CERNER CORPORATION

2000 ANNUAL REPORT

TRANSFORMING HEALTHCARE WITH TECHNOLOGY

CERNER®

ENTERPRISE-WIDE SOLUTIONS

Cerner's *CapStone*® *Enterprise Access Management System* creates the enterprise-wide master person identifier (EMPI) and automates the identification, eligibility, registration and scheduling processes across hospitals, clinics, physician practices and other care delivery organizations, integrating the health system and incorporating existing systems.

PowerChart® *Electronic Medical Record System* is the enterprise clinician's desktop solution for viewing, ordering, documenting and managing care delivery.

The *Open Clinical Foundation*® manages clinical information, providing the foundation for the electronic medical record.

The *Open Management Foundation*™ stores management information of enterprise financial, operational and process results, creating the foundation for the enterprise-wide management and executive information system.

The *Open Agreement Foundation*™ manages health plan contracts and agreements, and member information.

The *Open Research Foundation*™ provides open repository storage of clinical and medical information to support medical research.

FINANCIAL AND OPERATIONAL

The *ProFit*™ *Enterprise Billing and Accounts Receivable System* is Cerner's system for revenue accounting, billing and accounts receivable for the entire health system as well as each individual domain or organization. ProFit integrates clinical and financial data and creates a single bill.

PowerVision® *Enterprise Decision Support* links comprehensive clinical and financial data and makes it available at the point of care–allowing care to be better managed as it occurs.

The *ProFile*™ *Health Information Management System* helps meet the operations management needs of the health information management (medical records) department and includes functionality for the various chart tracking and completion tasks.

The *ProCure*™ *Materials Management System* automates the business operations around supply chain, materials acquisition and equipment management for the organization.

The *ProCare*™ *Medical Management System* automates medical management for the health system, addressing the areas of utilization, case and risk management, as well as infection control.

DECISION SUPPORT SYSTEMS AND KNOWLEDGE SOLUTIONS

Discern Expert® is an event-driven, rule-based decision support software application that allows users to define clinical and management rules (Alerts™) that are applied to event data captured or generated by other applications. It supports both synchronous (real-time, interactive) processing and asynchronous (noninteractive) processing of events. Discern Expert manages the evaluation and display of executable clinical knowledge through either Cerner-developed Alerts, which are licensed separately, or client-developed Alerts.

Discern Explorer® is a decision support software application integrated with other Cerner HNA Millennium clinical and management information systems that allows users to execute predetermined or ad hoc queries and reports regarding process-related data that is generated by the other applications.

Care Designs™ are clinical pathways and protocols that automate the specific plans of care for an individual and operate within Cerner's clinical systems.

POINT OF CARE CLINICAL SOLUTIONS

The *INet*® *Intensive Care Management System* is designed to automate the entire care process in intensive care settings. It supports chart review and browsing, order management, documentation management and automatic data acquisition.

The *CareNet*® *Acute Care Management System* is designed to automate the entire care process in acute or institutional settings. The application collects, refines, organizes and evaluates detailed clinical and management data. It enables the entire care team to plan and manage individual activities and plans, as well as measure outcomes and goals.

The *CVNet*® *Cardiology Information System* automates the processes within the cardiology department, supporting the scheduling, ordering, documentation and data capture required by professionals in the cardiology domain.

The *SurgiNet*® *Surgery Information System* is designed to address the needs of the surgical department, including automating the functions of resource and equipment scheduling, inventory management, anesthesia management and operating room management.

The *FirstNet*® *Emergency Medicine Information System* offers patient and provider tracking and an intuitive presentation of patient diagnoses and clinical events for the emergency department. FirstNet provides basic emergency department functionality, including quick admits, tracking, triage and patient history, as well as a graphical reference to patient location and order status.

The *PowerChart Office*™ *Management System* supports the broad range of clinical and business activities that occur within a physician office, clinic or large physician organization. This system ties the office together with other medical entities and automates key care team activities in both primary and specialty care settings.

The *ProCall*® *Home Care Management System* automates the clinical and business processes of home care organizations, such as home health agencies, visiting nurse associations and hospices.

CLINICAL CENTERS

The *PathNet*® *Laboratory Information System* addresses the information management needs of six clinical areas: general laboratory, microbiology, blood bank transfusion services, blood bank donor services, anatomic pathology and Human Leukocyte Antigen. PathNet automates the ordering and reporting of procedures, the production of accurate and timely reports and the maintenance of accessible clinical records.

The *RadNet*® *Radiology Information System* addresses the operational and management requirements of radiology departments or services. It allows a department to replace its manual, paper-based system of record-keeping with an efficient computer-based system that integrates with their imaging systems. Cerner also provides image management systems with picture archival and communications systems (PACS) that are fully integrated with Cerner's radiology information systems.

The *PharmNet*® *Pharmacy Information System* provides full integration for rapid pharmacy order entry and support of the clinical pharmacy in either an inpatient or retail setting. PharmNet streamlines medication order entry, enabling the pharmacist or technician to place all types of pharmaceutical orders, and automates dispensing functions.

CONSUMER/PERSONAL HEALTH

Cerner's *IQHealth*™ facilitates powerful business-to-consumer and business-to-business connections via the Internet. With IQHealth, healthcare organizations can create and brand a "health exchange" in the community to directly connect hospitals, physicians, payers, consumers and others. IQHealth provides the tools to create such local connections as well as health information to improve the quality and safety of care.

IQHealth's Personal Health Record (PHR) is a personal health management tool that gives consumers the ability to build a permanent electronic record in which health information can be securely stored as it accrues over time.

Cerner Multum™ drug database provides caregivers and consumers alike with access to drug information and the ability to perform drug interaction checking to prevent adverse events.

IQHealth's Health Risk Assessments allow organizations to create Web-based surveys to assess individual and community health risks.

Health Connections™, a 24x7 call center staffed by nurses, provides ready access to accurate health information so that consumers can better manage their health and participate in care decisions.

Health Facts® is Cerner's comparative data warehouse for benchmarking information and services for subscribers to support their own improvement processes.

INTERFACE TECHNOLOGIES

The *Open Engine*™ *Application Gateway System* facilitates the exchange of data and assists in the management of interfaces between foreign systems in a network environment. It serves as a toolkit to help write interface code.

The *Open Port*™ *Interface System* represents Cerner's standardized technology for providing reliable foreign system, medical device and other standard interfaces in a timely manner. Message translation and data mapping are done with point-and-click tools and a scripting environment. Communications protocols are configured via table driven parameters. These sophisticated methodologies result in decreased implementation times and greater client satisfaction.

CERNER COMMUNITY HEALTH MODEL

THE CERNER VISION

Cerner's business and information solutions are organized and developed around a central vision of how healthcare can and should operate within our communities. This vision is founded on four stages which Cerner believes can be achieved using information technology:

- Automate the core processes of healthcare: eliminate the paper medical record and memory-based decision making.
- Connect the person: create the personal health system.
- Structure the knowledge: position every clinical decision as a future learning event.
- Close the loop: implement evidence-based medicine.

These stages describe Cerner's business today and plans for Cerner's business both in 2001 and beyond.

Automate the Care Process

Cerner is dedicated to the elimination of the manual-based systems producing the paper medical record and the memory-based methods physicians currently use to make medical decisions.

Cerner is replacing manual processes with a complete electronic medical record and interactive decision support systems to assist physicians in making appropriate medical decisions. Medical care cannot make significant steps forward in quality and safety without leveraging the power and advantages of information technology. As long as a person's medical information is locked and isolated in a paper-based record, a physician is cut-off from rapid, contextual reference to the vast knowledge available in today's medicine. The elimination of the paper record will lead to a transformed health system that is more efficient, safer and of higher quality.

Connect the Person

Cerner is dedicated to helping its clients build a personal health system; creating a "new medium" between the person and physician; empowering the individual; creating a new center to healthcare and, ultimately, healthier communities.

The healthcare system is undergoing fundamental changes as the person becomes more informed and demands to become more involved in the decisions that affect their care and treatment. Over the coming years, these forces will grow and combine with movements toward more self-care, self-payment and self-knowledge in the post human genome era. The personal health system will interact with healthcare organizations, enabling the person to better manage their own health needs. They also will deliver benefits like personal health management and aiding the move from a reactive care system to a predictive health system.

Structure the Knowledge

Cerner is dedicated to building systems that treat every clinical decision as a future learning event by structuring, storing and studying the content surrounding each episode of medical care, creating the evidence for improved methods of diagnosing or treating a medical problem.

The knowledge that can be generated by studying the variance in outcomes from different treatment regimens can only be used to improve those regimens if there is a structure, or fundamental common nomenclature, that can exactly capture the express meaning implicit in the physician's documentation and orders and from other supporting clinicians. This information must be stored in such a way that makes it comparable to similar encounters.

Organization of knowledge will speed scientific discovery. In today's paper-based medical records, the study of data presented by just a single hospital can take months or even years. The promise of structured systems is that as the data is accumulated, order is brought to the data simultaneous to its collection, slashing the time required to process information. Additionally, the volume of information will provide heightened reliability of analysis due to the wealth and quality of the data that is the foundation of the analysis.

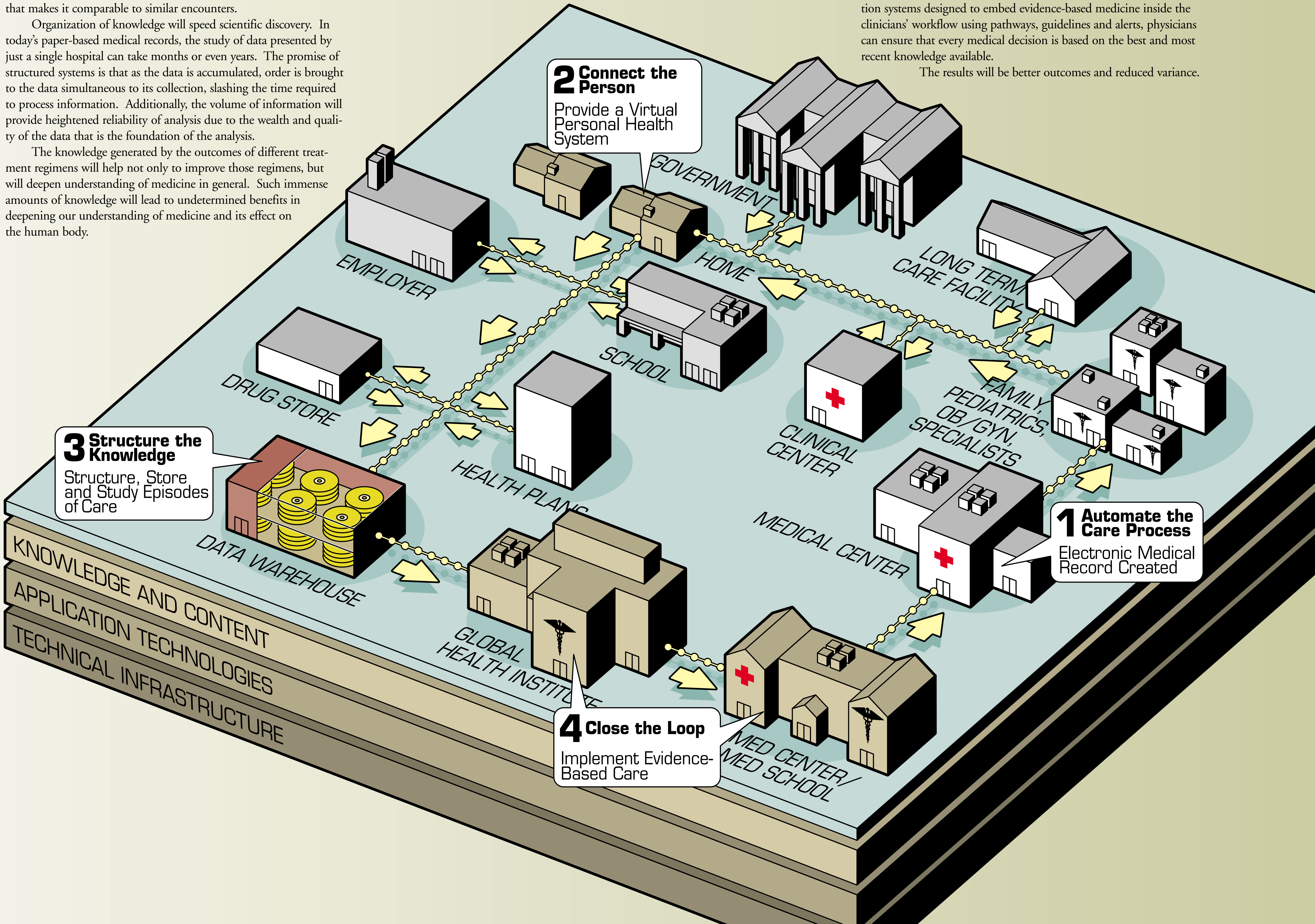
The knowledge generated by the outcomes of different treatment regimens will help not only to improve those regimens, but will deepen understanding of medicine in general. Such immense amounts of knowledge will lead to undetermined benefits in deepening our understanding of medicine and its effect on the human body.

Close the Loop

Cerner is dedicated to building systems that implement evidence-based medicine, dramatically reducing the current average time from the discovery of an improved method to the change in "standard of care" medical practice.

These advances in technology will offer great opportunities to healthcare and must be used to practical effect. The new knowledge gained today about better methods of diagnosing or treating medical problems must be used tomorrow to deliver better care, faster. Today, the current system of knowledge dissemination may take as long as ten years before new knowledge reaches widespread use. With information systems designed to embed evidence-based medicine inside the clinicians' workflow using pathways, guidelines and alerts, physicians can ensure that every medical decision is based on the best and most recent knowledge available.

The results will be better outcomes and reduced variance.



CERNERCORPORATION
2000ANNUAL REPORT

A LETTER TO OUR SHAREHOLDERS, CLIENTS AND ASSOCIATES

Cerner had a great start to the new millennium, delivering strong financial and operating results and making meaningful progress in our efforts to transform healthcare.

SUMMARY OF THE YEAR 2000

Impressive Financial Results: In 2000, we set record levels of bookings, revenues and cash flow. For the year ended December 30, 2000, revenues increased 19 percent to $404.5 million from $340.2 million for 1999, demonstrating a strong rebound of growth within our business. Our record new bookings, included our highest quarter ever when we recorded $113.4 million in the fourth quarter. Net earnings before non-recurring and extraordinary items increased 197 percent to $20.4 million compared with $6.9 million in the prior year. Diluted earnings per share before non-recurring and extraordinary items were $0.57 per share compared with $0.20 per share for the 1999 year, demonstrating our ability to grow earnings in a difficult healthcare environment. Operating margins expanded, excluding non-recurring items, for the year to 9.2 percent, more than double the prior year's 4.3 percent and demonstrating the overall strength of our business model. Cash flow increased which led to improving an already strong balance sheet.

Increased our market presence: During the last half of the '90s, we completely rebuilt our Health Network Architecture® (HNA), creating the Millennium™ version and expanding our product line from 11 healthcare information products to more than 37 at the end of 2000. Over the last 18 months, we more than doubled our direct sales force. Also, during 2000, we created a strategic, direct Cerner presence in Europe. Between the new client relationships created through our direct sales efforts and the acquisitions we completed during the year, we grew our client base by 40 percent. These 430 new client relationships substantially increase the potential cross-selling opportunities for our technology. We created more than 330 new HNA Millennium® footprints during the year. Cerner's total client base now numbers more than 1,500. We also signed licensing agreements with more than 80 other healthcare information technology (HIT) companies to use HNA® components, either software or content, as key elements of their architecture under our Power By Cerner™ program.

Expanded our platforms, market reach, products and services: Our hosting services, Cerner Online™, where we provide our clients the technical infrastructure and services for Cerner solutions in our world-class data center, became the delivery platform of choice for more than $50 million of new bookings in its first year. Many of these clients are community hospitals and represent a significantly expanded market for our products. The expanded sales force is addressing these and other increased opportunities. PowerChart Office™, Cerner's physician clinical practice solution, is having a significant impact on the way many of our clients practice medicine. And ProFit™, Cerner's new patient accounting solution, completed alpha testing, opening up a market estimated at $3 billion.

Improved our business model: Historically, our revenue visibility has been as low as 60 percent. In 2000, we were able to start each period with close to 85 percent of that period's revenue already in our backlog or available from highly predictable sources. Our consulting organization experienced record levels of profitability, increasing their margins substantially and contributing positively to our corporate profitability. Based on a healthy backlog of profitable work, we expect the consulting profitability to continue to increase over the next several years.

Delivered Impressive Operating Results: We now have more than 800 applications in production on our HNA Millennium product set in more than 125 client organizations worldwide. Over the last several years, we have reduced implementation times and resources by 50 percent. Today, over 85 percent of Cerner Consulting associates have experience with our new architecture, up from 40 percent two years ago. HNA Millennium has scaled to support varied environments, with more than 6,000 active users at our largest client. Our overall system reliability has increased to more than 99.9 percent, as measured by reported unscheduled downtime. And it is still improving. Our support calls have not increased even though we have increased the number of converted applications by nearly 25 percent in the past year.

Created Winona Health: We formed a unique partnership with a Midwest community with a population of approximately 25,000, Winona, Minn., where we are in the process of conducting a five-year study to investigate the impact greater connectivity will have on the health status of a community. We are working with the local medical community to create a personal health system for all of the community's citizens. Today, 48 of the 50 Winona physicians have agreed to "wire" their practices to allow electronic communications with their patients for scheduling requests, prescription refills, and communicating results and treatment plans, creating the basis of a new medium of health care. We also are "wiring" all four of the locally-owned pharmacies, the local clinical laboratory, the emergency room, the acute care hospital and two nursing homes. (See "Connecting the Person," below.)

Fortune 100 Best Employer Award: In 2000, Cerner earned its second Fortune magazine "100 Best Companies To Work For" award in three years. We were the 56th best company to work for in the country, according to this national business publication.

Cerner Stock Price: The Cerner shareholder was rewarded in 2000 with a 135 percent increase in stock price (comparing the closing price on December 31, 1999 to the closing price on December 29, 2000), even more impressive when compared to the 41 percent loss for the Nasdaq during the same period. In the Wall Street Journal's Shareholder Scoreboard published February 26, 2001, Cerner ranked as the 31st best performer over the last 10 years out of the 1,000 companies ranked in the study; and produced the 3rd best 10-year performance of all software companies, finishing ahead of companies such as Microsoft.

CERNER EMERGES AS THE CLEAR LEADER IN AN IMPROVING HEALTHCARE INFORMATION TECHNOLOGY MARKET, SETTING THE STAGE FOR AN EXCITING FUTURE

In 2000, Cerner emerged as the clear leader in the healthcare information industry, even as healthcare provider organizations struggled with low operating margins, access to capital, labor shortages and public scrutiny of fundamental systemic flaws in healthcare delivery. The recently published Institute of Medicine report, Crossing the Quality Chasm, clearly articulated the central role of information technology in reinventing our healthcare capabilities: "If we want safer, higher-quality care, we will need to have redesigned systems of care, including the use of information technology to support clinical and administrative processes."

Relative to 1999, the healthcare provider market for information technology clearly improved in 2000. The impact of the Balanced Budget Act (BBA) was assimilated by healthcare executives. Healthcare organizations made the budgetary adjustments to the changes in reimbursement that came from Medicare, at the same time Congress passed some BBA relief, putting some funds back into the system. Our clients still have thin operating margins and their access to capital is constrained, but healthcare executives are beginning to focus on creating better organizations and more effective processes.

As we projected in last year's annual report, spending on new projects by our clients in 2000 expanded in the wake of the Y2K situation. With the passing of the Y2K issue, funds that had been set aside to handle remediation were freed for new projects.

Going forward, we believe this is one of the best environments we have seen in the last ten years. We anticipate a relatively stable, provider-friendly set of policies and practices coming out of Washington, which impacts as much as 50 percent of the revenue of our acute care clients. The managed care organizations, which have a cyclical business, have been getting rate increases, which in part are being passed along to the provider organizations.

The largest internal pressure point for providers is that almost all healthcare organizations' core method of operations are paper-based, manual systems which depend heavily on the memories of doctors and nurses to make the appropriate decision at the appropriate time. In the increasingly complex medical environment, these processes are inefficient, and result in a large number of avoidable medical errors, and produce a huge variance in how physicians diagnose and treat the same medical condition. These variances of course lead to large variances in the outcomes we receive as patients in the system.

The most significant external pressure on healthcare organizations is increasing dramatically as the public becomes more informed about the waste, errors and variance produced by the current healthcare system. The USA Today, March 2, 2001, front page headline following the release of the IOM document was: "Report: Health System Broken". The article also cited the 1999 IOM report, which documented that there is evidence that up to 98,000 lives are lost to avoidable medical errors in the nations hospitals in the United States each year. There is no data to estimate the number of deaths which occur outside the hospitals.

This environment is creating what we call "wild cards" that could increase the rate of adoption of information technology significantly beyond our current plan. An example of such a wild card is the Leapfrog Group, a subgroup of large employers from the Business Roundtable, that is becoming a forceful proponent for change. Leapfrog recommends that employers select health plans with hospitals that, among other recommendations, use a computerized, physician-order-entry system. Also, legislators are increasingly logging in on the safety issues in healthcare. California recently passed a bill requiring every hospital in the state to prepare and file a plan on safety improvement within their organizations by January 1, 2002. Additionally, some form of patient safety legislation is proposed in 40 different states. Congress is considering including patient safety in a Patient Bill of Rights in the current session.

Another potential wild card is the new privacy provisions of the Health Insurance Portability and Accountability Act (HIPAA), which strengthened the case for Cerner's integrated architecture strategy. In its coverage of both electronic and paper medical records, the new HIPAA provisions point toward a centralized and systematized method of access control that we think is best met with a single integrated architecture.

YEAR 2000 BROUGHT COMPETITIVE LANDSCAPE CHANGES

Our competitive landscape changed as much in 2000 as almost any of the previous five years. What a year!

- 2000 started with a consensus belief that Internet-based companies would revolutionize our industry, and these "new age" companies would consolidate the traditional companies along the way. Before the dot-com bubble burst, there was a rapid consolidation of these companies, merging about as fast as they were created. Next came the well-publicized implosion of the dot-com companies in March of 2000, including those focused on healthcare. The realization was that the Internet is a revolution in connectivity, not a revolution in the way of doing business. The second realization was that healthcare is complex and difficult. The conclusion: Cerner has a bright future.

- Along the way, our two large competitors disappeared into even larger companies. The first one did so in early 1999, the second one during 2000. Exit the largest HIT companies; enter much larger equipment and drug companies. We do not expect this to be the last time a large capitalization company enters this market. Cerner has now become the largest independent company in this business.

- Our industry has a history of a large number of niche companies. The industry consultants coined the term, "best of breed" to describe these niche, stand-alone products. The year 2000 saw the market turn on the "best of breed." Cerner acquired the assets and the operations of six smaller HIT companies, which had literally run out of steam, and on average paid less than one times revenues. The cost of competing in this industry is getting larger, mainly due to the high cost of development, which is caused by the skyrocketing cost of programmers and the complexity of contemporary information system architectures. These factors and our investment in HNA Millennium are significant barriers to entry and represent a strong opportunity for Cerner.

OUR 2001 PLAN

The first four of our five business imperatives for 2001 have been basically the same since 1998. We believe it is essential to grow our top line, expand our operating margins, set the standard for operational excellence in our industry and connect the person to their healthcare system. Our new imperative added this year is to advance our leadership of the market, with the ultimate goal of transforming healthcare delivery – making it safer, more efficient and better able to meet the needs of healthcare consumers.

GROWING OUR REVENUES OVER THE NEXT DECADE

From 1990 to 2000, we maintained a 10-year compounded average revenue growth rate that exceeded 20 percent. We believe that we are well positioned to continue good growth rates into the future. Here are our thoughts:

Over this last decade, our environment has been extremely tough. Healthcare, and particularly healthcare providers, struggled as an industry. Managed care became a major factor in the early '90s, extracting margins and forcing operational and clinical improvements. Strategies to cope were abundant, but they all failed. The provider industry consolidated both horizontally and vertically, creating unwieldy organizations with few operating benefits. A number of for-profit organizations were created focusing on physician care or acute care systems with better management approaches. After a brief period of excitement, these techniques lost their luster, and management abandoned their strategies, leaving dysfunctional pieces of healthcare in many communities. And in the last four years, healthcare has had a massive margin crunch caused by the 1997 Balanced Budget Act, and all of the information systems world — especially healthcare — was dramatically impacted by Y2K. On top of all the environmental issues, Cerner completely rebuilt its HNA architecture and all of the application product sets.

We grew Cerner well throughout this period by focusing on a clear strategy of organic growth based on aggressive software development, using a common architecture focusing on the person. This strategy has created two decades of growth. From 1990 to 2000, our annual new business bookings increased from $9.6 million to $399 million. We believe we have laid the foundation to continue our growth into this decade.

Our organic growth strategy and our attitude toward future growth is illustrated with PathNet®, our original application and market-leading, clinical laboratory system. PathNet was first converted in 1982 at St. John Medical Center, in Tulsa Okla. In 1985, PathNet understandably constituted 100 percent of our new contracts. In 1990, it was still close to 90 percent of our bookings revenue. In 2000, even after recording the highest level of laboratory system bookings in the Company's history, PathNet contributed only three percent of our total new contract bookings. Products introduced after PathNet contributed the remaining 97 percent. The unlocking of the human genome will explode the role of laboratory medicine, creating a new role for predictive medicine, in addition to diagnostic medicine. Exciting. Plus we have virtually no market share in laboratory systems outside of North America. We expect to be able to continue to grow our PathNet revenues well into this decade.

However, the most impressive part of our outlook for growth has to do with our clients' environment. Unlike the '90s, we expect the issues facing healthcare will strongly encourage the industry to completely endorse and adopt information technology as it has never done before. In our opinion, major factors such as cost, efficiency, safety, quality and sensitivity to the consumer will have to be dealt with over the next 10 years, creating a very good environment for growth of Cerner. This, in conjunction with how well we are prepared internally, creates true optimism and confidence for future revenue growth.

EXPAND OPERATING MARGINS

We believe that operating margins of 20 percent are possible and desirable for our type of business. Cerner operated for three years, 1993-95, at operating margins greater than 20 percent. These margins make it possible to invest in the information technology and architecture that healthcare needs to address the issues illuminated by the IOM report. As indicated above, we doubled our operating margins in 2000, from 4.3 percent to 9.2 percent. We intend to continue to work to increase our operating margins.

The improvements in our business model, growing revenues faster than spending, and general gains in quality, productivity and efficiencies are the keys to making these fundamental improvements. Growing our revenues while expanding our operating margins will make for a financially vibrant Cerner.

OPERATIONAL EXCELLENCE

We plan to set the standard for quality in all of healthcare. Our business is complex, it demands excellence. Our vision is large, it demands excellence. We need to improve everything we do. We must improve how we develop software and knowledge content, improving its quality, reliability and our efficiency in its manufacture. We must improve our professional services, improving the advice and counsel we provide in how to transform healthcare organizations. We need to become more efficient in order to reduce our cost to our clients while we improve the value of our services. We must improve client service, the way we support the large number of clients who have our technology running their clinical, managerial and financial processes. A large job, a large challenge. If we continue to make the progress we have over the last several years, we will establish the operational standards in our industry.

CONNECTING THE PERSON

Connecting the person (the consumer) to their physician and the rest of the healthcare community is an imperative for Cerner and a fundamental part of the value information technology can bring to healthcare (see "Created Winona Health," above). We believe it will create profound changes in healthcare, moving the center of healthcare closer to the person, empowering them to become more responsible for management of their health. As the Institute of Medicine noted in Crossing the Quality Chasm:

> …systems must be designed to serve the needs of patients, and to ensure that they are fully informed, retain control and participate in care delivery whenever possible, and receive care that is respectful of their values and preferences… Patients should have unfettered access to their own medical information and to clinical knowledge. Clinicians and patients should communicate effectively and share information.

Our Winona Health project will help Cerner and this industry understand the value of this connection. We believe it will be very valuable to the shareholders, as well as to the communities in which we live.

EXTEND CERNER'S LEADERSHIP POSITION

Healthcare has very large, systemic issues. We believe that Cerner must continue to create innovative solutions and services to make fundamental changes to healthcare and be an advocate for these necessary changes to make healthcare much safer, more efficient and capable of consistently producing higher quality results.

One of the keys to extending our leadership is capitalizing on our ability to deliver real knowledge-based medicine as we develop our products. Through the power of Cerner's single, integrated architecture, we believe that healthcare will make a dramatic leap forward in the quality and safety of the care it delivers. We see a transformed healthcare system in the future, with healthcare organizations that: make no avoidable errors, efficiently operate in a paperless environment, consistently deliver the highest quality of care based on the most current knowledge available, and are highly sensitive to the needs of the persons and communities which they serve.

To make that transformation possible will require strong leadership and serious commitment, not just from Cerner's top executives, but from our managers and all associates. This is an important focus for us, as illustrated by a recent episode in which our CEO, Neal Patterson, challenged our managers to ensure the full productivity of our associates. He also asked for and has received heightened focus and renewed energy. This focus and energy is needed to meet our clients' immediate needs, solve their future challenges and move healthcare forward dramatically.

Cerner has an exciting, promising future. We have momentum. We also have what we believe to be the most important ingredients for the future: a strong vision and a very talented, committed organization. It was these two ingredients that made 2000 a success. It will be those two ingredients which will create our future.

NEAL L. PATTERSON — Chairman and Chief Executive Officer

CLIFFORD W. ILLIG — Vice Chairman

EARL H. DEVANNY, III — President

GLENN P. TOBIN, Ph.D. — Executive Vice President and Chief Operating Officer

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 30, 2000

OR

( ) **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]**

For the transition period from _____________ to ___________

Commission File Number 0-15386

CERNER CORPORATION

(Exact name of Registrant as specified in its charter)

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

2800 Rockcreek Parkway
North Kansas City, Missouri 64117
(816) 221-1024
(Address of principal executive offices, including zip code; Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: NONE

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

Common Stock, par value $.01 per share
Preferred Stock Purchase Rights
(Title of Class)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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]

At March 15, 2001, there were 34,813,821 shares of Common Stock outstanding, of which 7,559,789 shares were owned by affiliates. The aggregate market value of the outstanding Common Stock of the Registrant held by non-affiliates, based on the average of bid and asked prices of such stock on March 15, 2001, was $1,089,309,592.

Documents incorporated by reference: portions of the Registrant's Proxy Statement for the 2001 Annual Meeting of Stockholders are incorporated by reference in Part III hereof.

PART I

ITEM 1. BUSINESS

OVERVIEW

Cerner Corporation ("Cerner" or the "Company") is a Delaware corporation incorporated in 1980. The Company's principal offices are located at 2800 Rockcreek Parkway, North Kansas City, Missouri 64117, and its telephone number is (816) 221-1024.

Cerner designs, develops, markets, installs, hosts and supports software information technology and content solutions for healthcare organizations and consumers. Cerner implements these solutions as individual, combined or enterprise-wide systems.

Cerner's integrated suite of solutions enable healthcare providers to improve operating effectiveness, reduce costs, reduce medical errors, reduce variances and improve the quality of care as measured by clinical outcomes. Cerner solutions are designed to provide the appropriate health information and knowledge to care givers, clinicians and consumers and the appropriate management information to healthcare administration on a real-time basis. Cerner solutions allow secure access to data by clinical, administrative and financial users in organized settings of care and by consumers from their home. These solutions can be implemented as a part of an enterprise-wide solution or individually, leveraging the client's existing investment in information technology. Cerner solutions are available as integrated applications managed by its clients or as a service option under the hosted solutions model. Hosted solutions are applications that are provided to clients from Cerner's solutions center in Lee's Summit, Missouri.

Cerner solutions are designed and developed using the Health Network Architecture® ("HNA"), a single information architecture. HNA® is a unified technology infrastructure for combining clinical and management information applications. HNA allows each participating healthcare organization to access an individual's clinical record at the point of care, to organize it for the specific needs of the physician, nurse, laboratory technician or other care provider on a real-time basis, and to use the information in management decisions to improve the efficiency and productivity of the entire enterprise.

Cerner has developed and is licensing and installing its newest generation of HNA solutions known as "Millennium™". See "Cerner's Technology - Health Network Architecture (HNA) and HNA Millennium" for a discussion of HNA Millennium®.

HEALTHCARE INDUSTRY

The healthcare delivery industry in the United States is highly fragmented, very complex and remarkably inefficient. While science and medical technology continue to make significant breakthrough progress in dealing with human disease and injury, the management and clinical processes of these complex delivery organizations have made little progress in the past twenty years. Even today, the major clinical workflow depends on manual, paper-based medical record systems augmented by spotty automation. This has resulted in an industry which is economically inefficient and produces significant variances in medical outcomes. In November 1999, the Institute of Medicine released a report called "To Err is Human" indicating that medical error is one of the top ten causes of death in the United States, with up to 96,000 lives lost each year. The industry must address these issues by identifying ways to enhance efficiencies and improve the quality of care.

The healthcare industry has also been buffeted by significant external forces during the 1990's. Managed Care Organizations defined themselves as an intermediary in the flow of funds and exerted pressure on healthcare spending. In 1997, Congress enacted the Balanced Budget Act which reduced Medicare reimbursements to healthcare providers by over $250 billion dollars over a five-year period. The full impact of this legislation hit in 1999, significantly reducing the operating margins of hospitals and physician groups. The healthcare industry has also seen the impact of legislative and employer-led initiatives, such as the Leapfrog Group, an organization of large businesses which recommends that its members not send any of their employees to hospitals that do not use a computerized, physician order-entry system. These pressures have forced healthcare providers to focus on improving their systems and processes.

In order to be competitive in this dynamic marketplace, healthcare enterprises will need to deploy information technology solutions that internally automate the paper-based medical record systems and externally create smart connections between the major participants in healthcare: the consumer, the physician, the hospital and the managed care organization. The emergence of near ubiquitous Internet connectivity will facilitate consumer participation in the healthcare management process.

The complexity of healthcare's information requirements will continue to increase with provider consolidations and the challenging cost containment pressures created by the Balanced Budget Act. The Health Insurance Portability and Accountability Act of 1996 (HIPAA) adds an additional element of uncertainty for healthcare organizations around security and patient confidentiality. The final health data privacy regulations were published in December 2000, and require compliance by April 2003. While many of the rules under HIPAA have not been finalized as yet, the provisions are focused on a centralized and systematic method of access control that Cerner thinks is best met by a single integrated architecture.

Cerner is responding to the changing and increasing needs of the healthcare industry for better information systems by developing HNA Millennium, its latest generation of solutions. See "Cerner's Technology - Health Network Architecture (HNA) and HNA Millennium" for a discussion of HNA Millennium.

THE CERNER VISION

Cerner's business and products are organized around a central vision of how healthcare can and should operate. This vision is founded on four steps:

- Automate the core processes of healthcare: eliminate the paper medical record
- Connect the person: create the personal health system
- Structure the knowledge: position every clinical decision as a learning event
- Close the loop: implement evidence-based medicine

These steps describe Cerner's business today and plans for Cerner's business both in 2001 and beyond.

AUTOMATE THE PROCESS

Cerner is dedicated to the elimination of the paper medical record.

Medical care cannot make significant steps forward in quality and consistency without leveraging the power and advantages of information technology. As long as medical information is locked and isolated in a paper record, a physician is cut off from rapid, contextual reference to the vast knowledge available in today's medicine. The elimination of the paper record will lead to improved quality and safety of care, dramatic productivity increases and enhanced documentation.

The electronic recording of medical information will lead to improvements in the quality of care, the safety of patients and reduced costs. By allowing care providers to access a patient's single, longitudinal medical record in real-time, clinicians can view demographic information, medical history, lab results and current conditions and treatment plans along with notes from attending and consulting physicians. Guidelines and pathways sensitive to the person's medical condition and problems will assist the physician in making the "appropriate" decisions on how to diagnose and treat medical conditions. This comprehensive view of a patient's health status allows for better medical decision-making at the point of care. Online documentation and physician order entry helps to prevent the errors in and misinterpretation of documentation and orders, reducing the costs of duplication and medical error. This automation also will reduce the time for care delivery and lower costs.

Once all the steps of care are captured electronically, the enhanced documentation will lead to more efficient healthcare, both in terms of treatment and finance, and will set the stage for data collection that will be the backbone of structuring the knowledge of healthcare. Electronic medical records reduce some of the duplication caused by poor record-keeping. Wasteful duplication is eliminated, redundant tests are not ordered. Also, documentation required for health plan reimbursement is maintained efficiently, reducing claim denials. Finally, electronic record-keeping lays the groundwork of data collection necessary to make dramatic changes in care delivery.

CONNECT THE PERSON

Cerner is dedicated to helping its clients build a personal health system; creating a "new medium" between the person and physician; empowering the individual; and creating a new center to healthcare.

The healthcare system is undergoing fundamental change as the person moves to the center of care delivery. Increasing access to expert knowledge over the Internet and a cultural shift toward more self-direction are combining to move the center of power and control to the person. With the electronic medical record, persons can access their medical records securely anytime and anywhere they have Internet access. When combined with personalized health content, the consumer gains a better sense of the care they are receiving and the options available to them. They will have better communications with their providers, and can take more ownership of their own health and work to manage it to their satisfaction.

STRUCTURE THE KNOWLEDGE

Cerner is dedicated to building systems that treat every clinical decision as a learning event by structuring, storing and studying the content of medicine.

Medicine must have a structure that allows physicians to record treatment and outcomes in such a way as to permit comparability. The basis of this structure is a common nomenclature that can exactly capture the meaning of input from physicians and clinicians. By storing this data and then providing a framework for comparability, physicians can make sense and glean value from the information that is gathered both through automated processes and connected persons. Without a knowledge framework, data collected will provide no real benefit. By building this structure, every encounter with a patient, every piece of new knowledge and information, can be catalogued, measured and analyzed to improve care. This knowledge framework will deliver better standards of care and an improved understanding of medicine.

CLOSE THE LOOP

Cerner is dedicated to building systems that implement evidence-based medicine, dramatically reducing the current average time from the discovery of an improved method to the change in "standard of care" medical practice.

Advances in technology offer great opportunities to healthcare and must be used to practical effect. The knowledge gained must be used to deliver better care faster. The information learned must be applied. Today, patients may wait as long as ten years before new knowledge reaches widespread use. With systems designed to embed evidence-based medicine inside the clinicians' workflow using pathways, guidelines and alerts, physicians can ensure that every medical decision is optimal, based on the best and most recent knowledge available. The results will be better outcomes and reduced variance.

THE CERNER STRATEGY

Key elements of the Company's business strategy include the following:

Penetrate the integrated healthcare provider market. Large health systems represent a significant component of the healthcare information technology market. These organizations are focused on improving safety and reducing costs through operating efficiencies. Cerner's enterprise-wide process-based, clinical and management systems provide the technology to enable an integrated system to manage healthcare across the system, significantly reduce costs, improve the efficiency of healthcare delivery and maintain and improve the quality of healthcare.

Expand market share in individual domains and further penetrate existing client base. Cerner expects continued growth in clinical domain systems for specific markets such as nursing, physician office, laboratory, pharmacy, radiology, surgery, emergency medicine and cardiology, as institutional providers look to restructure and reengineer these high cost centers. The Company anticipates growth in sales of new products, such as its new patient accounting product introduced in 2000. This product addresses a large new market previously not covered by the existing product suite. The Company also intends to market aggressively Cerner clinical and management information systems and services to its existing client base.

Remain committed to a common architecture. Because Cerner believes that the constituents in health management need to work together to benefit defined populations in a community, the Company has made a commitment to a single unified architecture as the platform for "fully integrated" health information and management systems. This platform enables Cerner's process-based HNA systems to be scaleable on a linear basis, using either Cerner compatible modules for process-oriented applications or competitive systems interfaced using open system protocols.

Expand products and services. Using HNA Millennium, Cerner intends to continue expanding the range of products and services offered to providers. These new products and services will complement the systems currently offered, address the emerging information needs of clients or employ technological advances. Cerner believes that major opportunities exist as providers and managed care organizations reach into new markets and offer more alternative services to remain competitive. The Company believes these organizations will find value in having personal health records and trusted health information accessible to the individual in the home. In addition, Cerner recognizes the value of the aggregate database being developed by its broad client base as a potential means to enable comparative or normative procedure evaluations as a powerful new tool in the healthcare industry. The substantial project management, process redesign, technology integration and training involved in healthcare systems taking advantage of the opportunities provided by clinical and management information technology represent a significant market for the Company's consulting services.

Offer its products on a hosted solution basis. The Company now offers its HNA Millennium applications through its new hosted solutions delivery option. This option offers information technology services to clients that include software, computer hardware, implementation, technical support, wide-area network (WAN) services and automatic software upgrades. Unlike traditional software implementations, software delivered through the hosted solutions delivery option is not installed at the user's location, but is delivered, operated and maintained in Cerner's solutions center in a rapidly accelerated implementation timeframe. Using Cerner hosted solutions, any size organization can access the same robust clinical applications, architecture and user-interface advantages that were previously only available to larger institutions.

CERNER'S TECHNOLOGY — HEALTH NETWORK ARCHITECTURE (HNA) AND HNA MILLENNIUM

The cornerstone of Cerner's technology strategy is HNA, the single architecture around which each of Cerner's information products is developed. This person-centric, single data model, open and highly scaleable architecture allows Cerner to meet the clinical, financial, management and business information requirements of a healthcare delivery system across the continuum of care. Cerner's newest version of its HNA computing platform is Millennium, the core of which was developed between 1994 and 1999. Millennium uses n-tier client/server technology to optimize distributed computing performance and scalability across multiple client and server platforms. The HNA Millennium architecture and applications were designed and developed to accommodate healthcare specific requirements for mission critical computing and secure access, whether the user is inside the healthcare enterprise or at home via the Internet. HNA Millennium's breadth of focus and functionality are well suited for large-scale and enterprise application technologies for healthcare organizations, including the ability to leverage the Internet for ehealth-related self-service and business-to-business functions.

The value of HNA Millennium to a client organization is the use across a healthcare organization of a single system based on a fully integrated common architecture and database. With its single data model, HNA Millennium provides secure, real-time access to all information across multiple applications, domains, organizations and physical locations, including physician, hospital, nursing, laboratory, pharmacy and consumers, to all of those needing such access, wherever they are located. Given its integrated and open design, HNA Millennium can also provide a centralized repository of clinical and financial transactions to help standardize access and messaging of disparate applications across a health system.

The alternative to a single architectural approach is to use disparate systems based on differing architectures and data structures to automate the care processes across the continuum of care. These disparate systems must be interfaced together and rely on these interfaces to transmit, modify and arrange data exchanged between them, which limits the data's usefulness across multiple systems and inhibits real-time access. In addition, many of these systems lack functional scalability and cannot operate across multiple provider settings or locations within a healthcare organization.

Two overarching capabilities are embedded into the HNA Millennium architecture. First is the person-centric transactions and secure messaging, which consider the breadth of requirements not only of a patient, but also of healthy consumers. Second is healthcare community dynamics, which take into account the flexibility required by the constantly changing relationships between healthcare organizations, physicians and consumers, and the need to maintain complex security and end user preferences based on the context and business attributes of the transaction in a community setting.

CERNER'S MILLENNIUMOBJECTS

Cerner is extending HNA Millennium's reach and scope with the goal of becoming the de facto standard for healthcare information technology. A key element in that effort by Cerner is Cerner's MillenniumObjects. Cerner will use Cerner's MillenniumObjects to extend HNA Millennium to suppliers, supporting their development efforts and increasing Millennium's market penetration. Cerner's MillenniumObjects is a collection of reusable programming elements from Cerner's HNA Millennium architecture. These segments of code, or objects, enable third-party developers to create front-end applications, like Palm or Web browser solutions, that draw upon the data model and proven functionality of HNA Millennium. With Cerner's MillenniumObjects, programmers can quickly and efficiently build applications that integrate with Cerner's architecture, reusing existing objects that achieve the tasks they are seeking to replicate. Third-party programmers can avoid the time- and cost-intensive process of writing new code to perform functions Cerner engineers have already developed.

Cerner's MillenniumObjects is the mechanism Cerner uses to extend its own applications to the Internet. By licensing the objects library to third parties, Cerner has an excellent opportunity to proliferate the HNA Millennium architecture – as well as the brand, clinical expertise and technical excellence upon which it was built.

PRODUCTS

Cerner's HNA Millennium platform of products is the only healthcare information system on the market today capable of both retrieving and disseminating clinical and financial information across an entire health system. HNA Millennium includes seven product families dedicated to meeting the automation needs of virtually every segment of the care continuum.

Cerner solutions can be acquired individually or as a fully integrated health information system. Cerner also markets more than 200 product options that complement Cerner's major information systems. In addition, Cerner sells computers and related hardware manufactured by third parties and consulting services to its software licensees.

Cerner's product categories include:

- Enterprise Systems, which automate processes across and throughout the health system enterprise;
- Financial and Operational Management Systems, which automate business operations;
- Decision Support Systems and Knowledge Solutions, which enhance clinical and business processes with information and actions;
- Point of Care Clinical Systems, which automate the care processes within specific domains of health systems;
- Systems for Clinical Centers, which automate the clinical processes within specific departments;
- Personal Health Systems for individuals to manage their own health and connect to the health system; and
- Interface Technologies for connecting other technologies and systems to HNA Millennium.

ENTERPRISE-WIDE SOLUTIONS

Cerner's *CapStone® Enterprise Access Management System* creates the enterprise-wide master person identifier (EMPI) and automates the identification, eligibility, registration and scheduling processes across hospitals, clinics, physician practices and other care delivery organizations, integrating the health system and incorporating existing systems.

PowerChart® Electronic Medical Record System is the enterprise clinician's desktop solution for viewing, ordering, documenting and managing care delivery.

The *Open Clinical Foundation®* manages clinical information, providing the foundation for the electronic medical record.

The *Open Management Foundation™* stores management information of enterprise financial, operational and process results, creating the foundation for the enterprise-wide management and executive information system.

The *Open Agreement Foundation™* manages health plan contracts and agreements, and member information.

The *Open Research Foundation™* provides open repository storage of clinical and medical information to support medical research.

FINANCIAL AND OPERATIONAL

The *ProFit™ Enterprise Billing and Accounts Receivable System* is Cerner's system for revenue accounting, billing and accounts receivable for the entire health system as well as each individual domain or organization. ProFit integrates clinical and financial data and creates a single bill.

PowerVision® Enterprise Decision Support links comprehensive clinical and financial data and makes it available at the point of care–allowing care to be better managed as it occurs.

The *ProFile™ Health Information Management System* helps meet the operations management needs of the health information management (medical records) department and includes functionality for the various chart tracking and completion tasks.

The *ProCure™ Materials Management System* automates the business operations around supply chain, materials acquisition and equipment management for the organization.

The *ProCare™ Medical Management System* automates medical management for the health system, addressing the areas of utilization, case and risk management, as well as infection control.

The *RadNet® Radiology Information System* addresses the operational and management requirements of radiology departments or services. It allows a department to replace its manual, paper-based system of record-keeping with an efficient computer-based system that integrates with its imaging systems. Cerner also provides image management systems with picture archival and communications systems (PACS) that are fully integrated with Cerner's radiology information systems. Using Cerner's end-to-end, fully integrated radiology information and image management systems, radiologists can improve operational efficiencies and reduce medical error.

DECISION SUPPORT SYSTEMS AND KNOWLEDGE SOLUTIONS

Discern Expert® is an event-driven, rule-based decision support software application that allows users to define clinical and management rules (Alerts™) that are applied to event data captured or generated by other applications. It supports both synchronous (real-time, interactive) processing and asynchronous (noninteractive) processing of events. Discern Expert manages the evaluation and display of executable clinical knowledge through either Cerner-developed Alerts, which are licensed separately, or client-developed Alerts.

Discern Explorer® is a decision support software application integrated with other Cerner HNA Millennium clinical and management information systems that allows users to execute predetermined or ad hoc queries and reports regarding process-related data that is generated by the other applications.

Care Designs™ are clinical pathways and protocols that automate the specific plans of care for an individual and operate within Cerner's clinical systems.

POINT OF CARE CLINICAL SOLUTIONS

The *INet® Intensive Care Management System* is designed to automate the entire care process in intensive care settings. It supports chart review and browsing, order management, documentation management and automatic data acquisition.

Cerner's *CareNet® Acute Care Management System* is designed to automate the entire care process in acute or institutional settings. The application collects, refines, organizes and evaluates detailed clinical and management data. It enables the entire care team to plan and manage individual activities and plans, as well as measure outcomes and goals.

The *CVNet® Cardiology Information System* automates the processes within the cardiology department, supporting the scheduling, ordering, documentation and data capture required by professionals in the cardiology domain.

The *SurgiNet® Surgery Information System* is designed to address the needs of the surgical department, including automating the functions of resource and equipment scheduling, inventory management, anesthesia management and operating room management.

The *FirstNet® Emergency Medicine Information System* offers patient and provider tracking and an intuitive presentation of patient diagnoses and clinical events for the emergency department. FirstNet provides basic emergency department functionality, including quick admits, tracking, triage and patient history, as well as a graphical reference to patient location and order status.

The *PowerChart Office™ Management System* supports the broad range of clinical and business activities that occur within a physician office, clinic or large physician organization. This system ties the office together with other medical entities and automates key care team activities in both primary and specialty care settings.

The *ProCall® Home Care Management System* automates the clinical and business processes of home care organizations, such as home health agencies, visiting nurse associations and hospices.

CLINICAL CENTERS

The *PathNet® Laboratory Information System* addresses the information management needs of six clinical areas: general laboratory, microbiology, blood bank transfusion services, blood bank donor services, anatomic pathology and Human Leukocyte Antigen. PathNet automates the ordering and reporting of procedures, the production of accurate and timely reports and the maintenance of accessible clinical records.

The *RadNet® Radiology Information System* addresses the operational and management requirements of radiology departments or services. It allows a department to replace its manual, paper-based system of record-keeping with an efficient computer-based system that integrates with their imaging systems.

The *PharmNet® Pharmacy Information System* provides full integration for rapid pharmacy order entry and support of the clinical pharmacy in either an inpatient or retail setting. PharmNet streamlines medication order entry, enabling the pharmacist or technician to place all types of pharmaceutical orders, and automates dispensing functions.

CONSUMER/PERSONAL HEALTH

Cerner's I*QHealth*™ facilitates powerful business-to-consumer and business-to-business connections via the Internet. With IQHealth, healthcare organizations can create and brand a "health exchange" in the community to directly connect hospitals, physicians, payers, consumers and others. IQHealth provides the tools to create such local connections as well as health information to improve the quality and safety of care.

IQHealth's Personal Health Record (PHR) is a personal health management tool that gives consumers the ability to build a permanent electronic record in which health information can be securely stored as it accrues over time.

Cerner Multum® drug database provides caregivers and consumers alike with access to drug information and the ability to perform drug interaction checking to prevent adverse events.

IQHealth's Health Risk Assessments allow organizations to create Web-based surveys to assess individual and community health risks.

Health Connections™, a 24x7 call center staffed by nurses, provides ready access to accurate health information so that consumers can better manage their health and participate in care decisions.

Health Facts® is Cerner's comparative data warehouse for benchmarking information and services for subscribers to support their own improvement processes.

INTERFACE TECHNOLOGIES

The *Open Engine Application Gateway System*™ facilitates the exchange of data and assists in the management of interfaces between foreign systems in a network environment. It serves as a toolkit to help write interface code.

The *Open Port Interface System*™ represents Cerner's standardized technology for providing reliable foreign system, medical device and other standard interfaces in a timely manner. Message translation and data mapping are done with point-and-click tools and a scripting environment. Communications protocols are configured via table driven parameters. These sophisticated methodologies result indecreased implementation times and greater client satisfaction.

SOFTWARE DEVELOPMENT

Cerner commits significant resources to developing new health information system products. As of December 30, 2000, approximately 1,100 employees were engaged full-time in product development activities. Total expenditures for the development and enhancement of the Company's products were approximately $90,694,000, $88,699,000 and $74,159,000 during the 2000, 1999 and 1998 fiscal years respectively. These figures include both capitalized and noncapitalized portions and exclude amounts amortized for financial reporting purposes.

The Company expects to continue investment and development efforts for its current and future product offerings. As new clinical and management information needs emerge, Cerner intends to enhance its current product lines with new versions released to clients on a periodic basis. In addition, Cerner plans to expand its current product lines by developing additional information systems for clinical, financial, operational and/or consumer use and to continue to support simultaneous use of Cerner's products across multiple facilities, and plans to continue to expand in the global marketplace.

The Company is committed to maintaining open attributes in its system architecture through operability in a diverse set of technical and application environments. The Company strives to design its systems to co-exist with disparate applications developed and supported by other suppliers. This effort is exemplified by Cerner's Open Engine, Open Port and Cerner's MillenniumObjects product lines.

See "Cerner's Technology - Health Network Architecture (HNA) and HNA Millennium" for a discussion of the development of Cerner's latest generation of software products.

SALES AND MARKETING

The markets for Cerner's information system products include integrated delivery networks, physician groups and networks and their management service organizations, managed care organizations, hospitals, medical centers, free-standing reference laboratories, blood banks, imaging centers, pharmacies, pharmaceutical manufacturers, employer coalitions and public health organizations. To date, a substantial portion of system sales have been in clinical applications in hospital-based provider organizations. Cerner's HNA architecture is highly scaleable, with applications being used in hospitals ranging from under 50 beds to over 2,000 beds and managed care settings with over 2,000,000 members. All HNA Millennium applications are designed to operate on either computers manufactured by Compaq Computer Corporation or IBM's RISC System/6000 AIX (UNIX) platform, thereby allowing Cerner to be price competitive across the full range of size and organizational structure of healthcare providers. The sale of a health information system usually takes approximately nine to eighteen months, from the time of initial contact to the signing of a contract.

The Company is in the process of expanding its sales force in anticipation of increased market demands expected to be created by its HNA Millennium solutions. See "Cerner's Technology - Health Network Architecture (HNA) and HNA Millennium" for a discussion of the development of Cerner's latest generation of software products.

The Company's executive marketing management is located in its North Kansas City, Missouri, headquarters, while its client representatives are deployed across the United States and globally. In addition to the United States, the Company, through subsidiaries and joint ventures, has sales staff and/or offices in Australia, Belgium, Canada, Germany, Singapore, Malaysia, Saudi Arabia and the United Kingdom. Cerner's consolidated revenues include foreign sales of $25,815,000, $24,001,000 and $17,545,000 for the 2000, 1999 and 1998 fiscal years, respectively. The Company supports its sales force with technical personnel who perform demonstrations of Cerner's products and assist clients in determining the proper hardware and software configurations. The Company's primary direct marketing strategy is to generate sales contacts from its existing client base and through presentations at industry seminars and tradeshows. Cerner attends a number of major tradeshows each year and has begun to sponsor executive conferences, which feature industry experts who address the information system needs of large healthcare organizations.

CLIENT SERVICES

All of Cerner's clients enter into software maintenance agreements with Cerner for support of their Cerner systems. In addition to immediate software support in the event of problems, these agreements allow these clients the use of new releases of the Cerner products covered by these agreements. Each client has 24-hour access to the client support staff located at Cerner's corporate headquarters. Most of Cerner's clients also enter into hardware maintenance agreements with Cerner. These arrangements normally provide for a fixed monthly fee for specified services. In the majority of cases, Cerner subcontracts hardware maintenance to the hardware manufacturer.

In 1999, Cerner modified its strategy of using regional business centers to provide support for its clients. Due to the increase in the number of Cerner associates working at client sites and the resulting decrease in utilization and cost effectiveness of its regional branch offices, Cerner decided to close or reduce the size of many of its facilities in the United States. Cerner closed its offices in Atlanta, Georgia; Boston, Massachusetts; Irvine, California; and Washington, D.C. in the second quarter of 2000. The expenses for such closings were charged to the fourth quarter of 1999. Additional leased office space was acquired during 2000 as a result of acquisition of businesses in Chesapeake, Virginia; Dallas, Texas; St. Louis, Missouri; and Houston, Texas, and new office space was opened in Washington, D.C. Cerner's offices in Detroit, Michigan and Denver, Colorado remain open.

BACKLOG

At December 30, 2000, Cerner had a contract backlog of approximately $439,943,000. Such backlog represents system sales from signed contracts, which had not yet been recognized as revenue. The Company recognizes revenue on a percent of completion basis, based on certain milestone conditions, for its software products. At December 30, 2000, the Company had approximately $91,090,000 of contracts receivable, which represents revenues recognized under the percent of completion method but not yet billable under the terms of the contract. At December 30, 2000, Cerner had a software support and maintenance backlog of approximately $184,360,000. Such backlog represents contracted software support and hardware maintenance services for a period of twelve months. The Company estimates that approximately 55% of the aggregate backlog of $624,303,000 will be recognized as revenue during 2001.

NUMBER OF EMPLOYEES ("ASSOCIATES")

As of March 1, 2001, the Company employed 3,104 associates.

OTHER FACTORS AFFECTING THE COMPANY'S BUSINESS

Information under the caption "Factors That May Affect Future Results of Operations, Financial Condition of Business" included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 is incorporated herein by reference. Such information includes a discussion of various factors that could, among other things, affect the Company's business in the future, including (a) variations in the Company's quarterly operating results; (b) volatility of the Company's stock price; (c) market risk of investments; (d) changes in the healthcare industry; (e) significant competition; (f) the Company's proprietary technology may be subjected to infringement claims or may be infringed upon; (g) possible regulation of the Company's software by the U.S. Food and Drug Administration or other government regulation; (h) the possibility of product-related liabilities; (i) possible failures or defects in the performance of the Company's software; (j) the possibility that the Company's anti-takeover defenses could delay or prevent an acquisition of the Company; and (k) risks and uncertainties related to the Year 2000 transition.

Item 2. Properties

The Company's offices are located in a Company-owned office park in North Kansas City, Missouri, containing approximately 500,000 square feet of useable space. As of December 30, 2000, the Company was using approximately 455,000 square feet and substantially all of the remainder was leased to tenants. The Company also leases office space for its branch offices in Detroit, Michigan; Denver, Colorado; St. Louis, Missouri; Dallas, Texas; Washington, D.C.; Chesapeake, Virginia; Houston, Texas; Sydney, Australia; and Brussels, Belgium.

Item 3. Legal Proceedings

The Company has no material pending litigation.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of the stockholders of the Company during the fourth quarter of the fiscal year ended December 30, 2000.

Item 4A. Executive Officers of the Company

The following table sets forth the names, ages, positions and certain other information regarding the Company's executive officers as of March 27, 2001. Officers are elected annually and serve at the discretion of the board of directors.

Name	Age	Positions
Neal L. Patterson	51	Chairman of the Board of Directors and Chief Executive Officer
Clifford W. Illig	50	Vice Chairman of the Board of Directors
Earl H. Devanny, III	49	President
Glenn P. Tobin, Ph.D.	39	Executive Vice President and Chief Operating Officer
Paul M. Black	42	Executive Vice President and Chief Sales Officer
Jack A. Newman, Jr.	53	Executive Vice President
Douglas M. Krebs	43	Senior Vice President and President of Cerner International
Stephen M. Goodrich	49	Senior Vice President and Chief Quality Officer
Richard J. Flanigan, Jr.	41	Senior Vice President, Enterprise Business Units
Stephen D. Garver	40	Senior Vice President and Managing Partner
Marc G. Naughton	46	Vice President and Chief Financial Officer
Stanley M. Sword	39	Vice President and Chief People Officer
Jeffrey A. Townsend	37	Vice President and Chief Engineering Officer
Randy D. Sims	40	Vice President, Chief Legal Officer and Secretary

Neal L. Patterson has been Chairman of the Board of Directors and Chief Executive Officer of the Company for more than five years. Mr. Patterson also served as President of the Company from March of 1999 until August of 1999.

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

Earl H. Devanny, III joined the Company in August of 1999 as President. Prior to joining the Company, Mr. Devanny served as president of the ADAC Healthcare Information Systems, Inc. Prior to joining ADAC, Mr. Devanny served as a Vice President of the Company from 1994 to 1997. Prior to that he spent seventeen years with IBM Corporation.

Glenn P. Tobin, Ph.D. joined the Company in April of 1998 as General Manager and Senior Vice President. On October 29, 1998, Dr. Tobin was appointed Executive Vice President and Chief Operating Officer. Prior to joining the Company, Dr. Tobin served as a senior consultant with McKinsey and Co., Inc. for more than five years.

Paul M. Black joined the Company in March of 1994 as a Regional Vice President. He was promoted in June 1998 to Senior Vice President and Chief Sales Officer and to Executive Vice President in September of 2000. Prior to joining Cerner, he spent twelve years with IBM Corporation.

Jack A. Newman, Jr. joined the Company in January of 1996 as Executive Vice President. Prior to joining the Company, he was with KPMG LLP for twenty-two years. Immediately prior to joining Cerner he was National Partner-in-Charge of KPMG's Healthcare Strategy Practice.

Douglas M. Krebs joined the Company in June 1994 as a Regional Vice President. He was promoted to Senior Vice President and Area Manager in April 1999. On February 1, 2000, Mr. Krebs was appointed as President of Cerner Global Organization, Inc., a wholly owned subsidiary of the Company. Prior to joining Cerner, he spent fifteen years with IBM Corporation.

Stephen M. Goodrich joined the Company in October 1987 as a project leader in the product organization. In 1992 he was promoted to Vice President and was promoted to Senior Vice President in April 1999. He was named Chief Quality Officer in January of 2000.

Richard J. Flanigan, Jr. joined the Company in November 1994 as a Regional Vice President. In 1997, his responsibilities were extended and he was named as General Manager. He was promoted to Senior Vice President in April 2000. Prior to joining Cerner, Mr. Flanigan spent more than thirteen years in sales and management positions at IBM Corporation.

Stephen D. Garver joined the Company in March 1992 as part of Cerner Consulting. In March of 1999 he was named Vice President and Managing Partner and was promoted to Senior Vice President in April 2000. Prior to joining the Company, Mr. Garver spent ten years with Andersen Consulting in a variety of roles within the systems integration practice.

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.

Stanley M. Sword joined the Company in August 1998 in his current role. Prior to joining Cerner, he served as a client partner in the outsourcing practice of AT&T Solutions and as the Vice President of Organization Development for NCR Corporation. Prior to joining AT&T, Mr. Sword spent ten years with Anderson Consulting in a variety of roles within the systems integration practice.

Jeffrey A. Townsend joined the Company in June 1985. Since that time he has held several positions in the product organization and was promoted to Vice President in February 1997. He was appointed Chief Engineering Officer in March 1998.

Randy D. Sims joined the Company in March 1997 as Vice President and Chief Legal Officer. Prior to joining the Company, Mr. Sims worked at Farmland Industries, Inc. for three years where he served most recently as Associate General Counsel. Prior to Farmland, Mr. Sims was in-house legal counsel at The Marley Company (now a division of United Dominion Industries) for seven years, holding the position of Assistant General Counsel when he left to join Farmland.

PART II

Item 5. Market for the Registrant's Common Stock and Related Security Holder Matters

The Company's common stock trades on The NASDAQ Stock MarketSM under the symbol CERN. The following table sets forth the high, low and last sales prices for the fiscal quarters of 2000 and 1999 as reported by The NASDAQ National Market System. These quotations represent prices between dealers and do not include retail mark-up, mark-down or commissions, and do not necessarily represent actual transactions.

	2000			1999		
	High	Low	Last	High	Low	Last
First quarter	40 7/8	17 7/8	27	27 1/4	12 7/8	15 5/8
Second quarter	32 9/64	19 3/4	27 1/4	23 1/2	12 1/2	19 33/64
Third quarter	48	26 5/16	46 7/16	19 15/16	14 1/4	14 31/32
Fourth quarter	64 7/8	40 1/2	46 1/4	20 3/4	12 15/16	19 11/16

At January 31, 2001, there were approximately 1,200 owners of record. To date, the Company has paid no dividends and it does not intend to pay dividends in the foreseeable future. Management believes it is in the stockholders' best interest to reinvest funds in the operation of the business.

Item 6. Selected Financial Data

(In thousands, except per share data)		2000(1)(2)(3)(4)(5)	1999(6)(7)	1998(8)	1997	1996
Statements of Earnings Data:						
Revenues	$	404,504	340,197	330,902	245,057	189,107
Operating earnings		25,602	3,698	33,530	22,170	10,601
Earnings before income taxes and extraordinary item		172,123	302	33,268	24,484	12,902
Extraordinary item – early extinguishment of debt		-	(1,395)	-	-	-
Net earnings (loss)		105,265	(1,211)	20,589	15,148	8,251
Earnings per share before extraordinary item:						
Basic		3.08	.01	.63	.46	.25
Diluted		2.96	.01	.61	.45	.25
Earnings (loss) per share:						
Basic		3.08	(.04)	.63	.46	.25
Diluted		2.96	(.04)	.61	.45	.25
Weighted average shares outstanding:						
Basic		34,123	33,623	32,825	32,881	32,729
Diluted		35,603	33,916	33,667	33,668	33,620
Balance Sheet Data:						
Working capital	$	186,181	170,053	118,681	156,808	171,204
Total assets		616,411	660,891	436,485	331,781	314,753
Long-term debt, net		102,299	100,000	25,000	30,026	30,000
Stockholders' equity		343,717	378,937	271,143	233,747	230,735

(1) Includes a non-recurring investment gain of $120.4 million, net of $68.3 million tax expense, related to the conversion of shares of CareInsite common stock to shares of WebMD common stock. The impact of this non-recurring investment gain on diluted earnings per share was $3.38 for 2000.

(2) Includes a non-recurring investment loss of $24.5 million, net of $13.9 million tax benefit, related to the sale of shares of WebMD common stock. The impact of this non-recurring investment loss on diluted earnings per share was ($.69) for 2000.

(3) Includes a non-recurring charge of $6.7 million related to the write-down of intangible assets associated with the acquisition of Health Network Ventures, Inc. The impact of this non-recurring charge on diluted earnings per share was ($.19) for 2000.

(4) Includes a non-recurring charge of $3.2 million related to the acquisition of CITATION Computer Systems, Inc. The impact of this non-recurring charge on diluted earnings per share was ($.09) for 2000.

(5) Includes a non-recurring charge of $1.0 million, net of $.7 million tax benefit, related to the acquisition of ADAC Healthcare Information Systems, Inc. The impact of this non-recurring charge on diluted earnings per share was ($.03) for 2000.

(6) Includes a non-recurring charge of $5.8 million, net of $3.6 million tax benefit, related to the cost in excess of revenues of completing fixed fee implementation contracts. The impact of this non-recurring charge on diluted earnings per share was ($.17) for 1999.

(7) Includes a non-recurring charge of $.9 million, net of $.5 million tax benefit, related to the accrual of branch restructuring costs. The impact of this non-recurring charge on diluted earnings per share was ($.03) for 1999.

(8) Includes a non-recurring charge of $3.1 million, net of $1.9 million tax benefit, related to the acquisition of Multum Information Services, Inc. The impact of this non-recurring charge on diluted earnings per share was ($.09) for 1998.

Summary Pro-Forma Financial Data

(Statements of Earnings Data Excluding Non-Recurring Gains, Losses and Charges)

		2000(1)(2)(3)(4)(5)	1999(6)(7)	1998(8)	1997	1996
(In thousands, except per share data)						
Statements of Earnings Data, Before Non-recurring Gains, Losses and Charges:						
Revenues	$	404,504	340,197	330,902	245,057	189,107
Operating earnings		37,189	14,505	38,568	22,170	10,601
Earnings before income taxes and extraordinary item		33,518	11,109	38,306	24,484	12,902
Extraordinary item – early extinguishment of debt		-	(1,395)	-	-	-
Net earnings		20,366	5,462	23,687	15,148	8,251
Earnings per share before extraordinary item:						
Basic		.60	.20	.72	.46	.25
Diluted		.57	.20	.70	.45	.25
Earnings per share:						
Basic		.60	.16	.72	.46	.25
Diluted		.57	.16	.70	.45	.25
Weighted average shares outstanding:						
Basic		34,123	33,623	32,825	32,881	32,729
Diluted		35,603	33,916	33,667	33,668	33,620
Balance Sheet Data:						
Working capital	$	186,181	170,053	118,681	156,808	171,204
Total assets		616,411	660,891	436,485	331,781	314,753
Long-term debt, net		102,299	100,000	25,000	30,026	30,000
Stockholders' equity		343,717	378,937	271,143	233,747	230,735

(1) Statement of Earnings Data excludes a non-recurring investment gain of $120.4 million, net of $68.3 million tax expense, related to the conversion of shares of CareInsite common stock to shares of WebMD common stock. The impact of this non-recurring investment gain on diluted earnings per share was $3.38 for 2000.

(2) Statement of Earnings Data excludes a non-recurring investment loss of $24.5 million, net of $13.9 million tax benefit, related to the sale of shares of WebMD common stock. The impact of this non-recurring investment loss on diluted earnings per share was ($.69) for 2000.

(3) Statement of Earnings Data excludes a non-recurring charge of $6.7 million related to the write-down of intangible assets associated with the acquisition of Health Network Ventures, Inc. The impact of this non-recurring charge on diluted earnings per share was ($.19) for 2000.

(4) Statement of Earnings Data excludes a non-recurring charge of $3.2 million related to the acquisition of CITATION Computer Systems, Inc. The impact of this non-recurring charge on diluted earnings per share was ($.09) for 2000.

(5) Statement of Earnings Data excludes a non-recurring charge of $1.0 million, net of $.7 million tax benefit, related to the acquisition of ADAC Healthcare Information Systems, Inc. The impact of this non-recurring charge on diluted earnings per share was ($.03) for 2000.

(6) Statement of Earnings Data excludes a non-recurring charge of $5.8 million, net of $3.6 million tax benefit, related to the cost in excess of revenues of completing fixed fee implementation contracts. The impact of this non-recurring charge on diluted earnings per share was ($.17) for 1999.

(7) Statement of Earnings Data excludes a non-recurring charge of $.9 million, net of $.5 million tax benefit, related to the accrual of branch restructuring costs. The impact of this non-recurring charge on diluted earnings per share was ($.03) for 1999.

(8) Statement of Earnings Data excludes a non-recurring charge of $3.1 million, net of $1.9 million tax benefit, related to the acquisition of Multum Information Services, Inc. The impact of this non-recurring charge on diluted earnings per share was ($.09) for 1998.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

Last year, the Company indicated that 2000 would be a more stable, predictable and successful year than 1999. In 2000, the Company set record levels of bookings, revenues and cash flow. The Company continued to expand its product line to more than 37 products at the end of 2000. Over the last 18 months, the Company more than doubled its direct sales force. The Company also created a strategic presence in Europe. Between the new client relationships created through the Company's direct sales efforts and the acquisitions the Company completed in 2000, the Company grew its install base of client relationships by 40%, adding 430 new client relationships, and created 330 HNA Millennium footprints during the year. The Company also signed licensing agreements with over 80 other healthcare information technology companies to use HNA components as key elements of their architecture.

The Company's success reached into new market opportunities, as well. The Company's hosting services became the delivery platform of choice for over $50 million of new bookings in its first year. Many of these clients are community hospitals and represent an expanded market for the Company's products. PowerChart Office, the Company's physician clinical practice solution, is having a significant impact on the way many of the Company's clients practice medicine. ProFit, the Company's new patient accounting solution, completed alpha testing, opening up a market estimated at $3 billion.

The promulgation of new HIPAA (Health Insurance Portability and Accountability Act) regulations and the recent release of the Institute of Medicine's second report on patient safety could combine to create significant pressures to expand the use of information technology in healthcare organizations. While the budgetary pressures created by the Balanced Budget Act of 1997 have subsided, they should continue to stimulate interest in the use of healthcare information technology to improve operational performance. The Company believes that its investment in the HNA Millennium architecture affords a significant competitive advantage. HNA Millennium is the only fully integrated, large scale, enterprise-wide architecture in the industry. It is this integration that the Company expects will be a significant factor in meeting the challenges posed by forces such as HIPAA, patient safety and operational performance.

Results of Operations

Year Ended December 30, 2000, Compared to Year Ended January 1, 2000

The Company's revenues increased 19% to $404,504,000 in 2000 from $340,197,000 in 1999. Net earnings, before extraordinary item and non-recurring charges and credits was $20,366,000 in 2000 compared to $6,857,000 in 1999. Non-recurring charges and credits in 2000, as described below, included a realized investment gain and loss, write-off of acquired in-process research and development and a write-down of intangible assets. Non-recurring charges in 1999, as described below, include contract reserves and branch restructuring charges. Including the extraordinary item and non-recurring charges, the Company had earnings of $105,265,000 in 2000 compared to a loss of $1,211,000 in 1999.

Revenues - In 2000, revenues increased due to an increase in system sales and support of installed systems. System sales increased 17% to $263,109,000 in 2000 from $224,510,000 in 1999. The increase in system sales is due to an increase in new contract bookings in 2000 compared to 1999.

Total sales to the installed base in 2000, including new systems, incremental hardware and software, support and maintenance services and discrete services, were 77% of total revenues in 2000 compared to 75% in 1999.

At December 30, 2000, the Company had $439,943,000 in contract backlog and $184,360,000 in support and maintenance backlog, compared to $338,614,000 in contract backlog and $162,798,000 in support and maintenance backlog at the end of 1999.

Support and maintenance revenues increased 22% in 2000 as compared to 1999. These revenues represented 28% of 2000 and 1999 total revenues.

Other revenues increased 23% to $26,497,000 in 2000 from $21,489,000 in 1999. This increase was due primarily to additional revenues derived from subscriptions and services to clients; these increases were $1,765,000 and $2,324,000, respectively. The Company anticipates that other revenues will continue to increase in 2001.

Cost of Revenues - The cost of revenues includes the cost of third party consulting services, computer hardware and sublicensed software purchased from computer and software manufacturers for delivery to clients. It also includes the cost of hardware maintenance and sublicensed software support subcontracted to the manufacturers. The cost of revenues was 22% of total revenues in 2000, and 25% of total revenues in 1999, excluding a non-recurring charge relating to fixed fee implementation contracts, as described below. Such costs, as a percent of revenues, typically have varied as the mix of revenue (software, hardware, services and support) components carrying different margin rates changes from period to period. The decrease in the cost of revenue as a percent of total revenues resulted principally from a decrease in the percent of revenue from computer hardware and sublicensed software, which carry a higher cost of revenue percentage.

Included in the 1999 cost of revenues is a charge of $9,449,000, which represents the remaining additional costs in excess of revenues required to complete certain remaining HNA Millennium fixed fee implementation contracts. The Company switched to an hourly fee-for-service implementation model in 1997. Delays in some of the older projects, primarily caused by delays in development of the Company's HNA Millennium products, increased the time required to complete these installations. While the Company originally anticipated these fixed fee implementations would be completed in 1999, in some instances the focus by clients on their internal Y2K projects created a further delay. As a result of the significant implementation work completed in the last half of 1999 and the agreement between the Company and these clients in the fourth quarter as to the scope of work remaining, the Company estimated that the costs to complete certain fixed fee implementation contracts would exceed the remaining revenue by $9,449,000. The Company recognized the impact of these excess costs in the fourth quarter income statement as a non-recurring cost of revenues. $7,148,000 of these additional costs were incurred in 2000, with the remaining costs to be completed in 2001. There were no significant changes in the estimates of the costs to complete in 2000.

Sales and Client Service - Sales and client service expenses include salaries of client service personnel, communications expenses and unreimbursed travel expenses. Also included are sales and marketing salaries, travel expenses, tradeshow costs and advertising costs. These expenses as a percent of total revenues were 42% in 2000 and 41% in 1999, excluding a non-recurring charge related to the closing of five branch offices, as described below. The increase in total sales and client service expenses is attributable to the cost of a larger field sales and services organization and marketing of new products.

Included in 1999 sales and client service expenses is a non-recurring charge related to the closing of five branch offices. In December, 1999, the Company made a decision to close five of its branch offices. The Company created a regional branch structure in 1994 in order to bring associates closer to its clients. The natural evolution of that strategy and the ability to leverage internal information technology infrastructure to create a more virtual workplace has resulted in a significant decrease in utilization of certain regional offices. This led to the decision to close these physical locations. The Company recorded a charge of $1.4 million in the 1999 fourth quarter to provide for the costs of closing these locations, primarily based on estimated lease cancellation fees. All of these costs were paid in 2000. The Company will continue to maintain offices in Denver, Colorado; Detroit, Michigan; St. Louis, Missouri; Dallas, Texas; Washington, D.C.; Chesapeake, Virginia; Houston, Texas; Brussels, Belgium and Sydney, Australia, in addition to the world headquarters in North Kansas City, Missouri.

Software Development - Software development expenses include salaries, documentation and other direct expenses incurred in product development and amortization of software development costs. Total expenditures for software development, including both capitalized and noncapitalized portions, for 2000 and 1999 were $90,694,000 and $88,699,000, respectively. These amounts exclude amortization. Capitalized software costs were $30,982,000 and $30,192,000 for 2000 and 1999, respectively.

General and Administrative - General and administrative expenses include salaries for corporate, financial, and administrative staffs, utilities, communications expenses and professional fees. These expenses as a percent of total revenues were 7% in 2000 and 8% in 1999.

Write-off of In-Process Research and Development – Write-off of in-process research and development includes one-time expenses resulting from the acquisitions of CITATION Computer Systems, Inc. and ADAC Healthcare Information Systems, Inc., in 2000.

Write-down of Intangible Assets – Write-down of intangible assets is a one-time expense resulting from the decision to discontinue a portion of the Health Network Ventures, Inc. business as more fully described in Note 2 to the Consolidated Financial Statements.

Interest Expense, Net - Net interest expense was $3,671,000 in 2000 compared to $3,396,000 in 1999. The increase is due to an increase in borrowings. On April 15, 1999, the Company completed a $100,000,000 private placement of debt pursuant to a Note Agreement date April 1, 1999. The Series A Senior Notes, with a $60,000,000 principal amount at 7.14% are payable in five equal annual installments beginning in April 2002. The Series B Senior Notes, with a $40,000,000 principal amount at 7.66% are payable in six equal annual installments beginning April 2004. The proceeds were used to retire the Company's existing $30,000,000 of debt, and the remaining funds are being used for capital improvements and to strengthen the Company's cash position. In connection with the early extinguishment of debt, the Company incurred a $1,395,000, net of taxes, extraordinary loss for a prepayment penalty and write-off of deferred loan costs. The Note Agreement contains certain net worth, current ratio, and fixed charge coverage covenants and provides certain restrictions on the Company's ability to borrow, incur liens, sell assets and pay dividends. The Company was in compliance with all covenants at December 30, 2000.

Realized Gain on Exchange of Stock - The Realized gain on exchange of stock is a non-recurring investment gain related to the exchange of CareInsite shares for WebMD shares in 2000.

Realized Loss on Sale of Stock – The realized loss on sale of stock is a non-recurring investment loss related to the sale of a portion of the WebMD shares in 2000.

Income Taxes - The Company's effective tax rate was 39% in 2000 and 1999.

Year Ended January 1, 2000, Compared to Year Ended January 2, 1999

The Company's revenues increased 3% to $340,197,000 in 1999 from $330,902,000 in 1998. Net earnings, before extraordinary item and non-recurring charges were $6,857,000 in 1999 compared to $23,687,000 in 1998. Non-recurring charges in 1999, as described below, included contract reserves and branch restructuring charges. Non-recurring charges in 1998 include acquisition related charges. Including the extraordinary item and non-recurring charges, the Company incurred a loss of $1,211,000 in 1999 compared to earnings of $20,589,000 in 1998.

Revenues - In 1999, revenues increased due to an increase in support of installed systems and other revenues. System sales decreased 9% to $224,510,000 in 1999 from $245,490,000 in 1998. The decrease in system sales was due to a decrease in new contract bookings in 1999 compared to 1998. The Company believes that this decrease was due primarily to delays in purchasing decisions related to Y2K and the Balanced Budget Act of 1997. The sale of additional hardware and software products to the installed client base increased 27% in 1999 as compared to 1998.

Total sales to the installed base in 1999, including new systems, incremental hardware and software, support and maintenance services, and discrete services, were 75% of total revenues in 1999 compared to 69% in 1998. The higher percentage was primarily due to the decrease in system sales to new clients.

At January 1, 2000, the Company had $338,614,000 in contract backlog and $162,798,000 in support and maintenance backlog, compared to $314,965,000 in contract backlog and $153,453,000 in support and maintenance backlog at the end of 1998.

Support and maintenance revenues increased 23% in 1999 as compared to 1998. These revenues represented 28% of 1999 total revenues and 23% of 1998 total revenues. The higher percentage was primarily attributable to the decrease in system sales and an increase in installed systems.

Other revenues increased 148% to $21,489,000 in 1999 from $8,657,000 in 1998. This increase was due primarily to services performed beyond contracted requirements for existing clients.

Cost of Revenues - The cost of revenues includes the cost of third party consulting services, computer hardware and sublicensed software purchased from computer and software manufacturers for delivery to clients. It also includes the cost of hardware maintenance and sublicensed software support subcontracted to the manufacturers. The cost of revenues was 25% of total revenues in 1999, excluding a non-recurring charge related to fixed fee implementation contracts, as described below, and 27% of total revenues in 1998. Such costs, as a percent of revenues, typically have varied as the mix of revenue (software, hardware, services and support) components carrying different margin rates changes from period to period. The decrease in the cost of revenue as a percent of total revenues resulted principally from a decrease in the percent of revenue from computer hardware and sublicensed software, which carry a higher cost of revenue percentage.

Included in the 1999 cost of revenues is a charge of $9,449,000, which represents the remaining additional costs in excess of revenues required to complete certain remaining HNA Millennium fixed fee implementation contracts, as further described above.

Sales and Client Service - Sales and client service expenses include salaries of client service personnel, communications expenses, and unreimbursed travel expenses. Also included are sales and marketing salaries, travel expenses, tradeshow costs and advertising costs. These expenses as a percent of total revenues were 41% in 1999, excluding a non-recurring charge related to the closing of five branch offices, as described below, and 35% in 1998. The increase in total sales and client service expenses is attributable to the cost of a larger field sales and services organization and marketing of new products.

Included in 1999 sales and client service expenses is a non-recurring charge related to the closing of five branch offices. In December, 1999, the Company made a decision to close five of its branch offices. The Company created a regional branch structure in 1994 in order to bring associates closer to its clients. The natural evolution of that strategy and the ability to leverage internal information technology infrastructure to create a more virtual workplace has resulted in a significant decrease in utilization of certain regional offices. This led to the decision to close these physical locations. The Company recorded a charge of $1.4 million in the 1999 fourth quarter to provide for the costs of closing these locations, primarily based on estimated lease cancellation fees.

Software Development - Software development expenses include salaries, documentation, and other direct expenses incurred in product development and amortization of software development costs. Total expenditures for software development, including both capitalized and noncapitalized portions, for 1999 and 1998 were $88,699,000 and $74,159,000, respectively. These amounts exclude amortization. Capitalized software costs were $30,192,000 and $25,052,000 for 1999 and 1998, respectively. The increase in aggregate expenditures for software development in 1999 is due to development of HNA Millennium products and development of community care products.

General and Administrative - General and administrative expenses include salaries for corporate, financial, and administrative staffs, utilities, communications expenses and professional fees. These expenses as a percent of total revenues were 8% in 1999 and 1998.

Interest Expense, Net - Net interest expense was $3,396,000 in 1999 compared to $262,000 in 1998. The increase is due to an increase in borrowings. On April 15, 1999, the Company completed a $100,000,000 private placement of debt pursuant to a Note Agreement date April 1, 1999. The Series A Senior Notes, with a $60,000,000 principal amount at 7.14% are payable in five equal annual installments beginning in April 2002. The Series B Senior Notes, with a $40,000,000 principal amount at 7.66% are payable in six equal annual installments beginning April 2004. In connection with the early extinguishment of debt, the Company incurred a $1,395,000 net of taxes, extraordinary loss for a prepayment penalty and write-off of deferred loan costs.

Income Taxes - The Company's effective tax rate was 39% in 1999 and 38% in 1998.

Liquidity and Capital Resources

The Company had total cash and cash equivalents of $90,893,000 at the end of 2000 and working capital of $186,181,000, compared to cash and cash equivalents of $75,677,000 at the end of 1999, and working capital of $170,053,000.

The Company generated cash of $53,313,000, $27,389,000 and $5,893,000 from operations in 2000, 1999 and 1998, respectively. Cash flow from operations increased in 2000, due primarily to the increase in net earnings, increased collection of receivables, improved payment terms and record level of conversions. Cash flow from operations increased in 1999, due primarily to increased collection of receivables, improved payment terms and record level of conversions.

Cash used in investing activities consisted primarily of capitalized software development costs of $30,982,000 and $30,192,000 and purchases of capital equipment of $16,154,000 and $14,345,000 in 2000 and 1999, respectively. The Company also made additional investments in affiliates in 2000 of $7,370,000 and completed acquisitions of businesses for $16,829,000. Cash provided from investing activities came primarily from the proceeds of $26,152,000 from the sale of WebMD shares. The major source of cash from financing activities in 2000 was provided by the exercise of common stock options. The major source of cash from financing activities in 1999 was provided by the Company's refinancing of its long-term debt, more fully described in Note 6 to the Consolidated Financial Statements.

Revenues provided under support and maintenance agreements represent recurring cash flows. Support and maintenance revenues increased 22%, 23% and 12%, in 2000, 1999 and 1998, respectively, and the Company expects these revenues to continue to grow as the base of installed systems grows.

The Company's liquidity is influenced by many factors, including the amount and timing of the Company's revenues, its cash collections from its clients as implementation of its products proceed and the amounts the Company invests in software development and capital expenditures. The Company expects to have an increase in its cash position for 2001. The Company believes that its present cash position, together with cash generated from operations, will be sufficient to meet anticipated cash requirements during 2001. The Company has an $18,000,000 line of credit available.

The effects of inflation on the Company's business during 1999 and 2000 were not significant.

Recent Accounting Pronouncements

During the second quarter of 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" (Statement 133). Statement 133 will be adopted by the Company in the first quarter of 2001. The Company does not anticipate Statement 133 will have a significant impact on its reported earnings per share.

In December of 1999, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101). SAB 101 had no impact on the Company's reported earnings per share.

Factors That May Affect Future Results of Operations, Financial Condition or Business

Statements made in this report, the Annual Report to Shareholders in which this report is made a part, other reports and proxy statements filed with the Securities and Exchange Commission, communications to stockholders, press releases and oral statements made by representatives of the Company that are not historical in nature, or that state the Company's or management's intentions, hopes, beliefs, expectations or predictions of the future, are "forward-looking statements" within the meaning of Section 21E of the Securities and Exchange Act of 1934, as amended, and involve risks and uncertainties. The words "could," "should," "will be," "will lead," "will assist," "intended," "continue," "believe," "may," "expect," "hope," "anticipate," "goal," "forecast" and similar expressions are intended to identify such forward-looking statements. 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 below as well as those discussed elsewhere in reports filed with the Securities and Exchange Commission. The Company undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in future operating results, financial condition or business over time.

Quarterly Operating Results May Vary - The Company's quarterly operating results have varied in the past and may continue to vary in future periods. Quarterly operating results may vary for a number of reasons including demand for the Company's products and services, the Company's long sales cycle, the long installation and implementation cycle for these larger, more complex and costlier systems and other factors described in this section and elsewhere in this report. As a result of healthcare industry trends and the market for the Company's HNA Millennium products, a large percentage of the Company's revenues are generated by the sale and installation of larger, more complex and costlier 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. The sale may be subject to delays due to clients' internal budgets and procedures for approving large capital expenditures and by competing needs for other capital expenditures and deploying new technologies or personnel resources. Delays in the expected sale or installation of these large contracts may have a significant impact on the Company's anticipated quarterly revenues and consequently its earnings, since a significant percentage of the Company's expenses are relatively fixed.

These larger, more complex and costlier systems are installed and implemented over time periods ranging from approximately six months to three years and involve significant efforts both by the Company and the client. In addition, implementation of the Company's HNA Millennium products is a new and evolving process. The Company recognizes revenue upon the completion of standard milestone conditions and the amount of revenue recognized in any quarter depends upon the Company's and the client's ability to meet these project milestones. Delays in meeting these milestone conditions or modification of the contract relating to one or more of these systems 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. In addition, support payments by clients for the Company's products generally do not commence until the product is in use.

The Company's revenues from system sales historically have been lower in the first quarter of the year and greater in the fourth quarter of the year.

Stock Price May Be Volatile - The trading price of the Company's common stock may be volatile. The market for the Company's common stock may experience significant price and volume fluctuations in response to a number of factors including actual or anticipated quarterly variations in operating results, changes in expectations of future financial performance or changes in estimates of securities analysts, governmental regulatory action, healthcare reform measures, client relationship developments and other factors, many of which are beyond the Company's control.

Furthermore, the stock market in general, and the market for software, healthcare and high technology companies in particular, has 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 the Company's common stock, regardless of actual operating performance.

Market Risk of Investments - The Company accounts for its investments in equity securities which have readily determinable fair values as available-for-sale. Available-for-sale securities are reported at fair value with unrealized gains and losses reported, net of tax, as a separate component of accumulated other comprehensive income. Investments in the common stock of certain affiliates over which the Company exerts significant influence are accounted for by the equity method. Investments in other equity securities are reported at cost. All equity securities are reviewed by the Company for declines in fair value. If such declines are considered to be other than temporary, the cost basis of the individual security is written down to fair value as a new cost basis, and the amount of the write-down is included in earnings.

In 1998 and 1999 the Company acquired a 17.5% interest (13,149,259 shares of common stock) in CareInsite, Inc. with a cost basis of $81,804,000. 12,437,500 of these shares were received in 1998 as consideration for the sale of license software, and an additional 711,759 shares were purchased in 1999. The value assigned to the shares acquired in 1998 was $70,000,000 and was based on a methodology which utilized both a comparable company and the expected underlying discounted future cash flows. The Company was also granted, by CareInsite, 1,008,445 common stock warrants with an exercise price of $4.00 per share ("THINC Warrants"). The THINC Warrants were exercisable only in the event that The Health Information Network Connections, LLC ("THINC") exercised warrants granted to them by CareInsite at $4.00 per share. THINC was allowed to exercise their warrants 180 days after the initial public offering of CareInsite. On January 29, 2000 CareInsite completed an acquisition of THINC. As part of that agreement, 806,756 of the Company's 1,008,445 THINC Warrants became immediately exercisable, with the remaining amount forfeited.

On February 13, 2000, CareInsite entered into an agreement to merge with Healtheon/WebMD Corporation ("Merger Agreement"). As part of the Merger Agreement, the Company received 1.3 shares of Healtheon/WebMD Corporation (WebMD) in exchange for each common share of CareInsite held by the Company. The warrants were also converted at the same exchange ratio. The merger of CareInsite and WebMD ("Merger") closed on September 12, 2000. Accordingly, the Company recorded a non-recurring investment gain of $120,362,000, net of tax, as a result of the exchange.

On December 12, 2000, the Company sold 4,273,509 shares of WebMD for $25,641,000. Accordingly, the Company recorded a non-recurring investment loss of $24,539,000, net of tax, as a result of the sale.

At December 30, 2000, the Company owned 12,820,527 shares of common stock of WebMD, which have a cost basis of $192,308,000 and a carrying value of $101,795,000, as these shares are accounted for as available-for-sale. The stock of WebMD held by the Company is registered but is subject to certain lock-up provisions. At December 30, 2000, the Company also holds 1,048,783 warrants of WebMD with an exercise price of $3.08 and a cost basis and carrying value of $13,685,000. The warrants are carried at cost, as they do not have a fair value that is currently available on a securities exchange.

If the Company realizes certain performance metrics related to specified levels of physician usage, WebMD will issue to the Company 3,254,063 shares of common stock at a price of $0.01 per share ("Performance Shares"). The Performance Shares were adjusted at a rate of 1.3 shares of WebMD for each share of CareInsite. The contracted measurement date was February 15, 2001. The Company and WebMD are in discussions regarding the attainment of the Performance Shares. No amounts have been recognized in the consolidated financial statements for the Performance Shares pending completion of the discussions. All physician users of systems of WebMD Corporation or its affiliates shall be included for purposes of determining the specified levels of physician usage.

The Company's policy is to review declines in fair value of its marketable equity securities for declines that may be other than temporary. If the market price of the WebMD common shares does not recover to near the Company's $15.00 per share carrying value in the near term, the Company will record a write-down, through a charge to earnings, to establish a new cost basis in the security reflecting the then current market value.

At December 30, 2000, marketable securities (which consist of money market and commercial paper) of the Company were recorded at cost, which approximates fair value of approximately $91 million, with an overall average return of approximately 5% and an overall weighted maturity of less than 90 days. The marketable securities held by the Company are not subject to price risk as a result of the short-term nature of the investments.

The Company is not exposed to material future earnings or cash flow exposures from changes in interest rates on long-term debt since 100% of its long-term debt is at a fixed rate. To date, the Company has not entered into any derivative financial instruments to manage interest rate risk.

The Company conducts business in several foreign jurisdictions. However, the business transacted is in the local functional currency and the Company does not currently have any material exposure to foreign currency transaction gains or losses. All other business transactions are in U.S. dollars. To date, the Company has not entered into any derivative financial instruments to manage foreign currency risk.

Changes in the Healthcare Industry - The healthcare industry is highly regulated and is subject to changing political, economic and regulatory influences. For example, the Balanced Budget Act of 1997 (Public Law 105-32) contains significant changes to Medicare and Medicaid and began to have its initial impact in 1998 due to limitations on reimbursement, resulting cost containment initiatives, and effects on pricing and demand for capital intensive systems. In addition, the issued and pending rules under the Health Information Portability and Accountability Act of 1996 (HIPAA), will have a direct impact on the healthcare industry by requiring identifiers and standardized transactions/code sets and necessary security and privacy measures in order to ensure the protection of patient health information. These factors affect the purchasing practices and operation of healthcare organizations. Federal and state legislatures have periodically considered programs to reform or amend the U.S. healthcare system at both the federal and state level and to change healthcare financing and reimbursement systems. These programs may contain proposals to increase governmental involvement in healthcare, lower reimbursement rates or otherwise change the environment in which healthcare industry participants operate. Healthcare industry participants may respond by reducing their investments or postponing investment decisions, including investments in the Company's products and services.

Many healthcare providers are consolidating to create integrated healthcare delivery systems with greater market power. These providers may try to use their market power to negotiate price reductions for the Company's products and services. As the healthcare industry consolidates, the Company's client base could be eroded, competition for clients could become more intense and the importance of acquiring each client becomes greater.

Significant Competition - The market for healthcare information systems is intensely competitive, rapidly evolving and subject to rapid technological change. The Company believes that the principal competitive factors in this market include the breadth and quality of system and product offerings, the stability of the information systems provider, the features and capabilities of the information systems, the ongoing support for the system and the potential for enhancements and future compatible products.

Certain of the Company's competitors have greater financial, technical, product development, marketing and other resources than the Company and some of its competitors offer products that it does not offer. The Company's principal existing competitors include Siemens Medical Solutions Health Services Corporation, IDX Systems Corporation, McKesson HBOC, Inc. and Eclipsys Corporation, each of which offers a suite of products that compete with many of the Company's products. There are other competitors that offer a more limited number of competing products.

In addition, the Company expects that major software information systems companies, large information technology consulting service providers and system integrators, Internet-based start-up companies and others specializing in the healthcare industry may offer competitive products or services. The pace of change in the healthcare information systems market is rapid and there are frequent new product introductions, product enhancements and evolving industry standards and requirements. As a result, the Company's success will depend upon its ability to keep pace with technological change and to introduce, on a timely and cost-effective basis, new and enhanced products that satisfy changing client requirements and achieve market acceptance.

Proprietary Technology May Be Subjected to Infringement Claims or May Be Infringed Upon - The Company relies upon a combination of trade secret, copyright and trademark laws, license agreements, confidentiality procedures, employee nondisclosure agreements and technical measures to maintain the trade secrecy of its proprietary information. The Company recently initiated a patent program but currently has a very limited patent portfolio. As a result, the Company may not be able to protect against misappropriation of its intellectual property.

In addition, the Company could be subject to intellectual property infringement claims as the number of competitors grows and the functionality of its products overlaps with competitive offerings. These claims, even if not meritorious, could be expensive to defend. If the Company becomes liable to third parties for infringing their intellectual property rights, it could be required to pay a substantial damage award and to develop noninfringing technology, obtain a license or cease selling the products that contain the infringing intellectual property.

Government Regulation - The United States Food and Drug Administration (the "FDA") has declared that software products intended for the maintenance of data used in making decisions regarding the suitability of blood donors and the release of blood or blood components for transfusion are medical devices under the Federal Food, Drug and Cosmetic Act ("Act") and amendments to the Act. As a consequence, the Company is subject to extensive regulation by the FDA with regard to its blood bank software. If other of the Company's products are deemed to be actively regulated medical devices by the FDA, the Company could be subject to extensive requirements governing pre- and post-marketing requirements including premarket notification clearance prior to marketing. Complying with these FDA regulations would be time consuming and expensive. It is possible that the FDA may become more active in regulating computer software that is used in healthcare.

Following an inspection by the FDA in March of 1998, the Company received a Form FDA 483 (Notice of Inspectional Observations) alleging non-compliance with certain aspects of FDA's Quality System Regulation with respect to the Company's PathNet HNAC Blood Bank Transfusion and Donor products (the "Blood Bank Products"). The Company subsequently received a Warning Letter, dated April 29, 1998, as a result of the same inspection. The Company responded promptly to the FDA and undertook a number of actions in response to the Form 483 and Warning Letter including an audit by a third party of the Company's Blood Bank Products and improvements to Cerner's Quality System. A copy of the third party audit was submitted to the FDA in October of 1998 and, at the request of the FDA, additional information and clarification were submitted to the FDA in January of 1999.

There can be no assurance, however, that the Company's actions taken in response to the Form 483 and Warning Letter will be deemed adequate by the FDA or that additional actions on behalf of the Company will not be required. In addition, the Company remains subject to periodic FDA inspections and there can be no assurances that the Company will not be required to undertake additional actions to comply with the Act and any other applicable regulatory requirements. Any failure by the Company to comply with the Act and any other applicable regulatory requirements could have a material adverse effect on the Company's ability to continue to manufacture and distribute its products. FDA has many enforcement tools including recalls, seizures, injunctions, civil fines and/or criminal prosecutions. Any of the foregoing could have a material adverse effect on the Company's business, results of operations or financial condition.

Product Related Liabilities - Many of the Company's products provide data for use by healthcare providers in providing care to patients. Although no such claims have been brought against the Company to date regarding injuries related to the use of its products, such claims may be made in the future. Although the Company maintains product liability insurance coverage in an amount that it believes is sufficient for its business, there can be no assurance 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 claim brought against the Company which is uninsured or under-insured could materially harm its business, results of operations or financial condition.

System Errors and Warranties - The Company's systems, particularly the HNA Millennium versions, are very complex. As with complex systems offered by others, the Company's systems may contain errors, especially when first introduced. Although the Company conducts extensive testing, it has discovered software errors in its products after their introduction. The Company's systems are intended for use in collecting and displaying clinical information used in the diagnosis and treatment of patients. Therefore, users of the Company products have a greater sensitivity to system errors than the market for software products generally. The Company's agreements with its clients typically provide warranties against material errors and other matters. Failure of a client's system to meet these criteria could constitute a material breach under such contracts allowing the client to cancel the contract, or could require the Company to incur additional expense in order to make the system meet these criteria. The Company's contracts with its clients generally limit the Company's liability arising from such claims but such limits may not be enforceable in certain jurisdictions.

Anti-Takeover Defenses - The Company's charter, bylaws, shareholders' rights plan and certain provisions of Delaware law contain certain provisions that may have the effect of delaying or preventing an acquisition of the Company. Such provisions are intended to encourage any person interested in acquiring the Company to negotiate with and obtain the approval of the Board of Directors in connection with any such transaction. These provisions include (a) a Board of Directors that is staggered into three classes to serve staggered three-year terms, (b) blank check preferred stock, (c) supermajority voting provisions, (d) inability of shareholders to act by written consent or call a special meeting, (e) limitations on the ability of shareholders to nominate directors or make proposals at shareholder meetings and (f) triggering the exercisability of stock purchase rights on a discriminatory basis, which may invoke extensive economic and voting dilution of a potential acquirer if its beneficial ownership of the Company's common stock exceeds a specified threshold. Certain of these provisions may discourage a future acquisition of the Company not approved by the Board of Directors in which shareholders might receive a premium value for their shares.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Information contained under the caption "Factors That May Affect Future Results of Operations, Financial Condition or Business — Market Risk of Investments" set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 is incorporated herein by reference.

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.

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

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The Registrant's Proxy Statement to be used in connection with the Annual Meeting of Shareholders to be held on May 25, 2001, contains under the caption "Election of Directors" certain information required by Item 10 of Form 10-K and such information is incorporated herein by this reference. The information required by Item 10 of Form 10-K as to executive officers is set forth in Item 4A of Part I hereof.

The Registrant's Proxy Statement to be used in connection with the Annual Meeting of Shareholders to be held on May 25, 2001, contains under the caption "Compliance with Section 16(a) of the Securities Exchange Act of 1934" certain information required by Item 10 of Form 10-K and such information is incorporated herein by this reference.

Item 11. Executive Compensation

The Registrant's Proxy Statement to be used in connection with the Annual Meeting of Shareholders to be held on May 25, 2001, contains under the caption "Executive Compensation" the information required by Item 11 of Form 10-K and such information is incorporated herein by this reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The Registrant's Proxy Statement to be used in connection with the Annual Meeting of Shareholders to be held on May 25, 2001, contains under the caption "Voting Securities and Principal Holders Thereof" the information required by Item 12 of Form 10-K and such information is incorporated herein by this reference.

Item 13. Certain Relationships and Related Transactions

The Registrant's Proxy Statement to be used in connection with the Annual Meeting of Shareholders to be held on May 25, 2001, contains under the caption "Certain Transactions" the information required by Item 13 of Form 10-K and such information is incorporated herein by this reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) Financial Statements.

(1) Consolidated Financial Statements:

Independent Auditors' Report on Consolidated Financial Statements

Consolidated Balance Sheets -
December 30, 2000 and January 1, 2000

Consolidated Statements of Operations -
Years Ended December 30, 2000, January 1, 2000 and January 2, 1999

Consolidated Statements of Changes In Equity
Years Ended December 30, 2000, January 1, 2000 and January 2, 1999

Consolidated Statements of Cash Flows
Years Ended December 30, 2000, January 1, 2000 and January 2, 1999

Notes to Consolidated Financial Statements

(2) The following financial statement, schedule and independent auditors' report on financial statement schedule of the Registrant for the three-year period ended December 30, 2000 are included herein:

Schedule II - Valuation and Qualifying Accounts,

Independent Auditors' Report on Consolidated Financial Statement Schedule.

All other schedules are omitted, as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes.

(3) The exhibits required to be filed by this item are set forth below:

Number	Description
3(a)	Restated Certificate of Incorporation of the Registrant, (filed as Exhibit 3(i) to Registrant's Quarterly Report on Form 10-Q for the year ended June 29, 1996 and hereby incorporated by reference).
3(b)	Amended and Restated Bylaws, dated March 9, 2001.
4(a)	Amended and Restated Rights Agreement, dated as of March 12, 1999, between Cerner Corporation and UMB Bank, n.a., as Rights Agents, which includes the Form of Certificate of Designation, Preferences and Rights of Series A Preferred Stock of Cerner Corporation, as Exhibit A, and the Form of Rights Certificate, as Exhibit B (filed as an Exhibit to Registrant's current report on Form 8-A/A dated March 31, 1999 and incorporated herein by reference).
4(b)	Specimen stock certificate (filed as Exhibit 4(a) to Registrant's Registration Statement on Form S-8 (File No. 33-15156) and hereby incorporated herein by reference).

4(c)	Credit Agreement between Cerner Corporation and Mercantile Bank dated April 1, 1999 (filed as Exhibit 4(d) to Registrant's Annual Report on Form 10-K for the year ended January 2, 1999, and hereby incorporated herein by reference).
10(a)	Incentive Stock Option Plan C of Registrant (filed as Exhibit 10(f) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, and hereby incorporated herein by reference).*
10(b)	Indemnification Agreements between the Registrant and Neal L. Patterson, Clifford W. Illig, Gerald E. Bisbee, Jr., Ph.D. and Thomas C. Tinstman, M.D., (filed as Exhibit 10(i) to Registrant's Annual report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).*
10(c)	Indemnification Agreement between Michael E. Herman and Registrant (filed as Exhibit 10(i)(a) to Registrant's Quarterly Report on Form 10-Q for the year ended June 29, 1996 and hereby incorporated by reference).*
10(d)	Indemnification Agreement between John C. Danforth, and Registrant (filed as Exhibit 10(i)(b) to Registrant's Quarterly Report on Form 10-Q for the year ended June 29, 1996 and hereby incorporated by reference).*
10(e)	Indemnification Agreement between Jeff C. Goldsmith, Ph.D. and Registrant (filed as Exhibit 10(e) to Registrant's Annual Report on Form 10-K for the year ended January 1, 2000, and hereby incorporated by reference).*
10(f)	Amended Stock Option Plan D of Registrant as of December 8, 2000.*
10(g)	Amended Stock Option Plan E of Registrant as of December 8, 2000.*
10(h)	Cerner Performance Plan for 2000 (filed as Exhibit 10(i) to Registrant's Annual Report on Form 10-K for the year ended January 1, 2000, and hereby incorporated herein by reference).*
10(i)	Long-Term Incentive Plan for 1999 (filed as Exhibit 10(l) to Registrant's Annual Report on Form 10-K for the year ended January 2, 1999, and hereby incorporated herein by reference).*
10(j)	Promissory Note of Jack A. Newman, Jr. (filed as Exhibit 10(m) to Registrant's Annual Report on Form 10-K for the year ended January 2, 1999, and hereby incorporated herein by reference).*
10(k)	Promissory Notes of Earl H. Devanny, III (filed as Exhibit 10(l) to Registrant's Annual Report on Form 10-K for the year ended January 1, 2000, and hereby incorporated herein by reference).*
10(l)	Promissory Note of Glenn P. Tobin, Ph.D. (filed as Exhibit 10(o) to Registrant's Annual Report on Form 10-K for the year ended January 2, 1999, and hereby incorporated herein by reference).*
10(m)	Cerner Corporation Executive Stock Purchase Plan (filed as Exhibit 4(g) to Registrant's Registration Statement on Form S-8 (File No. 333-77029) and hereby incorporated herein by reference).*
10(n)	Form of Stock Pledge Agreement for Cerner Corporation Executive Stock Purchase Plan (filed as Exhibit 4(h) to Registrant's Registration Statement on Form S-8 (File No. 333-77029) and hereby incorporated herein by reference).*
10(o)	Form of Promissory Note for Cerner Corporation Executive Stock Purchase Plan (filed as Exhibit 4(i) to Registrant's Registration Statement on Form S-8 (File No. 333-77029) and hereby incorporated herein by reference).*
10(p)	Employment Agreement of Earl H. Devanny, III (filed as Exhibit 10(q) to Registrant's Annual Report on Form 10-K for the year ended January 1, 2000, and hereby incorporated herein by reference).*
10(q)	Employment Agreement of Glenn P. Tobin, Ph.D. (filed as Exhibit 10(r) to Registrant's Annual Report on Form 10-K for the year ended January 1, 2000, and hereby incorporated herein by reference).*
10(r)	Employment Agreement of Stanley M. Sword (filed as Exhibit 10(s) to Registrant's Annual Report on Form 10-K for the year ended January 1, 2000, and hereby incorporated herein by reference).*
10(s)	Employment Agreement of Jack A. Newman, Jr.*
10(t)	Cerner Corporation 2001 Long-Term Incentive Plan F (filed as Annex I to Registrant's 2001 Proxy Statement and hereby incorporated by reference).*
10(u)	Cerner Corporation 2001 Associate Stock Purchase Plan (filed as Annex II Registrant's 2001 Proxy Statement and hereby incorporated by reference).*
10(v)	Qualified Performance-Based Compensation Plan.*
11	Computation of Registrant's Earnings Per Share. (Exhibit omitted. Information contained in notes to consolidated financial statements.)
22	Subsidiaries of Registrant.
23	Consent of Independent Auditors.

* Management contracts or compensatory plans or arrangements required to be identified by Item 14(a)(3).

(b) Reports on Form 8-K.

Report on Form 8-K was filed on November 22, 2000.

(c) Exhibits.

The response to this portion of Item 14 is submitted as a separate section of this report.

(d) Financial Statement Schedules.

The response to this portion of Item 14 is submitted as a separate section of this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CERNER CORPORATION

Dated: March 30, 2001

By:_/s/ Neal L. Patterson___________
Neal L. Patterson
Chairman of the Board and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature and Title	Date
____/s/Neal L. Patterson_______________ Neal L. Patterson, Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 30, 2001
____/s/Clifford W. Illig_________________ Clifford W. Illig, Vice Chairman and Director	March 30, 2001
____/s/Marc G. Naughton_______________ Marc G. Naughton, Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 30, 2001
____/s/Michael E. Herman______________ Michael E. Herman, Director	March 30, 2001
____/s/Gerald E. Bisbee_________________ Gerald E. Bisbee, Jr., Ph.D., Director	March 30, 2001
____/s/John C. Danforth________________ John C. Danforth, Director	March 30, 2001
____/s/ Jeff C. Goldsmith________________ Jeff C. Goldsmith, Ph.D., Director	March 30, 2001
____/s/ William B. Neaves________________ William B. Neaves, Ph.D., Director	March 30, 2001

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Cerner Corporation:

We have audited the accompanying consolidated balance sheets of Cerner Corporation and subsidiaries as of December 30, 2000 and January 1, 2000, and the related consolidated statements of operations, changes in equity, and cash flows for each of the years in the three-year period ended December 30, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cerner Corporation and subsidiaries as of December 30, 2000 and January 1, 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 30, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Kansas City, Missouri
January 31, 2001

MANAGEMENT'S REPORT

The management of Cerner Corporation is responsible for the consolidated financial statements and all other information presented in this report. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate to the circumstances, and, therefore, included in the financial statements are certain amounts based on management's informed estimates and judgments. Other financial information in this report is consistent with that in the consolidated financial statements. The consolidated financial statements have been audited by Cerner Corporation's independent certified public accountants and have been reviewed by the audit committee of the Board of Directors.

CONSOLIDATED BALANCE SHEETS

December 30, 2000 and January 1, 2000

(Dollars in thousands)		2000	1999
Assets			
Current Assets:			
Cash and cash equivalents	$	90,893	75,677
Receivables		188,036	161,174
Inventory		2,174	1,262
Prepaid expenses and other		7,393	4,316
Total current assets		288,496	242,429
Property and equipment, net		82,234	77,938
Software development costs, net		83,276	71,007
Intangible assets		22,227	7,511
Investments		130,626	252,123
Other assets		9,552	9,883
	$	616,411	660,891
Liabilities and Stockholders' Equity			
Current Liabilities:			
Accounts payable	$	20,532	20,261
Current installments of long-term debt		72	-
Deferred revenue		40,212	21,245
Income taxes		9,718	10,987
Accrued payroll and tax withholdings		27,338	17,241
Other accrued expenses		4,443	2,642
Total current liabilities		102,315	72,376
Long-term debt, net		102,299	100,000
Deferred income taxes		57,430	93,578
Deferred revenue		10,650	16,000
Stockholders' Equity:			
Common stock, $.01 par value,150,000,000 shares authorized, 35,967,618 shares issued in 2000 and 34,932,703 shares in 1999		360	349
Additional paid-in capital		192,715	166,735
Retained earnings		230,916	125,651
Treasury stock, at cost (1,201,625 shares in 2000 and 1,201,518 in 1999)		(20,799)	(20,796)
Accumulated other comprehensive income:			
Foreign currency translation adjustment		(743)	23
Unrealized gain (loss) on available-for-sale equity securities (net of deferred tax asset of $33,036 in 2000 and deferred tax liability of $59,806 in 1999)		(58,732)	106,975
Total stockholders' equity		343,717	378,937
Commitments (Note 12)			
	$	616,411	660,891

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 30, 2000 and January 1, 2000, and January 2,1999

(In thousands, except per share data)		2000	1999	1998
Revenues				
System sales	$	263,109	224,510	245,490
Support and maintenance		114,898	94,198	76,755
Other		26,497	21,489	8,657
Total revenues		404,504	340,197	330,902
Costs and expenses				
Cost of revenues		90,118	95,038	89,544
Sales and client service		169,289	141,234	117,107
Software development		78,425	72,663	59,754
General and administrative		29,483	27,564	25,929
Write-off of acquired in-process research and development		4,900	-	5,038
Write-down of intangible assets		6,687	-	-
Total costs and expenses		378,902	336,499	297,372
Operating earnings		25,602	3,698	33,530
Interest expense, net		(3,671)	(3,396)	(262)
Realized gain on exchange of stock		188,654	-	-
Realized loss on sale of stock		(38,462)	-	-
Earnings before income taxes and extraordinary item		172,123	302	33,268
Income taxes		(66,858)	(118)	(12,679)
Earnings before extraordinary item		105,265	184	20,589
Extraordinary item, net of tax		-	(1,395)	-
Net earnings (loss)	$	105,265	(1,211)	20,589
Basic earnings per share before extraordinary item	$	3.08	.01	.63
Basic earnings (loss) per share	$	3.08	(.04)	.63
Diluted earnings per common share before extraordinary item	$	2.96	.01	.61
Diluted earnings (loss) per common share	$	2.96	(.04)	.61

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 30, 2000 and January 1, 2000, and January 2,1999

(In thousands)

	Common Stock Shares		Common Stock Amount	Additional paid-in capital	Retained earnings	Treasury stock amount	Accumulated other Comprehensive income	Comprehensive income
Balance at January 3, 1998	33,817	$	338	148,074	106,273	(20,796)	(142)	
Exercise of options	185		2	1,248	-	-	-	
Issuance of common stock grants as compensation	2		-	44	-	-	-	
Issuance of common stock	670		7	14,867	-	-	-	
Non-employee stock option compensation expense	-		-	385	-	-	-	
Tax benefit from disqualifying disposition of stock options	-		-	621	-	-	-	
Foreign currency translation adjustment	-		-	-	-	-	(101)	(101)
Unrealized loss on available-for-sale equity security, net of deferred tax benefit of $165	-	-	-	-	-	(266)		(266)
Net earnings	-	-	-	20,589	-	-		20,589
Comprehensive income								20,222
Balance at January 2, 1999	34,674	$	347	165,239	126,862	(20,796)	(509)	
Exercise of options	257		2	623	-	-	-	
Issuance of common stock grants as compensation	2		-	40	-	-	-	
Non-employee stock option compensation expense	-		-	239	-	-	-	
Tax benefit from disqualifying disposition of stock options	-		-	594	-	-	-	
Foreign currency translation adjustment	-		-	-	-	-	266	266
Unrealized gain on available-for-sale equity securities, net of deferred tax expense of $59,971	-		-	-	-	-	107,241	107,241
Net loss	-		-	-	(1,211)	-	-	(1,211)
Comprehensive income								106,296
Balance at January 1, 2000	34,933	$	349	166,735	125,651	(20,796)	106,998	
Exercise of options	439		5	7,050	-	(3)	-	
Issuance of common stock grants as compensation	2		-	31	-	-	-	
Acquisition of business	594		6	14,056	-	-	-	
Non-employee stock option compensation expense	-		-	229	-	-	-	
Fair value of employee stock options exchanged in acquisition of business	-		-	1,089	-	-	-	
Tax benefit from disqualifying disposition of stock options	-		-	3,525	-	-	-	
Foreign currency translation adjustment	-		-	-	-	-	(766)	(766)
Unrealized loss on available-for-sale equity securities, net of deferred tax benefit of $92,842	-		-	-	-	-	(165,707)	(165,707)
Net earnings	-		-	-	105,265	-	-	105,265
Comprehensive income								(61,208)
Balance at December 30, 2000	35,968	$	360	192,715	230,916	(20,799)	(59,475)	

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 30, 2000 and January 1, 2000, and January 2,1999

(In thousands)

		2000	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES				
Net earnings (loss)	$	105,265	(1,211)	20,589
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:				
Depreciation and amortization		37,988	31,388	25,411
Common stock received as consideration for sale of license software		(6,150)	-	(70,000)
Realized gain on exchange of stock		(188,654)	-	-
Realized loss on sale of stock		38,462	-	-
Write-down of intangible assets		6,687	-	-
Non-recurring fixed fee implementation cost		-	9,449	-
Non-recurring branch restructure charge		-	1,358	-
Extraordinary item, net of tax		-	1,395	-
Write-off of acquired in-process research and development		4,900	-	5,038
Issuance of common stock grants as compensation		31	40	44
Non-employee stock option compensation expense		229	239	385
Equity in losses of affiliates		1,095	423	1,601
Provision for deferred income taxes		67,640	(3,165)	15,816
Tax benefit from disqualifying dispositions of stock options		3,525	594	621
Loss on disposal of capital equipment		33	478	223
Changes in operating assets and liabilities (net of businesses acquired):				
Receivables, net		(14,994)	6,200	(39,481)
Inventory		595	1,389	(908)
Prepaid expenses and other		(7,025)	844	(3,970)
Accounts payable		(3,389)	(5,207)	2,620
Accrued income taxes		(5,329)	461	(2,334)
Deferred revenue		5,280	(16,676)	45,410
Other current liabilities		7,124	(610)	4,828
Total adjustments		(51,952)	28,600	(14,696)
Net cash provided by operating activities		53,313	27,389	5,893
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of capital equipment		(16,154)	(14,345)	(20,846)
Purchase of land, buildings, and improvements		-	-	(2,767)
Acquisition of businesses		(16,829)	-	(6,874)
Investment in affiliates		(7,370)	(13,615)	(1,217)
Proceeds from sale of stock of available for sale securities		26,152	-	-
Advances to affiliates		1,000	(1,000)	-
Issuance of notes receivable		(385)	(3,628)	-
Repayment of notes receivable		1,152	-	-
Capitalized software development costs		(30,982)	(30,192)	(25,052)
Net cash used in investing activities		(43,416)	(62,662)	(56,756)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of long-term debt		-	99,568	-
Repayment of long-term debt		(967)	(32,167)	(45)
Proceeds from sale of common stock		-	-	14,874
Proceeds from exercise of options		7,052	625	1,250
Net cash provided by financing activities		6,085	68,026	16,079
Foreign currency translation adjustment		(766)	266	(101)
Net increase (decrease) in cash and cash equivalents		15,216	33,019	(34,885)
Cash and cash equivalents at beginning of year		75,677	42,658	77,543
Cash and cash equivalents at end of year	$	90,893	75,677	42,658
Supplemental disclosures of cash flow information				
Cash paid (received) during the year for:				
Interest	$	7,348	5,448	2,504
Income taxes, net of refund		930	1,647	(2,112)
Noncash investing and financing activities				
Issuance of common stock for acquisition of business		14,062	-	-
Issuance of notes payable for acquisition of business		1,385	-	-
Addition to paid-in capital for the fair value of employee stock options exchanged in the acquisition of business		1,089	-	-

See notes to consolidated financial statements.

1 Summary of Significant Accounting Policies

(a) Principles of Consolidation - The consolidated financial statements include the accounts of Cerner Corporation and its wholly owned subsidiaries (the Company). All significant intercompany transactions and balances have been eliminated in consolidation.

(b) Nature of Operations - The Company designs, develops, markets, installs, hosts and supports software information technology and content solutions for healthcare organizations and consumers. The Company also implements these solutions as individual, combined or enterprise-wide systems.

(c) Revenue Recognition - Revenues are derived primarily from the sale of clinical information systems. The Company also provides project implementation and consulting services. In addition, revenue is generated from servicing installed clinical information systems, which generally includes support of software and maintenance of hardware. The Company also derives revenue from the sale of computer hardware.

Clinical information system sales contracts generally include the licensing of the Company's clinical information system software, project-related services associated with the installation of the systems, and the sale of computer hardware. Clinical information system sales contracts are noncancelable and provide for a right of return only in the event the system fails to meet the published specifications of the software. The Company recognizes revenue from sales of clinical information systems using a percentage-of-completion method based on meeting key milestone events over the term of the contracts in accordance with Statement of Position 97-2, "Software Revenue Recognition".

Revenue associated with project implementation and consulting services is recognized as the services are performed. Revenue from the licensing of additional software is recognized upon installation at the client's site. Revenue from the sale of computer hardware is recognized upon shipment. Revenue from ongoing software support and equipment maintenance is recognized as the services are rendered.

(d) Fiscal Year - The Company's fiscal year ends on the Saturday closest to December 31. Fiscal years 2000, 1999 and 1998 consisted of 52 weeks each. All references to years in these notes to consolidated financial statements represent fiscal years unless otherwise noted.

(e) Software Development Costs - Costs incurred internally in creating computer software products are expensed until technological feasibility has been established upon completion of a detail program design. Thereafter, all software development costs are capitalized and subsequently reported at the lower of amortized cost or net realizable value. Capitalized costs are amortized based on current and expected future revenue for each product with minimum annual amortization equal to the straight-line amortization over the estimated economic life of the product. The Company is amortizing capitalized costs on a straight-line basis over five years. During 2000, 1999 and 1998, the Company capitalized $30,982,000, $30,192,000 and $25,052,000, respectively, of total software development costs of $90,694,000, $88,699,000, and $74,159,000, respectively. Amortization expense of capitalized software development costs in 2000, 1999 and 1998 was $18,713,000, $14,156,000 and $10,647,000, respectively, and accumulated amortization was $76,411,000, $57,698,000 and $43,542,000, respectively.

(f) Cash Equivalents – Cash equivalents consist of short-term marketable securities with original maturities less than ninety days.

(g) Investments – The Company accounts for its investments in equity securities which have readily determinable fair values as available-for-sale. Available-for-sale securities are reported at fair value with unrealized gains and losses reported, net of tax, as a separate component of accumulated other comprehensive income. For realized gains and losses on available-for-sale investments, the Company utilizes the specific identification method as the basis to determine cost. Investments in the common stock of certain affiliates over which the Company exerts significant influence are accounted for by the equity method. Investments in other equity securities are reported at cost. All equity securities are reviewed by the Company for declines in fair value. If such declines are considered to be other than temporary, the cost basis of the individual security is written down to fair value as a new cost basis, and the amount of the write-down is included in earnings.

(h) Inventory - Inventory consists primarily of computer hardware held for resale and is recorded at the lower of cost (first-in, first-out) or market.

(i) Property and Equipment - Property, equipment and leasehold improvements are stated at cost. Depreciation of property and equipment is computed using the straight-line method over periods of 5 to 39 years. Amortization of leasehold improvements is computed using a straight-line method over the lease terms, which range from periods of two to twelve years.

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

(In thousands, except per share data)

	2000			1999			1998		
	Earnings (Numerator)	Shares (Denominator)	Per-Share Amount	Earnings (Numerator)	Shares (Denominator)	Per-Share Amount	Earnings (Numerator)	Shares (Denominator)	Per-Share Amount
Earnings per share before extraordinary item									
Basic earnings per share Income available to common stockholders	$ 105,265	34,123	$ 3.08	184	33,623	$ .01	20,589	32,825	$ .63
Effect of dilutive securities Stock options	—	1,480		—	293		—	842	
Diluted earnings per share Income available to common stockholders including assumed conversions	$ 105,265	35,603	$ 2.96	184	33,916	$ .01	20,589	33,667	$ .61
Net earnings (loss) per share									
Basic earnings (loss) per share Income available to common stockholders	$ 105,265	34,123	$ 3.08	(1,211)	33,623	$ (.04)	20,589	32,825	$ .63
Effect of dilutive securities Stock options	—	1,480		—	293		—	842	
Diluted earnings (loss) per share Income available to common stockholders including assumed conversions	$ 105,265	35,603	$ 2.96	(1,211)	33,916	$ (.04)	20,589	33,667	$ .61

Options to purchase 521,000, 3,185,000 and 1,652,000 shares of common stock at per share prices ranging from $35.88 to $84.07, $17.50 to $31.00, and $25.00 to $31.00 were outstanding at the end of 2000, 1999 and 1998, respectively, but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares.

(k) Foreign Currency - Assets and liabilities in foreign currencies are translated into dollars at rates prevailing at the balance sheet date. Revenues and expenses are translated at average rates for the year. The net exchange differences resulting from these translations are reported in accumulated other comprehensive income. Gains and losses resulting from foreign currency transactions are included in the consolidated statements of earnings. The net gain (loss) resulting from foreign currency transactions was ($518,000), $95,000 and ($673,000) in 2000, 1999 and 1998, respectively.

(l) Income Taxes - Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

(m) Goodwill - Excess of cost over net assets acquired (goodwill) is being amortized on a straight-line basis over four to eight years. Accumulated amortization was $5,964,000 and $5,387,000 at the end of 2000 and 1999, respectively. The Company assesses the recoverability of goodwill based on forecasted undiscounted future operating cash flows.

(n) Comprehensive Income - Included in comprehensive income for 2000 are reclassification adjustments for the net realized after-tax gain of $95,900,000 related to the exchange for and sale of WebMD stock.

(o) Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2 Business Acquisitions

During the three years ended December 30, 2000, the Company completed five acquisitions, which were accounted for under the purchase method of accounting. Pro forma results of operations have not been presented for any of the acquisitions because the effects of these acquisitions were not material to the Company on either an individual or an aggregate basis. Had the acquisitions occurred at the beginning of 1999, pro-forma revenues would have increased by $30,386,000 and $49,797,000 in 2000 and 1999, respectively. The results of operations of each acquisition are included in the Company's consolidated statement of operations from the date of each acquisition.

The amounts allocated to purchased in-process research and development (IPRD) were determined through established valuation techniques in the high-technology computer industry and were expensed upon acquisition because technological feasibility had not been established and no future alternative uses existed. Research and development costs to bring the products from the acquired companies to technological feasibility, individually or in the aggregate, are not expected to have a material impact on the Company's future results of operations or cash flows. Amounts allocated to goodwill and other intangibles are amortized on a straight-line basis over five to seven years. The IPRD amounts in the table below are reflected as one-time charges to earnings at the date of acquisition.

Subsequent to the acquisition of Health Network Ventures, Inc., the Company determined that it would discontinue the portion of the business focused on individual physician practice connectivity and transaction processing. As a result of this decision, the Company recorded a non-recurring charge in the second quarter of 2000 in the amount of $6,687,000 related to a write-down of intangible assets.

A summary of the Company's purchase acquisitions for the three years ended December 30, 2000, is included in the following table (in millions, except share amounts):

Entity Name and Description of Business Acquired	Date	Consideration	Goodwill	Developed Technology	Workforce	Customer Base	IPRD	Form of Consideration
Fiscal 2000 Acquisitions								
ADAC Healthcare Information Systems, Inc. (a) Image management solutions for radiology departments	11/00	$5.3	$1.4	$3.0	$.4	$1.7	$1.7	$3.9 cash $1.4 note payable
CITATION Computer Systems, Inc. (b) Market leader in laboratory systems for small to mid-sized hospitals	8/00	$17.8	$8.3	$2.7	$1.2	$2.0	$3.2	$2.6 cash $14.1 594,000 shares of common stock issued $1.1 vested options assumed
Mitch Cooper & Associates Supply chain re-engineering consulting practice	4/00	$2.0	$2.0	—	—	—	—	$2.0 cash
Health Network Ventures, Inc. Provides software solutions that enable transaction processing between providers and other health-related entities	4/00	$8.3	$4.2	—	—	—	—	$8.3 cash
Fiscal 1998 Acquisition								
Multum Information Systems, Inc. Healthcare industry supplier of drug knowledge databases and intelligent software components designed to improve the quality and cost-effectiveness of medical care	3/98	$6.9	$1.6	$.5	$.5	—	$5.0	$6.9 cash

(a) The acquired in-process research and development is related to HCIS's PACS (Picture Archiving and Communications Systems) product. The PACS product, when integrated with the Company's radiology information system, provides a comprehensive radiology solution, from automating and streamlining the information workflow to complete image management. PACS was approximately 86% complete at the time of the acquisition. When ADAC HCIS was acquired, management projected that PACS would be completed in 3 months at an estimated cost of $150,000. The risks associated with PACS are like any other software development project and include changes in technology and competition. The PACS project was valued using the income approach with the following assumptions: material net cash inflows are expected to commence in 2001; no material changes from historical pricing, margins, or expense levels are anticipated; and, a 20% risk adjusted discount rate was applied to the estimated net cash flows. PACS was approximately 95% complete at the end of 2000.

(b) The acquired in-process research and development is related to CITATION's enhanced versions of the C-LAB and C-COM products. C-LAB addresses the complex information needs of the laboratory's general lab, microbiology, anatomical pathology and blood bank departments with a Windows NT client server solution. C-LAB was approximately 68% complete at the time of the acquisition. When CITATION was acquired, management projected that C-LAB would be completed in 6-9 months at an estimated cost of $700,000. The risks associated with C-LAB are like any other software development project and include changes in technology and competition. The C-LAB project was valued using the income approach with the following assumptions: material net cash inflows are expected to commence in 2001; no material changes from historical pricing, margins, or expense levels are anticipated; and, a 20% risk adjusted discount rate was applied to the estimated net cash flows. C-LAB was approximately 75% complete at the end of 2000. C-COM is also designed for a Windows NT client server user and works with other information systems in healthcare facilities by providing a central data repository for clinical orders and results. It then allows for routing of the patient information to all care-providing centers throughout the healthcare enterprise. C-COM was approximately 75% complete at the time of the acquisition. When CITATION was acquired, management projected that C-COM would be completed in 3-6 months at an estimated cost of $500,000. The risks associated with C-COM are like any other software development project and include changes in technology and competition. The C-COM project was valued using the income approach with the following assumptions: material net cash inflows are expected to commence in 2001; no material changes from historical pricing, margins, or expense levels are anticipated; and, a 20% risk adjusted discount rate was applied to the estimated net cash flows. C-COM was approximately 85% complete at the end of 2000.

3 Receivables

Receivables consist of accounts receivable and contracts receivable. Accounts receivable represent recorded revenues that have been billed. Contracts receivable represent recorded revenues that are billable by the Company at future dates under the terms of a contract with a client. Billings and other consideration received on contracts in excess of related revenues recognized under the percentage-of-completion method are recorded as deferred revenue. A summary of receivables is as follows:

(In thousands)		2000	1999
Accounts receivable	$	96,946	85,814
Contracts receivable		91,090	75,360
Total receivables	$	188,036	161,174

Substantially all receivables are derived from sales and related support and maintenance of the Company's clinical information systems to healthcare providers located throughout the United States and in certain foreign countries. Included in receivables at the end of 2000 and 1999 are amounts due from healthcare providers located in foreign countries of $23,600,000 and $17,704,000, respectively. Consolidated revenues include foreign sales of $25,815,000, $24,001,000 and $17,545,000, during 2000, 1999 and 1998, respectively. Consolidated long-lived assets at the end of 2000 and 1999, include foreign long-lived assets of $649,000 and $638,000, respectively. Revenues and long-lived assets from any one foreign country are not material.

The Company provides an allowance for estimated uncollectible accounts based upon historical experience and management's judgment. At the end of 2000 and 1999 the allowance for estimated uncollectible accounts was $5,999,000 and $4,759,000, respectively.

4 Property and Equipment

A summary of property, equipment, and leasehold improvements stated at cost, less accumulated depreciation and amortization, is as follows:

(In thousands)		2000	1999
Furniture and fixtures	$	24,004	21,623
Computer and communications equipment		82,769	67,462
Marketing equipment		2,045	1,984
Shop equipment		2,902	-
Leasehold improvements		21,533	16,905
Capital lease equipment		1,104	713
Land, buildings, and improvements		32,437	32,437
		166,794	141,124
Less accumulated depreciation and amortization		84,560	63,186
Total property and equipment, net	$	82,234	77,938

5 Investments

Investments consist of the following:

(In thousands)		2000	1999
Investments in available-for-sale equity securities	$	194,268	13,057
Plus unrealized holding gain (loss)		(91,768)	166,781
Investment in available-for-sale equity securities, at fair value		102,500	179,838
Investments in equity securities, at cost		25,285	69,822
Investments accounted for under the equity method		2,841	2,463
Total investments, net	$	130,626	252,123

In 1998 and 1999 the Company acquired a 17.5% interest (13,149,259 shares of common stock) in CareInsite with a cost basis of $81,804,000. 12,437,500 of these shares were received in 1998 as consideration for the sale of license software, and an additional 711,759 shares were purchased in 1999. The value assigned to the shares acquired in 1998 was $70,000,000 and was based on a methodology which utilized both a comparable company and the expected underlying discounted future cash flows. The Company was also granted, by CareInsite, 1,008,445 common stock warrants with an exercise price of $4.00 per share ("THINC Warrants"). The THINC Warrants were exercisable only in the event that The Health Information Network Connections, LLC ("THINC") exercised warrants granted to them by CareInsite at $4.00 per share. THINC was allowed to exercise their warrants 180 days after the initial public offering of CareInsite. On January 29, 2000 CareInsite completed an acquisition of THINC. As part of that agreement, 806,756 of the Company's 1,008,445 THINC Warrants became immediately exercisable, with the remaining amount forfeited.

On February 13, 2000 CareInsite entered into an agreement to merge with Healtheon/WebMD Corporation ("Merger Agreement"). As part of the Merger Agreement, the Company received 1.3 shares of Healtheon/WebMD Corporation (Web MD) in exchange for each common share of CareInsite held by the Company. The warrants were also converted at the same exchange ratio. The merger of CareInsite and WebMD ("Merger") closed on September 12, 2000. Accordingly, the Company recorded a non-recurring investment gain of $120,362,000, net of tax, as a result of the exchange.

On December 12, 2000, the Company sold 4,273,509 shares of WebMD for $25,641,000. Accordingly, the Company recorded a non-recurring investment loss of $24,539,000, net of tax, as a result of the sale.

At December 30, 2000, the Company owned 12,820,527 shares of common stock of WebMD, which have a cost basis of $192,308,000 and a carrying value of $101,795,000, as these shares are accounted for as available-for-sale. The stock of WebMD held by the Company is registered but is subject to certain lock-up provisions. At December 30, 2000 the Company also holds 1,048,783 warrants of WebMD with an exercise price of $3.08 and a cost basis and carrying value of $13,685,000. The warrants are carried at cost, as they do not have a fair value that is currently available on a securities exchange.

If the Company realizes certain performance metrics related to specified levels of physician usage, WebMD will issue to the Company 3,254,063 shares of common stock at a price of $0.01 per share ("Performance Shares"). The Performance Shares were adjusted at a rate of 1.3 shares of WebMD for each share of CareInsite. The contracted measurement date was February 15, 2001. The Company and WebMD are in discussions regarding the attainment of the Performance Shares. No amounts have been recognized in the consolidated financial statements for the Performance Shares pending completion of the discussions.

6 Indebtedness

The Company has a loan agreement with a bank that provides for a long-term revolving line of credit for working capital purposes. The long-term revolving line of credit is unsecured and requires monthly payments of interest only. Interest is payable at the Company's option at a rate based on prime (9.5% at December 30, 2000) or LIBOR (6.4% at December 30, 2000) plus 1.5%. The interest rate may be reduced by up to .4% if certain net worth ratios are maintained. At December 30, 2000, the Company had no outstanding borrowings under this agreement and had $18,000,000 available for working capital purposes. The agreement contains certain net worth, current ratio, and fixed charge coverage covenants and provides certain restrictions on the Company's ability to borrow, incur liens, sell assets, and pay dividends. A commitment fee of 3/10% is payable quarterly on the unused portion of the revolving line of credit.

On April 15, 1999, the Company completed a $100,000,000 private placement of debt pursuant to a Note Agreement dated April 1, 1999. The Series A Senior Notes, with a $60,000,000 principal amount at 7.14% are payable in five equal annual installments beginning in April 2002. The Series B Senior Notes, with a $40,000,000 principal amount at 7.66% are payable in six equal annual installments beginning April 2004. The proceeds were used to retire the Company's existing $30,000,000 of debt, and the remaining funds are being used for proposed capital improvements and to strengthen the Company's cash position. In connection with the early extinguishment of debt, the Company incurred an extraordinary loss for a prepayment penalty and write-off of deferred loan costs of $1,395,000 net of taxes. The note agreement contains certain net worth, current ratio, and fixed charge coverage covenants and provides certain restrictions on the Company's ability to borrow, incur liens, sell assets, and pay dividends. The Company was in compliance with all covenants at December 30, 2000.

The Company also has capital lease obligations and other notes payable amounting to $2,400,000, payable over the next four years.

The aggregate maturities for the Company's long-term debt is as follows (in thousands):

2001	$	72
2002		14,243
2003		12,042
2004		18,682
2005		18,666
2006 and thereafter		38,666
	$	102,371

The Company estimates the fair value of its long-term, fixed-rate debt using discounted cash flow analysis based on the Company's current borrowing rates for debt with similar maturities. The fair value of the Company's long-term debt is $101,271,000 at December 30, 2000.

7 Interest Income and Expense

A summary of interest income and expense is as follows:

(In thousands)		2000	1999	1998
Interest income	$	3,645	2,582	2,242
Interest expense		(7,316)	(5,978)	(2,504)
Interest expense, net	$	(3,671)	(3,396)	(262)

8 Stock Options and Warrants

At December 30, 2000, the Company had four fixed stock option plans. Under Stock Option Plan B, the Company could grant to associates options to purchase up to 5,600,000 shares of common stock through November 30, 1993. The options are exercisable at the fair market value on the date of grant for a period determined by the Board of Directors (not more than ten years from the date granted). The options contain restrictions as to transferability and exercisability after termination of employment.

Under Stock Option Plan C, the Company is authorized to grant to associates options to purchase up to 645,000 shares of common stock through May 18, 2003. The options are exercisable at the fair market value on the date of grant for a period determined by the Board of Directors (not more than ten years from the date granted). The options contain restrictions as to transferability and exercisability after termination of employment. The Company has committed not to issue any more stock options under Stock Option Plan C.

Initially under Stock Option Plan D, the Company was authorized to grant to associates, directors, consultants or advisors to the Company options to purchase up to 50,000 shares of common stock through January 1, 2005. Additional shares were approved by the Company's shareholders on May 17, 1994, May 16, 1995 and May 22, 1998, increasing the total authorized to grant to 4,600,000 shares. The options are exercisable at a price (not less than fair market value on the date of grant) and during a period determined by the Stock Option Committee. Options under this plan currently vest over periods of up to ten years and are exercisable for periods of up to 25 years.

Initially, under Stock Option Plan E, the Company was authorized to grant to associates (other than officers subject to the provisions of Section 16(a) of the Securities and Exchange Act of 1934), consultants, or advisors to the Company options to purchase up to 2,000,000 shares of common stock through January 1, 2005. There was a 1,100,000 share increase approved by the Company's Board of Directors on December 8, 2000, increasing the total authorized to grant to 3,100,000 shares. The options are exercisable at a price (not less than fair market value on the date of grant) and during a period determined by the Stock Option Committee. Options under this plan currently vest over periods of up to ten years and are exercisable for periods of up to 25 years.

The Company has also granted 454,542 other non-qualified stock options under separate agreements to employees and certain third parties. These options are exercisable at a price equal to or greater than the fair market value on the date of grant. These options vest over periods of up to six years and are exercisable for periods of up to ten years. In 2000, the Company granted an additional 350,000 stock options to a third party at an exercise price equal to the fair market value on the date of grant. The options are vested and become exercisable at the earlier of five years or when certain conditions are met.

The Company accounts for associate stock options in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. As such, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. On December 31, 1995, the Company adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (FAS 123), which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, FAS 123 allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net earnings and pro forma earnings per share disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based method defined in FAS 123 had been applied. The Company has elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of FAS 123.

A combined summary of the status of the Company's four fixed stock option plans and other stock options at the end of 2000, 1999, and 1998, and changes during these years ended is presented below:

	2000		1999		1998	
Fixed options	Number of shares	Weighted-average exercise price	Number of shares	Weighted-average exercise price	Number of shares	Weighted-average exercise price
Outstanding at beginning of year	5,529,995	$ 19.79	5,488,191	$ 20.38	4,179,258	$ 17.74
Granted	1,684,144	31.50	1,447,246	16.69	1,932,710	24.15
Exercised	(455,706)	17.23	(255,747)	4.91	(185,335)	6.88
Forfeited	(458,168)	21.13	(1,149,695)	22.40	(438,442)	17.57
Outstanding at end of year	6,300,265	$ 22.50	5,529,995	$ 19.79	5,488,191	$ 20.38
Options exercisable at year-end	1,458,001	$ 20.97	1,297,147	$ 19.49	1,111,943	$ 15.52

The following table summarizes information about fixed and other stock options outstanding at December 30, 2000.

	Options outstanding				Options exercisable		
Range of Exercise Prices	Number Outstanding At 12/30/00	Weighted-average Remaining contractual life		Weighted-average exercise price	Number exercisable at 12/30/00		Weighted-average exercise price
$ 1.34-15.00	1,519,018	17.4 years	$	14.20	483,906	$	13.77
15.13-22.00	1,705,561	12.8		18.83	450,879		19.16
22.06-27.50	1,534,954	10.8		24.75	200,664		24.52
28.00-84.07	1,540,732	12.5		35.44	322,552		32.08
1.34-84.07	6,300,265	13.4		22.50	1,458,001		20.97

The per share weighted-average fair value of stock options granted during 2000, 1999 and 1998 was $18.96, $10.88 and $14.97, respectively, on the date of grant using the Black Scholes option-pricing model with the following weighted-average assumptions:

	2000	1999	1998
Expected years until exercise	4.7	8	8
Risk-free interest rate	5.0%	6.9%	5.0%
Expected stock volatility	72.1%	1.3%	58.5%
Expected dividend yield	0%	0%	0%

Since the Company applies APB Opinion No. 25 in accounting for its plans, no compensation cost has been recognized for its stock options issued to employees. Had the Company recorded compensation expense based on the fair value at the grant date for its stock options under FAS 123, the Company's net earnings and earnings per share on a diluted basis would have been reduced by approximately $7,527,000 or $.21 per share in 2000, approximately $3,922,000 or $.12 per share in 1999 and approximately $5,929,000 or $.18 per share in 1998.

Pro forma net earnings reflect only options granted since January 1, 1995. Therefore, the full impact of calculating compensation expense for stock options under FAS 123 is not reflected in the pro forma net earnings amounts presented above, because compensation cost is reflected over the options' vesting period of ten years for these options. Compensation expense for options granted prior to January 1, 1995 is not considered.

9 Income Taxes

Income tax expense (benefit) before extraordinary item for the years ended 2000, 1999, and 1998, consists of the following:

(In thousands)		2000	1999	1998
Current:				
Federal	$	175	3,514	(1,929)
State		(70)	573	(1,061)
Foreign		(887)	(804)	(147)
Total current		(782)	3,283	(3,137)
Deferred:				
Federal		63,524	(2,891)	13,634
State		4,482	(288)	1,565
Foreign		(366)	14	617
Total deferred		67,640	(3,165)	15,816
Total income tax expense	$	66,858	118	12,679

Income tax benefit attributable to the extraordinary item (early retirement of debt) was $865,000 in 1999. Income tax expense (benefit) allocated to stockholders' equity for unrealized holding gain (losses) on available-for-sale equity securities was ($92,842,000) and $59,971,000 for the years ended 2000 and 1999, respectively.

Temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities that give rise to significant portions of deferred income taxes at the end of 2000 and 1999 relate to the following:

(In thousands)		2000	1999
Deferred Tax Assets			
Contract reserves	$	-	3,615
Acquisition accrual		-	1,779
Accrued expenses		6,395	4,669
Separate return net operating losses		12,281	-
Other		1,718	1,637
Total deferred tax assets		20,394	11,700
Deferred Tax Liabilities			
Unrealized gain on investments		(21,975)	(59,806)
Software development costs		(32,143)	(26,812)
Contract and service revenues and costs		(37,930)	(23,591)
Depreciation and amortization		(2,764)	(4,480)
Other		(1,446)	(5,581)
Total deferred tax liabilities		(96,258)	(120,270)
Net deferred tax liability	$	(75,864)	(108,570)

The effective income tax rates for 2000, 1999, and 1998 were 39%, 39%, and 38%, respectively. These effective rates differ from the federal statutory rate of 35% as follows:

(In thousands)	2000	1999	1998
Tax expense at statutory rates	$ 60,243	106	11,644
State income tax, net of federal benefit	2,972	10	1,280
Goodwill	4,225	259	259
Other, net	(582)	(257)	(504)
Total income tax expense	$ 66,858	118	12,679

Income taxes payable are reduced by the tax benefit resulting from disqualifying dispositions of stock acquired under the Company's stock option plans. The 2000, 1999, and 1998 benefits of $3,525,000, $594,000, and $621,000, respectively, are treated as increases to additional paid-in capital.

10 Foundations Retirement Plan

The Cerner Corporation Foundations Retirement Plan (the Plan) is established under Section 401(k) of the Internal Revenue Code. All full-time associates are eligible to participate. Participants may elect to make pretax contributions from 1% to 20% of compensation to the Plan, subject to annual limitations determined by the Internal Revenue Service. Participants may direct contributions into mutual funds, a money market fund, or a Company stock fund. The Company makes matching contributions to the Plan, on behalf of participants, in an amount equal to 33% of the first 6% of the participant's contribution. The Company's expense for the plan amounted to $2,532,000, $1,187,000 and $1,005,000 for 2000, 1999 and 1998, respectively.

The Company added a discretionary profit sharing distribution to the Plan in 2000. Distributions are based on attainment of established earnings per share goals for the year. Only participants in the Plan are eligible to receive the profit sharing distribution. For the year ended December 30, 2000, the Company expensed $1,100,000 for discretionary distributions.

11 Related Party Transactions

The Company loaned $160,000 in 2000 and $3,628,000 in 1999, to the Company's senior management under the terms of the Executive Stock Purchase Program ("Program"). The purpose of the Program is to advance the interests of the Company, the Company's senior management, and the Company's shareholders by offering the Company's senior management an incentive to purchase shares of the Company's stock on the open market. Pursuant to the Program, the Company provided Program loans to executives to help finance up to 50% of the total purchase price of the stock purchased. All Program loans have a term of five (5) years, at an interest rate of 5.5%. Principal and interest is not due until the end of the five-year loan term, unless the executive terminates employment. Executives may also elect to pay interest annually. If interest is not paid annually, it will compound annually. All Program loans are secured by the purchased shares and any pledged shares. The balance of these loans at December 30, 2000 was $2,764,000.

12 Commitments

The Company leases space to unrelated parties in its North Kansas City headquarters complex under noncancelable operating leases. Included in other revenues is rental income of $624,000, $1,005,000, and $1,795,000 in 2000, 1999, and 1998, respectively.

The Company is committed under operating leases for office space through September 2005. Rent expense for office and warehouse space for the Company's regional and global offices for 2000, 1999, and 1998 was $1,735,000, $2,226,000, and $1,847,000, respectively. Future minimum lease revenues (in thousands) and aggregate minimum future payments (in thousands) under these noncancelable operating leases are as follows:

Years	Future Minimum lease revenues	Future Minimum lease commitments
2001	$ 247	4,407
2002	40	3,449
2003	23	1,829
2004	-	1,316
2005	-	642

In December, 1999, the Company made a decision to close five of its branch offices. The Company created a regional branch structure in 1994 in order to bring associates closer to its clients. The natural evolution of that strategy and the ability to leverage internal information technology infrastructure to create a more virtual workplace has resulted in a significant decrease in utilization of certain regional offices. This led to the decision to close these physical locations. The Company recorded a charge of $1.4 million in sales and client service expenses in the 1999 fourth quarter to provide for the costs of closing these locations, primarily based on estimated lease cancellation fees. All of these costs were paid in 2000.

13 Stockholders' Equity

At the end of 2000 and 1999, the Company had 1,000,000 shares of authorized but unissued preferred stock, $.01 par value.

14 Quarterly Results (unaudited)

Selected quarterly financial data for 2000 and 1999 is set forth below:

(In thousands, except per share data)		Revenues	Earnings (loss) before income taxes and extraordinary item	Net earnings (loss)	Basic earnings (loss) per share	Diluted earnings (loss) per share
2000 quarterly results:						
April 1	$	87,107	3,986	2,392	.07	.07
July 1 (1)		93,502	44	(2,613)	(.08)	(.08)
September 30 (2)(3)		104,325	195,588	123,336	3.61	3.45
December 30 (4)(5)		119,570	(27,495)	(17,850)	(.51)	(.51)
Total	$	404,504	172,123	105,265		
1999 quarterly results:						
April 3	$	86,743	4,543	2,817	.08	.08
July 3 (6)		82,782	428	(1,135)	(.03)	(.03)
October 2		80,929	1,146	680	.02	.02
January 1 (7)		89,743	(5,815)	(3,573)	(.11)	(.11)
Total	$	340,197	302	(1,211)		

(1) Includes a non-recurring charge of $6.7 million related to the write-down of intangible assets associated with the acquisition of Health Network Ventures, Inc. The impact of this non-recurring charge on diluted earnings per share was ($.19) for the second quarter and for 2000.

(2) Includes a non-recurring charge of $3.2 million related to the acquisition of CITATION Computer Systems, Inc. The impact of this non-recurring charge on diluted earnings per share was ($.09) for the third quarter and for 2000.

(3) Includes a non-recurring investment gain of $120.4 million, net of $68.3 million tax expense, related to the conversion of shares of CareInsite common stock to shares of WebMD common stock. The impact of this non-recurring investment gain on diluted earnings per share was $3.37 for the third quarter and $3.38 for 2000.

(4) Includes a non-recurring charge of $1.0 million, net of $.7 million tax benefit, related to the acquisition of ADAC Healthcare Information Systems, Inc. The impact of this non-recurring charge on diluted earnings per share was ($.03) for the fourth quarter and for 2000.

(5) Includes a non-recurring investment loss of $24.5 million, net of $13.9 million tax benefit, related to the sale of shares of WebMD common stock. The impact of this non-recurring investment loss on diluted earnings per share was ($.67) for the fourth quarter and ($.69) for 2000.

(6) Includes an extraordinary loss on the early extinguishment of debt of $1,395,000, net of taxes of $865,000. The impact of this extraordinary item on diluted earnings per share was ($.01) for the second quarter and for 1999.

(7) See Note 12 regarding a non-recurring charge in the fourth quarter of 1999. The fourth quarter of 1999 also includes an additional non-recurring charge of $5.8 million, net of $3.6 million tax benefit, for contract reserves.

CERNER LEADERSHIP AND CORPORATE INFORMATION

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Vice Chairman
Cerner Corporation

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Chairman &
Chief Executive Officer
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Redwood City, CA

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St. Louis, MO

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Health Futures, Inc.
Charlottesville, VA

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President, The Herman Family
Trading Company & Past President,
Kansas City Royals Baseball Club
Kansas City, MO

William B. Neaves, Ph.D.
President &
Chief Executive Officer
The Stowers Institute for
Medical Research
Kansas City, MO

MANAGEMENT

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Chief Executive Officer

Clifford W. Illig
Vice Chairman

Earl H. Devanny, III
President

Glenn P. Tobin, Ph.D.
Executive Vice President &
Chief Operating Officer

Paul M. Black
Executive Vice President &
Chief Sales Officer

Jack A. Newman Jr.
Executive Vice President

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Senior Vice President & President,
Cerner Global Organization

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Chief Financial Officer

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Randy D. Sims
Vice President, Chief Legal Officer
& Secretary

Jeffrey A. Townsend
Vice President &
Chief Engineering Officer

Charlotte A. Weaver
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Chief Nursing Officer

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Partner, Cerner Consulting

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General Manager, IQHealth

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Vice President of Learning Services

Mitchell Clark
Vice President & General Manager

Michael L. Fiorito
Vice President & General Manager

Tonya M. Hongsermeier, M.D.
Vice President, Patient Safety

Paul J. Sinclair
Vice President & Senior Partner,
Cerner Consulting

Annual Meeting of Shareholders

The annual meeting will be held at 10:00 a.m. on May 25, 2001, at the Cerner Associate Center, located on the Cerner campus at 2901 Rockcreek Parkway, North Kansas City, Missouri. A formal notice of the meeting, with a proxy statement and proxy form, will be mailed to each shareholder in April 2001.

Annual Report/10-K Report

Publications of interest to current and potential Cerner investors are available upon written request or via Cerner's Web site at www.cerner.com. These include annual and quarterly reports and the Form 10-K filed with the Securities and Exchange Commission.

Such requests should be made to:
Administrator of
Shareholder Relations
Cerner Corporation
2800 Rockcreek Parkway
North Kansas City, MO
64117-2551

Inquiries of an administrative nature relating to shareholder accounting records, stock transfer, change of address, and miscellaneous shareholder requests should be directed to the transfer agent and registrar, UMB Bank, at (816) 860 7786.

Transfer Agent and Registrar

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Stock Listings

Cerner Corporation's common stock trades on The Nasdaq Stock Market℠ under the symbol CERN.

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