

UNITED STATES
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 28, 1996

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 (I.R.S. Employer
of incorporation or organization) Identification Number)

2800 Rockcreek Parkway, Suite 601
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
(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 1, 1997, there were 32,895,273 shares of Common
Stock outstanding, of which 7,457,741 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 1, 1997,
was \$383,152,826.

Documents incorporated by reference: portions of the
Registrant's Proxy Statement for the 1997 Annual Meeting of
Stockholders are incorporated by reference in Part III hereof.

PART I

Item 1. Business

General
- - - - -

Cerner Corporation was incorporated in Missouri in
1980. Through a merger into a wholly-owned Delaware subsidiary
effected in June 1987, Cerner Corporation ("Cerner" or the
"Company") became a Delaware corporation. The Company's
principal offices are located at 2800 Rockcreek Parkway, Kansas
City, Missouri 64117, and its telephone number is (816) 221-1024.

Cerner designs, develops, markets, installs and
supports member/patient-focused clinical and management

information systems that are capable of being implemented on an individual, combined or enterprise-wide basis. Cerner systems are designed to automate the process of healthcare by accumulating data on care provided to members/patients, maintaining such data in a database repository and providing access to such data for users of clinical information across a healthcare system. Cerner's systems are designed and developed using the Health Network Architecture ('HNA'), a single architecture. HNA is a unified system for combining clinical and management information applications. HNA allows each participating facility within an integrated healthcare enterprise 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 location and the entire enterprise.

Healthcare Industry - -----

The dramatic increase in healthcare costs in the United States, which historically were based on a fee-for-service model, has caused significant changes in the healthcare industry. Managed care organizations and other payers have developed alternative payment models to control costs, including procedure-based cost limits, contractually approved providers and capitation (a fixed monthly fee per member in payment for all required services). The result has been a continuing shift of financial risk from the payer to both the physician provider and the institutional provider (hospitals, clinics, long-term care, subacute providers and rehabilitative care centers). In response, institutional providers are aligning with one another and with physician groups to form Integrated Delivery Systems ('IDSs'), and IDSs are aligning with payer organizations to form Integrated Health Organizations ('IHOs'), in each case to reduce costs in an effort to compete more effectively in the changing healthcare environment.

The changes occurring in the healthcare industry have resulted in changes in the needs for clinical and management information systems by hospitals, physicians, managed care organizations and Integrated Delivery Systems. Hospitals' information requirements have become more complex as cost containment pressures have driven the needs for efficiency and process automation while the increasing number of relationships they have with other providers requires additional sophistication. As physicians combine into a variety of provider configurations, management structures and incentive plans, they are increasingly utilizing member/patient focused information systems to improve quality and efficiency for their growing practices and physician networks, to develop the data necessary to compete for contracts with payers and to be able to share the financial risks of healthcare delivery. Managed care organizations are increasingly recognizing the value of process-oriented and clinically-driven information as it relates to understanding and improving the health of their members. Information system requirements for IDSs and IHOs encompass many of the same needs as hospitals, physicians and managed care organizations. Many IDSs and IHOs are becoming aggressively involved with institutional providers and physicians in various relationships where information sharing and process automation are paramount. Many of these larger, more complex organizations are seeking closer relationships with suppliers that can provide comprehensive information systems solutions. Information system requirements for IDSs and IHOs include integrated process-based systems for clinical domains, data repositories and applications for physicians and management teams.

Healthcare Information Systems Industry - -----

Healthcare information systems are evolving to meet the needs of a changing marketplace. Initially, computer systems developed for use in healthcare were financially oriented, with a focus on the ability to capture charges and generate patient bills. Beginning in the mid-1960s, institutional provider organizations began to use clinical information systems, which automate the activities within clinical departments, such as laboratory, pharmacy, radiology and surgery departments, to improve the productivity of resources and automate the production and use of significant amounts of clinical information. Individual departments selected systems based upon specific features on a 'best of breed' basis resulting in disparate information systems within the institutional provider.

More recently, there has been a shift from the purchase

of disparate clinical systems on a 'best of breed' basis to systems which are able to integrate communication effectively throughout the healthcare enterprise. The two principal approaches to meet this need are a common architecture, in which systems communicate through inherent design, and point-to-point interfaces, in which systems with different architectures communicate through interface linkages. This infrastructure trend also affects the relationship between the health system and the suppliers of information technology. The approach of interfacing disparate systems typically involves multiple system suppliers and the health system must act as the intermediary and integrator. The common architecture approach relies more on a strategic relationship with one or very few suppliers dedicated to implementing a shared vision for the role of information in the operation of the health system.

The same forces that are causing other healthcare providers to join together are causing physicians to combine into larger organizations, including Independent Practice Associations ('IPAs') and Preferred Provider Organizations ('PPOs'), and are increasingly supported administratively through Management Services Organizations ('MSOs') which offer management and administrative services to physicians. In some cases, such organizations align with IDSs and IHOs. Cerner believes that such physician groups require clinical and management information systems that allow them to participate in the community-wide clinical and management information systems employed by the IDSs and IHOs.

The Cerner Vision - -----

As a result of the rapid transformation of the healthcare industry, Cerner believes that a new center of healthcare will emerge-the IHO, which is a combination of payers, physicians and institutional providers, into a single organization to service a community or defined member population. IHOs have the capacity to contract with both the government and employers to provide healthcare services to member/patients. The focus of the IHO is to be accountable for the health status of a defined population, with strong financial incentives to manage health on a preventive or wellness basis and reduce costs.

Cerner believes that many large IHOs will emerge in the United States in the next decade. The creation of IHOs results from the combination of existing payers, physicians and institutional providers. These IHOs will need to implement information systems that manage the delivery of care across an entire community while simultaneously managing the business side of health management. Only through automating the core process of healthcare delivery from member enrollment through the ordering and delivery of care will IHOs be able to actually manage and measure care. Process automation will enable healthcare systems interactively to affect the care that is delivered throughout the entire system at each point of delivery. Cerner believes that managing these integrated healthcare systems will require the accumulation and refining of enormous amounts of process-related data in order to monitor performance against plans and to make informed business decisions. This process-oriented approach will also provide the information basis to measure health system performance, in values known as outcomes, from clinical, functional, process, member satisfaction and economic perspectives.

When all of the complex clinical processes that comprise care delivery in IHOs are automated using fully integrated information systems, it becomes possible to extend automation to the management processes of healthcare.

Cerner's HNA Approach - -----

The cornerstone of Cerner's information systems strategy is HNA, the single architecture around which each of Cerner's products is developed. This highly scaleable architecture allows Cerner to meet the clinical and management information requirements of a healthcare delivery system across the continuum of care from the physician practice to the IHO. The value of HNA is the creation of systems that 'intrarelates' as opposed to being integrated. Most healthcare organizations are using some form of information technology to manage their clinical, financial and administrative operations. Typically, a multitude of systems, operating on differing technology platforms from various suppliers, are used within a single organization. These systems rely on a series of interfaces to transmit information to one another which may inhibit real-time access to comprehensive patient information. In addition, the data

collected by disparate systems is usually maintained in a variety of formats, and is indexed or codified using different approaches, which dilutes the data's usefulness.

Cerner's newest HNA platform, HNA Millennium, utilizes innovative three-tiered client/server technology to optimize distributed computing performance and functionality advantages. Development of HNA Millennium began in the summer of 1993 and at the end of 1996 approximately 400 engineering and engineering support personnel were engaged in the project. Installation of Alpha and Beta versions of certain HNA Millennium applications began during 1996. Installation of Alpha and Beta versions of additional applications will continue through 1997.

Cerner's approach to system design is to first understand the intricate processes of providing care and then to design systems that support and streamline those processes. Cerner's system architecture allows its applications to work together as one system. Cerner's systems are 'intrarelated', which means that they are designed around a single architecture that automatically organizes and presents information in a manner relevant to a clinician's decision process. With 'intrarelated' systems, all caregivers are kept apprised of each patient's condition, allowing the activities of the care team to be more carefully and efficiently orchestrated in an effort to deliver the highest possible quality of care.

Cerner's systems also allow the use of other vendors products in conjunction with Cerner's system through the use of Cerner's Open Engine Gateway System that allows the exchange of data with the foreign system.

Strategy - - - - -

Key elements of the Company's business strategy include:

To penetrate the integrated healthcare market. The

transformation of healthcare delivery must deal with the changing financial model from fee-for-service to fixed or controlled fee payments for services provided. In order to accomplish the transition, integrated healthcare systems must decrease costs generally, utilize fewer resources per patient or member encounter, decrease the amount of care required by focusing on preventative measures and increase member populations by attracting additional members through better quality healthcare and services. Cerner's process-based, repository and clinical systems provide the technology to enable an integrated system to manage healthcare to significantly reduce costs, improve the efficiency of healthcare delivery and maintain and improve the quality of healthcare.

To penetrate the physician market. As physicians

combine to form organizations such as IPAs and PPOs, and then participate in MSOs, they require clinical and process-based systems to manage the member/patient care processes within their own practices. As such groups align with IDSs and IHOs, they

further require clinical and management information systems that allow them to share clinical and management processes with these community-wide systems. Cerner's systems provide the member/patient data repositories and clinical and management tools required by physicians in order for them to participate effectively in the changing healthcare marketplace.

To expand its core business. Cerner expects continued

growth in core business areas, including clinical domain systems such as PathNet, RadNet and PharmNet, as institutional providers look to restructure and reengineer these high cost centers within their IDSs and IHOs. The Company also intends to market aggressively Cerner clinical and management information systems and services to its existing client base.

To remain committed to a unified 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 'intrarelated' health information and management systems. This platform enables Cerner's process-based HNA system to be scaleable on a linear basis, using either Cerner compatible modules for process-oriented applications or competitive systems interfaced using open system protocols. In addition, the HNA system can be

accessed throughout the enterprise at the point of care, which improves data integrity, allows for coordination of procedures at multiple locations and enables reliable communication without delay.

To expand its products and services. Using its HNA

platform, Cerner intends to expand the range of products and services offered to providers, including IDSs and IHOs, either through internal development or by acquisitions or joint ventures. 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 IHOs begin to include service organizations and on-line services to the home, particularly because the member/patient focus of Cerner's architecture provides the basis for individual electronic medical records which can be used throughout a member-focused health system. 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.

Products - -----

The Company's products include: (i) process-based systems, which automate clinical care processes throughout and between entities; (ii) repository systems, which capture, sort, present and analyze clinical and process related data; and (iii) clinical domain systems, which automate complex clinical processes within specific departments or domains. These systems can be acquired individually or as a fully intrarelated health information system. The individual systems perform together even if installed at different times. Cerner also markets over 200 product options that complement Cerner's major information systems.

Process-based Systems

Cerner's CareNet Acute Care Management System is designed to automate the entire care process in acute or institutional settings. It collects, refines, organizes, and evaluates detailed clinical and management data. CareNet enables the data and information to be used as executable knowledge. CareNet also supports point-of-care (POC) automation, which enables real-time documentation, simplifies information management, and drives enhancements to the delivery of care. It enables the entire care team to plan and manage individual activities and plans, as well as measure outcomes and goals. All care team members have immediate access to clinical and management information and can customize plans of care for each patient. CareNet heightens communication, optimizes use of time, and eliminates redundant data entry.

CareNet consists of five major components - Patient Management, Order Management, Scheduling Management, Diagnostic Care, and Therapeutic Care, plus the optional products Care Documentation and Care Coordination.

Patient Management is the hub of patient communications within the acute care organization and the link between a lifetime of care episodes across a spectrum of care providers. It enables care providers to transfer and discharge patients electronically as they are actually moving or leaving. Order Management simplifies and streamlines the process of order entry, whether from ad hoc orders or order sets, by communicating orders electronically. The system warns of contradictions and eliminates duplicate orders - all from a single screen. Charges also can be automatically generated at various stages within the order communication process. Scheduling Management supports referrals and schedules procedures and appointments for all providers within the acute care entity. Diagnostic Care supports patient entry, order entry, scheduling, work management, care documentation, transcription/case sign-out, and result viewing for clinicians in diagnostic departments, such as pulmonary function lab or diagnostic cardiology. Therapeutic Care supports patient entry, order entry, work management, care documentation, and results viewing for clinicians in therapeutic departments, such as respiratory therapy, rehabilitation, or physical therapy. Care Documentation is designed to automate the information gathering, recording, and reporting activities of the care team. It eliminates redundant charting and streamlines documentation by allowing care team members to enter information once and have it automatically updated throughout the system. Care Coordination facilitates the planning and organization of care team

activities for acute inpatient and procedure-based patient care. It provides the tools to define a clinical plan, including associating problems, outcomes, variance thresholds, orders, tasks, and so on with the plan. It accommodates the full spectrum of the plans used in patient care, including pathways used to audit care, nursing care plans, multidisciplinary care plans, single-discipline pathways, and multidisciplinary pathways.

The FirstNet Emergency Department Information System offers patient and provider tracking and an intuitive presentation of patient diagnoses and clinical events for the emergency department. It gives access to information in the form of tracking, assessments, status data, and documents from both interfaced foreign systems and other Cerner systems. 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 ProVide Physician Office Management System supports the broad range of clinical and business activities that occur within a physician office, clinic, or large physician organization (such as a multi-site clinic or management service organization) and ties the office together with others in the community. It automates key activities of the care team in both primary and specialty care settings. ProVide offers clinicians and staff a variety of functional capabilities, including patient/member tracking, clinical records access and navigation, eligibility checking, order and referral processing, and reference library access and navigation. Information is organized and presented with clinicians and clinician practice managers in mind.

The ProCall Home Care Management System automates the clinical and business processes of home health organizations, such as visiting nurse associations and hospices. It is appropriate for Medicare-certified or noncertified agencies providing skilled nursing, specialized care, supervisory activities, assessments, and unskilled attendant or medical delivery services. ProCall facilitates the documentation of care activities in the home and provides access to the electronic medical record. It automates the referral, scheduling, and management reporting processes performed by office personnel in home care agencies, and supports their business and administrative processes. Financial and management reporting capabilities provide needed information to directors and managers in home care agencies to allow them to compete in a prospective-pay environment.

Your Health is Cerner's home software product designed to extend medical care to the consumer's home. It provides a way for the consumer to interact on a regular basis with a healthcare

provider. Your Health can be licensed for use by itself, though connecting it to a community's integrated health organization (IHO) provides enhanced features and functionality. It can store health and medical records for easy access. By providing health appraisals and personalized health plans, Your Health takes the first step toward improving health education for members in a community.

The ProFile Health Information Management System (formerly MRNet) 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 commonly associated with maintaining medical records. ProFile uniquely automates workflow process management, with the ability to anticipate and flex workload based on patient and order parameters, and captures workload performance statistics. It also supports the medical staff statistical reporting for health information management departments.

Discern Expert is an event-driven, rule-based, decision support software application integrated with other Cerner HNA clinical and management information systems. This tool allows users to define clinical and management rules that are applied to events accessing data that is captured or generated by other HNA applications. Discern Expert accomplishes a variety of tasks, including cost reduction, resource utilization, quality-assurance and risk management. The users can define the action to be taken by the system ranging broadly from sending an alert to the appropriate caregiver to creation, cancellation or suspension of an active clinical order.

Discern Explorer is a decision support software application integrated with other Cerner HNA 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 HNA applications.

Discern Dialogue is a real-time decision support software application that incorporates executable knowledge and provides order advice to clinicians. It manages the display of clinical alerts through Discern Insights, which are licensed separately. Discern Dialogue provides specific recommendations to change, cancel, or create orders. The provider can easily select these orders for automatic entry into the Cerner system. Discern Dialogue tracks the response of providers to specific order recommendations.

Repository Systems

Open Clinical Foundation Data Repository (OCF) is a structured repository for the storage of member/patient orders; discrete results; clinical reports and other documents; indexes to document images from foreign document imaging systems; and indexes to third-party dictation systems. OCF is Cerner's structured relational repository of clinical information, and it forms the foundation of Cerner's electronic medical record functionality. This information can originate from numerous sources and is maintained in an easily accessible, standardized format. OCF can be used on a stand-alone basis, but is significantly more effective when used as part of the comprehensive HNA solution. For most enterprises, in which the various laboratories and ancillaries cooperatively share data over the entire health system, OCF provides an invaluable common structure for storing data. The amount of on-line clinical data that must be stored in departmental systems can be significantly reduced. The interface specifications to OCF are available to be used by suppliers that comply with the interface requirements.

PowerChart is a PC-workstation-based product that enables care providers to electronically view, organize, annotate and amend a patient record so that it is presented in a manner that allows them to navigate through the chart using patient-provider and encounter relationships. PowerChart gives healthcare providers structured access to the clinical information contained electronically in OCF. The format of the on-line patient chart consists of pages displayed from a patient's computer-based patient record and information electronically transmitted from connected systems. Clinicians are able to browse through pages much the same as with printed documents. Clinicians can access documents through tables of

contents or search for terms in the document text. The scope of documents available is limited only by the system interfaces to OCF.

Open Management Foundation Data Repository (OMF) is a structured repository for process- and activity-related information useful for management of a healthcare organization. Information can originate from numerous sources and can be maintained in an easily accessible, standardized format. OMF can be integrated into an architecture containing products from different suppliers.

PowerVision is a comprehensive, PC-workstation-based product used to view information in OMF in much the same manner as PowerChart is used with OCF. This management access tool presents summary information through a graphical user interface, making key information available to all levels of management. PowerVision is equipped with features that allow the user to pursue "what if" and other investigatory information paths. This enables an executive to determine the status of the organization in many critical areas, as well as provides managers with a quick, up-to-the-minute view of leading business management indicators regarding the performance of a care area or facility.

The ProLogue Medical Management System includes a variety of software applications that assemble and use the information captured in OMF and other Cerner repositories to help an organization complete its strategic plans. The ProLogue applications provide a variety of reports to give management insight into the effectiveness and efficiency of health management across member encounters within the health system.

The Open Person Foundation (OPF) is a structured repository of demographic information populated from foreign systems. OPF creates a single person record by coordinating and reconciling incoming demographic data created in legacy registration systems. The reconciliation of data from external sources into one person record requires logic to accommodate identifiers that vary based upon the system they originate from. Unique identifiers such as medical record numbers and common

identifiers such as name, social security number, date of birth, or sex aid in assuring the information can safely be assigned to the community member. In addition to reconciling and storing demographic data from multiple registration systems, OPF provides updates to registration systems through an HL7 interface. Remote sites can view stored data, solicit through OPF, or automatically update existing MPI data at the site.

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

Clinical Domain Systems

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 HLA. PathNet automates the ordering and reporting of procedures, the production of accurate and timely reports, and the maintenance of accessible clinical records. PathNet can be interfaced with automated instruments and databases, allowing for efficient and accurate transfer of information. It communicates laboratory information to patient care areas and other information systems. Cerner attributes PathNet's acceptance to its functional capability, ease of use, and event-level cost accounting, which allows healthcare managers to better control costs and assess profitability.

RadNet Radiology Information System addresses the operational and management requirements of diagnostic radiation oncology departments. It allows a department to replace its manual, paper-based system of record-keeping with an efficient computer-based system. RadNet is designed to adapt easily to the department's existing operations. In addition, the system addresses such tasks as scheduling patients, modifying orders,

tracking patients, locating films, transcribing reports, upgrading the quality and content of reports and reporting on productivity.

PharmNet Pharmacy Information System provides intrarelational in an HNA environment for rapid pharmacy order entry and support of the clinical pharmacy in either an inpatient or outpatient setting. PharmNet streamlines medication order entry, enabling the pharmacist or technician to place all types of pharmaceutical orders on one easy-to-use screen. Dispensing functions also are fully automated. Medication, intravenous fill lists and medication administration records are produced automatically or on demand. Charges are automatically captured at the time the fill list is generated. Patient profiles and pharmaceutical inventories are maintained without the intervention of the pharmacist, saving significant time and resources. Features are designed to address the special needs of the clinical pharmacy, including on-line order entry screening for drug-drug interactions, drug-food and drug-lab interferences, drug-disease states, intravenous incompatibilities, doses range and therapeutic treatment duplication. Clinical notes can be recorded on-line and sent to other clinicians for comment of follow-up.

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, and operating room management. SurgiNet offers a variety of reports that track costs, waste management, and utilization. It provides support for the complete surgical cycle, with extensive documentation capture, full inventory control, and case tracking that monitors case progress through all stages of surgery.

Software Development - -----

Cerner commits significant resources to developing new health information system products. As of December 28, 1996, 663 employees were engaged full-time in product development activities. Total expenditures for the development and enhancement of the Company's products were approximately \$26,897,000, \$33,957,000 and \$43,133,000 during the 1994, 1995 and 1996 fiscal years respectively. These figures include the amounts capitalized 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 use in clinical departments and to continue to support simultaneous use of Cerner's products across multiple facilities. All Cerner systems are developed under HNA using a proprietary systems development methodology. This methodology defines and controls each task throughout the product development cycle and ensures that current and future products can be fully intrarelated.

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, OCF and OMF product lines.

Cerner continues development of its new HNA Millennium version of its software (formerly referred to as V500), which incorporates a client-server architecture, a comprehensive graphical user interface and open systems concepts for relational databases, operating systems, networks and hardware platforms. HNA Millennium, utilizes innovative three-tiered client/server technology to optimize distributed computing performance and functionality advantages. HNA Millennium applications run on multiple operating systems, networks, databases and hardware platforms and co-exists with disparate applications developed and supported by other companies. Installation of HNA Millennium applications began during 1996. Development of HNA Millennium began in the summer of 1993 and at the end of 1996 approximately 400 engineering and engineering support personnel were engaged in

the project. Installation of Alpha and Beta versions of certain HNA Millennium applications began during 1996. Installation of Alpha and Beta versions of additional applications will continue through 1997.

Sales and Marketing

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The markets for Cerner's information system products include IHOs, IDSs, physician groups and networks and their MSOs, managed care organizations, hospitals, medical centers, free-standing reference laboratories, blood banks, imaging centers, pharmacies, 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 scalable, 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 Cerner systems are designed to operate on computers manufactured by Digital Equipment Corporation ('Digital'). In addition, many Cerner applications are available on IBM's RISC System/6000 AIX (UNIX) platform. All HNA Millennium applications are designed to operate on either Digital or IBM platforms, 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's executive marketing management is located in its Kansas City, Missouri, headquarters, while its account representatives are deployed through regional offices across the United States. The Company, through subsidiaries, and joint ventures has offices and sales staff in Australia, Singapore and Saudi Arabia. The Company has an exclusive distribution agreement with Siemens Nixdorf by which its products are marketed, implemented and supported in Europe. Cerner's consolidated revenues include foreign sales of \$13,274,000, \$8,823,000 and \$15,874,000 for the 1994, 1995 and 1996 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 has developed a demonstration and presentation facility at its headquarters in Kansas City, Missouri, called the Cerner Vision Center. This facility enables the Company to actually demonstrate the processes automated through HNA and adapt the presentations to the clients' environments. The Company's primary direct marketing strategy is to generate sales contacts from its existing client base and through presentations at industry seminars and tradeshow. Cerner attends a number of major tradeshow 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 - - - - -

Cerner uses a regional strategy to provide the full range of product and service capabilities to its clients from eight locations throughout the United States. Each regional center reflects Cerner's corporate culture and interfaces with the Company's clients on a regular and highly accessible basis. In this way, Cerner can provide on-site personnel for the development and management of systems projects, learn the evolving information needs of clients based on geographical trends in the healthcare industry, work with clients in the development of new products and services and share with clients Cerner's vision of the changing healthcare delivery market and the role of information systems in that transformation. The Company has regional offices in Atlanta, Boston, Dallas, Detroit, Kansas City, Los Angeles, Seattle and Washington, D.C. Each regional office is focused on long-term marketplace development, product marketing, client project management, long-term client service and client satisfaction for a group of clients within a specific geographical region.

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.

Government Regulation. The healthcare industry is subject to extensive federal and state regulation governing, among other things, the addition of new services, certain capital expenditures and reimbursement. The effect of future legislation and regulation upon prospective clients may, in certain circumstances, have an adverse effect upon Cerner's business, financial condition or results of operations. In addition, the United States Food and Drug Administration (the "FDA") has declared that software products that are 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 1976 Medical Device Amendments to the federal Food, Drug and Cosmetic Act and the Safe Medical Devices Act of 1990. As a consequence, Cerner is subject to extensive regulation by the FDA with regard to its blood bank software. To the extent that other Cerner products are deemed by the FDA to be medical devices, Cerner could be subject, depending on the product, to extensive requirements governing pre- and post-marketing conditions, such as device investigation, approval, labeling and manufacturing.

Backlog - - - - -

At December 28, 1996, Cerner had contract backlog of \$110,330,000. Such backlog represents system sales from signed contracts which have 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 28, 1996, the Company had \$48,476,000 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 28, 1996, Cerner had a software support and maintenance backlog of \$107,255,000. Such backlog represents contracted software support and hardware maintenance services for a period of twelve months.

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 28, 1996, the Company was using approximately 355,000 square feet and substantially all of the remainder was leased to tenants. The Company also leases office space for its branch offices in Atlanta, Boston, Dallas, Detroit, Los Angeles, Seattle and Washington D.C.

Item 3. Legal Proceedings

The Company is not involved in any 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 28, 1996.

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 1, 1997. Officers are elected annually and serve at the discretion of the board of directors.

Name - ----	Age ---	Positions -----
Neal L. Patterson	47	Chairman of the Board of Directors and Chief Executive Officer
Clifford W. Illig	46	President and Chief Operating Officer
Jeffrey C. Reese	42	Executive Vice President
Jack A. Newman, Jr.	49	Executive Vice President
Thomas C. Tinstman, M.D.	51	Senior Vice President
Alan D. Dietrich	34	Senior Vice President
Charles O. Whitcraft	48	Senior Vice President
Marc G. Naughton	42	Vice President and Chief Financial Officer

Neal L. Patterson was President, Chairman of the Board of Directors and Chief Executive Officer of the Company from its incorporation to May 1987. Since May 1987 he has been Chairman of the Board of Directors and Chief Executive Officer of the Company. Mr. Patterson has served as a director of Home Office Reference Laboratory since August 1988.

Clifford W. Illig was Executive Vice President, Secretary, Treasurer and Chief Financial Officer and a Director of the Company from its incorporation to May 1987. From May 1987 to May 1993, he was a Director, President, Chief Operating Officer and Chief Financial Officer of the Company. Since May 1993, he has been a Director, President and Chief Operating Officer.

Jeffrey C. Reese joined the Company in September 1991 as Group Vice President of Client Services. He was promoted to Executive Vice President in June of 1994. Prior to joining the Company, he was with Andersen Consulting.

Jack A. Newman, Jr. joined the Company in January 1996 as Executive Vice President. Prior to joining the Company, he was with KPMG Peat Marwick LLP for 22 years. Most recently he was National Partner-in-Charge of KPMG's Health Care Strategy Practice, leading more than 200 professional and administrative staff members who provided strategy consulting services to healthcare clients nationwide, including healthcare systems, physician groups, managed care plans, and other provider and payor organizations.

Thomas C. Tinstman, M.D. joined the Company in November 1995 as Vice President and has been a Director of the Company since May 1989. Prior to joining the Company, Dr. Tinstman was Director of Medical Informatics with University of Texas Medical Branch in Galveston, Texas. Prior to that he was a physician in private practice with Internal Medicine Associates, P.C. in Omaha, Nebraska. From 1977 to January, 1994, Dr. Tinstman served as Associate Medical Director of Pulmonary Medical Services at Bishop Clarkson Memorial Hospital and as Medical Director of the Respiratory Therapy Department of Midland Hospital, both in Omaha, Nebraska. Dr. Tinstman has served as a director of Smith-Haynes Trust, Inc. since 1988.

Alan D. Dietrich joined the Company in 1990 as Director of Business, Planning and Development. In January 1994 he was promoted to Vice President. Prior to joining the Company, he spent seven years with IBM Corporation.

Charles O. Whitcraft joined the Company as Vice President of Technology in January 1984. Since that time he has

served in several executive positions dealing with technology and engineering.

Marc G. Naughton joined the Company in November 1992 as Manager of Taxes. In November 1995 he was elected Chief Financial Officer and in February 1996 he was promoted to Vice President. Prior to joining the Company, he spent nine years with The Marley Company, a multinational manufacturing company, in a variety of financial management positions.

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 National Market tier of the Nasdaq Stock Market under the symbol CERN. The following table sets forth the high, low, and last sales prices for the fiscal quarters of 1996 and 1995 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.

	1996			1995		
	High	Low	Last	High	Low	Last
First quarter	26 1/8	18 1/8	23 1/4	24 5/8	20 7/8	24 1/4
Second quarter	25 1/4	19 3/4	21 3/8	32 7/8	21	30 5/8
Third quarter	21	11 3/4	15 5/8	35 3/4	29 3/4	34 1/4
Fourth quarter	15 1/2	10 3/4	15 31/64	34 1/4	20	20 1/2

At February 7, 1997, there were approximately 1,400 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

	1996	1995	1994	1993	1992

(In thousands, except per share data)					
Statement of earnings data:					
Revenues	\$ 189,107	186,901	155,917	120,572	101,145
Operating earnings	10,601	37,265	33,779	24,330	16,587
Earnings before income taxes	12,902	37,220	32,451	24,120	16,293
Net earnings	8,251	22,521	19,501	14,558	9,932
Primary earnings per share	.25	.72	.66	.50	.35
Primary weighted average shares outstanding	33,620	31,448	29,762	29,158	28,680
Balance sheet data:					
Working capital	\$ 171,204	174,064	52,370	42,603	30,522
Total assets	314,753	303,945	156,410	104,910	66,667
Long-term debt, net	30,000	30,104	30,235	10,354	8,310
Stockholders' equity	230,735	221,374	85,777	64,230	38,643

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

For a more thorough understanding of management's analysis of results of operations and financial conditions, the following discussion should be read in conjunction with the Letter to Shareholders and the discussion of the Company's business operations.

Year Ended December 28, 1996, Compared to Year Ended December 30, 1995.

Results of Operations - The Company's revenues increased 1% to \$189,107,000 in 1996 from \$186,901,000 in 1995. Net earnings decreased 63% to \$8,251,000 in 1996 from \$22,521,000 in 1995. Net earnings from the Company's foreign operations increased to \$2,897,000 in 1996 from a loss of \$1,867,000 in 1995.

Revenues - In 1996, revenues increased due to an increase in

support of installed systems. System sales decreased 5% to \$122,836,000 in 1996 from \$129,917,000 in 1995. This decrease was primarily due to the Company's failure to achieve planned levels of new system bookings. New system bookings were adversely impacted by an overall lengthening of the time required by clients to finalize clinical information system acquisition decisions and increased competition exacerbated by the Company's transition to HNA Millennium (formerly known as HNA 500), its next-generation, three-tiered client-server application architecture. HNA contracts were 43% of total system sales in 1996, compared to 42% in 1995. The sale of additional hardware and software products to the installed client base increased 10% in 1996 as compared to 1995.

Total sales to the installed base in 1996, including new systems, incremental hardware and software, support and maintenance services, and discrete services, were 79% of total revenues in 1996 compared to 71% in 1995. The higher percentage was primarily due to the decrease in system sales.

At December 28, 1996, the Company had \$110,330,000 in contract backlog and \$107,255,000 in support and maintenance backlog, compared to \$77,495,000 in contract backlog and \$94,538,000 in support and maintenance backlog at the end of 1995.

Support and maintenance revenues increased 16% in 1996 compared to 19% in 1995. These revenues represented 30% of 1996 total revenues and 26% of 1995 total revenues. This increase was primarily due to the decrease in system sales.

Other revenues increased 16% to \$8,841,000 in 1996 from \$7,633,000 in 1995. This increase was due primarily to services performed above contracted requirements for existing clients.

Cost of Revenues - The cost of revenues includes the cost of 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 31% of total revenues in 1996 and 28% of total revenues in 1995. Such costs, as a percent of revenues, typically have varied as the mix of revenue (software, hardware, and support) components carrying different margin rates changes from period to period. The increase in the cost of revenue as a percent of total revenues resulted principally from an increase in the percent of revenue from computer hardware and sublicensed software, which carry a higher cost of revenue percentage.

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, trade show costs, and advertising costs. These expenses as a percent of total revenues were 34% in 1996 compared to 27% in 1995. The increase in total sales and client service expenses are attributable to the cost of a larger field sales and services organization and marketing of new products.

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 1996 and 1995 were \$43,133,000 and \$33,957,000, respectively. These amounts exclude amortization. Capitalized software costs were \$13,240,000 and \$9,210,000 for 1996 and 1995, respectively. The increase in aggregate expenditures for software development in 1996 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 10% in 1996 and 9% in 1995.

Interest Income, Net - Net interest income (expense) was \$2,301,000 in 1996 compared to (\$45,000) in 1995. This increase was due primarily to interest income from investment of the proceeds from the sale of 3,716,000 shares of common stock from the August 1995 public offering.

Income Taxes - The Company's effective tax rates were 36.0% and 39.4% for 1996 and 1995, respectively. The decrease in effective tax rates is due to the utilization of foreign net operating losses during 1996.

Year Ended December 30, 1995, Compared to Year Ended December 31, 1994.

Results of Operations - The Company's revenues increased 20% to \$186,901,000 in 1995, from \$155,917,000 in 1994. Net earnings increased 15% to \$22,521,000 in 1995 from \$19,501,000 in 1994. Net earnings from the Company's foreign operations decreased 195% to a loss of \$1,867,000 in 1995 from earnings of \$1,973,000 in 1994.

Revenues - In 1995, revenues increased due to an increase in system sales and support of installed systems. System sales increased 20% to \$129,917,000 in 1995, from \$108,322,000 in 1994. This increase in system sales resulted principally from an increase in installations under HNA contracts and additional hardware and software sales to the Company's existing client base. HNA contracts were 42% of total system sales in 1995, compared to 37% in 1994. The sale of additional hardware and software products to the installed client base increased 36% in 1995 and 40% in 1994.

There was a significant increase in 1995 as compared to 1994 in the number of clients who purchased two or more clinical system units on their initial contract, or clients from the installed base who purchased one or more system units subsequent to their initial contract. Total sales to the installed base in 1995, including new systems, incremental hardware and software, and recurring and discrete services, were 71% of total revenues in 1995 compared to 73% in 1994.

At December 30, 1995, the Company had \$77,495,000 in contract backlog and \$94,538,000 in support and maintenance backlog, compared to \$57,547,000 in contract backlog and \$77,222,000 in support and maintenance backlog at the end of 1994.

Support and maintenance revenues increased 19% in 1995 compared to 24% in 1994. These revenues represented 26% of 1995 total revenues and 27% of 1994 total revenues. This increase was due primarily to the increase in the Company's installed and converted client base.

Other revenues increased 22% to \$7,633,000 in 1995, from \$6,273,000 in 1994. This increase was due primarily to twelve months of real estate lease revenues from the rental to outside tenants as compared to eight months of lease revenues in 1994; space in the Company's headquarters complex not currently being utilized by the Company is leased to outside tenants.

Cost of Revenues - The cost of revenues includes the cost of 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 28% of total revenues in 1995 and 30% of total revenues in 1994. Such costs, as a percent of revenues, typically have varied as the mix of revenue (software, hardware, 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 an increase in multiproduct projects, which carry a lower cost of revenue percentage.

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, trade show costs, and advertising costs. These expenses as a percent of total revenues were 27% in 1995 compared to 26% in 1994. The increase in total sales and client service expenses are attributable to the cost of a larger field sales and services organization and marketing of new products.

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 1995 and 1994 were \$33,957,000 and \$26,897,000, respectively. These amounts exclude amortization. Capitalized software costs were \$9,210,000 and \$8,131,000 for 1995 and 1994, respectively. The increase in aggregate expenditures for software development in 1995 is due to development of more clinical information system products to complement the existing product line. The percentage of costs capitalized is expected to remain fairly constant as the Company continues to develop new 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 9% in 1995 and 8% in 1994.

Interest Income, Net - Net interest expense was considerably lower in 1995 than in 1994. This decrease was due primarily to interest income from investment of the proceeds from the sale of 3,716,000 new shares of common stock from the August 1995 public offering.

Income Taxes - The Company's effective tax rates were 39.4% and 39.9% for 1995 and 1994, respectively, which were not significantly different from the combined federal and state statutory rates.

Quarterly Results

Quarterly Results - The Company's quarterly revenues and net earnings historically have been variable and cyclical. The variability is attributable primarily to the number and size of project milestone events in any fiscal quarter. The Company expects the fluctuation in quarterly financial results to continue.

Liquidity and Capital Resources

Liquidity and Capital Resources - The Company's liquidity position remains strong, with total cash and cash equivalents of \$6,905,000 and short-term investments of \$103,997,000 at the end of 1996 and working capital of \$171,204,000, compared to cash and cash equivalents of \$8,640,000 and short-term investments of \$103,478,000 at the end of 1995, and working capital of \$174,064,000. During August 1995, the Company sold 3,716,000 shares of common stock in a public offering. The proceeds of this sale, net of underwriting discounts and commissions and expenses, were \$108,287,000. Prior to the public offering the Company financed its operations, capital expenditures (other than the purchase of the Kansas City headquarters complex and its related capital improvements), and working capital from internally generated funds and bank borrowings. The Company has \$18,000,000 of long-term, revolving credit from banks, all of which was available as of December 28, 1996.

The Company generated cash of \$26,612,000, \$15,329,000, and \$18,949,000 from operations in 1996, 1995, and 1994, respectively. Cash flow from operations decreased in 1995, due primarily to an increase in receivables, and increased in 1996 due primarily to improved collection of receivables.

Revenues provided under support and maintenance agreements of the Company represent recurring cash flows. Support and maintenance revenues increased 16%, 19%, and 24%, in 1996, 1995, and 1994, respectively, and the Company expects these revenues to continue to grow as the base of installed systems grows.

The Company believes its present cash and short-term investments position, together with cash generated from operations and the current bank borrowing facility, will be sufficient to meet anticipated cash requirements.

Inflation - The effects of inflation were minimal on the Company's business.

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 Stockholders to be held on May 20, 1997, 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 Stockholders to be held on May 20, 1997, 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 Stockholders to be held on May 20, 1997, 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 (except that the information set forth under the following sub captions is expressly excluded from such incorporation: "Executive Compensation and Stock Option Committee Report" and "Company Performance").

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 Stockholders to be held on May 20, 1997, 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 Stockholders to be held on May 20, 1997, 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 28, 1996 and December 30, 1995

Consolidated Statements of Earnings -
Years Ended December 28, 1996, December 30, 1995
and December 31, 1994

Consolidated Statements of Stockholders' Equity -
Years Ended December 28, 1996, December 30, 1995
and December 31, 1994

Consolidated Statements of Cash Flows -
Years Ended December 28, 1996, December 30, 1995
and December 31, 1994

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 28, 1996 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) Bylaws, as amended (filed as Exhibit 3 to the Registrant's Quarterly Report on Form 10-Q for the six months ended June 30, 1995, and hereby incorporated by reference).
- 4(a) Rights Agreement, dated as of November 21, 1996, 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, the Form of Rights Certificate, as Exhibit B, and the Summary of Rights to Purchase Preferred Stock, as Exhibit C (filed as Exhibit 4.1 to Registrant's current report on Form 8-K dated November 21, 1996 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) Note Agreement between Cerner Corporation, Principal Mutual Life Insurance Company, and Principal National Life Insurance Company dated July 1, 1994, (filed as Exhibit 10(a) to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994, and hereby incorporated by reference.)
- 4(d) Credit Agreement between Cerner Corporation, Cerner Properties, Inc. Mark Twain Kansas Bank, and Harris Trust & Savings Bank dated April 18, 1994, (filed as Exhibit 10(b) to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and hereby incorporated by reference).
- 10(a) Standard Volume Agreement, dated July 6, 1989, between Digital Equipment Corporation and Registrant (filed as Exhibit 10(g) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1989, and hereby incorporated herein by reference).
- 10(b) 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(c) Indemnification Agreements between the Registrant and Neal L. Patterson, Clifford W. Illig, Gerald E. Bisbee, Jr. and Thomas C. Tinstman, (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(d) 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(e) 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(f) Indemnification Agreement between Thomas A. McDonnell and Registrant (filed as Exhibit 10(i)(c) to Registrant's Quarterly Report on Form 10-Q for the year ended June 29, 1996 and hereby incorporated by reference).
- 10(g) Amended Non-Qualified Stock Option Plan D of Registrant.*
- 10(h) Cerner Performance Plan for 1996.*
- 11 Computation of Registrant's Earnings Per Share.
- 22 Subsidiaries of Registrant.
- 23 Consent of Independent Auditors.
- 27 Financial Data Schedule.

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

(b) Reports on Form 8-K.

A report on Form 8-K was filed on November 21, 1996, reporting the adoption by the Board of Directors on November 21,

1996 of a Stock Repurchase Plan and the declaration of a dividend distribution of one Right for each outstanding share of Company common stock payable to holders of record as of the close of business on December 2, 1996. The description and terms of the Rights are set forth in the Rights Agreement filed as Exhibit 4(a) to this form 10-K.

(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: _____ 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 27, 1997
/s/Clifford W. Illig _____ Clifford W. Illig, President, Chief Operating Officer and Director	March 27, 1997
/s/Marc G. Naughton _____ Marc G. Naughton, Principal Financial and Accounting Officer	March 27, 1997
/s/Michael E. Herman _____ Michael E. Herman, Director	March 27, 1997
/s/Gerald E. Bisbee _____ Gerald E. Bisbee, Jr., Director	March 27, 1997
/s/Thomas C. Tinstman _____ Thomas C. Tinstman, M.D., Director	March 27, 1997
/s/John C. Danforth _____ John C. Danforth, Director	March 27, 1997

/s/Thomas A. McDonnell

March 27, 1997

Thomas A. McDonnell, Director

Independent Auditors' Report

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The Board of Directors and Stockholders
Cerner Corporation:

We have audited the accompanying consolidated balance sheets of Cerner Corporation and subsidiaries as of December 28, 1996 and December 30, 1995, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the years in the three-year period ended December 28, 1996. 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 generally accepted auditing standards. 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 28, 1996, and December 30, 1995, and the results of their operations and their cash flows for each of the years in the three-year period ended December 28, 1996, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Kansas City, Missouri
February 7, 1997

Management's Report

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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 generally accepted accounting principles 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 SHEET

- -----

DECEMBER 28, 1996 AND DECEMBER 30, 1995

	1996	1995
	-----	-----

(Dollars in thousands)

ASSETS

Current Assets:

Cash and cash equivalents	\$ 6,905	8,640
Short-term investments	103,997	103,478
Receivables	96,238	98,154
Inventory	1,616	2,246
Prepaid expenses and other	3,660	4,393
	-----	-----
Total current assets	212,416	216,911
Property and equipment, net	60,047	53,693
Software development costs, net	30,128	22,885
Intangible assets, net	3,973	4,414
Noncurrent receivables	3,637	4,097
Other assets	4,552	1,945
	-----	-----
	\$ 314,753	303,945
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 9,346	14,932
Current installments of long-term debt	104	130
Advanced billings	7,811	6,162
Deferred income taxes	13,654	13,946
Accrued payroll and tax withholdings	6,755	5,112
Other accrued expenses	3,542	2,565
	-----	-----
Total current liabilities	41,212	42,847
Long-term debt, net	30,000	30,104
Deferred income taxes	12,806	9,620
Stockholders' Equity:		
Common stock, \$.01 par value, 150,000,000		
shares authorized, 33,403,727 shares		
issued in 1996 and 33,001,973 shares		
in 1995		
	334	330
Additional paid-in capital	144,941	143,876
Retained earnings	91,125	82,874
Treasury stock, at cost		
(513,018 shares in 1996 and 1995)	(5,693)	(5,693)
Foreign currency translation adjustment	28	(13)
	-----	-----
Total stockholders' equity	230,735	221,374
	-----	-----
Commitments (Note 10)		
	\$ 314,753	303,945
	=====	=====

<FN>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS

FOR THE YEARS ENDED DECEMBER 28, 1996, DECEMBER 30, 1995 AND DECEMBER 31, 1994

	1996	1995	1994
	-----	-----	-----
(In thousands, except per share data)			
REVENUES			
System sales	\$ 122,836	129,917	108,322
Support and maintenance	57,430	49,351	41,322
Other	8,841	7,633	6,273
	-----	-----	-----
Total revenues	189,107	186,901	155,917
	-----	-----	-----
COSTS AND EXPENSES			
Cost of revenues	58,892	52,270	46,426
Sales and client service	65,005	49,889	39,857
Software development	35,890	30,193	22,688
General and administrative	18,719	17,284	13,167
	-----	-----	-----
Total costs and expenses	178,506	149,636	122,138
	-----	-----	-----
OPERATING EARNINGS	10,601	37,265	33,779
Interest income (expense), net	2,301	(45)	(1,328)

	-----	-----	-----
EARNINGS BEFORE INCOME TAXES	12,902	37,220	32,451
Income taxes	4,651	14,699	12,950
	-----	-----	-----
NET EARNINGS	\$ 8,251	22,521	19,501
	=====	=====	=====
PRIMARY EARNINGS PER SHARE	\$.25	.72	.66
	=====	=====	=====

<FN>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 28, 1996, DECEMBER 30, 1995 AND DECEMBER 31, 1994

	Common Shares	Stock Amount	Additional paid-in capital	Retained earnings	Treasury stock amount	Foreign currency translation adjustment	Total
	-----	-----	-----	-----	-----	-----	-----
(In thousands)							
Balance at December 31, 1996	27,729	\$ 277	28,803	40,852	(5,693)	(9)	64,230
Exercise of options	778	6	981	-	-	-	987
Issuance of stock grants	2	2	23	-	-	-	25
Tax benefit from disqualifying dispositions of stock options	-	-	1,000	-	-	-	1,000
Foreign currency translation adjustment	-	-	-	-	-	34	34
Net earnings	-	-	-	19,501	-	-	19,501
	-----	-----	-----	-----	-----	-----	-----
Balance at December 31, 1994	28,509	285	30,807	60,353	(5,693)	25	85,777
	-----	-----	-----	-----	-----	-----	-----
Exercise of options	777	8	1,484	-	-	-	1,492
Issuance of stock grants	-	-	10	-	-	-	10
Common shares sold in public offering, net issuance costs	3,716	37	108,250	-	-	-	108,287
Tax benefit from disqualifying dispositions of stock options	-	-	3,325	-	-	-	3,325
Foreign currency translation adjustment	-	-	-	-	-	(38)	(38)
Net earnings	-	-	-	22,521	-	-	22,521
	-----	-----	-----	-----	-----	-----	-----
Balance at December 30, 1995	33,002	330	143,876	82,874	(5,693)	(13)	221,374
	-----	-----	-----	-----	-----	-----	-----
Exercise of options	402	4	805	-	-	-	809
Tax benefit from disqualifying dispositions of stock options	-	-	260	-	-	-	260
Foreign currency translation adjustment	-	-	-	-	-	41	41
Net earnings	-	-	-	8,251	-	-	8,251
	-----	-----	-----	-----	-----	-----	-----
Balance at December 28, 1996	33,404	\$ 334	144,941	91,125	(5,693)	28	230,735
	=====	=====	=====	=====	=====	=====	=====

<FN>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 28, 1996, DECEMBER 30, 1995 AND DECEMBER 31, 1994

	1996	1995	1994
	----	----	----
(In thousands)			
Cash flows from operating activities:			
Net earnings	\$ 8,251	22,521	19,501
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	15,498	12,218	10,062
Issuance of stock as compensation	--	10	25
Provision for deferred income taxes	2,894	7,796	8,017
Tax benefit from disqualifying dispositions of stock options	260	3,325	1,000
Loss on disposal of capital equipment	99	42	165

Changes in assets and liabilities:			
Receivables	2,376	(32,595)	(23,221)
Inventory	630	(28)	(1,194)
Prepaid expenses and other	(2,079)	(2,263)	1,213
Accounts payable	(5,586)	1,447	1,969
Other current liabilities	4,269	2,856	1,412

Total adjustments	18,361	(7,192)	(552)

Net cash provided by operating activities	26,612	15,329	18,949

Cash flows from investing activities:			
Purchase of capital equipment	(14,962)	(10,620)	(11,291)
Purchase of land, buildings, and improvements	(379)	(8,266)	(20,939)
Proceeds on disposal of capital equipment	33	-	21
Capitalized software development costs	(13,240)	(9,210)	(8,131)

Net cash used in investing activities	(28,548)	(28,096)	(40,340)

Cash flows from financing activities:			
Net payments under short-term notes payable	-	-	(639)
Proceeds from issuance of long-term debt	-	6,745	50,273
Repayment of long-term debt	(130)	(6,906)	(30,743)
Proceeds from public offering, net of expenses	-	108,287	-
Proceeds from exercise of options	809	1,492	987

Net cash provided by financing activities	679	109,618	19,878

Foreign currency translation adjustment	41	(38)	34

Net increase (decrease) in cash, cash equivalents, and short-term investments	(1,216)	96,813	(1,479)
Cash, cash equivalents, and short-term investments at beginning of year	112,118	15,305	16,784

Cash, cash equivalents, and short-term investments at end of year	\$110,902	112,118	15,305
	=====		
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 2,517	2,607	1,110
Income taxes, net of refund	\$ 685	4,016	3,574
Noncash investing and financing activities:			
Acquisition of equipment through capital leases	-	-	386

<FN>
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) Revenue Recognition - Revenues are derived primarily from the sale of clinical information systems. 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 are negotiated separately and 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 performance criteria set forth in the contracts. 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 91-1, "Software Revenue Recognition".

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.

The Company also provides project implementation and consulting services. Revenue associated with these services is recognized as the services are performed.

(c) Fiscal Year - The Company's fiscal year ends on the Saturday closest to December 31. All references to years in these notes to consolidated financial statements represent fiscal years unless otherwise noted.

(d) 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 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 1996, 1995, and 1994, the Company capitalized \$13,240,000, \$9,210,000, and \$8,131,000, respectively, of total software development costs of \$43,133,000, \$33,957,000, and \$26,897,000, respectively. Amortization expense of capitalized software development costs in 1996, 1995, and 1994 was \$5,997,000, \$5,109,000, and \$3,918,000, respectively, and accumulated amortization was \$24,960,000, \$18,963,000, and \$13,854,000, respectively.

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

(f) 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 five years.

(g) Earnings Per Share - Earnings per share is based on the weighted average number of common shares and common share equivalents outstanding. Common share equivalents consist of shares issuable upon exercise of stock options using the treasury stock method. The computation of fully diluted earnings per

share reflects additional dilution under the treasury stock method when the Company's stock price at the end of a reporting period exceeds the average price. Fully diluted earnings per share is not materially different from primary earnings per share. Weighted average shares outstanding utilized in the computation of primary earnings per share were 33,619,508, 31,448,053, and 29,762,208, and fully diluted earnings per share were 33,619,508, 31,448,053, and 29,807,504, during 1996, 1995, and 1994, respectively.

(h) 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 stockholders' equity. 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 (\$274,000), \$33,000, and \$107,000 in 1996, 1995, and 1994, respectively.

(i) 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.

(j) Goodwill - Excess of cost over net assets acquired (goodwill) is being amortized on a straight-line basis over eight

years. Accumulated amortization was \$1,862,000 and \$1,355,000 at the end of 1996 and 1995, respectively. The Company assesses the recoverability of goodwill based on forecasted undiscounted future operating cash flows.

(k) Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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 Cash and Investments

Cash, cash equivalents, and short-term investments consist of the following:

	1996	1995
	-----	-----
(In thousands)		
Cash and cash equivalents	\$ 6,905	8,640
Repurchase agreements	656	916
Variable rate securities	500	500
Fixed rate securities	101,991	101,212
Certificates of deposit	850	850
	-----	-----
Total cash, cash equivalents, and short-term investments	\$110,902	112,118
	=====	=====

In accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities", debt and marketable equity securities are classified in one of three categories: trading, available-for-sale, or held-to-maturity. The Company classifies all of its debt investment securities as held-to-maturity. Held-to-maturity securities are those securities in which the Company has the positive intent and ability to hold until maturity. Held-to-maturity securities are

recorded at cost, adjusted for the amortization or accretion of premiums or discounts. Included in other assets at December 28, 1996 are equity investments with a cost and fair value of \$500,000, which are categorized as available-for-sale.

All cash equivalents and short-term investments held at December 28, 1996 mature within 90 days. The amortized cost of cash equivalents and short-term investments approximates fair value.

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. Contract receivables that are not expected to be collected within one year are classified as noncurrent. Billings on contracts in excess of related revenues recognized under the percentage-of-completion method are recorded as advanced billings. A summary of current receivables is as follows:

	1996	1995
	-----	-----
(In thousands)		
Current receivables:		
Accounts receivable	\$ 47,762	49,529
Contracts receivable	48,476	48,625
	-----	-----
Total current receivables	\$ 96,238	98,154
	=====	=====

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 1996 and 1995, are amounts due from healthcare providers located in foreign countries of \$9,682,000 and \$3,821,000, respectively. Consolidated revenues include foreign sales of \$15,874,000, \$8,823,000, and \$13,274,000, for the years ended 1996, 1995, and 1994, respectively.

The Company provides an allowance for estimated uncollectible accounts based upon historical experience and management's judgment. At the end of 1996 and 1995 the estimated allowance for uncollectible accounts was \$1,121,000 and \$1,109,000, respectively.

The fair value of the Company's noncurrent receivables is estimated to be \$3,380,000, based on current interest rates offered to the Company for debt of the same maturities.

4 Property and Equipment

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

	1996	1995
	(In thousands)	
	-----	-----
Furniture and fixtures	\$ 16,023	13,661
Computer and communications	33,384	24,232
Marketing equipment	1,222	1,240
Leasehold improvements	8,630	6,105
Capital lease equipment	600	600
Land, buildings, and improvements	29,593	29,213
	-----	-----
	89,452	75,051
Less accumulated depreciation and amortization	29,405	21,358
	-----	-----
Total property and equipment, net	\$ 60,047	53,693
	=====	=====

5 Indebtedness

The Company has a loan agreement with two banks 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 (8.25% at December 28, 1996) or LIBOR plus 1.75% (7.47% at December 28, 1996). The interest rate may be reduced by up to .5% if certain net worth ratios are maintained. At December 28, 1996, 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 3/16% is payable quarterly on the unused portion of the revolving line of credit.

The Company has \$30,000,000 of Senior Notes. The Senior Notes are payable in five equal annual installments beginning in August 2000. Interest is payable on February 1 and August 1 at a rate of 8.3%. 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 also has an obligation under a capital lease agreement, which is secured by the related equipment, for \$104,000 (\$234,000 at December 30, 1995) with interest at 7.75%, payable in monthly installments through August 1997.

The fair value of the Company's Senior Notes is estimated to be \$31,092,000 based on the quoted market prices for similar issues offered to the Company for debt of the same remaining maturities.

6 Interest Income and Expense

A summary of interest income and expense is as follows:

1996	1995	1994
-----	-----	-----

(In thousands)

Interest income	\$ 4,839	2,380	542
Interest expense	(2,538)	(2,425)	(1,870)
	-----	-----	-----
Interest income (expense), net	\$ 2,301	(45)	(1,328)
	=====	=====	=====

7 Stock Options

At December 28, 1996, 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 may grant to associates options to purchase up to 95,000 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.

Under Stock Option Plan D, the Company may grant to associates, consultants, or advisors options to purchase up to 2,600,000 shares of common stock through January 1, 2000. The options are exercisable at a price 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 up to 25 years.

Under Stock Option Plan E, the Company may grant to associates who are not officers subject to the provisions of Section 16(a) of the Securities and Exchange Act of 1934, consultants, or advisors options to purchase up to 2,000,000 shares of common stock through January 1, 2005. The options are exercisable at a price 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 accounts for 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 at the end of 1996, 1995, and 1994, and changes during these years ended is presented below:

	1996		1995		1994	
	Number of shares	Weighted- average exercise price	Number of shares	Weighted average exercise price	Number of shares	Weighted- average exercise price
Fixed options						
Outstanding at beginning of year	2,730,786	\$15.95	2,369,286	\$ 4.26	2,773,414	\$ 1.98
Granted	941,130	15.97	1,198,616	28.00	410,832	14.72
Exercised	(401,754)	2.02	(776,916)	1.98	(777,560)	1.27
Forfeited	(74,090)	12.52	(60,200)	2.70	(37,400)	1.55
Outstanding at end of						

year	3,196,072	\$16.50	2,730,786	\$15.95	2,369,286	\$ 4.26
	=====		=====		=====	

Options exercisable at year-end	838,143	909,178	1,373,454
------------------------------------	---------	---------	-----------

The following table summarizes information about fixed stock options outstanding at December 28, 1996.

Options Outstanding				Options exercisable		
Range of exercise prices	Number outstanding at 12/28/96	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at 12/28/96	Weighted-average exercise price	
\$ 1.13- 8.63	646,034	2.8 years	\$ 1.64	623,634	\$ 1.56	
11.13-19.44	1,353,038	22.4	15.29	122,534	15.08	
20.50-29.63	1,197,000	23.7	25.90	91,975	26.93	
	-----			-----		
\$ 1.13-29.63	3,196,072	18.9	\$ 16.50	838,143	6.32	
	=====			=====		

The per share weighted-average fair value of stock options granted during 1996 and 1995 was \$10.22 and \$16.52, respectively, on the date of grant using the Black Scholes option-pricing model with the following assumptions: expected dividend yield of zero percent, weighted-average risk-free interest rate of 6.3%, expected volatility factor of 49.2%, and a weighted-average expected life of eight years.

Since the Company applies APB Opinion No. 25 in accounting for its plans, no compensation expense has been recognized for its stock options in the financial statements. 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 would have been reduced by approximately \$896,000 or \$.03 per share in 1996 and approximately \$647,000 or \$.02 per share in 1995.

Pro forma net earnings reflects only options granted in 1996 and 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 expense is reflected over the options' vesting period of ten years for the 1996 and 1995 options. Compensation expense for options granted prior to January 1, 1995 is not considered.

8 Income Taxes

Income taxes for the years ended 1996, 1995, and 1994 consist of the following:

	1996	1995	1994
	-----	-----	-----
(In thousands)			
Current:			
Federal	\$ 1,403	6,272	3,740
State	136	798	692
Foreign	218	(167)	501
	-----	-----	-----
Total current	1,757	6,903	4,933
Deferred:			
Federal	2,553	6,850	7,043
State	341	946	919
Foreign	--	--	55
	-----	-----	-----
Total deferred	2,894	7,796	8,017
	-----	-----	-----
Total income tax expense	\$ 4,651	14,699	12,950
	=====	=====	=====

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 1996 and 1995 relate to the following:

	1996	1995
	-----	-----
	(In thousands)	
Deferred tax assets		
Separate return net operating losses	\$1,200	2,389
Other	1,686	1,465
Total deferred tax assets	2,886	3,854
Less valuation allowance	--	(1,189)
	-----	-----
Net deferred tax assets	2,886	2,665
	-----	-----
Deferred tax liabilities		
Software development costs	(11,245)	(8,090)
Contract and service revenues and costs	(16,205)	(16,791)
Depreciation and amortization	(1,208)	(1,187)
Other	(688)	(163)
	-----	-----
Total deferred tax liabilities	(29,346)	(26,231)
	-----	-----
Net deferred tax liability	\$ (26,460)	(23,566)
	=====	=====

The valuation allowance for 1996 and 1995 was \$0 and \$1,189,000, respectively. The valuation allowance in 1995 was attributable to the uncertainty of the future realization of deferred tax assets generated mainly from losses recorded by certain foreign operations.

The effective income tax rates for 1996, 1995, and 1994 were 36.0%, 39.4%, and 39.9%, respectively. These effective rates differ from the federal statutory rate of 35% as follows:

	1996	1995	1994
	-----	-----	-----
	(In thousands)		
Tax expense at statutory rates	\$ 4,516	13,027	11,358
State income tax, net of federal benefit	310	1,352	1,047
Other, net	(175)	320	545
	-----	-----	-----
Total income tax expense	\$ 4,651	14,699	12,950
	=====	=====	=====

Income taxes payable are reduced by the tax benefit resulting from disqualifying dispositions of stock acquired under the Company's stock option plans. The 1996, 1995, and 1994 benefits of \$260,000, \$3,325,000, and \$1,000,000, respectively, are treated as increases to additional paid-in capital. Income taxes payable at December 30, 1995 were reduced by the use of separate return net operating losses. The 1995 tax benefit of \$431,000 was treated as a reduction in goodwill.

9 Associate Stock Purchase Retirement Plan

The Cerner Corporation Associate Stock Purchase 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 pre-tax contributions from 1% to 15% 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 20% of the participant's contribution, limited to a yearly maximum of \$600 per participant. The Company's expense for the plan amounted to \$560,000, \$431,000, and \$316,000 for 1996, 1995, and 1994, respectively.

10 Commitments

The Company is committed under operating leases for office space through December 2000. Rent expense for office and warehouse space for the Company's regional and international offices for 1996, 1995, and 1994 was \$1,580,000, \$1,192,000, and \$1,721,000,

respectively. Lease expense for computer equipment was \$27,000, \$68,000, and \$328,000, in 1996, 1995, and 1994, respectively. Aggregate minimum future payments (in thousands) under these noncancelable leases are as follows:

Years	

1997	\$ 1,697
1998	1,491
1999	786
2000	289

11 Real Estate Lease Revenue

The Company leases space to unrelated parties in its Kansas City headquarters complex under noncancelable operating leases. Included in other revenues is rental income of \$2,383,000 and \$2,577,000 in 1996 and 1995, respectively. Future minimum lease revenues (in thousands) under these noncancelable operating leases expiring through 2000 are as follows:

Years	

1997	\$ 1,754
1998	1,456
1999	1,151
2000	723

12 Stockholders' Equity

At the end of 1996 and 1995, the Company had 1,000,000 shares of authorized but unissued preferred stock, \$.01 par value.

13 Quarterly Results (unaudited)

Selected quarterly financial data for 1996 and 1995 is set forth below:

	Revenues	Earnings before income taxes	Net earnings	Primary earnings per share
	-----	-----	-----	-----
(In thousands, except per share data)				
1996 quarterly results:				
March 30	\$ 52,582	6,956	4,222	.13
June 29	46,709	2,828	1,689	.05
September 28	43,401	914	770	.02
December 28	46,415	2,204	1,570	.05
Total	\$ 189,107	12,902	8,251	.25
	=====	=====	=====	=====
1995 quarterly results:				
April 1	\$ 43,192	7,817	4,541	.15
July 1	48,967	10,271	6,184	.21
September 30	41,724	5,775	3,491	.11
December 30	53,018	13,357	8,305	.25
Total	\$ 186,901	37,220	22,521	.72
	=====	=====	=====	=====

Schedule II

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period

For Year Ended December 30, 1995				
Doubtful Accounts	\$ 434,268	\$ 674,750	\$ 0	\$ 1,109,018
Sales Allowances	\$ 300,000	\$ 0	\$ 300,000	\$ 0

Description	Balance at Beginning of Period	Additions Charged to Costs and Expense	Deductions	Balance End of Period

For Year Ended December 28, 1996				
Doubtful Accounts	\$ 1,109,018	\$ 11,982	\$ 0	\$ 1,121,000
Sales Allowances	\$ 0	\$ 0	\$ 0	\$ 0

INDEPENDENT AUDITORS' REPORT
ON FINANCIAL STATEMENT SCHEDULE

The Board of Directors
Cerner Corporation:

Under date of February 7, 1997, we reported on the consolidated balance sheets of Cerner Corporation and subsidiaries as of December 28, 1996 and December 30, 1995 and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the years in the three-year period ended December 28, 1996. These consolidated financial statements and our report thereon are included in the Company's annual report on Form 10-K for the year 1996. In connection with our audits of the aforementioned consolidated financial statements, we also have audited the related financial statement schedule as listed under Item 14(a)(2). This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, this financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG Peat Marwick LLP

Kansas City, Missouri
February 7, 1997

CERNER CORPORATION
NONQUALIFIED STOCK OPTION PLAN D
AS AMENDED BY THE BOARD OF DIRECTORS
ON MARCH 7, 1997

1. Purpose of Plan. The purpose of the Plan is to encourage the employees and directors of Cerner Corporation (the "Company") and its subsidiaries and consultants and advisors to the Company and its subsidiaries to participate in the ownership of the Company, and to provide additional incentive for such persons to promote the success of its business through sharing in the future growth of such business.

2. Effectiveness of Plan. The provisions of this Plan shall become effective on the date the Plan is adopted by the Board of Directors of the Company (the "Board of Directors"), and shall govern all options granted hereunder. Nothing in this Plan shall be construed as a modification of any provision of the Cerner Corporation Incentive Stock Option Plan A, the Cerner Corporation Incentive Stock Option Plan B or the Cerner Corporation Incentive Stock Option Plan C.

3. Administration. This Plan shall be administered by the Board of Directors of the Company. All references in this Plan to "Committee" shall be references to the Board of Directors as a whole. Subject to the terms, provisions and conditions of the Plan, the Committee shall have exclusive authority (i) to select the persons to whom options shall be granted, (ii) to determine the number of shares subject to each option, (iii) to determine the time or times when options will be granted, (iv) to determine the option price of the shares subject to each option, (v) to determine the time when each option may be exercised, (vi) to fix such other provisions of each option agreement as the Committee may deem necessary or desirable, consistent with the terms of this Plan, and (vii) to determine all other questions relating to the administration of this Plan.

4. Eligibility. Options to purchase shares of common stock of the Company ("Cerner Common Stock") shall be granted under this Plan only to directors and employees of the Company or of any of its subsidiaries and to advisors and consultants to the Company and any of its subsidiaries.

5. Shares Subject to the Plan. Options granted under this Plan shall be granted solely with respect to shares of Cerner Common Stock. Subject to any adjustments made pursuant to the provisions of paragraph 10, the aggregate number of shares of Cerner Common Stock which may be issued upon exercise of all the options which may be granted under this Plan shall not exceed 1,300,000. If any option granted under this Plan shall expire or terminate for any reason without having been exercised in full, the unpurchased shares subject to such option shall be added to the number of shares otherwise available for options which may be granted in accordance with the terms of this Plan. The shares to be delivered upon exercise of the options granted under this Plan shall be made available, at the discretion of the Committee, from either the authorized but unissued shares of Cerner Common Stock or any treasury shares of Cerner Common Stock held by the Company.

6. Option Agreement. Each option granted under this Plan shall be evidenced by a nonqualified stock option agreement, which shall be signed by an officer of the Company and by the employee to whom the option is granted (the "optionee"). The terms of said nonqualified stock option agreement shall be in accordance with the provisions of this Plan, but it may include such other provisions as may be approved by the Committee. The granting of an option under this Plan shall be deemed to occur on the date on which the nonqualified stock option agreement evidencing such option is executed by the Company and the optionee. Each nonqualified stock option agreement shall constitute a binding contract between the Company and the optionee, and every optionee, upon the execution of a nonqualified stock option

agreement, shall be bound by the terms and restrictions of this Plan and such nonqualified stock option agreement.

7. Option Price. The price at which shares of Cerner Common Stock may be purchased under an option granted pursuant to this Plan shall be determined by the Committee.

8. Period and Exercise of Option.

(a) Period--The period during which each option granted under this Plan may be exercised shall be fixed by the Committee at the time such option is granted.

(b) Exercise--Any option granted under this Plan may be exercised by the optionee (or such other person as the Committee may determine) only by (i) delivering to the Company written notice of the number of shares with respect to which he is exercising his option right and (ii) paying in full the option price of the purchased shares. Subject to the limitations of this Plan and the terms and conditions of the respective nonqualified stock option agreement, each option granted under this Plan shall be exercisable in whole or in part at such time or times as the Committee may specify in such nonqualified stock option agreement. All options will terminate concurrently with termination of employment or such other relationship with the Company as qualified such individual for participation in this Plan.

(c) Payment for shares--Payment for shares of Cerner Common Stock purchased pursuant to an option granted under this Plan shall be made in cash.

(d) Delivery of certificates--As soon as practicable after receipt by the Company of the notice described in subsection (b), and of payment in full of the option price for all of the shares being purchased pursuant to an option granted under this Plan, a certificate or certificates representing such shares of stock shall be registered in the name of the optionee and shall be delivered to the optionee. However, no certificate for fractional shares of stock shall be issued by the Company notwithstanding any request therefor. Neither any optionee, nor the legal representative, legatee or distributee of any optionee, shall be deemed to be a holder of any shares of stock subject to an option granted under this Plan unless and until the certificate or certificates for such shares have been issued.

(e) Limitations on exercise--The Committee may impose such limitations on the exercise of any specific nonqualified stock option agreement as it deems appropriate.

9. Nontransferability of Options. No option granted under this Plan shall be transferable or assignable by the optionee, other than by will or by the laws of descent and distribution.

10. Adjustments Upon Changes in Capitalization. In the event of any change in the capital structure of the Company, including but not limited to a change resulting from a stock dividend, stock split, reorganization, merger, consolidation, liquidation or any combination or exchange of shares, the number of shares of Cerner Common Stock subject to this Plan and the number of such shares subject to each option granted hereunder shall be correspondingly adjusted by the Committee. The option price for which shares of Cerner Common Stock may be purchased pursuant to an option granted under this Plan shall also be adjusted so that there will be no change in the aggregate purchase price payable upon the exercise of any option.

11. Amendment and Termination of Plan. No option shall be granted pursuant to this Plan after January 1, 2005, on which date this Plan will expire except as to options then outstanding, which options shall remain in effect until they have been exercised or have expired. The Committee may at any time before such date amend, modify or terminate the Plan; provided, however,

that the Committee may not, without approval of the Shareholders of the Company (i) increase the maximum number of shares of Cerner Common Stock as to which options may be granted pursuant to the Plan, (ii) alter the eligibility requirements for optionees under the Plan or (iii) extend the duration of the Nonqualified Plan. No amendment, modification or termination of this Plan may adversely affect the rights of any optionee under any then outstanding option granted hereunder without the consent of such optionee.

12. Governing Law. This Plan and the rights of all persons claiming hereunder shall be construed and determined in accordance with the laws of the State of Missouri.

Cerner Performance Plan for 1996

CPP Overview - -----

For well over a decade now, Cerner has continued to grow at a phenomenal rate. As measured in terms of the number of associates, our growth is fundamentally the result of three needs. First, due to the success of our products and services in the healthcare marketplace, we need more people to implement and support the increasing number of client relationships we embrace. Secondly, as we continually move the boundaries that define exactly what solutions Cerner brings to healthcare, more architects, engineers and functional analysts are needed to develop these solutions inside the window of opportunity. And, lastly, some of the growth (in the "functional" areas) is needed to purely to support a much larger organization.

By and large, we view this growth rate as success...a positive phenomenon. However, as the organization grows, so increases the challenge of focusing and coordinating the efforts of all of these individuals in a way that allows the organization as a whole to achieve its mission and goals. Cerner Performance Plans (CPP) are one example of the strategic management systems used to provide this linkage of the individual to the team, and ultimately to the company as a whole.

Cerner's overall compensation strategy has up to three major components: base salary, incentive compensation and long-term, equity-based compensation. Cerner Performance Plans (CPP) provide the structure and framework for managing the incentive portion of compensation.

Whether or not an associate participates in CPP depends on the role that they play at Cerner, and not all roles have a variable or incentive portion to their compensation. In general, a role with greater responsibility will have a greater percentage of total compensation "at risk", or tied directly to performance-based or incentive-based compensation in the form of CPP. On average, incentive pay opportunity for team members and team leaders will represent approximately 5-15% of their total compensation; for managers, this percentage averages approximately 25%; and for the executive team, approximately 30-40% of their total compensation package will be at risk and tied to performance.

A key element of the CPP design is that each plan serves two fundamental purposes. First, the plan should clearly communicate the keys to success for an individual in that role. This means there will be incentive objectives in the defined plan that are clearly under the control of the individual associate (or of the small team that the associate is a part of). Secondly, though, the plan also serves as a communication or education or linkage tool, rewarding the achievement of goals that must be attained by a larger group and, while not under direct control of the individual associate, are necessary for the group or company as a whole to be successful. This linkage element of the design not only prepares the associate for direct responsibility that he may have later in his career, but it provides him with a perspective today as to what the leaders within his organization are focused on.

CPP Plans - -----

The first structure in the design of CPP is the plan. Plans are defined for a group of associates, typically defined by role. For example, there is a Branch Executive CPP Plan, an Application Specialist Plan and an Account Executive Plan. In some cases, the

plans will be defined based on a broader function or initiative. For example, in 1996, there is a CPP plan for the development of Millennium, one for the Classic Organization, and one for the Millennium Beta Team.

Even though each Cerner associate "wears multiple hats" or plays multiple roles from time to time, each associate has a primary role with a primary set of objectives. As a result, only one CPP plan can be defined for each associate, and each plan will have the following components:

A Target Bonus Level ("TBL" - the amount of potential incentive pay
- -----
available under the plan)

CPP Objectives (those that must be met to realize the rewards
- -----
available under the plan)

CPP Objectives
- -----

Each CPP plan is comprised of a set of objectives that must be met to realize the potential payout. Each objective will take one of three forms:

Marketing Incentives - Earned based on the achievement of specific
- -----
objectives related to the marketing (or "sales") of Cerner products and services. Typically, marketing incentives are managed around a sales quota for a defined set of products and/or within a defined market or area.

Rewardable Event Incentives - Tied to the attainment of specific, pre-
- -----
defined goals or objectives which are unique to each plan. Rewardable Event Objectives (REOs) may be defined at the individual, team, group or corporate level.

Project Performance Incentives - Earned based on achieving a
- -----
specific, predefined set of project milestones on or before a specified date.

Obviously, not every plan will include all three types of objectives.

Performance Evaluation Factors
- -----

At Cerner, our compensation strategy is based on a pay-for-performance philosophy. As a result, an individual associate's total compensation may be influenced by two different performance evaluations:

Career Performance Evaluation (CPE)

Reflects the overall performance rating of an associate at this point in his or her career. CPEs are set annually at the associate's anniversary date, and drive only base salary compensation.

Project Performance Evaluation (PPE)

Reflects the individual associate's personal contribution to a specific project. PPEs are defined at the conclusion of each project milestone by the executive in charge of the project, and are applied

to the Project Performance Incentive portion of CPP. Although the typical PPE will be defined at 100%, it may be set higher or lower than 100% to reflect either an "above and beyond" or "placed a burden on other team members" contribution by the associate.

Incentive pay for executives is influenced by one additional performance evaluation:

Annual Performance Evaluation (APE)

Reflects the executives's personal contribution to individual, team and corporate objectives in the context of the plan year (not based on an overall Cerner historical evaluation). APEs are applied only to the Rewardable Event Incentive portion of CPP. A pro-forma APE is set for each executive at the beginning of the plan year (so that quarterly payments may be calculated based on the attainment of each Rewardable Event Objective(REO)), then a final, reflective or actual APE is set at the end of the plan year, and if necessary, REO-based payments are recalculated for the year, with any resulting difference made as an adjustment to the fourth quarter payment.

Incentive Payment Computations

- - - - -

Incentive payments are computed differently for each type of incentive or objective.

Marketing Incentives are computed based on the pre-defined objectives

- - - - -

and associated incentives for each, and are not adjusted for any performance factor.

Rewardable Event Incentives are computed based on the attainment of

- - - - -

pre-defined objectives as follows:

$$\text{Quarterly payment} = [\% \text{ of quarterly REOs achieved}] \times [\text{TBL}/4]$$

(Note: the Target Bonus Level (TBL) is divided by 4 to reflect one quarter of potential incentive pay.)

For executives, the TBL payable is also increased or decreased based on the associate's APE. The APE will determine a factor or multiplier which clearly ties the available incentive to individual performance for the plan year. The current APE factors are as follows:

APE	APE Factor - Executive Plans
9	130%
8	120%
7	100%
6	80%
5	50%
4	25%
3	10%
2	0%
1	0%

Project Performance Incentives are computed based on the attainment

- - - - -

of pre-defined project milestones, and are adjusted by two factors: the Project Performance Evaluation (PPE) factor and a milestone timing factor. The formula used for the calculation follows:

$$\text{Project Payment} = ([\text{Amount of on-time project opportunity}] \times [1 \pm \text{Milestone Timing factor}]) \times [\text{PPE factor}]$$

As you can see above, the project payment payable is increased or decreased depending on whether the project milestone was reached on-time, ahead of schedule, or behind schedule. The current Milestone Timing factors are as follows:

Project Milestone Timing	Milestone Timing Factor
3 months early	175%
2 months early	150%
1 month early	125%
on schedule	100%
1 month late	80%
2 months late	60%
3 months late	40%
4 months late	20%
5 or more months late	0%

After the project payment has been adjusted for timing, the final payable amount is increased or decreased based on the individual associate's Project Performance Evaluation of either 130%, 120%, 100%, 85%, 70%, 50%, 40%, 10% or 0%.

Additional Considerations - - - - -

The following points should further clarify the procedures for computing incentive payments.

Rewardable Event - Quarterly Vs. Bi-Annual Metrics

Rewardable event objectives are binary decisions: if the goal is achieved, payout is due; if the goal is not achieved, payment is not due. In most cases, each of the Rewardable Event Objectives is evaluated quarterly (such as Corporate EPS and Operating Ratio). However, some REOs are measured bi-annually, such as Internal Client Satisfaction. For these bi-annual metrics, the amount of incentive associated per the weight assigned is divided between the two quarters in which the REO is measured.

For example, with a Target Bonus Level (TBL) of \$6,000 and an Internal Client Satisfaction REO weighted at 20%, \$300 for the first quarter of the Plan Year will not be available. In the second quarter, assuming the objective for Internal Client Satisfaction is attained, the total available incentive for all first two quarters of \$600 will be paid. The same process will be repeated for the third and fourth quarters.

Rewardable Event - Quarterly Vs. YTD Measures

In some cases, even though the measurement of a particular REO occurs on a quarterly basis, the actual target value of the REO may be based on achievement of a year-to-date goal. Therefore, it is possible to miss a goal, and the associated incentive payment, in one quarter, and achieve the year-to-date goal and incentive in the next. However, incentive payments do not carry forward. If an incentive is not earned in the quarter in which it is available, it will not be available in future quarters, regardless of goal attainment.

Payment Cycles

Marketing Incentives will be calculated and paid quarterly, by the end of the month following quarter end. Payments will be delayed until the contract, initial payment, and Project Implementation Plan (PIP) have been received.

Rewardable Event Incentives will be calculated and paid quarterly. Payments will be made by the 15th of the second month of the succeeding quarter.

Project Performance Incentives will be calculated and paid within 30 days of the completion of the project milestone. Completion will include receipt of the client's acceptance payment and/or a project satisfaction survey.

Plan Eligibility

Eligibility to participate in a CPP plan is determined by the role of the associate. The effective dates of participation for eligible associates are as follows:

Associates new to Cerner in an entry-level role will be eligible for participation in the appropriate CPP plan for the quarter in which their first anniversary falls. (Note: if the associate is in a plan that contains Project Performance Incentives, the associate will be eligible for a pro-rated portion of payment pertaining to any project milestones that are attained after the associate's one-year anniversary.)

All other participants and plans (including transfers into plan roles) will be eligible for participation in the first full plan quarter following employment (or assumption of role). However, if an experienced sales associate starts during the first 15 working days of a quarter, he/she will receive 50% of the payout for the agreement margins attained that quarter and full payout for following quarters.

Plan Participation Termination and Transfers

If an associate's participation in a Cerner Performance Plan is terminated due to termination of employment or transfer to a non-CPP role, the associate will be entitled to payment for any earned but not yet paid amounts. Payments are earned only for completed quarters or projects; i.e., if participation is terminated in the middle of a quarter or a project, no incentive will be paid for that quarter's REOs or for that project.

If an associate transfers from one CPP-based role to another, participation in the previous plan will be "closed out" per normal end-of-plan-year processing under the provisions of the previous plan. Participation in the new plan will be effective as of the beginning of the following quarter. Whenever possible, such transfers should be coordinated to be effective as of the beginning of a quarter to avoid partial quarter issues. If a transfer does occur mid-quarter, any pro-rating of plan payments would be considered an exception and will require pre-approval by the Vice President of Human Resources.

Appendix A

Rewardable Event Objectives

Patterson - \$ 200,000 (TBL)

Illig - \$ 175,000 (TBL)

Rewardable Event	Weighting	Cycle	Q2 96	Q3 96	Q4 96
Associate Satisfaction	20%	A	N/A	N/A	80%
Client Satisfaction	20%	Q	87%	88%	89%
Corporate - EPS	60%	Q	.18	.13	.21

Note: These metrics were effective April 1, 1996

Rewardable Event Objectives

Reene - \$ 150,000 (TBL)

Rewardable Event	Weighting	Cycle	Q2 96	Q3 96	Q4 96
Reduction in A/R over 90 days	20%	Q	Defer	<16,042	<15,787
On time Project Conversion	30%	Q	Defer	<7,141	<7,734
Corporate - EPS	50%	Q	.18	.13	.21

Note: These metrics were effective April 1, 1996

Rewardable Event Objectives

Dietrich - \$ 50,000 (TBL)

Rewardable Events	Weighting	Cycle	Q2 96
Client Satisfaction	10%	Q	87%
Corporate - EPS	30%	Q	.18
EHI	60%	Q	Defer

Note: These metrics were effective April 1, 1996. Mr. Deitrich participated under a new Compensation Plan effective July 1, 1996, per below.

Dietrich - \$ 60,000 (TBL)

Rewardable Event	Weighting	Cycle	Q3 96	Q4 96

Internal Client Satisfaction	25%	A	N/A	Defer
EHI	42%	Q	12.42	5.48
Corporate - EPS	33%	Q	.13	.21

Note: These metrics were effective July 1, 1996.

Rewardable Event Objective

Newman - \$ 50,000 (TBL)

Rewardable Event	Weighting	Cycle	Q2 96	Q3 96	Q4 96

Associate Satisfaction	10%	A	N/A	N/A	80%
EHI	40%	Q	Defer	1.36	1.47
Corporate - EPS	50%	Q	.18	.13	.21

Note: These metrics were effective April 1, 1996. Mr. Newman is guaranteed a minimum incentive of \$31,250 per quarter.

Rewardable Event Objective

Naughton - \$ 60,000 (TBL)

Rewardable Event	Weighting	Cycle	Q2 96	Q3 96	Q4 96

Internal Client Satisfaction	15%	Q	80%	80%	80%
Associate Satisfaction	15%	A	N/A	N/A	80%
EHI	20%	Q	Defer	22.47	19.25

Corporate - EPS	50%	Q	.18	.13	.21
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Note: These metrics were effective April 1, 1996.

Rewardable Event Objective

Whitcraft - \$ 45,000 (TBL)

Rewardable Event	Weighting	Cycle	Q2 96	Q3 96	Q4 96

Corporate - EPS	20%	Q	.18	.13	.21
Associate Satisfaction	20%	A	N/A	N/A	80%
EHI	40%	Q	Defer	2.02	2.16

Note: These metrics were effective April 1, 1996.

Cerner Corporation
Computation of Earnings per Common Share

	Fiscal Years ended		
	1996	1995	1994
Net Earnings:	\$ 8,251,000	\$ 22,520,000	\$ 19,501,000
Weighted average number of common and common stock equivalent shares:			
Weighted average number of outstanding common shares	32,729,344	29,844,760	27,651,104
Dilutive effect (excess of number of shares issuable over number of shares assumed to be repurchased with the proceeds of exercised options and converted warrants based on the average market price during the period)	890,164	1,603,293	2,111,104
	33,619,508	31,448,053	29,762,208
Earnings per common and common stock equivalent shares:	\$ 0.25	\$ 0.72	\$ 0.66
Weighted average number of common and common stock equivalent shares, assuming full dilution:			
Additional dilutive effect (reduction in number of shares assumed to be repurchased with the proceeds of exercised stock options and converted warrants based on the end of the period market price of the stock, if higher than the average price)	0	0	45,296
	33,619,508	31,448,053	29,807,504
Earnings per common and common stock equivalent shares, assuming full dilution:	\$ 0.25	\$ 0.72	\$ 0.66

SUBSIDIARIES OF REGISTRANT

Cerner Corporation PTY Limited

Cerner Deutschland GmbH

Cerner FSC, Inc.

Cerner Health Connections, Inc.

Cerner Health Facts, Inc.

Cerner Health Resources, Inc.

Cerner HealthWise, Inc.

Cerner International, Inc.

Cerner Limited

Cerner Performance Logistics, Inc.

Cerner Properties, Inc.

Cerner Singapore Limited

INPEDENDENT AUDITORS' CONSENT

The Board of Directors
Cerner Corporation:

We consent to incorporation by reference in the Registration Statements (No. 33-56868, No. 33-55082, No. 33-41580, No. 33-39777, No. 33-9776, No. 33-20155 and No. 33-15156) on Form S-8 and Registration Statement No. 33-72756 on Form S-3 of Cerner Corporation of our reports dated February 7, 1997, relating to the consolidated balance sheets of Cerner Corporation as of December 28, 1996 and December 30, 1995, and the related consolidated statements of earnings, stockholders' equity and cash flows and related schedule for each of the years in the three-year period ended December 28, 1996, which reports appear herein in the 1996 annual report on Form 10-K of Cerner Corporation.

KPMG Peat Marwick

LLP

Kansas City, Missouri
March 27, 1997

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