CERNER CORP /MO/
Form 10-K
February 10, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended: December 31, 2016

OR

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

For the transition period from _____ to _____

Commission File Number: 0-15386

CERNER CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	43-1196944
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
2800 Rockcreek Parkway North Kansas City, MO	64117
(Address of principal executive offices)	(Zip Code)

(816) 201-1024
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value per share	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

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 2, 2016, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $17.6 billion based on the closing sale price as reported on the NASDAQ Global Select Market. Shares of common stock held by each executive officer, director and holder of 10% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status for purposes of this calculation is not intended as a conclusive determination of affiliate status for other purposes.

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

Class	Outstanding at February 1, 2017
Common Stock, $0.01 par value per share	329,719,501 shares

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts into Which Incorporated
Portions of the registrant's Proxy Statement for the Annual Shareholders' Meeting to be held May 24, 2017	Part III

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CERNER CORPORATION

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PART I.

Item 1. Business

Overview

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

Our corporate world headquarters is located in a Company-owned office park in North Kansas City, Missouri, with our principal place of business located at 2800 Rockcreek Parkway, North Kansas City, Missouri 64117. Our telephone number is 816.201.1024. Our Web site, which we use to communicate important business information, can be accessed at: www.cerner.com. We make our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports available free of charge on or through this Web site as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). We do not intend for information contained in our website to be part of this annual report on Form 10-K.

Cerner is a leading supplier of health care information technology ("HCIT"). Our mission is to contribute to the improvement of health care delivery and the health of communities. We offer a wide range of intelligent solutions and services that support the clinical, financial and operational needs of organizations of all sizes. We have systems in more than 25,000 facilities worldwide, including hospitals, physician practices, laboratories, ambulatory centers, behavioral health centers, cardiac facilities, radiology clinics, surgery centers, extended care facilities, retail pharmacies, and employer sites.

Cerner solutions are offered on the unified Cerner Millennium® architecture and on the HealtheIntent™ cloud-based platform. Cerner Millennium is a person-centric computing framework, which includes integrated clinical, financial and management information systems. This architecture allows providers to securely access an individual’s electronic health record ("EHR") at the point of care, and it organizes and proactively delivers information to meet the specific needs of physicians, nurses, laboratory technicians, pharmacists, front- and back-office professionals and consumers. Our HealtheIntent platform is a cloud-based platform designed to scale at a population level while facilitating health and care at a person and provider level. On the HealtheIntent platform, we offer EHR-agnostic solutions that help health care systems aggregate, transform and reconcile data across the continuum of care, manage the health of populations they serve, improve outcomes and lower costs.

On February 2, 2015, Cerner acquired Siemens Health Services (now referred to as "Cerner Health Services"). Cerner Health Services offers a portfolio of enterprise-level clinical and financial health care information technology solutions, as well as departmental, connectivity, population health, and care coordination solutions globally.

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

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

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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		
	2016	2015	2014
Revenues by Solutions & Services			
System sales	26%	29%	28%
Support and maintenance	21%	22%	21%
Services	51%	47%	48%
Reimbursed travel	2%	2%	3%
	100%	100%	100%
Revenues by Segment			
Domestic	89%	88%	89%
Global	11%	12%	11%
	100%	100%	100%

Health Care and Health Care IT Industry

Health care expenditures continue to consume an increasing portion of most economies. In the U.S., health care spending increased 5.5 percent to $3.20 trillion in 2015, growing to 17.8 percent of the U.S.'s Gross Domestic Product ("GDP"). The Centers for Medicare and Medicaid Services ("CMS") estimates U.S. health care spending in 2016 at $3.35 trillion, or 18.1 percent of GDP, and projects it to be 20.1 percent of GDP by 2025. We believe this trajectory is unsustainable and that health care IT can play an important role in facilitating a shift from a high-cost health care system that incents volume to a proactive system that incents health, quality and efficiency.

For this change to occur, traditional fee-for-service ("FFS") reimbursement models must shift to value-based approaches that are more aligned with quality, outcomes, and efficiency. The largest signal of this shift occurred in January of 2015 when the U.S. Department of Health & Human Services laid out a plan to shift 50 percent of Medicare payments to value-based payment models by the end of 2018, and to tie 90 percent of the remaining traditional FFS payments to quality measures.

A further step towards a value-based model occurred in 2016 with the passage of The Medicare Access and CHIP Reauthorization Act ("MACRA"), which enacts significant reforms to the payment programs under the Medicare Physician Fee Schedule and consolidated three current value-based programs into one. We believe that MACRA and other government and private models aligning payment with value, quality and outcomes will drive major changes in the way health care is provided in the next decade, and we expect a much greater focus on patient engagement, wellness and prevention. As health care providers become accountable for proactively managing the health of the populations they serve, we expect them to need ongoing investment in sophisticated information technology solutions that will enable them to predict when intervention is needed so they can improve outcomes and lower the cost of providing care.

The increasingly complex and more clinical outcomes-based reimbursement environment is also contributing to a heightened demand for revenue cycle solutions and services and a desire for these solutions and services to be closely aligned with clinical solutions. We believe this trend is positive for Cerner because our Cerner Millennium revenue cycle solutions and services are integrated with our clinical solutions, creating a clinically driven revenue cycle solution that has had significant adoption in recent years.

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

While health care providers are showing a preference for a single platform across multiple venues, there is also an increased push for interoperability across disparate systems to address the reality that no patient's record will only have information from a single health care IT system. We believe health information should be shareable and accessible among primary care physicians, specialists, and hospital physicians.

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As a result, Cerner has led or been a key participant in nearly every major industry effort to advance interoperability and system openness. One example is Cerner's role as a founding member of the CommonWell Health Alliance, an open, not-for-profit industry consortium that brought health care IT firms together for the purpose of enabling safe nationwide interoperability. The vision of CommonWell is for a patient to be able to visit a new doctor, give their consent, and, within moments, have his or her lifetime record available from all the prior places he or she has visited.

CommonWell members represent about 70 percent of the acute care market and about 30 percent of the ambulatory market. CommonWell membership also spans a diverse range of clinical care settings beyond acute and ambulatory, including health IT market leaders in imaging, perinatal, emergency department, laboratory, retail pharmacy, oncology, care management, patient portal, post-acute care, and state and federal government agencies. In 2016, CommonWell and CareQuality, another national interoperability framework, announced an agreement to work together and leverage the respective strengths of each organization to create a level interoperability playing field for all provider organizations that wish to share clinical information using standards-based queries. This agreement is expected to create near-universal connectivity that establishes a baseline query capability for all providers, regardless of their EHR supplier.

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

Cerner Vision and Growth Strategy

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

In addition to growth by gaining market share, we believe we have a significant opportunity to grow revenues by expanding our solution footprint with existing clients. For example, less than 35 percent of our Cerner Millennium EHR clients have implemented Cerner revenue cycle solutions. This penetration has been growing in recent years and we expect it to continue because of the preference for having EHR and revenue cycle systems provided on the same platform. There is also opportunity to expand penetration of other solutions, such as women's health, anesthesiology, imaging, clinical process optimization, critical care, health care devices, device connectivity, emergency department and surgery.

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

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

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

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

Population Health

Population Health Management involves a shift from solely automating health systems to managing a person's health. Getting there requires complete, accurate patient data and meaningfully using that data to engage individuals, exchange information between providers and ultimately drive better outcomes at a lower cost. This shift will shape the future of health care and enable a system driven by accountability, transparency and value.

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

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

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

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

We have created a series of initial solutions on the HealtheIntent platform, including the following solutions that are generally available or being released soon:

- Longitudinal Record - provides clinicians and the patient a view of their consolidated clinical record, gathered and normalized from multiple sources.
- Registries - identifies and automatically segments patients by disease, guides interventions according to clinical best practice, provides visibility to quality measures for provider's population, produces client-defined performance scorecards, and tracks their health and their interventions according to clinical best practice.
- Analytics - allows the integrated data to be analyzed for the purpose of population health management and research.
- Provider Performance Management - creates visibility for providers on their performance against key clinical and operation metrics and can be aligned with payment models that incentivize high quality and efficient care.
- Patient/Member Engagement - an enhanced patient portal complemented by engagement services to help health care organizations create more meaningful interactions and engagement with the members they serve, and provides the ability to target individuals at risk of becoming chronically ill.
- Care Management - provides a person-centric approach of proactive surveillance, coordination and facilitation of health services across the care continuum to achieve optimal health status, quality and costs.

Population Health Programs - leverages evidence-based guidelines and the contextual information within HealtheIntent to provide identification, prediction and management of a condition at the population, provider and person level and facilitates a personalized plan of care for each member.

- Contract Network Management - for managing provider networks, modeling to inform payer negotiations, determining appropriate business models, and managing contract performance in near real-time.

In less than three years since the first HealtheIntent solution went live at our alpha client, more than 100 additional clients have purchased HealtheIntent solutions. The broad addressable market for population health solutions is reflected in the diversity of these clients, which include health systems, physician groups, employers, health plans, state governments, and accountable care organizations. The initial adoption by a large number of clients is encouraging and positions us for larger

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contributions to revenue from HealtheIntent solutions as these initial clients and others transition away from FFS models to value-based and at-risk models that require population health solutions and services.

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

Software Development

We commit significant resources to developing new health information system solutions and services. As of the end of 2016, approximately 6,100 associates were engaged in research and development activities. Total expenditures for the development and enhancement of our software solutions were $705 million, $685 million and $467 million during the 2016, 2015 and 2014 fiscal years, respectively. These figures include both capitalized and non-capitalized portions and exclude amounts amortized for financial reporting purposes.

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

Intellectual Property

We have a broad portfolio of intellectual property rights to protect the proprietary interests in our solutions, services, devices and brands. Our solutions constitute works of authorship protected by copyrights in the U.S. and globally. We own valuable trade secrets embodied in, or related to, our solutions, services and devices and protect these rights through a number of technical and legal measures. We have registered or applied to register certain trademarks and service marks in a number of countries with particular emphasis on the Cerner branding elements. We continue to develop our patent portfolio and own more than 350 issued patents with hundreds of patent applications pending. We do not consider any of our businesses to be dependent upon any one patent, copyright, trademark, or trade secret, or any family or families of the same.

Our solutions, devices and services incorporate or rely on intellectual property rights licensed from third parties, including software subject to open source software licenses. Certain technologies licensed to Cerner are also important for internal use in running our business and supporting our clients. Although replacing any existing licenses could be inconvenient, based on our experiences, existing contractual relationships, and the incentives of our technology suppliers, we believe that Cerner will continue to obtain these technologies or suitable alternatives for commercially reasonable prices on commercially reasonable terms or under open source software licenses acceptable to Cerner.

Sales and Marketing

The markets for Cerner HCIT solutions, health care devices and services include integrated delivery networks, physician groups and networks, managed care organizations, hospitals, medical centers, free-standing reference laboratories, home health agencies, blood banks, imaging centers, pharmacies, pharmaceutical manufacturers, employers, governments and public health organizations. The majority of our sales are clinical and revenue cycle solutions and services to hospitals and health systems, but our solutions and services are highly scalable and sold to organizations ranging from physician practices, to community hospitals, to complex integrated delivery networks, to local, regional and national government agencies. Sales to large health systems typically take approximately nine to 18 months, while the sales cycle is often shorter when selling to smaller hospitals and physician practices.

Our executive marketing management is located at our Realization Campus in Kansas City, Missouri (formerly known as our Innovations Campus), while our client representatives are deployed across the United States and globally. In addition to the United States, through our subsidiaries, we have sales associates and/or offices giving us a presence in more than 35 countries.

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

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Client Services

Substantially all of Cerner's clients that buy software solutions also enter into software support agreements with us for maintenance and support of their Cerner systems. In addition to immediate software support in the event of problems, these agreements allow clients to access new releases of the Cerner solutions covered by support agreements. Each client has 24-hour access to the applicable client support teams, including those located at our world headquarters in North Kansas City, Missouri, our Continuous Campus in Kansas City, Kansas, our campus in Malvern, Pennsylvania, and our global support organizations in Germany, 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 2016, we had a revenue backlog of $15.9 billion, which compares to $14.2 billion at the end of 2015. Such backlog represents contracted revenue that has not yet been recognized. We currently estimate that approximately 26% percent of the backlog at the end of 2016 will be recognized as revenue during 2017.

Competition

The market for HCIT solutions, devices and services is intensely competitive, rapidly evolving and subject to rapid technological change. Our principal competitors in the health care solutions and services market each offer a suite of software solutions that compete with many of our software solutions and services. These competitors include, but are not limited to:

Allscripts Healthcare Solutions, Inc.	Healthland, Inc.
athenahealth, Inc.	McKesson Corporation
Epic Systems Corporation	MEDHOST, Inc.
Evident Health Services, LLC	Medical Information Technology, Inc.
GE Healthcare	

Other competitors focus on only a portion of the market that we address. For example, we deem the following competitors, which offer HCIT services that compete directly with some of our service offerings, as principal competitors in the HCIT services space:

Deloitte Consulting, LLP (Deloitte)	Impact Advisors
Encore Health Resources, LLC	S&P Consultants
HCI Group	The Advisory Board Company (Advisory Board)
IBM Corporation (IBM)	Xerox Corporation, Ltd.

We view the following competitors that offer solutions to the ambulatory market (but do not currently have a significant presence in the broader health systems and independent hospital market) as principal competitors in this market:

AmazingCharts.com, Inc.	Practice Fusion, Inc.
eClinicalWorks, LLC	Quality Systems, Inc.
e-MDs, Inc.	SRSsoft
Greenway Health, LLC	Vitera Healthcare Solutions
Netsmart Technologies	

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Cerner partners with third parties as a reseller of devices and markets its own competing proprietary health care devices. We view our principal competitors in the health care device market to include, without limitation:

Becton, Dickinson and Company	Philips N.V.
Connexall Company, Ltd.	Qualcomm, Inc.
Nanthealth, LLC	Siemens AG
Omnicell, Inc.	Vocera Communication, Inc.
PerfectServe, Inc.	

We view our principal competitors in the health care revenue cycle and transaction services market to include, without limitation:

Accretive Health, Inc.	Experian plc
Conifer Health Solutions	MedAssets, Inc.
Dell, Inc.	Optum, Inc. (Optum)
Deloitte	Quadramed Corporation
Emdeon Corporation	

We view our competitors in the population health market to range from small niche competitors, to large health insurance companies including, without limitation:

Advisory Board	Influence Health, Inc.
Enli Health Intelligence	Lightbeam Health Solutions
Evolent Health, LLC	Lumeris, Inc.
i2i, Inc.	Optum
IBM	WellCentive, Inc.

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

Number of Employees (Associates)
At the end of 2016, we employed approximately 24,400 associates worldwide.

Operating Segments
Information about our operating segments, which are geographically based, may be found in Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” below and in Note (18) of the notes to consolidated financial statements.

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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 1, 2017. Officers are elected annually and serve at the discretion of the Board of Directors.

Name	Age	Positions
Neal L. Patterson	67	Chairman of the Board of Directors and Chief Executive Officer
Clifford W. Illig	66	Vice Chairman of the Board of Directors
Zane M. Burke	51	President
Marc G. Naughton	61	Executive Vice President and Chief Financial Officer
Michael R. Nill	52	Executive Vice President and Chief Operating Officer
Randy D. Sims	56	Senior Vice President, Chief Legal Officer and Secretary
Jeffrey A. Townsend	53	Executive Vice President and Chief of Staff
Julia M. Wilson	54	Executive Vice President and Chief People Officer

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

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

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

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

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

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

join Farmland.

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

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

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Item 1A. Risk Factors

Risks Related to our Business

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

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

We may experience interruptions at our data centers or client support facilities, which could interrupt clients' access to their data, exposing us to significant costs and reputational harm. Our business relies on the secure electronic transmission, data center storage and hosting of sensitive information, including protected health information, personally identifiable information, financial information and other sensitive information relating to our clients, company and workforce. We perform data center and/or hosting services for certain clients, including the storage of critical patient and administrative data and support services through various client support facilities. If any of these systems are interrupted, damaged or breached by an unforeseen event or actions of a Cerner associate or contractor or a third party or fail for any extended period of time, it could have a material adverse impact on our results of operations. Complete failure of all local public power and backup generators; impairment of all telecommunications lines; a concerted denial of service attack; a significant system, network or data breach; damage, injury or impairment

(environmental, accidental or intentional) to the buildings, the equipment inside the buildings housing our data centers, the personnel operating such facilities or the client data contained therein; or errors by the personnel trained to operate such facilities could cause a disruption in operations and negatively impact clients who depend on us for data center and system support services. We offer our clients disaster recovery services for additional fees to protect clients from isolated data center failures, leveraging our multiple data center facilities; however only a small percentage of our hosted clients choose to contract for these services. Additionally, Cerner's core systems are disaster tolerant as we have implemented redundancy across physically diverse data centers. Any interruption in operations at our data centers and/or client support facilities could damage our reputation, cause us to lose existing clients, hurt our ability to obtain new clients, result in significant revenue loss, create potential liabilities for our clients and us and increase insurance and other operating costs.

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If our IT security is breached, we could be subject to increased expenses, exposure to legal claims and regulatory actions, and clients could be deterred from using our solutions and services. We are in the information technology business, and in providing our products and services, we store, retrieve, process and manage our clients' information and data (and that of their patients), as well as our own data. We believe we have a reputation for secure and reliable solution offerings and related services, and we have invested a great deal of time and resources in protecting the security, confidentiality, integrity and availability of our solutions, services and the internal and external data that we manage. At times, we encounter attempts by third parties to identify and exploit solution and service vulnerabilities, penetrate or bypass our security measures, and gain unauthorized access to our or our clients', partners' and suppliers' software, hardware and cloud offerings, networks and systems, any of which could lead to the compromise of personal information or the confidential information or data of Cerner, our clients or their patients.

High-profile security breaches at other companies have increased in recent years, and security industry experts and government officials have warned about the risks of hackers and cyber-attacks targeting information technology products and businesses. Although this is an industry-wide problem that affects other software and hardware companies, we may be targeted by computer hackers because we are a prominent health care IT company. These risks will increase as we continue to grow our cloud offerings and store and process increasingly large amounts of data, including personal health information, and our clients' confidential information and data, and host or manage parts of our clients' businesses in cloud-based IT environments.

The costs we would incur to address and fix these security incidents would increase our expenses, and our efforts to address these problems may not be successful and could result in interruptions, delays, cessation of service and loss of existing or potential clients that may impede our sales, development of solutions, provision of services or other critical functions. If a cyber-attack or other security incident described above were to allow unauthorized access to or modification of our clients' or suppliers' data, our own data or our IT systems, or if our solutions or services are perceived as having security vulnerabilities, we could suffer significant damage to our brand and reputation. This in turn could lead to fewer clients using our solutions and services and result in reduced revenue and earnings. These types of security incidents could also lead to lawsuits, regulatory investigations and claims and increased legal liability, including in some cases contractual costs related to notification and fraud monitoring of impacted persons.

Our proprietary technology may be subject to claims for infringement or misappropriation of intellectual property rights of others, or our intellectual property rights may be infringed or misappropriated by others. We rely upon a combination of confidentiality practices and policies, license agreements, confidentiality provisions in employment agreements, confidentiality agreements with third parties and technical security measures to maintain the confidentiality, exclusivity and trade secrecy of our proprietary information. We also rely on trademark and copyright laws to protect our intellectual property rights in the U.S. and abroad. We continue to develop our patent portfolio of U.S. and global patents, but these patents do not provide comprehensive protection for the wide range of solutions, devices and services we offer. Despite our protective measures and intellectual property rights, we may not be able to adequately protect against theft, copying, reverse-engineering, misappropriation, infringement or unauthorized use or disclosure of our intellectual property, which could have an adverse effect on our competitive position.

In addition, we are routinely involved in intellectual property infringement or misappropriation claims, and we expect this activity to continue or even increase as the number of competitors, patents and patent enforcement organizations in the HCIT and broader IT market increases, the functionality of our software solutions, devices and services expands, the use of open-source software increases and we enter new geographies and new market segments. These claims, even if unmeritorious, are expensive to defend and are often incapable of prompt resolution. If we become liable to third parties for infringing or misappropriating their intellectual property rights, we could be required to pay a substantial damage award, develop alternative technology, obtain a license or cease using, selling, offering for sale, licensing, implementing or supporting the applicable solutions, devices and services.

Many of our solutions and services contain open source software that may pose particular risks to our proprietary software, solutions, and services in a manner that could have a negative effect on our business. We rely upon open source software in our solutions and services. The licensing terms applicable for certain open source software have not been interpreted by U.S. or foreign courts and could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to provide and support our solutions or services.

Additionally, we may encounter claims from third parties claiming ownership of the software purported to be licensed under the open source terms, demanding release of derivative works of open source software, which could include our proprietary source code, or otherwise seeking to enforce the terms of the applicable open source licenses. These claims could result in

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litigation and, even if unmeritorious, could be expensive to defend and incapable of prompt resolution. If we become liable to third parties for such claims, we could be required to make our software source code available under the applicable open source license, utilize or develop alternative technology, or cease using, selling, offering for sale, licensing, implementing or supporting the applicable solutions or services. In addition, use of certain open source software may pose greater risks than use of third-party commercial software, as most open source licensors and distributors do not provide commercial warranties or indemnities or controls on the origin of software.

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

We are subject to risks associated with our global operations. We market, sell and support 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. Our acquisition of the Cerner Health Services business increased our assets and operations within Europe and, accordingly, our exposure to economic conditions in Europe. We plan to continue to expand our non-U.S. operations and enter new global markets. This expansion will require significant management attention and financial resources to develop successful direct and indirect non-U.S. sales and support channels. Our business is generally transacted in the local functional currency. In some countries, our success will depend in part on our ability to form relationships with local partners. There is a risk that we may sometimes choose the wrong partner. For these and other reasons, we may not be able to maintain or increase non-U.S. market demand for our solutions, devices and services.

Non-U.S. operations are subject to inherent risks, and our business, results of operations and financial condition, including our revenue growth and profitability, 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 and political market conditions;
- Effects of sovereign debt conditions, including budgetary constraints;
- Unfavorable or volatile foreign currency exchange rates;
- Legal compliance costs or business risks associated with our global operations where: i) local laws and customs differ from, or are more stringent than those in the U.S., such as those relating to data protection and data security or ii) risk is heightened with respect to laws prohibiting improper payments and bribery, including without limitation the U.S. Foreign Corrupt Practices Act, the U.K. Anti-Bribery Act and similar laws and regulations in foreign jurisdictions;
- Certification, licensing or regulatory requirements and unexpected changes to those requirements;
- Changes to or reduced protection of intellectual property rights in some countries;
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Potentially adverse tax consequences as a result of changes in tax laws or otherwise, and difficulties associated with repatriating cash generated or held abroad in a tax-efficient manner;

- Different or additional functionality requirements or preferences;
- Trade protection measures;
- Export control regulations;
- Health service provider or government spending patterns or government-imposed austerity measures;
- Natural disasters, war or terrorist acts;
- Labor disruptions that may occur in a country; or

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- Political unrest which may impact sales or threaten the safety of associates or our continued presence in these countries and the related potential impact on global stability.

Fluctuations in foreign currency exchange rates could materially affect our financial results. Our consolidated financial statements are presented in U.S. dollars. In general, the functional currency of our subsidiaries is the local currency. For each subsidiary, assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the exchange rates in effect at the balance sheet dates and revenues and expenses are translated at the average exchange rates prevailing during the month of the transaction. Therefore, increases or decreases in the value of the U.S. dollar against other major currencies affect our revenues, net earnings and the value of balance sheet items denominated in foreign currencies. Future fluctuations in foreign currency exchange rates, particularly the strengthening of the U.S. dollar against major currencies, could materially affect our financial results.

We are subject to tax legislation in numerous countries; tax legislation initiatives or challenges to our tax positions could adversely affect our business, results of operations and financial condition. We are a global corporation with a presence in more than 35 countries. As such, we are subject to tax laws, regulations and policies of the U.S. federal, state and local governments and of comparable taxing authorities in 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, tax payments, tax credits or incentives will not be adversely affected by these initiatives. In addition, U.S. 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 additional taxation, penalties and interest payments.

The vote by the United Kingdom (UK) to leave the European Union (EU) could adversely affect our financial results. In June 2016, UK voters approved a referendum to withdraw the UK's membership from the EU, which is commonly referred to as "Brexit". The referendum was advisory, and the terms of any withdrawal are subject to a negotiation period after the government of the UK formally initiates a withdrawal process. We have operations in the UK and the EU, and as a result, we face risks associated with the potential uncertainty and disruptions that may lead up to and follow Brexit, including with respect to volatility in exchange rates and interest rates and potential material changes to the regulatory regime applicable to our operations in the UK. Brexit could adversely affect European or worldwide political, regulatory, economic or market conditions and could contribute to instability in global political institutions, regulatory agencies and financial markets. For example, depending on the terms of Brexit, the UK could also lose access to the single EU market and to the global trade deals negotiated by the EU on behalf of its members. Disruptions and uncertainty caused by Brexit may also cause our clients to closely monitor their costs and reduce their spending budget on our solutions and services. Any of these effects of Brexit, and others we cannot anticipate or that may evolve over time, could adversely affect our business, results of operations and financial condition.

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

We depend on strategic partners and third party suppliers and our revenue and operating earnings could suffer if we fail to manage these relationships properly. To be successful, we must continue to maintain our existing strategic relationships and establish additional strategic relationships as necessary with leaders in the markets in which we operate. We believe that these relationships contribute to our ability to further build our brand, extend the reach of our solutions and services, and generate additional revenues and cash flows. If we were to lose critical strategic relationships, this could have a material adverse impact on our business, results of operations and financial condition.

We license or purchase certain intellectual property and technology (such as software, hardware and content) from third parties, including some competitors, and depend on such third party intellectual property and software, hardware or content

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in the operation and delivery of our solutions, devices and services. Additionally, we sell or license third party intellectual property and software, hardware or content in conjunction with our solutions, devices and services. For instance, we currently depend on Microsoft, Oracle and IBM technologies for portions of the operational capabilities of our Millennium solutions. Our remote hosting and cloud services businesses also rely on a limited number of suppliers for certain functions of these businesses, such as Oracle database technologies, CITRIX technologies and Cisco networking technologies. Additionally, we rely on Dell EMC, Hewlett-Packard Enterprise, HP Inc., NetApp, IBM and others for our hardware technology platforms.

Most of our third party software license support contracts expire within one to five years, can be renewed only by mutual consent and may be terminated if we breach the terms of the license and fail to cure the breach within a specified period of time. Most of these third party software licenses are non-exclusive; therefore, our competitors may obtain the right to use any of the technology covered by these licenses and use the technology to compete directly with us.

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

We may encounter difficulties as we continue to integrate our Cerner Health Services business into our business or fail to realize the long-term anticipated benefits of the acquisition of the Cerner Health Services business. The integration of two independent businesses is a complex, costly and time-consuming process and involves numerous risks, including difficulties in the assimilation of operations, services, solutions and personnel, the diversion of management’s attention from other business concerns, the expansion into markets in which we have little or no direct prior experience, and the potential inability to maintain the goodwill of existing clients. Potential difficulties that we may encounter as part of the integration process, which may preclude us from fully realizing the anticipated benefits of the acquisition, including the anticipated synergies, growth opportunities and cost savings, include, among other factors:

- managing a larger company;
- integrating two business cultures;
- creating uniform standards, controls, procedures, policies and information systems and minimizing the costs associated with such matters;
- preserving client, supplier, research and development, distribution, marketing, promotion and other important relationships;
- commercializing "go forward" solutions under development and increasing revenues from existing marketed solutions; and
- integrating complex technologies and solutions from different businesses in a manner that is seamless to clients.

Any of the above difficulties could adversely affect our ability to maintain relationships with clients, partners, suppliers and associates or our ability to achieve the anticipated benefits of the Cerner Health Services acquisition, or could reduce our earnings or otherwise adversely affect our business, results of operations and financial condition.

We intend to continue strategic business acquisitions and other combinations, which are subject to inherent risks. In order to expand our solutions, device offerings and services and grow our market and client base, we may continue to seek and complete strategic business acquisitions and other combinations that we believe are complementary to our business. Acquisitions have inherent risks which may have a material adverse effect on our business, results of operations, financial condition 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 our management's attention from other business concerns; 3) entry into markets in which we have little or no direct prior experience; 4) failure to achieve projected synergies and performance targets; 5) loss of clients or key personnel; 6) incurrence of debt or assumption of known and unknown liabilities; 7) write-off of software development costs, goodwill, client lists and amortization of expenses related to intangible assets; 8) dilutive issuances of equity securities; and, 9) accounting deficiencies that could arise in connection with, or as a result of, the acquisition of an

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acquired company, including issues related to internal control over financial reporting and the time and cost associated with remedying such deficiencies. If we fail to successfully integrate acquired businesses or fail to implement our business strategies with respect to these acquisitions, we may not be able to achieve projected results or support the amount of consideration paid for such acquired businesses.

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

Volatility and disruption resulting from global economic or market conditions could negatively affect our business, results of operations and financial condition. Our business, results of operations, financial condition and outlook may be impacted by the health of the global economy. Volatility and disruption in global capital and credit markets may lead to slowdowns or declines in client spending which could adversely affect our business and financial performance. Our business and financial performance, including new business bookings and collection of our accounts receivable, may be adversely affected by current and future economic conditions (including a reduction in the availability of credit, higher energy costs, rising interest rates, financial market volatility and lower than expected economic growth) that cause a slowdown or decline in client spending. Reduced purchases by our clients or changes in payment terms could adversely affect our revenue growth and cause a decrease in our cash flow from operations. Bankruptcies or similar events affecting clients may cause us to incur bad debt expense at levels higher than historically experienced. Further, volatility and disruption in global financial markets may also limit our ability to access the capital markets at a time when we would like, or need, to raise capital, which could have an impact on our ability to react to changing economic and business conditions. Accordingly, if global financial and economic volatility continues or worsens, our business, results of operations and financial condition could be materially and adversely affected.

If we are unable to manage our growth in the new markets in which we offer solutions, health care devices or services, our business, results of operations and financial condition could suffer. Our future financial results will depend in part on our ability to profitably manage our business in the new markets that we enter. Over the past several years, we have engaged in the identification of, and competition for, growth and expansion opportunities in the areas of analytics, revenue cycle and population health. In order to achieve those initiatives, we will need to, among other things, recruit, train, retain and effectively manage associates, manage changing business conditions and implement and improve our technical, administrative, financial control and reporting systems for offerings in those areas. Difficulties in managing future growth in new markets could have a material adverse impact on our business, results of operations and financial condition.

Our work with government clients exposes us to additional risks inherent in the government contracting environment. Our clients include national, provincial, state and local governmental entities. Our government work carries various risks inherent in the government contracting process. These risks include, but are not limited to, the following:

- Government entities, particularly in the U.S., often reserve the right to audit our contracts and conduct inquiries and investigations of our business practices with respect to government contracts. U.S. government agencies conduct reviews and investigations and make inquiries regarding our systems in connection with our performance and business practices with respect to our government contracts. Negative findings from audits, investigations or inquiries could affect our future sales and profitability by preventing us, by operation of law or in practice, from receiving new government contracts for some period of time.

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If a government client discovers improper or illegal activities in the course of audits or investigations, we may become subject to various civil and criminal penalties, including those under the civil U.S. False Claims Act, and administrative sanctions, which may include termination of contracts, suspension of payments, fines and suspensions or debarment from doing business with other agencies of that government. The inherent limitations of internal controls may not prevent or detect all improper or illegal activities.

U.S. government contracting regulations impose strict compliance and disclosure obligations. Disclosure is required if certain company personnel have knowledge of “credible evidence” of a violation of federal criminal laws involving fraud, conflict of interest, bribery or improper gratuity, a violation of the civil U.S. False Claims Act or receipt of a significant overpayment from the government. Failure to make required disclosures could be a basis for suspension and/or debarment from federal government contracting in addition to breach of the specific contract and could also

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impact contracting beyond the U.S. federal level. Reported matters also could lead to audits or investigations and other civil, criminal or administrative sanctions.

- Government contracts are subject to heightened reputational and contractual risks compared to contracts with commercial clients. For example, government contracts and the proceedings surrounding them are often subject to more extensive scrutiny and publicity. Negative publicity, including allegations of improper or illegal activity, poor contract performance, deficiencies in services or other deliverables, or information security breaches, regardless of accuracy, may adversely affect our reputation.

- Terms and conditions of government contracts also tend to be more onerous and are often more difficult to negotiate.

- Government entities typically fund projects through appropriated monies. While these projects are often planned and executed as multi-year projects, government entities usually reserve the right to change the scope of or terminate these projects for lack of approved funding and/or at their convenience. Changes in government or political developments, including budget deficits, shortfalls or uncertainties, government spending reductions (e.g., Congressional sequestration of funds under the Budget Control Act of 2011) or other debt constraints could result in our projects being reduced in price or scope or terminated altogether, which also could limit our recovery of reimbursable expenses. Furthermore, if insufficient funding is appropriated to the government entity to cover termination costs, we may not be able to fully recover our investments.

The occurrences or conditions described above could affect not only our business with the particular government entities involved, but also our business with other entities of the same or other governmental bodies or with certain commercial clients, and could have a material adverse effect on our business, results of operations and financial condition.

There are risks associated with our outstanding and future indebtedness. We have customary restrictive covenants in our current debt agreements, which may limit our flexibility to operate our business. These covenants include limitations on priority debt, liens, mergers, asset dispositions, and transactions with affiliates, and require us to maintain certain leverage and interest coverage ratios. Failure to comply with these covenants could result in an event of default that, if not cured or waived, could result in reduced liquidity for the Company and could have a material adverse effect on our business, results of operations and financial condition. Additionally, our ability to pay interest and repay the principal for our indebtedness is dependent upon our ability to manage our business operations, generate sufficient cash flows to service such debt and the other factors discussed in this section. There can be no assurance that we will be able to manage any of these risks successfully.

Risks Related to the Health Care Information Technology, Health Care Device, Health Care Transaction, Revenue Cycle Management and Population Health Management Industries

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

Many health care providers are consolidating to create integrated health care delivery systems with greater market power. These providers may try to use their market power to negotiate price reductions for our solutions, health care

devices and services. As the health care industry consolidates, our client base could be eroded, competition for clients could become more intense and the importance of landing new client relationships becomes greater.

The Patient Protection and Affordable Care Act, which was amended by the Health Care and Education Reconciliation Act of 2010, became law in 2010. This comprehensive health care reform legislation included provisions to control health care costs, improve health care quality, and expand access to affordable health insurance. Together with ongoing statutory and budgetary policy developments at a federal level, this health care reform legislation could include changes in Medicare and Medicaid payment policies and other health care delivery administrative reforms that could potentially negatively impact our business and the business of our clients. The results of the November 8, 2016, elections create uncertainty for the future of the Affordable Care Act and other health care-related legislation. Because of that uncertainty, because not all the administrative rules implementing health care reform under current legislation have been finalized, and because of ongoing federal fiscal

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budgetary pressures yet to be resolved for federal health programs, we cannot predict the full effect of health care legislation on our business at this time. There can be no assurances that health care reform initiatives will not adversely impact either our operational results or the manner in which we operate our business, including changes to existing regulatory oversight that may impact operating expenses and increase compliance risk. Purchasers of HCIT may respond to the uncertainty by reducing their investments or postponing investment decisions, including investments in our devices, solutions and services. Future legislation and regulation may ultimately impact the fiscal stability and sustainability of HCIT purchasers. A lower amount of regulatory incentives and/or near-term compliance deadlines that contribute to demand for our solutions and services could impact our financial results. There can be no certainty that incentives will be offered in regard to our solutions and services, nor can there be any assurance that any legislation that may be adopted would be favorable to our business. We cannot predict whether or when future health care reform initiatives at the federal or state level or other initiatives affecting our business will be proposed, enacted or implemented or what impact those initiatives may have on our business, results of operations and financial condition.

The health care industry is highly regulated, and thus, we are subject to a number of laws, regulations and industry initiatives, non-compliance with certain of which could materially adversely affect our operations or otherwise adversely affect our business, results of operations and financial condition. As a participant in the health care industry, our operations and relationships, and those of our clients, are regulated by a number of U.S. federal, state, local and foreign governmental entities. The impact of these regulations on us is direct, to the extent that we are ourselves subject to these laws and regulations, and is also indirect, both in terms of the level of government reimbursement available to our clients and because, in a number of situations, even though we may not be directly regulated by specific health care laws and regulations, our solutions, devices and services must be capable of being used by our clients in a way that complies with those laws and regulations. There is a significant and wide-ranging number of regulations both within the U.S. and abroad, such as regulations in the areas of health care fraud, e-prescribing, claims processing and transmission, health care devices, the security and privacy of patient data and interoperability standards, that may be directly or indirectly applicable to our operations and relationships or the business practices of our clients. Specific risks include, but are not limited to, the following:

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

Preparation, Transmission and Submission of Medical Claims for Reimbursement. Our solutions are capable of electronically transmitting claims for services and items rendered by a physician to many patients' payers for approval

and reimbursement. We also provide revenue cycle management services to our clients that include the coding, preparation and submission of claims for medical service to payers for reimbursement. Such claims are governed by U.S. federal and state laws. U.S. federal law provides civil liability to any persons that knowingly submit, or cause to be submitted, a claim to a payer, including Medicare, Medicaid and private health plans, seeking payment for any services or items that overbills or bills for services or items that have not been provided to the patient. U.S. federal law may also impose criminal penalties for intentionally submitting such false claims. We have policies and procedures in place that we believe result in the accurate and complete preparation, transmission, submission and collection of claims, provided that the information given to us by our clients is also accurate and complete. The HIPAA security, privacy and transaction standards, as discussed below, also have a potentially significant effect on our claims preparation, transmission and submission services, since those services must be structured and provided in a way that supports our clients' HIPAA compliance obligations. In connection with these laws, we may be subjected to U.S. 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

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or other government-funded health care programs. Any investigation or proceeding related to these laws, even if unwarranted or without merit, may have a material adverse effect on our business, results of operations and financial condition.

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

There have been eight FDA inspections at various Cerner sites since 2003. Inspections conducted at our Headquarters Campus and Realization Campus (formerly known as our Innovations Campus) in 2010 resulted in the issuance of an FDA Form 483 observation to which we responded promptly. The FDA has taken no further action with respect to the Form 483 observation that was issued in 2010. The remaining FDA inspections, including inspections at our Headquarters Campus in 2006, 2007 and 2014, resulted in no issuance of a Form 483. We remain subject to periodic FDA inspections and we could be required to undertake additional actions to comply with the Act and any other applicable regulatory requirements. Our failure to comply with the Act and any other applicable regulatory requirements could have a material adverse effect on our ability to continue to manufacture, distribute and deliver our solutions, services and devices. The FDA has many enforcement tools including recalls, product corrections, seizures, injunctions, refusal to grant pre-market clearance of products, civil fines and criminal prosecutions. Any of the foregoing could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

In Europe, we are subject to EU data protection legislation, including the 1995 Data Protection Directive, which requires member states to impose minimum restrictions on the collection and use of personal data that, in some respects, are more stringent, and impose more significant burdens on subject businesses, than current privacy standards in the U.S. The EU directives establish several obligations that organizations must follow with respect to use of personal data, including a

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prohibition on the transfer of personal information from the EU to other countries whose laws do not adequately protect the privacy and security of personal data to European standards. In addition to this EU-wide legislation, certain member states have adopted more stringent data protection standards. We have addressed these requirements, relative to data transfers, by self-certifying our compliance with the EU-U.S. Privacy Shield Framework to the U.S. Department of Commerce International Trade Administration ("ITA"). The ITA has approved our self-certification. However, continued criticism of the Privacy Shield by officials in Europe casts uncertainty as to the long-term effectiveness of the Privacy Shield to support EU-U.S. transfers of personal data. For that reason, we are pursuing alternative methods of compliance, but those methods also may be subject to scrutiny by data protection authorities in European member states.

On April 14, 2016, the European Parliament approved the General Data Protection Regulation ("GDPR"). The GDPR will replace the 1995 Data Protection Directive and will become enforceable on May 24, 2018. The GDPR will have significant impacts on how businesses, including both us and our clients, can collect and process the personal data of EU individuals. We may incur increased development costs and delays in delivering solutions as we need to update our software, devices or health care devices to enable our European clients to comply with these varying and evolving standards to the extent that they differ from the standards of the previous 1995 Data Protection Directive. In addition, delays in interpreting the GDPR's standards may result in postponement or cancellation of our clients' decisions to purchase our solutions or health care devices. The costs of compliance with, and other burdens imposed by, such laws, regulations and policies, or modifications thereto, that are applicable to us may limit the use and adoption of our solutions and could have a material adverse impact on our business, results of operations and financial condition.

Both the 1995 Data Protection Directive and the GDPR grant broad enforcement powers to regulatory agencies to investigate and enforce our compliance with their data privacy and security requirements. Governmental enforcement personnel, particularly in the EU, have substantial funding, powers and remedies to pursue suspected or perceived violations. If we fail to comply with any applicable laws or regulations, we could be subject to civil penalties, sanctions or other liability. Enforcement investigations, even if meritless, could have a negative impact on our reputation, cause us to lose existing clients or limit our ability to attract new clients.

Interoperability Standards. Our clients are concerned with and often require that our software solutions and health care devices be interoperable with other third party HCIT suppliers. Market forces or governmental/regulatory authorities could create software interoperability standards that would apply to our solutions, health care devices or solutions, and if our software solutions, health care devices or services are not consistent with those standards, we could be forced to incur substantial additional development costs to conform. The Office of the National Coordinator for Health Information Technology (ONC) has developed a comprehensive set of criteria for the functionality, interoperability and security of various software modules in the HCIT industry. ONC, however, continues to modify and refine those standards. Achieving certification is becoming a competitive requirement. We may incur increased software development and administrative expense and delays in delivering solutions if we need to update our software, devices or health care devices to conform to these varying and evolving requirements. In addition, delays in interpreting these standards may result in postponement or cancellation of our clients’ decisions to purchase our solutions or health care devices. If our software solutions, devices or health care devices are not compliant with these evolving standards, our market position and sales could be impaired and we may have to invest significantly in changes to our software solutions, devices or health care devices.

Federal Requirements for Certified Health Information Technology. Various U.S. federal and state and non-U.S. government agencies are also developing standards for the use of information technology that in some cases have become prerequisite to or mandatory as requirements for providing health care services to beneficiaries of federal health insurance programs that are paid for by these agencies. Hospitals and physicians participating in the statutory ARRA HITECH program for “meaningful use of certified electronic health record technology ("CEHRT")” first started receiving stimulus funds in 2011 as incentive payments for adoption of EHRs from the U.S. federal government. In

most cases, these incentives have now evolved into negative payment adjustments for providers who do not adopt CEHRT. In the last year, the requirements for adoption of CEHRT have expanded to be linked to other federal statutory and regulatory requirements for providers to participate in “alternative payment models” for Medicare as the federal government moves to adopt more “value” (or quality) based payment methods in lieu of traditional “fee for service” payment methodologies. The use of CEHRT has also been folded into the physician payment reforms adopted under MACRA, for which the federal government has adopted final regulations that will go into effect starting in 2017. Regulations have been issued that identify standards and implementation specifications and establish the certification standards for qualifying electronic health record technology to become CEHRT. 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 2011 and 2014 editions of the CEHRT standards, the regulatory requirements to achieve certification continue to evolve, and we will need to meet the requirements set forth in the 2015 edition of these standards applicable to Stage 3 and other federal programs by January 1, 2018.

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We may incur increased development costs and delays in delivering solutions as we need to update our software, devices or health care devices to be in compliance with these varying and evolving standards. In addition, delays in interpreting these standards may result in postponement or cancellation of our clients' decisions to purchase our solutions or health care devices. If our software solutions, devices or health care devices are not compliant with these evolving standards, our market position and sales could be impaired and we may have to invest significantly in changes to our software solutions, devices or health care devices. Further, we bear potential financial risks where we have entered into agreements with clients to warrant their ability to meet future stage meaningful use certification requirements. While a client's ability to meet future stage meaningful use attestation requirements may be dependent on such client's ability to adopt, rollout and attain sufficient use of our certified solutions on a timely basis, we may face risks that come from issues in full adoption of our certified solutions, which in turn could lead to a client missing its attestation targets. These risks are enhanced when we are under agreements to provide application management services to our clients that place responsibilities on us for application configuration and implementation as a prerequisite to or impactful to meaningful use attainment ordinarily borne by the client in other circumstances.

We operate in intensely competitive and dynamic industries, and our ability to successfully compete and continue to grow our business depends on our ability to respond quickly to market changes and changing technologies and to bring competitive new solutions, devices, features and services to market in a timely fashion. The market for health care information systems, health care solutions and services to the health care industry is intensely competitive, dynamically evolving and subject to rapid technological and innovative changes. Development of new proprietary technology or services is complex, entails significant time and expense and may not be successful. We cannot guarantee that the market for our solutions, devices and services will develop as quickly as expected. We cannot guarantee that we will be able to introduce new solutions, devices or services on schedule, or at all, nor can we guarantee that such solutions, devices or services will achieve market acceptance. Moreover, we cannot guarantee that errors will not be found in our new solution releases, devices or services before or after commercial release, which could result in solution, device or service delivery redevelopment costs, harm to our reputation, lost sales, license terminations or renegotiations, product liability claims, diversion of resources to remedy errors and loss of, or delay in, market acceptance.

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

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

Long sales cycles for our solutions and services could have a material adverse impact on our future results of operations. Some of our solutions have long sales cycles, ranging from several months to eighteen months or more beginning at initial contact with the client through execution of a contract. How and when to implement, replace, or expand an information system, or modify or add business processes, are major decisions for health care organizations. Many of the solutions we provide require a substantial capital investment and time commitments by the client or prospective client. Any decision by our clients or prospective clients to delay a purchasing decision could have a material adverse impact on our results of operations.

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Risks Related to Our Common Stock

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

Revenue recognized in any quarter may depend upon our or our clients' abilities to meet project milestones. Delays in meeting these milestone conditions or modification of the project plan could result in a shift of revenue recognition from one quarter to another and could have a material adverse effect on results of operations for a particular quarter.

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

Our sales forecasts may vary from actual sales in a particular quarter. We use a "pipeline" system, a common industry practice, to forecast sales and trends in our business. Our sales associates monitor the status of all sales opportunities, such as the date when they estimate that a client will make a purchase decision and the potential dollar amount of the sale. These estimates are aggregated periodically to generate a sales pipeline. We compare this pipeline at various points in time to evaluate trends in our business. This analysis provides guidance in business planning and forecasting, but these pipeline estimates are by their nature speculative. Our pipeline estimates are not necessarily reliable predictors of revenues in a particular quarter or over a longer period of time, partially because of changes in the pipeline and in conversion rates of the pipeline into contracts that can be very difficult to estimate. A negative variation in the expected conversion rate or timing of the pipeline into contracts, or in the pipeline itself, could cause our plan or forecast to be inaccurate and thereby adversely affect business results. For example, a slowdown in information technology spending, adverse economic conditions, new or changed U.S. federal, state or local regulations related to our industry or a variety of other factors can cause purchasing decisions to be delayed, reduced in amount or cancelled, which would reduce the overall pipeline conversion rate in a particular period of time. Because a substantial portion of our contracts are completed in the latter part of a quarter, we may not be able to adjust our cost structure quickly enough in response to a revenue shortfall resulting from a decrease in our pipeline conversion rate in any given fiscal quarter.

The trading price of our common stock may be volatile. The market for our common stock may experience significant price and volume fluctuations in response to a number of factors including actual or anticipated variations in operating results, articles or rumors about our performance or solutions, devices or services, announcements of technological innovations or new services or products by our competitors or us, changes in expectations of future financial performance or estimates of securities analysts, governmental regulatory action, health care reform measures, client relationship developments, economic conditions and changes occurring in the securities markets in general and other

factors, many of which are beyond our control. For instance, our quarterly operating results have varied in the past and may continue to vary in future periods, due to a number of reasons including, but not limited to, demand for our solutions, devices and services, the financial condition of our current and potential clients, our long sales cycle, potentially long installation and implementation cycles for larger, more complex and higher-priced systems, key management changes, accounting policy changes and other factors described herein. As a matter of policy, we do not generally comment on our stock price or rumors.

Furthermore, the stock market in general, and the markets for software, health care devices, other health care solutions and services and information technology companies in particular, have experienced extreme volatility that often has been unrelated to the operating performance of particular companies. These broad market and industry fluctuations may adversely affect the trading price of our common stock, regardless of actual operating performance.

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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 and issuances of preferred stock could be used to delay or hinder a change of control of the Company.

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 or otherwise effect a change of control of the Company. These include provisions that provide for a classified board of directors, require advance notice of stockholder proposals at stockholder meetings, 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.

Changes in accounting standards issued by the Financial Accounting Standards Board ("FASB") or other standard-setting bodies may adversely affect our financial statements. Our financial statements are subject to the application of U.S. GAAP, which is periodically revised and/or expanded. From time to time, we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the FASB and the SEC. It is possible that future accounting standards we are required to adopt, such as amended guidance for revenue recognition, leases, and share based payments, may require changes to the current accounting treatment that we apply to our consolidated financial statements and may require us to make significant changes to our systems. Such changes could result in a material adverse impact on our business, results of operations and financial condition.

Cautions about Forward-looking Statements

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 SEC, communications to shareholders, press releases and oral statements made by representatives of the Company that are not historical in nature, or that state the Company’s or management’s intentions, hopes, beliefs, expectations, plans, goals or predictions of future events or performance, may constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements can often be identified by the use of forward-looking terminology, such as "could," "should," "will," "intended," "continue," "believe," "may," "expect," "hope," "anticipate," "goal," "forecast," "plan," "guidance," "opportunity," "prospects" 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. Any forward-looking statements made in this report speak only as of the date of this report. Except as required by law, we undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in our business, results of operations, financial condition or business over time.

Market and Industry Data

This Annual Report on Form 10-K contains market, industry and government data and forecasts that have been obtained from publicly available information, various industry publications and other published industry sources. We

have not independently verified the information and cannot make any representation as to the accuracy or completeness of such information. None of the reports and other materials of third party sources referred to in this Annual Report on Form 10-K were prepared for use in, or in connection with, this Annual Report.

Item 1B. Unresolved Staff Comments

None

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Item 2. Properties

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

Our corporate world headquarters is 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 2.22 million gross square feet of useable space situated on 278 acres of land. The Headquarters Campus and the nearby properties primarily house office space, but also include space for other business needs, such as our Healthe Clinic and our Headquarters Campus data centers.

Company-owned office space, known as the Realization Campus (formerly known as our Innovations Campus), primarily houses associates from our intellectual property organization and consists of 830,000 gross square feet of useable space located in Kansas City, Missouri.

Company-owned office space known as the Continuous Campus, primarily houses associates who manage and support our clients' IT systems and consists of 650,000 gross square feet of useable space located in Kansas City, Kansas.

Company-owned office space known as the Malvern Campus, houses associates who joined Cerner in connection with our acquisition of Siemens Health Services on February 2, 2015, and consists of approximately 110 acres of property in Malvern, Pennsylvania. This property includes approximately 675,000 gross square feet of office space, and a 100,000 square foot data center.

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, Malvern Campus and office space in Lee’s Summit, Missouri, known as the Lee's Summit Tech Center. The Lee's Summit Tech Center consists of 550,000 gross square feet and houses data center space and certain third-party tenants in a multi-tenant office building.

We have purchased approximately 286 acres of land located in Kansas City, Missouri, known as the Innovations Campus (formerly known as our Trails Campus). Construction on the Innovations Campus began in November 2014. The first two phases of the project include approximately 859,000 gross square feet of office space, and were completed in January of 2017.

In November 2016, we purchased approximately 700,000 gross square feet of useable office and warehouse space located in Kansas City, Missouri. Such space was acquired to accommodate our anticipated growth, and is located adjacent to our Realization Campus.

As of the end of 2016, we leased additional domestic office space in the following locations:

Brooklyn, New York	Downingtown, Pennsylvania	New Concord, Ohio
Burlington, Vermont	Durham, North Carolina	New York, New York
Carlsbad, California	Franklin, Tennessee	North Kansas City, Missouri
Columbia, Missouri	Kansas City, Missouri	Rochester, Minnesota
Costa Mesa, California	Mason, Ohio	Salt Lake City, Utah
Culver City, California	Minneapolis, Minnesota	Tempe, Arizona
Denver, Colorado	Nevada, Missouri	Waltham, Massachusetts

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Globally, we also leased office space in the following locations:

Abu Dhabi, United Arab Emirates	Gmund, Austria	Paris, France
Augsburg, Germany	Gothenburg, Sweden	Perth, Australia
Bangalore, India	Hamburg, Germany	Peterborough, Ontario, Canada
Berlin, Germany	Idstein, Germany	Riyadh, Saudi Arabia
Brasov, Romania	Kolkata, India	Sao Paulo, Brazil
Brisbane, Australia	Kosice, Slovakia	Singapore
Cairo, Egypt	Kuala Lumpur, Malaysia	St. Wolfgang, Germany
Doha, Qatar	Lisbon, Portugal	Stockholm, Sweden
Dubai, United Arab Emirates	London, England	Sydney, Australia
Dublin, Ireland	Madrid, Spain	The Hague, Netherlands
Erlangen, Germany	Melbourne, Australia	Toronto, Ontario, Canada
Essen, Germany	Oslo, Norway	Vienna, Austria

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable

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Part II

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

Our common stock trades on the NASDAQ Global Select Market[SM] under the symbol CERN. The following table sets forth the high, low and last sales prices for the fiscal quarters of 2016 and 2015 as reported by the NASDAQ Global Select Market.

	2016			2015		
	High	Low	Last	High	Low	Last
First Quarter	$59.92	$49.59	$54.08	$74.83	$63.19	$72.77
Second Quarter	59.14	52.84	58.91	75.72	65.67	68.48
Third Quarter	67.50	57.59	61.75	75.00	57.42	61.34
Fourth Quarter	62.53	47.01	47.37	68.31	55.82	60.17

At February 1, 2017, there were approximately 960 owners of record. To date, we have paid no cash dividends and we do not intend to pay cash dividends in the foreseeable future. We believe it is in the shareholders' best interest for us to reinvest funds in the operation of the business.

The following table provides information with respect to Common Stock purchases by the Company during the fourth fiscal quarter of 2016:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (a)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (a)
October 2, 2016 - October 29, 2016	—	$—	—	$100,000,000
October 30, 2016 - November 26, 2016	7,742,399	50.15	7,742,399	211,730,000
November 27, 2016 - December 31, 2016	2,238,243	49.92	2,238,243	100,000,000
Total	9,980,642	$ 50.10	9,980,642	

(a) As announced on March 8, 2016, our Board of Directors authorized a share repurchase program for an aggregate purchase of up to $300 million of our common stock, excluding transaction costs. That program was completed in November 2016. As announced on November 14, 2016, our Board of Directors authorized a new share repurchase program for an aggregate purchase of up to $500 million of our common stock, excluding transaction costs. As of December 31, 2016, $100 million remained available for repurchase. No time limit has been set for the completion of the program. During 2016, the Company repurchased 13.7 million shares for total consideration of $700 million pursuant to Rule 10b5-1 plans. Refer to Note (14) of the notes to consolidated financial statements for further information regarding our share repurchase programs.

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

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Item 6. Selected Financial Data

(In thousands, except per share data)	2016	2015[1]	2014	2013[2]	2012
Statement of Operations Data:					
Revenues	$4,796,473	$4,425,267	$3,402,703	$2,910,748	$2,665,436
Operating earnings	911,013	781,136	763,084	576,012	571,662
Earnings before income taxes	918,434	781,380	774,174	588,054	587,708
Net earnings	636,484	539,362	525,433	398,354	397,232
Earnings per share:					
Basic	1.88	1.57	1.54	1.16	1.16
Diluted	1.85	1.54	1.50	1.13	1.13
Weighted average shares outstanding:					
Basic	337,740	343,178	342,150	343,636	341,861
Diluted	343,653	350,908	350,386	352,281	351,394
Balance Sheet Data:					
Working capital	$773,960	$1,049,967	$1,714,471	$1,121,276	$1,210,394
Total assets	5,629,963	5,561,984	4,530,565	4,098,364	3,704,468
Long-term debt and capital lease obligations, excl. current installments	537,552	563,353	62,868	111,717	136,557
Shareholders' equity	3,927,947	3,870,384	3,565,968	3,167,664	2,833,650

(1) In 2015 we acquired Siemens Health Services, as further described in Note 2 of the notes to consolidated financial statements.

(2) Includes a pre-tax settlement charge of $106 million.

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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 years 2016 and 2015 each consisted of 52 weeks and ended on December 31, 2016 and January 2, 2016, respectively. Fiscal year 2014 consisted of 53 weeks and ended on January 3, 2015. The additional week in fiscal year 2014 impacts the results of operations discussion below. All references to years in this MD&A represent fiscal years unless otherwise noted.

Management Overview

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

Our fundamental strategic focus is the creation of organic growth by investing in research and development (R&D) to create solutions and services for the health care industry. This strategy has driven strong growth over the long-term, as reflected in five- and ten-year compound annual revenue growth rates of 13% or more. This growth has also created an important strategic footprint in health care, with Cerner® solutions in more than 25,000 facilities worldwide, including hospitals, physician practices, laboratories, ambulatory centers, behavioral health centers, cardiac facilities, radiology clinics, surgery centers, extended care facilities, retail pharmacies, and employer sites. Selling additional solutions and services back into this client base is an important element of our future revenue growth. We are also focused on driving growth through market share expansion by strategically aligning with health care providers that have not yet selected a supplier and by displacing competitors in health care settings that are looking to replace their current supplier. We may also supplement organic growth with acquisitions.

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

Beyond our strategy for driving revenue growth, we are also focused on earnings growth. Similar to our history of growing revenue, our net earnings have increased at compound annual rates of 15% or more over the most recent five- and ten-year periods. We expect to drive continued earnings growth through ongoing revenue growth coupled with margin expansion, which we expect to achieve through efficiencies in our implementation and operational processes and by leveraging R&D investments and controlling general and administrative expenses.

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

Siemens Health Services

On February 2, 2015, we acquired the Cerner Health Services business, as further described in Note (2) of the notes to consolidated financial statements. The addition of this business impacts the comparability of our 2015 consolidated

financial statements in relation to the comparative periods presented herein.

Results Overview

The Company delivered good levels of bookings, revenues, earnings and operating cash flows in 2016.

New business bookings revenue, which reflects the value of executed contracts for software, hardware, professional services and managed services, was flat year-over-year at $5.4 billion in both 2016 and 2015, but we still view 2016 bookings as solid given 2015 had grown 28% over 2014, creating a difficult comparable.

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Revenues for 2016 increased 8% to $4.8 billion compared to $4.4 billion in 2015. The increase in revenue reflects ongoing demand for Cerner's core solutions and services driven by our clients' needs to keep up with regulatory requirements; contributions from Cerner ITWorks and revenue cycle solutions and services; and attaining new clients.

Our 2016 net earnings were $636 million compared to $539 million in 2015. Diluted earnings per share were $1.85 in 2016 compared to $1.54 in 2015. The overall increase in net earnings and diluted earnings per share was primarily a result of increased revenues, combined with a decline in costs associated with our acquisition of the Cerner Health Services business in 2015.

We had cash collections of receivables of $5.2 billion in 2016 compared to $4.4 billion in 2015. Days sales outstanding was 69 days for the 2016 fourth quarter compared to 76 days for the 2016 third quarter and 80 days for the 2015 fourth quarter. Operating cash flows for 2016 were $1.2 billion compared to $948 million in 2015.

Health Care Information Technology Market Outlook

We have provided an assessment of the health care information technology market under “Health Care and Health Care IT Industry” in Part I, Item 1 "Business," which is incorporated herein by reference.

Results of Operations
Fiscal Year 2016 Compared to Fiscal Year 2015

(In thousands)	2016	% of Revenue	2015	% of Revenue	% Change
Revenues					
System sales	$1,265,962	26 %	$1,281,890	29 %	(1)%
Support and maintenance	1,015,811	21 %	975,701	22 %	4 %
Services	2,426,155	51 %	2,094,874	47 %	16 %
Reimbursed travel	88,545	2 %	72,802	2 %	22 %
Total revenues	4,796,473	100 %	4,425,267	100 %	8 %
Costs of revenue					
Costs of revenue	779,116	16 %	750,781	17 %	4 %
Total margin	4,017,357	84 %	3,674,486	83 %	9 %
Operating expenses					
Sales and client service	2,071,926	43 %	1,838,600	42 %	13 %
Software development	551,418	11 %	539,799	12 %	2 %
General and administrative	392,454	8 %	423,424	10 %	(7)%
Amortization of acquisition-related intangibles	90,546	2 %	91,527	2 %	(1)%
Total operating expenses	3,106,344	65 %	2,893,350	65 %	7 %
Total costs and expenses	3,885,460	81 %	3,644,131	82 %	7 %
Operating earnings	911,013	19 %	781,136	18 %	17 %
Other income, net	7,421		244		
Income taxes	(281,950)		(242,018)		

Net earnings	$636,484	$539,362	18 %

Revenues & Backlog

Revenues increased 8% to $4.8 billion in 2016, as compared to $4.4 billion in 2015.

- System sales, which include revenues from the sale of licensed software (including perpetual license sales and software as a service), technology resale (hardware, devices, and sublicensed software), deployment period

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licensed software upgrade rights, installation fees, transaction processing and subscriptions, decreased 1% from 2016 to 2015. The decrease in system sales was primarily driven by a decline in technology resale.

- Support and maintenance revenues increased 4% to $1.0 billion in 2016 compared to $976 million in 2015. This increase was primarily attributable to continued success selling Cerner Millennium applications and implementing them at client sites.
- Services revenue, which includes professional services (excluding installation) and managed services, increased 16% to $2.4 billion in 2016 from $2.1 billion in 2015. This increase was driven by a $207 million increase in professional services due to growth in implementation and consulting activities and growth in managed services of $124 million as a result of continued demand for our hosting services.

Revenue backlog, which reflects contracted revenue that has not yet been recognized as revenue, increased 12% to $15.9 billion in 2016 compared to $14.2 billion in 2015. This increase was driven by solid levels of new business bookings revenue during the past four quarters, including strong levels of managed services bookings that typically have longer contract terms.

Costs of Revenue

Costs of revenue as a percent of total revenues were 16% in 2016 compared to 17% in 2015. The lower costs of revenue as a percent of total revenues was primarily driven by a lower mix of technology resale, which carries a higher cost of revenue.

Costs of revenue includes the cost of reimbursed travel expense, sales commissions, third party consulting services and subscription content and computer hardware, devices and sublicensed software purchased from manufacturers for delivery to clients. It also includes the cost of hardware maintenance and sublicensed software support subcontracted to the manufacturers. Such costs, as a percent of total revenues, typically have varied as the mix of revenue (software, hardware, devices, maintenance, support, services and reimbursed travel) carrying different margin rates changes from period to period. Costs of revenue 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% to $3.1 billion in 2016, compared with $2.9 billion in 2015.

- Sales and client service expenses as a percent of total revenues were 43% in 2016, compared to 42% in 2015. These expenses increased 13% to $2.1 billion in 2016, from $1.8 billion in 2015. Sales and client service expenses include salaries and benefits of sales, marketing, support, and services personnel, depreciation and other expenses associated with our managed services business, communications expenses, unreimbursed travel expenses, expense for share-based payments, and trade show and advertising costs. The growth in services expense and increase as a percent of total revenues reflects hiring of services personnel to support the strong growth in services revenue.
- Software development expenses as a percent of total revenues were 11% in 2016, compared to 12% in 2015. Expenditures for software development include ongoing development and enhancement of the Cerner Millennium and HealtheIntent platforms, with a focus on supporting key initiatives to enhance physician experience, revenue cycle and population health solutions. A summary of our total software development expense in 2016 and 2015 is as follows:

	For the Years Ended	
(In thousands)	2016	2015
Software development costs	$704,882	$685,260
Capitalized software costs	(290,911)	(262,177)
Capitalized costs related to share-based payments	(2,785)	(2,479)
Amortization of capitalized software costs	140,232	119,195
Total software development expense	$551,418	$539,799

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General and administrative expenses as a percent of total revenues were 8% in 2016, compared to 10% in 2015. These expenses decreased 7% to $392 million in 2016, from $423 million in 2015. General and administrative expenses include salaries and benefits for corporate, financial and administrative staffs, utilities, communications

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expenses, professional fees, depreciation and amortization, transaction gains or losses on foreign currency, expense for share-based payments, acquisition costs and related adjustments. The decrease as a percent of total revenues was primarily the result of decreased expenses in 2016 related to acquisition costs and related adjustments associated with our acquisition of the Cerner Health Services business and our voluntary separation plans. General and administrative expenses in 2016 and 2015 include acquisition costs and related adjustments associated with our Cerner Health Services business of $4 million and $46 million, respectively. General and administrative expenses in 2016 and 2015 include costs associated with our voluntary separation plans of $36 million and $46 million, respectively. We expect expenses in 2017 for acquisition costs and related adjustments associated with our acquisition of the Cerner Health Services business to be de minimis. We do not expect to record expenses in 2017 associated with our voluntary separation plans. At the end of 2016, our voluntary separation plans were complete. Refer to Note (1) of the notes to consolidated financial statements for further detail regarding the voluntary separation plans.

- Amortization of acquisition-related intangibles as a percent of total revenues was 2% in both 2016 and 2015. These expenses decreased 1% to $91 million in 2016, from $92 million in 2015. Amortization of acquisition-related intangibles includes the amortization of customer relationships, acquired technology, trade names, and non-compete agreements recorded in connection with our business acquisitions. The decrease in amortization of acquisition-related intangibles includes the impact of certain intangible assets becoming fully amortized.

Non-Operating Items

- Other income, net was $7 million in 2016 compared to less than $1 million in 2015. This increase is primarily due to increased capitalization of interest on construction in process, primarily related to our Innovations Campus (office space development located in Kansas City, Missouri, formerly referred to as our Trails Campus).

- Our effective tax rate was 31% in both 2016 and 2015. Refer to Note (12) of the notes to consolidated financial statements for further information regarding our effective tax rate.

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, the Bahamas, Belgium, Bermuda, Brazil, Canada, Cayman Islands, Chile, Denmark, Egypt, England, Finland, France, Germany, Guam, India, Ireland, Kuwait, Luxembourg, Malaysia, Mexico, Netherlands, Norway, Portugal, Qatar, Romania, Saudi Arabia, Singapore, Slovakia, Spain, Sweden, Switzerland and the United Arab Emirates. Refer to Note (18) of the notes to consolidated financial statements for further information regarding our reportable segments.

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The following table presents a summary of our operating segment information for the years ended 2016 and 2015:

(In thousands)	2016	% of Revenue	2015	% of Revenue	% Change
Domestic Segment					
Revenues	$4,245,097	100%	$3,904,454	100%	9%
Costs of revenue	676,437	16%	651,826	17%	4%
Operating expenses	1,774,146	42%	1,577,594	40%	12%
Total costs and expenses	2,450,583	58%	2,229,420	57%	10%
Domestic operating earnings	1,794,514	42%	1,675,034	43%	7%
Global Segment					
Revenues	551,376	100%	520,813	100%	6%
Costs of revenue	102,679	19%	98,955	19%	4%
Operating expenses	246,243	45%	233,047	45%	6%
Total costs and expenses	348,922	63%	332,002	64%	5%
Global operating earnings	202,454	37%	188,811	36%	7%
Other, net	(1,085,955)		(1,082,709)		—%
Consolidated operating earnings	$911,013		$781,136		17%

Domestic Segment

- Revenues increased 9% to $4.2 billion in 2016 from $3.9 billion in 2015. This increase was primarily driven by growth in services revenue.
- Costs of revenue as a percent of revenues were 16% in 2016 compared to 17% in 2015. The lower costs of revenue as a percent of revenues was primarily driven by a lower mix of technology resale, which carries a higher cost of revenue.
- Operating expenses as a percent of revenues were 42% in 2016 compared to 40% in 2015. The increase as a percent of revenues reflects a higher mix of services during 2016 that was driven by services revenue growth.

Global Segment

- Revenues increased 6% to $551 million in 2016 from $521 million in 2015. This increase was driven by growth across most of our business.
- Costs of revenue as a percent of revenues were 19% in both 2016 and 2015.
- Operating expenses as a percent of revenues were 45% in both 2016 and 2015.

Other, net

Operating results not attributed to an operating segment include expenses, such as software development, general and administrative expenses, acquisition costs and related adjustments, share-based compensation expense, and certain amortization and depreciation. These expenses were flat at $1.1 billion in both 2016 and 2015.

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Fiscal Year 2015 Compared to Fiscal Year 2014

(In thousands)	2015	% of Revenue	2014	% of Revenue	% Change
Revenues					
System sales	$1,281,890	29 %	$945,858	28 %	36 %
Support and maintenance	975,701	22 %	724,840	21 %	35 %
Services	2,094,874	47 %	1,642,119	48 %	28 %
Reimbursed travel	72,802	2 %	89,886	3 %	(19)%
Total revenues	4,425,267	100 %	3,402,703	100 %	30 %
Costs of revenue					
Costs of revenue	750,781	17 %	604,377	18 %	24 %
Total margin	3,674,486	83 %	2,798,326	82 %	31 %
Operating expenses					
Sales and client service	1,838,600	42 %	1,395,568	41 %	32 %
Software development	539,799	12 %	392,805	12 %	37 %
General and administrative	423,424	10 %	233,393	7 %	81 %
Amortization of acquisition-related intangibles	91,527	2 %	13,476	— %	579 %
Total operating expenses	2,893,350	65 %	2,035,242	60 %	42 %
Total costs and expenses	3,644,131	82 %	2,639,619	78 %	38 %
Operating earnings	781,136	18 %	763,084	22 %	2 %
Other income, net	244		11,090		
Income taxes	(242,018)		(248,741)		
Net earnings	$539,362		$525,433		3 %

Revenues & Backlog

Revenues increased 30% to $4.4 billion in 2015, as compared to $3.4 billion in 2014.

- System sales increased 36% to $1.3 billion in 2015 from $946 million in 2014. The increase in system sales was primarily driven by contributions from the Cerner Health Services business.
- Support and maintenance revenues increased 35% to $976 million in 2015 compared to $725 million in 2014. This increase was primarily attributable to contributions from the Cerner Health Services business.
- Services revenue increased 28% to $2.1 billion in 2015 from $1.6 billion in 2014. This increase was driven by contributions from the Cerner Health Services business.

Revenue backlog increased 34% to $14.2 billion in 2015 compared to $10.6 billion in 2014. This increase was driven by growth in new business bookings during the past four quarters, including continued strong levels of managed services, Cerner ITWorks and Cerner revenue cycle services bookings that typically have longer contract terms, coupled with contributions from the Cerner Health Services business.

Costs of Revenue

Costs of revenue as a percent of total revenues were 17% in 2015 compared to 18% in 2014. The lower costs of revenue as a percent of total revenues was primarily driven by a lower mix of technology resale, which carries a

higher cost of revenue.

Operating Expenses

Total operating expenses increased 42% to $2.9 billion in 2015, compared with $2.0 billion in 2014.

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- Sales and client service expenses as a percent of total revenues were 42% in 2015, compared to 41% in 2014. These expenses increased 32% to $1.8 billion in 2015, from $1.4 billion in 2014. The increase was primarily driven by the addition of the Cerner Health Services business.

- Software development expenses as a percent of total revenues were 12% in both 2015 and 2014. Expenditures for software development reflect ongoing development and enhancement of the Cerner Millennium and HealtheIntent platforms, with a focus on supporting key initiatives to enhance physician experience, revenue cycle, and population health solutions. Software development expenses in 2015 also include expenditures related to the Cerner Health Services solutions. A summary of our total software development expense in 2015 and 2014 is as follows:

	For the Years Ended	
(In thousands)	2015	2014
Software development costs	$685,260	$467,158
Capitalized software costs	(262,177)	(175,262)
Capitalized costs related to share-based payments	(2,479)	(2,538)
Amortization of capitalized software costs	119,195	103,447
Total software development expense	$539,799	$392,805

- General and administrative expenses as a percent of total revenues were 10% in 2015, compared to 7% in 2014. These expenses increased 81% to $423 million in 2015 from $233 million in 2014. The increase in general and administrative expenses was primarily driven by the addition of the Cerner Health Services business. General and administrative expenses in 2015 and 2014 include acquisition costs and related adjustments associated with our Cerner Health Services business of $46 million and $16 million, respectively. General and administrative expenses in 2015 also include $46 million of costs associated with our 2015 voluntary separation plan.

- Amortization of acquisition-related intangibles increased 579% to $92 million in 2015 from $13 million in 2014. The increase in amortization of acquisition-related intangibles was driven by the acquisition of the Cerner Health Services business in the first quarter of 2015. Refer to Note (2) of the notes to consolidated financial statements for further detail regarding intangible assets recorded in connection with our acquisition of the Cerner Health Services business.

Non-Operating Items

- Other income, net was less than $1 million in 2015 and $11 million in 2014. This decline was primarily due to increased interest expense as a result of the issuance of Senior Notes in January 2015, as further discussed in Note (9) of the notes to consolidated financial statements. Interest income also declined in 2015 due to lower average investment balances throughout the year. Refer to Note (11) of the notes to consolidated financial statements for further detail on the composition of other income.

- Our effective tax rate was 31% in 2015 compared to 32% in 2014. The rates include net favorable permanent differences recognized in both periods. Refer to Note (12) of the notes to consolidated financial statements for further information regarding our effective tax rate.

The research and development credit expired on December 31, 2013, but in the fourth quarter of 2014, was retroactively reinstated from January 1, 2014 to December 31, 2014. We recognized the research and development tax credit related to 2014 in the fourth quarter of 2014. In the fourth quarter of 2015, the research and development credit was made permanent for amounts paid or incurred after December 31, 2014. We recognized the research and development tax credit related to 2015 in the fourth quarter of 2015.

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Operations by Segment

The following table presents a summary of our operating segment information for the years ended 2015 and 2014:

(In thousands)	2015	% of Revenue	2014	% of Revenue	% Change
Domestic Segment					
Revenues	$3,904,454	100%	$3,021,790	100%	29%
Costs of revenue	651,826	17%	542,210	18%	20%
Operating expenses	1,577,594	40%	1,163,413	39%	36%
Total costs and expenses	2,229,420	57%	1,705,623	56%	31%
Domestic operating earnings	1,675,034	43%	1,316,167	44%	27%
Global Segment					
Revenues	520,813	100%	380,913	100%	37%
Costs of revenue	98,955	19%	62,167	16%	59%
Operating expenses	233,047	45%	182,965	48%	27%
Total costs and expenses	332,002	64%	245,132	64%	35%
Global operating earnings	188,811	36%	135,781	36%	39%
Other, net	(1,082,709)		(688,864)		57%
Consolidated operating earnings	$781,136		$763,084		2%

Domestic Segment

- Revenues increased 29% to $3.9 billion in 2015 from $3.0 billion in 2014. This increase was primarily driven by contributions from the Cerner Health Services business.
- Costs of revenue as a percent of revenues were 17% in 2015 compared to 18% in 2014. The lower costs of revenue as a percent of revenues was primarily driven by a lower mix of technology resale, which carries a higher cost of revenue.
- Operating expenses as a percent of revenues were 40% in 2015 compared to 39% in 2014. The slight increase as a percent of revenues was primarily driven by the addition of the Cerner Health Services business.

Global Segment

- Revenues increased 37% to $521 million in 2015 from $381 million in 2014. This increase was primarily driven by contributions from the Cerner Health Services business.
- Costs of revenue as a percent of revenues were 19% in 2015 compared to 16% in 2014. The higher costs of revenue as a percent of revenue in 2015 were primarily driven by a higher amount of third party resources utilized for support and services.
- Operating expenses increased 27% to $233 million in 2015 from $183 million in 2014, due primarily to the addition of the Cerner Health Services business.

Other, net

These expenses increased 57% to $1.1 billion in 2015 from $689 million in 2014. This increase is primarily due to the addition of corporate and development personnel from our acquisition of the Cerner Health Services business. Additionally, 2015 included amortization of acquisition-related intangibles associated with our Cerner Health Services business, acquisition costs and related adjustments, and costs related to our voluntary separation plan of $79 million, $46 million, and $46 million, respectively. Our 2014 fiscal year includes acquisition costs and related adjustments of $16 million.

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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, capital expenditures, and in recent years, our share repurchase programs.

Our principal sources of liquidity are our cash, cash equivalents, which primarily consist of money market funds and time deposits with original maturities of less than 90 days, and short-term investments. At the end of 2016, we had cash and cash equivalents of $171 million and short-term investments of $186 million, as compared to cash and cash equivalents of $402 million and short-term investments of $111 million at the end of 2015.

The non-U.S. subsidiaries for which we have elected to indefinitely reinvest earnings outside the U.S. held approximately 45% of our aggregate cash, cash equivalents and short-term investments at December 31, 2016. As part of our current business strategy, we plan to indefinitely reinvest the earnings of these foreign operations; however, should the earnings of these foreign operations be repatriated, we would accrue and pay tax on such earnings, which may be material.

We maintain a $100 million multi-year revolving credit facility, which expires in October 2020. The facility provides an unsecured revolving line of credit for working capital purposes, which includes a letter of credit facility. We have the ability to increase the maximum capacity to $200 million at any time during the facility's term, subject to lender participation. As of the end of 2016, we had no outstanding borrowings under this facility; however, we had $32 million of outstanding letters of credit, which reduced our available borrowing capacity to $68 million. Refer to Note (9) of the notes to consolidated financial statements for additional information regarding our credit facility.

We believe that our present cash position, together with cash generated from operations, short-term investments and, if necessary, our available line of credit, will be sufficient to meet anticipated cash requirements during 2017.

The following table summarizes our cash flows in 2016, 2015 and 2014:

	For the Years Ended		
(In thousands)	2016	2015	2014
Cash flows from operating activities	$1,155,612	$947,526	$847,027
Cash flows from investing activities	(789,774)	(1,405,943)	(284,567)
Cash flows from financing activities	(586,652)	236,249	(120,324)
Effect of exchange rate changes on cash	(10,447)	(10,913)	(9,310)
Total change in cash and cash equivalents	(231,261)	(233,081)	432,826
Cash and cash equivalents at beginning of period	402,122	635,203	202,377
Cash and cash equivalents at end of period	$170,861	$402,122	$635,203
Free cash flow (non-GAAP)	$402,489	$320,738	$392,643

Cash from Operating Activities

	For the Years Ended		
(In thousands)	2016	2015	2014
Cash collections from clients	$5,184,252	$4,419,650	$3,480,591
Cash paid to employees and suppliers and other	(3,755,617)	(3,340,551)	(2,483,559)
Cash paid for interest	(18,484)	(13,164)	(5,682)
Cash paid for taxes, net of refunds	(254,539)	(118,409)	(144,323)
Total cash from operations	$1,155,612	$947,526	$847,027

Cash flow from operations increased $208 million in 2016 compared to 2015, due primarily to a reduction in cash used to fund working capital requirements, along with an increase in cash impacting earnings. Cash flow from operations increased $100 million in 2015 compared to 2014, due primarily to an increase in cash impacting earnings. During 2016, 2015 and 2014, we received total client cash collections of $5.2 billion, $4.4 billion and $3.5 billion, respectively. Days sales outstanding was 69 days in the fourth quarter of 2016, compared to 76 days for the 2016 third quarter and 80 days for the 2015 fourth

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quarter. Revenues provided under support and maintenance agreements represent recurring cash flows. We expect these revenues to continue to grow as the base of installed systems grows.

Cash from Investing Activities

	For the Years Ended		
(In thousands)	2016	2015	2014
Capital purchases	$(459,427)	$(362,132)	$(276,584)
Capitalized software development costs	(293,696)	(264,656)	(177,800)
Sales and maturities of investments, net of purchases	(18,179)	720,406	190,810
Acquisition of businesses	—	(1,478,129)	(7,476)
Purchases of other intangibles	(18,472)	(21,432)	(13,517)
Total cash flows from investing activities	$(789,774)	$(1,405,943)	$(284,567)

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

Our capital spending in 2016 was driven by capitalized equipment purchases primarily to support growth in our managed services business, investments in a cloud infrastructure to support cloud-based solutions, building and improvement purchases to support our facilities requirements and capitalized spending to support our ongoing software development initiatives. Capital purchases are expected to decrease in 2017, as we completed the first two phases of construction on our Innovations Campus in January of 2017.

Short-term investment activity historically consists of the investment of cash generated by our business in excess of what is necessary to fund operations. The 2014 activity is impacted by a change in investment mix, whereas we invested more heavily in cash equivalents versus short-term and long-term investments, as we prepared to fund our acquisition of the Cerner Health Services business in February 2015. The increase in net cash from investments in 2015 is due to the use of proceeds from additional investment sales and maturities to partially fund our acquisition of the Cerner Health Services business. In 2016, we returned to net purchases of investments, which we expect to continue in 2017, as we expect strong levels of cash flow.

During 2015, we paid cash to acquire the Cerner Health Services business and the Lee's Summit Tech Center of $1.39 billion and $85 million, respectively. In 2014, we acquired 100% of the outstanding membership interests of InterMedHx, LLC for $7 million. We expect to continue seeking and completing strategic business acquisitions that are complementary to our business. Refer to Note (2) of the notes to consolidated financial statements for additional information regarding our business acquisitions.

Cash from Financing Activities

	For the Years Ended		
(In thousands)	2016	2015	2014
Long-term debt issuance	$—	$500,000	$—
Repayment of long-term debt and capital lease obligations	—	(14,325)	(14,930)
Cash from option exercises (including excess tax benefits)	115,697	107,434	71,411
Treasury stock purchases	(700,275)	(345,057)	(217,082)
Contingent consideration payments for acquisition of businesses	(2,074)	(11,012)	(10,617)
Cash grants	—	—	48,000
Other, net	—	(791)	2,894
Total cash flows from financing activities	$(586,652)	$236,249	$(120,324)

In January 2015, we issued $500 million in aggregate principal amount of Senior Notes. Proceeds from the Senior Notes were available for general corporate purposes. Refer to Note (9) of the notes to consolidated financial statements for additional information regarding the Senior Notes.

Cash inflows from stock option exercises are dependent on a number of factors, including the price of our common stock, grant activity under our stock option and equity plans, and overall market volatility. We expect cash inflows from stock option exercises to continue in 2017 based on the number of exercisable options at the end of 2016 and our current stock price.

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During 2016, 2015 and 2014, we repurchased 13.7 million shares of our common stock for total consideration of $700 million, 5.7 million shares of our common stock for total consideration of $345 million, and 4.1 million shares of our common stock for total consideration of $217 million, respectively. At the end of 2016, $100 million remains available for repurchase under our current repurchase program. Although we may continue to repurchase shares, there is no assurance that we will repurchase up to the full amount of shares remaining available under the program. Refer to Note (14) of the notes to consolidated financial statements for further information regarding our share repurchase programs.

During 2016, we paid $2 million of contingent consideration related to our acquisition of InterMedHx, LLC. In 2015 we paid an aggregate of $11 million of contingent consideration related to our acquisitions of InterMedHx, LLC and Kaufman & Keen, LLC (doing business as PureWellness). In 2014, we paid $11 million of contingent consideration related to our acquisition of PureWellness. We expect additional contingent consideration payments in 2017 related to our acquisitions of the Lee's Summit Tech Center and InterMedHx. Refer to Note (2) of the notes to consolidated financial statements for additional information regarding our contingent consideration arrangements.

In January 2014 we received $48 million of cash grants from the Kansas Department of Commerce for project costs in connection with the construction of our Continuous Campus. Refer to Note (16) of the notes to consolidated financial statements for additional information.

Free Cash Flow (Non-GAAP)

	For the Years Ended		
(In thousands)	2016	2015	2014
Cash flows from operating activities (GAAP)	$1,155,612	$947,526	$847,027
Capital purchases	(459,427)	(362,132)	(276,584)
Capitalized software development costs	(293,696)	(264,656)	(177,800)
Free cash flow (non-GAAP)	$402,489	$320,738	$392,643

Free cash flow increased $82 million in 2016, compared to 2015. This increase is due to an increase in cash flows from operations, partially offset by higher levels of both capital spending to support our growth initiatives and facilities requirements, and capitalized spending to support our ongoing software development initiatives. Free cash flow decreased $72 million in 2015, compared to 2014. The decrease was due to higher levels of both capital spending to support our growth initiatives and facilities requirements, and capitalized spending to support our ongoing software development initiatives, partially offset by an increase in cash flows from operations.

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. We define free cash flow as cash flows from operating activities reduced by capital purchases and capitalized software development costs. The table above sets forth a reconciliation of free cash flow to cash flows from operating activities, which we believe to be the GAAP financial measure most directly comparable to free cash flow. The presentation of free cash flow is not meant to be considered in isolation, nor as a substitute for, or superior to, GAAP results, and investors should be aware that non-GAAP measures have inherent limitations and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. Free cash flow may also be different from similar non-GAAP financial measures used by other companies and may not be comparable to similarly titled captions of other companies due to potential inconsistencies in the method of calculation. We believe free cash flow is important to enable investors to better understand and evaluate our ongoing operating results and allows for greater transparency in the review and understanding of our overall financial, operational and economic performance, because free cash flow takes into account certain capital expenditures necessary to operate our business.

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Contractual Obligations, Commitments and Off Balance Sheet Arrangements

The following table represents a summary of our contractual obligations and commercial commitments at the end of 2016, except short-term purchase order commitments arising in the ordinary course of business.

	Payments Due by Period						
(In thousands)	2017	2018	2019	2020	2021	2022 and thereafter	Total
Balance sheet obligations[(a)]:							
Long-term debt obligations	$—	$2,500	$—	$1,100	$1,700	$508,621	$513,921
Interest on long-term debt obligations	15,945	16,377	16,701	16,915	17,057	29,351	112,346
Capital lease obligations	26,197	11,719	8,718	3,380	430	—	50,444
Interest on capital lease obligations	1,229	690	292	55	6	—	2,272
Other obligations:							
Operating lease obligations	30,089	26,898	22,041	16,085	11,147	8,722	114,982
Purchase obligations	83,002	41,887	19,205	7,677	3,711	26,890	182,372
Total	$156,462	$100,071	$66,957	$45,212	$34,051	$573,584	$976,337

(a) At the end of 2016, liabilities for unrecognized tax benefits were $10 million.

We have no off balance sheet arrangements as defined in Regulation S-K. The effects of inflation on our business during 2016, 2015 and 2014 were not significant.

Recent Accounting Pronouncements

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

Critical Accounting Policies

We believe that there are several accounting policies that are critical to understanding our historical and future performance, as these policies affect the reported amount of revenue and other significant areas involving our judgments and estimates. These significant accounting policies relate to revenue recognition, software development, potential impairments of goodwill, and income taxes. These accounting policies and our procedures related to these accounting 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 implementation services are not essential to the functionality of our software, we can establish vendor specific objective evidence (VSOE) of fair value for any undelivered elements, and the length of time it takes for us to achieve the delivery and implementation 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. If VSOE of fair value cannot be established for both the implementation services and the support services, the entire arrangement fee is recognized ratably over the period during which the implementation services are expected to be performed or the support period, whichever is longer, beginning with delivery of the software, provided that all other revenue recognition criteria are met.

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

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near or at the end of a project, the full impact of the change in estimate is recognized in that period. This can result in a material impact on our results for a single reporting period.

Software Development Costs

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

Net realizable value is computed as the estimated gross future revenues from each software solution less the amount of estimated future costs of completing and disposing of that product. Because the development of projected net future revenues related to our software solutions used in our net realizable value computation is based on estimates, a significant reduction in our future revenues could impact the recovery of our capitalized software development costs. If we missed our estimates of net future revenues by 10%, the amount of our capitalized software development costs would not be impaired.

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

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

Goodwill

Goodwill is not amortized but is evaluated for impairment annually or whenever there is an impairment indicator. All goodwill is assigned to a reporting unit, where it is subject to an annual impairment assessment. We assess goodwill for impairment in the second quarter of each fiscal year and evaluate impairment indicators at each quarter end. We assessed our goodwill for impairment as of the second quarters of 2016 and 2015 and concluded that goodwill was not impaired. The assessments consisted of a qualitative analysis in accordance with Accounting Standards Update 2011-08, Testing for Goodwill Impairment. A key consideration in conducting those analyses was the significant growth in both the revenues and operating earnings of our reporting units since our last quantitative assessment. Our last quantitative assessment was performed in 2011, in which the fair values of each of our reporting units exceeded their carrying amounts by a significant margin. We used a discounted cash flow analysis utilizing Level 3 inputs, to determine the fair value of the reporting units in 2011. Goodwill amounted to $844 million and $799 million at the end of 2016 and 2015, respectively. If future anticipated cash flows from our reporting units that recognized goodwill do not materialize as expected, our goodwill could be impaired, which could result in significant charges to earnings.

Income Taxes

We make a number of assumptions and estimates in determining the appropriate amount of expense to record for income taxes. These assumptions and estimates consider the taxing jurisdictions in which we operate as well as current tax regulations. Accruals are established for estimates of tax effects for certain transactions, business structures and future projected profitability of our businesses based on our interpretation of existing facts and circumstances. If

these assumptions and estimates were to change as a result of new evidence or changes in circumstances, the change in estimate could result in a material adjustment to the consolidated financial statements.

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

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Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to interest rate risk, primarily changes in LIBOR, related to our Series 2015-C Notes issued in January 2015. As of December 31, 2016, the interest rate for the current interest period on our Series 2015-C Notes was 1.90%, based on the three-month floating LIBOR rate. Based on our balance of $75 million of Series 2015-C Notes as of December 31, 2016, an increase in interest rates of 1.0% would cause a corresponding increase in our annual interest expense of less than $1 million.

We have global operations, and as a result, we are exposed to market risk related to foreign currency exchange rate fluctuations. Foreign currency fluctuations through December 31, 2016 have not had a material impact on our financial position or operating results. We currently do not use currency hedging instruments, though we actively monitor our exposure to foreign currency fluctuations and may use hedging transactions in the future if management deems it appropriate. We believe most of our global operations are naturally hedged for foreign currency risk as our foreign subsidiaries invoice their clients and satisfy their obligations primarily in their local currencies. There can be no guarantee that the impact of foreign currency fluctuations in the future will not have a material impact on our financial position or operating results.

Item 8. Financial Statements and Supplementary Data

The Financial Statements and Notes required by this Item are submitted as a separate part of this report. See Note (19) to the Consolidated Financial Statements for supplementary financial information.

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

N/A

Item 9A. Controls and Procedures

a) Evaluation of Disclosure Controls and Procedures.

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

b) Management's Report on Internal Control over Financial Reporting.

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). The Company’s

management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its Internal Control-Integrated Framework (2013). The Company's management has concluded that, as of December 31, 2016, the Company's internal control over financial reporting is effective based on these criteria. The Company's independent registered public accounting firm that audited the consolidated financial statements included in this annual report has issued an audit report on the effectiveness of the Company's internal control over financial reporting, which is included herein under "Report of Independent Registered Public Accounting Firm".

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c) Changes in Internal Control over Financial Reporting.

On February 2, 2015, we acquired Siemens Health Services, as further described in Note (2) of the notes to consolidated financial statements. During 2016, we continued to integrate policies, p