financial Statements
CERNER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
As of July 2, 2011 (unaudited) and January 1, 2011

(In thousands, except share data)		**2011**		**2010**
Assets				
Current assets:				
Cash and cash equivalents	$	214,056	$	214,511
Short-term investments		467,966		356,501
Receivables, net		504,290		476,905
Inventory		13,076		11,036
Prepaid expenses and other		105,197		83,272
Deferred income taxes		8,737		3,836
Total current assets		1,313,322		1,146,061
Property and equipment, net		497,770		498,829
Software development costs, net		247,709		244,848
Goodwill		189,194		161,374
Intangible assets, net		56,146		38,468
Long-term investments		329,990		264,467
Other assets		86,676		68,743
Total assets	$	2,720,807	$	2,422,790
Liabilities and Shareholders Equity				
Current liabilities:				
Accounts payable	$	72,571	$	65,035
Current installments of long-term debt		29,820		24,837
Deferred revenue		132,721		109,351
Accrued payroll and tax withholdings		90,908		86,921
Other accrued expenses		24,931		19,788
Total current liabilities		350,951		305,932
Long-term debt		84,871		67,923
Deferred income taxes and other liabilities		140,903		126,215
Deferred revenue		13,946		17,303
Total liabilities		590,671		517,373

Shareholders Equity:				
Cerner Corporation shareholders equity:				
Common stock, $.01 par value, 250,000,000 shares authorized, 168,931,933 shares issued at July 2, 2011 and 168,058,570 shares issued at January 1, 2011		1,689		1,681
Additional paid-in capital		689,190		616,972
Retained earnings		1,427,435		1,290,835
Accumulated other comprehensive income (loss), net		11,702		(4,191)
Total Cerner Corporation shareholders equity		2,130,016		1,905,297
Noncontrolling interest		120		120
Total shareholders equity		2,130,136		1,905,417
Total liabilities and shareholders equity	$	2,720,807	$	2,422,790

See notes to condensed consolidated financial statements (unaudited).

1

Table of Contents

CERNER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the three and six months ended July 2, 2011 and July 3, 2010
(unaudited)

	Three Months Ended		Six Months Ended	
(In thousands, except per share data)	**2011**	**2010**	**2011**	**2010**
Revenues:				
System sales	$ 157,145	$ 135,902	$ 297,524	$ 252,853
Support, maintenance and services	355,330	311,575	696,324	618,620
Reimbursed travel	11,748	8,524	22,039	15,865
Total revenues	524,223	456,001	1,015,887	887,338
Costs and expenses:				
Cost of system sales	61,887	52,863	119,986	97,691
Cost of support, maintenance and services	24,847	16,824	47,137	32,739
Cost of reimbursed travel	11,748	8,524	22,039	15,865
Sales and client service	210,213	190,030	411,561	377,623
Software development (Includes amortization of $19,910 and $38,968 for the three and six months ended July 2, 2011; and $16,421 and $32,259 for the three and six months ended July 3, 2010.)	69,790	67,988	140,934	134,767
General and administrative	37,765	33,420	72,558	66,645
Total costs and expenses	416,250	369,649	814,215	725,330
Operating earnings	107,973	86,352	201,672	162,008
Other income (expense):				
Interest income, net	2,875	421	4,851	2,204
Other income (expense), net	5	(495)	40	(571)
Total other income (expense), net	2,880	(74)	4,891	1,633
Earnings before income taxes	110,853	86,278	206,563	163,641
Income taxes	(38,809)	(30,801)	(69,963)	(57,878)

Net earnings	$	72,044	$	55,477	$	136,600	$	105,763
Basic earnings per share	$	0.43	$	0.34	$	0.81	$	0.64
Diluted earnings per share	$	0.42	$	0.33	$	0.79	$	0.62
Basic weighted average shares outstanding		168,299		164,669		167,706		164,291
Diluted weighted average shares outstanding		173,591		170,673		173,128		170,447

See notes to condensed consolidated financial statements (unaudited).

Table of Contents

CERNER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the six months ended July 2, 2011 and July 3, 2010
(unaudited)

(In thousands)	Six Months Ended 2011	Six Months Ended 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 136,600	$ 105,763
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	102,670	91,451
Share-based compensation expense	13,131	10,806
Provision for deferred income taxes	7,869	6,112
Changes in assets and liabilities (net of businesses acquired):		
Receivables, net	(35,718)	12,675
Inventory	(1,969)	2,024
Prepaid expenses and other	(11,185)	14,591
Accounts payable	2,913	14,900
Accrued income taxes	477	(12,117)
Deferred revenue	14,494	(19,656)
Other accrued liabilities	19,346	(10,808)
Net cash provided by operating activities	248,628	215,741
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital purchases	(51,677)	(56,011)
Capitalized software development costs	(41,055)	(41,248)
Purchases of investments	(628,686)	(319,056)
Maturities of investments	447,009	209,650
Purchase of other intangibles	(5,098)	(2,551)
Acquisition of businesses, net of cash acquired	(28,069)	(14,486)
Net cash used in investing activities	(307,576)	(223,702)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of future receivables	-	1,516
Repayment of long-term debt	(454)	(1,686)
Proceeds from excess tax benefits from stock compensation	26,570	13,112
Proceeds from exercise of options	29,972	14,224
Contingent consideration payments for acquisition of businesses	(779)	-
Net cash provided by financing activities	55,309	27,166

Effect of exchange rate changes on cash		3,184		(5,133)
Net increase (decrease) in cash and cash equivalents		(455)		14,072
Cash and cash equivalents at beginning of period		214,511		241,723
Cash and cash equivalents at end of period	$	214,056	$	255,795
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Interest	$	3,074	$	3,483
Income taxes, net of refund		40,061		63,415
Summary of acquisition transactions:				
Fair value of net tangible assets (liabilities) acquired	$	(8,053)	$	1,069
Fair value of intangible assets acquired		18,204		5,076
Fair value of goodwill		26,130		11,290
Less: Fair value of contingent liability payable		(5,235)		(1,725)
Less: Fair value of working capital settlement payable		(939)		-
Cash paid for acquisition		30,107		15,710
Cash acquired		(2,038)		(1,224)
Net cash used	$	28,069	$	14,486

See notes to condensed consolidated financial statements (unaudited).

CERNER CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) Interim Statement Presentation

The condensed consolidated financial statements included herein have been prepared by Cerner Corporation (the Company) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in our latest annual report on Form 10-K.

In our opinion, the accompanying unaudited condensed consolidated financial statements include all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position and the results of operations and cash flows for the periods presented. Our interim results as presented in this Form 10-Q are not necessarily indicative of the operating results for the entire year.

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

Our second fiscal quarter ends on the Saturday closest to June 30. The 2011 and 2010 second quarters ended on July 2, 2011 and July 3, 2010, respectively. All references to years in these notes to condensed consolidated financial statements represent the three or six months ended of the second fiscal quarter, respectively, unless otherwise noted.

Stock Split

On May 27, 2011, the Board of Directors of the Company approved a two-for-one split of our common stock in the form of a one hundred percent (100%) stock dividend, which was distributed on June 24, 2011 to shareholders of record as of June 15, 2011. In connection with the stock split, 790,000 treasury shares previously reflected in the consolidated balance sheets were utilized to settle a portion of the distribution. All share and per share data have been retroactively adjusted for all periods presented to reflect the stock split including the use of treasury shares, as if the stock split had occurred at the beginning of the earliest period presented.

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

Recently Adopted Accounting Pronouncements

ASU 2009-13. In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2009-13 Multiple-Deliverable Revenue Arrangements (ASU 2009-13). ASU 2009-13 requires a vendor to allocate revenue to each unit of accounting in many arrangements involving multiple deliverables based on the relative selling price of each deliverable. It also changes the level of evidence of standalone selling price required to separate deliverables by allowing a vendor to make its best estimate of the standalone selling price of deliverables when more objective evidence of selling price is not available.

We adopted ASU 2009-13 for all new and materially modified arrangements on a prospective basis beginning January 2, 2011. We have reviewed the primary accounting literature related to the elements that typically get bundled into our arrangements and determined that the majority of the elements fall in to two different accounting units. One unit is comprised of software and software-related elements which include our licensed software, licensed software support, application services provider, subscriptions, professional services, remote hosting, sublicensed software and sublicensed software support. The second unit of accounting is non-software elements, which include hardware and hardware maintenance.

The majority of our multiple-element arrangements do not contain both software and non-software deliverables such as hardware and thus are not impacted by the new guidance. For our arrangements that are impacted by ASU 2009-

13, we determined fair value based upon vendor-specific objective evidence (VSOE), if it existed, and in instances where VSOE did not exist (primarily for our Licensed Software), we determined fair value based upon the estimated selling price concept. The application of this concept relies primarily on historical pricing and management guidance for similarly sized arrangements.

The adoption of ASU 2009-13 did not result in a material change in the timing of revenue recognition due to the small number of arrangements executed with both software and non-software deliverables and the existence of VSOE for most of our business models.

ASU 2009-14. In October 2009, the FASB issued ASU 2009-14 Certain Revenue Arrangements That Include Software Elements (ASU 2009-14). Under ASU 2009-14, tangible products containing software components and non-software components that function together to deliver the tangible product s essential functionality are no longer within the scope of the software revenue guidance in ASC 985-605. We adopted the amendment provisions of ASU 2009-14 on January 2, 2011; the adoption of this standard did not have material impact on the timing of revenue recognition.

Recently Issued Accounting Pronouncements

ASU 2011-05. In June 2011, the FASB issued ASU 2011-05 Presentation of Comprehensive Income (ASU 2011-05). ASU 2011-05 requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in equity. ASU 2011-05 is effective for us in our first quarter of 2012 and is required to be applied retrospectively. We are currently evaluating the impact of our pending adoption of ASU 2011-05 on our consolidated financial statements, but we do not expect its adoption will have a material effect on our consolidated financial statements.

(2) Acquisitions

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

Consideration for the acquisition of Resource Systems is expected to total $36.3 million consisting of up-front cash plus additional contingent consideration, which is payable if we achieve certain revenue milestones through the quarters ending June 30, 2012 and December 29, 2012 and bookings milestones through the quarters ending June 30, 2012 and June 29, 2013 from the clients acquired from Resource Systems. We valued the contingent consideration at $5.2 million based on a probability-weighted assessment of potential contingent consideration payment scenarios. The allocation of the purchase price to the estimated fair values of the identified tangible and intangible assets acquired, net of liabilities assumed, is summarized below:

(In thousands)

	Allocation Amount
Tangible assets and liabilities	
Current assets	$ 5,249
Property and equipment	209
Current liabilities	(6,803)
Deferred tax liabilities	(6,708)
Total net tangible liabilities acquired	(8,053)
Intangible assets	
Customer relationships	11,204
Existing technologies	6,401
Non-compete agreements	599

Total intangible assets acquired		18,204
Goodwill		26,130
Total purchase price	$	36,281

The fair values of the acquired intangible assets and the contingent consideration were estimated by applying the income approach. Such estimations required the use of inputs that were unobservable in the market place (Level 3), including a discount rate that we estimated would be used by a market participant in valuing these assets, projections

5

of revenues and cash flows, probability weighting factors and client attrition rates. See Note 3 for further information about the fair value level hierarchy.

The goodwill of $26.1 million arising from the acquisition consists largely of the synergies and economies of scale, including the value of the assembled workforce, expected from combining the operations of Cerner and Resource Systems. All of the goodwill was allocated to our Domestic operating segment and is not expected to be deductible for tax purposes. The other identifiable intangible assets are being amortized over five years. The operating results of Resource Systems were combined with our operating results subsequent to the purchase date of May 23, 2011. Pro-forma results of operations, assuming this acquisition was made at the beginning of the earliest period presented, have not been presented because the effect of this acquisition was not material to our results.

(3) Fair Value Measurements

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

Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2 Valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.

Level 3 Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table details our financial assets measured at fair value within the fair value hierarchy:

(In thousands)		July 2, 2011			January 1, 2011		
	Balance Sheet	Fair Value Measurements Using			Fair Value Measurements Using		
Description	Classification	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Money market funds	Cash equivalents	$ 48,060	$ -	$ -	$ 44,237	$ -	$ -
Time deposits	Cash equivalents	-	6,686	-	-	-	-
Time deposits	Short-term investments	-	56,591	-	-	41,764	-
Commercial paper	Short-term investments	-	44,800	-	-	44,500	-
Government and corporate bonds	Short-term investments	-	366,575	-	-	251,787	-
Auction rate securities	Short-term investments	-	-	-	-	18,450	-
Government and corporate bonds	Long-term investments	-	329,990	-	-	264,467	-

We classify our long-term, fixed rate debt as a long-term liability on the balance sheet and estimate the fair value using a Level 3 discounted cash flow analysis based on our current borrowing rates for debt with similar maturities. The fair value of our long-term debt, including current maturities, was approximately $101.8 million at July 2, 2011.

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(4) Receivables

Receivables consist primarily of accounts receivable and contracts receivable. Accounts receivable represent recorded revenues that have been billed. Contracts receivable represent recorded revenues that are billable by us at future dates under the terms of a contract with a client. Billings and other consideration received on contracts in excess of related revenues recognized are recorded as deferred revenue. Substantially all receivables are derived from sales and related support and maintenance and professional services of our clinical, administrative and financial information systems and solutions to health care providers located throughout the United States and in certain non-U.S. countries.

We perform ongoing credit evaluations of our clients and generally do not require collateral from our clients. We provide an allowance for estimated uncollectible accounts based on specific identification, historical experience and our judgment. Provisions for losses on uncollectible accounts for the first six months of 2011 and 2010 totaled $4.0 million and $6.0 million, respectively. A summary of net receivables is as follows:

(In thousands)	July 2, 2011	January 1, 2011
Gross accounts receivable	$ 365,192	$ 352,554
Less: Allowance for doubtful accounts	18,751	15,550
Accounts receivable, net of allowance	346,441	337,004
Contracts receivable	157,849	139,901
Total receivables, net	$ 504,290	$ 476,905

During the second quarter of 2008, Fujitsu Services Limited s (Fujitsu) contract as the prime contractor in the National Health Service (NHS) initiative to automate clinical processes and digitize medical records in the Southern region of England was terminated by the NHS. This had the effect of automatically terminating our subcontract for the project. We are in dispute with Fujitsu regarding Fujitsu s obligation to pay the amounts comprised of accounts receivable and contracts receivable related to that subcontract, and we are working with Fujitsu to resolve these issues based on processes provided for in the contract. Part of that process requires resolution of disputes between Fujitsu and the NHS regarding the contract termination. As of July 2, 2011, it remains unlikely that the matter will be resolved in the next 12 months. Therefore these receivables have been classified as long-term and represent the significant majority of other long-term assets as of the second quarter ended July 2, 2011. While the ultimate collectability of the receivables pursuant to this process is uncertain, we believe that we have valid and equitable grounds for recovery of such amounts and that collection of recorded amounts is probable.

During the first six months of 2011 and 2010, we received total client cash collections of $1.0 billion and $930.7 million, respectively, of which $35.1 million and $25.3 million were received from third party arrangements with non-recourse payment assignments.

(5) Income Taxes

We determine the tax provision for interim periods using an estimate of our annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter we update our estimate of the annual effective tax rate, and if our estimated tax rate changes we make a cumulative adjustment. We classify interest and penalties associated with unrecognized tax benefits as income tax expense in our Condensed Consolidated Statements of Operations.

Our effective tax rate was 33.9% and 35.4% for the first six months of 2011 and 2010, respectively. This decrease was primarily due to the research and development tax credit being in effect for the first six months of 2011 while it was not effective for the first six months of 2010 and a favorable foreign tax audit settlement during the first quarter of 2011.

During the first quarter of 2010, the Internal Revenue Service commenced its examination of the 2008 and 2009 income tax returns. We do not believe this examination will have a material effect on our financial position, results of operations or liquidity.

As of the end of the second quarter of 2011, we do not anticipate any settlements of the aforementioned matter or any of our remaining unrecognized tax benefits within the next 12 months.

Table of Contents

(6) Earnings Per Share

Basic earnings per share (EPS) excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in our earnings. A reconciliation of the numerators and the denominators of the basic and diluted per share computations are as follows:

	Three Months Ended								
	2011				2010				
(In thousands, except per share data)	Earnings (Numerator)	Shares (Denominator)	Per-Share Amount		Earnings (Numerator)	Shares (Denominator)	Per Ar		
Basic earnings per share:									
Income available to common shareholders	$	72,044	168,299	$	0.43	$	55,477	164,669	$
Effect of dilutive securities:									
Stock options and non-vested restricted stock		-	5,292				-	6,004	
Diluted earnings per share:									
Income available to common shareholders including assumed conversions	$	72,044	173,591	$	0.42	$	55,477	170,673	$

Options to purchase 2.2 million and 1.2 million shares of common stock at per share prices ranging from $38.99 to $60.62 and $29.11 to $43.35 were outstanding at July 2, 2011 and July 3, 2010, respectively, but were not included in the computation of diluted earnings per share because the options were anti-dilutive. In addition, the computation of diluted earnings per share does not include 0.2 million performance based non-vested stock awards outstanding as of July 2, 2011, as all necessary conditions of such contingently issuable shares have not been satisfied.

	Six Months Ended								
	2011				2010				
(In thousands, except per share data)	Earnings (Numerator)	Shares (Denominator)	Per-Share Amount		Earnings (Numerator)	Shares (Denominator)	F		
Basic earnings per share:									
Income available to common shareholders	$	136,600	167,706	$	0.81	$	105,763	164,291	$
Effect of dilutive securities:									
Stock options and non-vested restricted stock		-	5,422				-	6,156	
Diluted earnings per share:									
Income available to common shareholders including assumed conversions	$	136,600	173,128	$	0.79	$	105,763	170,447	$

Options to purchase 1.8 million and 0.8 million shares of common stock at per share prices ranging from $38.06 to $60.62 and $29.11 to $43.35 were outstanding for the six months ended July 2, 3011 and July 3, 2010, respectively, but were not included in the computation of diluted earnings per share because the options were anti-dilutive. In addition, the computation of diluted earnings per share does not include 0.2 million performance based non-vested stock awards outstanding as of July 2, 2011, as all necessary conditions of such contingently issuable shares have not been satisfied.

(7) Share-Based Compensation

On March 11, 2011, approximately 208,000 stock options were granted to executive officers and other executive level associates under our Long-Term Incentive Plan F. These awards will vest 40% on March 11, 2013, and 20% will vest on March 11, 2014, 2015 and 2016. The fair value of each of these awards was $25.72 per award. Total compensation expense related to these awards is $5.3 million, which is expected to be recognized over a period of 5 years.

On March 11, 2011, we granted approximately 120,000 shares of performance-based non-vested restricted stock to certain executive officers, pursuant to our Long-Term Incentive Plan F. The fair value of each of these awards was $51.60 based on the closing price of our common stock on the date of grant. These awards are scheduled to vest 10% on June 1, 2012 and 2013 and the remaining 80% on June 1, 2014, contingent upon the objective performance metric of a relative adjusted GAAP earnings growth percentage over 2010 for each respective year. These performance awards are also subject to reduction based on an annual subjective performance assessment related to individual performance and performance goal attainment, as defined in the award agreements. The amount of compensation expense recognized is based on management s estimate of the most likely

outcome and will be reassessed at each reporting date through the final vesting date, which may result in adjustments to compensation cost. On May 13, 2011, approximately 33% of the above performance-based awards were forfeited due to the resignation of an executive officer. Based on a current period vesting probability assessment, total compensation cost related to the remaining awards is $4.1 million and is expected to be recognized over a period of 3 years.

On May 3, 2011, approximately 876,000 stock options were granted to executive level associates under our Long-Term Incentive Plan F and Long-Term Incentive Plan G. These awards will vest 40% on May 3, 2013, and 20% will vest on May 3, 2014, 2015 and 2016. The weighted average fair value of each of these awards was $29.38 per award. Total compensation expense related to these awards is $25.7 million, which is expected to be recognized over a period of 5 years.

On May 27, 2011, we granted approximately 22,400 shares of non-vested restricted stock to our board members under our 2011 Omnibus Equity Incentive Plan. The fair value of each of these awards was $60.14 based on the closing price of our common stock on the date of grant. The majority of these awards are scheduled to vest 100% on May 17, 2012. Total compensation expense related to these awards is $1.3 million, which is expected to be recognized over a one-year period.

The following table presents the total compensation expense recognized in the condensed consolidated statements of operations with respect to stock options, non-vested restricted shares and Associate Stock Purchase Plan shares:

	Three Months Ended		Six Months Ended	
(In thousands)	2011	2010	2011	2010
Stock option and non-vested restricted share compensation expense	$ 6,187	$ 5,656	$ 13,131	$ 10,806
Associate stock purchase plan expense	566	404	1,048	805
Amounts capitalized in software development costs, net of amortization	(185)	(214)	(250)	(258)
Amounts charged against earnings, before income tax benefit	$ 6,568	$ 5,846	$ 13,929	$ 11,353
Amount of related income tax benefit recognized in earnings	$ 2,502	$ 2,178	$ 5,307	$ 4,229

As of July 2, 2011, there was $72.5 million of total unrecognized compensation cost related to stock options granted under all plans. That cost is expected to be recognized over a weighted-average period of 3.34 years.

(8) Comprehensive Income

Total comprehensive income, which includes net earnings, foreign currency translation adjustments and gains and losses from a hedge of our net investment in the United Kingdom (U.K.), amounted to $76.2 million and $43.5 million for the three months ended July 2, 2011 and July 3, 2010, respectively, and $152.5 and $87.1 million for the six months ended July 2, 2011 and July 3, 2010, respectively. None of the items within comprehensive income, including net earnings, relate to non-controlling interests.

As of July 2, 2011, we designated all of our Great Britain Pound (GBP) denominated long-term debt as a net investment hedge of our U.K. operations. The objective of the hedge is to reduce our foreign currency exposure in the U.K. subsidiary investment. Changes in the exchange rate between the United States Dollar (USD) and GBP, related

to the notional amount of the hedge, are recognized as a component of accumulated other comprehensive income (loss), to the extent the hedge is effective.

The following tables represent the fair value of the net investment hedge included within the Condensed Consolidated Balance Sheets and the related unrealized gain or loss, net of related income tax effects:

(In thousands)

	Balance Sheet Classification	Fair Value July 2, 2011	January 1, 2011
Net investment hedge	Short-term (S/T) liabilities	$ 14,928	$ 14,488
Net investment hedge	Long-term (L/T) liabilities	59,711	57,950
Total net investment hedge		$ 74,639	$ 72,438

(In thousands)

	Net Unrealized Gain (Loss) For the Three Months Ended 2011	2010	Net Unrealized Gain (Loss) For the Six Months Ended 2011	2010
Net investment hedge S/T	$ (20)	$ 3	$ 272	$ 565
Net investment hedge L/T	(78)	18	1,090	2,826
Total net investment hedge	$ (98)	$ 21	$ 1,362	$ 3,391

We recognize foreign currency transaction gains and losses within the Condensed Consolidated Statements of Operations as a component of general and administrative expenses. We realized a foreign currency gain of $0.1 million and $0.7 million during the three months ended July 2, 2011 and July 3, 2010, respectively, and a nominal loss during the six months ended July 2, 2011 and a gain of $0.6 million for the six months ended July 3, 2010.

(9) Contingencies

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

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

(10) Segment Reporting

We have two operating segments, Domestic and Global. Revenues are derived primarily from the sale of clinical, financial and administrative information systems and solutions. The cost of revenues includes the cost of third party consulting services, computer hardware, devices and sublicensed software purchased from manufacturers for delivery to clients. It also includes the cost of hardware maintenance and sublicensed software support subcontracted to the manufacturers. Operating expenses incurred by the geographic business segments consist of sales and client service expenses including salaries of sales and client service personnel, communications expenses and unreimbursed travel expenses. Performance of the segments is assessed at the operating earnings level and, therefore, the segment operations have been presented as such. Other includes revenues not generated by the operating segments and

expenses that have not been allocated to the operating segments, such as software development, marketing, general and administrative, share-based compensation expense and depreciation. We manage our operating segments to the operating earnings level. Items such as interest, income taxes, capital expenditures and total assets are managed at the consolidated level and thus are not included in our operating segment disclosures.

Accounting policies for each of the reportable segments are the same as those used on a consolidated basis. The following table presents a summary of the operating information for the three and six months ended July 2, 2011 and July 3, 2010.

Table of Contents

(In thousands)	Operating Segments Domestic	Global	Other	Total
Three months ended 2011				
Revenues	$ 450,254	$ 73,969	$	$ 524,223
Cost of revenues	87,413	11,069		98,482
Operating expenses	106,126	31,671	179,971	317,768
Total costs and expenses	193,539	42,740	179,971	416,250
Operating earnings (loss)	$ 256,715	$ 31,229	$ (179,971)	$ 107,973

(In thousands)	Operating Segments Domestic	Global	Other	Total
Three months ended 2010				
Revenues	$ 381,017	$ 74,984	$	$ 456,001
Cost of revenues	64,149	14,062		78,211
Operating expenses	104,335	34,382	152,721	291,438
Total costs and expenses	168,484	48,444	152,721	369,649
Operating earnings (loss)	$ 212,533	$ 26,540	$ (152,721)	$ 86,352

(In thousands)	Operating Segments Domestic	Global	Other	Total
Six months ended 2011				
Revenues	$ 871,244	$ 144,643	$	$ 1,015,887
Cost of revenues	165,338	23,824		189,162
Operating expenses	211,475	60,770	352,808	625,053
Total costs and expenses	376,813	84,594	352,808	814,215
Operating earnings (loss)	$ 494,431	$ 60,049	$ (352,808)	$ 201,672

(In thousands)	Operating Segments Domestic	Global	Other	Total
Six months ended 2010				

Revenues	$	736,332	$	151,006	$		$	887,338
Cost of revenues		125,390		20,905				146,295
Operating expenses		209,058		64,095		305,882		579,035
Total costs and expenses		334,448		85,000		305,882		725,330
Operating earnings (loss)	$	401,884	$	66,006	$	(305,882)	$	162,008

11

Item 2. 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 the results of operations and financial condition of Cerner Corporation (Cerner, the Company, we, us or our). This MD&A is provided as a supplement to, and should be read in conjunction with, our condensed consolidated financial statements and the accompanying notes to the financial statements (Notes) found above.

Our second fiscal quarter ends on the Saturday closest to June 30. The 2011 and 2010 second quarters ended on July 2, 2011 and July 3, 2010, respectively. All references to years in the MD&A represent the respective three or six months ended of the second fiscal quarters, unless otherwise noted.

On May 27, 2011, the Board of Directors of the Company approved a two-for-one split of our common stock in the form of a one hundred percent (100%) stock dividend, which was distributed on June 24, 2011 to shareholders of record as of June 15, 2011. In connection with the stock split, 790,000 treasury shares previously reflected in the consolidated balance sheets were utilized to settle a portion of the distribution. All share and per share data have been retroactively adjusted for all periods presented to reflect the stock split including the use of treasury shares, as if the stock split had occurred at the beginning of the earliest period presented.

Except for the historical information and discussions contained herein, statements contained in this Form 10-Q may constitute forward looking statements within the meaning of Section 21E of the Securities and Exchange Act of 1934, as amended (the Act). Forward-looking statements can often be identified by the use of forward-looking terminology, such as could, should, will, intended, continue, believe, may, expect, hope, anticipate, goal, estimate or the negative of these words, variations thereof or similar expressions. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, including: the possibility of product-related liabilities; potential claims for system errors and warranties; the possibility of interruption at our data centers or client support facilities; 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; risks associated with our non-U.S. operations; risks associated with our ability to effectively hedge exposure to fluctuations in foreign currency exchange rates; the potential for tax legislation initiatives that could adversely affect our tax position and/or challenges to our tax positions in the United States and non-U.S. countries; risks associated with our recruitment and retention of key personnel; risks related to our reliance on third party suppliers; risks inherent with business acquisitions; the potential for losses resulting from asset impairment charges; risks associated with the ongoing adverse financial market environment and uncertainty in global economic conditions; changing political, economic and regulatory influences; government regulation; significant competition and market changes; variations in our quarterly operating results; potential inconsistencies in our sales forecasts compared to actual sales; volatility in the trading price of our common stock; the authority of our Board of Directors to issue preferred stock and anti-takeover provisions contained in our corporate governance documents; and, other risks, uncertainties and factors discussed elsewhere in this Form 10-Q, in our other filings with the Securities and Exchange Commission or in materials incorporated therein by reference. Forward looking statements are not guarantees of future performance or results. 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.

Management Overview

Our revenues are primarily derived by selling, implementing and supporting software solutions, clinical content, hardware, health care devices and services that give health care providers secure access to clinical, administrative and financial data in real time, allowing them to improve the quality, safety and efficiency in the delivery of health care. We implement the health care solutions as stand-alone, combined or enterprise-wide systems. *Cerner Millennium*® software solutions can be managed by our clients or in our data centers via a managed services model.

Our fundamental strategy centers on creating organic growth by investing in research and development (R&D) to create solutions and services for the health care industry. This strategy has driven strong growth over the long-term, as reflected in five- and ten-year compound annual revenue growth rates of 10% or more. This growth has also created an important strategic footprint in health care, with *Cerner*® solutions licensed by approximately 9,000 facilities around the world, including more than 2,600 hospitals; 3,500 physician practices covering more than 30,000 physicians; 500 ambulatory facilities, such as laboratories, ambulatory centers, cardiac facilities, radiology clinics and surgery centers; 800 home health facilities; and 1,600 retail pharmacies. Selling additional solutions back into this client base is an important element of our future revenue growth. We are also focused on driving growth through market share expansion by strategically aligning with health care providers who have not yet selected a supplier and by displacing competitors in health care settings that are looking to replace their current health care information technology (HCIT) partners.

We expect to drive growth through new initiatives and services that reflect our ongoing ability to innovate and expand our reach into health care. Examples of these include our *CareAware*® health care device architecture and devices, *Cerner* Health*e* employer services, *Cerner ITWorks*SM services, *Cerner RevWorks*SM services, physician practice solutions and solutions and services for the pharmaceutical market. Finally, we are focused on selling our solutions and services outside the United States. Many non-U.S. markets have a low penetration of HCIT solutions and their governing bodies are in many cases focused on HCIT 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 more than 20% compound annual rates over the most recent five- and ten-year periods. We believe we can continue driving strong levels of earnings growth and leverage key areas to create operating margin expansion. The primary areas of opportunity for margin expansion include:

- becoming more efficient at implementing our software by leveraging implementation tools and methodologies we have developed that can reduce the amount of effort required to implement our software;
- leveraging our investments in R&D by entering new markets that do not require significant incremental R&D but can contribute significantly to revenue growth; and
- leveraging our scalable business infrastructure to reduce the rate of increase in general and administrative spending to below our revenue growth rate.

We are also focused on increasing cash flow by growing earnings, reducing the use of working capital and controlling capital expenditures.

The Health Care and Health Care IT Industry

We believe there are several factors that are favorable for the HCIT industry over the next decade, despite some lingering weakness in the global economy. Because HCIT solutions play an important role in health care by improving safety, efficiency and reducing cost, they are often viewed as more strategic than other capital purchases. Most United States health care providers also recognize that they must invest in HCIT to meet regulatory, compliance and government reimbursement requirements and incentive opportunities. In addition, with the Centers for Medicare and Medicaid Services estimating United States health care spending at $2.6 trillion or 17.5 percent of 2010 Gross Domestic Product, politicians and policymakers agree that the growing cost of our health care system is unsustainable. Leaders of both political parties recognize that the intelligent use of information systems will improve health outcomes and, correspondingly, drive down costs. This belief is supported by a 2005 study by RAND Corp., which estimated that the widespread adoption of HCIT in the United States could cut health care costs by $162 billion annually.

The broad recognition that HCIT is essential to helping control health care costs and improving quality contributed to the inclusion of HCIT incentives in the American Recovery and Reinvestment Act of 2009 (ARRA). The Health Information Technology for Economic and Clinical Health (HITECH) provisions within ARRA include more than $35 billion in incentives for health care organizations to modernize operations through meaningful use of HCIT. These incentives are contributing to increased demand for HCIT solutions and services in the United States.

13

Table of Contents

Another element in the United States marketplace is the health care reform legislation that passed in 2010. We believe the legislation, which promises to drive insurance coverage to an estimated 32 million additional consumers, could have many second order effects on our clients. For example, health care providers may face increased volumes that could create capacity constraints, and they may find it challenging to profitably provide care at the planned reimbursement rates under the expanded coverage models. We also expect additional compliance and reporting challenges for our clients in the areas of pay-for-quality, ICD-10 coding requirements, and waste, fraud and abuse measures.

We believe the above factors create strong incentives for providers to maximize efficiency and create the need for additional investments in HCIT solutions and services. Cerner is well positioned to benefit from this expected increase in demand due to our large footprint in United States hospitals and physician practices and our proven ability to deliver value to our clients.

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

In summary, while the current economic environment has impacted our business, we believe the fundamental value proposition of HCIT remains strong. The HCIT industry will likely benefit as health care providers and governments continue to recognize that these solutions and services contribute to safer, more efficient health care.

Results Overview

The Company delivered strong levels of bookings, revenues, earnings and cash flows in the second quarter of 2011. New business bookings revenue, which reflects the value of executed contracts for software, hardware and professional services and managed services, was $649.9 million in the second quarter of 2011, which was an increase of 39% compared to $467.8 million in the second quarter of 2010. Revenues for the second quarter of 2011 increased 15% to $524.2 million compared to $456.0 million in the year-ago quarter. The year-over-year increase in revenue reflects improved economic conditions and demand driven by the United States stimulus incentives related to HCIT. As discussed above in the Health Care and Health Care IT Industry , we believe the HITECH incentives and the nation s focus on improving the efficiency and quality of health care will create a period of increased HCIT demand in the United States.

Second quarter 2011 net earnings increased 30% to $72.0 million compared to $55.5 million in the second quarter of 2010. Diluted earnings per share increased 27% to $0.42 compared to $0.33 in the second quarter of 2010. Second quarter 2011 and 2010 net earnings and diluted earnings per share reflect the impact of accounting for stock-based compensation using the fair value method to measure and record expense for stock options, pursuant to Accounting Standards Codification (ASC), 718, *Stock Compensation*. The effect of these expenses reduced the second quarter 2011 net earnings and diluted earnings per share by $4.1 million and $0.02, respectively, and second quarter 2010 net earnings and diluted earnings per share by $3.7 million and $0.02, respectively.

The growth in net earnings and diluted earnings per share was driven primarily by strong revenue growth and continued progress with our margin expansion initiatives, particularly leveraging R&D investments and controlling selling, general and administrative expenses. Our second quarter 2011 operating margin was 20.6%, which is 170 basis points higher than the year-ago quarter.

We had strong cash collections of receivables of $509.0 million in the second quarter of 2011 compared to $447.0 million in the second quarter of 2010. Days sales outstanding was 88 days in the second quarter of 2011 compared to 87 days in the first quarter of 2011 and 88 days in the second quarter of 2010. Operating cash flows for the second quarter of 2011 were strong at $122.1 million compared to $110.2 million in the second quarter of 2010.

Table of Contents

Results of Operations

Three Months Ended July 2, 2011 Compared to Three Months Ended July 3, 2010

The following table presents a summary of the operating information for the second quarters of 2011 and 2010:

(In thousands)	**2011**	*% of Revenue*	**2010**	*% of Revenue*	% Change
Revenues					
System sales	$ 157,145	*30%*	$ 135,902	*30%*	16%
Support and maintenance	138,180	*26%*	127,999	*28%*	8%
Services	217,150	*42%*	183,576	*40%*	18%
Reimbursed travel	11,748	*2%*	8,524	*2%*	38%
Total revenues	524,223	*100%*	456,001	*100%*	15%
Costs of revenue					
Costs of revenue	98,482	*19%*	78,211	*17%*	26%
Total margin	*425,741*	*81%*	*377,790*	*83%*	*13%*
Operating expenses					
Sales and client service	210,213	*40%*	190,030	*42%*	11%
Software development	69,790	*14%*	67,988	*15%*	3%
General and administrative	37,765	*7%*	33,420	*7%*	13%
Total operating expenses	317,768	*61%*	291,438	*64%*	9%
Total costs and expenses	416,250	*79%*	369,649	*81%*	13%
Operating earnings	107,973	*20.6%*	86,352	*18.9%*	25%
Interest income (expense), net	2,875		421		
Other income (expense), net	5		(495)		
Income taxes	(38,809)		(30,801)		
Net earnings	$ 72,044		$ 55,477		30%

Revenues & Backlog

Revenues increased 15% to $524.2 million for the second quarter 2011 from $456.0 million for the same period in 2010.

System sales, which include revenues from the sale of software, technology resale (hardware and sublicensed software), deployment period licensed software upgrade rights, installation fees, transaction processing and subscriptions, increased 16% to $157.1 million for the second quarter of 2011 from $135.9 million for the same period in 2010. The increase in system sales was driven by a strong increase in licensed software and

subscriptions.

Support and maintenance revenues increased 8% to $138.2 million during the second quarter of 2011 from $128.0 million during the same period in 2010. This increase was attributable to continued success at selling *Cerner Millennium* applications, implementing them at client sites and initiating billing for support and maintenance fees. We expect support and maintenance revenues will continue to grow as the base of installed *Cerner Millennium* systems grow.

Services revenue, which includes professional services excluding installation, and managed services, increased 18% to $217.2 million from $183.6 million for the same period in 2010. This increase was driven by growth in *CernerWorks*[SM] managed services as a result of continued demand for our hosting services and an increase in professional services due to increased implementation activities.

Contract backlog, which reflects new business bookings that have not yet been recognized as revenue, increased 23% in the second quarter of 2011 compared to the same period in 2010. This increase was driven by growth in new business bookings during the past four quarters, including continued strong levels of managed services and Cerner *ITWorks* services bookings that typically have longer contract terms. A summary of our total backlog follows:

(In thousands)	July 2, 2011	July 3, 2010
Contract backlog	$ 4,736,253	$ 3,847,337
Support and maintenance backlog	678,626	636,699
Total backlog	$ 5,414,879	$ 4,484,036

Costs of Revenue

Cost of revenues was 19% of total revenues in the second quarter of 2011, compared to 17% in the same period of 2010. The higher cost of revenues as a percent of revenue was primarily driven by lower margin on technology resale, which was due to a higher mix of medical device resale with lower than historical levels of margin, and a slightly higher level of third party consulting costs. The cost of revenues includes the cost of reimbursed travel expense, third party consulting services and subscription content, 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. Costs 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 9% to $317.8 million in the second quarter of 2011, compared with $291.4 million for the same period in 2010.

Sales and client service expenses as a percent of total revenues were 40% in the second quarter of 2011, compared to 42% in the same period of 2010. These expenses increased 11% to $210.2 million in the second quarter of 2011, from $190.0 million in the same period of 2010. Sales and client service expenses include salaries of sales and client service personnel, depreciation and other expenses associated with our *CernerWorks* managed service business, communications expenses, unreimbursed travel expenses, expense for share-based payments, sales and marketing salaries and trade show and advertising costs. The increase was primarily attributable to growth in managed services and professional services.

Software development expenses as a percent of revenue were 14% in the second quarter of 2011, compared to 15% in the same period of 2010. These expenses increased 3% to $69.8 million in the second quarter of 2011, from $68.0 million in the same period of 2010. Expenditures for software development in the second quarter of 2011 reflect continued development and enhancement of the *Cerner Millennium* platform and software solutions and investments in new growth initiatives. Although these expenses increased in the second quarter of 2011, the reduction as a percentage of revenue reflects our ongoing efforts to control spending relative to revenue growth. Because of the strong platform we have built, we are able to continue advancing our solutions and investing in new solutions without large increases in spending. A summary of our total software development expense in the second quarters of 2011 and 2010 is as follows:

	Three Months Ended	
(In thousands)	2011	2010
Software development costs	$ 70,469	$ 72,299
Capitalized software costs	(20,174)	(20,321)
Capitalized costs related to share-based payments	(415)	(411)
Amortization of capitalized software costs	19,910	16,421

Total software development expense	$	69,790	$	67,988

General and administrative expenses as a percent of total revenues were 7%, in the second quarter of 2011 and 2010. These expenses increased 13% to $37.8 million in the second quarter of 2011, from $33.4 million for the same period in 2010. General and administrative expenses include salaries for corporate, financial and administrative staffs, utilities, communications expenses, professional fees, transaction gains or losses on foreign currency and expense for share based payments. The increase in general and administrative expenses was driven primarily by corporate personnel costs and reduced foreign currency gains.

Non-Operating Items

Net interest income was $2.9 million in the second quarter of 2011 compared to net interest income of $0.4 million in the second quarter of 2010. Interest income increased to $3.9 million in the second quarter of 2011 from $2.1 million for the same period in 2010 due primarily to growth in investments and an increase in investment returns. Interest expense decreased to $1.0 million in the second quarter of 2011 from $1.7 million for the same period in 2010, due to payments on our long-term debt.

Other income was insignificant in the second quarter of 2011, compared to other expense of $0.5 million for the same period in 2010. Other income and expense in the second quarter of 2010 included offsetting unrealized gains and losses included in earnings related to our auction rate securities and put-like settlement of $4.4 million.

Our effective tax rate was 35.0% for the second quarter of 2011 and 35.7% for the second quarter of 2010. This decrease was primarily due to the research and development tax credit being in effect for the second quarter of 2011 while it was not effective for the second quarter of 2010.

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, Belgium, Canada, Cayman Islands, Chile, China (Hong Kong), Egypt, England, France, Germany, India, Ireland, Malaysia, Puerto Rico, Qatar, Saudi Arabia, Singapore, Spain, Sweden, Switzerland and the United Arab Emirates.

The following table presents a summary of the operating information for the second quarters of 2011 and 2010:

(In thousands)	**2011**	*% of Revenue*	**2010**	*% of Revenue*	% Change
Domestic Segment					
Revenues	$ 450,254	*100%*	$ 381,017	*100%*	18%
Costs of revenue	87,413	*19%*	64,149	*17%*	36%
Operating expenses	106,126	*24%*	104,335	*27%*	2%
Total costs and expenses	193,539	*43%*	168,484	*44%*	15%
Domestic operating earnings	256,715	*57%*	212,533	*56%*	21%

Global Segment					
Revenues	73,969	*100%*	74,984	*100%*	-1%
Costs of revenue	11,069	*15%*	14,062	*19%*	-21%
Operating expenses	31,671	*43%*	34,382	*46%*	-8%
Total costs and expenses	42,740	*58%*	48,444	*65%*	-12%
Global operating earnings	31,229	*42%*	26,540	*35%*	18%
Other, net	(179,971)		(152,721)		18%
Consolidated operating earnings	$ 107,973		$ 86,352		25%

17

Table of Contents

Domestic Segment

Revenues increased 18% to $450.3 million in the second quarter of 2011 from $381.0 million in the same period in 2010. This increase was driven by growth across all business models, with particular strength in managed services and professional services.

Cost of revenues was 19% of revenues in the second quarter of 2011, compared to 17% of revenues in the same period in 2010. The higher cost of revenues as a percent of revenue was primarily driven by lower margin on technology resale, which was due to a higher mix of medical device resale with lower than historical levels of margin, and a slightly higher level of third party consulting costs.

Operating expenses increased 2% to $106.1 million in the second quarter of 2011, from $104.3 million in the same period in 2010, due primarily to growth in managed services and professional services expenses.

Global Segment

Revenues decreased 1% to $74.0 million in the second quarter of 2011 from $75.0 million in the same period in 2010. Overall, declines in technology resale revenue were partially offset by an increase in licensed software and support services revenue.

Cost of revenues was 15% of revenues in the second quarter of 2011, compared with 19% in the same period of 2010. The lower cost of revenues in 2011 was primarily driven by the decline in technology resale, which carries a higher cost of revenue.

Operating expenses decreased 8% to $31.7 million for the second quarter of 2011, from $34.4 million in the same period in 2010, primarily due to a decrease in personnel-related professional services expense.

Other, net

Operating results not attributed to an operating segment include expenses, such as software development, marketing, general and administrative, stock-based compensation and depreciation. These expenses increased 18% to $180.0 million in the second quarter of 2011 from $152.7 million in the same period in 2010. This increase was primarily due to growth in corporate personnel and software development costs.

Table of Contents

Six Months Ended July 2, 2011 Compared to Six Months Ended July 3, 2010

The following table presents a summary of the operating information for the first six months of 2011 and 2010:

(In thousands)	**2011**	*% of Revenue*	**2010**	*% of Revenue*	% Change
Revenues					
System sales	$ 297,524	*29%*	$ 252,853	*28%*	18%
Support and maintenance	270,007	*27%*	255,105	*29%*	6%
Services	426,317	*42%*	363,515	*41%*	17%
Reimbursed travel	22,039	*2%*	15,865	*2%*	39%
Total revenues	1,015,887	*100%*	887,338	*100%*	14%
Costs of revenue					
Costs of revenue	189,162	*19%*	146,295	*16%*	29%
Total margin	*826,725*	*81%*	*741,043*	*84%*	*12%*
Operating expenses					
Sales and client service	411,561	*41%*	377,623	*43%*	9%
Software development	140,934	*14%*	134,767	*15%*	5%
General and administrative	72,558	*7%*	66,645	*8%*	9%
Total operating expenses	625,053	*62%*	579,035	*65%*	8%
Total costs and expenses	814,215	*80%*	725,330	*82%*	12%
Operating earnings	201,672	*19.9%*	162,008	*18.3%*	24%
Interest income (expense), net	4,851		2,204		
Other income (expense), net	40		(571)		
Income taxes	(69,963)		(57,878)		
Net earnings	$ 136,600		$ 105,763		29%

Revenues & Backlog

Revenues increased 14% to $1.0 billion for the first six months of 2011 from $887.3 million for the same period in 2010.

System sales, which include revenues from the sale of software, technology resale (hardware and sublicensed software), deployment period licensed software upgrade rights, installation fees, transaction processing and subscriptions, increased 18% to $297.5 million for the first six months of 2011 from $252.9 million for the same period in 2010. The increase in system sales was driven by a strong increase in licensed software, subscriptions and technology resale.

Support and maintenance revenues increased 6% to $270.0 million during the first six months of 2011 from $255.1 million during the same period in 2010. The increase is attributable to growth in *Cerner Millennium* applications for which support billing has been initiated.

Services revenue, which includes professional services excluding installation, and managed services, increased 17% to $426.3 million from $363.5 million for the same period in 2010. This increase is driven by growth in *CernerWorks* managed services as a result of continued demand for our hosting services and an increase in professional services due to increased implementation activities.

Contract backlog, which reflects new business bookings that have not yet been recognized as revenue, increased 23% in the first six months of 2011 compared to the same period in 2010. This increase was driven by growth in new business bookings during the past four quarters, including continued strong levels of managed services bookings that typically have longer contract terms. A summary of our total backlog follows:

(In thousands)	July 2, 2011	July 3, 2010
Contract backlog	$ 4,736,253	$ 3,847,337
Support and maintenance backlog	678,626	636,699
Total backlog	$ 5,414,879	$ 4,484,036

Costs of Revenue
Cost of revenues was 19% of total revenues in the first six months of 2011, as compared to 16% in the same period of 2010. The higher cost of revenues as a percent of revenue was primarily driven by lower margin on technology resale, which was due to a higher mix of medical device resale with lower than historical levels of margin, and a slightly higher level of third party consulting costs. The cost of revenues includes the cost of reimbursed travel expense, third party consulting services and subscription content, 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. Costs 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 8% to $625.1 million in the first six months of 2011, compared with $579.0 million for the same period in 2010.

Sales and client service expenses as a percent of total revenues were 41% in the first six months of 2011, compared to 43% in the same period of 2010. These expenses increased 9% to $411.6 million in the first six months of 2011, from $377.6 million in the same period of 2010. Sales and client service expenses include salaries of sales and client service personnel, depreciation and other expenses associated with our *CernerWorks* managed service business, communications expenses, unreimbursed travel expenses, expense for share-based payments, sales and marketing salaries and trade show and advertising costs. The increase was primarily attributable to growth in the managed services business, a higher level of professional services expenses, slightly offset by a decrease in bad debt expense.

Software development expense as a percent of total revenues was 14% in the first six months of 2011, compared to 15% in the same period of 2010. These expenses increased 5% to $140.9 million in the first six months of 2011, from $134.8 million in the same period of 2010. Expenditures for software development in the first half of 2011 reflect continued development and enhancement of the *Cerner Millennium* platform and software solutions and investments in new growth initiatives. Although these expenses increased in the first six months of 2011, the reduction as a percentage of revenue reflects our ongoing efforts to control spending relative to revenue growth. Because of the strong platform we have built, we are able to continue advancing our solutions and investing in new solutions without large increases in spending. A summary of our total software development expense in the first six months of 2011 and 2010 is as follows:

	Six Months Ended	
(In thousands)	2011	2010
Software development costs	$ 143,021	$ 143,756
Capitalized software costs	(40,345)	(40,603)
Capitalized costs related to share-based payments	(710)	(645)
Amortization of capitalized software costs	38,968	32,259
Total software development expense	$ 140,934	$ 134,767

General and administrative expenses as a percent of total revenues were 7% in the first six months of 2011, compared to 8% for the same period in 2010. These expenses increased 9% to $72.6 million in the first six months of 2011, from $66.6 million for the same period in 2010. General and administrative expenses include salaries for corporate, financial and administrative staffs, utilities, communications expenses, professional fees, transaction gains or losses on foreign currency and expense for share based payments. An increase in corporate

personnel costs accounted for the majority of the overall increase in general and administrative expenses.

Table of Contents

Non-Operating Items

Net interest income was $4.9 million in the first six months of 2011 compared to net interest income of $2.2 million in the first six months of 2010. Interest income increased to $7.4 million in the first six months of 2011 from $5.8 million for the same period in 2010, due primarily to growth in investments and an increase in investment returns. Interest expense decreased to $2.5 million in the first six months of 2011 from $3.6 million for the same period in 2010, due primarily to long-term debt payments made in the fourth quarter of 2010.

Other income was insignificant in the first six months of 2011, compared to other expense of $0.6 million for the same period in 2010. Other income and expense in the first six months of 2010 includes offsetting unrealized gains and losses included in earnings related to our auction rate securities and put-like settlement feature in the amount of $5.7 million.

Our effective tax rate was 33.9% for the first six months of 2011 and 35.4% for the first six months of 2010. This decrease was primarily due to the research and development tax credit being in effect for the first six months of 2011 while it was not effective for the first six months of 2010 and a favorable foreign tax audit settlement during the first quarter.

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, Belgium, Canada, Cayman Islands, Chile, China (Hong Kong), Egypt, England, France, Germany, India, Ireland, Malaysia, Puerto Rico, Qatar, Saudi Arabia, Singapore, Spain, Sweden, Switzerland and the United Arab Emirates.

The following table presents a summary of the operating information for the first six months of 2011 and 2010:

(In thousands)	**2011**	*% of Revenue*	**2010**	*% of Revenue*	% Change
Domestic Segment					
Revenues	$ 871,244	*100%*	$ 736,332	*100%*	18%
Costs of revenue	165,338	*19%*	125,390	*17%*	32%
Operating expenses	211,475	*24%*	209,058	*28%*	1%
Total costs and expenses	376,813	*43%*	334,448	*45%*	13%
Domestic operating earnings	494,431	*57%*	401,884	*55%*	23%
Global Segment					
Revenues	144,643	*100%*	151,006	*100%*	-4%
Costs of revenue	23,824	*16%*	20,905	*14%*	14%
Operating expenses	60,770	*42%*	64,095	*42%*	-5%
Total costs and expenses	84,594	*58%*	85,000	*56%*	0%
Global operating earnings	60,049	*42%*	66,006	*44%*	-9%

Other, net	(352,808)	(305,882)	15%
Consolidated operating earnings	$ 201,672	$ 162,008	24%

Domestic Segment

Revenues increased 18% to $871.2 million in the first six months of 2011 from $736.3 million the same period in 2010. This increase was driven by growth in professional services, managed services, technology resale and licensed software.

Cost of revenues increased to 19% of revenues in the first six months of 2011, compared to 17% in the same period in 2010. The higher cost of revenues as a percent of revenue was primarily driven by lower margin on technology resale, which was due to a higher mix of medical device resale with lower than historical levels of margin, and a slightly higher level of third party consulting costs.

Table of Contents

Operating expenses increased 1% to $211.5 million in the first six months of 2011, from $209.1 million in the same period in 2010, due primarily to growth in managed services and professional services expense, offset by a decrease in bad debt expense.

Global Segment

Revenues decreased 4% to $144.6 million in the first six months of 2011 from $151.0 million in the same period in 2010. Overall, declines in licensed software, technology resale and professional service revenue were partially offset by an increase in support services and managed services revenue. The global revenue comparisons were also impacted by a change in certain contract accounting estimates during the first quarter of 2010.

Cost of revenues was 16% of revenues in the first six months of 2011, compared with 14% in the same period of 2010.

Operating expenses decreased 5% to $60.8 million for the first six months of 2011, from $64.1 million in the same period in 2010, primarily due to a decrease in personnel-related professional services expense.

Other, net

Operating results not attributed to an operating segment include expenses, such as software development, marketing, general and administrative, stock-based compensation and depreciation. These expenses increased 15% to $352.8 million in the first six months of 2011 from $305.9 million in the same period in 2010. This increase was primarily due to growth in corporate personnel and software development costs, slightly offset by lower depreciation expense.

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 amounts we invest in software development, acquisitions and capital expenditures.

Our principal sources of liquidity are our cash, cash equivalents, which consist of money market funds and time deposits, and short-term investments. At July 2, 2011, we had cash and cash equivalents of $214.1 million and short-term investments of $468.0 million compared to cash and cash equivalents of $214.5 million and short-term investments of $356.5 million at January 1, 2011. Approximately 22% of our cash, cash equivalents and short-term investments as of July 2, 2011 and January 1, 2011 were held outside of the United States.

Additionally, we maintain a $90.0 million, multi-year revolving credit facility, which provides an unsecured revolving line of credit for working capital purposes. Interest is payable at a rate based on prime or LIBOR plus a spread that varies depending on the net worth ratios maintained. The agreement provides certain restrictions on our ability to borrow, incur liens, sell assets and pay dividends and contains certain net worth, current ratio and fixed charge coverage covenants, which as of July 2, 2011, we were in compliance with. The current agreement expires on May 31, 2013. As of July 2, 2011, we had no outstanding borrowings under this agreement; however, we have $10.4 million of outstanding letters of credit, which reduced our available borrowing capacity to $79.6 million.

We believe that our present cash position, together with cash generated from operations, short-term investments and, if necessary, our available lines of credit, will be sufficient to meet anticipated cash requirements during 2011.

During the second quarter of 2008, Fujitsu Services Limited s (Fujitsu) contract as the prime contractor in the National Health Service (NHS) initiative to automate clinical processes and digitize medical records in the Southern region of England was terminated by the NHS. This had the effect of automatically terminating our subcontract for the project. We are in dispute with Fujitsu regarding Fujitsu s obligation to pay the amounts comprised of accounts receivable and contracts receivable related to that subcontract, and we are working with Fujitsu to resolve these issues based on processes provided for in the contract. Part of that process requires resolution of disputes between Fujitsu and the NHS regarding the contract termination. As of July 2, 2011, it remains unlikely that the matter will be resolved in the next 12 months. Therefore these receivables have been classified as long-term and represent the significant majority of other long-term assets as of the second quarter ended July 2, 2011. While the ultimate collectability of the receivables pursuant to this process is uncertain, we believe that we have valid and equitable grounds for recovery of such amounts and that collection of recorded amounts is probable.

The following table summarizes our cash flows in the first six months of 2011 and 2010:

(In thousands)	Six Months Ended 2011	2010
Cash flows from operating activities	$ 248,628	$ 215,741
Cash flows from investing activities	(307,576)	(223,702)
Cash flows from financing activities	55,309	27,166
Effect of exchange rate changes on cash	3,184	(5,133)
Total change in cash and cash equivalents	(455)	14,072
Cash and cash equivalents at beginning of period	214,511	241,723
Cash and cash equivalents at end of period	$ 214,056	$ 255,795
Free cash flow (non-GAAP)	$ 155,896	$ 118,482

Cash from Operating Activities

(In thousands)	Six Months Ended 2011	2010
Cash collections from clients	$ 1,040,110	$ 930,749
Cash paid to employees and suppliers and other	(748,347)	(648,110)
Cash paid for interest	(3,074)	(3,483)
Cash paid for taxes, net of refund	(40,061)	(63,415)
Total cash from operations	$ 248,628	$ 215,741

Cash flow from operations increased in the first six months of 2011 as compared to the same period of 2010 due primarily to the increase in cash impacting earnings, which was partially offset by cash provided by working capital. During the first six months of 2011 and 2010, we received total client cash collections of $1.0 billion and $930.7 million, respectively, of which 3% in each period were received from third party client financing arrangements and non-recourse payment assignments. Days sales outstanding was 88 days in the second quarter of 2011, 87 days in the fourth quarter of 2010 and 88 days in the second quarter of 2010. Revenues provided under support and maintenance agreements represent recurring cash flows. Support and maintenance revenues increased 6% in the first six months of 2011 compared to the first six months of 2010. We expect these revenues to continue to grow as the base of installed *Cerner Millennium* systems grows.

Cash from Investing Activities

Cash flows from investing activities consist primarily of cash used in acquisitions, capital spending and our short-term investment activities. Capital spending consists of capitalized equipment purchases primarily to support growth in our *CernerWorks* managed services business, capitalized land, building and improvement purchases to support our facilities requirements and capitalized spending to support our ongoing software development initiatives. Capital spending in 2011 is expected to increase from our 2010 levels; however, we also expect strong levels of free cash flow.

In addition, during the second quarter 2011, we completed our acquisition of Resource Systems for approximately $28.1 million, net of the cash acquired. During the first quarter 2010, we completed our acquisition of IMC

Healthcare, Inc. for approximately $14.5 million, net of the cash acquired.

Cash from Financing Activities

(In thousands)	Six Months Ended 2011	2010
Long-term debt repayments	$ (454)	$ (1,686)
Cash from option exercises (including excess tax benefits)	56,542	27,336
Other, net	(779)	1,516
Total cash flows from financing activities	$ 55,309	$ 27,166

Our primary financing obligations are long-term debt repayments. In the fourth quarter of 2009, we commenced payment on the first of seven equal annual installments on our 5.54% Great Britain Pound denominated Note Agreement as well as on the first of four equal annual installments on our 6.42% Series B Senior Notes. Based on current exchange rates, we expect our debt repayments related to these notes to approximate $25 million per year through 2012 and approximately $15 million per year from 2013 through 2015.

Free Cash Flow

	Three Months Ended		Six Months Ended	
(In thousands)	2011	2010	2011	2010
Cash flows from operating activities	$ 122,127	$ 110,238	$ 248,628	$ 215,741
Capital purchases	(30,305)	(23,903)	(51,677)	(56,011)
Capitalized software development costs	(20,589)	(20,732)	(41,055)	(41,248)
Free cash flow (non-GAAP)	$ 71,233	$ 65,603	$ 155,896	$ 118,482

Free cash flow increased $37.4 million in the first six months of 2011 as compared to the same period in 2010, which we believe reflects continued strengthening of our earnings quality. Free cash flow is a non-GAAP financial measure used by management along with GAAP results to analyze our earnings quality and overall cash generation of the business. The presentation of free cash flow is not meant to be considered in isolation, nor as a substitute for, or superior to, GAAP results. Investors should be aware that non-GAAP measures have inherent limitations and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. Free cash flow may also be different from similar non-GAAP financial measures used by other companies and may not be comparable to similarly titled captions of other companies due to potential inconsistencies in the method of calculation. We believe free cash flow is important to enable investors to better understand and evaluate our ongoing operating results and allows for greater transparency in the review of our overall financial, operational and economic performance.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

No material changes.

Item 4. Controls and Procedures

a) Evaluation of disclosure controls and procedures. The Company s Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have evaluated the effectiveness of the Company s disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by the Quarterly Report (the Evaluation Date). They have concluded that, as of the Evaluation Date, these disclosure controls and procedures were effective to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities and would be disclosed on a timely basis. The CEO and CFO have concluded that the Company s disclosure controls and procedures are designed, and are effective, to give reasonable assurance that the information required to be disclosed by the Company in reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the rules and forms of the SEC. They have also concluded that the Company s disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that are filed or submitted under the Exchange Act are accumulated and communicated to the Company s management, including the CEO and CFO, to allow timely decisions regarding required disclosure.

b) There were no changes in the Company s internal controls over financial reporting during the six months ended July 2, 2011 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

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

Table of Contents

Part II. Other Information

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

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	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
April 3, 2011 - April 30, 2011				
May 1, 2011 - May 28, 2011				
May 29, 2011 - July 2, 2011	6,496	59.58		
Total	6,496	59.58		

(a) All of the shares presented on the table above were originally granted to employees as restricted stock pursuant to our Long-Term Incentive Plan F. The Long-Term Incentive Plan F allows for the withholding of shares to satisfy tax obligations due upon the vesting of restricted stock, and pursuant to the Long-Term Incentive Plan F, 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.

Item 6. Exhibits

(a) Exhibits

31.1	Certification of Neal L. Patterson, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Marc G. Naughton, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	INS XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document

101.PRE	PRE XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CERNER CORPORATION
Registrant

August 1, 2011	By: /s/Marc G. Naughton
Date	Marc G. Naughton
	Chief Financial Officer
	(duly authorized officer and principal financial officer)

27