CERNER CORP /MO/
Form S-4/A
November 07, 2001

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As filed with the Securities and Exchange Commission on November 7, 2001
Registration No. 333-72024

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

AMENDMENT NO. 1
to
FORM S-4
REGISTRATION STATEMENT
Under
The Securities Act of 1933

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

DELAWARE	**7373**	**43-1196944**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification No.)**

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

MARC G. NAUGHTON
Vice President and Chief Financial Officer
2800 Rockcreek Parkway
North Kansas City, Missouri 64117
(816) 221-1024
(Name, address, including zip code, and telephone number, including area code, of agent for service)
Copies to:

CRAIG L. EVANS, ESQ.	**RICHARD A. DENMON, ESQ.**
Stinson, Mag & Fizzell, P.C.	**Carlton Fields, P.A.**
1201 Walnut Street, Suite 2800	**One Harbour Place, 777 S. Harbour Island Blvd.**
Kansas City, Missouri 64106	**Tampa, Florida 33602**
(816) 842-8600	**(813) 223-7000**
Facsimile: (816) 691-3495	**Facsimile: (813) 229-4133**

Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after this registration statement is declared effective and all other conditions to the merger (as described herein) have been satisfied or waived.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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[Logo of Cerner] PROSPECTUS OF PROXY STATEMENT OFCERNER CORPORATION DYNAMIC HEALTHCARE TECHNOLOGIES, INC.	**[Logo of Dynamic Healthcare Technologies, Inc.]**

MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT

To the Shareholders of Dynamic Healthcare Technologies, Inc.

The boards of directors of Cerner Corporation and Dynamic Healthcare Technologies, Inc. have approved a merger agreement that would result in Cerner acquiring Dynamic. The merger offers Dynamic shareholders the opportunity to become shareholders of Cerner, a more significant provider of information systems to the healthcare industry. Dynamic believes the combination of these two companies will result in an opportunity to create substantially more shareholder value than could be achieved by Dynamic individually.

If we complete the merger, Dynamic shareholders will receive a number of shares of Cerner common stock equal to 362,791 divided by the number of Dynamic common shares issued and outstanding as of the close of business on the date that all of the conditions to the merger have been satisfied or waived. However, there is one exception. If the average of the closing sales price of Cerner common stock during the 15 consecutive trading day period ending on the first trading day immediately prior to the date that all of the conditions to the merger have been satisfied or waived is $64.50 or greater then the Dynamic shareholders will receive for each Dynamic common share that number of shares of Cerner common stock equal to:

362,791 divided by the number of Dynamic common shares issued and outstanding on the date that all of the conditions to the merger have been satisfied or waived, multiplied by

a fraction, the numerator of which is $64.50 and the denominator of which is the average of the closing sales price of Cerner common stock during such 15 day trading period.

Dynamic cannot complete the merger unless the shareholders holding a majority of the outstanding Dynamic common shares approve it. Dynamic will hold a meeting of its shareholders to vote on the merger. **Your vote is very important. Whether or not you plan to attend the shareholder meeting, please vote by completing and mailing the enclosed proxy card to us.** If you sign, date and mail your proxy card without indicating how you want to vote, your proxy will be counted as a vote in favor of the merger. Not returning your proxy card or not instructing your broker how to vote shares held for you in street name will have the same effect as voting those shares against the merger.

The date, time and place of the meeting is:	December 11, 2001
	9:00 a.m.
	615 Crescent Executive Court, Fifth Floor
	Lake Mary, Florida

This document provides you with detailed information about the proposed merger. Dynamic encourages you to read this entire document carefully.

[/s/ Neal L. Patterson] Neal L. Patterson Chairman of the Board and Chief Executive Officer Cerner Corporation	[/s/ T. Christopher Assif] T. Christopher Assif Chief Executive Officer Dynamic Healthcare Technologies, Inc.

Cerner s common stock and Dynamic s common shares are quoted on the Nasdaq National Market under the symbols CERN and DHTI, respectively.

For a discussion of certain risk factors that you should consider in evaluating the merger, see Risk Factors beginning on page 15.

Neither the Securities and Exchange Commission nor any state securities regulators has approved or disapproved of the Cerner common stock to be issued in the merger or determined whether this document is truthful or complete. Any representation to the contrary is a criminal offense.

This proxy statement/prospectus is dated November 8, 2001, and is being first mailed to shareholders on or about November 8, 2001.

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[Dynamic Healthcare Technologies, Inc. Logo]

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS OF DYNAMIC HEALTHCARE TECHNOLOGIES, INC.

To be held on December 11, 2001

To the shareholders of Dynamic Healthcare Technologies, Inc.:

We will hold a special meeting of shareholders of Dynamic Healthcare Technologies, Inc., a Florida corporation, on December 11, 2001, at 9:00 a.m., local time, at 615 Crescent Executive Court, Fifth Floor, Lake Mary, Florida, for the following purposes:

1. To consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated September 5, 2001, by and among Cerner Corporation, Dynamic Healthcare Technologies, Inc. and Cerner Holdings, Inc., and the transactions contemplated thereby. Under the merger agreement:

   Dynamic Healthcare Technologies, Inc. will merge with and into Cerner Holdings, Inc., a wholly owned subsidiary of Cerner.

   Each issued and outstanding Dynamic Healthcare Technologies, Inc. common share will be converted into a number of shares of Cerner common stock determined by dividing 362,791 by the number of Dynamic common shares issued and outstanding as of the close of business on the date that all of the conditions to the merger have been satisfied or waived, unless the average of the closing sales price of Cerner common stock during the 15 consecutive trading day period ending on first trading day immediately prior to the date that all of the conditions to the merger have been satisfied or waived is $64.50 or greater, in which case each Dynamic common share will be converted into that number of shares of Cerner common stock equal to (a) 362,791 divided by the number of Dynamic common shares issued and outstanding on the date that all of the conditions to the merger have been satisfied or waived, multiplied by (b) a fraction, the numerator of which is $64.50 and the denominator of which is the average of the closing sales price of Cerner common stock during such 15 day trading period.

   Each share of Dynamic preferred stock will be redeemed at a price per share equal to $2.00 in cash, plus all unpaid accrued dividends to which holders of such preferred stock are entitled to receive.

2. To transact any other business as may properly come before the special meeting or any adjournments or postponements of the special meeting.

The merger agreement is described in the accompanying proxy statement/prospectus, and a copy of the merger agreement is attached as Appendix A to the proxy statement/prospectus. **Please review these materials carefully and consider fully the information disclosed.**

Action may be taken on the above proposal at the special meeting on the date specified above or on any date or dates to which the special meeting may be adjourned. Only holders of record of Dynamic Healthcare Technologies, Inc. common shares at the close of business on November 5, 2001 are entitled to notice of, and to vote at, the special meeting or any adjournments or postponements of the special meeting. The affirmative vote of at least a majority of the outstanding Dynamic Healthcare Technologies, Inc. common shares entitled to vote is required for approval of the merger agreement and the transactions contemplated thereby, including the merger.

The board of directors of Dynamic Healthcare Technologies, Inc. recommends that you vote FOR approval of the merger agreement and the transactions contemplated by the merger agreement.

Your vote is important. Whether or not you plan to attend the special meeting in person, please complete, date, sign and return the accompanying proxy card promptly in the postage-paid enclosed envelope. Sending in your proxy now will not interfere with your right to attend the meeting or to vote your shares personally at the meeting if you wish to do so.

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If your shares are held in street name by your broker or other nominee, only that holder can vote your shares. You should follow the directions provided by your broker or other nominee regarding how to instruct them to vote your shares.

You may revoke your proxy with respect to any proposal at any time prior to the completion of the voting on such proposal at the meeting, by following the procedures set forth in the accompanying proxy statement/prospectus.

By Order of the Board of Directors

PLEASE COMPLETE, SIGN, DATE, AND RETURN THE ENCLOSED
PROXY CARD, WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING.

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WHAT DYNAMIC SHAREHOLDERS WILL RECEIVE IN THE MERGER

We refer to the number of shares of Cerner common stock into which one Dynamic common share will be converted in the merger as the exchange ratio. If we complete the merger, Dynamic holders of common shares will receive an aggregate of 362,791 shares of Cerner common stock, unless the average of the closing sales price of Cerner common stock during the 15 consecutive trading day period ending immediately prior to the date that all conditions to the merger are satisfied or waived is $64.50 or greater. The number of shares of Cerner common stock that will be issued with respect to each Dynamic common share will be determined as follows:

if the average of the closing sales price of Cerner common stock during the 15 consecutive trading day period ending immediately prior to the date that all conditions to the merger are satisfied or waived is less than $64.50, then the number of shares of Cerner common stock that a Dynamic shareholder will receive for each Dynamic common share will be an amount equal to 362,791 divided by the number of issued and outstanding Dynamic common shares; or

if the average of the closing sales price of Cerner common stock during such 15 trading day period is $64.50 or greater, then the number of shares of Cerner common stock that a Dynamic shareholder will receive for each Dynamic common share will be an amount equal to (a) 362,791 divided by the number of issued and outstanding Dynamic common shares, multiplied by (b) a fraction, the numerator of which is $64.50 and the denominator of which is the average of the closing sales price of Cerner common stock during such 15 trading day period.

Illustrations of the calculation of the exchange ratio are provided below, assuming there are 6,593,216 Dynamic common shares issued and outstanding on the effective date of the merger (which is the number of shares issued and outstanding on October 16, 2001).

(1) If the average Cerner common stock price is:	(2) Number of Dynamic common shares issued and outstanding	(3) The number of shares of Cerner common stock to be issued in the merger	(4) The exchange ratio (3 divided by 2)	(5) The value of the merger consideration per Dynamic share (1 times 4)

(a) Calculated by multiplying 362,791 times a fraction, the numerator of which is $64.50 and the denominator is the amount in column 1.

Because the trading price of Cerner common stock varies, the actual market value of the Cerner common stock you receive as merger consideration may differ from the calculated value of the merger consideration shown above, which is provided here for illustrative purposes only.

Each share of Dynamic preferred stock will be redeemed at a price per share equal to $2.00 in cash, plus all unpaid accrued dividends which the holders of such preferred shares are entitled to receive.

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QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE SHAREHOLDER MEETING

Q: Why are the two companies proposing to merge?

A: We believe the proposed merger is in the best interests of both of the companies and their respective shareholders. The board of directors of Cerner believes that the merger will result in an addition to Cerner s significant pathology, laboratory and radiology client base that primarily consists of larger hospitals, health systems and independent laboratories. The board of directors of Dynamic believes the merger provides significant value to Dynamic shareholders, provides them with greater liquidity for their investment, and enables them to participate in the opportunities for growth offered by Cerner.

You should review the reasons for the merger described in greater detail at pages 24 through 26.

Q: When and where is the special meeting?

A: The Dynamic special meeting is scheduled to take place on December 11, 2001, at 9:00 a.m. local time, at 615 Crescent Executive Court, Fifth Floor, Lake Mary, Florida.

Q: When do you expect the merger to be completed?

A: We expect to complete the merger promptly after receiving shareholder approval at the special meeting.

Q: What do I need to do now?

A: You should carefully read and consider the information contained in this document. Then, please fill out, sign and mail your proxy card in the enclosed return envelope as soon as possible so that your shares may be represented at the special meeting. If the card is signed, dated and mailed, but does not specify a choice, it will be voted FOR approval of the merger and the transactions contemplated by the merger agreement.

Q: What if I don t vote or I abstain from voting?

A: If you do not vote or you abstain from voting, the effect will be a vote against the merger and the transactions contemplated by the merger agreement.

Q: If my shares are held by my broker in street name, will my broker vote my shares for me?

A: Your broker will vote your shares only if you provide instructions on how to vote. You should follow the directions provided by your broker to vote your shares. If you do not provide your broker with instructions on how to vote your shares held in street name, your broker will not be permitted to vote your shares, which will have the effect of a vote against the merger and the transactions contemplated by the merger agreement.

Q: May I change my vote after I have mailed my signed proxy card?

A: Yes. You may change your vote at any time before your proxy is voted at the special meeting. You can do this in one of three ways. First, you can send a written notice stating that you would like to revoke your proxy. Second, you can complete and submit a new proxy card. If you choose either of these two methods, you must submit your notice of revocation or your new proxy card to Dynamic Healthcare Technologies, Inc., at 615 Crescent Executive Court, Fifth Floor, Lake Mary, Florida 32746, Attention: Brian Greco, Corporate Secretary, prior to the vote of the shareholders at the Special Meeting to be held on December 11, 2001. Third, you can attend the special meeting and vote in person. Simply attending the meeting, however, will not revoke your proxy; you must request a ballot and vote the ballot at the meeting. If you have instructed a broker to vote your shares, you must follow directions received from your broker to change your vote.

Q: Are Dynamic shareholders entitled to dissenters rights?

A: No. Under Florida law, Dynamic shareholders are not entitled to dissenters rights of appraisal or other rights to demand fair value for their shares in cash by reason of the merger.

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Q: Should I send in my stock certificate now?

A: No. After the merger is completed, you will receive written instructions for exchanging your stock certificates for certificates of Cerner common stock and the cash consideration for any fractional shares of Dynamic common stock.

Q: Who can I call with questions about the special meeting or the merger?

A: If you have any questions about the merger, or if you need additional copies of the proxy statement/prospectus or the enclosed proxy, you can contact Brian Greco, Corporate Secretary of Dynamic, at (407) 333-5300.

This document incorporates important business and financial information about Cerner and Dynamic from documents filed with the SEC that have not been included in or delivered with this document. You may read and copy these documents at the SEC s public reference facilities. Please call the SEC at 1-800-SEC-0330 for information about these facilities. This information also is available at the Internet site the SEC maintains at http:\\www.sec.gov. Reports and other information relating to Cerner and Dynamic also are available at the offices of the Nasdaq National Market. See Where You Can Find More Information on page 62.

Cerner will provide you with copies of the documents relating to Cerner, without charge, upon written or oral request to:

Cerner Corporation
2800 Rockcreek Parkway
North Kansas City, Missouri 64117
(816) 221-1024
Attention: Randy D. Sims, Secretary

Dynamic will provide you with copies of the documents relating to Dynamic, without charge, upon written or oral request to:

Dynamic Healthcare Technologies, Inc.
615 Crescent Executive Court
Fifth Floor
Lake Mary, Florida 32746
(407) 333-5300
Attention: Brian Greco, Secretary

In order to receive timely delivery of the documents in advance of the special meeting of shareholders, you should make your request no later than December 5, 2001.

SUMMARY

This Summary, together with the preceding Question and Answer section, highlights selected information from this proxy statement/prospectus and may not contain all the information that is important to you. To better understand the merger and related transactions and for a more complete description of the legal terms of the merger and related transactions, you should carefully read this entire document and the documents to which we have referred you. See Where You Can Find More Information on page 62.

The Companies

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

Cerner, a Delaware corporation incorporated in 1980, is a leading supplier of clinical and management information and knowledge systems to healthcare organizations worldwide. Cerner s mission is to connect the appropriate persons, knowledge and resources at the appropriate time and location to achieve the optimal health outcome.

Dynamic Healthcare Technologies, Inc.
615 Crescent Executive Court
Fifth Floor
Lake Mary, Florida 32746
(407) 333-5300

Dynamic, a Florida corporation incorporated in 1977, is a provider of NT, UNIX and AS/400 based diagnostic workflow solutions for pathology, laboratory and radiology departments in approximately 640 customer sites, most located in the United States. Dynamic s information systems contribute to higher quality and more cost-effective delivery of care and make it possible to have access to information across the entire continuum of care.

The Merger

We have attached a copy of the Agreement and Plan of Merger to this document as Appendix A. We encourage you to read this merger agreement as it is the legal document that governs the merger.

Vote Required (see page 19)

The affirmative vote of a majority of each of Dynamic s outstanding classes of equity, the common shares and the preferred shares, voting as a separate class must approve the merger. As of the Dynamic record date, directors and executive officers of Dynamic owned or controlled approximately 1,347,486 Dynamic common shares, entitling them to exercise approximately 20.4% of the voting power of the Dynamic common shares entitled to vote at the Dynamic special meeting. In addition, at the time the merger agreement was entered into by Dynamic and Cerner, certain holders affiliated with directors of Dynamic that beneficially own in excess of a majority of the Dynamic preferred shares entered into a shareholder agreement with Cerner to vote their preferred shares in favor of the merger and have furnished Cerner with an irrevocable proxy to ensure such vote. A copy of the shareholder agreement is attached to this document as Appendix C.

Our Reasons for the Merger (see pages 24 through 26)

We are proposing to merge because we believe that:

- by combining the companies we can create a stronger company that will provide benefits to both our shareholders and customers; and
- the merger will strengthen the combined company s position as a competitor in the healthcare information management industry, which is rapidly changing and growing more competitive.

In reaching its conclusions, the board of directors of Dynamic considered a number of factors, including:

the anticipated merger consideration to be received by its shareholders in relation to book value, market value, and earnings per Dynamic common share,

the available alternatives to enhance shareholder value,

the opportunity for shareholders to realize a premium over recent historical market prices for the shares in a tax free exchange,

the business, operations, financial condition, and future prospects of Dynamic as a stand alone company, including the attendant risks of such a strategy,

an evaluation of the potential long-term prospects of Cerner,

the complementary nature of the products offered by each of the companies and the access to additional channels of distribution for Dynamic s products,

Dynamic s limited capital resources, as evidenced by its negative working capital, and the difficulty of raising additional capital on

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satisfactory terms under current market conditions, and

minimal disruption to, and the potential benefits to be received by Dynamic s customers, employees, and the communities in which Dynamic operates.

Dynamic s Board of Directors Recommends that Dynamic s Shareholders Approve the Merger and Related Transactions (see pages 24 through 26)

The Dynamic board of directors believes that the merger and the transactions contemplated thereby are fair to you and in your best interests and recommends that you vote FOR the proposal to approve and adopt the merger agreement and the transactions contemplated thereby.

What Dynamic s Shareholders Will Receive (see page 1)

If we complete the merger, the number of shares of Cerner common stock that a Dynamic shareholder will receive for each Dynamic common share will be an amount equal to 362,791 divided by the number of Dynamic common shares issued and outstanding as of the close of business on the date that all of the conditions to the merger have been satisfied or waived, unless the average of the closing sales price of Cerner common stock during the 15 consecutive trading day period ending immediately preceding the date that all conditions of the merger have been satisfied or waived is $64.50 or greater, in which case the Dynamic common shareholders will receive for each Dynamic common share that number of shares of Cerner common stock equal to (a) 362,791 divided by the number of Dynamic common shares issued and outstanding on the date that all conditions of the merger have been satisfied or waived multiplied by (b) a fraction, the numerator of which is $64.50 and the denominator of which is the average of the closing sales price of Cerner common stock during such 15 trading day period. Cerner will not issue any fractional shares in the merger. Instead, you will receive a small cash payment equal to the value of any fractional shares that otherwise would have been issued to you.

Each share of Dynamic preferred stock will be redeemed at a price per share equal to $2.00 in cash, plus all unpaid accrued dividends to which holders of such preferred shares are entitled to receive.

Following the merger, you will be entitled to exchange your Dynamic common shares for shares of Cerner common stock by sending your Dynamic common share certificates, and a form for exchanging the shares that we will send to you, to Cerner s exchange agent, UMB Bank, n.a. Upon receipt of these documents, the exchange agent will exchange your Dynamic common shares for shares of Cerner common stock at the applicable exchange ratio. For more information on this procedure, see THE MERGER Exchange of Stock Certificates on page 22.

Federal Income Tax Consequences (see pages 35 through 37)

We expect that the holders of Dynamic common shares generally will not recognize any gain or loss for U.S. federal income tax purposes as a result of your exchange of Dynamic common shares for shares of Cerner common stock. You may, however, have to recognize gain or loss in connection with cash received in payment for any fractional share that may result from the exchange ratio of the merger. In addition, holders of the Dynamic preferred shares that are redeemed for cash in connection with the merger may have to recognize income, gain or loss in connection with such payment. The income tax treatment described above may not apply to all Dynamic common and preferred shareholders. Determining the actual income tax consequences of the merger to you can be complicated. You should consult your own tax advisor for a full understanding of the merger s tax consequences that are particular to you. We will not be obligated to complete the merger unless we receive a legal opinion, dated the closing date, that the merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. In that case, the U.S. federal income tax treatment of the merger will be as we have described it above. This opinion, however, will not bind the Internal Revenue Service, which could take a different view.

No Dissenters Rights (see pages 55 through 57)

Dynamic is incorporated under Florida law and under applicable Florida law Dynamic shareholders will not have any right of appraisal or other rights to demand fair value for their shares in cash in connection with the merger.

Opinion of SG Cowen Securities Corporation (see pages 26 through 33)

In deciding to approve the merger, the Dynamic board considered the opinion from SG Cowen Securities Corporation as to the fairness, from a financial point of view to the holders of Dynamic common shares, of the exchange ratio at which Dynamic common shares will be converted into shares of Cerner common stock pursuant to the merger. A copy of this opinion is attached as Appendix B to this proxy statement/prospectus.

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Conditions to the Merger (see pages 38 through 39)

The completion of the merger depends upon the satisfaction of a number of conditions, including the following:

approval by Dynamic s shareholders;

the continued accuracy of each company s representations and warranties and compliance by each company with its agreements contained in the merger agreement;

receipt of a legal opinion from Cerner s counsel as to the tax consequences of the merger;

the average of the closing sales price of Cerner common stock for the 15 consecutive trading day period ending immediately prior to the closing date of the merger is $43.00 or more;

receipt of any required regulatory approvals;

there being no legal action or court order that prohibits the merger; and

there having not been a material adverse change in the financial condition or assets of either Cerner or Dynamic.

Termination of the Merger Agreement (see pages 41 through 42)

Cerner and Dynamic can agree to terminate the merger agreement without completing the merger even if Dynamic s shareholders have approved it. Also, either of us can terminate the merger agreement on our own without completing the merger under various circumstances, including:

if the merger has not been consummated by February 28, 2002;

if there is any law that makes consummation of the merger illegal or otherwise prohibited;

if the Dynamic shareholders do not approve the merger on or before February 28, 2002; or

if the other company has materially breached its representations, warranties or obligations under the merger agreement.

In addition, Cerner may decide not to complete the merger if (a) Dynamic s board of directors changes, in a manner adverse to Cerner, its recommendation that Dynamic s shareholders approve the merger, (b) Dynamic has entered into an agreement to be acquired by another party or if the Dynamic board or committee of the board approves such a transaction to be acquired, or (c) a tender offer or exchange offer for the common stock of Dynamic has been commenced and Dynamic has not sent to its shareholders, within ten business days after the commencement of such tender or exchange offer, a statement that Dynamic recommends rejection of such tender or exchange offer. Similarly, Dynamic may decide not to complete the merger if it receives an acquisition proposal from another party that the Dynamic board believes is superior to the merger, or Cerner does not close the merger within 15 business days after all conditions to its obligation to close have been satisfied, other than the condition that the average of the closing sales price of Cerner common stock for the 15 consecutive trading day period immediately prior to the date that all other conditions are satisfied is $43.00 or more.

Termination Fees; Liquidated Damages and Expenses (see pages 42 through 43)

Dynamic is required to pay Cerner a termination fee of $2,000,000 if:

Dynamic terminates the merger agreement or modifies or withdraws its recommendation of the merger and merger agreement because it received an acquisition proposal from another party that the Dynamic board believes is superior to the merger; or

Cerner terminates the merger agreement because Dynamic (1) modified or withdrew its recommendation of the merger and merger agreement, (2) breached its obligations under certain provisions of the merger agreement relating to other acquisition proposals or the Dynamic recommendation of the merger and merger agreement, (3) approved an acquisition proposal from another party, or (4) failed to recommend to its shareholders rejection of a third party tender or exchange offer within ten business days after commencement of such offer, or (5) Dynamic s directors have resolved to do any of the foregoing.

In addition, if each of the conditions to a party s obligation to consummate the merger under the merger agreement has been satisfied and that party does not perform its obligation to consummate the merger pursuant to the merger agreement, then that party is required to pay the other party liquidated damages in the amount of $2,000,000.

Dynamic Stock Options and Warrants (see page 22)

If we complete the merger, each option and warrant to acquire Dynamic common shares that is outstanding and unexercised immediately before completing the

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merger will become an option or warrant to purchase Cerner common stock. The number of shares of Cerner common stock subject to such options and warrants, as well as the exercise prices, will be adjusted to account for the exchange ratio in the merger. Additionally, certain stock options held by Dynamic directors, officers, and employees contain provisions that cause the options to become fully vested upon a change in control. Therefore, those options will vest as a result of the merger, but cannot be exercised until 12 months after the original date of grant. The options, as adjusted, will continue to be governed by the terms of the Dynamic stock option plans and the agreements under which such options were granted.

We May Amend the Terms of the Merger Agreement and Waive Rights Under the Merger Agreement (see page 41)

We may jointly amend the terms of the merger agreement, and either party may waive its right to require the other party to adhere to any of those terms, to the extent legally permissible. However, after the Dynamic shareholders approve the merger agreement, they must approve any amendment or waiver that would require such approval under any applicable law.

Stock Option Agreement (see pages 34 through 35)

As a condition to the merger agreement, Dynamic granted Cerner an option to purchase up to 985,746 Dynamic common shares at an exercise price of $3.00 per share. Cerner may exercise this option upon the occurrence of certain events that are ordinarily associated with another party attempting to break up the merger and acquire Dynamic. As of this date, none of those events have occurred. The stock option, if exercised, would equal 15% of the total number of outstanding Dynamic common shares as of its date of exercise. The purpose of the stock option is to increase the likelihood that the merger will occur by making it more difficult for another party to acquire Dynamic. A copy of the stock option agreement is attached to this document as Appendix D.

Dynamic Officers and Directors Have Some Interests in the Merger That Are Different From or in Addition to Their Interests as Shareholders (see pages 37 through 38)

Dynamic directors and officers have interests in the merger in addition to their interest as common shareholders of Dynamic. These interests exist because of employment and/or other agreements that Dynamic officers have entered into with Dynamic or Cerner and rights that Dynamic officers and directors have under certain benefit and compensation plans maintained by Dynamic.

Following the merger, the combined company will indemnify, and provide directors and officers insurance for, the officers and directors of Dynamic for events occurring before the merger, including events that are related to the merger.

In addition, some of the Dynamic directors and some of its former officers and directors also are the holders or beneficial owners of Dynamic preferred stock and they or the entities that they represent will receive a cash payment for their preferred stock in connection with the redemption of the preferred shares under the terms of the merger agreement.

The Dynamic board of directors knew about these additional interests, and considered them, when it approved the merger agreement.

Certain Differences in the Rights of Shareholders (see pages 55 through 61)

Once the merger occurs, Dynamic common shareholders will automatically become shareholders of Cerner and their rights will be governed by Delaware law and Cerner s corporate governance documents rather than Florida law and Dynamic s corporate governance documents, including its articles of incorporation and bylaws.

Comparative Market Price Information (see pages 13 through 14)

The shares of Cerner and Dynamic common stock trade on the Nasdaq National Market under the symbols CERN and DHTI, respectively.

The following table lists the closing prices of Cerner common stock and Dynamic common shares, and the equivalent per share value of a Dynamic common share, on September 5, 2001, the last trading day before we announced the merger, and on November 5, 2001. The equivalent per share value of Dynamic common stock at the specified dates represents the closing price of a share of Cerner common stock on that date multiplied by the exchange ratio of 0.0550 (which assumes that there are 6,593,216 Dynamic common shares issued and outstanding as of such dates).

	Cerner Common Stock	Dynamic Common Stock	Equivalent Per Share Value of Dynamic Common Stock
Sept. 5, 2001	$ 48.06	$ 2.25	$ 2.64
Nov. 5, 2001	$ 54.64	$ 2.70	$ 3.01

You should obtain current stock price quotations for Cerner common stock and Dynamic common shares.

You can get these quotations from a newspaper, on the Internet or by calling your broker.

Regulatory Approvals (see page 39)

There are no material regulatory approvals required to consummate the merger or the transactions contemplated by the merger agreement.

Forward-Looking Statements May Prove Inaccurate (see Risk Factors, beginning on page 15)

This proxy statement/prospectus, including information included or incorporated by reference in this document, contains certain forward-looking statements with respect to the financial condition, results of operations, plans, objectives, future performance and business of each of Cerner and Dynamic. Also, any statements preceded by, followed by or that include the words believes, expects, anticipates, estimates similar expressions, are forward-looking statements. These forward-looking statements involve certain risks and uncertainties. The actual results may differ materially from those contemplated by the forward-looking statements due to various factors.

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SUMMARY FINANCIAL INFORMATION

We are providing the following financial information to aid you in your analysis of the financial aspects of the merger. This information is only a summary and you should read it in conjunction with the historical financial statements of Cerner and Dynamic and the related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations. These items for Dynamic are contained under the caption Dynamic s Management s Discussion and Analysis of Financial Condition and Results of Operations beginning on page 48 and in the Dynamic consolidated financial statements beginning on page F-2. All Dynamic per share data has been adjusted to reflect the Dynamic 1-for-3 reverse stock split effective June 28, 2001. These items for Cerner are contained in its annual, quarterly and other reports that Cerner has filed with the Securities and Exchange Commission that are incorporated herein by reference. See Where You Can Find More Information on page 62.

Cerner Summary Historical Consolidated Financial Information

The historical consolidated financial information for Cerner reflects the following items that you should consider in making period-to-period comparisons. We derived the information below from the audited consolidated financial statements of Cerner for its fiscal years 2000, 1999, 1998, 1997, and 1996, and from the unaudited consolidated financial statements for the six months ended June 30, 2001 and July 1, 2000. The unaudited information contains all adjustments, consisting of normal recurring accruals, that Cerner considers necessary for a fair presentation of its financial position and results of operations as of such dates and for these periods. The results for the six months ended June 30, 2001 are not necessarily indicative of the results to be expected for the full year ending December 29, 2001.

	Six Months Ended (unaudited)		Fiscal Year Ended				
	June 30, 2001 (1)	July 1, 2000 (2)	Dec. 30, 2000 (2)(3)(4)	Jan. 1, 2000 (5)	Jan. 2, 1999(6)	Jan. 3, 1998	Dec. 28, 1996
	(In thousands, except per share data)						
Statements of Earnings Data:							
Revenues	$ 250,982	$ 180,609	$ 404,504	$ 340,197	$ 330,902	$ 245,057	$ 189,107
Operating earnings	25,014	5,815	25,602	3,698	33,530	22,170	10,601
Earnings (loss) before income taxes and extraordinary item	(97,042)	4,030	172,123	302	33,268	24,484	12,902
Extraordinary item early extinguishment of debt				(1,395)			
Net earnings (loss)	(62,655)	(221)	105,265	(1,211)	20,589	15,148	8,251
Earnings (loss) per share before extraordinary item:							
Basic	$ (1.80)	$ (.01)	$ 3.08	$ .01	$ .63	$ .46	$ .25
Diluted	(1.80)	(.01)	2.96	.01	.61	.45	.25
Earnings (loss) per share:							
Basic	(1.80)	(.01)	3.08	(.04)	.63	.46	.25
Diluted	(1.80)	(.01)	2.96	(.04)	.61	.45	.25
Weighted average shares outstanding:							
Basic	34,826	33,804	34,123	33,623	32,825	32,881	32,729
Diluted	34,826	33,804	35,603	33,916	33,667	33,668	33,620

	June 30, 2001	July 1, 2000	Dec. 30, 2000	Jan. 1, 2000	Jan. 2, 1999	Jan. 3, 1998	Dec. 28, 1996

	(unaudited)						
Balance Sheet Data:							
Working capital	$ 197,353	$ 154,707	$ 186,181	$ 170,053	$ 118,681	$ 156,808	$ 171,204
Total assets	629,177	660,069	616,411	660,891	436,485	331,781	314,753
Long-term debt, net	104,588	100,013	102,299	100,000	25,000	30,026	30,000
Stockholders equity	353,317	371,977	343,717	378,937	271,143	233,747	230,735

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(1) Includes a non-recurring charge of $81.4 million, net of $46.2 million tax benefit related to the other-than-temporary write-down of the WebMD shares. The impact of this non-recurring investment loss on diluted earnings per share was ($2.22) for the six months ended June 30, 2001. Also includes a non-recurring gain of $4.8 million, net of $2.7 million tax on the software license settlement with WebMD. The impact of this non-recurring investment gain on diluted earnings per share was $.13 for the six months ended June 30, 2001.

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

(3) Includes a non-recurring investment gain of $120.4 million, net of $68.3 million tax expense, related to the conversion of shares of CareInsite common stock to shares of WebMD common stock. The impact of this non-recurring investment gain on diluted earnings per share was $3.38 for 2000. Also includes a non-recurring investment loss of $24.5 million, net of $13.9 million tax benefit, related to the sale of shares of WebMD common stock. The impact of this non-recurring investment loss on diluted earnings per share was ($.69) for 2000.

(4) Includes non-recurring acquisition charges of $3.2 million related to the acquisition of CITATION Computer Systems, Inc. and a charge of $1.0 million, net of $.7 million tax benefit, related to the acquisition of ADAC Healthcare Information Systems, Inc. The impact of these non-recurring charges on diluted earnings per share was ($.09) and ($.03) respectively for 2000.

(5) Includes a non-recurring charge of $5.8 million, net of $3.6 million tax benefit, related to the cost in excess of revenues of completing fixed fee implementation contracts. The tax-effected impact of this non-recurring charge on diluted earnings per share was ($0.17) for 1999. Includes a non-recurring charge of $0.9 million, net of $0.5 million tax benefit, related to the accrual of branch restructuring costs. The tax-effected impact of this non-recurring charge on diluted earnings per share was ($0.03) for 1999.

(6) Includes a non-recurring, acquisition-related charge of $3.1 million, net of $1.9 million tax benefit. The tax-effected impact of the non-recurring charge on diluted earnings per share was ($0.09) for 1998.

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Dynamic Summary Historical Consolidated Financial Information

The historical consolidated financial information for Dynamic reflects the following items that you should consider in making period-to-period comparisons. We derived the information below from the audited consolidated financial statements of Dynamic for its fiscal years 2000, 1999, 1998, 1997 and 1996, and from the unaudited consolidated financial statements for the six months ended June 30, 2001 and June 30, 2000. The unaudited information contains all adjustments, consisting of normal recurring accruals, that Dynamic considers necessary for a fair presentation of its financial position and results of operations as of such dates and for these periods. All Dynamic per share data has been adjusted to reflect the Dynamic 1-for-3 reverse stock split effective June 28, 2001. The results for the six months ended June 30, 2001 are not necessarily indicative of the results to be expected for the full year ending December 31, 2001.

	Six Months Ended June 30, (unaudited)		Fiscal Year Ended December 31,				
	2001	2000	2000(1)	1999	1998	1997	1996(2)
			(In thousands, except per share data)				
Statements of Earnings Data:							
Revenues	$ 12,552	$ 13,048	$ 25,659	$ 35,143	$ 25,829	$ 36,545	$ 19,826
Operating (loss) earnings	(1,412)	(767)	(8,430)	1,056	(9,053)	311	(15,639)
Net (loss) earnings	(1,476)	(829)	(8,621)	854	(9,013)	1,043	(15,618)
Net (loss) earnings available to common shareholders	(1,556)	(909)	(8,781)	694	(9,080)	1,043	(15,869)
(Loss) earnings per share available to common shareholders:							
Basic	(0.24)	(0.14)	(1.38)	0.11	(1.50)	.17	(5.16)
Diluted	(0.24)	(0.14)	(1.38)	0.11	(1.50)	.17	(5.16)
Weighted average shares outstanding:							
Basic	6,475	6,295	6,354	6,193	6,043	5,968	3,075
Diluted	6,475	6,295	6,354	6,291	6,043	6,144	3,075

	June 30,		December 31,				
	2001	2000	2000(1)	1999	1998	1997	1996(2)
	(unaudited)						
Balance Sheet Data:							
Working capital	$ (792)	$ 2,088	$ (314)	$ 2,078	$ (255)	$ 6,534	$ 9,191
Total assets	18,342	28,071	22,505	29,660	30,604	32,977	31,825
Long-term debt, net	505	637	640	753	1,871	454	591
Stockholders equity	6,113	15,239	7,629	15,921	14,626	21,423	19,771

(1) Includes a non-recurring charge of $5.7 million in connection with the abandonment of specific products not in line with Dynamic s strategic marketing efforts and its e-business initiatives.

(2) Includes the operating results and related information since the acquisition of Dimensional Medicine, Inc. (DMI), on May 1, 1996 and Collaborative Medical Systems, Inc. (CoMed), on December 17, 1996, including the non-recurring write off of in-process research and development of $15.1 million or $1.63 per common share, in connection with the CoMed Acquisition. Both of these acquisitions were accounted for as purchase business combinations.

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COMPARATIVE PER SHARE DATA

This table should be read in conjunction with the historical consolidated financial statements and notes thereto for Cerner and the historical consolidated financial statements for Dynamic incorporated by reference and contained herein. Pro forma combined and equivalent pro forma per share data reflect the combined results of Cerner and Dynamic presented as though they were one company for all periods shown. The acquisition of Dynamic will be accounted for under the purchase method of accounting. The purchase price of $22.9 million using the five day average of Cerner s stock price surrounding the announcement of the merger on September 6, 2001, has been allocated to the assets and liabilities based on their estimated fair values with the resulting amount of goodwill of $5.2 million. Such allocations are preliminary and are subject to final determination. In accordance with the recently issued Statement of Financial Accounting Standards Number 141, Business Combinations, goodwill will not amortized, but will be subject to periodic tests for impairment. All Dynamic per share data has been adjusted to reflect the Dynamic 1-for-3 reverse stock split effective June 28, 2001. All amounts are unaudited.

Cerner Historical	**Six Months Ended June 30, 2001**	**Year Ended December 30, 2000**
Book value per common share (at period end)	$ 10.12	$ 9.89
Basic earnings (loss) per share	(1.80)	3.08
Diluted earnings (loss) per share	(1.80)	2.96
Cash dividends declared per share	0	0

Dynamic Historical	**Six Months Ended June 30, 2001**	**Year Ended December 31, 2000**
Book value per common share (at period end)	$ 0.94	$ 1.18
Basic loss per share	(0.24)	(1.38)
Diluted loss per share	(0.24)	(1.38)
Cash dividends declared per share	0	0

Cerner Pro Forma	**Six Months Ended June 30, 2001**	**Year Ended December 30, 2000**
Book value per common share (at period end)	$ 10.55	$ 10.32
Basic earnings (loss) per share	(1.84)	2.77
Diluted earnings (loss) per share	(1.84)	2.66
Cash dividends declared per share	0	0

Dynamic Equivalent Pro Forma	**Six Months Ended June 30, 2001**	**Year Ended December 31, 2000**
Book value per common share (at period end)	$ 0.58	$ 0.57
Basic earnings (loss) per share	(0.10)	0.15
Diluted earnings (loss) per share	(0.10)	0.15
Cash dividends declared per share	0	0

The Dynamic equivalent pro forma per share amounts were calculated by multiplying the Cerner pro forma per share amounts by the exchange ratio of 0.0550 (which assumes that the average sales price for Cerner common stock is less than $64.50 per share, and that there are 6,593,216 Dynamic common shares issued and outstanding on the closing date of the merger).

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COMPARATIVE MARKET PRICE AND DIVIDEND INFORMATION

The shares of Cerner common stock are listed for trading under the symbol CERN on the Nasdaq National Market. The following table sets forth the quarterly high and low sales prices of Cerner common stock as reported on the Nasdaq National Market based on published financial sources. During the periods covered by the following table, Cerner has paid no cash dividends to holders of Cerner common stock.

	Cerner Common Stock	
	High	Low
Fiscal Year Ended January 1, 2000		
First Quarter	$ 27 1/4	$ 12 7/8
Second Quarter	23 1/2	12 1/2
Third Quarter	19 15/16	14 1/4
Fourth Quarter	20 3/4	12 15/16
Fiscal Year Ended December 30, 2000		
First Quarter	$ 40 7/8	$ 17 7/8
Second Quarter	32 9/64	19 3/4
Third Quarter	48	26 5/16
Fourth Quarter	64 7/8	40 1/2
Fiscal Year Ending December 29, 2001		
First Quarter	$ 61.50	$ 30.81
Second Quarter	53.43	28.00
Third Quarter	57.35	37.31
Fourth Quarter (through November 5, 2001)	60.00	45.06

On September 5, 2001, the last full trading day prior to the public announcement of the merger, the reported closing price of Cerner common stock on the Nasdaq National Market was $48.06 per share. On November 5, 2001 (the latest practicable date prior to the printing of this proxy statement/prospectus), the reported closing price was $54.64.

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The Dynamic common shares are listed for trading under the symbol DHTI on the Nasdaq National Market. The following table sets forth the quarterly high and low sales prices of Dynamic common shares as reported on the Nasdaq National Market based on published financial sources. During the periods covered by the following table, Dynamic has paid no cash dividends to holders of Dynamic common shares.

	Dynamic Common Shares (1)	
	High	Low
Fiscal Year Ended December 31, 1999		
First Quarter	$ 6.375	$ 1.875
Second Quarter	8.250	5.439
Third Quarter	7.689	3.564
Fourth Quarter	5.625	3.375
Fiscal Year Ended December 31, 2000		
First Quarter	$ 11.718	$ 4.500
Second Quarter	6.189	2.718
Third Quarter	4.500	2.625
Fourth Quarter	5.250	1.032
Fiscal Year Ending December 31, 2001		
First Quarter	$ 2.813	$ 1.500
Second Quarter	2.250	1.140
Third Quarter	2.990	1.450
Fourth Quarter (through November 5, 2001)	2.920	2.000

(1) All Dynamic per share data has been adjusted to reflect the Dynamic 1-for-3 reverse stock split effective June 28, 2001.

On September 5, 2001, the last full trading day prior to the public announcement of the merger, the reported closing price of Dynamic common stock on the Nasdaq National Market was $2.25 per share. On November 5, 2001 (the latest practicable date prior to the printing of this proxy statement/prospectus), the reported closing price was $2.70.

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RECENT DEVELOPMENTS

On October 17, 2001, Cerner announced results for the third quarter ended September 29, 2001. Third quarter diluted earnings per share was $0.25, or 47 percent over the $0.17 (before non-recurring items) reported in the third quarter of 2000. Revenues for the third quarter were $139.8 million, an increase of 34 percent over the $104.3 million for the third quarter of 2000. Net earnings were $9.2 million, compared with $6.2 million for the third quarter of 2000. For the nine months ended September 29, 2001, revenues increased 37 percent to $390.8 million from $284.9 million in 2000. Net earnings (before non-recurring items) increased 83 percent to $23.2 million compared with $12.6 million in the prior year. Diluted earnings per share (before non-recurring items) was $0.63 per share as compared to $0.36 in the prior year.

RISK FACTORS

You should carefully consider the following risk factors concerning Cerner in determining whether to vote to approve the merger and the transactions contemplated thereby. This proxy statement/prospectus contains forward-looking statements that involve risk and uncertainties. The words could, should, will be, will lead, will assist, intended, continue, believe, may, expect, hope, anticipate, goal, expressions are intended to identify such forward-looking statements. We caution you not to rely unduly on any forward-looking statements in this proxy statement/prospectus. Cerner s actual results could differ materially from the forward-looking statements. The risk factors described below could cause or contribute to these differences and apply to all forward-looking statements wherever they appear in this proxy statement/prospectus. However, there could be other factors not listed below that may affect Cerner. We may not update these risk factors or publicly announce revisions to forward-looking statements contained in this proxy statement/prospectus.

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

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

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

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

Furthermore, the stock market in general, and the market for software, healthcare and high technology companies in particular, has experienced extreme volatility that often has been unrelated to the operating performance of particular

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companies. These broad market and industry fluctuations may adversely affect the trading price of Cerner s common stock, regardless of actual operating performance.

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

As of June 30, 2001, Cerner owned 14,820,527 shares of common stock of WebMD Corporation, which as of June 30, 2001 had a cost basis of $85.8 million and a carrying value of $103.7 million as these shares are accounted for as available-for-sale. 2,000,000 shares of the shares of WebMD held by Cerner are not registered. At June 30, 2001, Cerner also held 1,048,783 warrants of WebMD with an exercise price of $3.08 and a cost basis and carrying value of $4.1 million. The warrants are carried at cost, as they do not have a fair value that is currently available on a securities exchange.

On June 18, 2001 Cerner reached an agreement with WebMD regarding certain performance metrics related to specified levels of physician usage arising out of the original license transaction between Cerner and CareInsite, Inc., which has been merged into WebMD. Under the agreement, Cerner received 2,000,000 shares of WebMD stock, valued at $11.6 million, in exchange for $432,000 in cash and the cancellation of various obligations due to Cerner by WebMD. As a result of this agreement, Cerner recognized a non-recurring gain of $4.8 million, net of $2.7 million in tax. Cerner s policy is to review declines in fair value of its marketable equity securities for declines that may be other than temporary. As a result of this policy, during the second quarter of 2001, Cerner recorded a write-down of its investment in WebMD from $15.00 to $5.79. Accordingly, Cerner recognized a charge to earnings of $81.4 million, net of $46.2 million in tax.

At June 30, 2001, marketable securities (which consist of money market and commercial paper) of Cerner were recorded at cost, which approximates fair value of approximately $98 million, with an overall average return of approximately 5% and an overall weighted maturity of less than 90 days. The marketable securities held by Cerner are not subject to price risk as a result of the short-term nature of the investments.

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

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

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

Many healthcare providers are consolidating to create integrated healthcare delivery systems with greater market power. These providers may try to use their market power to negotiate price reductions for Cerner s products and services.

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As the healthcare industry consolidates, Cerner s client base could be eroded, competition for clients could become more intense and the importance of acquiring each client becomes greater.

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

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

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

Proprietary technology may be subjected to infringement claims or may be infringed upon. Cerner relies upon a combination of trade secret, copyright and trademark laws, license agreements, confidentiality procedures, employee nondisclosure agreements and technical measures to maintain the trade secrecy of its proprietary information. Cerner recently initiated a patent program but currently has a very limited patent portfolio. As a result, Cerner may not be able to protect against misappropriation of its intellectual property.

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

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

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

There can be no assurance, however, that Cerner s actions taken in response to the Form 483 and Warning Letter will be deemed adequate by the FDA or that additional actions on behalf of Cerner will not be required. In addition, Cerner remains subject to periodic FDA inspections and there can be no assurances that Cerner will not be required to undertake additional actions to comply with the Act and any other applicable regulatory requirements. Any failure by Cerner to

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comply with the Act and any other applicable regulatory requirements could have a material adverse effect on Cerner s ability to continue to manufacture and distribute its products. FDA has many enforcement tools including recalls, seizures, injunctions, civil fines and/or criminal prosecutions. Any of the foregoing could have a material adverse effect on Cerner s business, results of operations or financial condition.

Product related liabilities could affect the financial condition of Cerner. Many of Cerner s products provide data for use by healthcare providers in providing care to patients. Although no such claims have been brought against Cerner to date regarding injuries related to the use of its products, such claims may be made in the future. Although Cerner maintains product liability insurance coverage in an amount that it believes is sufficient for its business, there can be no assurance that such coverage will prove to be adequate or that such coverage will continue to remain available on acceptable terms, if at all. A successful claim brought against Cerner which is uninsured or under-insured could materially harm its business, results of operations or financial condition.

System errors and warranties could cause Cerner to incur additional expens