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

FORM 10-Q

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

For the quarterly period ended: September 30, 2020

or

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

For the transition period from ___________ to ___________

Commission File Number: 0-15386

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

Delaware
(State or other jurisdiction of incorporation or organization)

43-1196944
(I.R.S. Employer Identification No.)

2800 Rockcreek Parkway
North Kansas City, MO
(Address of principal executive offices)

64117
(Zip Code)

(816) 221-1024
(Registrant's telephone number, including area code)

____
(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value per share	CERN	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-accelerated Filer ☐ Smaller Reporting Company ☐ Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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

Class	Outstanding at October 21, 2020
Common Stock, $0.01 par value per share	306,589,898 shares

CERNER CORPORATION

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Part I. Financial Information

Item 1. Financial Statements

CERNER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
As of September 30, 2020 (unaudited) and December 28, 2019

(In thousands, except share data)	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	$ 419,154	$ 441,843
Short-term investments	473,323	99,931
Receivables, net	1,219,227	1,139,595
Inventory	15,768	23,182
Prepaid expenses and other	397,487	392,073
Total current assets	2,524,959	2,096,624
Property and equipment, net	1,867,600	1,858,772
Right-of-use assets	109,659	123,155
Software development costs, net	991,649	939,859
Goodwill	907,105	883,158
Intangible assets, net	330,837	364,439
Long-term investments	423,315	419,419
Other assets	205,688	209,196
Total assets	$ 7,360,812	$ 6,894,622
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 256,449	$ 273,440
Deferred revenue	320,294	360,025
Accrued payroll and tax withholdings	328,663	245,843
Other current liabilities	196,170	148,140
Total current liabilities	1,101,576	1,027,448
Long-term debt	1,336,018	1,038,382
Deferred income taxes	391,790	377,657
Other liabilities	125,141	133,807
Total liabilities	2,954,525	2,577,294
Shareholders' Equity:		
Common stock, $0.01 par value, 500,000,000 shares authorized, 372,272,953 shares issued at September 30, 2020 and 367,634,796 shares issued at December 28, 2019	3,723	3,676
Additional paid-in capital	2,196,127	1,905,171
Retained earnings	6,402,220	5,934,909
Treasury stock, 65,919,144 shares at September 30, 2020 and 56,723,546 shares at December 28, 2019	(4,057,768)	(3,407,768)
Accumulated other comprehensive loss, net	(138,015)	(118,660)
Total shareholders' equity	4,406,287	4,317,328
Total liabilities and shareholders' equity	$ 7,360,812	$ 6,894,622

See notes to condensed consolidated financial statements (unaudited).

CERNER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the three and nine months ended September 30, 2020 and September 28, 2019
(unaudited)

	Three Months Ended		Nine Months Ended	
(In thousands, except per share data)	**2020**	**2019**	**2020**	**2019**
Revenues	$ 1,368,673	$ 1,429,428	$ 4,110,763	$ 4,250,366
Costs and expenses:				
Costs of revenue	231,889	271,778	698,268	793,655
Sales and client service	625,402	707,743	1,907,138	2,026,825
Software development (Includes amortization of $61,578 and $183,786 for the three and nine months ended September 30, 2020, respectively; and $56,786 and $169,036 for the three and nine months ended September 28, 2019, respectively)	186,826	187,526	551,101	548,934
General and administrative	116,816	152,321	391,000	398,305
Amortization of acquisition-related intangibles	12,789	21,283	43,031	64,809
Total costs and expenses	1,173,722	1,340,651	3,590,538	3,832,528
Gain on sale of businesses	216,869	—	216,869	—
Operating earnings	411,820	88,777	737,094	417,838
Other income, net	48,020	13,535	78,247	44,973
Earnings before income taxes	459,840	102,312	815,341	462,811
Income taxes	(103,164)	(20,377)	(176,758)	(87,688)
Net earnings	$ 356,676	$ 81,935	$ 638,583	$ 375,123
Basic earnings per share	$ 1.17	$ 0.26	$ 2.08	$ 1.17
Diluted earnings per share	$ 1.16	$ 0.26	$ 2.07	$ 1.16
Basic weighted average shares outstanding	305,759	315,876	306,759	320,282
Diluted weighted average shares outstanding	308,366	319,113	309,124	323,361

See notes to condensed consolidated financial statements (unaudited).

CERNER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three and nine months ended September 30, 2020 and September 28, 2019
(unaudited)

	Three Months Ended		Nine Months Ended	
(In thousands)	**2020**	**2019**	**2020**	**2019**
Net earnings	$ 356,676	$ 81,935	$ 638,583	$ 375,123
Foreign currency translation adjustment and other (net of taxes (benefit) of $351 and $688 for the three and nine months ended September 30, 2020; and $(409) and $(413) for the three and nine months ended September 28, 2019, respectively)	9,611	(11,679)	(1,738)	(9,458)
Unrealized gain (loss) on cash flow hedge (net of taxes (benefit) of $745 and $(5,937) for the three and nine months ended September 30, 2020; and $(1,327) and $(5,396) for the three and nine months ended September 28, 2019, respectively)	2,265	(4,037)	(18,050)	(16,407)
Unrealized holding gain (loss) on available-for-sale investments (net of taxes (benefit) of $(73) and $142 for the three and nine months ended September 30, 2020; and $5 and $286 for the three and nine months ended September 28, 2019, respectively)	(220)	14	433	867
Comprehensive income	$ 368,332	$ 66,233	$ 619,228	$ 350,125

See notes to condensed consolidated financial statements (unaudited).

CERNER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the nine months ended September 30, 2020 and September 28, 2019
(unaudited)

(In thousands)	Nine Months Ended 2020	Nine Months Ended 2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 638,583	$ 375,123
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	518,987	509,559
Share-based compensation expense	110,500	73,421
Provision for deferred income taxes	21,554	22,793
Gain on sale of businesses	(216,869)	—
Investment gains	(75,834)	(24,231)
Changes in assets and liabilities (net of businesses acquired):		
Receivables, net	(78,695)	24,558
Inventory	8,206	1,877
Prepaid expenses and other	(36,664)	(75,191)
Accounts payable	(60,808)	(3,346)
Accrued income taxes	33,005	(795)
Deferred revenue	(32,071)	(89,400)
Other accrued liabilities	94,151	61,156
Net cash provided by operating activities	924,045	875,524
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital purchases	(238,053)	(388,588)
Capitalized software development costs	(224,710)	(211,284)
Purchases of investments	(511,378)	(317,979)
Sales and maturities of investments	213,309	507,258
Purchase of other intangibles	(29,698)	(25,794)
Sale of businesses	229,471	—
Acquisition of businesses, net of cash acquired	(35,766)	—
Net cash used in investing activities	(596,825)	(436,387)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Long-term debt issuance	300,000	600,000
Repayment of long-term debt	(2,500)	—
Proceeds from exercise of stock options	202,680	188,474
Payments to taxing authorities in connection with shares directly withheld from associates	(22,623)	(14,994)
Treasury stock purchases	(650,000)	(1,020,542)
Dividends paid	(166,277)	(57,293)
Other	(6,807)	(8,450)
Net cash used in financing activities	(345,527)	(312,805)
Effect of exchange rate changes on cash and cash equivalents	(4,382)	(4,028)
Net increase (decrease) in cash and cash equivalents	(22,689)	122,304
Cash and cash equivalents at beginning of period	441,843	374,126
Cash and cash equivalents at end of period	$ 419,154	$ 496,430

See notes to condensed consolidated financial statements (unaudited).

CERNER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the three and nine months ended September 30, 2020 and September 28, 2019
(unaudited)

	Common Stock										
(In thousands)	Shares		Amount		Additional Paid-in Capital		Retained Earnings		Treasury Stock		Accumulated Other Comprehensive Loss, Net
Balance at December 28, 2019	**367,635**	**$**	**3,676**	**$**	**1,905,171**	**$**	**5,934,909**	**$**	**(3,407,768)**	**$**	**(118,660)**
Exercise of stock options and vests of restricted shares and share units	2,543		26		114,050		—		—		—
Employee share-based compensation expense	—		—		35,031		—		—		—
Cumulative effect of accounting change (ASU 2016-13)	—		—		—		(4,606)		—		—
Other comprehensive income (loss)	—		—		—		—		—		(40,703)
Treasury stock purchases	—		—		—		—		(650,000)		—
Cash dividends declared ($0.18 per share)	—		—		—		(55,206)		—		—
Net earnings	—		—		—		147,159		—		—
Balance at March 31, 2020	**370,178**		**3,702**		**2,054,252**		**6,022,256**		**(4,057,768)**		**(159,363)**
Exercise of stock options and vests of restricted shares and share units	1,009		10		28,540		—		—		—
Employee share-based compensation expense	—		—		37,549		—		—		—
Other comprehensive income (loss)	—		—		—		—		—		9,692
Cash dividends declared ($0.18 per share)	—		—		—		(55,602)		—		—
Net earnings	—		—		—		134,748		—		—
Balance at June 30, 2020	**371,187**		**3,712**		**2,120,341**		**6,101,402**		**(4,057,768)**	**$**	**(149,671)**
Exercise of stock options and vests of restricted shares and share units	1,086		11		37,866		—		—		—
Employee share-based compensation expense	—		—		37,920		—		—		—
Other comprehensive income (loss)	—		—		—		—		—		11,656
Cash dividends declared ($0.18 per share)	—		—		—		(55,858)		—		—
Net earnings	—		—		—		356,676		—		—
Balance at September 30, 2020	**372,273**	**$**	**3,723**	**$**	**2,196,127**	**$**	**6,402,220**	**$**	**(4,057,768)**	**$**	**(138,015)**

See notes to condensed consolidated financial statements (unaudited).

CERNER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (continued)
For the three and nine months ended September 30, 2020 and September 28, 2019
(unaudited)

(In thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss, Net
Balance at December 29, 2018	**362,213**	**$ 3,622**	**$ 1,559,562**	**$ 5,576,525**	**$ (2,107,768)**	**$ (103,552)**
Exercise of stock options and vests of restricted shares and share units	706	7	11,716	—	—	—
Employee share-based compensation expense	—	—	19,860	—	—	—
Other comprehensive income (loss)	—	—	—	—	—	2,958
Net earnings	—	—	—	166,219	—	—
Balance at March 30, 2019	**362,919**	**3,629**	**1,591,138**	**5,742,744**	**(2,107,768)**	**(100,594)**
Exercise of stock options and vests of restricted shares and share units	1,777	18	108,045	—	—	—
Employee share-based compensation expense	—	—	23,024	—	—	—
Other comprehensive income (loss)	—	—	—	—	—	(12,254)
Treasury stock purchases	—	—	—	—	(600,000)	—
Cash dividends declared ($0.18 per share)	—	—	—	(57,682)	—	—
Net earnings	—	—	—	126,969	—	—
Balance at June 29, 2019	**364,696**	**3,647**	**1,722,207**	**5,812,031**	**(2,707,768)**	**(112,848)**
Exercise of stock options and vests of restricted shares and share units	1,505	15	54,195	—	—	—
Employee share-based compensation expense	—	—	30,537	—	—	—
Other comprehensive income (loss)	—	—	—	—	—	(15,702)
Treasury stock purchases	—	—	—	—	(400,000)	—
Cash dividends declared ($0.18 per share)	—	—	—	(56,982)	—	—
Net earnings	—	—	—	81,935	—	—
Balance at September 28, 2019	**366,201**	**$ 3,662**	**$ 1,806,939**	**$ 5,836,984**	**$ (3,107,768)**	**$ (128,550)**

See notes to condensed consolidated financial statements (unaudited).

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

(1) Interim Statement Presentation

Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by Cerner Corporation ("Cerner," the "Company," "we," "us" or "our") without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in our latest annual report on Form 10-K.
In management's opinion, the accompanying unaudited condensed consolidated financial statements include all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position and the results of operations and cash flows for the periods presented. Our interim results as presented in this Form 10-Q are not necessarily indicative of the operating results for the entire year.

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

Fiscal Period End

Prior to fiscal year 2020, our third fiscal quarter ended on the Saturday closest to September 30. The third quarter and year-to-date periods for 2019 presented herein consisted of 91 days and 273 days, respectively, and ended on September 28, 2019.

In December 2019, our Board of Directors approved the change of our fiscal year to a calendar year, commencing with fiscal year 2020. Accordingly, the third quarter and year-to-date periods for 2020 presented herein consisted of 92 days and 277 days, respectively, and ended on September 30, 2020.

All references to periods in these notes to condensed consolidated financial statements represent the respective periods described above ending on September 30, 2020 and September 28, 2019, unless otherwise noted.

Supplemental Disclosures of Cash Flow Information

	Nine Months Ended	
(In thousands)	**2020**	**2019**
Cash paid during the period for:		
Interest (including amounts capitalized of $12,040 and $12,575, respectively)	$ 31,661	$ 20,756
Income taxes, net of refunds	78,519	65,171
Non-cash items:		
Lease liabilities recorded upon the commencement of operating leases	24,499	23,129
Capital purchases	17,395	7,600

CARES Act

Cash flows from operating activities for the first nine months of 2020 include the impact of $56 million of certain federal payroll taxes related to pay cycles in the second and third quarters of 2020, for which we have deferred remittance to the taxing authority as permitted under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). We expect to continue to defer the remittance of such payroll taxes for the remainder of 2020, as permitted by the CARES Act, for which the remittances to the taxing authority are to be paid in equal amounts at the end of 2021 and 2022, respectively. At September 30, 2020, these deferred remittances are included in "Accrued payroll and tax withholdings" in our condensed consolidated balance sheets.

Accounting Pronouncements Adopted in 2020

Credit Losses on Financial Instruments. In the first quarter of 2020, we adopted new guidance regarding impairment assessment for certain financial assets. Refer to Notes (3) and (4) for further details.

Collaborative Arrangements. In November 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-18, *Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606*, which clarifies when transactions between participants in a collaborative arrangement are within the scope of the FASB's recent revenue standard (Topic 606). Such guidance clarifies revenue recognition and financial statement presentation for transactions between collaboration participants. We adopted ASU 2018-18 in the first quarter of 2020. Such guidance did not have an impact on our consolidated financial statements and related disclosures.

Recently Issued Accounting Pronouncements

Reference Rate Reform. In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional financial reporting alternatives to reduce the cost and complexity associated with the accounting for contracts and hedging relationships affected by reference rate reform, such as the upcoming discontinuance of the London Interbank Offered Rate ("LIBOR"). The accommodations within ASU 2020-04 may be applied prospectively from the beginning of our 2020 first quarter through December 31, 2022. We are currently evaluating the effect that ASU 2020-04 may have on our contracts that reference LIBOR, specifically, our Third Amended and Restated Credit Agreement (as amended, the "Credit Agreement") and related interest rate swap. As of the date of this filing, we have not elected to apply any of the provisions of this standard.

(2) Revenue Recognition

Disaggregation of Revenue

The following tables present revenues disaggregated by our business models:

	Three Months Ended					
	2020			2019		
(In thousands)	Domestic Segment	International Segment	Total	Domestic Segment	International Segment	Total
Licensed software	$ 159,327	$ 12,367	$ 171,694	$ 144,599	$ 9,934	$ 154,533
Technology resale	45,217	1,896	47,113	65,103	5,072	70,175
Subscriptions	87,878	5,529	93,407	85,230	6,674	91,904
Professional services	433,127	46,768	479,895	446,562	60,893	507,455
Managed services	280,827	31,017	311,844	272,933	29,502	302,435
Support and maintenance	219,682	40,296	259,978	227,131	50,163	277,294
Reimbursed travel	4,711	31	4,742	23,705	1,927	25,632
Total revenues	$ 1,230,769	$ 137,904	$ 1,368,673	$ 1,265,263	$ 164,165	$ 1,429,428

(In thousands)	Nine Months Ended 2020 Domestic Segment	Nine Months Ended 2020 International Segment	Nine Months Ended 2020 Total	Nine Months Ended 2019 Domestic Segment	Nine Months Ended 2019 International Segment	Nine Months Ended 2019 Total
Licensed software	$ 444,774	$ 37,114	$ 481,888	$ 466,105	$ 40,018	$ 506,123
Technology resale	126,042	14,675	140,717	169,112	17,338	186,450
Subscriptions	260,095	19,749	279,844	246,505	19,460	265,965
Professional services	1,295,759	156,564	1,452,323	1,313,701	169,500	1,483,201
Managed services	836,242	92,114	928,356	818,818	85,661	904,479
Support and maintenance	663,399	144,296	807,695	679,214	151,454	830,668
Reimbursed travel	19,086	854	19,940	68,750	4,730	73,480
Total revenues	$ 3,645,397	$ 465,366	$ 4,110,763	$ 3,762,205	$ 488,161	$ 4,250,366

The following tables present our revenues disaggregated by timing of revenue recognition:

(In thousands)	Three Months Ended 2020 Domestic Segment	Three Months Ended 2020 International Segment	Three Months Ended 2020 Total	Three Months Ended 2019 Domestic Segment	Three Months Ended 2019 International Segment	Three Months Ended 2019 Total
Revenue recognized over time	$ 1,143,515	$ 132,891	$ 1,276,406	$ 1,143,470	$ 155,017	$ 1,298,487
Revenue recognized at a point in time	87,254	5,013	92,267	121,793	9,148	130,941
Total revenues	$ 1,230,769	$ 137,904	$ 1,368,673	$ 1,265,263	$ 164,165	$ 1,429,428

(In thousands)	Nine Months Ended 2020 Domestic Segment	Nine Months Ended 2020 International Segment	Nine Months Ended 2020 Total	Nine Months Ended 2019 Domestic Segment	Nine Months Ended 2019 International Segment	Nine Months Ended 2019 Total
Revenue recognized over time	$ 3,410,827	$ 437,791	$ 3,848,618	$ 3,403,965	$ 445,320	$ 3,849,285
Revenue recognized at a point in time	234,570	27,575	262,145	358,240	42,841	401,081
Total revenues	$ 3,645,397	$ 465,366	$ 4,110,763	$ 3,762,205	$ 488,161	$ 4,250,366

Transaction Price Allocated to Remaining Performance Obligations

As of September 30, 2020, the aggregate amount of transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) for executed contracts approximates $13.01 billion of which we expect to recognize approximately 30% of the revenue over the next 12 months and the remainder thereafter.

Contract Liabilities

Customer payments received in advance of satisfaction of the related performance obligations are deferred as contract liabilities. Such amounts are classified in our condensed consolidated balance sheets as "Deferred revenue". During the nine months ended September 30, 2020, we recognized $306 million of revenues that were included in our contract liability balance at the beginning of such period.

Significant Customers

A certain customer within our Domestic segment comprised 19% and 12% of our consolidated revenues for the third quarters of 2020 and 2019, respectively; and 17% and 11% for the first nine months of 2020 and 2019, respectively. Amounts due from this same customer comprised 14% of client receivables as of September 30, 2020.

(3) Receivables

A summary of net receivables is as follows:

(In thousands)	September 30, 2020	December 28, 2019
Client receivables	$ 1,370,394	$ 1,245,670
Less: Provision for expected credit losses	151,167	106,075
Total receivables, net	$ 1,219,227	$ 1,139,595

A reconciliation of the beginning and ending amount of our provision for expected credit losses is as follows:

(In thousands)	
Provision for expected credit losses - balance at December 28, 2019	$ 106,075
Cumulative effect of accounting change (ASU 2016-13)	4,606
Additions charged to costs and expenses	54,636
Deductions	(14,150)
Provision for expected credit losses - balance at September 30, 2020	$ 151,167

During the first nine months of 2020 and 2019, we received total client cash collections of $4.09 billion and $4.23 billion, respectively.

Expected Credit Losses

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which provides a new impairment model for certain financial assets that is based on expected losses rather than incurred losses. Such guidance impacts how we determine our allowance for estimated uncollectible client receivables. The standard requires use of the modified retrospective (cumulative effect) transition approach as of the beginning of the first reporting period in which the guidance was effective, which for the Company was the first quarter of 2020. Under this transition method, the cumulative effect from prior periods upon applying this new guidance was recognized in our condensed consolidated balance sheets as of December 29, 2019. We did not recast comparative periods.

A summary of such cumulative effect adjustment is as follows:

(In thousands)	Increase/(Decrease)
Receivables, net	$ (4,606)
Retained earnings	(4,606)

The cumulative effect adjustment is the result of providing an allowance on unbilled client receivables, for which we have an unconditional right to invoice and receive payment in the future.

Our estimates of expected credit losses for client receivables at both December 29, 2019 and September 30, 2020, were primarily based on historical credit loss experience and adjustments for certain asset-specific risk characteristics (i.e. known client financial hardship or bankruptcy). Exposure to credit losses may increase if our clients are adversely affected by changes in healthcare laws, reimbursement or payor models; economic pressures or uncertainty associated with local or global economic recessions; disruption associated with the COVID-19 pandemic; or other client-specific factors. Although we have historically not experienced significant credit losses, it is possible that there could be an adverse impact from potential adjustments to the carrying amount of client receivables as clients' cash flows are impacted by the COVID-19 pandemic and related economic uncertainty, which may be material.

(4) Investments

Available-for-sale investments at September 30, 2020 were as follows:

(In thousands)	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash equivalents:				
Money market funds	$ 56,855	$ —	$ —	$ 56,855
Time deposits	19,676	—	—	19,676
Commercial Paper	1,600	—	—	1,600
Government and corporate bonds	1,150	—	—	1,150
Total cash equivalents	79,281	—	—	79,281
Short-term investments:				
Time deposits	21,248	—	—	21,248
Commercial paper	259,000	22	(7)	259,015
Government and corporate bonds	192,536	559	(35)	193,060
Total short-term investments	472,784	581	(42)	473,323
Long-term investments:				
Government and corporate bonds	91,605	180	(78)	91,707
Total available-for-sale investments	$ 643,670	$ 761	$ (120)	$ 644,311

Available-for-sale investments at December 28, 2019 were as follows:

(In thousands)	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash equivalents:				
Money market funds	$ 185,666	$ —	$ —	$ 185,666
Time deposits	64,286	—	—	64,286
Total cash equivalents	249,952	—	—	249,952
Short-term investments:				
Time deposits	2,506	—	—	2,506
Government and corporate bonds	83,272	52	(11)	83,313
Total short-term investments	85,778	52	(11)	85,819
Long-term investments:				
Government and corporate bonds	96,186	91	(67)	96,210
Total available-for-sale investments	$ 431,916	$ 143	$ (78)	$ 431,981

We sold available-for-sale investments for proceeds of $5 million and $181 million during the nine months ended September 30, 2020 and September 28, 2019, respectively, resulting in insignificant gains/losses in each period.

Other Investments

At September 30, 2020 and December 28, 2019, we had investments in equity securities that do not have readily determinable fair values of $320 million and $314 million, respectively, accounted for in accordance with Accounting Standards Codification Topic ("ASC") 321, *Investments-Equity Securities*. Such investments are included in "Long-term investments" in our condensed consolidated balance sheets. We did not record any changes in the measurement of such investments during the nine months ended September 30, 2020 and September 28, 2019, respectively.

At June 30, 2020 and December 28, 2019, we had investments in equity securities with readily determinable fair values of $41 million and $14 million, respectively, accounted for in accordance with ASC 321. Such investments were included in "Short-term investments" in our condensed consolidated balance sheets. Changes in the measurement of such investments favorably impacted "Other income, net" by $49 million and $76 million for the three and nine months ended September 30, 2020, respectively, and $9 million for both the three and nine months ended September 28, 2019. In August 2020, we sold these investments for cash proceeds of $90 million.

At September 30, 2020 and December 28, 2019, we had investments in equity securities reported under the equity method of accounting of $11 million and $9 million, respectively. Such investments are included in "Long-term investments" in our condensed consolidated balance sheets.

Impairment Assessment

We adopted ASU 2016-13 in the first quarter of 2020, which made certain amendments to the model used to assess available-for-sale debt securities for impairment. Such guidance provides that an available-for-sale debt security is impaired if the fair value of the security is less than its amortized cost basis. A determination is made whether the decline in fair value below the amortized cost basis has resulted from a credit loss or other factors, such as market liquidity or changes in interest rates. Impairment related to credit losses is recognized in net earnings, whereas impairment related to other factors is recognized as a component of accumulated other comprehensive loss, net. During the nine months ended September 30, 2020, we did not recognize any impairment on our available-for-sale debt securities through net earnings.

(5) Long-term Debt

The following is a summary of indebtedness outstanding:

(In thousands)	September 30, 2020	December 28, 2019
Credit agreement loans due May 5, 2024	$ 600,000	$ 600,000
Senior notes:		
Series 2020-A due March 11, 2030	300,000	—
Series 2015-A due February 15, 2022	225,000	225,000
Series 2015-B due February 14, 2025	200,000	200,000
Other	11,662	14,162
Total indebtedness	1,336,662	1,039,162
Less: debt issuance costs	(644)	(780)
Long-term debt	$ 1,336,018	$ 1,038,382

Credit Agreement

As of September 30, 2020, the interest rate on revolving credit loans outstanding under our Credit Agreement was 0.95% based on LIBOR plus the applicable spread.

We are exposed to market risk from fluctuations in the variable interest rates on outstanding indebtedness under our Credit Agreement. In order to manage this exposure, we have entered into an interest rate swap agreement to hedge the variability of cash flows associated with such interest obligations. The interest rate swap is designated as a cash flow hedge, which effectively fixes the interest rate on the hedged indebtedness under our Credit Agreement at 3.06%. At September 30, 2020 and December 28, 2019, this swap was in a net liability position with an aggregate fair value of $41 million and $17 million, respectively; which is presented in our condensed consolidated balance sheets in "Other current liabilities".

Series 2020-A Senior Notes

In March 2020, we issued $300 million aggregate principal amount of 2.50% senior unsecured Series 2020-A notes (the "Series 2020-A Notes") due March 11, 2030, pursuant to a Master Note Agreement we entered into in November 2019, and subsequently amended on October 8, 2020 (collectively and as amended, the "2019 Shelf Agreement"). Interest on the Series 2020-A Notes is payable semiannually on each March 11 and September 11, commencing September 11, 2020, and the principal balance is due at maturity. The Company may prepay at any time all, or any part of, the outstanding principal amount of the Series 2020-A Notes, subject to the payment of a make-whole amount. The Series 2020-A Notes are subject to the terms of the 2019 Shelf Agreement, which contains customary events of default and covenants related to limitations on indebtedness and transactions with affiliates and the maintenance of certain financial ratios. As of the date of this filing, $1.50 billion remains available for sale under the 2019 Shelf Agreement, which is uncommitted and subject to participation by the purchasers.

(6) Fair Value Measurements

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

- Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.
- Level 2 – Valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.
- Level 3 – Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table details our investments in available-for-sale debt securities measured and recorded at fair value on a recurring basis at September 30, 2020:

(In thousands)		Fair Value Measurements Using		
Description	**Balance Sheet Classification**	**Level 1**	**Level 2**	**Level 3**
Money market funds	Cash equivalents	$ 56,855	$ —	$ —
Time deposits	Cash equivalents	—	19,676	—
Commercial paper	Cash equivalents	—	1,600	—
Government and corporate bonds	Cash equivalents	—	1,150	—
Time deposits	Short-term investments	—	21,248	—
Commercial paper	Short-term investments	—	259,015	—
Government and corporate bonds	Short-term investments	—	193,060	—
Government and corporate bonds	Long-term investments	—	91,707	—

The following table details our investments in available-for-sale debt securities measured and recorded at fair value on a recurring basis at December 28, 2019:

(In thousands)		Fair Value Measurements Using		
Description	**Balance Sheet Classification**	**Level 1**	**Level 2**	**Level 3**
Money market funds	Cash equivalents	$ 185,666	$ —	$ —
Time deposits	Cash equivalents	—	64,286	—
Time deposits	Short-term investments	—	2,506	—
Government and corporate bonds	Short-term investments	—	83,313	—
Government and corporate bonds	Long-term investments	—	96,210	—

Our investments in equity securities with readily determinable fair values accounted for in accordance with ASC 321 were measured and recorded at fair value on a recurring basis using a Level 2 valuation. The fair value of such arrangements was based on quoted prices in active markets, reduced by a percentage reflecting a discount for lack of marketability.

Our interest rate swap agreement is measured and recorded at fair value on a recurring basis using a Level 2 valuation. The fair value of such agreement is based on the market standard methodology of netting the discounted expected future variable cash receipts and the discounted future fixed cash payments. The variable cash receipts are based on an expectation of future interest rates derived from observed market interest rate forward curves. Since these inputs are observable in active markets over the terms that the instrument is held, the derivative is classified as Level 2 in the hierarchy.

We estimate the fair value of our long-term, fixed rate debt using a Level 3 discounted cash flow analysis based on current borrowing rates for debt with similar maturities. We estimate the fair value of our long-term, variable rate debt using a Level 3 discounted cash flow analysis based on LIBOR rate forward curves. The fair value of our long-term debt at September 30, 2020 and December 28, 2019 was approximately $1.34 billion and $1.07 billion, respectively. The carrying amount of such debt at September 30, 2020 and December 28, 2019 was $1.33 billion and $1.03 billion, respectively.

(7) Gain on Sale of Businesses

Germany and Spain

On July 1, 2020, we sold certain of our business operations, primarily conducted in Germany and Spain, to affiliates of CompuGroup Medical SE & Co. KGaA ("CGM"), as a part of our portfolio management strategy. Such operations included the associates, intellectual property, client contracts, other assets, and liabilities related to our medico®, Selene®, Soarian Health Archive®, and Soarian® Integrated Care solution offerings. We received a sale price of $227 million, which is subject to post-closing adjustments for working capital and certain other adjustments.

The following table presents a reconciliation of the sale price to the net gain recognized on the disposed business operations which is included in "Gain on sale of businesses" in our condensed consolidated statements of operations:

(In thousands)	
Sale price	$ 226,623
Net assets/(liabilities) removed	(7,617)
Transaction expenses	(5,573)
Foreign currency	1,263
Gain on sale of businesses	$ 214,696

The following table presents a reconciliation of the sale price to the cash proceeds received from CGM which are included in "Sale of businesses" in our condensed consolidated statements of cash flows:

(In thousands)	
Sale price	$ 226,623
VAT and other transaction taxes, net	(2,142)
Cash received from sale of businesses	$ 224,481

Amounts included in our condensed consolidated balance sheets related to the disposed business operations immediately prior to the sale on July 1, 2020 were as follows:

(In thousands)		Asset/(Liability)
Receivables, net	$	7,334
Inventory		65
Prepaid expenses and other		5,759
Property and equipment, net		336
Right-of-use assets		554
Software development costs, net		5,532
Goodwill		7,692
Intangible assets, net		3,687
Accounts payable		(1,631)
Deferred revenue		(16,655)
Accrued payroll and tax withholdings		(4,545)
Other current liabilities		(511)
Net assets/(liabilities)	$	7,617

Revenue Cycle Outsourcing

On August 3, 2020, we sold certain of our revenue cycle outsourcing business operations to affiliates of R1 RCM Inc., as a part of our portfolio management strategy. Such operations included the associates, client contracts, certain other assets, and certain liabilities related to our commercial revenue cycle outsourcing services business. A net gain of $2 million was recognized on the disposed business operations and is included in "Gain on sale of businesses" in our condensed consolidated statements of operations. Amounts included in our condensed consolidated balance sheets related to the disposed business operations immediately prior to the sale on August 3, 2020 were not material to our condensed consolidated financial statements.

(8) Income Taxes

We determine the tax provision for interim periods using an estimate of our annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter we update our estimate of the annual effective tax rate, and if our estimated tax rate changes, we make a cumulative adjustment. Our effective tax rate was 21.7% and 18.9% for the first nine months of 2020 and 2019, respectively. The increase in the effective tax rate in the first nine months of 2020 is primarily due to a decrease in net excess tax benefits recognized as a component of income tax expense in connection with the exercise of stock options and the vesting of restricted share and share unit awards. Also contributing to the increase, are taxes associated with the divestiture transactions that closed in the third quarter of 2020, as further discussed in Note (7).

(9) Earnings Per Share

A reconciliation of the numerators and the denominators of the basic and diluted per share computations are as follows:

	Three Months Ended					
	2020			2019		
(In thousands, except per share data)	Earnings (Numerator)	Shares (Denominator)	Per-Share Amount	Earnings (Numerator)	Shares (Denominator)	Per-Share Amount
Basic earnings per share:						
Income available to common shareholders	$ 356,676	305,759	$ 1.17	$ 81,935	315,876	$ 0.26
Effect of dilutive securities:						
Stock options, non-vested shares and share units	—	2,607		—	3,237	
Diluted earnings per share:						
Income available to common shareholders including assumed conversions	$ 356,676	308,366	$ 1.16	$ 81,935	319,113	$ 0.26

For the three months ended September 30, 2020 and September 28, 2019, options to purchase 3.9 million and 7.7 million shares of common stock at per share prices ranging from $55.24 to $76.49 and $54.87 to $75.83, respectively, were outstanding but were not included in the computation of diluted earnings per share because they were anti-dilutive.

	Nine Months Ended					
	2020			2019		
(In thousands, except per share data)	Earnings (Numerator)	Shares (Denominator)	Per-Share Amount	Earnings (Numerator)	Shares (Denominator)	Per-Share Amount
Basic earnings per share:						
Income available to common shareholders	$ 638,583	306,759	$ 2.08	$ 375,123	320,282	$ 1.17
Effect of dilutive securities:						
Stock options, non-vested shares and share units	—	2,365		—	3,079	
Diluted earnings per share:						
Income available to common shareholders including assumed conversions	$ 638,583	309,124	$ 2.07	$ 375,123	323,361	$ 1.16

For the nine months ended September 30, 2020 and September 28, 2019, options to purchase 4.4 million and 10.1 million shares of common stock at per share prices ranging from $52.32 to $76.49 and $51.87 to $75.83, respectively, were outstanding but were not included in the computation of diluted earnings per share because they were anti-dilutive.

(10) Share-Based Compensation and Equity

Stock Options

Stock option activity for the nine months ended September 30, 2020 was as follows:

(In thousands, except per share and term data)	Number of Shares	Weighted-Average Exercise Price (Per Share)	Aggregate Intrinsic Value	Weighted-Average Remaining Contractual Term (Yrs)
Outstanding at beginning of year	15,416	$ 56.36		
Granted	3	72.36		
Exercised	(4,009)	50.67		
Forfeited and expired	(228)	61.32		
Outstanding as of September 30, 2020	11,182	58.31	$ 156,372	5.70
Exercisable as of September 30, 2020	7,248	$ 56.87	$ 111,738	4.85

The weighted-average assumptions used to estimate the fair value, under the Black-Scholes-Merton pricing model, of stock options granted during the nine months ended September 30, 2020 were as follows:

Expected volatility (%)	24.5 %
Expected dividend rate (%)	1 %
Expected term (yrs)	6
Risk-free rate (%)	1.1 %
Fair value per option	$ 16.64

As of September 30, 2020, there was $58 million of total unrecognized compensation cost related to stock options granted under all plans. That cost is expected to be recognized over a weighted-average period of 2.12 years.

Non-vested Shares and Share Units

Non-vested share and share unit activity for the nine months ended September 30, 2020 was as follows:

(In thousands, except per share data)	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Outstanding at beginning of year	2,634	$ 65.30
Granted	2,520	69.99
Vested	(946)	66.30
Forfeited	(97)	67.24
Outstanding as of September 30, 2020	4,111	$ 67.90

As of September 30, 2020, there was $223 million of total unrecognized compensation cost related to non-vested share and share unit awards granted under all plans. That cost is expected to be recognized over a weighted-average period of 1.96 years.

Share-Based Compensation Cost

The following table presents total compensation expense recognized with respect to stock options, non-vested shares and share units, and our associate stock purchase plan:

	Three Months Ended		Nine Months Ended	
(In thousands)	2020	2019	2020	2019
Stock option and non-vested share and share unit compensation expense	$ 37,920	$ 30,537	$ 110,500	$ 73,421
Associate stock purchase plan expense	1,367	1,321	4,195	4,612
Amounts capitalized in software development costs, net of amortization	(1,150)	(76)	(2,971)	70
Amounts charged against earnings, before income tax benefit	$ 38,137	$ 31,782	$ 111,724	$ 78,103
Amount of related income tax benefit recognized in earnings	$ 7,818	$ 6,330	$ 22,452	$ 14,888

Treasury Stock

Under our current share repurchase program, which was initially approved by our Board of Directors in May 2017 and most recently amended in December 2019, the Company is authorized to repurchase up to $3.70 billion of shares of our common stock, excluding transaction costs. The repurchases are to be effectuated in the open market, by block purchase, in privately negotiated transactions, or through other transactions managed by broker-dealers. No time limit was set for the completion of the program. During the nine months ended September 30, 2020, we repurchased 9.2 million shares for total consideration of $650 million under the program. The shares were recorded as treasury stock and accounted for under the cost method. No repurchased shares have been retired. As of September 30, 2020, $1.03 billion remains available for repurchase under the program.

Dividends

On September 10, 2020, our Board of Directors declared a cash dividend of $0.18 per share on our issued and outstanding common stock, which was paid on October 13, 2020 to shareholders of record as of September 25, 2020. On May 21, 2020, our Board of Directors declared a cash dividend of $0.18 per share on our issued and outstanding common stock, which was paid on July 17, 2020 to shareholders of record as of June 5, 2020. On March 19, 2020, our Board of Directors declared a cash dividend of $0.18 per share on our issued and outstanding common stock, which was paid on April 17, 2020 to shareholders of record as of April 3, 2020. In connection with the declaration of such dividends, our non-vested shares and share units are entitled to dividend equivalents, which will be payable to the holder subject to, and upon vesting of, the underlying awards. Our outstanding stock options are not entitled to dividend or dividend equivalents. At both September 30, 2020 and December 28, 2019, our condensed consolidated balance sheets included liabilities for dividends payable of $56 million, which are included in "Other current liabilities".

Accumulated Other Comprehensive Loss, Net (AOCI)

The components of AOCI, net of tax, were as follows:

(In thousands)	Foreign currency translation adjustment and other	Unrealized loss on cash flow hedge	Unrealized holding gain (loss) on available-for-sale investments	Total
Balance at December 28, 2019	$ (106,347)	$ (12,578)	$ 265	$ (118,660)
Other comprehensive income (loss) before reclassifications	(20,546)	(20,430)	(849)	(41,825)
Amounts reclassified from AOCI	—	1,122	—	1,122
Balance at March 31, 2020	(126,893)	(31,886)	(584)	(159,363)
Other comprehensive income (loss) before reclassifications	9,197	(3,205)	1,502	7,494
Amounts reclassified from AOCI	—	2,198	—	2,198
Balance at June 30, 2020	(117,696)	(32,893)	918	(149,671)
Other comprehensive income (loss) before reclassifications	9,611	(289)	(220)	9,102
Amounts reclassified from AOCI	—	2,554	—	2,554
Balance at September 30, 2020	$ (108,085)	$ (30,628)	$ 698	$ (138,015)

(In thousands)	Foreign currency translation adjustment and other	Unrealized loss on cash flow hedge	Unrealized holding gain (loss) on available-for-sale investments	Total
Balance at December 29, 2018	$ (102,939)	$ —	$ (613)	$ (103,552)
Other comprehensive income (loss) before reclassifications	2,321	—	637	2,958
Amounts reclassified from AOCI	—	—	—	—
Balance at March 30, 2019	(100,618)	—	24	(100,594)
Other comprehensive income (loss) before reclassifications	(100)	(12,223)	216	(12,107)
Amounts reclassified from AOCI	—	(147)	—	(147)
Balance at June 29, 2019	(100,718)	(12,370)	240	(112,848)
Other comprehensive income (loss) before reclassifications	(11,679)	(4,135)	17	(15,797)
Amounts reclassified from AOCI	—	98	(3)	95
Balance at September 28, 2019	$ (112,397)	$ (16,407)	$ 254	$ (128,550)

The effects on net earnings of amounts reclassified from AOCI were as follows:

(In thousands)		Three Months Ended		Nine Months Ended	
AOCI Component	**Location**	**2020**	**2019**	**2020**	**2019**
Unrealized loss on cash flow hedge	Other income, net	$ (3,213)	$ (122)	$ (7,383)	$ 58
	Income taxes	659	24	1,509	(9)
	Net of tax	(2,554)	(98)	(5,874)	49
Unrealized holding gain (loss) on available-for-sale investments	Other income, net	—	4	—	4
	Income taxes	—	(1)	—	(1)
	Net of tax	—	3	—	3
Total amount reclassified, net of tax		$ (2,554)	$ (95)	$ (5,874)	$ 52

(11) Contingencies

We accrue estimates for resolution of any legal and other contingencies when losses are probable and reasonably estimable in accordance with ASC 450, *Contingencies* ("ASC 450"). No less than quarterly, and as facts and circumstances change, we review the status of each significant matter underlying a legal proceeding or claim and assess our potential financial exposure. We accrue a liability for an estimated loss if the potential loss from any legal proceeding or claim is considered probable and the amount can be reasonably estimated. Significant judgment is required in both the determination of probability and the determination as to whether the amount of an exposure is reasonably estimable, and accruals are based only on the information available to our management at the time the judgment is made, which may prove to be incomplete or inaccurate or unanticipated events and circumstances may occur that might cause us to change those estimates and assumptions. Furthermore, the outcome of legal proceedings is inherently uncertain, and we may incur substantial defense costs and expenses defending any of these matters. Should any one or a combination of more than one of these proceedings be successful, or should we determine to settle any one or a combination of these matters, we may be required to pay substantial sums, become subject to the entry of an injunction or be forced to change the manner in which we operate our business, which could have a material adverse impact on our business, results of operations, cash flows or financial condition.

As previously disclosed, we continue to be in dispute with Fujitsu Services Limited ("Fujitsu") regarding Fujitsu's obligation to pay amounts to us due upon the termination of a subcontract, including client receivables, in connection with Fujitsu's contract as the prime contractor in the National Health Service ("NHS") initiative to automate clinical processes and digitize medical records in the Southern region of England. The NHS terminated its contract with Fujitsu, which gave rise to the termination of our subcontract with Fujitsu. We filed a request for arbitration with the London Court of International Arbitration on April 22, 2019 seeking damages. On December 30, 2019, Fujitsu filed its Defense and Counterclaim (the "Counterclaim") in response. In its Counterclaim, Fujitsu defends against our claim in full and argues that we are liable to Fujitsu for: (i) £306 million in damages based on our alleged fraudulent misrepresentations inducing Fujitsu to enter into the subcontract; or (ii) alternatively, £173.8 million in damages based on our alleged breaches of the subcontract. We filed our response to Fujitsu's Counterclaim on May 1, 2020, to which they have now responded. We believe that Fujitsu's claims are without merit and will vigorously defend against them, and we continue to believe that we have valid and equitable grounds for recovery of the disputed client receivables; however, there can be no assurances as to the outcome of the dispute. As previously disclosed, we recorded a pre-tax charge of $45 million in the fourth quarter of 2018 to provide an allowance against the disputed client receivables reflecting the uncertainty in collection of such receivables and related litigation risk resulting from the conclusion of the non-binding alternative dispute resolution procedures, which occurred before we filed our request for arbitration. We have not concluded that a loss related to the new claims raised by Fujitsu in the Counterclaim is probable, nor have we accrued a liability related to these claims beyond the previously reported pre-tax charge recorded in the fourth quarter of 2018. Although we believe a loss may be reasonably possible (as defined in ASC 450), we do not have sufficient information to determine the amount or range of reasonably possible loss with respect to the Counterclaim given that the dispute is in the early stages of the arbitration process. Arbitration is currently scheduled to occur in April 2022.

Cerner Health Services, Inc. ("Cerner HS"), a wholly owned subsidiary of Cerner Corporation, filed a lawsuit in the Chester County, Pennsylvania, Court of Common Pleas against NextGen Healthcare Information Systems, LLC ("NextGen") relating to a dispute arising out of a supplier relationship initially established between Siemens Health Services, Inc. ("Health Services") and NextGen prior to the acquisition of the assets of Health Services by Cerner HS in 2015. In September 2017, the court issued a preliminary injunction to prevent NextGen from refusing to honor certain contractual obligations to support Cerner HS's clients who use NextGen ambulatory EHR solutions. In September 2018, NextGen filed a counterclaim alleging breach of contract and tortious interference but did not specify its damages. In August 2019, NextGen provided an expert report alleging profit disgorgement damages of $135 million or, alternatively, $30.5 million in lost profit damages, but the report did not discuss how our actions allegedly caused NextGen's damages. In December 2019, we deposed NextGen's expert, gaining additional clarity on categories of alleged damages but not on the alleged theories of liability. A jury trial is set to begin on January 25, 2021. We believe NextGen's claims are without merit and will vigorously defend against them; however, there can be no assurances as to the outcome of the dispute. We have not concluded that a loss related to the claims raised by NextGen in its counterclaim is probable, nor have we accrued a liability related to these claims. Although a loss may be reasonably possible (as defined in ASC 450), we do not have sufficient information to determine the amount or range of reasonably possible loss in light of the inherent difficulty of predicting the outcome of litigation generally, the wide range of damages presented by NextGen's expert, and the continued lack of clarity on the causal connection between Cerner Corporation's and Cerner HS's actions and any alleged damages.

The terms of our agreements with our clients generally provide for limited indemnification of such clients against losses, expenses and liabilities arising from third party or other claims based on, among other things, alleged infringement by our solutions of an intellectual property right of third parties or damages caused by data privacy breaches or system interruptions. The terms of such indemnification often limit the scope of and remedies for such indemnification obligations and generally include, as applicable, a right to replace or modify an infringing solution. For several reasons, including the lack of a sufficient number of prior indemnification claims relating to IP infringement, data privacy breaches or system interruptions, the inherent uncertainty stemming from such claims, and the lack of a monetary liability limit for such claims under the terms of the corresponding agreements with our clients, we cannot determine the maximum amount of potential future payments, if any, related to such indemnification provisions.

In addition to commitments and obligations in the ordinary course of business, we are involved in various other legal proceedings and claims that arise in the ordinary course of business, including for example, employment and client disputes and litigation alleging solution and implementation defects, personal injury, intellectual property infringement, violations of law, breaches of contract and warranties, and compliance audits by various government agencies. Many of these proceedings are at preliminary stages and many seek an indeterminate amount of damages. At this time, we do not believe the range of potential losses under any claims to be material to our consolidated financial statements.

(12) Segment Reporting

We have two operating segments, Domestic and International. Revenues are derived primarily from the sale of clinical, financial and administrative information solutions and services. The cost of revenues includes the cost of third-party consulting services, computer hardware, devices and sublicensed software purchased from manufacturers for delivery to clients. It also includes the cost of hardware maintenance and sublicensed software support subcontracted to the manufacturers. Operating expenses incurred by the geographic business segments consist of sales and client service expenses including salaries of sales and client service personnel, expenses associated with our managed services business, marketing expenses, communications expenses and unreimbursed travel expenses. "Other" includes expenses that have not been allocated to the operating segments, such as software development, general and administrative expenses, certain organizational restructuring and other expense, share-based compensation expense, and certain amortization and depreciation. "Other" also includes gains or losses recognized on the divestiture of businesses. Performance of the segments is assessed at the operating earnings level by our chief operating decision maker, who is our Chief Executive Officer. Items such as interest, income taxes, capital expenditures and total assets are managed at the consolidated level and thus are not included in our operating segment disclosures. Accounting policies for each of the reportable segments are the same as those used on a consolidated basis.

The following table presents a summary of our operating segments and other expense for the three and nine months ended September 30, 2020 and September 28, 2019:

(In thousands)	Domestic	International	Other	Total
Three Months Ended 2020				
Revenues	$ 1,230,769	$ 137,904	$ —	$ 1,368,673
Costs of revenue	219,938	11,951	—	231,889
Operating expenses	566,777	58,626	316,430	941,833
Total costs and expenses	786,715	70,577	316,430	1,173,722
Gain on sale of businesses	—	—	216,869	216,869
Operating earnings (loss)	$ 444,054	$ 67,327	$ (99,561)	$ 411,820

(In thousands)	Domestic	International	Other	Total
Three Months Ended 2019				
Revenues	$ 1,265,263	$ 164,165	$ —	$ 1,429,428
Costs of revenue	246,634	25,144	—	271,778
Operating expenses	639,590	68,153	361,130	1,068,873
Total costs and expenses	886,224	93,297	361,130	1,340,651
Operating earnings (loss)	$ 379,039	$ 70,868	$ (361,130)	$ 88,777

(In thousands)	Domestic	International	Other	Total
Nine Months Ended 2020				
Revenues	$ 3,645,397	$ 465,366	$ —	$ 4,110,763
Costs of revenue	638,284	59,984	—	698,268
Operating expenses	1,724,545	182,594	985,131	2,892,270
Total costs and expenses	2,362,829	242,578	985,131	3,590,538
Gain on sale of businesses	—	—	216,869	216,869
Operating earnings (loss)	$ 1,282,568	$ 222,788	$ (768,262)	$ 737,094

(In thousands)	Domestic	International	Other	Total
Nine Months Ended 2019				
Revenues	$ 3,762,205	$ 488,161	$ —	$ 4,250,366
Costs of revenue	719,119	74,536	—	793,655
Operating expenses	1,817,244	209,580	1,012,049	3,038,873
Total costs and expenses	2,536,363	284,116	1,012,049	3,832,528
Operating earnings (loss)	$ 1,225,842	$ 204,045	$(1,012,049)	$ 417,838

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

The following Management Discussion and Analysis ("MD&A") is intended to help the reader understand the results of operations and financial condition of Cerner Corporation ("Cerner," the "Company," "we," "us" or "our"). This MD&A is provided as a supplement to, and should be read in conjunction with, our condensed consolidated financial statements and the accompanying notes to condensed consolidated financial statements ("Notes") found above. Certain statements in this quarterly report on Form 10-Q contain forward-looking statements within the meanings of the Private Securities Litigation Reform Act of 1995, as amended, regarding our future plans, objectives, beliefs, expectations, representations and projections. See the end of this MD&A for more information on our forward-looking statements, including a discussion of the most significant factors that could cause actual results to differ materially from those in the forward-looking statements, and the information in Part II, "Item 1A. Risk Factors" below.

All references to periods in this MD&A represent the respective three or nine months ended on such dates, unless otherwise noted. Refer to Note (1) of the Notes for information regarding our fiscal period ends.

Management Overview

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

Our core strategy is to create organic growth by investing in research and development ("R&D") to create solutions and tech-enabled services for the health care industry. We may also supplement organic growth with acquisitions or strategic investments and collaborations.

Cerner's long history of growth has created an important strategic footprint in health care, with Cerner holding more than 25 percent market share in the U.S. acute care electronic health record ("EHR") market and a leading market share in several non-U.S. regions. Foundational to our growth going forward is delivering value to this core client base, including executing effectively on our large U.S. federal contracts and cross-selling key solutions and services in areas such as revenue cycle. We are also investing in platform modernization, with a focus on delivering a software as a service platform that we expect to lower total cost of ownership, improve clinician experience and patient outcomes, and enable clients to accelerate adoption of new functionality and better leverage third-party innovations.

We also expect to continue driving growth by leveraging our *HealtheIntent®* platform, which is the foundation for established and new offerings for both provider and non-provider markets. The EHR-agnostic *HealtheIntent* platform enables Cerner to become a strategic partner with health care stakeholders and help them improve performance under value-based contracting. The platform, along with our *CareAware®* platform, also supports offerings in areas such as long-term care, home care and hospice, rehabilitation, behavioral health, community care, care team communications, health systems operations, consumer and employer, and data-as-a-service.

Beyond our strategy for driving revenue growth, we are also focused on earnings growth. After several years of margin compression related to slowing revenue growth, increased mix of low-margin services, and lower software demand due to the end of direct government incentives for EHR adoption, Cerner implemented a new operating structure and introduced other initiatives focused on cost optimization and process improvement in 2019. To assist in these efforts, we engaged an outside consulting firm to conduct a review of our operations and cost structure. We have made good progress since we kicked off our transformation in 2019 and expect this progress to be reflected in improved profitability in 2020 and beyond. We are focused on ongoing identification of opportunities to operate more efficiently and on achieving the efficiencies without impacting the quality of our solutions and services and commitments to our clients.

We are also focused on delivering strong levels of cash flow which we expect to accomplish by continuing to grow earnings and prudently managing capital expenditures. We expect to use future cash flow and debt, as appropriate, to meet our capital allocation objectives, which include investing in our business, potential acquisitions or other strategic investments to drive profitable growth, and returning capital to shareholders through share repurchases and dividends.

COVID-19

Our business and results of operations for the first nine months of 2020 were impacted by the ongoing Coronavirus disease ("COVID-19") pandemic. It has caused us to modify certain of our business practices, including requiring most of our employees to work remotely; restricting employee travel; developing social distancing plans for our associates; and canceling or postponing in person participation in certain meetings, events and conferences. It is not possible to quantify the full financial impact that the COVID-19 pandemic has had on our results of operations, cash flows, or financial condition, due to the uncertainty surrounding the pandemic, the difficulty inherent in identifying and measuring the various impacts that have or may stem from such an event and the fact that there are no comparable recent events that provide guidance as to how to measure or predict the effect the COVID-19 pandemic may have on our business. However, we believe COVID-19 has impacted, and will continue in the near-term to impact, our business results, primarily, but not limited to, in the following areas:

- Bookings, backlog and revenues – A decline in new business bookings as certain client purchasing decisions and projects are delayed to focus on treating patients, procuring necessary medical supplies, and managing their own organizations through this crisis. This decline in bookings flows through to reduced backlog and lower subsequent revenues.

- Associate productivity – A decline in associate productivity, primarily for our services personnel, as a large amount of work is typically done at client sites, which is being impacted by travel restrictions and our clients' focus on the pandemic. Our clients' focus on the pandemic has also led to pauses on existing projects and postponed start dates for others, which translates into lower professional services revenues and a lower operating margin percentage. We are mitigating this by doing more work remotely than we have in the past, but we cannot fully offset the negative impact.

- Travel – Associate travel restrictions reduce client-related travel, which reduces reimbursed travel revenues and lowers our costs of revenue as a percent of revenues. Such restrictions also reduce non-reimbursable travel, which lowers operating expenses.

- Cash collections - A delay in client cash collections due to COVID-19's impact on national reimbursement processes, and client focus on managing their own organizations' liquidity during this time. This translates to lower cash flows from operating activities, and a higher days sales outstanding metric. Lower cash flows from operating activities may impact how we execute under our capital allocation strategy.

- Capital expenditures - A decline in capital spending as certain capital projects are delayed.

We believe the impact of COVID-19 on our results of operations for the first quarter of 2020 was limited, with the largest impact in the areas of reduced bookings and lower technology resale revenue, due to the mid-March 2020 timing of when we implemented changes to our business practices in response to COVID-19, and the nature of the industry in which we operate. We believe the impact of COVID-19 on our results of operations for the second and third quarters of 2020 was much greater than in the first quarter of 2020 as the pandemic and practices we implemented in mid-March 2020 were ongoing for the full quarter, with the largest impact in the areas of reduced bookings and lower licensed software, technology resale, professional services, and reimbursed travel revenues.

We expect a negative financial impact to continue for the remainder of 2020 and into 2021. However, the impact will be difficult to quantify as there are many factors outside of our control, so any forward looking statements that we make regarding our projections of future financial performance, new solution, services and offering development, and capital allocation plans; cost optimization and operational improvement initiatives; and the expected benefits of our acquisitions, divestitures or other collaborations will all be subject to increased risks, as discussed further below and in Part II, Item 1A of this quarterly report on Form 10-Q. Additionally, we may make further modifications to our operations or business plans that have a negative financial impact as required by government authorities, our clients or as we determine are in the best interests of our associates, clients and business partners. While we expect COVID-19 to have an impact on our results of operations, cash flows, and financial position in the near-term, we believe the nature of our solutions and services offerings will continue to be in demand, regardless of this pandemic. However, the COVID-19 pandemic and related restrictive measures have created significant economic uncertainty and the duration and magnitude of the impact of the pandemic is unknown at this time; therefore, there can be no assurance that the ultimate impact of the pandemic will not adversely affect our future operational and financial performance.

Operational Improvement Initiatives

The Company has been focused on leveraging the impact of our new operating structure, which was rolled out in the first quarter of 2019, and identifying additional efficiencies in our business. We continue to be focused on reducing operating expenses and generating other efficiencies that are expected to provide longer-term operating margin expansion. We are continuing our portfolio management, which includes ongoing evaluation of our offerings, exiting certain low-margin businesses, and being more selective as we consider new business opportunities. To assist in these efforts, we engaged an outside consulting firm to conduct a review of our operations and cost structure. As part of our portfolio management, we closed on the sale of certain of our business operations, primarily conducted in Germany and Spain, in July 2020, and the sale of certain of our revenue cycle outsourcing business operations in August 2020. We expect to continue to evaluate and complete divestiture transactions that are strategic to our operational improvement initiatives. We continue to be focused on ongoing identification of opportunities to operate more efficiently and on achieving the efficiencies without impacting the quality of our solutions and services and commitments to our clients.

In the near term, we expect to continue incurring expenses in connection with these efforts. Such expenses may include, but are not limited to, consultant and other professional services fees, employee separation costs, contract termination costs, and other such related expenses. Expenses recognized in the first nine months of 2020 are primarily related to professional services fees and employee separation costs, which are included in operating expenses in our condensed consolidated statements of operations. We expect to incur additional expenses in connection with these initiatives in future periods, which may be material.

Results Overview

Bookings, which reflect the value of executed contracts for software, hardware, professional services and managed services, was $1.47 billion in the third quarter of 2020, which is a decrease of 11% compared to $1.65 billion in the third quarter of 2019.

Revenues for the third quarter of 2020 decreased 4% to $1.37 billion, compared to $1.43 billion in the third quarter of 2019.

Net earnings for the third quarter of 2020 increased 335% to $357 million, compared to $82 million in the third quarter of 2019. Diluted earnings per share increased 346% to $1.16, compared to $0.26 in the third quarter of 2019.

We had cash collections of receivables of $1.43 billion in the third quarter of 2020, compared to $1.50 billion in the third quarter of 2019. Days sales outstanding was 81 days in the third quarter of 2020 and the second quarter of 2020, compared to 74 days for the third quarter of 2019. Operating cash flows for the third quarter of 2020 were $382 million, compared to $351 million in the third quarter of 2019.

Results of Operations

Three Months Ended September 30, 2020 Compared to Three Months Ended September 28, 2019

The following table presents a summary of our operating information for the third quarters of 2020 and 2019:

(In thousands)	2020	*% of Revenue*	2019	*% of Revenue*	% Change
Revenues	$ 1,368,673	100 %	$ 1,429,428	100 %	(4)%
Costs of revenue	231,889	17 %	271,778	19 %	(15)%
Margin	1,136,784	83 %	1,157,650	81 %	(2)%
Operating expenses					
Sales and client service	625,402	46 %	707,743	50 %	(12)%
Software development	186,826	14 %	187,526	13 %	— %
General and administrative	116,816	9 %	152,321	11 %	(23)%
Amortization of acquisition-related intangibles	12,789	1 %	21,283	1 %	(40)%
Total operating expenses	941,833	69 %	1,068,873	75 %	(12)%
Total costs and expenses	1,173,722	86 %	1,340,651	94 %	(12)%
Gain on sale of businesses	216,869	16 %	—	— %	
Operating earnings	411,820	30 %	88,777	6 %	364 %
Other income, net	48,020		13,535		
Income taxes	(103,164)		(20,377)		
Net earnings	$ 356,676		$ 81,935		335 %

Revenues & Backlog

Revenues decreased 4% to $1.37 billion in the third quarter of 2020, as compared to $1.43 billion in the same period of 2019. The decline in revenues is primarily attributable to the following:

- The impact of the ongoing COVID-19 pandemic on our third quarter 2020 operations, with the largest impact in the areas of technology resale, professional services, and reimbursed travel revenues, as further discussed above.

- The third quarter of 2020 includes a $42 million reduction in revenues due to the termination of certain revenue cycle outsourcing contracts effective in the fourth quarter of 2019.

- The third quarter of 2020 includes a $22 million reduction in revenues due to the sale of certain of our business operations primarily conducted in Germany and Spain, as further discussed in Note (7) of the Notes. We expect the disposition of such operations to reduce future International Segment revenues by approximately $83 million on an annualized basis.

- The third quarter of 2020 includes a $20 million reduction in revenues due to the sale of certain of our revenue cycle outsourcing business operations, as further discussed in Note (7) of the Notes. We expect the disposition of such operations to reduce future Domestic Segment revenues by approximately $77 million on an annualized basis.

These declines are partially offset by increased implementation activity within our federal business, inclusive of ongoing projects with the U.S. Department of Defense and the U.S. Department of Veterans Affairs. In the third quarter of 2020, 19% of our total revenues were attributable to our relationships (as the prime contractor or a subcontractor) with U.S. government agencies, compared to 12% in the same period of 2019. Refer to Note (2) of the Notes for further information regarding revenues disaggregated by our business models.

Backlog, which reflects contracted revenue that has not yet been recognized as revenue, was $13.01 billion at September 30, 2020, compared to $13.71 billion at December 28, 2019. This decline in backlog is primarily attributable to the divestiture transactions discussed above, along with the impact of the ongoing COVID-19 pandemic on our bookings during the first nine months of 2020, as further discussed above. We expect to recognize 30% of our backlog as revenue over the next 12 months.

We believe that backlog may not necessarily be a comprehensive indicator of future revenue as certain of our arrangements may be canceled (or conversely renewed) at our clients' option; thus contract consideration related to such cancellable periods has been excluded from our calculation of backlog. However, historically our experience has been that such cancellation provisions are rarely exercised. We expect to recognize approximately $1.16 billion of revenue over the next 12 months under currently executed contracts related to such cancellable periods, which is not included in our calculation of backlog.

Costs of Revenue

Costs of revenue as a percent of revenues were 17% in the third quarter of 2020, compared to 19% in the same period of 2019. The lower costs of revenue as a percent of revenues was primarily driven by lower reimbursed travel revenue, which carries a 100% cost of revenue; a lower mix of technology resale revenue, which carries a higher cost of revenue; and reduced utilization of third-party resources associated with professional services revenue.

Costs of revenue include the cost of reimbursed travel expense, sales commissions, third party consulting services and subscription content and computer hardware, devices and sublicensed software purchased from manufacturers for delivery to clients. It also includes the cost of hardware maintenance and sublicensed software support subcontracted to the manufacturers. Such costs, as a percent of revenues, typically have varied as the mix of revenue (software, hardware, devices, maintenance, support, and services) carrying different margin rates changes from period to period. Costs of revenue does not include the costs of our client service personnel who are responsible for delivering our service offerings. Such costs are included in sales and client service expense.

Operating Expenses

Total operating expenses decreased 12% to $942 million in the third quarter of 2020, compared to $1.07 billion in the same period of 2019.

- Sales and client service expenses as a percent of revenues were 46% in the third quarter of 2020, compared to 50% in the same period of 2019. These expenses decreased 12% to $625 million in the third quarter of 2020, from $708 million in the same period of 2019. Sales and client service expenses include salaries and benefits of sales, marketing, support, and services personnel, depreciation and other expenses associated with our managed services business, communications expenses, unreimbursed travel expenses, expense for share-based payments, and trade show and advertising costs. The decrease in sales and client service expenses was primarily driven by an $11 million reduction in associate travel costs, and the third quarter of 2019 included a $60 million charge in connection with the termination of certain revenue cycle outsourcing contracts, discussed above. The divestiture transactions, as further discussed in Note (7) of the Notes, also contributed to the reduction in expenses.

- Software development expenses as a percent of revenues were 14% in the third quarter of 2020, compared to 13% in the same period of 2019. Expenditures for software development include ongoing development and enhancement of the *Cerner Millennium*® and *HealtheIntent* platforms, with a focus on supporting key initiatives to enhance physician experience, revenue cycle, population health management, and health network solutions. In addition, the third quarter of 2020 includes costs incurred in connection with our efforts to modernize our platforms, with a focus on development of a software as a service platform. A summary of our total software development expense in the third quarters of 2020 and 2019 is as follows:

	Three Months Ended	
(In thousands)	**2020**	**2019**
Software development costs	$ 198,565	$ 197,122
Capitalized software costs	(71,525)	(65,684)
Capitalized costs related to share-based payments	(1,792)	(698)
Amortization of capitalized software costs	61,578	56,786
Total software development expense	$ 186,826	$ 187,526

- General and administrative expenses as a percent of revenues were 9% in the third quarter of 2020, compared to 11% in the same period of 2019. These expenses decreased 23% to $117 million in the third quarter of 2020, from $152 million in the same period of 2019. General and administrative expenses include salaries and benefits for corporate, financial and administrative staffs, utilities, communications expenses, professional fees, depreciation and amortization, transaction gains or losses on foreign currency, expense for share-based payments, certain organizational restructuring and other expense. The decrease in general and administrative expenses is primarily due to a reduction in expenses incurred in connection with our operational improvement initiatives, discussed above. We expect to incur additional expenses in connection with these efforts in future periods, which may be material. The divestiture transactions, as further discussed in Note (7) of the Notes, also contributed to the reduction in expenses.

- Amortization of acquisition-related intangibles as a percent of revenues was 1% in the third quarter of both 2020 and 2019. These expenses decreased 40% to $13 million in the third quarter of 2020, from $21 million in the same period in 2019. Amortization of acquisition-related intangibles includes the amortization of customer relationships, acquired technology, trade names, and non-compete agreements recorded in connection with our business acquisitions. The decrease in amortization of acquisition-related intangibles is primarily due to the impact of certain intangible assets from the Health Services acquisition in February 2015 becoming fully amortized in the first quarter of 2020. The divestiture transactions, as further discussed in Note (7) of the Notes, also contributed to the reduction in expenses.

Gain on Sale of Businesses

The third quarter of 2020 includes a $217 million gain on sale of businesses. Refer to Note (7) of the Notes for further information regarding divestiture transactions that closed during the third quarter of 2020.

Non-Operating Items

- Other income, net was $48 million in the third quarter of 2020, compared to $14 million in the same period of 2019. The third quarter of 2020 includes a $49 million gain recognized on the disposition of one of our equity investments. The third quarter of 2019 includes a $9 million unrealized gain recognized on that same equity investment. The remaining difference is primarily attributable to increased interest expense in the third quarter of 2020, from the $600 million of revolving credit loans we borrowed under our Credit Agreement in May 2019, and the $300 million of Series 2020-A Notes we issued in March 2020.

- Our effective tax rate was 22.4% for the third quarter of 2020, compared to 19.9% for the same period of 2019. The increase in the effective tax rate in the third quarter of 2020 is primarily due to taxes associated with the divestiture transactions that closed in the third quarter of 2020, as further discussed in Note (7) of the Notes. Refer to Note (8) of the Notes for further discussion regarding our effective tax rate.

Operations by Segment

We have two operating segments: Domestic and International. The Domestic segment includes revenue contributions and expenditures associated with business activity in the United States. The International segment includes revenue contributions and expenditures linked to business activity outside the United States, primarily from Australia, Canada, Europe, and the Middle East. Refer to Note (12) of the Notes for further information regarding our reportable segments.

The following table presents a summary of our operating segment information for the third quarters of 2020 and 2019:

(In thousands)	2020	*% of Revenue*	2019	*% of Revenue*	% Change
Domestic Segment					
Revenues	$ 1,230,769	100%	$ 1,265,263	100%	(3)%
Costs of revenue	219,938	18%	246,634	19%	(11)%
Operating expenses	566,777	46%	639,590	51%	(11)%
Total costs and expenses	786,715	64%	886,224	70%	(11)%
Domestic operating earnings	444,054	36%	379,039	30%	17%
International Segment					
Revenues	137,904	100%	164,165	100%	(16)%
Costs of revenue	11,951	9%	25,144	15%	(52)%
Operating expenses	58,626	43%	68,153	42%	(14)%
Total costs and expenses	70,577	51%	93,297	57%	(24)%
International operating earnings	67,327	49%	70,868	43%	(5)%
Other costs and expenses, net	(316,430)		(361,130)		(12)%
Gain on sale of businesses	216,869		—		
Consolidated operating earnings	$ 411,820		$ 88,777		364%

Domestic Segment

- Revenues decreased 3% to $1.23 billion in the third quarter of 2020, from $1.27 billion in the same period of 2019. The decline in revenues is primarily attributable to the following:
  - The impact of the ongoing COVID-19 pandemic on our third quarter 2020 operations, with the largest impact in the areas of technology resale, professional services, and reimbursed travel revenues, as further discussed above.
  - The third quarter of 2020 includes a $42 million reduction in revenues due to the termination of certain revenue cycle outsourcing contracts effective in the fourth quarter of 2019.
  - The third quarter of 2020 includes a $20 million reduction in revenues due to the sale of certain of our revenue cycle outsourcing business operations, as further discussed in Note (7) of the Notes.

  These declines are partially offset by increased implementation activity within our federal business; inclusive of ongoing projects with the U.S. Department of Defense and the U.S. Department of Veterans Affairs. Refer to Note (2) of the Notes for further information regarding revenues disaggregated by our business models.

- Costs of revenue as a percent of revenues were 18% in the third quarter of 2020, compared to 19% in the same period of 2019. The lower costs of revenue as a percent of revenues was primarily driven by lower reimbursed travel revenue, which carries a 100% cost of revenue; a lower mix of technology resale revenue, which carries a higher cost of revenue; and reduced utilization of third-party resources associated with professional services revenue.

- Operating expenses as a percent of revenues were 46% in the third quarter of 2020, compared to 51% in the same period of 2019. These expenses decreased 11% to $567 million in the third quarter of 2020, from $640 million in the same period of 2019. The decrease in operating expenses was primarily driven by a $9 million reduction in associate travel costs, and the third quarter of 2019 included a $60 million charge in connection with the termination of certain revenue cycle outsourcing contracts, discussed above.

International Segment

- Revenues decreased 16% to $138 million in the third quarter of 2020, from $164 million in the same period of 2019. The decline in revenues is primarily due to a $22 million reduction from the sale of certain of our business operations primarily conducted in Germany and Spain, as further discussed in Note (7) of the Notes. Additionally, we believe the ongoing COVID-19 pandemic has negatively impacted our third quarter 2020 operations, as further discussed above. Refer to Note (2) of the Notes for further information regarding revenues disaggregated by our business models.

- Costs of revenue as a percent of revenues were 9% in the third quarter of 2020, compared to 15% in the same period of 2019. The lower costs of revenue as a percent of revenues was primarily driven by lower reimbursed travel revenue, which carries a 100% cost of revenue; a lower mix of technology resale revenue, which carries a higher cost of revenue; and reduced utilization of third-party resources associated with professional services and support and maintenance revenue.

- Operating expenses as a percent of revenues were 43% in the third quarter of 2020, compared to 42% in the same period of 2019. These expenses decreased 14% to $59 million in the third quarter of 2020, from $68 million in the same period of 2019. The decrease in operating expenses is primarily due to the sale of certain of our business operations in Germany and Spain, as further discussed in Note (7) of the Notes.

Other Costs and Expenses, Net

Operating costs and expenses not attributed to an operating segment include expenses such as software development, general and administrative expenses, share-based compensation expense, certain amortization and depreciation, certain organizational restructuring and other expense. These expenses decreased 12% to $316 million in the third quarter of 2020, from $361 million in the same period of 2019. The decrease is primarily due to a reduction in expenses incurred in connection with our operational improvement initiatives, discussed above.

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 28, 2019

The following table presents a summary of our operating information for the first nine months of 2020 and 2019:

(In thousands)	2020	*% of Revenue*	2019	*% of Revenue*	% Change
Revenues	$ 4,110,763	100 %	$ 4,250,366	100 %	(3)%
Costs of revenue	698,268	17 %	793,655	19 %	(12)%
Margin	3,412,495	83 %	3,456,711	81 %	(1)%
Operating expenses					
Sales and client service	1,907,138	46 %	2,026,825	48 %	(6)%
Software development	551,101	13 %	548,934	13 %	— %
General and administrative	391,000	10 %	398,305	9 %	(2)%
Amortization of acquisition-related intangibles	43,031	1 %	64,809	2 %	(34)%
Total operating expenses	2,892,270	70 %	3,038,873	71 %	(5)%
Total costs and expenses	3,590,538	87 %	3,832,528	90 %	(6)%
Gain on sale of businesses	216,869	5 %	—	— %	
Operating earnings	737,094	18 %	417,838	10 %	76 %
Other income, net	78,247		44,973		
Income taxes	(176,758)		(87,688)		
Net earnings	$ 638,583		$ 375,123		70 %

Revenues

Revenues decreased 3% to $4.11 billion in the first nine months of 2020, as compared to $4.25 billion in the same period of 2019. The decline in revenues is primarily attributable to the following:

- The impact of the ongoing COVID-19 pandemic on our operations during the first nine months of 2020, with the largest impact in the areas of licensed software, technology resale, professional services, and reimbursed travel revenues, as further discussed above.

- The first nine months of 2020 includes a $126 million reduction in revenues due to the termination of certain revenue cycle outsourcing contracts effective in the fourth quarter of 2019.

- The first nine months of 2020 includes a $22 million reduction in revenues due to the sale of certain of our business operations primarily conducted in Germany and Spain, as further discussed in Note (7) of the Notes.

- The first nine months of 2020 includes a $20 million reduction in revenues due to the sale of certain of our revenue cycle outsourcing business operations, as further discussed in Note (7) of the Notes.

These declines are partially offset by increased implementation activity within our federal business, inclusive of ongoing projects with the U.S. Department of Defense and the U.S. Department of Veterans Affairs. In the first nine months of 2020, 17% of our total revenues were attributable to our relationships (as the prime contractor or a subcontractor) with U.S. government agencies, compared to 11% in the same period of 2019. Refer to Note (2) of the Notes for further information regarding revenues disaggregated by our business models.

Costs of Revenue

Costs of revenue as a percent of revenues were 17% in the first nine months of 2020, compared to 19% in the same period of 2019. The lower costs of revenue as a percent of revenues was primarily driven by lower reimbursed travel revenue, which carries a 100% cost of revenue; a lower mix of technology resale revenue, which carries a higher cost of revenue; and reduced utilization of third-party resources associated with professional services and support and maintenance revenue.

Operating Expenses

Total operating expenses decreased 5% to $2.89 billion in the first nine months of 2020, compared to $3.04 billion in the same period of 2019.

- Sales and client service expenses as a percent of revenues were 46% in the first nine months of 2020, compared to 48% in the same period of 2019. These expenses decreased 6% to $1.91 billion in the first nine months of 2020, from $2.03 billion in the same period of 2019. The decrease in sales and client service expenses was primarily driven by a $35 million reduction in associate travel costs; the first nine months of 2019 included a $60 million charge in connection with the termination of certain revenue cycle outsourcing contracts, discussed above; and the first nine months of 2019 included a $20 million charge in connection with a client dispute. The divestiture transactions, as further discussed in Note (7) of the Notes, also contributed to the reduction in expenses.

- Software development expenses as a percent of revenues were 13% in the first nine months of both 2020 and 2019. Expenditures for software development include ongoing development and enhancement of the *Cerner Millennium*® and *HealtheIntent* platforms, with a focus on supporting key initiatives to enhance physician experience, revenue cycle, population health management, and health network solutions. In addition, the first nine months of 2020 includes costs incurred in connection with our efforts to modernize our platforms, with a focus on development of a software as a service platform. A summary of our total software development expense in the first nine months of 2020 and 2019 is as follows:

	Nine Months Ended	
(In thousands)	**2020**	**2019**
Software development costs	$ 592,025	$ 591,182
Capitalized software costs	(219,879)	(209,458)
Capitalized costs related to share-based payments	(4,831)	(1,826)
Amortization of capitalized software costs	183,786	169,036
Total software development expense	$ 551,101	$ 548,934

- General and administrative expenses as a percent of revenues were 10% in the first nine months of 2020, compared to 9% in the same period of 2019. These expenses decreased 2% to $391 million in the first nine months of 2020, from $398 million in the same period of 2019. The decrease in general and administrative expenses includes the impact of the first nine months of 2019 including a $7 million charge to settle disputes with a former vendor. The divestiture transactions, as further discussed in Note (7) of the Notes, also contributed to the reduction in expenses. In the first nine months of 2020, general and administrative expenses include $118 million of expenses incurred in connection with our operational improvement initiatives, discussed above, compared to $115 million in the same period of 2019. We expect to incur additional expenses in connection with these efforts in future periods, which may be material.

- Amortization of acquisition-related intangibles as a percent of revenues was 1% in the first nine months of 2020, compared to 2% in the same period of 2019. These expenses decreased 34% to $43 million in the first nine months of 2020, from $65 million in the same period in 2019. The decrease in amortization of acquisition-related intangibles is primarily due to the impact of certain intangible assets from the Health Services acquisition in February 2015 becoming fully amortized in the first quarter of 2020. The divestiture transactions, as further discussed in Note (7) of the Notes, also contributed to the reduction in expenses.

Gain on Sale of Businesses

The first nine months of 2020 includes a $217 million gain on sale of businesses. Refer to Note (7) of the Notes for further information regarding divestiture transactions that closed during the first nine months of 2020.

Non-Operating Items

- Other income, net was $78 million in the first nine months of 2020, compared to $45 million in the same period of 2019. The first nine months of 2020 includes a $76 million gain recognized on the disposition of one of our equity investments. The first nine months of 2019 includes a $9 million unrealized gain recognized on that same equity investment. The first nine months of 2019 also includes a $16 million gain recognized on the disposition of another one of our equity investments. The remaining difference is primarily attributable to increased interest expense in the first nine months of 2020, from the $600 million of revolving credit loans we borrowed under our Credit Agreement in May 2019, and the $300 million of Series 2020-A Notes we issued in March 2020.

- Our effective tax rate was 21.7% for the first nine months of 2020, compared to 18.9% for the same period of 2019. The increase in the effective tax rate in the first nine months of 2020 is primarily due to a decrease in net excess tax benefits recognized as a component of income tax expense in connection with the exercise of stock options and the vesting of restricted share and share unit awards. Also contributing to the increase, are taxes associated with the divestiture transactions that closed in the third quarter of 2020, as further discussed in Note (7) of the Notes. Refer to Note (8) of the Notes for further discussion regarding our effective tax rate.

Operations by Segment

The following table presents a summary of our operating segment information for the first nine months of 2020 and 2019:

(In thousands)	**2020**	***% of Revenue***	**2019**	***% of Revenue***	**% Change**
Domestic Segment					
Revenues	$ 3,645,397	100%	$ 3,762,205	100%	(3)%
Costs of revenue	638,284	18%	719,119	19%	(11)%
Operating expenses	1,724,545	47%	1,817,244	48%	(5)%
Total costs and expenses	2,362,829	65%	2,536,363	67%	(7)%
Domestic operating earnings	1,282,568	35%	1,225,842	33%	5%
International Segment					
Revenues	465,366	100%	488,161	100%	(5)%
Costs of revenue	59,984	13%	74,536	15%	(20)%
Operating expenses	182,594	39%	209,580	43%	(13)%
Total costs and expenses	242,578	52%	284,116	58%	(15)%
International operating earnings	222,788	48%	204,045	42%	9%
Other costs and expenses, net	(985,131)		(1,012,049)		(3)%
Gain on sale of businesses	216,869		—		
Consolidated operating earnings	$ 737,094		$ 417,838		76%

Domestic Segment

- Revenues decreased 3% to $3.65 billion in the first nine months of 2020, from $3.76 billion in the same period of 2019. The decline in revenues is primarily attributable to the following:
    - The impact of the ongoing COVID-19 pandemic on our operations during the first nine months of 2020, with the largest impact in the areas of licensed software, technology resale, professional services, and reimbursed travel revenues, as further discussed above.
    - The first nine months of 2020 includes a $126 million reduction in revenues due to the termination of certain revenue cycle outsourcing contracts effective in the fourth quarter of 2019.

- ◦ The first nine months of 2020 includes a $20 million reduction in revenues due to the sale of certain of our revenue cycle outsourcing business operations, as further discussed in Note (7) of the Notes.

  These declines are partially offset by increased implementation activity within our federal business; inclusive of ongoing projects with the U.S. Department of Defense and the U.S. Department of Veterans Affairs. Refer to Note (2) of the Notes for further information regarding revenues disaggregated by our business models.

- Costs of revenue as a percent of revenues were 18% in the first nine months of 2020, compared to 19% in the same period of 2019. The lower costs of revenue as a percent of revenues was primarily driven by lower reimbursed travel revenue, which carries a 100% cost of revenue; a lower mix of technology resale revenue, which carries a higher cost of revenue; and reduced utilization of third-party resources associated with professional services and support and maintenance revenue.

- Operating expenses as a percent of revenues were 47% in the first nine months of 2020, compared to 48% in the same period of 2019. These expenses decreased 5% to $1.72 billion in the first nine months of 2020, from $1.82 billion in the same period of 2019. The decrease in operating expenses was primarily driven by a $27 million reduction in associate travel costs; the first nine months of 2019 included a $60 million charge in connection with the termination of certain revenue cycle outsourcing contracts, discussed above; and the first nine months of 2019 included a $20 million charge in connection with a client dispute.

International Segment

- Revenues decreased 5% to $465 million in the first nine months of 2020, from $488 million in the same period of 2019. The decline in revenues is primarily due to a $22 million reduction from the sale of certain of our business operations primarily conducted in Germany and Spain, as further discussed in Note (7) of the Notes. Additionally, we believe the ongoing COVID-19 pandemic has negatively impacted our operations for the first nine months of 2020, as further discussed above. Refer to Note (2) of the Notes for further information regarding revenues disaggregated by our business models.

- Costs of revenue as a percent of revenues were 13% in the first nine months of 2020, compared to 15% in the same period of 2019. The lower costs of revenue as a percent of revenues was primarily driven by lower reimbursed travel revenue, which carries a 100% cost of revenue; a lower mix of technology resale revenue, which carries a higher cost of revenue; and reduced utilization of third-party resources associated with professional services and support and maintenance revenue.

- Operating expenses as a percent of revenues were 39% in the first nine months of 2020, compared to 43% in the same period of 2019. These expenses decreased 13% to $183 million in the first nine months of 2020, from $210 million in the same period of 2019. The decrease in operating expenses is primarily due to the sale of certain of our business operations in Germany and Spain, as further discussed in Note (7) of the Notes.

Other Costs and Expenses, net

These expenses decreased 3% to $985 million in the first nine months of 2020, from $1.01 billion in the same period of 2019. The decrease is primarily due to decreased expenses incurred in the first nine months of 2020 as a result of our operational improvement initiatives, discussed above.

Liquidity and Capital Resources

Our liquidity is influenced by many factors, including the amount and timing of our revenues, our cash collections from our clients and the amount we invest in software development, acquisitions, capital expenditures, and our share repurchase and dividend programs.

Our principal sources of liquidity are our cash, cash equivalents, which primarily consist of money market funds and time deposits with original maturities of less than 90 days, short-term investments, and borrowings under our Credit Agreement and other sources of debt financing. At September 30, 2020, we had cash and cash equivalents of $419 million and short-term investments of $473 million, as compared to cash and cash equivalents of $442 million and short-term investments of $100 million at December 28, 2019.

We have entered into a Credit Agreement with a syndicate of lenders that provides for an unsecured $1.00 billion revolving credit loan facility, along with a letter of credit facility up to $100 million (which is a sub-facility of the $1.00 billion revolving credit loan facility). We have the ability to increase the maximum capacity to $1.20 billion at any time during the Credit Agreement's term, subject to lender participation and the satisfaction of specified conditions. The Credit Agreement expires in May 2024. As of September 30, 2020, we had outstanding revolving credit loans and letters of credit of $600 million and $30 million, respectively; which reduced our available borrowing capacity to $370 million under the Credit Agreement.

We have also entered into note purchase agreements pursuant to which we may issue and sell unsecured senior promissory notes to those purchasers electing to purchase. See Note (5) of the Notes for further information.

We believe that our present cash position, together with cash generated from operations, short-term investments and, as appropriate, remaining availability under our Credit Agreement and other sources of debt financing, will be sufficient to meet anticipated cash requirements for the next 12 months.

The following table summarizes our cash flows in the first nine months of 2020 and 2019:

	Nine Months Ended	
(In thousands)	2020	2019
Cash flows from operating activities	$ 924,045	$ 875,524
Cash flows from investing activities	(596,825)	(436,387)
Cash flows from financing activities	(345,527)	(312,805)
Effect of exchange rate changes on cash	(4,382)	(4,028)
Total change in cash and cash equivalents	(22,689)	122,304
Cash and cash equivalents at beginning of period	441,843	374,126
Cash and cash equivalents at end of period	$ 419,154	$ 496,430
Free cash flow (non-GAAP)	$ 461,282	$ 275,652

Cash from Operating Activities

	Nine Months Ended	
(In thousands)	2020	2019
Cash collections from clients	$ 4,085,527	$ 4,233,269
Cash paid to employees and suppliers and other	(3,051,302)	(3,271,818)
Cash paid for interest	(31,661)	(20,756)
Cash paid for taxes, net of refunds	(78,519)	(65,171)
Total cash from operations	$ 924,045	$ 875,524

Cash flows from operations increased $49 million in the first nine months of 2020 when compared to the same period of 2019, due primarily to an increase in cash impacting earnings. This increase also includes the impact of $56 million of certain federal payroll taxes related to pay cycles in the second and third quarters of 2020, for which we have deferred remittance to the taxing authority as permitted under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). We expect to continue to defer the remittance of such payroll taxes for the remainder of 2020, as permitted by the CARES Act, for which the remittances to the taxing authority are to be paid in equal amounts at the end of 2021 and 2022, respectively. Days sales outstanding was 81 days in the third quarter of 2020 and the second quarter of 2020, compared to 74 days for the third quarter of 2019.

Cash from Investing Activities

	Nine Months Ended	
(In thousands)	2020	2019
Capital purchases	$ (238,053)	$ (388,588)
Capitalized software development costs	(224,710)	(211,284)
Purchases of investments, net of sales and maturities	(298,069)	189,279
Purchases of other intangibles	(29,698)	(25,794)
Sale of businesses	229,471	—
Acquisition of businesses, net of cash acquired	(35,766)	—
Total cash flows from investing activities	$ (596,825)	$ (436,387)

Cash flows from investing activities consist primarily of capital spending, investment, acquisition, and divestiture activities.

Our capital spending in the first nine months of 2020 was driven by capitalized equipment purchases primarily to support growth in our managed services business, investments in a cloud infrastructure to support cloud-based solutions, building and improvement purchases to support our facilities requirements and capitalized spending to support our ongoing software development initiatives. Capital purchases for the remainder of 2020 are expected to continue to be below 2019 levels, primarily driven by reduced purchases to support our facilities requirements, reflective of the completion of construction on the current phases of our Innovations Campus in the third quarter of 2020.

Short-term investment activity historically consists of the investment of cash generated by our business in excess of what is necessary to fund operations. The 2020 activity includes the investment of proceeds from the sale of certain business operations in the third quarter of 2020, as discussed below. The 2019 activity was impacted by changes made to our investment mix, such that our excess funds were more heavily held in cash and cash equivalents versus short-term and long-term investments.

Investment activity also includes the sale of one of our equity investments in August 2020 for cash proceeds of $90 million. Refer to Note (4) of the Notes for further information regarding this investment.

In the second quarter of 2020, we paid $35 million of purchase price consideration in connection with our acquisition of a consulting company specializing in providing cybersecurity solutions to clients in the healthcare industry. In the first quarter of 2020, we paid $1 million of purchase price consideration in connection with our October 2019 acquisition of AbleVets, LLC, upon finalization of working capital adjustments. We expect to continue seeking and completing strategic business acquisitions, investments, and relationships that are complementary to our business.

On July 1, 2020, we sold certain of our business operations, primarily conducted in Germany and Spain, for cash proceeds of $224 million. We also sold certain of our revenue cycle outsourcing business operations on August 3, 2020. Refer to Note (7) of the Notes for further information regarding these sales. We expect to continue to evaluate and complete divestiture transactions that are strategic to our operational improvement initiatives discussed above.

Cash from Financing Activities

	Nine Months Ended	
(In thousands)	2020	2019
Long-term debt issuance	$ 300,000	$ 600,000
Repayment of long-term debt	(2,500)	—
Cash from option exercises (net of taxes paid in connection with shares surrendered by associates)	180,057	173,480
Treasury stock purchases	(650,000)	(1,020,542)
Dividends paid	(166,277)	(57,293)
Other	(6,807)	(8,450)
Total cash flows from financing activities	$ (345,527)	$ (312,805)

In March 2020, we issued $300 million aggregate principal amount of 2.50% senior unsecured Series 2020-A notes. In May 2019, we borrowed $600 million of revolving credit loans under our Credit Agreement. Refer to Note (5) of the Notes for further information regarding these obligations.

We may incur additional indebtedness in the next 12 months, which will primarily be dependent on cash flows from operations as well as the timing of business acquisition and capital allocation activity. The proceeds from such indebtedness would be deployed in accordance with our capital allocation strategy, which may include share repurchases and dividend payments (as discussed further below), as well as for general corporate purposes, including acquisitions and investments. The terms and availability of any such debt financing may be impacted by economic and financial market conditions, as well as our financial condition and results of operations at the time we seek such financing, and there can be no assurances that we would be able to obtain such financing on terms that will be acceptable or advantageous to us.

Cash inflows from stock option exercises are dependent on a number of factors, including the price of our common stock, grant activity under our stock option and equity plans, and overall market volatility. We expect net cash inflows from stock option exercises to continue throughout 2020 based on the number of exercisable options as of September 30, 2020 and our current stock price.

During the first nine months of 2020 and 2019, we repurchased 9.2 million shares of our common stock for total consideration of $650 million and 14.4 million shares of our common stock for total consideration of $1.0 billion, respectively. As of September 30, 2020, $1.03 billion remains available for repurchase under our share repurchase program. We may continue to repurchase shares under this program in 2020, but such repurchases will be dependent on a number of factors, including the price of our common stock and other cash flow needs. There is no assurance that we will repurchase up to the full amount remaining under the program.

On December 12, 2019, our Board of Directors declared a cash dividend of $0.18 per share on our issued and outstanding common stock, which was paid on January 9, 2020 to shareholders of record as of December 27, 2019. On March 19, 2020, our Board of Directors declared a cash dividend of $0.18 per share on our issued and outstanding common stock, which was paid on April 17, 2020 to shareholders of record as of April 3, 2020. On May 21, 2020, our Board of Directors declared a cash dividend of $0.18 per share on our issued and outstanding common stock, which was paid on July 17, 2020 to shareholders of record as of June 5, 2020. On September 10, 2020, our Board of Directors declared a cash dividend of $0.18 per share on our issued and outstanding common stock, which was paid on October 13, 2020 to shareholders of record as of September 25, 2020. Subject to declaration by our Board of Directors, we expect to continue paying quarterly cash dividends as a part of our current capital allocation strategy. Future dividends will be subject to the determination, declaration and discretion of our Board of Directors and compliance with covenants under our outstanding debt agreements.

The source of funds for such repurchases and dividends may include cash generated from operations, liquidation of investment holdings and other dispositions of assets, and the incurrence of indebtedness. Refer to Note (10) of the Notes for further information regarding our share repurchase and dividend programs.

Free Cash Flow (Non-GAAP)

	Three Months Ended		Nine Months Ended	
(In thousands)	**2020**	**2019**	**2020**	**2019**
Cash flows from operating activities (GAAP)	$ 381,949	$ 351,448	$ 924,045	$ 875,524
Capital purchases	(71,757)	(110,714)	(238,053)	(388,588)
Capitalized software development costs	(73,317)	(66,382)	(224,710)	(211,284)
Free cash flow (non-GAAP)	$ 236,875	$ 174,352	$ 461,282	$ 275,652

Free cash flow increased $186 million in the first nine months of 2020 compared to the same period in 2019, primarily due to reduced capital expenditures. Free cash flow is a non-GAAP financial measure used by management, along with GAAP results, to analyze our earnings quality and overall cash generation of the business, and for management compensation purposes. We define free cash flow as cash flows from operating activities reduced by capital purchases and capitalized software development costs. The table above sets forth a reconciliation of free cash flow to cash flows from operating activities, which we believe is the GAAP financial measure most directly comparable to free cash flow. The presentation of free cash flow is not meant to be considered in isolation, nor as a substitute for, or superior to, GAAP results, and investors should be aware that non-GAAP measures have inherent limitations and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. Free cash flow may also be different from similar non-GAAP financial measures used by other companies and may not be comparable to similarly titled captions of other companies due to potential inconsistencies in the method of calculation. We believe free cash flow is important to enable investors to better understand and evaluate our ongoing operating results and allows for greater transparency in the review and understanding of our overall financial, operational and economic performance, because free cash flow takes into account certain capital expenditures necessary to operate our business.

Forward Looking Statements

All statements contained in this quarterly report on Form 10-Q that do not directly and exclusively relate to historical facts constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements are based on the current beliefs, expectations and assumptions of Cerner's management with respect to future events and are subject to a number of significant risks and uncertainties. It is important to note that Cerner's performance, and actual results, financial condition or business could differ materially from those expressed in such forward-looking statements. The words "will," "believe," "plans," "may," "expect," "expected," "anticipated," "mitigate," "strategy," "continue," "opportunities," "future," "estimate" or "predict" or the negative of these words, variations thereof or similar expressions are intended to identify such forward-looking statements. For example, our forward-looking statements include statements regarding our expectations, opportunities or plans for growth; our operational improvement initiatives and the results expected to be realized from those initiatives; our expectations with respect to realizing revenue from backlog; our anticipated expenses, cash requirements and sources of liquidity; the expected impact of the COVID-19 pandemic on our results of operations, financial condition, business and operations; and our capital allocation strategies and plans. These statements involve a number of risks, uncertainties and other factors that could cause or contribute to actual results differing materially, including without limitation: the possibility of significant costs and reputational harm related to product and services-related liabilities; potential claims for system errors and warranties; the possibility of interruption at our data centers or client support facilities, or those of third parties with whom we have contracted (such as public cloud providers), that could expose us to significant costs and reputational harm; the possibility of increased expenses, exposure to legal claims and regulatory actions and reputational harm associated with a cyberattack or other breach in our IT security or the IT security of third parties on which we rely; our proprietary technology may be subject to claims for infringement or misappropriation of intellectual property rights of others, or may be infringed or misappropriated by others or subject to claims related to open source licenses; material adverse resolution of legal proceedings or other claims or reputational harm stemming from negative publicity related to such claims or legal proceedings; risks associated with our global operations, including without limitation, greater difficulty in collecting accounts receivable; risks associated with fluctuations in foreign currency exchange rates; changes in tax laws, regulations or guidance that could adversely affect our tax position and/or challenges to our tax positions in the U.S. and non-U.S. countries; the uncertainty surrounding the impact of the departure of the United Kingdom from the European Union on our global business; risks associated with the unexpected loss or recruitment and retention of key personnel or the failure to successfully develop and execute succession planning to assure transitions of key associates and their knowledge, relationships and expertise; risks related to our dependence on strategic relationships and third party suppliers, including any impact to the business of such suppliers resulting from the COVID-19 pandemic; risks inherent with business acquisitions or strategic investments and the failure to achieve projected synergies; risks associated with volatility and disruption resulting from global economic or market conditions, including any impact thereon resulting from events such as the COVID-19 pandemic; significant competition and our ability to anticipate or respond quickly to market changes, changing technologies and evolving pricing and deployment methods and to bring competitive new solutions, devices, features and services to market in a timely fashion; managing growth in the new markets in which we offer solutions, health care devices or services; long sales cycles for our solutions and services; risks inherent in contracting with government clients, including without limitation, complying with strict compliance and disclosure obligations, navigating complex procurement rules and processes and defending against bid protests; risks associated with our outstanding and future indebtedness, such as compliance with restrictive covenants, which may limit our flexibility to operate our business; impact of the phase-out of the London Interbank Offered Rate (LIBOR) on the interest rates under our financing agreements and the related interest rate swap related to the outstanding indebtedness under our Credit Agreement; the potential for losses resulting from asset impairment charges; changing political, economic, regulatory and judicial influences, which could impact the purchasing practices and operations of our clients and increase costs to deliver compliant solutions and services; non-compliance with laws, government regulation or certain industry initiatives or failure to deliver solutions or services that enable our clients to comply with laws or regulations applicable to their businesses; variations in our quarterly operating results; potential variations in our sales forecasts compared to actual sales; volatility in the trading price of our common stock and the timing and volume of market activity, including volatility resulting from the COVID-19 pandemic; inability to achieve expected operating efficiencies and sustain or improve operating expense reductions; risks that Cerner's revenue growth may be lower than anticipated and/or that the mix of revenue shifts to low margin revenue; risks that our capital allocation strategy will not be fully implemented or enhance long-term shareholder value; risks that Cerner's business may be negatively affected as a result of future proxy fights or the actions of activist shareholders; and the extent to which the COVID-19 pandemic and measures taken in response thereto could adversely affect our financial condition, future bookings and results of operations, including risks associated with the impact of the COVID-19 pandemic on collecting accounts receivable. Additional discussion of these and other risks, uncertainties and factors affecting Cerner's business is contained in our filings with the Securities and Exchange Commission, including those under the caption "Risk Factors" in our latest annual report on Form 10-K and in this quarterly report on Form 10-Q, or in materials incorporated herein or therein by reference. Forward-looking statements are not guarantees of future performance or results. The reader should not place undue reliance on forward-looking statements since the statements speak only as of the date that they are made. Except as required by law, we undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in our business, results of operations or financial condition over time.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

No material changes.

Item 4. Controls and Procedures

a) Evaluation of Disclosure Controls and Procedures.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of our disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this quarterly report on Form 10-Q (the "Evaluation Date"). Based upon that evaluation, our CEO and CFO have concluded that, as of the Evaluation Date, our disclosure controls and procedures were designed, and were effective, to provide reasonable assurance that the information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time period specified in SEC rules and forms and is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

b) Changes in Internal Control over Financial Reporting.

There were no changes in our internal controls over financial reporting during the fiscal quarter ended September 30, 2020, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

c) Limitations on Controls.

Our management can provide no assurance that our disclosure controls and procedures or our internal control over financial reporting can prevent all errors and all fraud under all circumstances. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been or will be detected. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Part II. Other Information

Item 1. Legal Proceedings

From time to time, we are involved in litigation which is incidental to our business. There have been no material developments to the legal proceedings previously reported in our 2019 annual report on Form 10-K (the "Form 10-K"), as supplemented by our quarterly reports on Form 10-Q for the quarters ended March 31, 2020 and June 30, 2020. In our opinion, no litigation to which we are currently a party is likely to have a material adverse effect on our consolidated financial condition, results of operations, or cash flows.

Item 1A. Risk Factors

For information regarding risk factors that could affect our business, results of operations, financial condition or future results, see Part I, "Item 1A. Risk Factors" of the Form 10-K. In addition to the risk factors disclosed therein, we are supplementing those identified in the Form 10-K with the following risk factor, as described below. For further information on our forward-looking statements see Part I, Item 2 of this quarterly report on Form 10-Q.

The extent to which the COVID-19 pandemic and measures taken in response thereto could materially adversely affect our financial condition, future bookings and results of operations will depend on future developments, which are highly uncertain and are difficult to predict. The COVID-19 pandemic and efforts to control its spread have significantly curtailed the movement of people, goods and services worldwide, including in most or all of the regions in which we sell our Solutions and Services and conduct our business operations. It has caused us to modify our business practices (including requiring most of our employees to work remotely and restricting employee travel, developing social distancing plans for our associates and canceling or postponing in person participation in meetings, events and conferences), and we may take further actions as required by government authorities, our clients or as determined to be in the best interests of our employees, clients and business partners. These measures and our clients' focus on the pandemic have also resulted in delays in marketing, selling and implementing our Solutions and Services. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus and our ability to perform critical functions could be harmed.

The magnitude and duration of the disruption and resulting decline in business activity is uncertain. In particular, we have experienced and may continue to experience a negative financial impact due to a number of factors, including without limitation:

- Cerner's efforts and investments in assisting its clients in their response to the pandemic, which includes redirecting development and consulting resources and priorities, and waiving, deferring or reducing fees for COVID-19-related emergency expansions;
- Near-term declines in new business bookings as our clients focus on helping their patients during the crisis, rather than making new or expanded purchasing decisions;
- Longer-term declines in bookings for new Solutions and Services to the extent that the pandemic results in a sustained global or U.S. economic downturn;
- Delays in implementing our Solutions and Services, including delays in the pace of completion of existing projects, such as the MHS Genesis project with the U.S. Department of Defense and the U.S. Department of Veterans Affairs' Electronic Health Record Modernization project, while client resources are reallocated or dedicated to fighting the COVID-19 pandemic in the United States;
- Supply chain interruptions;
- Financial pressures being put on our clients, which may in turn result in a delay in collections or non-payment from our clients; and
- Financial pressures being put on our strategic investments for which we hold an equity interest increases the risk of asset impairment.

Accordingly, we expect the COVID-19 pandemic to have a negative impact on our revenues and results of operations from our 2020 second quarter and beyond. The size and duration of this impact is difficult to predict and forward-looking estimates provided by the Company are subject to the risks discussed herein.

The extent to which the COVID-19 pandemic will impact our financial condition and results of operations will depend on future developments, which are highly uncertain and difficult to predict, including, but not limited to, the duration and spread of the pandemic, its severity, the actions to contain the virus or treat its impact, its impact on our strategic investments, and how quickly and to what extent normal economic and operating conditions can resume. Even after the COVID-19 pandemic has subsided, we may experience material adverse impacts to our business as a result of the global or U.S. economic impact and any recession that has occurred or may occur in the future. There are no comparable recent events that provide guidance as to the effect the COVID-19 pandemic may have, and, as a result, the ultimate impact of the pandemic on our operations and financial results is highly uncertain and subject to change.

Additionally, concerns over the economic impact of the COVID-19 pandemic have caused extreme volatility in financial and other capital markets which has and may continue to impact our stock price. To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described under "Risk Factors" in the Form 10-K, such as those described in our risk factors titled "We depend on strategic relationships and third party suppliers and our revenue and operating earnings could suffer if we fail to manage these relationships properly," "Volatility and disruption resulting from global economic or market conditions could negatively affect our business, results of operations and financial condition", "We operate in intensely competitive and dynamic industries, and our ability to successfully compete and continue to grow our business depends on our ability to anticipate or respond quickly to market changes, changing technologies and evolving pricing and deployment methods and to bring competitive new Solutions and Services and features to market in a timely fashion", "Our success depends upon the recruitment and retention of key personnel", and those under the heading "Risks Related to our Common Stock."

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

(c) Issuer Purchases of Equity Securities

The table below provides information with respect to Common Stock purchases by the Company during the third fiscal quarter of 2020.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (a)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (a)
July 1, 2020 - July 31, 2020	—	$ —	—	$ 1,033,733,300
August 1, 2020 - August 31, 2020	—	—	—	1,033,733,300
September 1, 2020 - September 30, 2020	—	—	—	1,033,733,300
Total	—	$ —	—	

(a) Under our current share repurchase program, which was initially approved by our Board of Directors on May 23, 2017 (and announced May 25, 2017) and most recently amended on December 12, 2019 (as announced on December 13, 2019), the Company is authorized to repurchase up to $3.70 billion of shares of our common stock, excluding transaction costs. The repurchases are to be effectuated in the open market, by block purchase, in privately negotiated transactions, or through other transactions managed by broker-dealers. No time limit was set for the completion of the program. During the nine months ended September 30, 2020, we repurchased 9.2 million shares for total consideration of $650 million under the program pursuant to Rule 10b5-1 plans. As of September 30, 2020, $1.03 billion remains available for repurchase under the program. Refer to Note (10) of the Notes for further information regarding our share repurchase program.

Item 6. Exhibits

(a)	Exhibits
10.1	First Amendment to Master Note Agreement dated October 8, 2020, between Cerner Corporation and the Purchasers listed therein, incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed October 9, 2020
10.2*	Cerner Corporation 2011 Omnibus Equity Incentive Plan - Performance Based Restricted Stock Unit Agreement
10.3*	Cerner Corporation 2011 Omnibus Equity Incentive Plan - Time Based Restricted Stock Unit Agreement
31.1	Certification of Brent Shafer pursuant to Section 302 of Sarbanes-Oxley Act of 2002
31.2	Certification of Marc G. Naughton pursuant to Section 302 of Sarbanes-Oxley Act of 2002
32.1	Certification of Brent Shafer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002
32.2	Certification of Marc G. Naughton pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document - the instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
104	Cover Page Interactive Data File - formatted in Inline XBRL and contained in Exhibit 101.

*Indicates a management contract or compensatory plan or arrangement.

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

Date: October 29, 2020

By: /s/ Marc G. Naughton
Marc G. Naughton
Executive Vice President and Chief Financial Officer (duly authorized officer and principal financial officer)

Exhibit 10.2

CERNER CORPORATION 2011 OMNIBUS EQUITY INCENTIVE PLAN – PERFORMANCE-BASED RSU AGREEMENT

(Continued from the "Notice of Grant of Award")

WHEREAS, the Compensation Committee of the Board of Directors or its duly appointed subcommittee or authorized delegatee (the “Committee”) of Cerner Corporation (“the Company”) has determined that Grantee (“Participant”) is eligible to receive a Performance-Based Restricted Stock Unit ("RSU") Grant under the Company’s 2011 Omnibus Equity Incentive Plan, as Amended & Restated May 22, 2015 (the “Plan”), as so indicated in the Notice of Grant of Award, which together with any RSU Award Agreement and this Performance Based RSU Agreement, constitutes the “Agreement”;

NOW, THEREFORE, in consideration of the mutual promises and covenants herein contained and other good and valuable consideration, the parties hereto do hereby agree as follows:

1. **Incorporation of the Plan**. A copy of the Plan is incorporated herein by reference and all the terms, conditions and provisions contained therein shall be deemed to be contained in this Agreement.

2. **RSU Grant**. Pursuant to the authorization of the Committee, and subject to the terms, conditions and provisions contained in this Agreement and any other specifically agreed to terms and conditions that may exist in any employment agreement between Participant and the Company (which shall govern over this Agreement), the Company hereby grants to Participant a Performance-Based RSU Award (the “Award”) upon the Vesting of which Participant will be paid an aggregate number of shares of Company Common Stock (the “Shares”) as set forth in the Notice of Grant of Award. The date of grant of the Award (the “Grant Date”) shall for all purposes be as set forth in the Notice of Grant of Award.

3. **Rights as a Shareholder**. Participant shall have no right to receive actual dividends or other distributions (if any) with respect to the RSUs; *provided, however,* that if a dividend or other distribution (including, without limitation, a stock dividend) shall be made on Shares, dividend equivalents equal to the amount and type of property that otherwise would have been transferred to Participant if each RSU was an actual Share shall be credited and accumulated in a non-interest bearing Company bookkeeping account and shall be subject to the same vesting schedule and other terms, conditions and restrictions as the RSUs on which such dividend equivalents relate. In connection with the payment of any dividend equivalents, the Company may deduct any taxes or other amounts required by any governmental authority to be withheld and paid over to such authority for the account of Participant. Participant shall have no shareholder voting rights with respect to any RSUs unless and until Shares are actually distributed in connection with the Vesting of the RSUs. Notwithstanding anything to the contrary, prior to the date on which the RSUs and any dividend equivalents received under Section 3 hereof (the “Aggregate RSU Consideration”) Vest pursuant to Section 5, such Aggregate RSU Consideration shall be subject to the restrictions on transferability contained in Section 6 hereof.

4. **Custody and Delivery of Shares**. Unless otherwise requested by Participant, any Share issued pursuant to this Agreement in connection with the Vesting and settlement of an RSU will be distributed in street name on or within 30 days following the Vest Date and held in Participant’s account at Morgan Stanley or other broker that the Company may choose (the “Broker”). Prior to the Vest Date, the grant of the RSUs will be recorded in the Company’s books and records. Company will reflect in its records the restrictions under which the Aggregate RSU Consideration is held and will not allow distribution or transfer of any Aggregate RSU Consideration prior to the date on which such Aggregate RSU Consideration Vests pursuant to Section 5 below. Shares will be distributed only on or after the RSU Vest Date, only if the requirements of Vesting set forth in Section 5 are met and only if the Committee elects to settle the RSU by payment of a Share. The Company will pay all original issue or transfer taxes and all fees and expenses incident to the delivery of any Aggregate RSU Consideration hereunder.

5. **Vesting and Forfeiture**. Except as otherwise provided in the Plan, this Agreement or any employment agreement between Participant and the Company (or any subsidiary thereof), the Aggregate RSU Consideration subject to this Award shall be distributed, become transferable and shall cease to be subject to forfeiture (“Vest” or "Vesting") upon the achievement of the objective performance goals set forth in the Notice of Grant of Award, subject to the restrictions set forth in the Notice of Grant of Award (the “Vest Date”) provided Participant remains an employee (“associate”), consultant or advisor of the Company (or any subsidiary thereof) from the Grant Date through the Vest Date. This Grant will expire, in part or in whole as applicable, if achievement of the objective performance goals as set forth in the Notice of Grant of Award is not completed by the Vest Date. Should Participant’s employment or engagement terminate, for any reason, then all Aggregate RSU Consideration that has not Vested as of such date of termination shall immediately terminate and shall be forfeited to the Company. In the event of a “Change of Control” as defined in the Plan: (i) 50% of Participant’s outstanding Shares that have not yet Vested shall immediately Vest (such 50% shall be comprised of 50% of each tranche of all unvested Shares with different Vest dates); and, (ii) all remaining Shares shall continue to Vest according to the current vesting schedule and terms of this Award, but should Participant’s employment or engagement be terminated by the Company (or, as applicable, any subsidiary thereof), other than for Cause, or should Participant resign for Good Reason (as defined in Participant’s employment agreement with the Company (or, as applicable, any subsidiary thereof) or in the Company’s then current Severance Pay Plan), within twelve (12) months of the Change in Control, all such remaining Shares shall Vest immediately. Notwithstanding the foregoing, and except to the extent any contrary or overriding term would result in a violation of Code Section 409A, to the extent that (i) the employment agreement between Participant and the Company (or any subsidiary thereof) contains terms and conditions relating to the Vesting or forfeiture of equity awards, including the RSUs, and (ii) a provision in such employment agreement directly conflicts with any provision in this Section 5, the terms and conditions set forth in such employment agreement shall supersede and control.

6. **Non-Transferability of Award**. Prior to the date on which any Aggregate RSU Consideration Vests pursuant to Section 5 hereof, none of the RSUs nor any right to receive a Share upon the settlement thereof, nor any other rights to receive any Aggregate RSU Consideration, may be sold, transferred, assigned, pledged, hypothecated, encumbered or otherwise disposed of (whether by operation of law or otherwise) or be subject to execution, attachment or similar process. Any such attempted sale, transfer, assignment, pledge, hypothecation or encumbrance, or other disposition of such Aggregate RSU Consideration or any rights relating thereto shall be null and void.

7. **Securities Laws**. Participant hereby represents and covenants that if in the future Participant decides to offer or dispose of any Shares obtained in connection with the Vesting of an RSU, Participant will do so only in compliance with this Agreement, the Securities Act of 1933, as amended, and all applicable state securities laws. As a condition precedent to the delivery to Participant of the Aggregate RSU Consideration, Participant shall comply with all regulations and requirements of any regulatory authority having control or supervision over the issuance of the Aggregate RSU Consideration and, in connection therewith, shall execute any documents and make any representation and warranty to the Company which the Committee shall in its sole discretion deem necessary or advisable.

8. Withholding with Shares. Unless specifically denied by the Committee, Participant may elect to pay all amounts of tax withholding, or any part thereof, by electing to have the Company withhold from the Shares otherwise eligible to be issued in connection with the Vesting of an RSU from the same RSU tranche a number of Shares having a value equal to the amount to be withheld under federal, state or local law and in accordance with the Plan. The value of such Shares to be withheld by the Company shall be based on the Fair Market Value of the Shares on the date that the amount of tax to be withheld is to be determined (the "Tax Date"), as determined by the Committee. Any election by Participant to have such Shares withheld for this purpose will be subject to the following restrictions:
(a) All elections must be made prior to the Tax Date;
(b) All elections shall be irrevocable; and
(c) If Participant is an officer or director of the Company within the meaning of Section 16 of the Securities Exchange Act of 1934, as amended ("Section 16"), Participant must satisfy the requirements of Section 16 and any applicable rules thereunder with respect to the use of Shares to satisfy such tax withholding obligation.

9. Notices. Any notices or other communications required or allowed to be made or given to the Company under the terms of this Agreement shall be addressed to the Company in care of its President at its offices at 2800 Rockcreek Parkway, North Kansas City, Missouri 64117, and any notice to be given to Participant shall be addressed to Participant at the address in the Company’s records. Either party hereto may from time-to-time change the address to which notices are to be sent to such party by giving written notice of such change to the other party. Any notice hereunder shall be deemed to have been duly given five (5) business days after registered and deposited, postage and registry fee prepaid, in a post office regularly maintained by the United States government.

10. Clawback. Participant acknowledges that the Award may be subject to certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank”) that will require the Company to recover certain amounts of incentive compensation paid to certain executive officers if the Company is required to prepare an accounting restatement due to the material noncompliance of the Company with any financial reporting requirements under any applicable securities laws. By accepting this Award, Participant agrees and consents to any forfeiture or required recovery or reimbursement obligations of the Company with respect to any equity paid to Participant under this Agreement that is forfeitable or recoverable by the Company pursuant to Dodd-Frank and in accordance with any Company policies and procedures adopted by the Compensation Committee in order to comply with Dodd Frank, even if such policies or procedures are adopted after the grant date of this Award and as the same may be amended from time to time.

11. Binding Effect and Assignment. This Agreement shall bind the parties hereto, but shall not be assignable by Participant.

12. Governing Law. This Agreement shall be construed in accordance with the laws of the State of Missouri.
This Agreement has been issued by the Company by its duly authorized representatives and shall be effective as of the Grant Date as set forth in the Notice of Grant of Award.

Exhibit 10.3

CERNER CORPORATION 2011 OMNIBUS EQUITY INCENTIVE PLAN – TIME-BASED RSU AGREEMENT

(Continued from the Notice of Grant of Award and the RSU Award Agreement)

WHEREAS, the Compensation Committee of the Board of Directors or its duly appointed subcommittee or authorized delegatee (the "Committee") of Cerner Corporation (the "Company") has determined that Grantee ("Participant") is eligible to receive a Time-Based Restricted Stock Unit ("RSU") Grant under the Company's 2011 Omnibus Equity Incentive Plan, as Amended & Restated May 22, 2015 (the "Plan"), as so indicated in the Notice of Grant of Award, which together with any RSU Award Agreement and this Time-Based RSU Agreement, constitutes the "Agreement";

NOW, THEREFORE, in consideration of the mutual promises and covenants herein contained and other good and valuable consideration, the parties hereto do hereby agree as follows:

1. **Incorporation of the Plan**. A copy of the Plan is incorporated herein by reference and all the terms, conditions and provisions contained therein shall be deemed to be contained in this Agreement.

2. **RSU Grant**. Pursuant to the authorization of the Committee, and subject to the terms, conditions and provisions contained in this Agreement and any other specifically agreed to terms and conditions that may exist in any employment agreement between Participant and the Company (which shall govern over this Agreement), the Company hereby grants to Participant a Time-Based RSU Award (the "Award") upon the Vesting of which Participant will be paid an aggregate number of shares of Company Common Stock (the "Shares") as set forth in the Notice of Grant of Award. The date of grant of the Award (the "Grant Date") shall for all purposes be as set forth in the Notice of Grant of Award.

3. **Rights as a Shareholder**. Participant shall have no right to receive actual dividends or other distributions (if any) with respect to the RSUs; *provided, however,* that if a dividend or other distribution (including, without limitation, a stock dividend) shall be made on Shares, dividend equivalents equal to the amount and type of property that otherwise would have been transferred to Participant if each RSU was an actual Share shall be credited and accumulated in a non-interest bearing Company bookkeeping account and shall be subject to the same vesting schedule and other terms, conditions and restrictions as the RSUs on which such dividend equivalents relate. In connection with the payment of any dividend equivalents, the Company may deduct any taxes or other amounts required by any governmental authority to be withheld and paid over to such authority for the account of Participant. Participant shall have no shareholder voting rights with respect to any RSUs unless and until Shares are actually distributed in connection with the Vesting of the RSUs. Notwithstanding anything to the contrary, prior to the date on which the RSUs and any dividend equivalents received under Section 3 hereof (the "Aggregate RSU Consideration") Vest pursuant to Section 5, such Aggregate RSU Consideration shall be subject to the restrictions on transferability contained in Section 6 hereof.

4. **Custody and Delivery of Shares**. Unless otherwise requested by Participant, any Share issued pursuant to this Agreement in connection with the Vesting and settlement of an RSU will be distributed in street name on or within 30 days following the Vest Date and held in Participant's account at Morgan Stanley or other broker that the Company may choose (the "Broker"). Prior to the Vest Date, the grant of the RSUs will be recorded in the Company's books and records. Company will reflect in its records the restrictions under which the Aggregate RSU Consideration is held and will not allow distribution or transfer of any Aggregate RSU Consideration prior to the date on which such Aggregate RSU Consideration Vests pursuant to Section 5 below. Shares will be distributed only on or after the Vest Date, only if the requirements of Vesting set forth in this Agreement are met and only if the Committee elects to settle the RSU by payment of a Share. The Company will pay all original issue or transfer taxes and all fees and expenses incident to the delivery of any Aggregate RSU Consideration hereunder.

5. **Vesting and Forfeiture**. Except as otherwise provided in the Plan, this Agreement or any employment agreement between Participant and the Company (or any subsidiary thereof), the Aggregate RSU Consideration subject to this Award shall be distributed, become transferable and shall cease to be subject to forfeiture ("Vest" or "Vesting") on the date(s) and in the amounts set forth in the Notice of Grant of Award (the "Vest Date") provided Participant remains an employee ("associate"), consultant or advisor of the Company (or any subsidiary thereof) from the Grant Date through the Vest Date as defined in the Notice of Grant of Award. This Grant will expire, in part or in whole as applicable, if Participant's employment or other service relationship with Company (or, as applicable, any subsidiary thereof) ends before the Vest Date for any reason (other than on account of death or disability within period described below). In the event of the death or disability of Participant within the ninety (90) day period immediately preceding the Vest Date, and assuming Participant continuously served as an associate, consultant or advisor through the date of such death or disability, then the Aggregate RSU Consideration with respect to the RSUs scheduled to Vest on such Vest Date shall Vest on the date of such death or disability; otherwise the Award shall immediately terminate with respect to any then unvested RSUs and the remaining Aggregate RSU Consideration shall be forfeited to the Company upon such death or disability. In the event such Participant is terminated or resigns, then any unvested portion of the Award and unvested Aggregate RSU Consideration shall immediately terminate and shall be forfeited to the Company. In the event of a "Change of Control" as defined in the Plan: (i) 50% of Participant's outstanding Shares that have not yet Vested shall immediately Vest (such 50% shall be comprised of 50% of each tranche of all unvested Shares with different Vest dates); and, (ii) all remaining Shares shall continue to Vest according to the current vesting schedule and terms of this Award, but should Participant's employment or engagement be terminated by the Company (or, as applicable, any subsidiary thereof), other than for Cause, or should Participant resign for Good Reason (as defined in Participant's employment agreement with the Company (or any subsidiary thereof) or in the Company's then current Enhanced Severance Pay Plan), within twelve (12) months of the Change in Control, all such remaining Shares shall Vest immediately. Notwithstanding the foregoing, and except to the extent any contrary or overriding term would result in a violation of Code Section 409A, to the extent that (i) the employment agreement between Participant and the Company contains terms and conditions relating to the Vesting or forfeiture of equity awards, including the RSUs, and (ii) a provision in such employment agreement directly conflicts with any provision in this Section 5, the terms and conditions set forth in such employment agreement shall supersede and control.

6. **Non-Transferability of Award**. Prior to the date on which any Aggregate RSU Consideration Vests pursuant to Section 5 hereof, none of the RSUs nor any right to receive a Share upon the settlement thereof, nor any other rights to receive any Aggregate RSU Consideration, may be sold, transferred, assigned, pledged, hypothecated, encumbered or otherwise disposed of (whether by operation of law or otherwise) or be subject to execution, attachment or similar process. Any such attempted sale, transfer, assignment, pledge, hypothecation or encumbrance, or other disposition of such Aggregate RSU Consideration or any rights relating thereto shall be null and void.

7. **Securities Laws**. Participant hereby represents and covenants that if in the future Participant decides to offer or dispose of any Shares obtained in connection with the Vesting of an RSU, Participant will do so only in compliance with this Agreement, the Securities Act of 1933, as amended, and all applicable state securities laws. As a condition precedent to the delivery to Participant of the Aggregate RSU Consideration, Participant shall comply with all regulations and requirements of any regulatory authority having control or supervision over the issuance of the Aggregate RSU Consideration and, in connection therewith, shall execute any documents and make any representation and warranty to the Company which the Committee shall in its sole discretion deem necessary or advisable.

8. **Withholding with Shares.** Unless specifically denied by the Committee, Participant may elect to pay all amounts of tax withholding, or any part thereof, by electing to have the Company withhold from the Shares otherwise eligible to be issued in connection with the Vesting of an RSU from the same RSU tranche a number of Shares having a value equal to the amount to be withheld under federal, state or local law and in accordance with the Plan. The value of such Shares to be withheld by the Company shall be based on the Fair Market Value of the Shares on the date that the amount of tax to be withheld is to be determined (the "Tax Date"), as determined by the Committee. Any election by Participant to have such Shares withheld for this purpose will be subject to the following restrictions:
(a) All elections must be made prior to the Tax Date;
(b) All elections shall be irrevocable; and
(c) If Participant is an officer or director of the Company within the meaning of Section 16 of the Securities Exchange Act of 1934, as amended ("Section 16"), Participant must satisfy the requirements of Section 16 and any applicable rules thereunder with respect to the use of Shares to satisfy such tax withholding obligation.

9. **Notices**. Any notices or other communications required or allowed to be made or given to the Company under the terms of this Agreement shall be addressed to the Company in care of its President at its offices at 2800 Rockcreek Parkway, North Kansas City, Missouri 64117, and any notice to be given to Participant shall be addressed to Participant at the address in the Company's records. Either party hereto may from time-to-time change the address to which notices are to be sent to such party by giving written notice of such change to the other party. Any notice hereunder shall be deemed to have been duly given five (5) business days after registered and deposited, postage and registry fee prepaid, in a post office regularly maintained by the United States government.

10. **Binding Effect and Assignment**. This Agreement shall bind the parties hereto, but shall not be assignable by Participant.

11. **Governing Law**. This Agreement shall be construed in accordance with the laws of the State of Missouri.

This Agreement has been issued by the Company by its duly authorized representatives and shall be effective as of the Grant Date as set forth in the Notice of Grant of Award.

Exhibit 31.1

CERTIFICATION

I, Brent Shafer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cerner Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 29, 2020

/s/ Brent Shafer
Brent Shafer
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Marc G. Naughton, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cerner Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 29, 2020

/s/ Marc G. Naughton
Marc G. Naughton
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION FURNISHED PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the filing of the Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2020 (the "Report") by Cerner Corporation (the "Company"), the undersigned Chief Executive Officer of the Company hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Brent Shafer
Brent Shafer, Chairman of the Board
and Chief Executive Officer
(Principal Executive Officer)
Date: October 29, 2020

Exhibit 32.2

CERTIFICATION FURNISHED PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the filing of the Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2020 (the "Report") by Cerner Corporation (the "Company"), the undersigned Chief Financial Officer of the Company hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Marc G. Naughton
Marc G. Naughton, Executive Vice President
and Chief Financial Officer
(Principal Financial Officer)
Date: October 29, 2020