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

FORM 10-K

ANNUAL REPORT  
PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

0-28092  
(Commission file number)

Medical Information Technology, Inc.  
(Exact name of registrant as specified in its charter)

Massachusetts  
(State of incorporation)

04-2455639  
(IRS Employer Identification Number)

MEDITECH Circle, Westwood, MA  
(Address of principal executive offices)

02090  
(Zip Code)

781-821-3000  
(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Exchange Act: None

Securities registered pursuant to Section 12(g) of the Securities Exchange Act: Common Stock, par value \$1.00 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act. Yes [ ] No [X]

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 [X] 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 during the preceding 12 months (or for such shorter period that the registration was required to submit and post such files). Yes [X] No [ ]

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Section

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Securities Exchange Act. Large accelerated filer [ ] Accelerated filer [ ] Non accelerated filer [X] Smaller reporting company [ ]

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

No public trading market exists for the registrant's common stock. There were 36,935,201 shares of common stock, \$1.00 par value, outstanding at December 31, 2012.

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## **Part I**

### **Item 1 - Business**

#### COMPANY OVERVIEW

Medical Information Technology, Inc. (MEDITECH) was founded in 1969 to develop, manufacture, license and support computer software products for the hospital market. For 2012 on a consolidated basis combined product and service revenue was \$597.8M, operating income was \$191.6M and net income was \$130.5M. Product bookings were \$239.5M and the resultant year-end product backlog was \$256.4M. By year-end MEDITECH had 4,099 staff members, and over 2,400 active hospital sites throughout the United States, Canada and the United Kingdom.

#### HOSPITAL SOFTWARE

At the beginning MEDITECH developed a software product to automate one of the main departments in a hospital, the clinical laboratory which performs various diagnostic tests on blood or urine specimens. Within a few years, this product became standardized, thereby requiring minimal adaptation to meet the individual needs of a typical customer. MEDITECH extended the concept and developed additional software products for the rest of a hospital's clinical departments. Eventually, it moved into the financial area by developing a hospital billing and accounts receivable product as well as various general accounting products. MEDITECH now offers home health care software products to hospitals. Recently MEDITECH began offering physician office management software products as well.

Although the individual products could be operated in a stand alone fashion, a hospital achieved maximum effectiveness when they were used in an integrated mode, sharing access to the common clinical and financial records of the hospital. This concept ultimately led to MEDITECH developing the so-called hospital information system, a cohesive set of software products designed from the outset to work in conjunction with the overall operation of the hospital and to minimize the need for specialized interfaces.

#### COMPUTER HARDWARE

Sophisticated software, such as MEDITECH's, requires extensive computer and communication equipment to function. In spite of this, MEDITECH continues to be a pure software company, limiting itself to specifying the aggregate components needed as well as suggesting typical configurations from certain hardware vendors. The responsibility is left to the hospital to purchase the requisite hardware and secure a continuing source of maintenance service for it.

The hardware components traditionally consist of a small set of central medium-sized computers and a large set of display terminals and printers distributed throughout the hospital. All of these elements are interconnected by means of a standard high speed communication network. The computers execute the software and include large disk subsystems containing the permanent and common clinical and financial records of the hospital.

Hardware technology evolves rapidly, and the current trend has been to replace the display terminals with desktop and handheld computers, thereby forming a client server network. In this mode of operation, the central computers become the file servers while software is executed locally on the client computer which makes file requests to the servers.

## LICENSED SOFTWARE

MEDITECH requires a hospital customer to sign a standard software license agreement prior to product delivery, implementation and subsequent service of the software. This agreement specifies a front end product fee and a front end implementation fee, both of which are payable over the implementation process, and a monthly service fee after the site goes live. In addition to precluding ownership and restricting transfer, the license mandates the customer hold MEDITECH harmless from any liability arising from incorrect operation of the software.

MEDITECH bases its product fee on a customer's net patient revenue across all of its sites, and sets its implementation fee on the total number of sites. As a result larger hospitals pay more than smaller hospitals. The monthly service fees are 1% of the product fees. A typical 150 bed acute care hospital which licenses most of our software might incur a \$3,000,000 product fee, a \$750,000 implementation fee and a \$30,000 monthly service fee. An order is booked when a signed software license and a 10% deposit are received.

## STAFF ORGANIZATION

MEDITECH is organized into functional units grouped around product development, sales and marketing, implementation, customer service, accounting and facility operations. MEDITECH staff work in nine company owned facilities - six in the greater Boston area, one in Atlanta and two in the Minneapolis area.

From its inception, MEDITECH utilized communication technology which allowed much of its business activities to be performed by remote access. MEDITECH staff sitting at their desks may access client hospitals, both personnel and computers. As a result, there is no need for remote offices. Although most customer contact is through the phone or e-mail, certain of the sales and implementation staff travel to customer sites.

## PRODUCT DEVELOPMENT

Most of the product development staff is working on the incremental evolution of the current product line, as well as the creation of new products each year. The rest of the staff is developing a set of replacement products utilizing a new software technology. Approximately every twelve years, MEDITECH introduces the next generation of products based on the new software technology and gradually updates existing customers.

## SALES AND MARKETING

Most of the direct sales staff, organized into regions, concentrate on new prospects. In addition, some of the sales staff monitor existing customers to expose them to MEDITECH's entire product line. Marketing activities and promotion are low key because hospitals are easily identified, finite in number and generally send a request for proposal to vendors when they contemplate the purchase of a hospital information system.

During the sales process, prospects generally visit MEDITECH to talk to product specialists and to view product demonstrations. Thereafter they are encouraged to visit various MEDITECH customer sites to observe first hand the software in actual operation and to discuss issues of concern with hospital personnel.

## IMPLEMENTATION

To ensure a successful implementation, the staff must properly train a core group of hospital personnel about the operation of the software and how to use it in their daily activity. To avoid interruptions from normal hospital activities, MEDITECH requires the hospital personnel to come to its offices in the Boston area for intensive training sessions.

As training proceeds, the implementation staff customizes certain dictionaries to fit the specific need of the hospital's environment, provides interfaces to non-MEDITECH systems and assists the hospital in converting data from legacy systems. In addition, MEDITECH delivers, installs and tests the licensed software on the customer's hardware. MEDITECH utilizes remote access communication technology to minimize the need to travel.

## CUSTOMER SERVICE

Once a hospital goes live, the responsibility of maintaining the customer is transferred to the service staff. MEDITECH provides 24 hour a day service coverage to these customers in order to respond to problem calls. In addition, the staff updates customers with new releases of the software products as they become available. To ensure the continuing education of the hospital staff, MEDITECH runs seminars on the use of its products.

## HCA-THE HEALTHCARE COMPANY

HCA-The Healthcare Company utilizes a MEDITECH clinical information system in over 250 hospitals and has been MEDITECH's largest customer for many years. HCA represented 7% of MEDITECH revenues in 2012.

## COMPETITION

The market for health care information systems is subject to the technological imperative. Accordingly, MEDITECH has a completely integrated set of application products, implements them successfully, provides ongoing maintenance including updates and continues the developmental process. MEDITECH's competitors who make similar claims include GE, Siemens, McKesson, Cerner, Eclipsys, CPSI and Epic. MEDITECH does not offer the breadth of products and services which the competition offers to hospitals nor does MEDITECH offer the products and services which the competition offers to related medical enterprises. Instead MEDITECH focuses exclusively in the hospital information system software market and believes it competes favorably in this market.

## ACCESS TO SEC FILINGS

MEDITECH's website address is "[www.meditech.com](http://www.meditech.com)" which provides access to its annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and all amendments thereof just as soon as such reports are filed with the SEC. The links so provided allow access to copies of the reports stored on MEDITECH's website, but a link is also provided to allow access to all of MEDITECH's filings stored on the SEC's website as well.

One may use "<http://www.sec.gov/cgi-bin/browse-edgar?CIK=1011452&action=getcompany>" to access all of MEDITECH's filings stored on the SEC's website instead.

In addition MEDITECH will provide paper copies of these filings free of charge to its shareholders upon request.

## **Item 1A - Risk Factors**

There are numerous risk factors which may affect future results of operations. The health care industry is highly regulated and is subject to changing economic and political influences. Federal and state legislatures could modify the health care system in respect to reimbursement and financing. Hospitals may respond to these pressures by delaying the purchase of new information systems. Previous volatility in the market place such as that due to Y2K concerns and September 11th could reappear and cause delays. The Health Insurance Portability and Accountability Act of 1996 directly impacts the industry by specifying standards to protect the security and confidentiality of patient information. It may be possible for patients to bring claims against software providers regarding injuries due to errors. Hospitals consolidating into an integrated health care delivery system may be able to negotiate price reductions. Finally, MEDITECH is dependent on a cohesive group of long time senior managers and staff with vast experience in the hospital industry and software technology.

## **Item 1B - Unresolved Staff Comments**

None.

## **Item 2 - Properties**

As of December 31, 2012 MEDITECH owned nine facilities containing almost 1.6 million square feet of office space, all being well maintained Class A properties, six in the greater Boston area, one in Atlanta and two in the Minneapolis area. MEDITECH occupies 83% of the space and the remaining 17% is leased to various tenants. MEDITECH has adequate space for its reasonable needs over the near future.

## **Item 3 - Legal Proceedings**

None

## **Item 4 - Mine Safety Disclosures**

Not applicable

## **PART II**

### **Item 5 - Market for Registrant's Common Equity and Related Shareholder Matters**

No public trading market exists for MEDITECH's common stock, and accordingly no high and low bid information or quotations are available.

The sale, assignment, transfer, pledge or other disposition of any of MEDITECH's common stock is subject to right of first refusal restrictions set forth in MEDITECH's charter. There are no shareholder agreements with MEDITECH covering the voting or repurchase of MEDITECH stock.

During 2012 MEDITECH did not repurchase any of its shares of common stock. However, during 2012 the MEDITECH Profit Sharing Trust purchased 13,110 shares at \$43.00 per share during January through June and 38,272 shares at \$44.00 per share during July through December from existing shareholders in individual private transactions for an aggregate consideration of \$2,247,698.

During February 2012 pursuant to the 2004 Stock Purchase Plan, MEDITECH sold 243,853 shares of its common stock at \$43 per share to certain staff members for an aggregate consideration of \$10,485,679.

At December 31, 2012, there were 2,099 shareholders of record of MEDITECH's common stock and 36,935,201 shares outstanding.

MEDITECH has paid quarterly cash dividends continuously since 1980. Dividends paid per share during the last five years are set forth within the table in Item 6.

### Item 6 - Selected Financial Data

MEDITECH's financial statements are presented on a consolidated basis in this 10-K. The results include the effect of the 1st quarter 2011 acquisition of LSS. Selected financial data for the past 5 years ended December 31 are as follows:

	2008	2009	2010	2011	2012
<b>Full Year Operations:</b>					
Total revenue	\$397,929,595	\$393,025,014	\$459,098,488	\$545,224,384	\$597,838,787
Operating income	130,063,109	119,889,942	154,766,067	182,985,224	191,605,850
Net income	35,668,739	81,833,331	108,825,304	124,001,302	130,546,536
Average shares	35,670,246	35,709,926	36,055,853	36,411,749	36,777,380
Net income/share	\$1.00	\$2.29	\$3.02	\$3.41	\$3.55
<b>Year End Position:</b>					
Total assets	\$430,584,445	\$466,679,816	\$522,481,622	\$596,101,938	\$647,188,025
Total liabilities	77,216,272	86,279,501	95,301,123	110,161,795	109,391,458
Shareholder equity	353,368,173	380,400,315	427,180,499	485,940,143	537,796,567
Shares outstanding	35,687,426	35,822,426	36,186,164	36,541,348	36,935,201
Shareholder equity/share	\$9.90	\$10.62	\$11.81	\$13.30	\$14.56
<b>Other Financial Data:</b>					
Working capital	\$150,562,285	\$204,084,814	\$253,946,911	\$298,770,283	\$337,977,324
Operating cash flow	89,326,267	104,412,485	128,263,540	140,922,586	139,841,329
Depreciation expense	9,660,920	9,916,865	9,880,412	10,740,217	11,810,960
Cash dividends/share	\$2.52	\$2.52	\$2.40	\$2.68	\$2.88

### Item 7 - Management's Discussion and Analysis of Operating Results and Financial Condition

Comparison of Fiscal Years ended December 31, 2011 and 2012:

Total revenue from both existing and new customers increased \$52.6 million or 9.7% from \$545.2 million in 2011 to \$597.8 million in 2012. It was composed of \$28.1 million in additional product revenue and \$24.5 million in additional service revenue.

Operating expenses increased \$44.0 million or 12.1% from \$362.2 million in 2011 to \$406.2 million in 2012 due primarily to additional staff related and legal costs. The resultant operating income increased \$8.6 million or 4.7% from \$183.0 million in 2011 to \$191.6 million in 2012.

Other income increased \$10.6 million due primarily to investment gains in the current period. Other expense decreased slightly. The resultant pretax income increased \$20.2 million or 10.5% from \$191.9 million in 2011 to \$212.1 million in 2012.

MEDITECH's effective tax rate increased from 35.4% in 2011 to 38.5% in 2012 due primarily to investment gains and the absence of any R&D tax credit in the current period. The resultant net income increased \$6.5 million or 5.3% from \$124.0 million in 2011 to \$130.5 million in 2012.

## Comparison of Fiscal Years ended December 31, 2010 and 2011:

Total revenue from both existing and new customers increased \$86.1 million or 18.8% from \$459.1 million in 2010 to \$545.2 million in 2011. It was composed of \$61.5 million in additional product revenue and \$24.6 million in additional service revenue.

Operating expenses increased \$57.9 million or 19.0% from \$304.3 million in 2010 to \$362.2 million in 2011 due primarily to additional staff and bookings related costs. The resultant operating income increased \$28.2 million or 18.2% from \$154.8 million in 2010 to \$183.0 million in 2011.

Other income decreased \$5.8 million due primarily to investment gains in the prior period. Other expense increased slightly. The resultant pretax income increased \$22.3 million or 13.2% from \$169.6 million in 2010 to \$191.9 million in 2011.

MEDITECH's effective tax rate decreased from 35.8% in 2010 to 35.4% in 2011 due primarily to changes in tax related reserves. The resultant net income increased \$15.2 million or 13.9% from \$108.8 million in 2010 to \$124.0 million in 2011.

### Financial Condition:

At December 31, 2012 MEDITECH's cash, cash equivalents and marketable securities totaled \$384.9 million. Marketable securities consisted of preferred and common equities. During 2012 cash flow from operations was \$139.8 million, cash flow used in investing was \$49.2 million and cash flow used in financing was \$95.3 million. The payment of \$105.8 million in dividends to shareholders was the primary use of cash generated by operating activities during this period.

MEDITECH has no long-term debt. Shareholder equity at December 31, 2012 was \$537.8 million. During 2012 management expended \$26.5 million for updated facilities as well as continued additions of computer systems for product development, sales and marketing, implementation, service and administrative staff. Management believes existing cash, cash equivalents and marketable securities together with funds generated from operations will be sufficient to meet operating and capital expense requirements for the foreseeable future.

### Critical Accounting Policies:

All of our significant accounting policies are described in the notes to the consolidated financial statements included in Item 8 of this report. We believe four of these constitute our most critical policies requiring estimates and judgments by management which are significant in terms of materiality. Reference Note 1(a) for revenue recognition, Note 2 for marketable securities, Note 3 for doubtful account reserve and Notes 12 or 13 for income taxes.

### **Item 7A - Quantitative and Qualitative Disclosures About Market Risk**

Market risk associated with equity securities is disclosed in Note 2 to the Consolidated Financial Statements.



## Item 8 - Financial Statements and Supplementary Data

Consolidated Financial Statements of Medical Information Technology, Inc.  
As of December 31, 2010, 2011 and 2012  
Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Medical Information Technology, Inc.:

We have audited the accompanying consolidated balance sheets of Medical Information Technology, Inc. (a Massachusetts corporation) and subsidiary as of December 31, 2010, 2011 and 2012, and the related consolidated statements of income and comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Medical Information Technology, Inc. at December 31, 2010, 2011 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U. S. generally accepted accounting principles.

Ernst & Young LLP  
Boston, Massachusetts  
January 31, 2013

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Consolidated Balance Sheets  
as of December 31, 2010, 2011 and 2012

	Dec 31, 2010	Dec 31, 2011	Dec 31, 2012
Cash and equivalents	\$97,789,985	\$59,847,020	\$55,248,919
Marketable securities	188,888,044	277,354,769	329,655,272
Accounts receivable, net of reserve	55,393,227	61,280,336	53,006,948
Deferred taxes	7,176,778	10,449,954	9,457,643
Current assets	<u>349,248,034</u>	<u>408,932,079</u>	<u>447,368,782</u>
Computer equipment	10,778,178	12,455,809	14,245,358
Furniture and fixtures	46,353,094	53,816,542	64,611,731
Buildings	179,391,878	183,411,627	189,997,036
Land	33,407,959	35,329,565	40,329,565
Accumulated depreciation	(108,032,365)	(116,553,548)	(125,994,543)
Fixed assets	<u>161,898,744</u>	<u>168,459,995</u>	<u>183,189,147</u>
Other assets	<u>11,334,844</u>	<u>18,709,864</u>	<u>16,630,096</u>
Total assets	<u>\$522,481,622</u>	<u>\$596,101,938</u>	<u>\$647,188,025</u>
Accounts payable	\$395,012	\$326,281	\$136,846
Taxes payable	3,458,044	5,213,475	4,863,915
Accrued expenses	43,472,113	51,027,125	55,098,832
Deferred revenue	36,476,917	41,030,877	31,512,690
Current liabilities	<u>83,802,086</u>	<u>97,597,758</u>	<u>91,612,283</u>
Tax reserves	11,499,037	12,564,037	17,779,175
Total liabilities	<u>95,301,123</u>	<u>110,161,795</u>	<u>109,391,458</u>
Common stock, \$1.00 par value, authorized 40,000,000 shares, issued and outstanding 36,186,164 shares in 2010, 36,541,348 shares in 2011 and 36,935,201 shares in 2012	36,186,164	36,541,348	36,935,201
Additional paid-in capital	80,605,225	94,817,401	111,659,227
Retained income	281,854,958	308,404,621	333,185,351
Unrealized security gains, net of tax	28,534,152	46,176,773	56,016,788
Shareholder equity	<u>427,180,499</u>	<u>485,940,143</u>	<u>537,796,567</u>
Total liabilities and shareholder equity	<u>\$522,481,622</u>	<u>\$596,101,938</u>	<u>\$647,188,025</u>

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Income and Comprehensive Income  
for the Years Ended December 31, 2010, 2011 and 2012

	Dec 31, 2010	Dec 31, 2011	Dec 31, 2012
Product revenue	\$226,807,931	\$288,351,034	\$316,421,596
Service revenue	232,290,557	256,873,350	281,417,191
<b>Total revenue</b>	<b>459,098,488</b>	<b>545,224,384</b>	<b>597,838,787</b>
Operations, development	204,445,862	245,924,776	283,479,355
Selling, G & A	99,886,559	116,314,384	122,753,583
<b>Operating expenses</b>	<b>304,332,421</b>	<b>362,239,160</b>	<b>406,232,938</b>
<b>Operating income</b>	<b>154,766,067</b>	<b>182,985,224</b>	<b>191,605,850</b>
Other income	21,725,896	15,923,805	26,520,935
Other expense	6,902,473	7,001,738	6,021,904
<b>Pretax income</b>	<b>169,589,490</b>	<b>191,907,291</b>	<b>212,104,881</b>
State income tax	12,341,123	12,980,841	15,422,805
Federal income tax	48,423,063	54,925,148	66,135,540
<b>Income tax</b>	<b>60,764,186</b>	<b>67,905,989</b>	<b>81,558,345</b>
<b>Net income</b>	<b>\$108,825,304</b>	<b>\$124,001,302</b>	<b>\$130,546,536</b>
Change in net unrealized gains	10,549,124	17,642,621	9,840,015
<b>Comprehensive income</b>	<b>\$119,374,428</b>	<b>\$141,643,923</b>	<b>\$140,386,551</b>

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Shareholder Equity  
for the Years Ended December 31, 2010, 2011 and 2012

	Common # of shares	Stock Paid-in capital	Retained income	Shareholder equity
Balance, December 31, 2009	35,822,426	\$102,973,083	\$259,442,204	\$380,400,315
Issuance of common stock pursuant to the 2004 Stock Purchase Plan	243,738	9,018,306		9,018,306
Issuance of common stock to the Profit Sharing Plan	120,000	4,800,000		4,800,000
Net income			108,825,304	108,825,304
Change in net unrealized security gains				10,549,124
Dividends paid			(86,412,550)	(86,412,550)
Balance, December 31, 2010	36,186,164	\$116,791,389	\$281,854,958	\$427,180,499
Issuance of common stock pursuant to the 2004 Stock Purchase Plan	235,184	9,407,360		9,407,360
Issuance of common stock to the Profit Sharing Plan	120,000	5,160,000		5,160,000
Net income			124,001,302	124,001,302
Change in net unrealized security gains				17,642,621
Dividends paid			(97,451,639)	(97,451,639)
Balance, December 31, 2011	36,541,348	\$131,358,749	\$308,404,621	\$485,940,143
Issuance of common stock pursuant to the 2004 Stock Purchase Plan	243,853	10,485,679		10,485,679
Issuance of common stock to the Profit Sharing Plan	150,000	6,750,000		6,750,000
Net income			130,546,536	130,546,536
Change in net unrealized security gains				9,840,015
Dividends paid			(105,765,806)	(105,765,806)
Balance, December 31, 2012	36,935,201	\$148,594,428	\$333,185,351	\$537,796,567

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows  
for the Years Ended December 31, 2010, 2011 and 2012

	Dec 31, 2010	Dec 31, 2011	Dec 31, 2012
Net income	\$108,825,304	\$124,001,302	\$130,546,536
Depreciation expense	9,880,412	10,740,217	11,810,960
Stock contributions to qualified profit sharing plan	4,800,000	5,160,000	6,750,000
Reversal of prior write-downs	(4,642,893)	0	(7,615,410)
(Gain) loss on sales of marketable securities	865	0	(9,386,721)
Deferred taxes on unrealized securities gain, net	0	0	(759,398)
Change in accounts receivable, net of reserve	(5,571,458)	(2,591,106)	8,273,388
Change in accounts payable	239,281	(128,700)	(189,435)
Change in taxes payable	(2,480,471)	1,497,240	(349,560)
Change in accrued expenses	8,677,654	6,609,962	4,071,707
Change in deferred revenues	5,505,104	1,187,847	(9,518,187)
Change in deferred taxes and tax reserves	3,029,742	(5,554,176)	6,207,449
<b>Net cash from operating activities</b>	<b>128,263,540</b>	<b>140,922,586</b>	<b>139,841,329</b>
Purchases of marketable securities	(20,797,646)	(70,824,104)	(74,368,224)
Sales of marketable securities	35,283,348		49,669,265
Purchases of fixed assets	(8,016,749)	(10,644,343)	(26,540,112)
Change in other assets	1,218,250	3,448,317	2,079,768
Acquisition of LSS, net of cash acquired		(12,801,142)	
<b>Net cash from (used in) investing activities</b>	<b>7,687,203</b>	<b>(90,821,272)</b>	<b>(49,159,303)</b>
Sales of common stock	9,018,306	9,407,360	10,485,679
Dividends paid	(86,412,550)	(97,451,639)	(105,765,806)
<b>Net cash used in financing activities</b>	<b>(77,394,244)</b>	<b>(88,044,279)</b>	<b>(95,280,127)</b>
<b>Net change in cash and equivalents</b>	<b>58,556,499</b>	<b>(37,942,965)</b>	<b>(4,598,101)</b>
Cash and equivalents at beginning of year	39,233,486	97,789,985	59,847,020
<b>Cash and equivalents at end of year</b>	<b>\$97,789,985</b>	<b>\$59,847,020</b>	<b>\$55,248,919</b>
Supplemental Disclosure:			
Cash paid for income taxes	\$60,467,824	\$69,295,676	\$73,547,193

The accompanying notes are an integral part of these consolidated financial statements.

Note 1. Significant Accounting Policies

MEDITECH is engaged in the development, manufacture, licensing and support of computer software products for the hospital market. The principal market for its products consists of health care providers located primarily in the United States and Canada.

The accompanying consolidated financial statements reflect the application of certain accounting policies discussed below. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The consolidated financial statements include MEDITECH's wholly owned subsidiary, LSS Data Systems, Inc., in accordance with Accounting Standards Codification (ASC) 810, Consolidation of Financial Statements.

(a) Revenue Recognition

MEDITECH follows the provisions of ASC 985-605-25, Software Revenue Recognition, and ASC 605-35-25, Construction-Type and Production-Type Contracts. MEDITECH enters into perpetual software license contracts which provide for a customer deposit upon contract execution, milestone billings during the implementation phase and fixed monthly support fees thereafter.

MEDITECH classifies software fees and related implementation fees together as product revenue in the statement of income and recognizes these fees as revenue upon completion of each contract milestone. MEDITECH classifies post-implementation support fees as service revenue in the statement of income and recognizes these fees as revenue when the related services are rendered.

MEDITECH follows the provisions of ASC 605-45-15, Reimbursements Received for Out-of-Pocket Expenses. Such expenses are characterized as product revenue with offsetting operating expenses included in the consolidated income statement.

(b) Software Development Costs

MEDITECH follows the provisions of ASC 985-20, Accounting for the Costs of Computer Software to Be Sold, Leased or Marketed. ASC 985-20 establishes standards for capitalizing software development costs incurred after technological feasibility of the software development projects is established and the realizability of such capitalized costs through future operations is expected, if such costs become material. To date, development costs incurred by MEDITECH after technological feasibility has been established have been immaterial and as such have been charged to operations as incurred.

(c) Cash and Equivalents

MEDITECH considers all highly liquid investments purchased with original maturities of 90 days or less to be cash equivalents.

(d) Common Stock Dividend Policy

MEDITECH's Board of Directors has full discretion regarding the timing and amounts of dividends paid on common stock.

(e) Fair Value of Financial Instruments and Concentration of Credit Risk

The carrying value of MEDITECH's cash and cash equivalents, accounts receivable and accounts payable approximates their fair value due to the short-term nature of these financial instruments. MEDITECH's marketable securities are carried at fair value.

Financial instruments that potentially subject MEDITECH to concentrations of credit risk are principally cash, cash equivalents, marketable securities and accounts receivable. MEDITECH places its cash and cash equivalents in highly rated institutions. Concentration of credit risk with respect to accounts receivable is limited to certain customers to whom MEDITECH makes substantial sales. To reduce risk, MEDITECH routinely assesses the financial strength of its customers and, as a result, believes that its accounts receivable credit risk exposure is limited. MEDITECH maintains a reserve for doubtful accounts but historically has not experienced any significant credit losses related to an individual customer or groups of customers. As of December 31, 2010, 2011 and 2012 no individual customer accounted for greater than 10% of the outstanding accounts receivable.

Note 2. Available For Sale Securities

MEDITECH follows the provisions of ASC 320-10, Investments - Debt and Equity Securities, which requires marketable securities be classified as trading, available-for-sale or held-to-maturity. MEDITECH classifies its marketable securities as available-for-sale and records them at fair value with any unrealized gains or losses, net of tax, reported as a component of shareholder equity. The fair value was determined based on quoted prices in active markets. ASC 320-10 requires that for each individual security classified as available-for-sale, a company shall determine whether a decline in fair value below the cost basis is temporary in nature. If the decline in fair value is not judged as such, the cost basis of the individual security shall be reduced to fair value and the amount of the write-down shall be reflected in earnings.

MEDITECH follows the provisions of ASC 320-10-35 Subsequent Measurement, and evaluates its marketable securities for other-than-temporary impairment using an impairment model consistent with a debt security. The factors considered include the severity and duration of the loss, the intent and ability to hold the securities for an extended period of time until recovery, and whether issuers are current on dividend payments and maintain investment grade ratings. Finally, the effect of fluctuating interest rates, current economic and industry conditions, and the issuers' current financial position are also taken into consideration.

MEDITECH follows the provisions of ASC 820-10, Fair Value Measurements and Disclosures, which provides for expanded disclosure and guidelines to determine fair market value of assets and liabilities. ASC 820-10 applies whenever other standards require or permit assets and liabilities to be measured at fair value, but does not expand the use of fair value in any new circumstances. MEDITECH's marketable securities represent assets measured at fair value on a recurring basis, and are considered Level 1 assets as defined by ASC 820-10.

The unrealized gains and the unrealized losses have been accounted for within comprehensive income. The following table indicates the cost net of write-downs, unrealized gains, unrealized losses and fair market value of MEDITECH's securities for the three years ended December 31. MEDITECH has evaluated the unrealized losses as of December 31, 2012 and has concluded that the unrealized losses are temporary in nature.

	2010	2011	2012
Net cost of equities	\$160,353,893	\$231,177,996	\$272,879,085
Unrealized gains	28,744,266	47,060,295	58,012,812
Unrealized losses	(210,115)	(883,522)	(1,236,625)
Fair market value	<u>\$188,888,044</u>	<u>\$277,354,769</u>	<u>\$329,655,272</u>

#### Note 3. Reserve for Doubtful Accounts

The components of the reserve for doubtful accounts for the three years ended December 31 are as follows:

	2010	2011	2012
Reserve at beginning of year	\$1,070,000	\$1,250,000	\$1,500,000
Amounts charged to expense	180,000	321,585	144,434
Amounts written off		(71,585)	(69,434)
Reserve at end of year	<u>\$1,250,000</u>	<u>\$1,500,000</u>	<u>\$1,575,000</u>

#### Note 4. Deferred Taxes

Deferred taxes relate to the earlier recognition of certain revenue and the later recognition of certain expenses for tax purposes. Cumulative unrealized investment write-downs which had been reflected in the income statement are also a non-deductible expense for tax purposes. Because such write-downs are considered capital losses which can only be offset by future capital gains, a valuation allowance was established. This valuation allowance is currently the full value of the write-downs based on recoverability expectations. The components of deferred taxes for the three years ended December 31 are as follows:



	2010	2011	2012
Prepaid tax on deposits over 1 year	\$4,676,286	\$5,052,271	\$3,166,712
Prepaid tax on accrued expenses	2,100,000	2,760,000	2,509,999
Deferred tax on unrealized gains, net			(759,398)
Other	400,491	2,637,683	4,540,330
Deferred taxes	<u>\$7,176,778</u>	<u>\$10,449,954</u>	<u>\$9,457,643</u>

#### Note 5. Fixed Assets

During the 3rd quarter of 2012 MEDITECH purchased land and an office building thereupon. MEDITECH carries all fixed assets on a cost basis and provides for depreciation in amounts estimated to allocate the costs thereof under the following estimated useful lives. Maintenance costs are expensed as incurred. Improvements are capitalized and depreciated over the asset's useful life.

Description	Useful Life
Computer equipment	3-5 years
Furniture and fixtures	7-10 years
Buildings	31.5-40 years

#### Note 6. Equity Method Investments

MEDITECH follows the provisions of ASC 323-10, Investments - Equity Method and Joint Ventures, and as such, accounts for the equity investment in Meditech South Africa in accordance with the cost method. Meditech South Africa licenses MEDITECH's software technology and re-licenses it to its respective customers. Meditech South Africa serves a market niche which is part of the overall medical market but is outside of the hospital market which MEDITECH serves. Meditech holds a fully collateralized mortgage note for a loan to Meditech South Africa to purchase land and a building used as its corporate headquarters. MEDITECH believes the fair value of this investment and loan balance approximates its December 31, 2012 carrying value.

During the 2nd quarter 2007 MEDITECH acquired Patient Care Technologies, Inc. (PtCT), a company engaged in the development, manufacture, licensing and support of computer software products for the home health care market. MEDITECH accounted for this acquisition under the purchase method of accounting in accordance with ASC 805-10, Business Combinations. PtCT merged with and into MEDITECH effective December 31, 2009.

During the 1st quarter 2011 MEDITECH acquired LSS Data Systems, Inc. (LSS), a company engaged in the development, manufacture, licensing and support of ambulatory information system software for physician practices. MEDITECH accounted for this acquisition under the purchase method of accounting in accordance with ASC 805-10, Business Combinations.

In accordance with ASC 805-10 and ASC 350-20-35, MEDITECH annually assesses its investments for impairment and on December 31, 2012 concluded no impairment was needed. The components of other assets for the three years ended December 31 are as follows:

	2010	2011	2012
Investments	\$4,027,561	\$1,440,061	\$1,440,061
Mortgage Notes	2,679,600	929,000	828,200
Intangibles	4,627,683	12,740,803	10,761,835
Other		3,600,000	3,600,000
Other assets	<u>\$11,334,844</u>	<u>\$18,709,864</u>	<u>\$16,630,096</u>

#### Note 7. Accrued Expenses

The components of accrued expenses for the three years ended December 31 are as follows:

	2010	2011	2012
Accrued bonuses	\$37,000,000	\$43,750,000	\$47,628,625
Accrued vacation	4,000,000	4,690,000	4,707,000
Other	2,472,113	2,587,125	2,763,207
Accrued expenses	<u>\$43,472,113</u>	<u>\$51,027,125</u>	<u>\$55,098,832</u>

#### Note 8. Tax Reserves

Tax reserves relate to the uncertainty of domestic production activities deduction and state nexus. Key judgments are reviewed annually and adjusted to reflect current assessments. The years 2009 through 2012 are subject to examination by the IRS, and various years are subject to examination by state tax authorities. MEDITECH accounts for the annual change in tax reserves as part of its provision for income taxes. The components of tax reserves for the three years ended December 31 are as follows:

	2010	2011	2012
Potential tax assessment	\$7,405,017	\$8,427,512	\$11,407,396
Interest and penalties	4,094,020	4,136,525	6,371,779
Tax reserves	<u>\$11,499,037</u>	<u>\$12,564,037</u>	<u>\$17,779,175</u>

## Note 9. Segment Reporting

MEDITECH follows the provisions of ASC 280-10, Segment Reporting. Based on the criteria set forth in ASC 280-10, MEDITECH currently operates in one operating segment, medical software and services. MEDITECH derives its revenue from the sale and support of one group of similar products and services. All of MEDITECH's assets are located within the United States. The following table indicates the percentage of revenue based on customer location plus the percentage of revenue from the largest customer for the three years ended December 31 is as follows:

	2010	2011	2012
Total revenues	\$459,098,488	\$545,224,384	\$597,838,787
United States	89%	90%	91%
Canada	9%	8%	8%
All Others	2%	2%	1%
Largest customer	8%	7%	7%

## Note 10. Other Income

Other income consists primarily of rents, dividends, interest and realized marketable security activity. The components of other income for the three years ended December 31 are as follows:

	2010	2011	2012
Rents	\$6,472,031	\$6,487,580	\$5,618,754
Dividends	11,136,607	10,943,611	13,384,989
Interest	329,198	190,332	109,439
Security gains	4,642,028		9,386,721
Other	(853,968)	(1,697,718)	(1,978,968)
Other income	\$21,725,896	\$15,923,805	\$26,520,935

Note 11. Other Expense

Other expense consists primarily of rental costs and charitable contributions. The components of other expense for the three years ended December 31 are as follows:

	2010	2011	2012
Rental costs	\$6,142,473	\$5,679,385	\$4,614,584
Charitable contributions	760,000	820,000	840,000
Other		502,353	567,320
Other expense	<u>\$6,902,473</u>	<u>\$7,001,738</u>	<u>\$6,021,904</u>

Note 12. Income Tax Accounting

MEDITECH follows the provisions of ASC 740-10, Accounting for Income Taxes. The current and deferred components of the State and Federal income taxes for the three years ended December 31 are as follows:

	2010	2011	2012
State current	\$11,235,734	\$14,734,339	\$15,265,930
State deferred	1,105,389	(1,753,498)	156,875
State income tax	<u>\$12,341,123</u>	<u>\$12,980,841</u>	<u>\$15,422,805</u>
Federal current	\$43,996,148	\$59,803,826	\$65,300,099
Federal deferred	4,426,915	(4,878,678)	835,441
Federal income tax	<u>\$48,423,063</u>	<u>\$54,925,148</u>	<u>\$66,135,540</u>

Note 13. Income Tax Rate

The effective income tax rate for the three years ended December 31 is as follows:

	2010	2011	2012
Statutory U.S. income tax rate	35.0%	35.0%	35.0%
Increase in taxes resulting from state income taxes, net of federal income tax benefit	4.7%	4.4%	4.7%
Dividend income exclusion	(1.6%)	(1.5%)	(1.5%)
Other	(2.3%)	(2.5%)	0.3%
Effective tax rate	<u>35.8%</u>	<u>35.4%</u>	<u>38.5%</u>

#### Note 14. Earnings Per Share

MEDITECH follows the provisions of ASC 260-10, Earnings per Share, which requires reporting both basic and diluted earnings per share. MEDITECH has no common share equivalents such as preferred stock, warrants or stock options which would dilute earnings per share. Thus, earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the three years ended December 31. The average number of shares reflects the annual issuance of shares sold to staff members in February pursuant to the 2004 Stock Purchase Plan and the annual issuance of shares contributed to the MEDITECH Profit Sharing Trust in December.

	2010	2011	2012
Net income	\$108,825,304	\$124,001,302	\$130,546,536
Average number of shares	36,055,853	36,411,749	36,777,380
Earnings per share	\$3.02	\$3.41	\$3.55

#### Note 15. Comprehensive Income Presentation

Effective January 1, 2012 MEDITECH adopted the provisions of ASU 2011-05, Presentation of Comprehensive Income, which establishes standards for reporting comprehensive income and its components in financial statements. Comprehensive income is the total of net income and all other non-owner changes in equity including items such as net unrealized gains or losses on marketable securities classified as available for sale, foreign currency translation adjustments and minimum pension liability adjustments. In MEDITECH's case net income plus the change in net unrealized security gains or losses is shown as comprehensive income in the income statement.

	2010	2011	2012
Change in unrealized gains	\$13,961,060	\$17,642,621	\$13,711,490
Reclassification of realized gains	(3,411,936)		(3,871,475)
Change in net unrealized gains	\$10,549,124	\$17,642,621	\$9,840,015

#### Note 16. Qualified Profit Sharing Plan

MEDITECH has no obligation for post-employment or post-retirement benefits. MEDITECH maintains a qualified profit sharing plan which provides deferred compensation to substantially all of its staff members. Contributions to the plan are at the discretion of the Board of Directors and may be in the form of cash and shares of MEDITECH stock. The components of year-end contributions for the three years ended December 31 are as follows:

	2010	2011	2012
Cash	\$4,200,000	\$5,840,000	\$5,400,000
120,000 shares at \$40 per share	4,800,000		
120,000 shares at \$43 per share		5,160,000	
150,000 shares at \$45 per share			6,750,000
	\$9,000,000	\$11,000,000	\$12,150,000

Note 17. Goodwill and Intangible Assets

Effective December 15, 2011 MEDITECH adopted the provisions of ASC 350-20-35 Intangibles and Goodwill Impairment Evaluation - Qualitative Testing. An entity may first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. An evaluation shall assess relevant events and circumstances and should include, but are not limited to: a significant adverse change in legal factors or in industry/business climate, unanticipated competition, an adverse action or assessment by a regulator, or overall financial performance. If, after assessing the totality of such events and circumstances, an entity determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then the first and second steps of the goodwill impairment test are unnecessary. MEDITECH has concluded no indicators of impairment exist.

Note 18. Litigation

From time to time, the Company is a party to or may be threatened by litigation in the ordinary course of its business. The Company regularly analyzes current information, including, as applicable, the Company's defenses and insurance coverage and, as necessary, provides accruals for probable and estimable liabilities for the eventual disposition of these matters. The Company is not a party to any other material legal proceedings.

Note 19. Supplemental Data

Unaudited operating results by quarter for the three years ended December 31 are as follows:

	1st Q	2nd Q	3rd Q	4th Q	2010
Total revenue	\$103,555,582	\$108,682,192	\$118,471,248	\$128,389,466	\$459,098,488
Operating income	31,375,549	34,478,714	41,323,947	47,587,857	154,766,067
Net income	21,526,666	23,217,898	31,957,358	32,123,382	108,825,304
Net income per share	\$0.60	\$0.64	\$0.89	\$0.89	\$3.02
	1st Q	2nd Q	3rd Q	4th Q	2011
Total revenue	\$123,805,092	\$136,258,047	\$141,054,763	\$144,106,482	\$545,224,384
Operating income	41,084,958	46,476,482	48,188,968	47,234,816	182,985,224
Net income	27,904,364	31,199,385	32,407,718	32,489,835	124,001,302
Net income per share	\$0.77	\$0.86	\$0.89	\$0.89	\$3.41
	1st Q	2nd Q	3rd Q	4th Q	2012
Total revenue	\$145,866,167	\$149,004,750	\$152,110,955	\$150,856,915	\$597,838,787
Operating income	46,781,499	47,911,499	49,368,821	47,544,031	191,605,850
Net income	30,843,225	33,797,188	33,903,606	32,002,517	130,546,536
Net income per share	\$0.84	\$0.92	\$0.92	\$0.87	\$3.55

**Item 9 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A - Controls and Procedures**

An evaluation was conducted under the supervision and with the participation of MEDITECH's management, including the Chief Executive Officer and Chief Financial Officer, on the effectiveness of MEDITECH's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded MEDITECH's disclosure controls and procedures are effective at December 31, 2012 to ensure information requiring disclosure by MEDITECH in reports which it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. MEDITECH's management is responsible for establishing, designing and maintaining internal controls over financial reporting that provide reasonable assurance to our Board of Directors and shareholders that the financial statements prepared are fairly presented. We have set assessment criteria in accordance with the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control's Integrated Framework. For the year ended December 31, 2012 we have made no changes in internal controls, and our internal control over financial reporting is effective at a reasonable assurance level based on said criteria.

**Item 9B - Other Information**

During its regular January 2013 meeting the Board of Directors approved the issuance of up to 250,000 shares of common stock to be sold to staff members at \$45.00 per share pursuant to the MEDITECH 2004 Stock Purchase Plan.

### **PART III**

#### **Item 10 - Directors, Executive Officers and Corporate Governance**

All Directors are elected each year at the Annual Meeting of Shareholders. All Officers are elected at the first meeting of the Board following the Annual Meeting of Shareholders and hold office for one year. The positions held by each Director and Officer of MEDITECH on December 31, 2012, are shown below. There are no family relationships among the following persons.

<u>Director or Officer</u>	<u>Age</u>	<u>Position with MEDITECH</u>
A. Neil Pappalardo	70	Chairman and Director
Lawrence A. Polimeno	71	Vice Chairman and Director
Howard Messing	60	President, Chief Executive Officer and Director
Roland L. Driscoll	83	Director
Edward B. Roberts	77	Director
L. P. Dan Valente	82	Director
Barbara A. Manzolillo	60	Treasurer, Chief Financial Officer and Clerk
Stuart N. Lefthes	59	Senior Vice President of Sales
Christopher Anschuetz	60	Senior Vice President of Technology
Robert G. Gale	66	Senior Vice President of Product Development
Steven B. Koretz	60	Senior Vice President of Client Services
Hoda Sayed-Friel	54	Executive Vice President of Strategy and Marketing
Michelle O'Connor	46	Executive Vice President of Product Development
Leah Farina	45	Vice President of Client Services
Helen Waters	48	Vice President of Client Services
Scott Radner	47	Vice President of Technology

The address of all Officers and Directors is in care of Medical Information Technology, Inc., MEDITECH Circle, Westwood, MA 02090. The following is a description of the business experience during the past five years of each Director and Officer.

A. Neil Pappalardo, the founder and Chairman of MEDITECH, was its Chief Executive Officer until 2010, and has been a Director since 1969. He is also a Director of Palomar Medical Technologies, Inc.

Lawrence A. Polimeno has been the Vice Chairman of MEDITECH since 2002, was its President and Chief Operating Officer prior to that, has been a Director since 1985, and has been with MEDITECH since 1969.

Howard Messing has been the President and Chief Executive Officer of MEDITECH since 2010, was its President and Chief Operating Officer prior to that, has been a Director since 2011, and has been with MEDITECH since 1974.

Roland L. Driscoll is the retired Chief Financial Officer of MEDITECH, has been a Director since 1985 and had been with MEDITECH since 1972 prior to his retirement in 1990.



Edward B. Roberts, co-founder of MEDITECH, is the David Sarnoff Professor of Management of Technology at the Sloan School of Management at the Massachusetts Institute of Technology, and has been a Director since 1969. He is also a Director of Sohu.com Inc.

L. P. Dan Valente is Executive Chairman of Palomar Medical Technologies, Inc., retired Senior Vice President of EG&G, Inc. and has been a Director since 1972. He is also a Director of MKS Instruments.

Barbara A. Manzolillo has been the Treasurer, Chief Financial Officer and Clerk since 1996, was Treasurer prior to that, and has been with MEDITECH since 1975.

Stuart N. Lefthes has been the Senior Vice President of Sales since 2011, was Vice President of Sales prior to that, and has been with MEDITECH since 1983.

Christopher Anschuetz has been the Senior Vice President of Technology since 2011, was Vice President of Technology prior to that, and has been with MEDITECH since 1975.

Robert G. Gale has been the Senior Vice President of Product Development since 2007, was Vice President of Product Development prior to that, and has been with MEDITECH since 1976.

Steven B. Koretz has been the Senior Vice President of Client Services since 2012, was Vice President of Client Services prior to that, and has been with MEDITECH since 1982.

Hoda Sayed-Friel has been the Executive Vice President of Strategy and Marketing since 2012, was Vice President of Marketing prior to that, and has been with MEDITECH since 1986.

Michelle O'Connor has been the Executive Vice President of Product Development since 2012, was Vice President of Product Development prior to that, and has been with MEDITECH since 1988.

Leah Farina has been the Vice President of Client Services since 2010, was a Senior Manager prior to that, and has been with MEDITECH since 1989.

Helen Waters has been the Vice President of Client Services since 2010, was a Senior Manager prior to that, and has been with MEDITECH since 1990.

Scott Radner has been the Vice President of Technology since 2011, was a Senior Manager prior to that, and has been with MEDITECH since 1990.

#### THE BOARD OF DIRECTORS AND ITS COMMITTEES

The Board of Directors oversees MEDITECH's business affairs and monitors the performance of management, but is not involved in the day-to-day operations. The Directors meet regularly with the CEO, the CFO, other officers and our independent registered public accounting firm; read reports and other materials; and participate in Board and committee meetings. The Board currently consists of 6 members. During 2012 the Board held 4 regularly scheduled quarterly meetings and all 6 members attended all 4 meetings. Messrs. Driscoll, Roberts and Valente are "independent" as defined by the rules of the NYSE and NASDAQ. The Board of Directors has an Audit Committee and a Charitable Contribution Committee. During 2012 each committee member attended all committee meetings. The following is a description of the committees.

The Audit Committee consists of Messrs. Driscoll and Valente. Both members are former CPAs and audit committee financial experts within the meaning of applicable rules under the Securities Exchange Act of 1934, as amended. The committee met 5 times in 2012 to review accounting practices and advise MEDITECH's CFO. In addition, the committee met with MEDITECH's Independent Registered Public Accounting firm and reviewed MEDITECH's business operations, industry, financial performance, business and financial risks, processes and controls, key policies, legal and regulatory requirements, code of ethical conduct and new or unusual transactions. The Committee does not have a written charter. The Committee submits its annual report to the Board of Directors each April.

The Charitable Contribution Committee consists of Messrs. Pappalardo, Polimeno and Messing. This committee meets at least 6 times a year to review the criteria for the year's charitable contribution program, meets and evaluates each organization under consideration and determines the amount to be contributed to each organization for the year. During December 2012 the committee contributed \$840,100 to 43 cultural, educational and social service organizations within the greater Boston area.

The Board of Directors does not have a Compensation Committee. Instead, the full Board, because of its small size, carries out the duties of a Compensation Committee. The Board annually establishes the criteria for and the total amount of the Officer Bonus and thereafter sets the salary and bonus amount for each of the officers.

The Board of Directors does not have a nominating committee. Instead, the full Board, because of its small size, carries out the duties of a nominating committee. The Board considers a broad range of characteristics related to qualifications, background and diversity of nominees based on MEDITECH's current business needs. The Board has not adopted written guidelines regarding nominees for Director.

The Board of Directors is actively involved in oversight of risks which could affect MEDITECH. The Board receives regular quarterly reports from Officers which cover topics such as financial, technological, regulatory and reputational risk. Once a year the full Board meets with all the Officers to review their performance and responsibilities.

During 2005 a Code of Ethical Conduct was created by management and adopted by the Board of Directors in an effort to outline the principles established at MEDITECH which help guide the actions of its staff, Officers and Directors. This Code sets forth ethical standards of conduct for all to follow and provides a framework for decision-making. This Code is intended to promote proper conduct at all levels of business in compliance with all applicable laws and regulations as well as to deter wrongdoing. These guiding principles are designed to propel MEDITECH forward towards future success in a continued tradition of "ingenuity delivered with integrity" in all of our business relationships. The Code of Ethical Conduct is available on MEDITECH's web site and any waiver for senior management will be disclosed there as well.

## Item 11 - Executive Compensation

There are no employment contracts providing for continued compensation in effect for any Officer of MEDITECH. MEDITECH has no Stock Award programs, no Stock Option programs and no Non-equity Incentive plans. The compensation received by MEDITECH's Chief Executive Officer, Chief Financial Officer and the three most highly compensated other Officers for the past 3 years ended December 31 is summarized in the following table. The deferred columns represent, respectively, the annual increase in the individual's balance in the MEDITECH Profit Sharing Plan and the individual's share of MEDITECH's annual contribution to this Plan.

Name and Position	Year	Salary	Bonus	Deferred	Deferred	Total
A. Neil Pappalardo Chairman and Director	2012	\$240,000	\$626,757	\$0	\$0	\$866,757
	2011	300,000	626,919	0	0	926,919
	2010	360,000	725,406	0	0	1,085,406
Lawrence A. Polimeno Vice Chairman and Director	2012	\$180,000	\$326,757	\$94,593	\$5,751	\$607,101
	2011	180,000	426,919	126,322	5,866	739,107
	2010	180,000	525,406	129,077	5,328	839,811
Howard Messing President, CEO and Director	2012	\$300,000	\$826,757	\$94,593	\$5,751	\$1,227,101
	2011	300,000	826,919	126,322	5,866	1,259,107
	2010	264,000	675,406	129,077	5,328	1,073,811
Barbara A. Manzolillo Treasurer, CFO and Clerk	2012	\$252,000	\$426,757	\$94,593	\$5,751	\$779,101
	2011	252,000	426,919	126,322	5,866	811,107
	2010	228,000	375,406	129,077	5,328	737,811
Stuart N. Lefthes Senior Vice President of Sales	2012	\$252,000	\$426,757	\$94,593	\$5,751	\$779,101
	2011	252,000	426,919	126,322	5,866	811,107
	2010	228,000	375,406	129,077	5,328	737,811

Annual Cash Bonus: MEDITECH pays a Staff Bonus to all staff members, including officers, in recognition of services rendered by them during each calendar year. The individual portion of the Staff Bonus payable to each recipient is determined by prorating the sum of the recipient's last five years of cash compensation (capped at \$600,000). MEDITECH also pays an Officer Bonus solely to the officers, in recognition of services rendered by them during the calendar year. The individual portion of the Officer Bonus payable to each recipient is determined by the Board. Cash bonuses are paid to the designated recipient during the following January.

Profit Sharing Plan: MEDITECH maintains a qualified defined contribution plan for all of MEDITECH's staff known as the Medical Information Technology, Inc. Profit Sharing Plan. All of the staff who have completed one year of service participate in the Plan. The Board of Directors sets the annual contribution, which is allocated in proportion to total compensation of all eligible members for the Plan year (capped at \$100,000). No allocation is allowable under this Plan to owners of 10% or more of MEDITECH's common stock. Contributions by members are not permitted. Benefits under the Plan are considered deferred compensation and become fully vested after five years of continuous service with MEDITECH. Members who have at least 20 years of service or who have incurred financial hardship may make in service withdrawals. Lump sum cash payment is made upon retirement, death, disability or termination of employment.

Compensation of Directors: During 2012 the members of the Board of Directors who were not Officers of MEDITECH received a fee of \$8,000 for each quarterly meeting fully attended, with such fee being deemed to also cover any special meetings, conference or committee time, and incidental expenses expended by such directors on behalf of MEDITECH.

**Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters**

The following table provides information as of December 31, 2012 with respect to the shares of common stock beneficially owned by each person known by MEDITECH to own more than 5% of MEDITECH's outstanding common stock, each Director of MEDITECH, each Executive Officer named in the Compensation Table and by all Directors and Officers of MEDITECH as a group. The number of shares beneficially owned is determined according to rules of the Securities and Exchange Commission. Under such rules, a person's beneficial ownership includes any shares as to which such person has sole or shared voting power or investment power.

Name of Shareholder, Director or Officer	Number of Shares of Common Stock Beneficially Owned	Percentage of Shares of Common Stock
A. Neil Pappalardo*	14,383,372	38.94%
MEDITECH Profit Sharing Trust*	4,925,009	13.33%
Morton E. Ruderman Estate	4,532,704	12.27%
Curtis W. Marble	3,500,000	9.48%
Grossman Group	2,061,144	5.58%
Lawrence A. Polimeno	970,000	2.63%
Edward B. Roberts	685,879	1.86%
Roland L. Driscoll	528,000	1.43%
Howard Messing	400,000	1.08%
Barbara A. Manzollilo	190,000	0.51%
Stuart N. Lefthes	113,000	0.31%
L. P. Dan Valente	100,000	0.27%
16 Directors and Officers as a Group*	17,747,451	48.05%

\*The number of shares indicated for Mr. Pappalardo includes the shares owned by the MEDITECH Profit Sharing Trust. Mr. Pappalardo is the sole Trustee of the MEDITECH Profit Sharing Trust and therefore has the power to vote its shares in addition to his own 9,458,363 shares. Likewise the number of shares indicated for the 16 Directors and Officers as a Group includes the shares owned by the MEDITECH Profit Sharing Trust.

## SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

During 2012, the MEDITECH Profit Sharing Trust filed Forms 4 for its purchases of MEDITECH stock, but some of these filings were late. To MEDITECH's knowledge, based solely on a review of the reports given to MEDITECH, all Section 16(a) filing requirements applicable to its executive officers, Directors and greater-than-10% shareholders were satisfied in 2012.

### Item 13 - Certain Relationships and Related Transactions, and Director Independence

A. Neil Pappalardo, Chairman and Director, purchased for cash from MEDITECH 25,000 shares of common stock at \$37 per share in February 2010, 25,000 shares of common stock at \$40 per share in February 2011, and 25,000 shares of common stock at \$43 per share in February 2012.

Lawrence A. Polimeno, Vice Chairman and Director, purchased for cash from MEDITECH 8,000 shares of common stock at \$37 per share in February 2010, 5,000 shares of common stock at \$40 per share in February 2011, and 5,000 shares of common stock at \$43 per share in February 2012.

Howard Messing, President, Chief Executive Officer and Director, purchased for cash from MEDITECH 15,000 shares of common stock at \$37 per share in February 2010, 15,000 shares of common stock at \$40 per share in February 2011, and 12,000 shares of common stock at \$43 per share in February 2012.

Barbara A. Manzolillo, Treasurer, Chief Financial Officer and Clerk, purchased for cash from MEDITECH 5,000 shares of common stock at \$37 per share in February 2010, 5,000 shares of common stock at \$40 per share in February 2011, and 5,000 shares of common stock at \$43 per share in February 2012.

Stuart N. Lefthes, Senior Vice President of Sales, purchased for cash from MEDITECH 5,000 shares of common stock at \$37 per share in February 2010, 5,000 shares of common stock at \$40 per share in February 2011, and 5,000 shares of common stock at \$43 per share in February 2012.

### Item 14 - Principal Accountant Fees and Services

During 2012, audit and non-audit services included auditing MEDITECH's financial statements, reviewing unaudited quarterly financial information and discussing various accounting, tax, and regulatory matters. Fees paid for such services for the three years ended December 31 are as follows:

	2010	2011	2012
Annual audit and quarterly reviews	\$284,000	\$304,800	\$293,560
Audit related to Profit Sharing Trust	14,000	14,500	15,750
Tax or all other matters			11,290
	<u>\$298,000</u>	<u>\$319,300</u>	<u>\$320,600</u>

It is the policy of the Audit Committee to approve all audit and non-audit services to be provided to MEDITECH by its Independent Registered Public Accounting Firm and the above amounts were so approved.

## **PART IV**

### **Item 15 - Exhibits**

Exhibit 3.1: MEDITECH's Articles of Organization, as amended to date, is incorporated by reference to an exhibit to the quarterly report on Form 10-Q for the quarter ended March 31, 2007. Exhibit 3.2: MEDITECH's By-laws, as amended to date, is incorporated by reference to an exhibit to the annual report on Form 10-K for the year ended December 31, 2001. Exhibit 10: MEDITECH 2004 Stock Purchase Plan is incorporated by reference to the annual report on Form 10-K for the year ended December 31, 2003.

Exhibit 21: Subsidiaries of the Company, Exhibit 23: Consent of Independent Registered Public Accounting Firm, Exhibit 31: Rule 13a-14(a) Certifications, Exhibit 32: Section 1350 Certifications and Exhibit 101: Interactive Data Files are appended to this report.

There were no reports filed on Form 8-K during the quarter ended December 31, 2012.

### **Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Medical Information Technology, Inc.  
(Registrant)

By: Howard Messing, Chief Executive Officer and President  
(Signature)

By: Barbara A. Manzolillo, Chief Financial Officer and Treasurer  
(Signature)

January 31, 2013  
(Date)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on January 31, 2013.

A. Neil Pappalardo, Chairman and Director  
(Signature)

Lawrence A. Polimeno, Vice Chairman and Director  
(Signature)

Howard Messing, President, CEO and Director  
(Signature)

Roland L. Driscoll, Director  
(Signature)

Edward B. Roberts, Director  
(Signature)

L. P. Dan Valente, Director  
(Signature)

Exhibit 21: Subsidiaries of the Company

Subsidiary of Medical Information Technology, Inc.

LSS Data Systems, Inc. (a Minnesota corporation)

Exhibit 23: Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement on Form S-8, File No. 333-122399 pertaining to the MEDITECH 2004 Stock Purchase Plan of our report dated January 31, 2013, with respect to the consolidated financial statements of Medical Information Technology, Inc. included in its Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission.

/s/ Ernst & Young LLP  
Boston, Massachusetts  
January 31, 2013

Exhibit 31: Rule 13a-14(a) Certifications

CERTIFICATION PURSUANT TO RULE 13A-14 OR 15D-14 OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Howard Messing, Chief Executive Officer and President, certify that:

1. I have reviewed this annual report on Form 10-K of Medical Information Technology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

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

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

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

January 31, 2013

(Date)

Howard Messing, Chief Executive Officer and President  
(Signature)

I, Barbara A. Manzolillo, Chief Financial Officer and Treasurer, certify that:

1. I have reviewed this annual report on Form 10-K of Medical Information Technology, Inc.;

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

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

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

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

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



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

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

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

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

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

January 31, 2013  
(Date)

Barbara A. Manzolillo, Chief Financial Officer and Treasurer  
(Signature)

#### Exhibit 32: Section 1350 Certifications

I, Howard Messing, Chief Executive Officer and President, certify this annual report on Form 10-K of Medical Information Technology, Inc. (MEDITECH) for the period ended December 31, 2012, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in this report fairly presents, in all material respects, the financial condition and results of operations of MEDITECH.

January 31, 2013  
(Date)

Howard Messing, Chief Executive Officer and President  
(Signature)

I, Barbara A. Manzolillo, Chief Financial Officer and Treasurer, certify this annual report on Form 10-K of Medical Information Technology, Inc. (MEDITECH) for the period ended December 31, 2012, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in this report fairly presents, in all material respects, the financial condition and results of operations of MEDITECH.

January 31, 2013  
(Date)

Barbara A. Manzolillo, Chief Financial Officer and Treasurer  
(Signature)