

CERNER CORP /MO/  
Form 10-Q  
April 25, 2014  
Table of Contents

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

FORM 10-Q

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

For the quarterly period ended: March 29, 2014

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-15386

CERNER CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

2800 Rockcreek Parkway

North Kansas City, MO

(Address of principal executive offices)

(816) 201-1024

(Registrant's telephone number, including area code)

43-1196944

(I.R.S. Employer Identification  
Number)

64117

(Zip Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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

Class

Outstanding at April 18, 2014

Common Stock, \$0.01 par value per share

343,371,936 shares

Table of Contents

CERNER CORPORATION

TABLE OF CONTENTS

Part I. Financial Information:

Item 1. Financial Statements:

Condensed Consolidated Balance Sheets as of March 29, 2014 (unaudited) and December 28, 2013 1

Condensed Consolidated Statements of Operations for the Three Months Ended March 29, 2014 and March 30, 2013 (unaudited) 2

Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 29, 2014 and March 30, 2013 (unaudited) 3

Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 29, 2014 and March 30, 2013 (unaudited) 4

Notes to Condensed Consolidated Financial Statements (unaudited) 5

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 13

Item 3. Quantitative and Qualitative Disclosures about Market Risk 22

Item 4. Controls and Procedures 22

Part II. Other Information:

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 23

Item 6. Exhibits 24

Signatures

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Table of Contents

## Part I. Financial Information

## Item 1. Financial Statements

## CERNER CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

As of March 29, 2014 (unaudited) and December 28, 2013

(In thousands, except share data)

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$219,928	\$202,377
Short-term investments	811,327	677,004
Receivables, net	564,086	582,926
Inventory	28,257	32,299
Prepaid expenses and other	198,961	175,488
Deferred income taxes, net	92,622	91,614
Total current assets	1,915,181	1,761,708
Property and equipment, net	845,104	792,781
Software development costs, net	366,676	347,077
Goodwill	307,081	307,422
Intangible assets, net	138,696	144,132
Long-term investments	436,995	554,873
Other assets	181,615	190,371
Total assets	\$4,191,348	\$4,098,364
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$125,741	\$145,019
Current installments of long-term debt and capital lease obligations	55,657	54,107
Deferred revenue	231,512	209,746
Accrued payroll and tax withholdings	123,242	147,986
Other accrued expenses	75,515	83,574
Total current liabilities	611,667	640,432
Long-term debt and capital lease obligations	104,827	111,717
Deferred income taxes and other liabilities	219,857	170,392
Deferred revenue	8,600	8,159
Total liabilities	944,951	930,700
Shareholders' Equity:		
Common stock, \$.01 par value, 500,000,000 shares authorized, 345,193,355 shares issued at March 29, 2014 and 344,338,030 shares issued at December 28, 2013	3,452	3,443
Additional paid-in capital	843,953	812,853
Retained earnings	2,512,574	2,393,048
	(103,277 )	(28,251 )

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Treasury stock, 1,850,593 shares at March 29, 2014 and 570,616 shares at December 28, 2013

Accumulated other comprehensive loss, net	(10,305	)	(13,429	)
Total shareholders' equity	3,246,397		3,167,664	
Total liabilities and shareholders' equity	\$4,191,348		\$4,098,364	

See notes to condensed consolidated financial statements (unaudited).

1

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Table of Contents

CERNER CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 For the three months ended March 29, 2014 and March 30, 2013  
 (unaudited)

(In thousands, except per share data)	Three Months Ended	
	2014	2013
Revenues:		
System sales	\$206,687	\$198,902
Support, maintenance and services	557,429	466,556
Reimbursed travel	20,645	14,571
Total revenues	784,761	680,029
Costs and expenses:		
Cost of system sales	65,113	81,483
Cost of support, maintenance and services	43,341	31,175
Cost of reimbursed travel	20,645	14,571
Sales and client service	330,901	267,356
Software development (Includes amortization of \$25,101 and \$22,016, respectively)	91,545	81,063
General and administrative	55,213	47,812
Total costs and expenses	606,758	523,460
Operating earnings	178,003	156,569
Other income, net	2,990	3,044
Earnings before income taxes	180,993	159,613
Income taxes	(61,467 )	(49,573 )
Net earnings	\$119,526	\$110,040
Basic earnings per share	\$0.35	\$0.32
Diluted earnings per share	\$0.34	\$0.31
Basic weighted average shares outstanding	343,701	344,063
Diluted weighted average shares outstanding	352,230	352,825
See notes to condensed consolidated financial statements (unaudited).		

Table of Contents

CERNER CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 For the three months ended March 29, 2014 and March 30, 2013  
 (unaudited)

(In thousands)	Three Months Ended	
	2014	2013
Net earnings	\$ 119,526	\$ 110,040
Foreign currency translation adjustment and other (net of taxes of \$367 and \$1,846, respectively)	3,027	(9,208 )
Unrealized holding gain (loss) on available-for-sale investments (net of taxes of \$62 and \$115, respectively)	97	176
Comprehensive income	\$ 122,650	\$ 101,008

See notes to condensed consolidated financial statements (unaudited).

Table of Contents

CERNER CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 For the three months ended March 29, 2014 and March 30, 2013  
 (unaudited)

(In thousands)	Three Months Ended	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net earnings	\$ 119,526	\$ 110,040
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	70,094	59,341
Share-based compensation expense	13,649	10,594
Provision for deferred income taxes	2,490	1,427
Changes in assets and liabilities (net of businesses acquired):		
Receivables, net	24,844	71,944
Inventory	3,903	2,105
Prepaid expenses and other	(16,823 )	(29,504 )
Accounts payable	(29,531 )	(11,183 )
Accrued income taxes	(22,197 )	4,922
Deferred revenue	22,279	2,960
Other accrued liabilities	(32,447 )	(8,998 )
Net cash provided by operating activities	155,787	213,648
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital purchases	(69,661 )	(49,451 )
Capitalized software development costs	(44,544 )	(34,334 )
Purchases of investments	(256,027 )	(312,845 )
Sales and maturities of investments	235,948	296,239
Purchase of other intangibles	(3,301 )	(23,307 )
Acquisition of businesses, net of cash acquired	—	(67,802 )
Net cash used in investing activities	(137,585 )	(191,500 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of long-term debt and capital lease obligations	(66 )	(9,750 )
Proceeds from excess tax benefits from share-based compensation	14,308	8,973
Proceeds from exercise of options	8,173	7,912
Treasury stock purchases	(75,026 )	(63,241 )
Contingent consideration payments for acquisition of businesses	—	(800 )
Cash grants	48,000	—
Other	2,894	475
Net cash used in financing activities	(1,717 )	(56,431 )
Effect of exchange rate changes on cash and cash equivalents	1,066	(1,379 )
Net increase (decrease) in cash and cash equivalents	17,551	(35,662 )
Cash and cash equivalents at beginning of period	202,377	317,120

Cash and cash equivalents at end of period	\$219,928	\$281,458
Summary of acquisition transactions:		
Fair value of net tangible assets acquired	\$—	\$2,381
Fair value of intangible assets acquired	—	25,489
Fair value of goodwill	—	59,567
Less: Fair value of contingent liability payable	—	(18,982 )
Cash paid for acquisitions	—	68,455
Cash acquired	—	(653 )
Net cash used	\$—	\$67,802
See notes to condensed consolidated financial statements (unaudited).		



Table of Contents

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

(1) Interim Statement Presentation

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

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

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

Our first fiscal quarter ends on the Saturday closest to March 31. The 2014 and 2013 first quarters ended on March 29, 2014 and March 30, 2013, respectively. All references to years in these notes to condensed consolidated financial statements represent the respective three months ended on such dates, unless otherwise noted.

**Stock Split**

On May 24, 2013, the Board of Directors of the Company approved a two-for-one split of our common stock in the form of a 100% stock dividend, which was distributed on or about June 28, 2013 to shareholders of record as of June 17, 2013. In connection with the stock split, 3.0 million treasury shares, which represented the amount held in treasury on June 28, 2013, were utilized to settle a portion of the distribution. All share and per share data have been retroactively adjusted for all periods presented to reflect the stock split including the use of treasury shares, as if the stock split had occurred at the beginning of the earliest period presented.

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

**Available-for-sale Investments**

Our short-term investments are primarily invested in time deposits, commercial paper, government and corporate bonds, with maturities of less than one year. Our long-term investments are primarily invested in government and corporate bonds with maturities of less than two years.

Table of Contents

## (2) Fair Value Measurements

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

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

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

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

The following table details our financial assets measured and recorded at fair value on a recurring basis at March 29, 2014:

(In thousands)

Description	Balance Sheet Classification	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Money market funds	Cash equivalents	\$61,473	\$—	\$—
Time deposits	Cash equivalents	—	11,471	—
Government and corporate bonds	Cash equivalents	—	1,630	—
Time deposits	Short-term investments	—	71,523	—
Commercial paper	Short-term investments	—	28,508	—
Government and corporate bonds	Short-term investments	—	711,296	—
Government and corporate bonds	Long-term investments	—	424,015	—

The following table details our financial assets measured and recorded at fair value on a recurring basis at December 28, 2013:

(In thousands)

Description	Balance Sheet Classification	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Money market funds	Cash equivalents	\$57,254	\$—	\$—
Time deposits	Cash equivalents	—	7,771	—
Commercial paper	Cash equivalents	—	3,000	—
Government and corporate bonds	Cash equivalents	—	410	—
Time deposits	Short-term investments	—	70,315	—

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Commercial paper	Short-term investments	—	33,742	—
Government and corporate bonds	Short-term investments	—	572,947	—
Government and corporate bonds	Long-term investments	—	542,711	—

We estimate the fair value of our long-term, fixed rate debt using a Level 3 discounted cash flow analysis based on current borrowing rates for debt with similar maturities. The fair value of our long-term debt, including current maturities, at March 29, 2014 and December 28, 2013 was approximately \$33.1 million and \$32.6 million, respectively. The carrying amount of such fixed-rate debt at March 29, 2014 and December 28, 2013 was \$30.9 million and \$30.6 million, respectively.

Table of Contents

## (3) Investments

Available-for-sale investments at March 29, 2014 were as follows:

(In thousands)	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash equivalents:				
Money market funds	\$61,473	\$—	\$—	\$61,473
Time deposits	11,471	—	—	11,471
Government and corporate bonds	1,630	—	—	1,630
Total cash equivalents	74,574	—	—	74,574
Short-term investments:				
Time deposits	71,521	4	(2 )	71,523
Commercial paper	28,500	9	(1 )	28,508
Government and corporate bonds	710,928	519	(151 )	711,296
Total short-term investments	810,949	532	(154 )	811,327
Long-term investments:				
Government and corporate bonds	423,887	335	(207 )	424,015
Total available-for-sale investments	\$1,309,410	\$ 867	\$ (361 )	\$1,309,916

Available-for-sale investments at December 28, 2013 were as follows:

(In thousands)	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash equivalents:				
Money market funds	\$57,254	\$—	\$—	\$57,254
Time deposits	7,771	—	—	7,771
Commercial paper	3,000	—	—	3,000
Government and corporate bonds	410	—	—	410
Total cash equivalents	68,435	—	—	68,435
Short-term investments:				
Time deposits	70,303	12	—	70,315
Commercial paper	33,750	1	(9	