

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 28, 1997

OR

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

For the transition period from _____ to _____

Commission File Number 0-15386

CERNER CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

43-1196944

(State or other jurisdiction
of incorporation or organization)

(I.R.S. Employer
Identification Number)

2800 Rockcreek Parkway
Kansas City, Missouri 64117
(816) 221-1024

(Address of Principal Executive Offices, including zip code;
registrant's telephone number, including area code)

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

Yes X No
----- -----

There were 32,919,182 shares of Common Stock, \$.01 par
value, outstanding at June 28, 1997.

CERNER CORPORATION AND SUBSIDIARIES

I N D E X

Part I. Financial Information:

Item 1. Financial Statements:

Consolidated Balance Sheets as of June 28, 1997
and December 28, 1996 (unaudited)

Consolidated Statements of Earnings for the
three months and six months ended June 28, 1997
and June 29, 1996 (unaudited)

Consolidated Statements of Cash Flows
for the six months ended June 28, 1997
and June 29, 1996 (unaudited)

Notes to Consolidated Financial Statements

Item 2. Management's Discussion and Analysis of
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CERNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 28, 1997	December 28, 1996
	-----	-----
(In thousands)		
Assets		
Current Assets:		
Cash and cash equivalents	\$ 6,045	\$ 6,905
Short-term investments	94,443	103,997
Receivables	105,829	96,238
Inventory	1,795	1,616
Prepaid expenses and other	2,009	3,660
	-----	-----
Total current assets	210,121	212,416
Property and equipment, net	64,866	60,047
Software development costs, net	34,972	30,128
Intangible assets, net	3,708	3,973
Noncurrent receivables	2,796	3,637
Other assets	10,999	4,552
	-----	-----
	\$ 327,462	\$ 314,753
	=====	=====
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 15,575	\$ 9,346
Current installments of long-term debt	36	104
Advanced billings	8,216	7,811
Accrued income taxes	16,998	13,654
Accrued payroll and tax withholdings	8,030	6,755
Other accrued expenses	2,351	3,542
	-----	-----
Total Current Liabilities	51,206	41,212
	-----	-----
Long-term debt, net	30,000	30,000
Deferred income taxes	12,806	12,806
Stockholders' Equity:		
Common stock, \$.01 par value, 150,000,000 shares authorized, 33,622,200 shares issued in 1997 and 33,403,727 issued in 1996	336	334
Additional paid-in capital	145,403	144,941
Retained earnings	96,385	91,125
Treasury stock, at cost (703,018 shares in 1997 and 513,018 in 1996)	(8,593)	(5,693)
Foreign currency translation adjustment	(81)	28
	-----	-----
Total stockholders' equity	233,450	230,735
	-----	-----
	\$ 327,462	\$ 314,753
	=====	=====

See notes to consolidated financial statements.

CERNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 28, 1997	June 29, 1996	June 28, 1997	June 29, 1996
	-----	-----	-----	-----
(In thousands, except per share data)				
Revenues:				
System sales	\$ 44,792	\$ 29,841	\$ 78,867	\$ 67,008
Support and maintenance	16,999	14,142	32,724	27,721
Other	1,529	2,726	2,858	4,562
	-----	-----	-----	-----
Total revenues	63,320	46,709	114,449	99,291
	-----	-----	-----	-----
Costs and expenses:				
Cost of revenues	21,879	13,879	37,026	31,164
Sales and client service	20,435	17,032	39,054	32,654
Software development	10,600	8,703	20,217	17,243
General and administrative	5,502	4,860	10,709	9,710
	-----	-----	-----	-----
Total costs and expenses	58,416	44,474	107,006	90,771
	-----	-----	-----	-----
Operating earnings	4,904	2,235	7,443	8,520
Interest income, net	574	593	1,158	1,263
	-----	-----	-----	-----
Earnings before income taxes	5,478	2,828	8,601	9,783
Income Taxes	2,154	1,139	3,341	3,872
	-----	-----	-----	-----
Net earnings	\$ 3,324	\$ 1,689	\$ 5,260	\$ 5,911
	=====	=====	=====	=====
Earnings per share	\$.10	\$.05	\$.16	\$.18
	=====	=====	=====	=====
Weighted average shares outstanding	33,497	33,684	33,546	33,700
	-----	-----	-----	-----

See notes to consolidated financial statements.

CERNER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

Six Months Ended
June 28, 1997 June 29, 1996

(In thousands)

Cash flows from operating activities:		
Net earnings	\$ 5,260	\$ 5,911
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	8,704	7,267
Issuance of stock as compensation	16	--
Provision for deferred income taxes	--	819
Loss on disposal of capital equipment	--	14
Provision for bad debt	--	20
Changes in assets and liabilities:		
Receivables	(8,750)	(1,357)
Inventory	(179)	(1,471)
Prepaid expenses and other	(4,957)	1,065
Accounts payable	6,229	(678)
Accrued income taxes	3,344	--
Other accrued liabilities	489	2,044
	-----	-----
Total adjustments	4,896	7,723
	-----	-----
Net cash provided by operating activities	10,156	13,634
	-----	-----
Cash flows from investing activities:		
Purchase of capital equipment	(9,121)	(9,452)
Purchase of land, building and improvements	(74)	(280)
Capitalized software development costs	(8,746)	(6,286)
	-----	-----
Net cash used in investing activities	(17,941)	(16,018)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	--	5
Repayment of long-term debt	(68)	(69)
Proceeds from exercise of options	448	401
Purchase of treasury stock	(2,900)	--
	-----	-----
Net cash provided by financing activities	(2,520)	337
	-----	-----
Foreign currency translation adjustment	(109)	147
	-----	-----
Net decrease in cash, cash equivalents, and short-term investments	(10,414)	(1,900)
Cash, cash equivalents, and short-term investments at beginning of period	110,902	112,118
	-----	-----
Cash, cash equivalents, and short-term investments at end of period	\$ 100,488	\$ 110,218
	=====	=====

See notes to consolidated financial statements.

CERNER CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Interim Statement Presentation

The consolidated financial statements included herein have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest annual report on Form 10-K.

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position at June 28, 1997 and December 28, 1996 and the results of operations and cash flows for the periods presented. The results of the three-month and six-month periods are not necessarily indicative of the operating results for the entire year.

(2) Earnings Per Share

Net earnings per share for the three months and six months ended June 28, 1997 and June 29, 1996 is based on the weighted average number of common shares and common share equivalents outstanding during those periods. Common share equivalents consist of shares issuable upon exercise of stock options using the treasury stock method.

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

of Operations

Results of Operations

Three Months Ended June 28, 1997 Compared to Three Months Ended June 29, 1996

The Company's revenues increased 36% from \$46,709,000 for the three-month period ended June 29, 1996 to \$63,320,000 for the three-month period ended June 28, 1997. Net earnings increased 97% from \$1,689,000 in the 1996 period to \$3,324,000 for the 1997 period.

In the 1997 period, revenues increased due to an increase in system sales and an increase in revenue recognized from existing contracts. System sales revenues increased 50% from \$29,841,000 for the three-month period ended June 29, 1996 to \$44,792,000 for the corresponding period in 1997. Total sales to the installed base including new systems, incremental hardware and software, support and maintenance services, and discrete services, were 73% of total revenues for the 1997 period compared to 80% in 1996. This lower percentage was primarily due to the increase in system sales.

At June 28, 1997, the Company had \$153,532,000 in contract backlog and \$122,353,000 in support and maintenance backlog, compared to \$96,702,000 in contract backlog and \$101,379,000 in support backlog at June 29, 1996.

Support and maintenance revenues increased 20% from \$14,142,000 during the second quarter of 1996 to \$16,999,000 during the same period in 1997. This increase was due primarily to the increase in the Company's installed and converted client base.

Other revenues decreased 44% from \$2,726,000 in the second quarter of 1996 to \$1,529,000 in the same period of 1997. This decrease is due primarily to a decrease in real estate lease revenues from the rental to outside tenants, as the Company utilizes more office space.

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 manufacturers. The cost of revenue was 35% of total revenues in the second quarter of 1997 and 30% of total revenues in the comparable period in 1996. Such costs, as a percent of revenues, typically have varied as the mix of revenue (software, hardware, maintenance, and support) components carrying different margin rates changes from period to period.

Sales and client service expenses include salaries of client service personnel, communications expenses and travel expenses. Also included are sales and marketing salaries, trade show costs and advertising costs. These expenses as a percent of total revenues were 32% and 36% in the second quarter of 1997 and 1996, respectively. The increase in total sales and client service expenses from \$17,032,000 in 1996 to \$20,435,000 in 1997 was attributable to the cost of a larger regional sales and service organization and marketing of new products.

Software development expenses include salaries, documentation and other direct expenses incurred in product development, as well as amortization of software development costs previously capitalized. Total expenditures for software development, including both capitalized and noncapitalized portions, for the second quarter of 1997 and 1996 were \$13,326,000 and \$10,540,000, respectively. These amounts exclude amortization of previously capitalized expenditures. Capitalized software costs were \$4,712,000 and \$3,320,000 for the second quarter of 1997 and 1996, respectively. The increase in aggregate expenditures for

software development in 1997 was due to HNA Millennium products and development of community care products.

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% and 10% in the second quarter of 1997 and 1996, respectively. Total general and administrative expenses for the second quarter of 1997 and 1996 were \$5,502,000 and \$4,860,000, respectively.

Net interest income decreased 3% in the second quarter of 1997 than in the same period in 1996.

The Company's effective tax rates were 39% and 40% for the second quarter of 1997 and 1996, respectively.

The Company's quarterly revenues and net earnings have historically 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 fluctuations in quarterly results to continue.

Six Months Ended June 28, 1997 Compared to Six Months Ended June 29, 1996

The Company's revenues increased 15% from \$99,291,000 for the six-month period ended June 29, 1996 to \$114,449,000 for the six-month period ended June 28, 1997. Net earnings decreased 11% from \$5,911,000 in the 1996 period to \$5,260,000 for the 1997 period.

In the 1997 period, revenues increased due to an increase in system sales and support of installed systems and an increase in revenue recognized for existing contracts. System revenues increased 18% from \$67,008,000 for the six-month period ended June 29, 1996 to \$78,867,000 for the corresponding period in 1997. Total sales to the installed base including new systems, incremental hardware and software, support and maintenance services, and discrete services, were 76% of total revenues for the first six months of 1997 compared to 79% in 1996. This lower percentage was primarily due to the increase in system sales.

At June 28, 1997, the Company had \$153,532,000 in contract backlog and \$122,353,000 in support and maintenance backlog, compared to \$96,702,000 in contract backlog and \$101,379,000 in support backlog at June 29, 1996.

Support and maintenance revenues increased 18% from \$27,721,000 during the first six months of 1996 to \$32,724,000 during the same period in 1997. This increase was due primarily to the increase in the Company's installed and converted client base.

Other revenues decreased 37% from \$4,562,000 in the first half of 1996 to \$2,858,000 in the same period of 1997. This decrease is due primarily to a decrease in real estate lease revenues from the rental to outside tenants, as the Company utilizes more office space.

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 manufacturers. The cost of revenue was 32% of total revenues in the first six months of 1997 and 31% of total revenues in the comparable period in 1996. Such costs, as a percent of revenues, typically have varied as the mix of revenue (software, hardware, maintenance, and support) components carrying different margin rates changes from period to period.

Sales and client service expenses include salaries of client service personnel, communications expenses and travel expenses. Also included are sales and marketing salaries, trade show costs

and advertising costs. These expenses as a percent of total revenues were 34% and 33% in the first half of 1997 and 1996, respectively. The increase in total sales and client service expenses from \$32,654,000 in 1996 to \$39,054,000 in 1997 was attributable to the cost of a larger field sales and service organization and certain marketing of new products.

Software development expenses include salaries, documentation and other direct expenses incurred in product development, as well as amortization of software development costs previously capitalized. Total expenditures for software development, including both capitalized and noncapitalized portions, for the first half of 1997 and 1996 were \$25,035,000 and \$20,590,000, respectively. These amounts exclude amortization of previously capitalized expenditures. Capitalized software costs were \$8,746,000 and \$6,286,000 for the first six months of 1997 and 1996, respectively. The increase in aggregate expenditures for software development in 1997 was due to HNA Millennium products and development of community care products.

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% and 10% in the first six months of 1997 and 1996, respectively. Total general and administrative expenses for the first six months of 1997 and 1996 were \$10,709,000 and \$9,710,000, respectively.

Net interest income decreased 8% in the first half of 1997 than in the same period in 1996. This decrease is primarily due to a decrease in cash and cash equivalents and a decrease in interest rates.

The Company's effective tax rates were 39% and 40% for the first six months of 1997 and 1996, respectively.

Capital Resources and Liquidity

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The Company's liquidity position remains strong with total cash and cash equivalents of \$6,045,000 and short term investments of \$94,443,000 at June 28, 1997 and working capital of \$158,915,000. The Company generated net cash from operations of \$10,156,000 and \$13,634,000 during the six month periods ended June 28, 1997 and June 29, 1996, respectively. During the first six months of 1997, the Company purchased 190,000 shares of the Company's common stock with a total cost of \$2,900,000. The Company has \$18,000,000 of long-term, revolving credit from banks, all of which was available as of June 28, 1997.

Revenues provided under the Company's support and maintenance agreements represent recurring cash flows. The Company's revenue backlog at June 28, 1997 included \$122,353,000 representing twelve months of equipment maintenance and software support associated with signed contracts.

The Company believes its present cash, cash equivalents and short-term investment position, together with cash generated from operations and available under its current bank borrowing facility, will be sufficient to meet anticipated cash requirements during the next twelve months.

Recent Accounting Pronouncement

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In February 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings Per Share" (Statement 128) which revises the calculation and presentation provisions of Accounting Principles Board Opinion 15 and related interpretations. Statement No. 128 is effective for the Company's fiscal year ending January 3, 1998 and retroactive

application will be required. The Company believes the adoption of Statement 128 will not have a significant effect on its reported earnings per share.

Part II. Other Information

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

At the Company's annual shareholders meeting held on May 20, 1997, Thomas C. Tinstman, M.D. and Clifford W. Illig were reelected as Class II Directors, for a three year term expiring at the 2000 annual meeting of shareholders. Neal L. Patterson, Gerald E. Bisbee, Jr., John C. Danforth, Micheal E. Herman, and Thomas A. McDonnell continued as directors after the meeting.

	For -----	Withheld -----	Abstention and Broker Non-Votes -----
Thomas C. Tinstman, M.D.	28,694,811	0	1,667,309
Clifford W. Illig	28,687,709	0	1,674,411

The shareholders also ratified the selection by the Board of Directors of KPMG Peat Marwick LLP as the Company's independent certified public accountants for the fiscal year ending January 3, 1998. Shares voted in favor were 28,688,746 shares against 181,235 and shares abstained or were broker non-votes 1,492,139.

Item 5. Other Information.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

Exhibit 11 Computation of Earnings Per Share

Exhibit 27 Financial Data Schedule

(b) Reports on Form 8-K

No reports on Form 8-K were filed by the Company during the quarter ended June 28, 1997.

SIGNATURES

Pursuant to the requirements 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

Registrant

August 11, 1997

Date

By: /s/ Marc G. Naughton

Marc G. Naughton
Chief Financial Officer

CERNER CORPORATION AND SUBSIDIARIES
COMPUTATION OF EARNINGS PER COMMON SHARE

	Three Months Ended		Six Months Ended	
	June 28, 1997	June 29, 1996	June 28, 1997	June 29, 1996
	-----	-----	-----	-----
Net earnings:	\$ 3,324,000	\$ 1,689,000	\$ 5,260,000	\$ 5,911,000
Weighted average number of common and common stock equivalent shares:				
Weighted average number of outstanding common shares	32,907,692	32,644,112	32,911,709	32,596,248
Dilutive effect (excess of number of shares issuable over number of shares assumed to be repurchased with the proceeds of exercised options based on the average market price during the period)	589,231	1,040,074	629,977	1,103,911
	-----	-----	-----	-----
	33,496,923	33,684,186	33,546,045	33,700,159
Earnings pers common and common stock equivalent shares:	\$.10	\$.05	\$.16	\$.18
	-----	-----	-----	-----
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)	963,707	--	980,017	--
	-----	-----	-----	-----
	33,871,399	33,684,186	33,891,726	33,700,159
	-----	-----	-----	-----
Earnings per common and common stock equivalent shares assuming full dilution:	\$.10	\$.05	\$.16	.18
	-----	-----	-----	-----

6-MOS

JAN-03-1998

JUN-28-1997

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94,443,000

106,949,000

1,121,000

1,795,000

210,121,000

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336,000

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114,449,000

114,449,000

37,026,000

69,980,000

0

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(1,158,000)

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3,341,000

5,260,000

0

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0

5,260,000

.16

.16