

CERNER CORP /MO/  
Form 10-Q  
October 24, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: September 27, 2014

OR

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

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

Commission File Number: 0-15386

CERNER CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

2800 Rockcreek Parkway

North Kansas City, MO

(Address of principal executive offices)

(816) 201-1024

(Registrant's telephone number, including area code)

43-1196944

(I.R.S. Employer Identification  
Number)

64117

(Zip Code)

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

Yes  No

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

Yes  No

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

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

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

Yes  No

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

Class

Outstanding at October 17, 2014

Common Stock, \$0.01 par value per share

341,472,242 shares

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## Part I. Financial Information

## Item 1. Financial Statements

CERNER CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

As of September 27, 2014 (unaudited) and December 28, 2013

(In thousands, except share data)

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$496,494	\$202,377
Short-term investments	835,269	677,004
Receivables, net	617,204	582,926
Inventory	28,604	32,299
Prepaid expenses and other	181,103	175,488
Deferred income taxes, net	76,803	91,614
Total current assets	2,235,477	1,761,708
Property and equipment, net	889,487	792,781
Software development costs, net	402,772	347,077
Goodwill	322,135	307,422
Intangible assets, net	131,790	144,132
Long-term investments	226,371	554,873
Other assets	184,606	190,371
Total assets	\$4,392,638	\$4,098,364
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$169,227	\$145,019
Current installments of long-term debt and capital lease obligations	60,042	54,107
Deferred revenue	215,528	209,746
Accrued payroll and tax withholdings	145,739	147,986
Other accrued expenses	80,584	83,574
Total current liabilities	671,120	640,432
Long-term debt and capital lease obligations	86,756	111,717
Deferred income taxes and other liabilities	229,450	170,392
Deferred revenue	9,102	8,159
Total liabilities	996,428	930,700
Shareholders' Equity:		
Common stock, \$.01 par value, 500,000,000 shares authorized, 346,052,087 shares issued at September 27, 2014 and 344,338,030 shares issued at December 28, 2013	3,461	3,443
Additional paid-in capital	890,902	812,853
Retained earnings	2,770,609	2,393,048
	(245,333 )	(28,251 )

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Treasury stock, 4,652,515 shares at September 27, 2014 and 570,616 shares at December 28, 2013

Accumulated other comprehensive loss, net	(23,429	)	(13,429	)
Total shareholders' equity	3,396,210		3,167,664	
Total liabilities and shareholders' equity	\$4,392,638		\$4,098,364	

See notes to condensed consolidated financial statements (unaudited).

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## CERNER CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the three and nine months ended September 27, 2014 and September 28, 2013

(unaudited)

(In thousands, except per share data)	Three Months Ended		Nine Months Ended	
	2014	2013	2014	2013
Revenues:				
System sales	\$224,345	\$202,632	\$665,595	\$602,037
Support, maintenance and services	593,068	508,520	1,738,664	1,461,723
Reimbursed travel	22,736	16,678	72,413	51,660
Total revenues	840,149	727,830	2,476,672	2,115,420
Costs and expenses:				
Cost of system sales	65,520	64,389	211,939	217,580
Cost of support, maintenance and services	51,809	38,510	147,181	103,366
Cost of reimbursed travel	22,736	16,678	72,413	51,660
Sales and client service	346,417	304,665	1,020,552	853,213
Software development (Includes amortization of \$25,372 and \$75,410 for the three and nine months ended September 27, 2014; and \$24,056 and \$69,366 for the three and nine months ended September 28, 2013)	97,026	82,998	285,897	246,343
General and administrative	68,487	51,352	180,900	150,995
Total costs and expenses	651,995	558,592	1,918,882	1,623,157
Operating earnings	188,154	169,238	557,790	492,263
Other income, net	2,181	3,509	7,908	9,286
Earnings before income taxes	190,335	172,747	565,698	501,549
Income taxes	(61,333 )	(57,403 )	(188,137 )	(163,258 )
Net earnings	\$129,002	\$115,344	\$377,561	\$338,291
Basic earnings per share	\$0.38	\$0.34	\$1.10	\$0.98
Diluted earnings per share	\$0.37	\$0.33	\$1.08	\$0.96
Basic weighted average shares outstanding	341,188	342,992	342,254	343,681
Diluted weighted average shares outstanding	349,326	351,449	350,468	352,332
See notes to condensed consolidated financial statements (unaudited).				

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CERNER CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 For the three and nine months ended September 27, 2014 and September 28, 2013  
 (unaudited)

(In thousands)	Three Months Ended		Nine Months Ended	
	2014	2013	2014	2013
Net earnings	\$129,002	\$115,344	\$377,561	\$338,291
Foreign currency translation adjustment and other (net of tax benefit of \$922 and \$603 for the three and nine months ended September 27, 2014; and \$1,366 and \$1,984 for the three and nine months ended September 28, 2013)	(17,672 )	10,595	(9,603 )	(7,610 )
Unrealized holding gain (loss) on available-for-sale investments (net of taxes (benefit) of \$(259) and \$(252) for the three and nine months ended September 27, 2014; and \$509 and \$(34) for the three and nine months ended September 28, 2013)	(409 )	801	(397 )	(59 )
Comprehensive income	\$110,921	\$126,740	\$367,561	\$330,622

See notes to condensed consolidated financial statements (unaudited).

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CERNER CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 For the nine months ended September 27, 2014 and September 28, 2013  
 (unaudited)

(In thousands)	Nine Months Ended	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net earnings	\$377,561	\$338,291
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	217,212	189,460
Share-based compensation expense	43,330	33,650
Provision for deferred income taxes	21,712	19,573
Changes in assets and liabilities (net of businesses acquired):		
Receivables, net	(36,562 )	41,281
Inventory	3,515	(3,887 )
Prepaid expenses and other	9,862	(48,290 )
Accounts payable	20,137	(19,309 )
Accrued income taxes	(2,038 )	(6,404 )
Deferred revenue	7,361	5,440
Other accrued liabilities	(38,511 )	4,580
Net cash provided by operating activities	623,579	554,385
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital purchases	(200,372 )	(218,406 )
Capitalized software development costs	(130,761 )	(125,951 )
Purchases of investments	(1,069,938 )	(832,039 )
Sales and maturities of investments	1,224,063	825,126
Purchase of other intangibles	(10,238 )	(39,797 )
Acquisition of businesses, net of cash acquired	(7,476 )	(67,877 )
Net cash used in investing activities	(194,722 )	(458,944 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of long-term debt and capital lease obligations	(75 )	(9,756 )
Proceeds from excess tax benefits from share-based compensation	26,079	29,274
Proceeds from exercise of options	19,423	24,049
Treasury stock purchases	(217,082 )	(170,042 )
Contingent consideration payments for acquisition of businesses	(10,617 )	(800 )
Cash grants	48,000	—
Other	2,894	4,823
Net cash used in financing activities	(131,378 )	(122,452 )
Effect of exchange rate changes on cash and cash equivalents	(3,362 )	(2,589 )
Net increase (decrease) in cash and cash equivalents	294,117	(29,600 )
Cash and cash equivalents at beginning of period	202,377	317,120

Cash and cash equivalents at end of period	\$496,494	\$287,520
Summary of acquisition transactions:		
Fair value of net tangible assets acquired	\$(1,509 )	\$1,512
Fair value of intangible assets acquired	3,800	25,489
Fair value of goodwill	16,785	60,511
Less: Fair value of contingent liability payable	(11,600 )	(18,982 )
Cash paid for acquisitions	7,476	68,530
Cash acquired	—	(653 )
Net cash used	\$7,476	\$67,877
See notes to condensed consolidated financial statements (unaudited).		

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CERNER CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) Interim Statement Presentation

The condensed consolidated financial statements included herein have been prepared by Cerner Corporation (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.

Our third fiscal quarter ends on the Saturday closest to September 30. The 2014 and 2013 third quarters ended on September 27, 2014 and September 28, 2013, respectively. All references to years in these notes to condensed consolidated financial statements represent the respective three or nine months ended on such dates, unless otherwise noted.

Available-for-sale Investments

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

Recently Issued Accounting Pronouncements

Revenue Recognition. In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. This new guidance is effective for the Company in the first quarter of 2017, with no early adoption permitted. The standard permits the use of either the retrospective or cumulative effect transition method. At this time we have not selected a transition method. We are currently evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures.

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(2) Business Acquisitions

Siemens Health Services

On August 5, 2014, we entered into a Master Sale and Purchase Agreement (the "Agreement") with Siemens AG, a stock corporation under the laws of Germany ("Siemens"), pursuant to which Cerner will acquire substantially all of the assets, and assume certain liabilities of Siemens' health information technology business unit, Siemens Health Services.

Consideration for this acquisition is expected to total \$1.3 billion in cash, subject to certain adjustments for working capital and pension obligations. We expect to enter into a transition services agreement pursuant to which Siemens will provide certain transitional services to Cerner for an initial period of up to six months after the acquisition closing.

In September 2014, the U.S. Federal Trade Commission granted early termination of the waiting period under the Hart-Scott-Rodino (HSR) Antitrust Improvements Act of 1976, as amended, in connection with our purchase of Siemens Health Services. The early termination of the HSR waiting period satisfies one of the conditions to closing of the pending acquisition. The transaction remains subject to other customary closing conditions and is expected to close in our first fiscal quarter of 2015.

Concurrently with the execution of the Agreement, the parties entered into an agreement to create a strategic alliance to jointly invest in innovative projects that integrate health IT with medical technologies for the purpose of enhancing workflows and improving clinical outcomes. After closing, each company will contribute up to \$50.0 million to fund projects of shared importance to both companies and their clients.

During the three months ended September 27, 2014, we incurred \$9.4 million of costs in connection with our pending acquisition of Siemens Health Services, which are included in general and administrative expense in our condensed consolidated statements of operations.

InterMedHx

On April 1, 2014, we purchased 100% of the outstanding membership interests of InterMedHx, LLC (InterMedHx). InterMedHx is a provider of health technology solutions in the areas of preventive care, patient administration, and medication history. We believe the addition of InterMedHx solutions provides additional capabilities in the market.

Consideration for the acquisition of InterMedHx is expected to total \$19.1 million consisting of up-front cash plus contingent consideration, which is payable at a percentage of the revenue contribution from InterMedHx solutions and services. We valued the contingent consideration at \$11.6 million based on projections of revenue over the assessment period.

The allocation of purchase price to the estimated fair value of the identified tangible and intangible assets acquired and liabilities assumed resulted in goodwill of \$16.8 million and \$3.8 million in intangible assets related to the value of existing technologies. The goodwill was allocated to our Domestic operating segment and is expected to be deductible for tax purposes. Identifiable intangible assets are being amortized over a period of five years.

The operating results of InterMedHx were combined with our operating results subsequent to the purchase date of April 1, 2014. Pro-forma results of operations have not been presented because the effect of this acquisition was not material to our results.

(3) 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.

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

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

The following table details our financial assets measured and recorded at fair value on a recurring basis at September 27, 2014:  
(In thousands)

Description	Balance Sheet Classification	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Money market funds	Cash equivalents	\$213,003	\$—	\$—
Time deposits	Cash equivalents	—	11,354	—
Commercial paper	Cash equivalents	—	62,575	—
Government and corporate bonds	Cash equivalents	—	2,500	—
Time deposits	Short-term investments	—	83,395	—
Commercial paper	Short-term investments	—	441,365	—
Government and corporate bonds	Short-term investments	—	310,509	—
Government and corporate bonds	Long-term investments	—	213,704	—

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

Description	Balance Sheet Classification	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Money market funds	Cash equivalents	\$57,254	\$—	\$—
Time deposits	Cash equivalents	—	7,771	—
Commercial paper	Cash equivalents	—	3,000	—
Government and corporate bonds	Cash equivalents	—	410	—
Time deposits	Short-term investments	—	70,315	—
Commercial paper	Short-term investments	—	33,742	—
Government and corporate bonds	Short-term investments	—	572,947	—
Government and corporate bonds	Long-term investments	—	542,711	—

We estimate the fair value of our long-term, fixed rate debt using a Level 3 discounted cash flow analysis based on current borrowing rates for debt with similar maturities. The fair value of our long-term debt, including current maturities, at September 27, 2014 and December 28, 2013 was approximately \$33.3 million and \$32.6 million, respectively. The carrying amount of such fixed-rate debt at September 27, 2014 and December 28, 2013 was \$30.2 million and \$30.6 million, respectively.



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## (4) Investments

Available-for-sale investments at September 27, 2014 were as follows:

(In thousands)	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash equivalents:				
Money market funds	\$213,003	\$ —	\$ —	\$213,003
Time deposits	11,354	—	—	11,354
Commercial paper	62,575	—	—	62,575
Government and corporate bonds	2,500	—	—	2,500
Total cash equivalents	289,432	—	—	289,432
Short-term investments:				
Time deposits	83,402	1	(8 )	83,395
Commercial paper	441,455	8	(98 )	441,365
Government and corporate bonds	310,426	131	(48 )	310,509
Total short-term investments	835,283	140	(154 )	835,269
Long-term investments:				
Government and corporate bonds	213,992	48	(336 )	213,704
Total available-for-sale investments	\$1,338,707	\$ 188	\$ (490 )	\$1,338,405

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

(In thousands)	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash equivalents:				
Money market funds	\$57,254	\$ —	\$ —	\$57,254
Time deposits	7,771	—	—	7,771
Commercial paper	3,000	—	—	3,000
Government and corporate bonds	410	—	—	410
Total cash equivalents	68,435	—	—	68,435
Short-term investments:				
Time deposits	70,303	12	—	70,315
Commercial paper	33,750	1	(9 )	33,742
Government and corporate bonds	572,670	356	(79 )	572,947
Total short-term investments	676,723	369	(88 )	677,004
Long-term investments:				
Government and corporate bonds	542,644	346	(279 )	542,711
Total available-for-sale investments	\$1,287,802	\$ 715	\$ (367 )	\$1,288,150

Investments reported under the cost method of accounting as of September 27, 2014 and December 28, 2013 were \$8.7 million and \$7.2 million, respectively. Investments reported under the equity method of accounting as of September 27, 2014 and December 28, 2013 were \$4.0 million and \$5.0 million, respectively.

We sold available-for-sale investments for proceeds of \$659.7 million and \$109.9 million during the nine months ended September 27, 2014 and September 28, 2013, respectively, resulting in insignificant gains in each period.

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## (5) Receivables

A summary of net receivables is as follows:

(In thousands)	September 27, 2014	December 28, 2013
Gross accounts receivable	\$ 605,069	\$ 583,312
Less: Allowance for doubtful accounts	25,372	36,286
Accounts receivable, net of allowance	579,697	547,026
Current portion of lease receivables	37,507	35,900
Total receivables, net	\$ 617,204	\$ 582,926

During the second quarter of 2008, Fujitsu Services Limited's (Fujitsu) 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 was terminated by the NHS. This had the effect of automatically terminating our subcontract for the project. We continue to be in dispute with Fujitsu regarding Fujitsu's obligation to pay the amounts comprised of accounts receivable and contracts receivable related to that subcontract, and we are working with Fujitsu to resolve these issues based on processes provided for in the contract. Part of that process requires final resolution of disputes between Fujitsu and the NHS regarding the contract termination. As of September 27, 2014, it remains unlikely that our matter with Fujitsu will be resolved in the next 12 months. Therefore, these receivables have been classified as long-term and represent less than the majority of other long-term assets at September 27, 2014 and December 28, 2013. While the ultimate collectability of the receivables pursuant to this process is uncertain, we believe that we have valid and equitable grounds for recovery of such amounts and that collection of recorded amounts is probable. Nevertheless, it is reasonably possible that our estimates regarding collectability of such amounts might materially change in the near term, considering that we do not have complete knowledge of the status of the proceedings between Fujitsu and NHS and their effect on our claim.

During the first nine months of 2014 and 2013, we received total client cash collections of \$2.6 billion and \$2.3 billion, respectively, of which \$61.1 million and \$44.9 million were received from third party arrangements with non-recourse payment assignments.

## (6) 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 33.3% and 32.6% for the first nine months of 2014 and 2013, respectively.

In January 2013, the American Taxpayer Relief Act of 2012 (Act) became law. The Act reinstated the research and development tax credit retroactively from January 1, 2012. In the first quarter of 2013, we recognized the research and development tax credit related to 2012 as a favorable discrete item and the credit related to 2013 as a component of the overall 2013 effective tax rate. This credit expired on December 31, 2013. The increase in our effective tax rate through the first nine months of 2014 relative to the same period in 2013 is primarily due to the favorable discrete item recorded in the first quarter of 2013 for the retroactive extension of the 2012 credit and the expiration of the credit in 2014.





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## (7) Earnings Per Share

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

(In thousands, except per share data)	Three Months Ended			2013		
	2014					
	Earnings	Shares	Per-Share	Earnings	Shares	Per-Share
	(Numerator)	(Denominator)	Amount	(Numerator)	(Denominator)	Amount
Basic earnings per share:						
Income available to common shareholders	\$ 129,002	341,188	\$ 0.38	\$ 115,344	342,992	\$ 0.34
Effect of dilutive securities:						
Stock options and non-vested shares	—	8,138		—	8,457	
Diluted earnings per share:						
Income available to common shareholders including assumed conversions	\$ 129,002	349,326	\$ 0.37	\$ 115,344	351,449	\$ 0.33

For the three months ended September 27, 2014 and September 28, 2013, options to purchase 6.7 million and 7.2 million shares of common stock at per share prices ranging from \$38.66 to \$60.37 and \$36.92 to \$50.54, respectively, were outstanding but were not included in the computation of diluted earnings per share because they were anti-dilutive.

(In thousands, except per share data)	Nine Months Ended			2013		
	2014					
	Earnings	Shares	Per-Share	Earnings	Shares	Per-Share
	(Numerator)	(Denominator)	Amount	(Numerator)	(Denominator)	Amount
Basic earnings per share:						
Income available to common shareholders	\$ 377,561	342,254	\$ 1.10	\$ 338,291	343,681	\$ 0.98
Effect of dilutive securities:						
Stock options and non-vested shares	—	8,214		—	8,651	
Diluted earnings per share:						
Income available to common shareholders including assumed conversions	\$ 377,561	350,468	\$ 1.08	\$ 338,291	352,332	\$ 0.96

For the nine months ended September 27, 2014 and September 28, 2013, options to purchase 5.4 million and 5.8 million shares of common stock at per share prices ranging from \$38.66 to \$60.37 and \$32.92 to \$50.54, respectively, were outstanding but were not included in the computation of diluted earnings per share because they were anti-dilutive.

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## (8) Share-Based Compensation and Equity

## Stock Options

Options activity for the nine months ended September 27, 2014 was as follows:

(In thousands, except per share data)	Number of Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Remaining Contractual Term (Yrs)
Outstanding at beginning of year	24,407	\$ 22.24		
Granted	3,200	51.94		
Exercised	(1,784 )	11.95		
Forfeited and expired	(255 )	41.98		
Outstanding as of September 27, 2014	25,568	26.48	\$823,590	6.17
Exercisable as of September 27, 2014	14,946	\$ 13.99	\$667,501	4.65

The weighted-average assumptions used to estimate the fair value of stock options granted in 2014 were as follows:

Expected volatility (%)	29.7	%
Expected term (yrs)	9.2	
Risk-free rate (%)	2.9	%
Fair value per option	\$22.54	

As of September 27, 2014, there was \$148.1 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 3.30 years.

## Non-vested Shares

Non-vested share activity for the nine months ended September 27, 2014 was as follows:

(In thousands, except per share data)	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding at beginning of year	552	\$ 38.54
Granted	166	55.38
Vested	(206 )	33.33
Forfeited	(3 )	33.22
Outstanding as of September 27, 2014	509	\$ 46.17

As of September 27, 2014, there was \$13.3 million of total unrecognized compensation cost related to non-vested share awards granted under all plans. That cost is expected to be recognized over a weighted-average period of 1.55 years.

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

(In thousands)	Three Months Ended		Nine Months Ended	
	2014	2013	2014	2013
Stock option and non-vested share compensation expense	\$ 15,061	\$ 12,527	\$ 43,330	\$ 33,650
Associate stock purchase plan expense	1,109	1,168	3,486	2,867
Amounts capitalized in software development costs, net of amortization	(171 )	(237 )	(845 )	(900 )
Amounts charged against earnings, before income tax benefit	\$ 15,999	\$ 13,458	\$ 45,971	\$ 35,617
Amount of related income tax benefit recognized in earnings	\$ 5,616	\$ 5,221	\$ 16,136	\$ 13,819

## Treasury Stock

In May 2014, our Board of Directors approved an amendment to the stock repurchase program that was authorized in December 2013. Under the amendment, the Company may repurchase shares of our common stock up to an additional \$100.0 million. This increase authorizes repurchases of up to \$317.0 million, in the aggregate, excluding transaction costs. The repurchases are to be effectuated in the open market, by block purchase, or possibly through other transactions managed by broker-dealers. No time limit was set for completion of the program.

During the nine months ended September 27, 2014, we repurchased 4.1 million shares for consideration of \$217.0 million, excluding transaction costs. These shares were recorded as treasury stock and accounted for under the cost method. No repurchased shares have been retired. At September 27, 2014, \$100.0 million remains available for purchases under the program.

## (9) Hedging Activities

The following table represents the fair value of our net investment hedge included within the condensed consolidated balance sheets:

(In thousands)	Fair Value	
	September 27, 2014	December 28, 2013
Derivatives Designated Balance Sheet Classification		