CERNER CORP /MO/
Form 10-K
February 16, 2011

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

FORM 10-K

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended: January 1, 2011

OR

o **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 No.)
2800 Rockcreek Parkway North Kansas City, MO	**64117**
(Address of principal executive offices)	(Zip Code)

(816) 221-1024
(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, $.01 par value per share
(Title of Class)
NASDAQ Stock Market
(Name of exchange on which registered)

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 July 3, 2010, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $5,631,943,354 based on the closing sale price as reported on the NASDAQ Global Select Market.

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

Class	Outstanding at February 10, 2011
[Common Stock, $.01 par value per share]	83,380,384 shares

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Proxy Statement for the Annual Shareholders Meeting to be held May 27, 2011 (Proxy Statement)	Part III

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PART I.

Item 1. Business

Overview

Cerner Corporation is a Delaware business corporation formed in 1980. 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 headquarters are located at 2800 Rockcreek Parkway, North Kansas City, Missouri 64117. Our telephone number is 816.221.1024. Our Web site address, which we use to communicate important business information, can be accessed at: www.cerner.com. We make our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports available free of charge on or through this Web site as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (SEC).

Cerner s mission is to contribute to the systemic improvements of healthcare delivery and the health of communities. We are a leading supplier of healthcare information technology (HIT) solutions, healthcare devices and related services, and are transforming healthcare by eliminating error, variance and waste for healthcare providers and consumers. *Cerner*® solutions optimize processes for healthcare organizations ranging in size from single-doctor practices, to health systems, to entire countries, for the pharmaceutical and medical device industries, for consumers of healthcare and for the healthcare commerce system. These solutions are 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.

We design and develop most of our software solutions on the unified *Cerner Millennium*® architecture, a person-centric computing framework, which combines clinical, financial and management information systems. This architecture allows providers to securely access an individual s electronic health record (EHR) at the point of care, and it organizes and proactively delivers information to meet the specific needs of physicians, nurses, laboratory technicians, pharmacists, front- and back-office professionals and consumers.

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

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		
	2010	**2009**	**2008**
Revenues by Category			
System sales	30%	30%	31%
Support and maintenance	28%	29%	28%
Services	40%	39%	39%
Reimbursed travel	2%	2%	2%
	100%	100%	100%

Revenues by Segment			
Domestic	84%	84%	78%
Global	16%	16%	22%
	100%	100%	100%

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The Healthcare and Healthcare IT Industry

We believe there are several factors that are favorable for the HIT industry over the next decade, despite some lingering weakness in the global economy. Because HIT solutions play an important role in healthcare by improving safety, efficiency and reducing cost, they are often viewed as more strategic than other capital purchases. Most United States healthcare providers also recognize that they must invest in HIT to meet regulatory, compliance and government reimbursement requirements and incentive opportunities. In addition, with the Centers for Medicare and Medicaid Services estimating United States healthcare spending at $2.6 trillion or 17.5 percent of 2010 Gross Domestic Product, politicians and policymakers agree that the growing cost of our healthcare 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 HIT in the United States could cut healthcare costs by $162 billion annually.

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

Another element in the United States marketplace is the recently passed healthcare reform legislation. 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, healthcare 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 HIT 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 healthcare spending while improving the efficiency and quality of care that is delivered, and many of these countries recognize HIT 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 HIT remains strong. The HIT industry will likely benefit as healthcare providers and governments continue to recognize that these solutions and services contribute to safer, more efficient healthcare.

Cerner Vision

Cerner s vision has evolved from a fundamental thought: Healthcare should revolve around the individual, not the encounter. This concept led to Cerner s vision of the unified *Cerner Millennium* architecture and a Community Health Model, which encompasses four steps:

Automate the Care Process

We offer a longitudinal, person-centric EHR, which gives clinicians electronic access to the right information at the right time and place to achieve optimal health outcomes.

Connect the Person

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We are dedicated to building a personal health system. Medical information and care regimens accessible from home empower consumers to effectively manage their conditions and adhere to treatment plans, creating a new medium between physicians and individuals.

Structure the Knowledge

We are dedicated to building systems that help bring the best science to every medical decision by structuring, storing and studying the content surrounding each care episode to achieve optimal clinical and financial outcomes.

Close the Loop

Incorporating a medical discovery into daily practice can take as long as 10 years. We are dedicated to building systems that implement evidence-based medicine, reducing the average time between discovery of an improved method to a change in the standard of care.

As our vision evolves, we expect medicine will become increasingly personalized and technology more accessible. We are creating new solutions and collaborative, information-sharing networks for large user communities, including strategies to:

- Connect all stakeholders in the healthcare system, including payers (employers and governments), providers and consumers
- Remove clinical, financial and administrative friction
- Create a secure, transparent and open network for data sharing to improve disease management and facilitate personalized medicine

To achieve this vision, we are leveraging the *Cerner Millennium* architecture and expanding our solutions and services, as discussed below.

Cerner Growth Strategy

Our business strategies are anchored by our industry-leading solution and device architectures, the breadth and depth of our solutions and services, our proven ability to deliver value, and, most importantly, the success of our clients. A core strength that has led to this strong market position is our proven ability to innovate, which has driven consistent expansion of solutions and services, entry into new markets and strong long-term growth.

We believe our strengths position us well to gain market share in the United States during a period of expected strong demand driven by the HITECH provisions of ARRA and the nation s focus on improving the efficiency and quality of healthcare. We also have a strong global brand and a presence in more than 25 countries and believe we have a good opportunity to gain market share outside of the United States.

We also have a significant opportunity to grow revenues by expanding our solution footprint in existing clients. In addition to the opportunity to expand penetration of our core solutions, such as EHRs and computerized physician order entry, we have a broad range of complementary solutions that can be offered into our existing client base. Examples include solutions and services for women s health, anesthesiology, imaging, clinical process optimization, critical care, medical device connectivity, emergency department, revenue cycle and surgery.

Additionally, we have introduced new services targeted at capturing a larger percent of our clients existing IT spending. These services leverage our proven operational capabilities and the success of our *CernerWorks*^{SM} 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 new services is *Cerner ITWorks*^{SM}, a suite of 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*^{SM}, which includes solutions and services to help healthcare organizations improve their revenue cycle functions.

We have made good progress over the past several years at reducing the total cost of ownership of our solutions, which expands our end market opportunities by allowing us to offer lower-cost, higher-value solutions and services to smaller community hospitals, critical access hospitals and physician practices. For example, our *CommunityWorks* offering leverages a shared instance of the *Cerner Millennium* platform across multiple clients, which decreases the total cost of ownership for these clients. Our ability to address these markets has also been aided by our *Bedrock*® technology, which automates much

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of the implementation and management of the *Cerner Millennium* platform. We have also streamlined implementations and made them more predictable through our *MethodM*® implementation methodology, which draws upon practices proven to be effective during thousands of past implementations. Additionally, we are reducing up-front hardware costs and ongoing technology obsolescence risks through our remote-hosted, managed services offering, *CernerWorks*.

We also expect to drive growth over the course of the next decade through initiatives outside the core HIT market. For example, we offer clinic, pharmacy and wellness services directly to employers and we expanded our presence in the employer-sponsored health center market with the acquisition of IMC Health Care, Inc. in January 2010. Additionally, as described below, we believe being able to connect employers, governments and consumers directly with their healthcare providers through a *New Middle* presents a substantial growth opportunity as we aim to help eliminate the friction that consumes more than 30 percent of healthcare spending.

Creating the Cerner Network and The New Middle

Several years ago, we introduced a surveillance system called the *LightsOn Network*®, which identifies performance problems in real time and has the ability to predict issues that could create system vulnerability. With more than 300 participating clients, the *LightsOn* solution has become an evidence-based network that enhances performance and allows our clients to maximize the value they gain from our systems. Our *LightsOn* solution also shows our ability to create a network a common platform of learning and improvements from which all our clients can benefit.

Along these lines, we have created the *uCern* platform, a collaboration and social networking platform which gives clients a place where they can collaborate with peers or Cerner associates about topics ranging from healthcare reform to solution enhancements to project status updates. Approximately 95 percent of our core *Cerner Millennium* clients actively engage on this platform. Additionally, we have created the *uDevelop* solution, a collaborative ecosystem that supports a unique audience of engineers, including both our associates and external developers, who work to improve our solutions; and the *uCern* Store, which offers our clients quick access to innovations developed by Cerner, as well as outside organizations and individuals.

To highlight one area where coordinating information across the fragmented delivery system is gaining traction, our Cerner Network and Health Information Exchange (HIE) offerings create better clinical integration and coordination of care by facilitating secure electronic flow of data between hospitals, physician practices, and other stakeholders, regardless of the EHR system being used. We have had early success with our clients in building out HIEs and Cerner Network services that are providing value, and nearly 50 million clinical and financial transactions go across the network each month.

Another key element of our strategy for improving the coordination and quality of care is our *Healthe Intent™* platform, a cloud-based platform that we expect to be the basis for many future offerings. In 2010, we launched *Healthe Intent Chart Search*, our first solution on this platform. *Healthe Intent Chart Search* leverages knowledge of the clinical meanings of words located within the EMR as well as the context in which those words occur to create algorithms that identify and rank the most important information contextually. This capability allows the physician to efficiently search through a patient s health record and identify relevant information in a matter of seconds. In the coming years, we believe the *Healthe Intent* platform will continue to evolve in sophistication to the point where it can anticipate and determine the clinical intent based on the behavior of the specific user, the history of the patient and the context of prior actions.

The *Healthe Intent* platform also provides the ability to apply sophisticated, statistical algorithms against contextual clinical activity to recommend clinical action. For example, our first national Health Agent is an intelligent mechanism developed in collaboration with clients, which can assist in detecting the conditions that indicate a patient may be developing Sepsis, a potentially fatal condition in which the bloodstream is overwhelmed by bacteria. Nearly 750,000 Americans are affected by Sepsis each year. Early results based on initial client use of this algorithm have reflected remarkable reductions in Sepsis mortality rates, and we believe that moving this capability to a Health Agent in the cloud will allow us to demonstrate the speed at which new capabilities and evidence can be deployed to our clients.

Through these connections and networks, we are creating the building blocks for an entirely new healthcare system that will introduce much-needed competition for our current, insurance-based infrastructure. In this new system, a

New Middle would enhance care and reduce friction by facilitating the sharing of relevant clinical and financial information between payers, consumers and providers.

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Furthermore, in the *New Middle*, consumers would have a personal health record, giving them ready access to information on both the price and quality of the care they receive. This record would have the consumer s complete medical history and a predictive model of future needs based on his or her unique genetic code. Armed with this information, consumers would have financial incentives to focus on controlling chronic conditions and reducing the impact of future maladies.

With more complete patient information, providers could focus on preventive rather than reactive medicine. Through this *New Middle*, providers could communicate instantly with the rest of the patient s care team, and they would receive immediate point-of-service payments for the delivery of appropriate care rather than waiting weeks or months while claims work through the reimbursement process.

Lastly, we believe the *New Middle* would provide the segments of our society that pay for healthcare employers or governments a health system with less variance, cost and waste while maximizing the quality of care for all of us.

Software Development

We commit significant resources to developing new health information system solutions. As of the end of 2010, approximately 2,400 associates were engaged in research and development activities. Total expenditures for the development and enhancement of our software solutions were approximately $284.8 million, $285.2 million and $291.4 million during the 2010, 2009 and 2008 fiscal years, respectively. These figures include both capitalized and non-capitalized portions and exclude amounts amortized for financial reporting purposes.

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

Sales and Marketing

The markets for *Cerner* HIT solutions, healthcare 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 solutions and services to hospital and health systems, but the *Cerner Millennium* architecture is highly scalable and organizations ranging from several-doctor physician practices, to community hospitals, to complex integrated delivery networks, to local, regional and national government agencies use our *Cerner Millennium* solutions.

As previously discussed, we have focused on reducing the total cost of ownership of our systems, which allows us to be price competitive across the full size and organizational structure range of healthcare providers. 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. We have seen some indications that the HITECH provisions of ARRA may shorten the sales process due to the timeline required for hospitals to earn 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 in Australia, Canada, Chile, England, France, Germany, India, Ireland, Malaysia, Saudi Arabia, Singapore, Spain and the United Arab Emirates.

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

Client Services

Substantially all of *Cerner s* HIT software solutions clients enter into software maintenance agreements with us for 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 maintenance agreements. Each client has 24-hour access to the

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client support team located at our world headquarters in North Kansas City, Missouri 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 2010, we had a contract backlog of approximately $4.3 billion as compared to approximately $3.6 billion at the end of 2009. Such backlog represents system sales and services from signed contracts that have not yet been recognized as revenue. At the end of 2010, we had approximately $140.0 million of contracts receivable compared to $135.3 million at the end of 2009, which represents revenues recognized but not yet billable under the terms of the contract. At the end of 2010, we had a software support and maintenance backlog of approximately $654.9 million as compared to approximately $620.6 million at the end of 2009. Such backlog represents contracted software support and hardware maintenance services for a period of 12 months. We estimate that approximately 31 percent of the aggregate backlog at the end of 2010 of $4.9 billion will be recognized as revenue during 2011.

Competition

The market for HIT solutions, devices and services is intensely competitive, rapidly evolving and subject to rapid technological change. Our principal competitors in the healthcare solutions and services market include: Allscripts Healthcare Solutions, Inc., Computer Programs and Systems, Inc., Epic Systems Corporation, GE Healthcare Technologies, iSoft Group Limited, McKesson Corporation, Medical Information Technology, Inc. (Meditech) and Siemens Medical Solutions Health Services Corporation, each of which offers a suite of software solutions that compete with many of our software solutions and services.

Other competitors focus on only a portion of the market that we address. For example, competitors such as Accenture, Capgemini, Computer Sciences Corporation, Computer Task Group, Inc. (CTG), Dell, Inc., Deloitte LLP, Hewlett-Packard Company and IBM Corporation offer HIT services that compete directly with our consulting services. Athenahealth, Inc., eClinicalWorks LLC, e-MDs, Inc., Greenway Medical Technologies, Quality Systems, Inc. and Sage Software Healthcare LLC offer solutions to the physician practice market but do not currently have a significant presence in the health systems and independent hospital market.

Cerner partners with third parties as a reseller of devices and markets its own competing proprietary healthcare devices; we view our principal competitors in the healthcare device market to include: CapsuleTech, Inc., CareFusion Corporation, GE Healthcare Technologies, McKesson Corporation, Omnicell, Inc. and Royal Philips Electronics; and we view our principal competitors in the healthcare transactions market to include: Capario, Inc., Emdeon Corporation, Ingenix, Inc. (a subsidiary of UnitedHealth Group, Inc.) and McKesson Corporation, with almost all of these competitors being substantially larger or having more experience and market share than us in their respective market.

In addition, we expect that major software information systems companies, large information technology consulting service providers and system integrators, start-up companies, managed care companies and others specializing in the healthcare industry may offer competitive software solutions, devices or services. The pace of change in the HIT market is rapid and there are frequent new software solutions, devices or service 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 2010, we employed approximately 8,200 associates worldwide.

Operating Segments

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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 (18) to the 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 10, 2011. Officers are elected annually and serve at the discretion of the Board of Directors.

Name	Age	Positions
Neal L. Patterson	61	Chairman of the Board of Directors, Chief Executive Officer and President
Clifford W. Illig	60	Vice Chairman of the Board of Directors
Marc G. Naughton	55	Executive Vice President and Chief Financial Officer
Michael R. Nill	46	Executive Vice President and Chief Engineering Officer
Randy D. Sims	50	Vice President, Chief Legal Officer and Secretary
Jeffrey A. Townsend	47	Executive Vice President
Mike Valentine	42	Executive Vice President and Chief Operating Officer
Julia M. Wilson	48	Senior Vice President and Chief People Officer

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

Clifford W. Illig 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.

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.

Randy D. Sims joined the Company in March 1997 as Vice President and Chief Legal Officer. Prior to joining the Company, Mr. Sims worked at Farmland Industries, Inc. for three years where he served most recently 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

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Engineering Officer in March 1998, promoted to Senior Vice President in March 2001 and promoted to Executive Vice President in March 2005.

Mike Valentine joined the Company in December 1998 as Director of Technology. He was promoted to Vice President in 2000 and to President of Cerner Mid America in January of 2003. In February 2005, he was named General Manager of the United States Client Organization and was promoted to Senior Vice President in March 2005. He was promoted to Executive Vice President in March 2007 and named Chief Operation Officer in January 2010. Prior to joining the Company, Mr. Valentine was with Accenture Consulting.

Julia M. Wilson joined the Company in November 1995. 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 and to Senior Vice President in March 2007.

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Item 1A. Risk Factors

Risks Related to Cerner Corporation

We may incur substantial costs related to product-related liabilities. Many of our software solutions, healthcare devices or services (including life sciences/research services) are intended for use in collecting, storing and displaying clinical and healthcare-related information used in the diagnosis and treatment of patients and in related healthcare settings such as admissions, billing, etc. We attempt to limit by contract our liability; however, the limitations of liability set forth in the contracts may not be enforceable or may not otherwise protect us from liability for damages. We may also be subject to claims that are not covered by contract, such as a claim directly by a patient. Although we maintain liability insurance coverage in an amount that we believe is sufficient for our business, 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, 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 revenues 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 healthcare 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 healthcare devices after their introduction. Our software solutions and healthcare devices are intended for use in collecting, storing, and displaying clinical and healthcare-related information used in the diagnosis and treatment of patients and in related healthcare settings such as admissions, billing, etc. Therefore, users of our software solutions and healthcare 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 and/or healthcare device fail to meet these warranties or lead to faulty clinical decisions or injury to patients, it could i) constitute a material breach under the client agreement, allowing the client to terminate the agreement and possibly obtain a refund and/or damages, or might require us to incur additional expense in order to make the software solution or healthcare device meet these criteria or ii) subject us to claims or litigation by our clients or clinicians or directly by the patient. 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 in an amount that we believe is sufficient for our business, 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, prove to be adequate or that such coverage will continue to remain available on acceptable terms, if at all. A successful material claim or series of claims brought against us, if uninsured or under-insured, could materially harm our business, results of operations and financial condition.

We may experience interruption at our data centers or client support facilities. We perform data center and/or hosting services for certain clients, including the storage of critical patient and administrative data. In addition, we provide support services to our clients through various client support facilities. We have invested in reliability features such as multiple power feeds, multiple backup generators and redundant telecommunications lines, as well as technical (such as multiple overlapping security applications and countermeasures) and physical security safeguards, and structured our operations to reduce the likelihood of disruptions. Periodic risk assessments are conducted to ensure additional risks are identified and appropriately mitigated. However, complete failure of all local public power and backup generators, impairment of all telecommunications lines, a concerted denial of service cyber attack , damage (environmental, accidental, intentional or pandemic) to the buildings, the equipment inside the buildings housing our data centers, the client data contained therein and/or 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 datacenter failures, leveraging our multiple data center facilities, however only a small percentage of our hosted clients choose to contract for these services. Any interruption in operations at our data centers and/or client support facilities could damage our reputation, cause us to lose existing clients, hurt

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our ability to obtain new clients, result in significant revenue loss, create potential liabilities for our clients and us and increase insurance and other operating costs.

Our proprietary technology may be subject to claims for infringement or misappropriation of intellectual property rights of others, or may be infringed or misappropriated by others. We rely upon a combination of license agreements, confidentiality policies and procedures, employee nondisclosure 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 and services offered by us. 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.

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 HIT 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 healthcare device innovation, healthcare transactions and life sciences. These claims, even if not meritorious, are expensive to defend and are oftentimes 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 and/or cease using, selling, offering for sale, licensing, importing, implementing and supporting the solutions, devices and services that violate the intellectual property rights.

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 will 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 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
- Unfavorable or changing foreign currency exchange rates
- Legal compliance costs and/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 and similar regulations in foreign jurisdictions
- Certification, licensing or regulatory requirements
- Unexpected changes in regulatory requirements
- Changes to or reduced protection of intellectual property rights in some countries

Inability to obtain necessary financing on reasonable terms to adequately support non-U.S. operations and expansion

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

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Service provider and 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 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 improperly hedge our exposure to currency fluctuations.

We are subject to tax legislation in several countries; tax legislation initiatives or challenges to our tax positions could adversely affect our results of operations and financial condition. We are a large corporation with operations in more than twenty countries. As such, we are, or in the future could be, subject to tax laws and regulations 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 HIT, healthcare devices, healthcare transactions 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 non-U.S. personnel needs could have a material adverse effect on our prospects for long-term growth. 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 gross margin 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 and/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 and/or content in the operation and delivery of our solutions, devices and services. For instance, we currently depend on Microsoft and IBM Websphere technologies for portions of the operational abilities of our *Millennium* solutions. Our remote hosting business also relies on a single or a limited number of suppliers for certain functions of this business, such as Oracle database technologies, CITRIX technologies and CISCO network technologies, and we rely on Hewlett Packard and IBM for our hardware technology platforms.

Most of the third party software licenses we have expire within one to five years, can be renewed only by mutual consent and may be terminated if we breach the terms of the license and fail to cure the breach within a specified period of time. Most of these third party software licenses are non-exclusive; therefore, our competitors may obtain

the right to use any of the technology covered by these licenses and use the technology to compete directly with us.

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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 or terminate our licenses or supply contracts, 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 gross margin levels could significantly decrease. In addition, interruption in functionality of our solutions, devices and services as a result of changes in third party suppliers could adversely affect future sales of solutions, devices and services, and negatively affect our revenue and gross margins.

We intend to continue strategic business acquisitions, which are subject to inherent risks. In order to expand our solutions, device offerings and services and grow our market and client base, we may continue to seek and complete strategic business acquisitions 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 and/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 test 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 ASC 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 materially affect our reported net earnings.

The ongoing uncertainty in global economic conditions could negatively affect our business, results of operations and financial condition. Although in recent months, certain indices and economic data have begun to show 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. Continued adverse economic conditions 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, an ongoing global financial crisis 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 the global financial crisis and current economic downturn continues or worsens, our business, results of operations and financial condition could be materially and adversely affected.

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Risks Related to the Healthcare Information Technology, Healthcare Device and Healthcare Transaction Industry

The healthcare 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) (HIPAA) continues to have a direct impact on the healthcare industry by requiring national provider identifiers and standardized transactions/code sets 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 healthcare organizations.

Many healthcare providers are consolidating to create integrated healthcare delivery systems with greater market power. These providers may try to use their market power to negotiate price reductions for our solutions and services. As the healthcare 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.

In 2010, the Patient Protection and Affordable Care Act became law. This comprehensive healthcare reform legislation included provisions to control healthcare costs, improve healthcare quality, and expand access to affordable health insurance. This healthcare reform legislation could include changes in Medicare and Medicaid payment policies and other healthcare delivery administrative reforms that could potentially negatively impact our business and the business of our clients. Because the administrative rules implementing healthcare reform under the legislation have not yet been finalized, the impact of the healthcare reform legislation on our business is unknown, but there can be no assurances that healthcare reform legislation will not adversely impact either our operational results or the manner in which we operate our business. Healthcare industry participants may respond by reducing their investments or postponing investment decisions, including investments in our solutions and services.

The healthcare industry is highly regulated at the local, state and federal level. We are subject to a significant and wide-ranging number of regulations both within the United States and elsewhere, such as regulations in the areas of healthcare fraud, e-prescribing, claims processing and transmission, medical devices, the security and privacy of patient data and interoperability standards.

Healthcare Fraud. Federal and state governments continue to enhance regulation of and increase their scrutiny over practices involving healthcare fraud affecting healthcare providers whose services are reimbursed by Medicare, Medicaid and other government healthcare programs. Our healthcare provider clients are subject 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 healthcare programs. Federal enforcement personnel have substantial funding, powers and remedies to pursue suspected or perceived fraud and abuse. The effect of this government regulation on our clients is difficult to predict. Many of the regulations applicable to our clients and that may be applicable to us, including those relating to marketing incentives offered in connection with medical device sales, are vague or indefinite and have not been interpreted by the courts. They may be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that could broaden their applicability to us or require our clients to make changes in their operations or the way in which they deal with us. If such laws and regulations are determined to be applicable to us and if we fail to comply with any applicable laws and regulations, we could be subject to civil and criminal penalties, sanctions or other liability, including exclusion from government health programs, which could have a material adverse effect on our business, results of operations and financial condition.

E-Prescribing. The use of our solutions by physicians for electronic prescribing, electronic routing of prescriptions to pharmacies and dispensing is governed by federal and state laws. States have differing prescription format requirements, which we have programmed into our solutions. In addition, in November 2005, the Department of Health and Human Services announced regulations by Centers for Medicare and Medicaid Services (CMS) related to E-Prescribing and the Prescription Drug Program (E-Prescribing Regulations). These E-Prescribing Regulations were mandated by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. The E-Prescribing Regulations set forth standards for the transmission of electronic prescriptions. These standards are

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detailed and significant, and cover not only transactions between prescribers and dispensers for prescriptions but also electronic eligibility, benefits inquiries, drug formulary and benefit coverage information. Our efforts to provide solutions that enable our clients to comply with these regulations could be time-consuming and expensive.

Claims Transmissions. Our solutions are capable of electronically transmitting claims for services and items rendered by a physician to many patients payers for approval and reimbursement, which 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 transmission 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 transmission 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 healthcare programs. Any investigation or proceeding related to these laws may have a material adverse impact on our results of operations.

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

There have been ten FDA inspections at various Cerner sites since 1998. Inspections conducted at our world headquarters in 1999 and 2010, and our prior Houston, Texas facility in 2002, each 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 observations that were issued in 1999, 2002 and 2010. The remaining seven FDA inspections, including inspections at our world headquarters in 2006 and 2007, resulted in no issuance of a Form 483. We remain subject to periodic FDA inspections and we could be required to undertake additional actions to comply with the Act and any other applicable regulatory requirements. Our failure to comply with the Act and any other applicable regulatory requirements could have a material adverse effect on our ability to continue to manufacture and distribute our solutions. The FDA has many enforcement tools including recalls, product corrections, seizures, injunctions, refusal to grant pre-market clearance of products, civil fines and/or 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 and local laws regulate the confidentiality of patient records and the circumstances under which those records may be released. These regulations govern both the disclosure and use of confidential patient medical record information and require the users of such information to implement specified security measures. United States regulations currently in place governing electronic health data transmissions continue to evolve and are often unclear and difficult to apply. Similarly, laws in non-U.S. jurisdictions may have similar or even stricter requirements related to the treatment of patient information.

In the United States, HIPAA regulations require national standards for some types of electronic health information transactions and the data elements used in those transactions, security standards to ensure the integrity and confidentiality of health information and standards to protect the privacy of individually identifiable health information. Covered entities under HIPAA, which include healthcare organizations such as our clients, our employer

clinic business model and our claims transmission services, are required to comply with the privacy

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standards, the transaction regulations and the security regulations. Moreover, the recently enacted 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 and 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 healthcare 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 breach of contract claims (although we contractually limit liability, when possible and where permitted), fines and penalties.

Interoperability Standards. Our clients are concerned with and often require that our software solutions and healthcare devices be interoperable with other third party HIT suppliers. Market forces or governmental/regulatory authorities could create software interoperability standards that would apply to our solutions, and if our software solutions and/or healthcare devices are not consistent with those standards, we could be forced to incur substantial additional development costs to conform. The Certification Commission for Healthcare Information Technology (CCHIT) has developed a comprehensive set of criteria for the functionality, interoperability and security of various software modules in the HIT industry. CCHIT, however, continues to modify and refine those standards. Achieving CCHIT certification is becoming a competitive requirement, resulting in increased software development and administrative expense to conform to these requirements. Additionally, 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 healthcare providers in order to receive incentive payments. Regulations have been issued that identify initial standards and implementation specifications and establish the certification standards for qualifying electronic health record technology. Nevertheless, these standards and specifications are subject to interpretation by the entities designated to certify such technology. While a combination of our solutions have been certified as meeting the initial standards for certified health record technology, the regulatory standards to achieve certification will continue to evolve over time. We may incur increased development costs and delays in delivering solutions if we need to upgrade our software and healthcare 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. If our software solutions and healthcare devices are not consistent 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 and healthcare devices, although we do not expect such costs to be significant in relation to the overall development costs for our solutions.

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 healthcare information systems, healthcare devices and services to the healthcare 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 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 and loss of, or delay in, market acceptance.

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Certain of our competitors have greater financial, technical, product development, marketing and other resources than us and some of our competitors offer software solutions 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 healthcare industry may offer competitive software solutions, devices or services. We face strong competitors and often face downward price pressure, which could adversely affect our results of operations or liquidity. Additionally, the pace of change in the healthcare 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 healthcare providers in the United States HIT market and in recent years, the healthcare industry has been subject to increasing consolidation. As the industry consolidates, costs fall, technology improves, and market factors continue to compel investment by healthcare organizations in solutions and services like ours, market saturation in the United States may change the competitive landscape in favor of larger, more diversified competitors with greater scale. If we are unable to recognize these changes in a timely manner, or we are too inflexible to rapidly adjust our business models, growth ambitions and financial results could be affected materially.

Risks Related to Our 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 and higher-priced systems, accounting policy changes and other factors described in this section and elsewhere in this report. As a result of healthcare industry trends and the market for our *Cerner Millennium* 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 governing federal, state or local regulations, availability of personnel resources and by actions taken by competitors. Delays in the expected sale, installation or implementation of these large systems may have a significant 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 and our clients abilities to meet project milestones. Delays in meeting these milestone conditions or modification of the project plan could result in a shift of revenue recognition from one quarter to another and could have a material adverse effect on results of operations for a particular quarter. Our revenues from system sales historically have been lower in the first quarter of the year and greater in the fourth quarter of the year, primarily as a result of clients year-end efforts to make all 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,

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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 directly 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, rumors about our performance or solutions, devices and services, changes in expectations of future financial performance or estimates of securities analysts, governmental regulatory action, healthcare reform measures, client relationship developments, changes occurring in the securities markets in general and other factors, many of which are beyond our control. 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, healthcare devices, other healthcare 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 or predictions of the future, may constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements can often be identified by the use of forward-looking terminology, such as could, should, will, intended, continue, believe, may, expect, hope, antici plan, guidance or estimate or the negative of these words, variations thereof or similar expressions. Forward-looking statements are not guarantees of future performance or results. They involve risks, uncertainties and assumptions. It is important to note that any such performance and actual results, financial condition or business, could differ materially from those expressed in such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Item 1A. Risk Factors and elsewhere herein or in other reports filed with the SEC. Other unforeseen factors not identified herein could also have such an effect. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in future operating results, financial condition or business over time.

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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 operations are located in a Company-owned office park (the Headquarters Campus) in North Kansas City, Missouri. The Headquarters Campus and two other nearby locations, collectively contain approximately 1.43 million gross square feet of useable space and land capable of housing approximately 300,000 square feet of future building development. The Headquarters Campus primarily houses office space, but also includes space for other business needs, such as our Health*e* Clinic and our Headquarters Campus data center.

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

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.

As of the end of 2010, we leased additional office space in Beverly Hills and Garden Grove, California; Denver, Colorado; Jacksonville, Florida; Lenexa, Kansas; Waltham, Massachusetts; Minneapolis and Rochester, Minnesota; Columbia, Missouri; N. Kansas City, Missouri; Kansas City, Missouri; Blue Bell, Pennsylvania; and Vienna, Virginia. Globally, we also leased office space in: Brisbane, Sydney and Melbourne, Australia; London-Ontario, Canada; Santiago, Chile; London, England; Paris, France; Herzogenrath and Idstein, Germany; Bangalore, India; Dublin, Ireland; Kuala Lumpur, Malaysia; Riyadh, Saudi Arabia; Singapore; Madrid, Spain; and, Abu Dhabi and Dubai, United Arab Emirates.

Item 3. Legal Proceedings

We have no material pending litigation.

Item 4. Removed and Reserved

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PART II

Item 5. Market for the Registrant s Common Equity and 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 2010 and 2009 as reported by *The Nasdaq Stock Market*®.

	2010			2009		
	High	**Low**	**Last**	**High**	**Low**	**Last**
First Quarter	$ 90.72	$ 75.66	$ 85.73	$ 46.40	$ 33.72	$ 43.29
Second Quarter	91.58	75.00	76.10	63.82	41.88	60.05
Third Quarter	85.03	72.85	85.03	75.17	56.80	72.50
Fourth Quarter	96.16	84.72	94.74	85.51	73.53	82.44

At February 10, 2011, there were approximately 1,043 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.

In March 2008, our Board of Directors authorized a stock repurchase program for $45 million of our Common Stock. There were no shares repurchased by us during the quarter or the year ended January 1, 2011.

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Item 6. Selected Financial Data

(In thousands, except per share data)	**2010** (1)	**2009** (1)	**2008** (1)(2)	**2007** (1)(3)(4)(5)	**2006** (1)(6)
Statement of Earnings Data:					
Revenues	$ 1,850,222	$ 1,671,864	$ 1,676,028	$ 1,519,877	$ 1,378,038
Operating earnings	359,333	292,006	278,885	204,083	166,167
Earnings before income taxes	362,212	292,681	281,431	203,967	167,544
Net earnings	237,272	193,465	188,658	127,125	109,891
Earnings per share:					
Basic	2.88	2.39	2.34	1.60	1.41
Diluted	2.78	2.31	2.26	1.53	1.34
Weighted average shares outstanding:					
Basic	82,458	80,981	80,549	79,395	77,691
Diluted	85,424	83,882	83,435	83,218	81,723
Balance Sheet Data:					
Working capital	$ 840,129	$ 788,232	$ 517,650	$ 530,441	$ 444,656
Total assets	2,422,790	2,148,567	1,880,988	1,689,956	1,496,433
Long-term debt, excl. current installments	67,923	95,506	111,370	177,606	187,391
Cerner Corporation stockholders equity	1,905,297	1,580,678	1,311,009	1,132,428	922,294

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

(In thousands except share data)	2010	2009	2008	2007	2006
Total stock-based compensation expense	$ 24,903	$ 16,842	$ 15,144	$ 16,189	$ 19,021
	(9,329)	(6,274)	(5,641)	(6,030)	(7,275)

Amount of related income tax benefit					
Net impact on earnings	$ 15,574	$ 10,568	$ 9,503	$ 10,159	$ 11,746
Decrease to diluted earnings per share	$ 0.18	$ 0.12	$ 0.11	$ 0.12	$ 0.14

(2) Includes expense related to a settlement with a third party provider of software related to the use of the third party s software in our remote hosting business. The settlement included compensation for the use of the software for periods prior to 2008 as well as compensation for licenses of the software for future use for existing and additional clients through January 2009. Of the total settlement amount, we determined that $5.0 million should have been recorded in prior periods, primarily 2005 through 2007. Based on this valuation, 2008 results include an increase of $8.0 million to sales and client service expense, a decrease of $5.0 million to net earnings, and a decrease of $0.06 to diluted earnings per share that are attributable to prior periods.

(3) Includes a research and development write-off related to the *RxStation*® medication dispensing devices. In connection with production and delivery of the *RxStation* medication dispensing devices, we reviewed the accounting treatment for the *RxStation* line of devices and determined that $8.6 million of research and development activities for the *RxStation* medication dispensing devices that should have been expensed was incorrectly capitalized. The impact of this charge is a $5.4 million decrease, net of $3.2 million tax benefit, in net earnings and a decrease to diluted earnings per share of $0.06 in the year ended December 29, 2007. $2.1 million of this $5.4 million after tax amount recorded in 2007 related to periods prior to 2007.

(4) Includes a $3.1 million tax benefit recorded in 2007 related to periods prior to 2007. The tax benefit relates to the over-expensing of state income taxes, which resulted in an increase to diluted earnings per share of $0.04 in the year ended December 29, 2007.

(5) Includes an adjustment to correct the amounts previously reported for the second quarter of 2007 for a previously disclosed out-of-period tax item relating to foreign net operating losses. The effect of this adjustment increases tax expense for the year ended December 29, 2007, by $4.2 million and increases January 1, 2005 retained earnings (Shareholders Equity) by the same amount.

(6) Includes a tax benefit of $2.0 million for adjustments relating to prior periods. This results in an increase to diluted earnings per share of $0.02.

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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 2010 consisted of 52 weeks and ended on January 1, 2011; fiscal year 2009 consisted of 52 weeks and ended on January 2, 2010; and fiscal year 2008 consisted of 53 weeks and ended on January 3, 2009. 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, healthcare devices and services that give healthcare 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 healthcare. We implement the healthcare 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 healthcare 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 healthcare, 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 healthcare providers who have not yet selected a supplier and by displacing competitors in healthcare settings that are looking to replace their current healthcare information technology (HIT) partners.

We expect to drive growth through new initiatives and services that reflect our ongoing ability to innovate and expand our reach into healthcare. Examples of these include our *CareAware®* healthcare device architecture and devices, *Cerner* Health*e* employer services, *Cerner ITWorks℠* services, *Cerner RevWorks℠* 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 HIT solutions and their governing bodies are in many cases focused on HIT as part of their strategy to improve the quality and lower the cost of healthcare.

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 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.

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

Results Overview

The Company delivered strong levels of bookings, revenues, earnings and cash flows in 2010.

New business bookings revenue in 2010, which reflects the value of executed contracts for software, hardware, professional services and managed services, was $2.0 billion, which is an increase of 9% compared to $1.8 billion in 2009. Our 2010 revenues increased 11% to $1.9 billion compared to $1.7 billion in 2009. The year-over-year increase in revenue reflects improved economic conditions and demand driven by the stimulus incentives. As discussed in the Healthcare and Healthcare IT Industry under Part 1, Item 1, we believe the HITECH incentives and the nation s focus on improving the efficiency and quality of healthcare will create a period of increased HIT demand in the United States.

Our 2010 net earnings increased 23% to $237.3 million compared to $193.5 million in 2009. Diluted earnings per share increased 20% to $2.78 compared to $2.31 in 2009. The 2010 and 2009 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 2010 net earnings and diluted earnings per share by $15.6 million and $0.18, and the 2009 earnings and diluted earnings per share by $10.5 million and $0.12, 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 general and administrative expenses. Though our full-year 2010 operating margin was 19.4%, compared to 17.5% in 2009, we achieved our long term goal of 20% operating margins in the third and fourth quarters of 2010. Over the next few years, we believe we can further expand our operating margins by 100-200 basis points per year on average.

We had cash collections of receivables of $1.9 billion in 2010 compared to $1.8 billion in 2009. Days sales outstanding decreased to 87 days for the 2010 fourth quarter compared to 91 days for 2010 third quarter and 90 days for the 2009 fourth quarter, reflecting our improved cash collections. Operating cash flows for 2010 were strong at $456.4 million compared to $347.3 million in 2009, with the growth driven by cash collections from clients.

Healthcare Information Technology Market Outlook

We have provided a detailed assessment of the healthcare information technology market under Part I, Item 1, The Healthcare and Healthcare IT Industry.

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Results of Operations
Fiscal Year 2010 Compared to Fiscal Year 2009

(in thousands)	**2010**	***% of Revenue***	**2009**	***% of Revenue***	**% Change**
Revenues					
System sales	$ 550,792	*30%*	$ 504,561	*30%*	9%
Support and maintenance	517,494	*28%*	493,193	*29%*	5%
Services	749,483	*40%*	643,678	*39%*	16%
Reimbursed travel	32,453	*2%*	30,432	*2%*	7%
Total revenues	1,850,222	*100%*	1,671,864	*100%*	11%
Costs of revenue					
Costs of revenue	320,356	*17%*	281,198	*17%*	14%
Total margin	*1,529,866*	*83%*	*1,390,666*	*83%*	*10%*
Operating expenses					
Sales and client	767,152	*42%*	700,639	*42%*	9%
Software development	272,851	*15%*	271,051	*16%*	1%
General and administrative	130,530	*7%*	126,970	*8%*	3%
Total operating expenses	1,170,533	*64%*	1,098,660	*66%*	7%
Total costs and expenses	1,490,889	*81%*	1,379,858	*83%*	8%
Operating earnings	359,333	*19%*	292,006	*17%*	23%
Interest income (expense), net	3,439		308		
Other income (expense), net	(560)		367		
Income taxes	(124,940)		(99,216)		

Net earnings	$ 237,272	$ 193,465	23%

Revenues & Backlog

Revenues increased 11% to $1.9 billion in 2010, compared to $1.7 billion 2009.

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 9% to $550.8 million in 2010 from $504.6 million in 2009. The increase in system sales was driven by a strong increase in licensed software and technology resale.

Support and maintenance revenues increased 5% to $517.5 million in 2010 compared to $493.2 million in 2009. This increase is 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 16% to $749.5 million in 2010 compared to $643.7 million in 2009. This increase is 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 19% in 2010 compared to 2009. This increase was driven by growth in new business bookings

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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 for 2010 and 2009 follows:

(In thousands)	**2010**	**2009**
Contract backlog	$ 4,285,267	$ 3,591,026
Support and maintenance backlog	654,913	620,616
Total backlog	$ 4,940,180	$ 4,211,642

Costs of Revenue

Cost of revenues remained flat at 17% of total revenues in 2010 and 2009. The cost of revenues includes the cost of reimbursed travel expense, sales commissions, third party consulting services and subscription content, computer hardware and sublicensed software purchased from hardware and software 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, 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 7% in 2010 to $1.2 billion as compared to $1.1 billion in 2009.

Sales and client service expenses as a percent of total revenues were 42% in 2010 and 2009. These expenses increased 9% to $767.2 million in 2010, from $700.6 million in 2009. 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 and an increase in bad debt expense.

Software development expenses as a percent of revenue were 15% in 2010, as compared to 16% in 2009. These expenses increased 1% in 2010 to $272.9 million, from $271.1 million in 2009. Expenditures for software development in 2010 reflect continued development and enhancement of the *Cerner Millennium* platform and software solutions and investments in new growth initiatives. Although these expenses increased in 2010, the reduction as a percent 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 2010 and 2009 is as follows:

	For the Years Ended	
(In thousands)	**2010**	**2009**
Software development costs	$ 284,836	$ 285,187
Capitalized software costs	(79,631)	(76,876)
Capitalized costs related to share-based payments	(1,348)	(871)
Amortization of capitalized software costs	68,994	63,611

Total software development expense	$ 272,851	$ 271,051

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General and administrative expenses as a percent of total revenues were 7% in 2010, as compared to 8% in 2009. These expenses increased 3% to $130.5 million in 2010 from $127.0 million in 2009. General and administrative expenses include salaries for corporate, financial and administrative staff, utilities, communications expenses, professional fees, the transaction gains or losses on foreign currency and expense for share-based payments. The overall increase in general and administrative expenses was driven by a net transaction loss on foreign currency of $0.9 million in 2010 compared to a gain of $4.0 million in 2009. Additionally, increased corporate personnel costs were offset by a decrease in amortization expense driven by certain intangible assets being fully amortized at the end of 2009.

Non-Operating Items

Net interest income was $3.4 million in 2010, compared with net interest income of $0.3 million in 2009. Interest income increased to $10.3 million in 2010 from $8.8 million in 2009, due primarily to growth in investments and an increase in investment returns. Interest expense decreased to $6.9 million in 2010 from $8.5 million in 2009, due to payments on our long-term debt.

Other expense was $0.6 million in 2010, compared to other income of $0.4 million in 2009. Other income and expense in 2010 and 2009 includes offsetting unrealized gains and losses included in earnings related to our auction rate securities and put-like settlement feature in the amounts of $9.3 million and $10.5 million, respectively. Refer to Liquidity and Capital Resources within this MD&A and Notes (3) and (4) of the notes to consolidated financial statements for additional information on our auction rate securities.

Our effective tax rate was 34% in 2010 and 2009. There were no material changes impacting the effective tax rate between 2010 and 2009.

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, Saudi Arabia, Singapore, Spain, Sweden, Switzerland and the United Arab Emirates.

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The following table presents a summary of our operating segment information for the years ended 2010 and 2009:

(in thousands)	**2010**	***% of Revenue***	**2009**	***% of Revenue***	**% Change**
Domestic Segment					
Revenues	$ 1,562,563	*100%*	$ 1,398,715	*100%*	12%
Costs of revenue	272,385	*17%*	240,847	*17%*	13%
Operating expenses	417,181	*27%*	372,370	*27%*	12%
Total costs and expenses	689,566	*44%*	613,217	*44%*	12%
Domestic operating earnings	872,997	*56%*	785,498	*56%*	11%
Global Segment					
Revenues	287,659	*100%*	273,149	*100%*	5%
Costs of revenue	47,971	*17%*	40,351	*15%*	19%
Operating expenses	124,546	*43%*	130,256	*48%*	-4%
Total costs and expenses	172,517	*60%*	170,607	*62%*	1%
Global operating earnings	115,142	*40%*	102,542	*38%*	12%
Other, net	(628,806)		(596,034)		5%
Consolidated operating earnings	$ 359,333		$ 292,006		23%

Domestic Segment

Revenues increased 12% to $1.6 billion in 2010 from $1.4 billion in 2009. This increase was driven by growth across all lines of business with the strongest growth in licensed software, managed services and professional services.

Cost of revenues remained flat at 17% of revenues in both 2010 and 2009.

Operating expenses increased 12% to $417.2 million in 2010, from $372.4 million in 2009, due primarily to growth in managed services expense, professional services expense and bad debt expense.

Global Segment

Revenues increased 5% to $287.7 million in 2010 from $273.1 million in 2009. This increase was driven by improved licensed software, technology resale and support revenue, mostly from United Kingdom and the Middle East region, slightly offset by a decline from France. A change in estimates for certain contracts that rely on estimates as part of contract accounting also contributed to the increase.

Cost of revenues was 17% and 15% of revenues in 2010 and 2009, respectively. The higher cost of revenues in 2010 was driven by the increase in technology resale, which carries a higher cost of revenue.

Operating expenses decreased 4% to $124.5 million in 2010, from $130.3 million in 2009, primarily due to a decrease in personnel-related professional services expense, partially offset by an increase in bad debt 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 5% to $628.8 million in 2010 from $596.0 million in 2009. This increase was primarily due to growth in corporate and development personnel costs, stock compensation cost and the previously discussed impact of foreign currency transaction gains and losses.

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Fiscal Year 2009 Compared to Fiscal Year 2008

(in thousands)	**2009**	***% of Revenue***	**2008**	***% of Revenue***	**% Change**
Revenues					
System sales	$ 504,561	*30%*	$ 522,373	*31%*	-3%
Support and maintenance	493,193	*29%*	472,579	*28%*	4%
Services	643,678	*39%*	643,317	*39%*	0%
Reimbursed travel	30,432	*2%*	37,759	*2%*	-19%
Total revenues	1,671,864	*100%*	1,676,028	*100%*	0%
Costs of revenue					
Costs of revenue	281,198	*17%*	296,063	*18%*	-5%
Total margin	*1,390,666*	*83%*	*1,379,965*	*82%*	*1%*
Operating expenses					
Sales and client	700,639	*42%*	715,512	*43%*	-2%
Software development	271,051	*16%*	272,519	*16%*	-1%
General and administrative	126,970	*8%*	113,049	*7%*	12%
Total operating expenses	1,098,660	*66%*	1,101,080	*66%*	0%
Total costs and expenses	1,379,858	*83%*	1,397,143	*83%*	-1%
Operating earnings	292,006	*17%*	278,885	*17%*	5%
Interest income (expense), net	308		3,056		
Other income (expense), net	367		(510)		

Income taxes	(99,216)	(92,773)	
Net earnings	$ 193,465	$ 188,658	3%

Our 2008 consolidated and global segment revenues and margin included a cumulative catch-up adjustment recognized in the fourth quarter, in the amount of $28.6 million, resulting from a significant change in accounting estimate related to our contract in London. The majority of the catch-up adjustment revenue was included in support, maintenance and services.

Revenues & Backlog

Revenues were $1.7 billion in 2009, which was flat compared to 2008.

System sales decreased 3% to $504.6 million in 2009 from $522.4 million in 2008. The decrease in system sales was driven by a decline in technology resale, with licensed software basically flat and subscriptions increasing slightly.

Support and maintenance revenues increased 4% to $493.2 million in 2009 compared to $472.6 million in 2008. 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. The growth rate of support and maintenance revenue was negatively impacted by the extra week in 2008 (53) compared to 2009 (52) and the catch-up adjustment in 2008.

Services revenue remained flat, with growth in *CernerWorks*^{SM} managed services being offset by declines in professional services. The decline in professional services reflected the impact of the economy and lower billable headcount in 2009 compared to 2008.

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Contract backlog increased 23% in 2009 compared to 2008. 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. In the second quarter of 2008, contract backlog was reduced by approximately $178.0 million as a result of the contract withdrawal by Fujitsu Limited as the prime contractor in the southern region of England. A summary of our total backlog for 2009 and 2008 follows:

(In thousands)	**2009**	**2008**
Contract backlog	$ 3,591,026	$ 2,907,762
Support and maintenance backlog	620,616	580,915
Total backlog	$ 4,211,642	$ 3,488,677

Costs of Revenue

Cost of revenues was 17% of total revenues in 2009, as compared to 18% in 2008, with the slightly lower level reflective of the decline in technology resale, which includes higher third party costs.

Operating Expenses

Total operating expenses remained flat in 2009 at $1.1 billion as compared to 2008.

Sales and client service expenses as a percent of total revenues were 42% in 2009, as compared to 43% in 2008. These expenses decreased 2% to $700.6 million in 2009, from $715.5 million in 2008. The decrease was primarily attributable to lower professional services expense, partially offset by growth in the managed services business.

Software development expense decreased 1% in 2009 to $271.1 million, from $272.5 million in 2008. Expenditures for software development in 2009 reflected continued development and enhancement of the *Cerner Millennium* platform and software solutions and investments in new growth initiatives. A summary of our total software development expense in 2009 and 2008 is as follows:

	For the Years Ended	
(In thousands)	**2009**	**2008**
Software development costs	$ 285,187	$ 291,368
Capitalized software costs	(76,876)	(69,039)
Capitalized costs related to share-based payments	(871)	(942)
Amortization of capitalized software costs	63,611	51,132
Total software development expense	$ 271,051	$ 272,519

General and administrative expenses as a percent of total revenues were 8% in 2009, as compared to 7% in 2008. These expenses increased 12% to $127.0 million in 2009 from $113.0 million in 2008. We recorded a net transaction gain on foreign currency of $4.0 million and $9.9 million in 2009 and 2008, respectively. The lower gain in 2009 compared to 2008 was the primary reason for the increase in general and administrative expenses, with the balance driven by legal fees and other corporate expenses.

Non-Operating Items

Net interest income was $0.3 million in 2009, compared with net interest income of $3.1 million in 2008. Interest income decreased to $8.8 million in 2009 from $13.6 million in 2008, due primarily to a decline in investment returns. Interest expense decreased to $8.5 million in 2009 from $10.5 million in 2008, due

primarily to a reduction in long-term debt.

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Other income was $0.4 million in 2009, compared to other expense of $0.5 million in 2008. Other income and expense in 2009 and 2008 included offsetting unrealized gains and losses included in earnings related to our auction rate securities and put-like settlement feature in the amounts of $10.5 million and $19.9 million, respectively. Refer to Liquidity and Capital Resources within this MD&A and Notes (3) and (4) of the notes to consolidated financial statements for additional information on our auction rate securities.

Our effective tax rate was 34% and 33% in 2009 and 2008, respectively. This net increase was primarily due to higher tax expense recorded at the statutory rates of approximately $5.0 million and prior period tax expense of $2.3 million, offset by a decrease in our unrecognized tax benefits of $5.6 million. The tax rate for 2008 was slightly lower than normal due to strong income levels from global regions that have lower tax rates. Tax expense for 2009 included expense of approximately $2.3 million and 2008 included benefits of approximately $2.9 million for corrections relating to prior periods.

Operations by Segment

The following table presents a summary of our operating segment information for the years ended 2009 and 2008:

(in thousands)	**2009**	***% of Revenue***	**2008**	***% of Revenue***	**% Change**
Domestic Segment					
Revenues	$ 1,398,715	*100%*	$ 1,307,510	*100%*	7%
Costs of revenue	240,847	*17%*	225,955	*17%*	7%
Operating expenses	372,370	*27%*	361,213	*28%*	3%
Total costs and expenses	613,217	*44%*	587,168	*45%*	4%
Domestic operating earnings	785,498	*56%*	720,342	*55%*	9%
Global Segment					
Revenues	273,149	*100%*	368,518	*100%*	-26%
Costs of revenue	40,351	*15%*	70,108	*19%*	-42%
Operating expenses	130,256	*48%*	150,729	*41%*	-14%
Total costs and expenses	170,607	*62%*	220,837	*60%*	-23%
Global operating earnings	102,542	*38%*	147,681	*40%*	-31%
Other, net	(596,034)		(589,138)		1%
Consolidated operating earnings	$ 292,006		$ 278,885		5%

Domestic Segment

Revenues increased 7% to $1.4 billion in 2009 from $1.3 billion in 2008. This increase was driven by growth in managed services, licensed software, technology resale, and support and maintenance, partially offset by a decline in professional services.

Cost of revenues was 17% of revenues in both 2009 and 2008.

Operating expenses increased 3% to $372.4 million in 2009, from $361.2 million in 2008, due primarily to growth in managed services.

Operating earnings of the Domestic segment increased 9% to $785.5 million in 2009 from $720.3 million in 2008.

Global Segment

Revenues decreased 26% to $273.1 million in 2009 from $368.5 million in 2008. This decrease was driven by the previously discussed cumulative catch-up adjustment in 2008 and a decline in revenue from Middle Eastern and European countries resulting from the challenging global economic conditions.

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Cost of revenues was 15% and 19% of revenues in 2009 and 2008, respectively. The lower cost of revenues was driven by a lower mix of hardware revenues in 2009.

Operating expenses decreased 14% to $130.3 million in 2009, from $150.7 million in 2008, primarily due to a decrease in professional services expense.

Operating earnings of the Global segment decreased 31% to $102.5 million in 2009 from $147.7 million in 2008. This decline was driven by the catch-up adjustment in 2008 and the lower level of revenues in 2009.

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 1% to $596.0 million in 2009 from $589.1 million in 2008.

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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 consist of money market funds, time deposits and bonds with original maturities of less than 90 days and short-term investments. At the end of 2010, we had cash of $170.3 million, cash equivalents of $44.2 million and short-term investments of $356.5 million, as compared to cash of $144.8 million, cash equivalents of $97.0 million and short-term investments of $317.1 million at the end of 2009.

Additionally, we maintain a $90 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 the end of 2010, we were in compliance with. The current agreement expires on May 31, 2013. As of the end of 2010, we had no outstanding borrowings under this agreement; however, we have $13.6 million of outstanding letters of credit, which reduced our available borrowing capacity to $76.4 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. During the 2009 fourth quarter certain events occurred in the resolution process between Fujitsu and the NHS which reduced the likelihood the matter will be resolved in the next 12 months. Therefore we reclassified the receivables, which represented more than 10% of our net receivables, from current assets to other long term assets during the 2009 fourth quarter. The circumstances surrounding these receivables remained unchanged at the end of 2010 and represent the significant majority of other long-term assets at the end of 2010 and 2009. While the ultimate collectability of the receivables pursuant to this process is uncertain, management believes that it has valid and equitable grounds for recovery of such amounts and that collection of recorded amounts is probable.

In February and March 2008, liquidity issues in the global credit markets resulted in the progressive failure of auctions representing all the auction rate securities held by us. These conditions persisted through the remainder of 2008 and into 2009. During the fourth quarter of 2008, we entered into a settlement agreement with the investment firm that sold us the auction rate securities. Under the terms of the settlement agreement, we received the right to redeem the securities at par value during a period from mid-2010 through mid-2012. The settlement was in effect a put-like instrument with a fair value generally equal to the difference between the auction rate securities fair value and par value. At the end of 2010, we held auction rate securities with a par value of $18.5 million, which approximated fair value, as all outstanding auction rate securities were subsequently called at par value by the issuer in January 2011. For a more detailed discussion of the auction rate securities, please refer to Note (3), Cash and Investments, in the Consolidated Financial Statements.

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The following table provides details about our cash flows in 2010, 2009 and 2008:

	For the Years Ended		
(In thousands)	**2010**	**2009**	**2008**
Cash flows from operating activities	$ 456,444	$ 347,291	$ 281,802
Cash flows from investing activities	(520,896)	(394,321)	(170,607)
Cash flows from financing activities	34,841	16,770	(11,654)
Effect of exchange rate changes on cash	2,399	1,489	(11,961)
Total change in cash and cash equivalents	(27,212)	(28,771)	87,580
Cash and cash equivalents at beginning of period	241,723	270,494	182,914
Cash and cash equivalents at end of period	$ 214,511	$ 241,723	$ 270,494
Free cash flow (non-GAAP)	$ 273,154	$ 138,279	$ 103,605

Cash Flows from Operating Activities

	For the Years Ended		
(In thousands)	**2010**	**2009**	**2008**
Cash collections from clients	$ 1,900,145	$ 1,780,127	$ 1,729,526
Cash paid to employees and suppliers and other	(1,315,077)	(1,377,139)	(1,381,146)
Cash paid for interest	(6,887)	(8,583)	(10,512)
Cash paid for taxes, net of refund	(121,737)	(47,114)	(56,066)
Total cash from operations	$ 456,444	$ 347,291	$ 281,802

Cash flows from operations increased $109.2 million in 2010 compared to 2009 and $65.5 million in 2009 compared to 2008 primarily due to increased cash collections from clients. During 2010, 2009 and 2008, we received total client cash collections of $1.90 billion, $1.78 billion and $1.73 billion, respectively, of which approximately 4%, 3% and 5% were received from third party client financing arrangements and non-recourse payment assignments, respectively. Days sales outstanding decreased to 87 days for the 2010 fourth quarter compared to 91 days for 2010 third quarter and 90 days for the 2009 fourth quarter, reflecting our improved cash collections. Revenues provided under support and maintenance agreements represent recurring cash flows. Support and maintenance revenues increased 5% in 2010 and 4% in 2009, and we expect these revenues to continue to grow as the base of installed *Cerner Millennium* systems grows.

Cash Flows from Investing Activities

	For the Years Ended		
(In thousands)	**2010**	**2009**	**2008**
Capital purchases	$ (102,311)	$ (131,265)	$ (108,099)

Capitalized software development costs	(80,979)	(77,747)	(70,098)
Purchases of investments, net of maturities	(312,340)	(169,295)	17,510
Other, net	(25,266)	(16,014)	(9,920)
Total cash flows from investing activities	$ (520,896)	$ (394,321)	$ (170,607)

Cash flows from investing activities consists primarily of 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.

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In addition, during the first quarter 2010, we completed our acquisition of IMC Health Care, Inc. for approximately $14.5 million, net of the cash acquired.

Cash Flows from Financing Activities

(In thousands)	For the Years Ended 2010	2009	2008
Line of credit and long-term debt borrowings and repayments, net	$ (27,625)	$ (32,352)	$ (15,317)
Cash from option exercises (incl. excess tax benefits)	60,950	47,234	24,530
Purchase of treasury stock	-	-	(28,002)
Other, net	1,516	1,888	7,135
Total cash flows from financing activities	$ 34,841	$ 16,770	$ (11,654)

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 debts currently outstanding and current exchange rates, we expect our debt repayments to approximate $25 million per year through 2012 and approximately $15 million per year from 2013 through 2015.

Free Cash Flow

(In thousands)	For the Years Ended 2010	2009	2008
Cash flows from operating activities	$ 456,444	$ 347,291	$ 281,802
Capital purchases	(102,311)	(131,265)	(108,099)
Capitalized software development costs	(80,979)	(77,747)	(70,098)
Free cash flow (non-GAAP)	$ 273,154	$ 138,279	$ 103,605

Free Cash Flow increased $134.9 million in 2010 as compared to 2009, 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, as a substitute for, or superior to, GAAP results and investors should be aware that non-GAAP measures have inherent limitations and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. Free Cash Flow may also be different from similar non-GAAP financial measures used by other companies and may not be comparable to similarly titled captions of other companies due to potential inconsistencies in the method of calculation. We believe Free Cash Flow is important to enable investors to better understand and evaluate our ongoing operating results and allows for greater transparency in the review of our overall financial, operational and economic performance.

Contractual Obligations, Commitments and Off Balance Sheet Arrangements

The following table represents a summary of our contractual obligations and commercial commitments, excluding interest, at the end of 2010, except short-term purchase order commitments arising in the ordinary course of business.

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	Payments due by period						
(In thousands)	**2011**	**2012**	**2013**	**2014**	**2015**	**2016 and thereafter**	**Total**
Long-term debt obligations	$ 24,695	$ 24,351	$ 14,488	$ 14,488	$ 14,488	$ -	$ 92,510
Capital lease obligations	142	108	-	-	-	-	250
Operating lease obligations	23,646	21,891	19,847	17,564	11,392	48,799	143,139
Purchase obligations	18,810	13,707	7,850	6,515	3,263	13,291	63,436
Uncertain tax positions	243	3,816	3,427	6,614	-	-	14,100
Total	$ 67,536	$ 63,873	$ 45,612	$ 45,181	$ 29,143	$ 62,090	$ 313,435

We have no off-balance sheet arrangements. The effects of inflation on our business during 2010, 2009 and 2008 were not significant.

Recent Accounting Pronouncements

During 2009, the Financial Accounting Standards Board (FASB) issued guidance on revenue recognition for non-software elements that became effective for us beginning on January 2, 2011. Under the new guidance an entity is required to apply the relative selling price allocation method in order to estimate selling price for all units of accounting, including delivered items, when vendor-specific objective evidence (VSOE) or acceptable third party evidence (TPE) does not exist. In addition, expanded disclosures are required to provide both qualitative and quantitative information about the significant judgments made in applying the guidance and subsequent changes in those judgments that may significantly affect the timing or amount of revenue recognition. Further, for arrangements that include software elements, tangible products that have software components that are essential to the functionality of the tangible product will no longer be within the scope of the software revenue recognition guidance, and software-enabled products will now be subject to other relevant revenue recognition guidance. The guidance is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. We are assessing the adoption of the new guidance and do not believe it will have a material impact on our financial position and results of operations.

Critical Accounting Policies

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

Revenue Recognition

We recognize revenue within our multiple element arrangements, including software and software-related services, using the residual method. Key factors in our revenue recognition model are our assessments that installation services are essential to the functionality of our software whereas implementation services are not; and the length of time it

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

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

Software Development Costs

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

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

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

We expect that major software information systems companies, large information technology consulting service providers and systems integrators and others specializing in the healthcare industry may offer competitive products or services. The pace of change in the HIT market is rapid and there are frequent new product introductions, product enhancements and evolving industry standards and requirements. As a result, the capitalized software solutions may become less valuable or obsolete and could be subject to impairment.

Fair Value Measurements

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

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

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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.

As of the end of 2010, we held investments in money market funds, time deposits, commercial paper and government and corporate bonds. Auction rate securities are debt instruments with long-term nominal maturities, for which the interest rates regularly reset every 7-35 days under an auction system. Due to the lack of availability of observable market quotes on our investment portfolio of auction rate securities, we historically utilized valuation models that were based on discounted cash flow streams, including assessments of counterparty credit quality, default risk underlying the security, discount rates and overall capital market liquidity. The valuation was subject to uncertainties that were difficult to predict. If different assumptions were used for the various inputs to the valuation, including, but not limited to, assumptions involving the estimated holding periods for the auction rate securities, the estimated cash flows over those estimated lives, and the estimated discount rates, including the liquidity discount rate, applied to those cash flows, the estimated fair value of these investments could have been significantly higher or lower than the fair value we determined. At the end of 2010, we transferred our auction rate securities classified as Level 3 to Level 2 as all outstanding auction rate securities were subsequently called at par value by the issuer in January 2011.

A considerable amount of judgment and estimation was applied in the valuation of auction rate securities. In addition, we also apply judgment in determining whether the marketable securities are other-than-temporarily impaired. We typically consider the severity and duration of the decline, future prospects of the issuer and our ability and intent to hold the security to recovery.

Goodwill

Goodwill and intangible assets with indefinite lives are not amortized but are evaluated for impairment annually or whenever there is an impairment indicator. All goodwill is assigned to a reporting unit, where it is subject to an annual impairment test based on fair value. We assess goodwill for impairment in the second quarter of each fiscal year and evaluate impairment indicators at each quarter end. We assessed our goodwill for impairment in the second quarters of 2010 and 2009 and concluded that goodwill was not i