

CERNER CORP /MO/
Form DEF 14A
April 20, 2004

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

- | | |
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| <input type="checkbox"/> o Preliminary Proxy Statement | <input type="checkbox"/> o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)) |
| <input checked="" type="checkbox"/> x Definitive Proxy Statement | |
| <input type="checkbox"/> o Definitive Additional Materials | |
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Cerner Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

April 19, 2004

Dear Shareholder:

The Annual Meeting of Shareholders of Cerner Corporation (the Company) will be held at 10:00 a.m., local time, on May 28, 2004, at The Cerner Round auditorium in the Cerner Vision Center, located on the Cerner campus at 2850 Rockcreek Parkway, North Kansas City, Missouri 64117. The enclosed notice of the meeting and Proxy Statement contains detailed information about the business to be transacted at the meeting.

The Board of Directors has nominated Gerald E. Bisbee, Jr., Ph.D., Michael E. Herman and Nancy-Ann DeParle, the present Class III Directors to stand for election as Class III Directors for a term ending at the 2007 Annual Meeting of Shareholders. The Board recommends that you vote for these nominees.

In addition to the election of the Board of Directors, you are being asked to approve:

1. the adoption of the Cerner Corporation 2004 Long-Term Incentive Plan G; and
2. the ratification of the selection of KPMG LLP as independent public accountants of the Company for 2004.

The Board recommends that you vote for these items. On behalf of the Board of Directors and Management, I cordially invite you to attend the Annual Meeting of Shareholders.

The prompt return of your Proxy in the enclosed postage prepaid envelope will help ensure that as many shares as possible are represented.

Very truly yours,
CERNER CORPORATION

Neal L. Patterson
Chairman of the Board of Directors and
Chief Executive Officer

Enclosures

CERNER CORPORATION
2800 Rockcreek Parkway
North Kansas City, Missouri 64117

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON MAY 28, 2004

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Cerner Corporation, a Delaware corporation (the Company), will be held at The Cerner Round auditorium in the Cerner Vision Center, located on the Cerner campus at 2850 Rockcreek Parkway, North Kansas City, Missouri 64117, on May 28, 2004, at 10:00 a.m., local time, and thereafter as it may from time to time be adjourned, for the following purposes:

- a. to elect three Class III Directors to serve for a three year term until the 2007 Annual Meeting of Shareholders and until their respective successors are duly elected and qualified; and
- b. to approve the adoption of the Cerner Corporation 2004 Long-Term Incentive Plan G; and
- c. to ratify the selection of KPMG LLP as independent public accountants of the Company for 2004; and
- d. to consider and act upon any other matters which may properly come before the Annual Meeting of Shareholders or any adjournment thereof.

The foregoing matters are more fully described in the accompanying Proxy Statement.

In accordance with the provisions of the Bylaws of the Company, the Board of Directors has fixed the close of business on April 2, 2004 as the record date for the determination of the holders of Common Stock entitled to notice of, and to vote at, the Annual Meeting of Shareholders.

The Board of Directors of the Company solicits you to sign, date and promptly mail the Proxy in the enclosed postage prepaid envelope, regardless of whether or not you intend to be present at the Annual Meeting of Shareholders. You are urged, however, to attend the Annual Meeting of Shareholders.

BY ORDER OF THE BOARD OF
DIRECTORS,

Randy D. Sims
Secretary

North Kansas City, Missouri
April 19, 2004

CERNER CORPORATION
2800 Rockcreek Parkway
North Kansas City, Missouri 64117

PROXY STATEMENT

INTRODUCTION

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Cerner Corporation, a Delaware corporation (the Company), for use at the Annual Meeting of Shareholders of the Company to be held on May 28, 2004, commencing at 10:00 a.m., local time, at The Cerner Round auditorium in the Cerner Vision Center, located on the Cerner campus at 2850 Rockcreek Parkway, North Kansas City, Missouri 64117, and any adjournment thereof (the Annual Meeting). The Company anticipates mailing this Proxy Statement, the accompanying form of Proxy and the Notice of Annual Meeting of Shareholders to the holders of record of outstanding shares of common stock, par value \$.01 per share, of the Company (the Common Stock) as of April 2, 2004, on or about April 19, 2004.

Only the holders of record of shares of Common Stock as of the close of business on April 2, 2004 are entitled to vote on the matters to be presented at the meeting, either in person or by proxy. Holders of shares of Common Stock are entitled to one vote per share outstanding in their names on the record date with respect to such matters. At the close of business on April 2, 2004, there were outstanding and entitled to vote a total of 35,768,658 shares of Common Stock, constituting all of the outstanding voting securities of the Company.

You are requested to complete, date and sign the accompanying Proxy and return it promptly in the enclosed postage prepaid envelope. Your Proxy may be revoked at any time prior to its exercise by written notice of revocation delivered to the Secretary of the Company. Attendance at the Annual Meeting will not in and of itself constitute a revocation of a Proxy, but your Proxy will not be used if you attend the Annual Meeting and prefer to vote in person. The persons designated as proxies were selected by the Board of Directors and are officers and Directors of the Company. Proxies duly executed and received in time for the Annual Meeting will be voted in accordance with shareholders' instructions. If no instructions are given, duly executed Proxies will be voted as follows:

- a. to elect Gerald E. Bisbee, Jr., Ph.D., Michael E. Herman and Nancy-Ann DeParle as Class III Directors to serve for a three year term until the 2007 Annual Meeting of Shareholders and until their respective successors are duly elected and qualified; and
- b. to approve the adoption of the Cerner Corporation 2004 Long-Term Incentive Plan G; and
- c. to ratify the selection of KPMG LLP as independent public accountants of the Company for 2004; and
- d. in the discretion of the proxy holder as to any other matter properly coming before the Annual Meeting.

VOTING AND QUORUM REQUIREMENTS

The presence in person or by proxy of holders of record of a majority of the outstanding shares of Common Stock is required for a quorum to transact business at the Annual Meeting, but if a quorum should not be present, the Annual Meeting may be adjourned from time to time until a quorum is obtained. Abstentions and broker non-votes are counted as present and entitled to vote for purposes of determining a quorum. A broker non-vote occurs when a broker holding shares for a beneficial owner does not vote on a particular proposal because the broker does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner.

If you are a beneficial shareholder and your broker holds your shares in its name, the broker is permitted to vote your shares on the election of directors and ratification of the selection of KPMG LLP as the Company's independent public accountants even if the broker does not receive voting instructions from you. Your broker may not vote your shares on the proposal relating to the 2004 Long-Term Incentive Plan G absent instructions from you. Without your voting instructions on the proposal relating to the 2004 Long-Term Incentive Plan G, a broker non-vote will occur.

A plurality of the votes cast is required for the election of Directors. This means that the Director nominee with the most votes for a particular slot is elected for that slot. Only votes For or Withheld affect the outcome. Abstentions are not counted for purposes of the election of Directors.

Under the Company's Bylaws, a majority vote of the quorum present is required to approve the ratification of the selection of KPMG LLP as the Company's independent public accountants, and the 2004 Long-Term Incentive Plan G. Abstentions are treated as votes Against these proposals and broker non-votes are treated as votes Against the proposal relating to the 2004 Long-Term Incentive Plan G.

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

The table below sets forth information, as of March 15, 2004 (unless otherwise indicated below), with respect to the beneficial ownership of shares of Common Stock by: (a) each person known to the Company to own beneficially more than 5% of the aggregate shares of Common Stock outstanding, (b) each Director and nominee for election as a Director, (c) each executive officer named in the Summary Compensation Table, and (d) the executive officers and Directors of the Company as a group. Each of the persons, or group of persons, in the table below has sole voting power and sole dispositive power as to all of the shares shown as beneficially owned by them, except as otherwise indicated.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Shares Outstanding
FMR Corp.	5,057,262(1)	14.14%
Waddell & Reed Ivy Investment Company	5,037,975(2)	14.04%
Neal L. Patterson	3,759,936(3)	10.42%
Wellington Management Company, LLP	2,939,290(4)	8.22%
Clifford W. Illig	2,758,906(5)	7.7%
Vanguard Specialized Funds-Vanguard Health Care Fund	2,680,100(4)	7.49%
Jack A. Newman, Jr.	165,127	*
Glenn P. Tobin, Ph.D.	117,188	*
Earl H. Devanny, III	91,372	*
Paul M. Black	88,736	*
Michael E. Herman	85,600	*
John C. Danforth	66,730	*
Gerald E. Bisbee, Jr., Ph.D.	58,400	*
Jeff C. Goldsmith, Ph.D.	49,307	*
William B. Neaves, Ph.D.	17,000	*
Nancy-Ann DeParle	12,100	*
All Directors and executive officers, as a group (22 persons)	7,580,364	20.45%

* Less than one percent

- (1) According to a Schedule 13G, dated February 16, 2004 and filed by FMR Corp., FMR Corp. has sole voting power with respect to 178,500 shares of Common Stock and sole dispositive power with respect to 5,057,262 shares of Common Stock. The address for FMR Corp. is 82 Devonshire Street, Boston, Massachusetts 02109.
- (2) Schedule 13G, dated January 30, 2004 and filed by Waddell & Reed Financial, Inc. (WDR), Waddell & Reed Financial Services, Inc. (WRFSI), Waddell & Reed, Inc. (WRI), Waddell & Reed Investment Management Company (WRIMCO) and Waddell & Reed Ivy Investment Company (WRIICO), collectively (Waddell), reported sole voting and dispositive power of the following:

WDR: 5,037,975 (indirect)

WRFSI: 4,345,125 (indirect)

WRI: 4,345,125 (indirect)

WRIMCO: 4,345,125 (direct)

WRIICO: 692,850 (direct)

The address for Waddell is 6300 Lamar Avenue, Overland Park, Kansas 66202.

- (3) Includes 278,891 shares held in trust for minor children with Jeanne Lillig-Patterson, wife of Neal L. Patterson, serving as trustee and 54,000 shares for which Mr. Patterson has shared voting and dispositive power. Excludes 70,714 shares held by Jeanne Lillig-Patterson, wife of Neal L. Patterson, as to which Mr. Patterson disclaims beneficial ownership. The address for Mr. Patterson is Cerner Corporation, 2800 Rockcreek Parkway, North Kansas City, Missouri 64117.
- (4) Schedule 13G, dated February 13, 2004 and filed by Wellington Management Company, LLP (Wellington), reported Wellington having shared voting power with respect to 231,390 shares of Common Stock and shared dispositive power with respect to 2,939,290 shares of Common Stock. The Schedule 13G filed by Wellington also reported that Vanguard Specialized Fund Vanguard Health Care Fund (Vanguard) owns more than five percent of these shares. Schedule 13G, dated February 5, 2004 and filed by Vanguard reported sole voting and shared dispositive power with regard to 2,680,100 shares of common stock. The address for Wellington Management Company, LLP is 75 State Street, Boston, Massachusetts 02109. The address for Vanguard is 100 Vanguard Blvd., Malvern, Pennsylvania 19355.
- (5) Includes 195,667 shares held in trust for minor children with Bonne A. Illig, wife of Clifford W. Illig, serving as trustee and 54,143 shares for which Mr. Illig has shared voting and dispositive power. The address for Mr. Illig is Cerner Corporation, 2800 Rockcreek Parkway, North Kansas City, Missouri 64117.

ELECTION OF DIRECTORS

The Certificate of Incorporation of the Company provides that the number of directors of the Company shall be fixed by, or in the manner provided in, the Bylaws of the Company and divided into three classes, each having a term of three years. Each year the term of office of one class of directors expires. The Board of Directors currently consists of eight members.

The Board of Directors intends to present for action at the Annual Meeting the election of Gerald E. Bisbee, Jr., Ph.D., Michael E. Herman and Nancy-Ann DeParle, as Class III Directors to serve for a three year term until the 2007 Annual Meeting of Shareholders and until their respective successors are duly elected and qualified. There are no first time nominees for Director in this 2004 Proxy Statement.

The Directors in Class I (Neal L. Patterson, Jeff C. Goldsmith, Ph.D. and John C. Danforth) and the Directors in Class II (Clifford W. Illig and William B. Neaves, Ph.D.) have been elected or appointed to terms expiring at the time of the Annual Meetings of Shareholders in 2005 and 2006, respectively. No shareholder may vote in person or by proxy for greater than three nominees at the Annual Meeting. Shareholders do not have cumulative voting rights in the election of directors. Directors will be elected by the plurality vote of the holders of shares of Common Stock entitled to vote at the Annual Meeting and present in person or by proxy.

Pursuant to the Company's Corporate Governance Guidelines, all Directors who are up for election at the Annual Meeting of Shareholders are expected to attend. All other Directors, barring unforeseen circumstances, are expected to attend the Annual Meeting as well. All current Directors of the Company, including the Directors up for re-election this year, attended the 2003 Annual Meeting of Shareholders with the exception of Michael E. Herman who was out the country and unable to attend.

It is intended that shares represented by a Proxy given pursuant to this solicitation will be voted in favor of the election of Gerald E. Bisbee, Jr., Ph.D., Michael E. Herman and Nancy-Ann DeParle as the Class III Directors, unless such authority is specifically withheld. In the event that any of such persons should become unavailable for election, it is intended that the shares of Common Stock represented by the Proxy will be voted for such substitute nominee as may be recommended by the Nominating, Governance & Public Policy Committee and nominated by the Board of Directors. The above named persons have indicated willingness to serve if elected and it is not anticipated that any of them will become unavailable for election.

The Certificate of Incorporation and Bylaws of the Company provide that advance notice of shareholder nominations for an election of directors must be given. Written notice of the shareholder's intent to make a nomination at a meeting of shareholders must be received by the Secretary of the Company not later than 120 days in advance of the date of such meeting in the case of an annual meeting and, in the case of a special meeting, not more than seven days following the date of notice of the meeting. The notice must contain (a) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated, (b) a representation that the shareholder is a holder of record of stock of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice, (c) the names and addresses, as they appear in the Company's books, of such shareholder, (d) the class and number of shares beneficially owned by such nominating shareholder and each nominee proposed by such shareholder, (e) a description of all arrangements or understandings between the nominating shareholder and each nominee and any other person or persons (naming such person or persons), pursuant to which the nomination or nominations are to be made, (f) such other information regarding each nominee proposed by such shareholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission, as then in effect, if the Company were soliciting proxies for the election of such nominees, and (g) the consent of the nominee to serve as a director of the Company if so elected. No such notice has been received, and the chairman of the Annual Meeting is

entitled to refuse to acknowledge the nomination of any person which is not made in compliance with the foregoing procedure. In any event, the Board of Directors has no reason to believe that anyone will attempt to nominate another candidate for director. Nominees recommended by shareholders of the Company in accordance with the Company's advance notice provision will be considered by the Nominating, Governance & Public Policy Committee for recommendation for nomination by the Board.

The following table sets forth certain information as to the persons nominated by the Board of Directors for election as Directors of the Company and each Director whose term of office will continue after the Annual Meeting:

Name	Age	Director Since/ Term Expires
To Serve in Office Until 2005 (Class I)		
Neal L. Patterson	54	1980/2005
Jeff C. Goldsmith, Ph.D. (2)	55	1999/2005

Name	Age	Director Since/ Term Expires
John C. Danforth (2)(3) To Serve in Office Until 2006 (Class II)	67	1996/2005
Clifford W. Illig	53	1980/2006
William B. Neaves, Ph.D. (1)(2)(3) To Serve in Office Until 2004 (Class III)	61	2001/2006
Gerald E. Bisbee, Jr., Ph.D. (1)(2)(3)	61	1988/2004
Michael E. Herman (2)	62	1995/2004
Nancy-Ann DeParle (1)(2)	47	2001/2004

(1) Member of Audit Committee.

(2) Member of Compensation Committee.

(3) Member of the Nominating, Governance & Public Policy Committee.

Gerald E. Bisbee, Jr., Ph.D. has been a Director of the Company since February 1988. Dr. Bisbee is Chairman, President and Chief Executive Officer of ReGen Biologics, Inc. (ReGen), a tissue remodeling company providing minimally invasive implants and medical devices for the repair and regeneration of injured human tissue. He was a Director of Aros Corporation (formerly known as APACHE Medical Systems, Inc.) commencing in December 1989, serving as Chairman of the Board from December 1989 to November 1997 and from December 2000 to June 2002. He was Chief Executive Officer of Aros from December 1989 to November 1997. Dr. Bisbee was also appointed Secretary of Aros in December 2000. In June 2002, ReGen and Aros merged.

John C. Danforth has been a Director of the Company since May 1996. Mr. Danforth represented the State of Missouri in the U.S. Senate for 18 years until 1994. He has been a partner in the law firm of Bryan Cave LLP since 1995, and, presently, serves as a Director of The Dow Chemical Company and MetLife, Inc.

Nancy-Ann DeParle has been a Director of the Company since May 2001. Ms. DeParle is a consultant on health policy and regulatory issues, a Senior Advisor to JPMorgan Partners, LLC and an Adjunct Professor of Health Care Systems at the Wharton School of the University of Pennsylvania. She was Administrator of the Health Care Financing Administration (HCFA, now the Centers for Medicare and Medicaid Services) from 1997 to October 2000 and a Fellow of the Institute of Politics and the Interfaculty Health Policy Forum at Harvard University from October of 2000 to the Spring of 2001. As HCFA Administrator, Ms. DeParle was a key health policy advisor to President Clinton and directed the Medicare, Medicaid, and State Children's Health Insurance programs. Before joining HCFA, she served as Associate Director for Health and Personnel at the White House Office of Management and Budget from 1993 to 1997. She has also worked as a lawyer in private practice and served as the Commissioner of the Tennessee Department of Human Services. Ms. DeParle is a Director of Accredo Health, Inc., DaVita, Inc., Guidant Corporation, Specialty Laboratories, Inc. and Triad Hospitals, Inc.

Jeff C. Goldsmith, Ph.D. has been a Director of the Company since September 1999. He is a healthcare consultant and President of Health Futures, Inc. and is an associate professor of medical education in the School of Medicine at the University of Virginia. Dr. Goldsmith served as National Advisor for Healthcare to Ernst & Young for twelve years, and lectured for eleven years at the Graduate School of Business at the University of Chicago. Dr. Goldsmith also served as Director of Planning and Government Affairs at the University of Chicago Medical Center and worked as a fiscal and policy analyst in the Office of the Governor of Illinois. Dr. Goldsmith currently serves as a Director of Essant Healthcare.

Michael E. Herman has been a Director of the Company since May 1995. He was President of the Kansas City Royals Baseball Club from 1992 to 2000. He was President of the Kauffman Foundation from 1985 to 1990 and Chairman of its Finance and Investment Committee from 1990 to 1999. Mr. Herman was the Executive Vice President and Chief Financial Officer of Marion Laboratories, Inc. from 1974 to 1990. He is a Trustee of Rensselaer Polytechnic Institute and the University of Chicago Graduate School of Business. Mr. Herman is presently a Director of Santarus, Inc.

Clifford W. Illig has been a Director of the Company since 1980 and is a co-founder of the Company. Mr. Illig served as Chief Operating Officer of the Company for more than five years until October 1998 and as President of the Company for more than five years until March 1999. Mr. Illig has served as Vice Chairman of the Board of Directors since March 1999.

William B. Neaves, Ph.D. has been a Director of the Company since March 2001. Dr. Neaves has been President, Chief Executive Officer, and member of the Board of Directors of The Stowers Institute for Medical Research since June 2000. For twenty years prior to 2000, he served in succession as Dean of Southwestern Graduate School, Dean of Southwestern Medical School, and Chief Academic Officer and holder of the Wildenthal Distinguished Chair in Biomedical Science at the University of Texas Southwestern Medical Center. He is presently a member of the University of Missouri Kansas City Trustees, the Kansas City Life Sciences Institute and the Kansas City Area Development Council.

Neal L. Patterson has been a Director of the Company since 1980 and is a co-founder of the Company. Mr. Patterson has been Chairman of the Board of Directors and Chief Executive Officer of the Company for more than five years. Mr. Patterson also served as President of the Company from March 1999 until August 1999.

Meetings of the Board and Committees

The Board of Directors has established Audit, Compensation and Nominating, Governance & Public Policy Committees of the Board of Directors. The Board of Directors has adopted a written charter for each of these Committees. The full text of each charter and the Company's Corporate Governance Guidelines are available on the Company's website located at www.cerner.com. Additionally, a copy of the Audit Committee Charter is attached as Exhibit A hereto. The Board of Directors does not have an Executive Committee. During 2002, the Board of Directors held five meetings, the Audit Committee held twelve meetings, the Compensation Committee held five meetings and the Nominating, Governance & Public Policy Committee held two meetings. Each Director attended at least 75% of the total meetings of the Board and the Board committees on which the Director served during the fiscal year.

Committees of the Board

The Audit Committee assists the Board of Directors in fulfilling its responsibilities with respect to the accounting and financial reporting practices of the Company, and in addressing the scope and expense of audit and related services provided by the Company's independent accountants.

The Compensation Committee reviews and approves the Company's compensation policies and practices, establishes compensation for Directors and Mr. Patterson, reviews and approves the compensation of the other executive officers of the Company, and approves major changes in the Company's benefit plans and compensation philosophy.

The Nominating, Governance & Public Policy Committee provides assistance and recommendations to the Board of Directors, the Chairman and the Chief Executive Officer of the Company in the areas of: (i) Board membership nomination, committee membership selection and rotation practices, (ii) evaluation of the overall effectiveness of the Board and review and consideration of developments in corporate governance practices, and (iii) current and emerging political, corporate citizenship and public policy issues that may affect the business operations, performance or public image of the Company. The Chairman of the Nominating, Governance & Public Policy Committee presides at all meetings of non-management Directors.

Nomination Process and Shareholder Access to Directors

Nominees may be suggested by Directors, members of management, shareholders or, in some cases, by a third party firm. In identifying and considering candidates for nomination to the Board of Directors, the Nominating, Governance & Public Policy Committee considers, in addition to the requirements set out in the Company's Corporate Governance Guidelines and the Nominating, Governance & Public Policy Committee Charter, quality of experience, the needs of the Company and the range of talent and experience represented on the Board.

In its assessment of each potential candidate, the Nominating, Governance & Public Policy Committee will conduct a background evaluation and review the nominee's: judgment; character and integrity; experience in business, healthcare, information technology, government and in areas that are relevant to the Company's global activities; independence; understanding of the Company's or other related industries; and, such other factors the Nominating, Governance & Public Policy Committee determines are pertinent in light of the current needs of the Board. Diversity of race, ethnicity, gender and age are factors in evaluating candidates for Board membership. The Nominating, Governance & Public Policy Committee will also take into account the ability of a Director to devote the time and effort necessary to fulfill his or her responsibilities. The Nominating, Governance & Public Policy Committee may use the services of a third-party executive search firm to assist it in identifying and evaluating possible nominees for Director.

The Nominating, Governance & Public Policy Committee will consider recommendations for directorships submitted by shareholders. Shareholders who wish the Nominating, Governance & Public Policy Committee to consider their recommendations for nominees for the position of Director should submit their recommendations in writing to the Nominating, Governance & Public Policy Committee in care of the Company's Secretary, Cerner Corporation, 2800 Rockcreek Parkway, North Kansas City, Missouri 64117. Recommendations by shareholders that are made in accordance with these procedures will receive the same consideration given to other potential nominees considered by the Nominating, Governance & Public Policy Committee. In addition, shareholders may submit Director nominations to the Company in accordance with the procedures described in General Information, below.

The Board provides a process for shareholders to send communications to the Board or any of the Directors. Shareholders may send written communications to the Board or any of the Directors c/o Secretary, Cerner Corporation, 2800 Rockcreek Parkway, North Kansas City, Missouri 64117. All communications will be compiled by the Secretary of the Company and submitted to the Board or the individual Directors, as applicable, on a periodic basis.

Audit Committee Report

NOTWITHSTANDING ANYTHING TO THE CONTRARY SET FORTH IN ANY OF THE COMPANY'S FILINGS UNDER THE SECURITIES ACT OF 1933 OR THE SECURITIES EXCHANGE ACT OF 1934, THE FOLLOWING REPORT OF THE AUDIT COMMITTEE SHALL NOT BE INCORPORATED BY REFERENCE INTO ANY SUCH FILINGS AND SHALL NOT OTHERWISE BE DEEMED FILED UNDER SUCH ACTS.

The Audit Committee of the Company is currently composed of three independent members of the Board of Directors (all of whom meet the applicable independence requirements of the SEC and The Nasdaq Stock Market) and operates under a written charter adopted by the Board of Directors. The Audit Committee appoints and retains the Company's independent accountants which appointment is then confirmed and ratified by the Board of Directors, and, this year, the selection is subsequently submitted to the shareholders of the Company for ratification.

Management is responsible for the Company's internal controls and the financial reporting process. The independent accountants are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with generally accepted auditing standards and to issue a report thereon. The Audit Committee's responsibility is to monitor and oversee these processes.

In this context, the Audit Committee has met and held discussions with management and the independent accountants. Management represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with generally accepted accounting principles, and the Audit Committee has reviewed and discussed the consolidated financial statements with management and the independent accountants. The Audit Committee discussed with the independent accountants matters required to be discussed by Statement on Auditing Standards No. 61 (Communications with Audit Committees).

The Company's independent accountants also provided to the Audit Committee the written disclosures and letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and the Audit Committee discussed with the independent accountants that firm's independence.

Based upon the Audit Committee's discussion with management and the independent accountants and the Audit Committee's review of the representation of management and the report of the independent accountants to the Audit Committee, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended January 3, 2004 to be filed with the

Securities and Exchange Commission.

Members of the Audit Committee:

Gerald E. Bisbee, Jr., Ph.D.

Nancy-Ann DeParle

William B. Neaves, Ph.D.

**Guidelines of Cerner Corporation's Audit Committee
for Pre-Approval of Independent Auditor Services**

The Audit Committee of the Board of Directors of the Company has adopted the following guidelines regarding the engagement of the Company's independent auditor to perform services for the Company:

For audit services (including statutory audit engagements as required under local country laws) and audit-related services, the independent auditor will provide the Committee with an engagement letter during the first quarter of each year outlining the scope of audit and audit-related services proposed to be performed during the fiscal year. If agreed to by the Committee, this engagement letter will be formally accepted by the Committee at either its March or May Committee meeting. The Committee will approve, if necessary, any changes in the terms, conditions and fees resulting from changes in audit scope, Company structure or other matters.

The independent auditor will submit to the Committee for approval an audit services fee proposal with the engagement letter.

For any permissible non-audit services, the independent auditor will provide the Committee with a detailed scope of service description and fee range. Each non-audit service must be separately pre-approved by the Committee. Company management and the independent auditor will each confirm to the Committee that any non-audit services for which pre-approval is requested are permissible under all applicable legal requirements.

To ensure prompt handling of unexpected matters, the Committee delegates to the Chair of the Committee the authority to amend or modify the scope of pre-approved permissible audit, audit-related or non-audit services and the fees related thereto. Upon receiving an unforeseen request for audit, audit-related or non-audit services or a change in the fee range, the independent auditor will advise Company management and Company management will request pre-approval for such change in audit, audit-related or non-audit services or fees from the Chair of the Committee. The Chair of the Committee will report on all action taken with respect to pre-approval of audit, audit-related or non-audit services and fees to the Committee at the next Committee meeting. With respect to any such pre-approval of non-audit services, Company management and the independent auditor will each confirm to the Chair of the Committee that such non-audit services are permissible under all applicable legal requirements.

With respect to each proposed pre-approved service, the independent auditor will provide sufficient detail in the description to ensure that the Audit Committee (or Chairman, as applicable) knows precisely what services it is being asked to pre-approve so that it can make a well-reasoned assessment of the impact of the service on the auditor's independence.

The independent auditor must ensure that all audit and non-audit services provided to the Company have been approved by the Committee.

EXECUTIVE COMPENSATION

The following table sets forth certain information with respect to the Chief Executive Officer and the four most highly compensated executive officers of the Company for the fiscal year ended January 3, 2004.

Summary Compensation Table

Name and Principal Position	Fiscal Year	Annual Compensation		Long-Term Compensation	
		Salary\$(2)	Bonus(\$)	Number of Stock Options Granted	All Other Compensation (\$)(5)
Neal L. Patterson (1) Chairman of the Board of Directors and Chief Executive Officer	2003	569,903	137,579	25,000	4,363
	2002	512,308	342,900	25,000	8,494
	2001	492,307	354,713	37,500	7,427
Jack A. Newman, Jr. Executive Vice President	2003	412,788	228,808	5,000	4,288
	2002	403,653	283,950	7,500	8,408
	2001	397,692	212,381		7,349
Glenn P. Tobin, Ph.D. (3)(4) Executive Vice President	2003	427,163	164,033		4,300
	2002	420,673	141,413	60,000	8,422
	2001	366,923	337,096	25,000	7,327
Paul M. Black Executive Vice President	2003	328,270	248,910	30,000	4,221
	2002	293,269	336,574	40,000	8,319
	2001	264,616	377,704	20,000	7,246
Earl H. Devanny, III President	2003	415,192	92,893	15,000	4,289
	2002	393,269	235,688	50,000	8,398
	2001	365,769	339,049	25,000	7,326

- (1) Includes a \$57,150 bonus payment for 2002 performance, which was not earned until approved by the Compensation Committee in May 2003.
- (2) 2003 salary represents 53 weeks due to the Company's fiscal year being one week longer in 2003.
- (3) Mr. Tobin 2003 bonus includes \$80,000 for relocation to the United Kingdom.
- (4) Mr. Tobin's 2002 option grant of 125,000 was reduced by 65,000 due to cancellation in May of 2003, concurrent with a change in role.
- (5) Includes Company matching contributions and discretionary profit-based allocations to the named individual's account pursuant to the Cerner Corporation 401(k) Retirement Plan and premiums paid by the Company on group term life insurance.

Stock Option Plans

The following table reports information with respect to the award of stock options during the year ended January 3, 2004 for each of the named executive officers in the Summary Compensation Table:

Option Grants In Last Fiscal Year

Name	Number of securities underlying options granted (#)	Percent of total options granted to employees in fiscal year	Exercise price (\$/Sh)(1)	Expiration date	Grant date present value (\$)(2)
Neal L. Patterson (1)	25,000	2.8	22.59	6/12/13	326,730
Jack A. Newman, Jr. (1)	5,000	.6	22.59	6/12/13	65,346
Glenn P. Tobin, Ph.D.					
Paul M. Black (1)	30,000	3.3	22.59	6/12/13	392,075
Earl H. Devanny, III (1)	15,000	1.7	22.59	6/12/13	196,038

- (1) These options were issued at a price that was equal to the market value of the Company's Common Stock on the date of grant. The options vest and become exercisable in varying amounts per year over a period of five years from the date of the grant, assuming the optionee remains an employee of the Company.
- (2) The grant date present value was calculated using the Black-Scholes option pricing model with the following weighted average assumptions: expected dividend yield of zero percent; expected stock volatility of 71.2%; risk-free interest rate of 3.8%; and expected years until exercise of 4.7 years for each option.

The following table reports information with respect to the January 3, 2004 option values for each of the named executive officers in the Summary Compensation Table:

Aggregated Option Exercises In Last Fiscal Year and January 3, 2004 Option Values

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at January 3, 2004 (#)	Value of Unexercised In-the-Money Options at January 3, 2004 (\$)
			Exercisable/ Unexercisable (1)	Exercisable/ Unexercisable (1)
Neal L. Patterson Jack A. Newman, Jr. Glenn P. Tobin, Ph.D. Paul M. Black Earl H. Devanny, III			328,000/144,500 143,992/22,871 103,120/102,678 55,430/110,207 86,544/124,135	2,815,380/1,037,720 2,680,958/322,665 1,363,069/701,222 881,369/1,095,546 1,519,146/1,284,500

- (1) The numbers in the column headed Number of Securities Underlying Unexercised Options at January 3, 2004 and the dollar amounts in the column headed Value of Unexercised In-the-Money Options at January 3, 2004 reflect (a) the number of shares of the Company's Common Stock into which options are exercisable and unexercisable and (b) the difference between the market value on January 3, 2004 of such shares of Common Stock and the exercise price of the options.

Director Compensation

During 2003, non-employee Directors of the Company received compensation of \$2,500 for each meeting of the Board of Directors attended and an additional \$500 for each committee meeting attended, plus reimbursement for expenses incurred in connection with attendance at Board of Directors meetings. During 2003, payments, excluding expense reimbursements, were \$20,000 to Dr. Bisbee, \$10,500 to Mr. Herman, \$13,000 to Dr. Goldsmith, \$13,000 to Mr. Danforth, \$20,000 to Mr. Neaves and \$15,500 to Ms. DeParle.

As of May 2004, non-employee Directors of the Company will receive a \$25,000 annual retainer and \$2,500 for each Board meeting attended. The Chairman of the Audit Committee will receive \$2,000 for each Audit Committee meeting attended as Chairman, the Chairman of the Compensation Committee will receive \$1,600 for each Compensation Committee meeting attended as Chairman, and the Chairman of the Nominating, Governance & Public Policy Committee will receive \$1,200 for each such Committee meeting he or she attends as Chairman. Each Committee member will receive \$1,000 for each Committee meeting attended. All Chairman and Committee member fees will be paid at fifty percent (50%) of such rates for attendance at telephonic Committee meetings.

In conjunction with being re-elected to the Board of Directors in May 2003, Clifford W. Illig and William B. Neaves, Ph.D. were each granted options to purchase 12,000 shares of the Company's Common Stock. These options were issued at a price that was equal to the fair market value of the Company's Common Stock on the date of grant. The options become exercisable in equal amounts each year over a period of three years from the date of the grant, beginning in 2004, assuming each individual remains a Director of the Company. The options expire ten years from date of grant. Commencing in May of 2004, non-employee Directors will receive a grant of 2,500 shares of restricted stock of the Company for each year such non-employee Director serves as a Director of the Company. The restricted stock grant will vest at the end of the completion of the one year of Board service for which it was granted. Nominees that are elected or appointed to the Board for the first time will also receive an additional grant of 2,500 shares of restricted stock that will vest in equal amounts each year over a three year term, provided the individual remains a Director of the Company. The

grant of restricted stock commencing in May of 2004 will be in lieu of stock option grants that have historically been part of the Company's non-employee Director compensation.

Report of the Compensation Committee

The Compensation Committee of the Board of Directors (the Compensation Committee) is composed of the individuals listed below. All of the members of the Compensation Committee are independent Directors under the applicable Nasdaq requirements. The Compensation Committee reviews and approves the Company's compensation policies and practices, establishes compensation for directors, evaluates Mr. Patterson's performance and establishes compensation accordingly, reviews and approves the compensation of the other executive officers of the Company, and approves major changes in the Company's benefit plans and compensation philosophy.

The compensation policies of the Company have been designed to enable the Company to attract, motivate and retain experienced and qualified associates. The Company seeks to provide competitive salaries based upon individual performance, together with annual cash bonuses (paid out quarterly) awarded for the achievement of goals established by the Compensation Committee. In addition, it has been the policy of the Company to grant stock options to executives upon their commencement of employment with the Company or their becoming such executive officers in an effort to strengthen the mutuality of interests between the executives and the Company's shareholders. Options are also granted to the top 20% performers below the executive level based upon individual achievements.

This year, the Company is seeking approval of a Long-Term Incentive Plan G, which is similar to the Long-Term Incentive Plan F. Approval of Plan G will enable the Company to continue to utilize equity as an element of its total rewards plan for top performing associates and executives. Approval is necessary as Cerner will substantially deplete its reserve of shares under previously approved plans by late 2005.

Deloitte Consulting LLP, the Committee's retained compensation consultant, advised the Committee on the evaluation, design and development of Plan G, and other compensation matters throughout the year.

Annual Compensation

Total annual cash compensation for executive officers of the Company consists of base salary and a potential annual cash bonus (paid out quarterly) based upon incentive plans adopted each year by the Compensation Committee. The Company grants such compensation bonuses pursuant to a shareholder approved performance-based compensation plan. Total annual cash compensation varies each year based on changes in base salary and in the cash bonus earned. The incentive plans for executive officers other than Mr. Patterson consist of various objective goals, both related to areas for which such executive officer has responsibility and for Company wide performance. Attainment of each goal is objective, but the amount of the bonus is also affected, in some instances, by a subjective analysis of the executive's overall performance. Such bonuses may only be adjusted downward from the maximum amount stated in each individual's compensation plan. For Mr. Patterson, the goals during the 2003 plan year consisted of earnings per share and client satisfaction survey results. Attainment by Mr. Patterson of the goals is determined on an objective basis without any subjective analysis of his overall performance. Under the incentive plans, each executive may earn up to a maximum amount approved by the Compensation Committee, based on and as determined by targets designed to create a significant incentive in relation to such executive's base salary. During 2003, the Company's executive officers, as a group, earned approximately 59 percent of the targeted incentives available. For 2004, Mr. Patterson's bonus and a majority of the executive officer incentive plan bonuses will be paid out based on attainment of earnings per share targets, business and operational results, and client experience measures including cash collections and service level attainment.

The salary of each executive officer is approved on a subjective basis by the Compensation Committee at a level believed to be sufficient to attract and retain qualified individuals. In making this determination, the Compensation Committee considers the executive's performance, salary levels at other competing businesses, as reported publicly for a peer group of like companies and through widely-recognized surveys, and the Company's performance. In approving salaries and incentive plan payments for 2003, the Compensation Committee considered, among other matters, the Company's performance and the compensation levels of the Company's principal competitors for which information was available, although the Compensation Committee did not target compensation to any particular group of these companies. The factors impacting base salary levels are not independently assigned specific weights but are subjectively considered by the Compensation Committee.

Mr. Patterson's compensation during the year ended January 3, 2004 consisted of \$569,903 in salary and \$137,579 in payments earned under the Company's incentive plans. Mr. Patterson earned approximately 35 percent of the targeted incentives

available under the incentive plans during 2003. In determining Mr. Patterson's salary and potential incentive plan payments for 2003, the Compensation Committee considered, among other matters, the Company's performance during 2002 and the compensation of the chief executive officers of the Company's principal competitors for which information was available, although the Compensation Committee did not target his compensation to any particular group of these companies.

Aligning Pay with Performance

During 2003, Cerner's management team continued practices established to closely link pay to performance. A quarterly performance review process was used to provide quarterly feedback to executives on their performance and attainment of Company goals. Under this program, executives whose performance was evaluated as being in the bottom 20% of all executives are not eligible for pay increases or additional stock option grants.

Long-Term Incentive Compensation

The long-term incentive compensation for executive officers consists of awards of stock options granted under the Company's shareholder approved stock option plans. Stock option grants are typically made to an executive upon their commencement of employment with the Company. Executives are eligible for additional stock option grants on an annual basis as their individual and Company performance warrants. The Compensation Committee believes stock options create an incentive for executive officers to contribute to sustained, long-term growth in the Company's performance. The Compensation Committee believes that stock options create a mutuality of interest between the Company's executive officers and shareholders. Stock option grants provide the right to purchase shares of Common Stock at a specified exercise price. All stock options issued to executive officers, to date, have exercise prices equal to or greater than the fair market value of the Common Stock on the date of the grant of the stock option.

Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code generally disallows a federal income tax deduction to a public company for compensation over \$1 million per fiscal year paid to a company's chief executive officer and its four other most highly compensated executive officers serving at the end of that year. Not subject to the deductibility limit, however, is compensation that qualifies as performance-based compensation. A Company objective is to maximize the deductibility of compensation under Section 162(m) to the extent doing so is reasonable and consistent with Company strategies and goals. Gains on exercises of stock options awarded under Long-Term Incentive Plans are considered to be performance-based compensation not subject to the Section 162(m) deductibility limit.

Members of the Compensation Committee:

Gerald E. Bisbee, Jr., Ph.D.

John C. Danforth

Nancy-Ann DeParle

Jeff C. Goldsmith, Ph.D.

Michael E. Herman

William B. Neaves, Ph.D.

Report of the Nominating, Governance & Public Policy Committee

The Nominating, Governance & Public Policy Committee of the Company is currently composed of three independent members of the Board of Directors (all of whom meet the applicable independence requirements of the SEC and The Nasdaq Stock Market) and operates under a written charter adopted by the Board of Directors, which charter is available for review on the Company's website at www.cerner.com under Investors/Corporate Governance.

The Nominating, Governance & Public Policy Committee is appointed by the Board to provide assistance to the Board, the Chairman and the Chief Executive Officer of the Company in the areas of: (i) Board membership nomination, committee membership selection and rotation practices, (ii) evaluation of the overall effectiveness of the Board and review and consideration of developments in corporate governance practices, and, (iii) current and emerging political, corporate citizenship and public policy issues that may affect the business operations, performance or public image of the Company. The Committee's goal is to assure that the composition, practices and operation of the Board contribute to value creation and effective representation of the Company's shareholders and to foster Cerner's commitment to operate its business worldwide in a manner consistent with the rapidly changing demands of society.

In 2003, the Nominating, Governance & Public Policy Committee recommended for adoption, and the Board adopted, written Corporate Governance Guidelines, which included a Director Orientation and Continuing Education Program for Directors. The Nominating, Governance & Public Policy Committee also reviewed Director candidates in accordance with its charter and pursuant to that review, recommended the Director candidates listed in this Proxy as being the nominees best suited to serve the needs of the Company.

Members of the Nominating, Governance & Public Policy Committee:

Gerald E. Bisbee, Jr., Ph.D.

John C. Danforth

William B. Neaves, Ph.D.

Company Performance

The following graph presents a comparison for the five-year period ended January 3, 2004 of the performance of the Common Stock of the Company with the Nasdaq Composite Index (as calculated by The Center for Research in Security Prices) and the Nasdaq Computer/Data Processing Group (as calculated by The Center for Research in Security Prices):

Comparison of 5 Year Cumulative Total Return

The above comparison assumes \$100 was invested on December 31, 1998 in Common Stock of the Company and in each of the foregoing indices and assumes reinvestment of dividends. The results of each component issuer of each group are weighted according to such issuer's stock market capitalization at the beginning of each year.

RATIFICATION OF SELECTION OF INDEPENDENT PUBLIC ACCOUNTANTS

The Audit Committee of the Board of Directors has selected the firm of KPMG LLP as the Company's independent certified public accountants to audit the financial statements of the Company for the fiscal year ending January 1, 2005. KPMG LLP has served as auditors for the Company since 1983. It is expected that representatives of KPMG LLP will be present at the Annual Meeting. They will have the opportunity to make a statement, if they desire to do so, and also will be available to respond to appropriate questions.

Shareholder ratification of the selection of KPMG LLP as the Company's independent accountants is not required by the Company's Bylaws or otherwise. However, the Board is submitting the selection of KPMG LLP to the shareholders for ratification as a matter of good corporate practice. If the shareholders fail to ratify the selection, the Audit Committee will reconsider whether or not to retain KPMG LLP. Even if the selection is ratified, the Audit Committee in their discretion may direct the appointment of a different independent accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and its shareholders.

Audit and Non-Audit Fees

The following table presents fees for professional audit services rendered by KPMG LLP for the audit of the Company's annual consolidated financial statements for 2002 and 2003 and reviews of the financial statements included in the Company's Forms 10-Q for those fiscal years, and fees billed for other services rendered by KPMG LLP during those periods

	2002	2003
Audit Fees	\$288,000	\$326,000
Audit-related Fees (1)	48,000	47,000
	<u> </u>	<u> </u>
 Audit and Audit-related Fees	 \$336,000	 \$373,000
	<u> </u>	<u> </u>
 Tax Fees (2)	 \$102,000	 \$118,000
All Other Fees		
	<u> </u>	<u> </u>
 Total Fees	 \$438,000	 \$491,000
	<u> </u>	<u> </u>

(1) Audit-related fees consist principally of fees for audits of financial statements of certain employee benefit plans and due diligence services.

(2) Tax fees consist of fees for tax consultation and tax compliance services.

In making its determination regarding the independence of KPMG, the Audit Committee considered whether the provision of the services covered in the sections herein regarding Audit-related Fees, Tax Fees, and All Other Fees was compatible with maintaining such independence.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR

THE RATIFICATION OF THE SELECTION OF KPMG LLP

APPROVAL OF THE ADOPTION OF THE CERNER CORPORATION 2004 LONG-TERM INCENTIVE PLAN G

The Board of Directors of the Company approved on March 3, 2004, subject to shareholder approval, a long-term equity-based compensation plan, formally titled the Cerner Corporation 2004 Long-Term Incentive Plan G (Plan G), to provide key associates and non-employee Directors of the Company and its subsidiaries (eligible participants) with added incentive to remain employed by the Company and align such individuals' interests with those of the Company's shareholders, and is recommending to the shareholders that the shareholders adopt Plan G. The Board of Directors believes that Plan G will create additional alignment with eligible participants as shareholders. The Board of Directors also believes that the use of Plan G is necessary for the Company to attract, hire and retain quality associates in an industry that has a very competitive market for talented employees and meets the Company's goal of establishing a broad based, long-term orientation for the Company's high performance associates. Plan G would permit the issuance of up to 2,000,000 shares of the Company's Common Stock pursuant to Awards granted under Plan G, such as stock options, restricted stock awards, restricted stock units and performance share awards, as well as other awards such as stock appreciation rights (SARs), phantom stock and performance unit and performance share awards which may be payable in the form of Common Stock or cash (collectively all such types of awards being hereinafter referred to as Awards).

Description of Plan G

The following is only a brief summary of Plan G and is qualified in its entirety by reference to the full text of Plan G, a copy of which is attached hereto as Annex I.

General. Plan G provides for the granting of stock options, SARs, restricted stock awards and restricted stock units, phantom stock, performance unit and performance share awards to designated eligible participants.

Purpose. The purpose of Plan G is to encourage eligible participants to contribute materially to the growth of the Company, thereby benefiting the Company's shareholders by aligning the economic interests of the eligible participants with those of the Company's shareholders. Plan G is further intended to provide flexibility to the Company in its ability to attract, motivate and retain the services of eligible participants upon whose judgment, interest and special efforts the Company is largely dependent for the successful conduct of its operations.

Eligibility to Receive Awards. Designated key associates of the Company and its subsidiaries and non-employee Directors are eligible to be granted Awards under Plan G. However, incentive stock options (see below) may be granted only to associates of the Company.

Plan Administration. Plan G will be administered by the Compensation Committee of the Board of Directors, or such other committee as the Board may determine (the Committee), all of whom will be: (1) outside directors as defined under Section 162(m) of the Internal Revenue Code of 1986, (2) non-employee directors as defined by the Securities and Exchange Commission rules under the Securities Act of 1934, and (3) qualified to administer the Plan and act as a Member of the Committee pursuant to all applicable rules, regulations and listing standards of the Nasdaq Stock Market, including any applicable standards for independence. Subject to the terms of Plan G, the Committee has the sole discretion to administer and interpret Plan G and determine who shall be granted Awards, the size and types of such Awards and the terms and conditions of such Awards.

Stock Options. Both incentive stock options and nonqualified stock options may be granted under Plan G. The exercise price per share of the shares of the Company's Common Stock subject to each option (the option price) is set by the Committee but may not be less than the fair market value on the date of grant. Certain incentive stock options granted to individuals owning more than 10% of the Company will be required to have a higher option price equal to

at least 110% of the value of the stock on the date of grant. Options granted under Plan G are exercisable at the times and on the terms established by the Committee. The grant and the terms of incentive stock options shall be restricted to the extent required by the Internal Revenue Code. The option price must be paid in full in cash or the Committee also may permit payment of the option price by the tender of previously acquired shares of the Company's Common Stock or such other legal consideration which the Committee determines to be consistent with Plan G's purpose and applicable law. Reload options are not permitted under Plan G.

Plan G limits the number of options that can be granted to any individual during any calendar year to 500,000 shares. This limitation is applicable to other Awards made under Plan G to the extent such Awards are settled in shares of Company Common Stock.

Stock Appreciation Rights. Plan G permits the grant of two types of SARs: freestanding SARs, tandem SARs, or any combination thereof. A freestanding SAR is a SAR that is granted independently of any option. A tandem SAR is a SAR that is granted in connection with a related option, the exercise of which requires a forfeiture of the right to purchase a share under the related option (and when a share is purchased under the option, the SAR is similarly canceled). Tandem SARs may be granted either at the time the option is granted or any time thereafter while the option remains outstanding; provided, however, that in the case of an incentive stock option, SARs may be granted only at the time of grant of the incentive stock option. The Committee has complete discretion to determine the number of SARs granted to any optionee or recipient and the terms and conditions pertaining to such SARs. Unless the Committee determines otherwise, the grant price shall be at least equal to the option price of the related option in the case of a tandem SAR, or in the case of a freestanding SAR, the fair market value of a share of the Company's Common Stock on the date of grant.

The Company may establish a grant price for freestanding SARs that is less than the fair market value of a share of the Company's common stock, but the grant price on the discounted stock appreciation rights, or DSARs, cannot be less than 50% of the fair market value of the common stock at the time of the grant. When a grantee exercises a SAR, that grantee will receive an amount equal to the value of the stock appreciation for the number of SARs exercised, payable in cash, common stock or combination thereof.

Restricted Stock and Restricted Stock Unit Grants. Plan G permits the grant of restricted stock or restricted stock unit awards. Restricted Stock and Restricted Stock Units may be issued or transferred for consideration or for no consideration, as determined by the Committee. The Committee may establish conditions under which restrictions on shares of Restricted Stock or Restricted Stock Units shall lapse over a period of time or according to such other criteria, such as the achievement of specific performance goals, as the Committee deem