MedQuist Holdings Inc.
Form S-1/A
February 04, 2011

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As filed with the Securities and Exchange Commission on February 3, 2011

Registration No. 333-169997

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

AMENDMENT NO. 6
TO
Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

MEDQUIST HOLDINGS INC.
(Exact name of Registrant as specified in its charter)

Delaware	**7374**	**98-0676666**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I. R. S. Employer Identification No.)**

9009 Carothers Parkway
Franklin, TN 37067
(615) 261-1740

(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

Robert Aquilina
Chairman and Chief Executive Officer
MedQuist Holdings Inc.
9009 Carothers Parkway
Franklin, TN 37067
(615) 261-1740

(Name, address, including zip code, and telephone number, including area code, of agent for service)

With copies to:

D. Rhett Brandon, Esq.
Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, NY 10017
(212) 455-2000

Colin Diamond, Esq.
White & Case LLP
1155 Avenue of the Americas
New York, NY 10036
(212) 819-8200

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

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

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

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

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

Large accelerated filer o Accelerated filer o Non-accelerated filer þ Smaller reporting company o
(Do not check if a smaller reporting company)

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Amount to be Registered [(1)]**	**Proposed Maximum Aggregate Offering Price**	**Proposed Maximum Aggregate Offering Price [(1)]**	**Amount of Registration Fee [(1)(2)]**
Common stock, par value U.S.$0.10 per share	9,000,531	$12.00	$108,006,372	$7,700.85

(1) Estimated pursuant to Rule 457(a) under the Securities Act of 1933, as amended, solely for the purpose of calculating the registration fee. Includes 1,173,982 shares issuable upon exercise of the underwriters option to purchase additional shares of common stock.

(2)

A registration fee of $8,199.50 has been previously paid in connection with this Registration Statement based on an estimate of the aggregate offering price and the fee rate in effect on October 18, 2010.

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

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The information in this prospectus is not complete and may be changed. We and the selling stockholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where such offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED FEBRUARY 3, 2011

PRELIMINARY PROSPECTUS

7,826,549 Shares

MEDQUIST HOLDINGS INC.
(formerly CBaySystems Holdings Limited)

Common Stock

This is the initial public offering of our shares in the United States. We are offering 3,500,000 shares of our common stock, and the selling stockholders named in this prospectus are offering 4,326,549 shares of our common stock. We will not receive any proceeds from the sale of the shares by the selling stockholders.

We expect that the initial public offering price will be between $10.00 and $12.00 per share. We have applied to list our shares on The NASDAQ Global Market under the symbol MEDH.

Our shares were formerly listed on the Alternative Investment Market of the London Stock Exchange, or AIM. However, we have delisted from AIM and January 27, 2011 was the last day on which our shares traded on AIM. The closing price of our shares on AIM on December 24, 2010, the date on which we announced our intention to delist, was £6.08, equivalent to $9.36 per share based on the Federal Reserve noon buying rate of $1.54 to £1.00 in effect on December 24, 2010. See Market Price Information for Our Shares herein.

Investing in our shares involves significant risks. See Risk Factors beginning on page 17.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	PER SHARE	**TOTAL**
Public offering price	$	$
Underwriting discount	$	$
Proceeds to MedQuist Holdings Inc. (before expenses)	$	$

See Underwriting for a discussion of the underwriting compensation. Delivery of the shares of common stock is expected to be made on or about , 2011. We have granted the underwriters an option for a period of 30 days to purchase on the same terms and conditions set forth above, up to an additional 1,173,982 shares of our common stock to cover overallotments.

Lazard Capital Markets **Macquarie Capital** **RBC Capital Markets**

Loop Capital Markets

Prospectus dated , 2011.

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We have not authorized anyone to give any information or to make any representations other than those contained in this prospectus or in any free-writing prospectus that we may specifically authorize to be delivered or made available to you. We and the underwriters have not authorized anyone to provide you with additional or different information. We and the selling stockholders are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where such offers and sales are permitted. The information in this prospectus or any free-writing prospectus is accurate only as of its date, regardless of its time of delivery or of any sale of shares of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

References in this prospectus to dollars or $ are to the currency of the United States and references to pounds, £, p or p are to the currency of the United Kingdom. There are 100 pence to each pound.

Except where otherwise indicated, reference in this prospectus to volume or volumes are to lines of text edited or transcribed by our medical transcriptionists, or MTs, and medical editors, or MEs.

On January 27, 2011, we changed our name from CBaySystems Holdings Limited to MedQuist Holdings Inc. and redomiciled from a British Virgin Islands company to a Delaware corporation. In connection with our redomiciliation, we adjusted the number of our shares outstanding through a reverse share split pursuant to which every 4.5 shares of our common stock outstanding prior to our redomiciliation were converted into one share of our common stock upon our redomiciliation. We refer to this herein as the conversion. Our redomiciliation and the conversion resulted in no change to our stockholders relative ownership interests in us. Unless otherwise noted, all information regarding our shares of our common stock and all per share information presented herein give effect to the conversion.

The industry and market data and other statistical information used throughout this prospectus are based on independent industry publications, government publications, reports by market research firms or other published independent sources that we believe to be reliable.

Prospectus Summary

This summary highlights certain information contained elsewhere in this prospectus and may not contain all of the information you should consider before investing in our shares. You should read this summary together with the entire prospectus, including the information presented under the heading Risk Factors, the consolidated financial statements and related notes and the unaudited pro forma condensed combined financial information and related notes appearing elsewhere in this prospectus.

Except where the context otherwise requires, or where otherwise indicated, references in this prospectus to we, us, or our are to MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and its subsidiaries, references to MedQuist Inc. are to MedQuist Inc. and its subsidiaries and references to Spheris are to Spheris Inc. and its subsidiaries for the period prior to April 22, 2010 and to the business we acquired from Spheris Inc. for the period after such date. For purposes of our consolidated financial statements and references to us contained therein, we have not reflected our anticipated name change to MedQuist Holdings Inc.

Overview

We are a leading provider of integrated clinical documentation solutions for the U.S. healthcare system. Our end-to-end solutions convert physicians dictation of patient interactions, or the physician narrative, into a high quality and customized electronic record. These solutions integrate technologies and services for voice capture and transmission, automated speech recognition, or ASR, medical transcription and editing, workflow automation, and document management and distribution to deliver a complete managed service for our customers. Our solutions enable hospitals, clinics, and physician practices to improve the quality of clinical data as well as accelerate and automate the documentation process, and we believe our solutions improve physician productivity and satisfaction, enhance revenue cycle performance, and facilitate the adoption and use of electronic health records.

We are the largest provider by revenue of clinical documentation solutions based on the physician narrative in the United States. During the three months ended September 30, 2010, we processed, on an annualized run rate basis, more than 3.4 billion lines of clinical documentation on our platform. The significant majority of lines we process are edited or transcribed by our approximately 14,000 MTs and MEs. Of this volume, for the three months ended September 30, 2010, 67% was processed using ASR technology and 42% was produced offshore. Our size allows us to handle the clinical documentation requirements of many of the largest and most complex healthcare delivery networks in the United States, provides us with economies of scale, and enables us to devote significantly more resources to enhancing our solutions through research and development than most of our competitors.

We serve more than 2,400 hospitals, clinics, and physician practices throughout the United States, including 40% of hospitals with more than 500 licensed beds. As of September 30, 2010, the average tenure of our top 50 customers was over five years, and approximately 98% of our revenue was from recurring services. Insights gained from our broad, long-standing customer relationships allow us to optimize our integrated solutions, and we believe that this positions us for future growth as we target new customers.

We have realized significant increases in both revenue and profitability as the result of two large acquisitions, MedQuist Inc., in which we acquired a majority interest in August 2008, and Spheris, which we acquired in April 2010. From 2007 to 2009, our net revenues increased from $57.7 million to $371.8 million. Over this same period, our Adjusted EBITDA, which is a non-GAAP financial measure, increased from $0.7 million to $59.7 million, and our Adjusted EBITDA margins expanded from 1.1% to 16.1%. For a reconciliation of our net income (loss) attributable to MedQuist Holdings Inc. to Adjusted EBITDA, see Summary Historical and Unaudited Pro Forma Consolidated

Financial Data.

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Our industry

Over the past several decades, our industry has evolved from almost exclusively in-house production to outsourced services and from labor-intensive services to technologically-enabled solutions. The market opportunity for our solutions is driven by overall healthcare utilization and cost containment efforts in the United States. Numerous factors are driving increases in the demand for healthcare services including population growth, longer life expectancy, the increasing prevalence of chronic illnesses, and expanded coverage from healthcare reform. According to a September 2010 report by the U.S. Centers for Medicare and Medicaid Services, spending on healthcare grew from $1.2 trillion in 1998 to $2.3 trillion in 2008, representing a compound annual growth rate of 7.0%. It also projects that healthcare spending will grow to reach $4.2 trillion, or 19.3% of U.S. gross domestic product, by 2018, representing a compound annual growth rate of 6.3%. At the same time, U.S. healthcare providers remain under substantial pressure to reduce costs while maintaining or improving the quality of care.

Accurate and timely clinical documentation has become a critical requirement of the growing U.S. healthcare system. Medicare, Medicaid, and insurance companies demand extensive patient care documentation. The 2009 Health Information Technology for Economic and Clinical Health Act, or the HITECH Act, includes numerous incentives to promote the adoption and meaningful use of electronic health records, or EHRs, across the healthcare industry. Consequently, healthcare providers are increasingly using EHRs to input, store, and manage their clinical data in a digital format. Healthcare providers that use EHRs require accurate, easy-to-use, and cost-effective means to input clinical data that are not disruptive to the physician workflow.

The market for outsourced clinical documentation solutions based on the physician narrative is substantial. Key components of this market include voice capture and transmission technologies, ASR software, medical transcription and editing services, and document workflow and management software. ValueNotes Database Pvt. Ltd., or ValueNotes, a market research firm, estimates that the market for outsourced medical transcription services was $5.4 billion in 2009 and is expected to grow 8.2% per annum over the next five years to $8.0 billion in 2014.

Healthcare providers are increasingly choosing to outsource their clinical documentation processes. The benefits of outsourcing include reduced costs, access to leading technologies, accelerated turn-around times, improved data accuracy, greater physician productivity, and satisfaction of security and compliance requirements. We believe that the majority of clinical documentation is still produced in-house by U.S. hospitals and physician practices today. ValueNotes estimates that the in-house medical transcription market was 67% of the overall market in 2009, and projects the percentage of outsourced production of medical transcription will grow from 33% in 2009 to 38% in 2014.

While outsourcing provides many benefits, the landscape for outsourced service providers is highly fragmented, with hundreds of providers offering varying degrees of technological automation and offshore capabilities. Technological automation and a rise in offshore capabilities have substantially decreased the cost of production and have further differentiated outsourcing providers. We believe that participants in our industry must expand their technology platform and offshore production capabilities to remain competitive.

Our competitive strengths

Our competitive strengths include:

- **Leader in a large, fragmented market** We are the largest provider by revenue of clinical documentation solutions based on the physician narrative in the United States. Our size enables us to meet the needs of large, sophisticated healthcare customers, provides economies of scale, and enables us to devote significantly more resources to research and development and quality assurance than many other providers.

- **Integrated solutions delivered as a complete managed service** We offer fully-integrated end-to-end managed services that capture and convert the physician narrative into a high quality customized electronic record. We integrate technologies and services for voice capture and transmission, ASR, medical transcription and editing, workflow automation, and document management and distribution. The end result is value-added clinical documentation with high accuracy and quick turn-around times.

- **Large and diversified customer base with long-term relationships** We serve more than 2,400 hospitals, clinics and physician practices throughout the United States, including 40% of hospitals with more than 500 licensed beds. We have a long-standing history with our customers and, as of September 30, 2010, approximately 98% of our revenue was from recurring services.
- **Highly-efficient operating model** Over the past two years, we have driven down our cost structure through the use of technology automation, standardized processes, and offshore resources. Our use of ASR, which has grown from 39% of our volume in the fourth quarter of 2008 to 67% in the third quarter of 2010, has increased our productivity. Additionally, our expanding footprint in India has enabled us to increase our offshore production from 28% of our volume to 42% over this same period. The financial impact of these measures has been an improvement in gross margins during this timeframe from 33.8% to 38.5%. We have grown our volume, excluding volume provided by the Spheris Acquisition, by 2.3% over this same period while sharing cost savings with our customers in the form of lower prices.
- **Proven management team** We have assembled an outstanding senior leadership team with significant industry experience and domain expertise in both domestic and offshore operations. Our management team has delivered substantial results and brings an entrepreneurial spirit with proven experience in managing growth, driving operational improvements, and successfully integrating acquisitions.

Our strategy

Key elements of our strategy include:

- **Expand our customer base and increase existing customer penetration** We intend to grow our customer base by targeting three market segments: large healthcare providers still using in-house services, large healthcare providers currently using competing outsourced alternatives, and small-to-medium medical practices. Given our market leadership, strong solution offerings, and low cost structure, we believe we are well positioned to both replace in-house solutions as well as displace competing outsourced alternatives for large healthcare providers. For small-to-medium sized physician practices, we offer an easy-to-use web-based clinical documentation platform, CBayScribe, to expand our market share in this segment, which we believe to be underpenetrated. In order to increase penetration within our existing customer base, we intend to continue targeting additional healthcare clinical areas and facilities of our current customers. Additionally, as healthcare providers centralize their purchasing decisions, we believe that our ability to deliver outstanding services for large, complex requirements provides us with increasing access to new sales opportunities within our existing customer base and through existing customer relationships.
- **Continue to develop and enhance our integrated solutions** We seek to differentiate our integrated solutions through sophisticated technology and process improvement. We have over 100 employees dedicated to research and development. Over the last year, we launched numerous enhancements, including a front end speech platform for general medicine, additional EHR system integration, and advanced performance monitoring.
- **Enhance profitability through technical and operational expertise** We have made significant improvements in productivity through business process and infrastructure improvements. Notwithstanding reductions in customer pricing, our gross margins have expanded from 33.8% in the fourth quarter of 2008, our first fiscal quarter after we acquired MedQuist Inc., to 38.5% in the third quarter of 2010, and our Adjusted EBITDA margins have expanded from 9.5% to 21.4% for the same periods. Our management team has proven its ability to implement continuous process improvements and we intend to

further increase offshore production and our use of technological automation, including ASR, to lower costs and enhance our profitability.

- **Facilitate the adoption and promote meaningful use of EHR systems** Our integrated solutions provide a comprehensive, accurate and effective method to incorporate physician narrative into an EHR system. We interface with substantially all of the leading EHR vendors to integrate our clinical documentation solutions and to help our customers realize the full potential of their EHR systems through the use of the physician narrative. In our experience, when EHR is adopted, customers tend to consolidate their purchase decisions, which benefits us as a leading provider of clinical documentation solutions.
- **Pursue strategic acquisitions** We believe that there are significant opportunities available to create value through strategic acquisitions. We intend to seek appropriate opportunities to grow our customer base, enhance our solutions, consolidate costs, and expand our value proposition to our customers.

Risks associated with our business

Our business is subject to a number of risks which you should be aware of before making an investment decision. Those risks are discussed more fully in Risk Factors beginning on page 16. For example:

- We compete with many others in the market for clinical documentation solutions which may result in lower prices for our services, reduced operating margins and an inability to maintain or increase our market share.
- Our business is dependent on the continued demand for transcription services, and, if electronic health records companies produce solutions acceptable to large hospital systems for the creation of electronic clinical documentation, the overall demand for medical transcription services could be reduced.
- Our ability to sustain and grow profitable operations is dependent on the willingness of new customers to outsource and adopt new technology platforms, as well as our ability to retain customers.
- Our success will depend on our ability to support existing technologies, as well as adopt and integrate new technology into our workflow platforms.

Our history

We began operation in 1998 with the goal of providing high-quality outsourced clinical documentation solutions to U.S. healthcare providers at a low cost. We combined U.S. sales, marketing, and customer service with offshore operations, primarily in India, and have grown our scale through strategic acquisitions.

Acquisitions

MedQuist Inc.

In August 2008, an affiliate of S.A.C. Private Capital Group, LLC, or SAC PCG, invested $124.0 million to acquire a majority interest in us. Concurrent with this investment, we acquired a 69.5% interest in MedQuist Inc., or the MedQuist Inc. Acquisition. At the time of the acquisition, MedQuist Inc. was the largest U.S. medical transcription service provider by revenue, but had been adversely impacted by inefficient operations, litigation and customer disputes. Net revenues for MedQuist Inc. had fallen from $483.9 million for the year ended December 31, 2002 to $340.3 million for the year ended December 31, 2007.

We believed that MedQuist Inc., despite its operational challenges and substantial overhead, had strong underlying technology, deep healthcare domain expertise, and a long-tenured customer base. Following our acquisition of MedQuist Inc., we embarked upon a strategy to enhance the management team, streamline operations, improve relationships with customers, leverage our offshore resources, increase the utilization of ASR technology, and resolve all outstanding litigation. This strategy resulted in a stabilization of volume trends starting in the second quarter of 2009. The following table shows the percentage change in MedQuist Inc. s volume for

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the nine quarters ended March 31, 2010, the last quarter prior to our acquisition of Spheris, or the Spheris Acquisition.

MedQuist Inc.	2008 Prior to the MedQuist Inc. Acquisition				2009				2010
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Volume % Change over Previous Year	(3.3)%	(4.7)%	(0.1)%	(0.4)%	(2.2)%	0.8%	2.5%	2.8%	4.0%

Spheris

In April 2010, we acquired certain assets, principally customer contracts, from Spheris in a transaction conducted under Section 363 of the Bankruptcy Code. Spheris was the second largest U.S. medical transcription service provider by revenue at the time. Spheris had experienced declines in volumes from customer attrition, which we believed was attributable to quality issues and underinvestment in product development caused by financial constraints leading up to its bankruptcy. Some volume declines continued after the date of the Spheris Acquisition as the result of notices of termination given prior to that date. The following table shows the percentage change in Spheris volume for the nine quarters ended March 31, 2010, the last quarter prior to the Spheris Acquisition.

Spheris	2008				2009				2010
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Volume % Change over Previous Year	(4.8)%	(4.7)%	(5.9)%	(11.6)%	(13.3)%	(10.9)%	(7.9)%	(6.5)%	(5.5)%

We considered the negative volume trend for Spheris in our acquisition valuation. Net revenues for Spheris were $156.6 million and $35.2 million for the year ended December 31, 2009 and the three months ended March 31, 2010, respectively. Customers who submitted notices of termination prior to the acquisition generated revenues of $24.6 million and $1.7 million during the year ended December 31, 2009 and the three months ended March 31, 2010, respectively. Therefore, net revenues for the year ended December 31, 2009 and the three months ended March 31, 2010, less revenues attributable to customers who submitted notices of termination prior to the Spheris Acquisition, were $132.0 million and $33.5 million, respectively.

Our Spheris integration efforts have focused on merging the new customer base acquired, integrating systems and eliminating cost redundancies. We expect the measures we have implemented since the Spheris Acquisition to yield $7.0 million of cost savings in the fourth quarter of 2010, representing an annualized impact of $28.0 million. Our results for the nine months ended September 30, 2010 reflect $4.9 million of such cost savings. We expect that the integration of Spheris will be fully completed by the first half of 2011.

Pricing

We base our pricing on various factors, principally, market forces, the extent to which we can utilize our offshore production facilities, the extent to which customers utilize the ASR technology available in our solutions, the scope of services provided and turn-around times requested by a particular customer. We work with our customers to evaluate how different solutions affect pricing and to determine an optimal mix of service level and price for that customer. Higher utilization of offshore production and ASR leads to lower costs for us, which permits us to offer better pricing to our customers while at the same time contributing to margin growth. We have successfully migrated a significant portion of MedQuist Inc. s volume offshore and we will continue these efforts in relation to our combined businesses.

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Recent developments

Recapitalization transactions

On October 14, 2010, MedQuist Inc. incurred $85.0 million of indebtedness through the issuance of 13% senior subordinated notes due 2016, or the Senior Subordinated Notes, under a note purchase agreement, or the Note Purchase Agreement, and incurred $200.0 million of indebtedness under a term loan, or the Term Loan, under a $225.0 million credit facility, or the Senior Secured Credit Facility. We are a guarantor of both the Senior Subordinated Notes and the Senior Secured Credit Facility. MedQuist Inc. used the proceeds to repay $80.0 million of indebtedness under its prior credit facility, or the Acquisition Credit Facility, to repay $13.6 million of indebtedness under a subordinated promissory note, or the Acquisition Subordinated Promissory Notes, each issued in connection with the Spheris Acquisition, and to pay a $176.5 million special dividend to its stockholders. We received $122.6 million of this special dividend and used $104.1 million to extinguish our 6% Convertible Notes issued to Royal Philips Electronics, in connection with the MedQuist Inc. Acquisition and $3.7 million to extinguish certain other lines of credit. We refer to these transactions as the Recapitalization Transactions.

Exchange transactions

Certain of MedQuist Inc. s noncontrolling stockholders entered into an exchange agreement with us, the Exchange Agreement, whereby we agreed to issue 4.8 million shares of our common stock in exchange for their 4.8 million shares of MedQuist Inc. common stock. We refer to this transaction as the Private Exchange. The Private Exchange is contingent upon, among other conditions, our completion of this offering and listing our shares on The NASDAQ Global Market and would increase our ownership in MedQuist Inc. from 69.5% to 82.2%.

On October 18, 2010, we filed with the Securities and Exchange Commission, or the SEC, a registration statement on Form S-4 in order to offer those noncontrolling MedQuist Inc. stockholders who did not participate in the Private Exchange shares of our common stock in exchange for their MedQuist Inc. shares. We refer to that offer as the Registered Exchange Offer. Assuming the Private Exchange is consummated, a full exchange in the Registered Exchange Offer would increase our ownership in MedQuist Inc. from 82.2% to 100.0%. We can give no assurance regarding the level of participation in the Registered Exchange Offer.

For a more detailed description of the Recapitalization Transactions, the Private Exchange and the Registered Exchange Offer, collectively with the common stock offered hereby, the Corporate Reorganization, see Corporate Reorganization.

Sale of A-Life Investment

During the three months ended December 31, 2010, we sold our approximately 32% interest in A-Life Medical, Inc., or A-Life, an equity method investment. The consideration to us for the sale of our A-Life investment was $23.6 million, of which $19.5 million was paid to us in cash and $4.1 million was paid into escrow, to be released in March 2012, subject to the satisfaction of indemnification obligations under the related merger agreement. Our presentation of Adjusted EBITDA contained herein does not include earnings attributable to our investment in A-Life. See Summary Historical and Unaudited Pro Forma Consolidated Financial Data.

Sale of PFS

On December 31, 2010, we completed the sale of our non-strategic Patient Financial Services, or PFS, business. The consideration to us was $14.8 million, of which $13.5 million was paid to us in cash and the balance was in the form of a note. Our unaudited pro forma condensed financial information contained herein gives effect to the reclassification of the PFS business into discontinued operations. See Unaudited Pro Forma Condensed Combined Financial Information.

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Preliminary Unaudited Results for the three months ended December 31, 2010

The following information is based on our preliminary unaudited results for the three months ended December 31, 2010. This information is derived from preliminary internal financial reports and is subject to revision based on the completion of the year-end accounting and financial reporting processes necessary to finalize our consolidated financial statements as of and for the year ended December 31, 2010. We cannot assure you that, upon completion of the audit of our consolidated financial statements as of and for the year ended December 31, 2010, we will not report results materially different than those set forth below. We do not expect to file our audited consolidated financial statements as of and for the year ended December 31, 2010 with the SEC until after this offering is completed.

We currently estimate that for the three months ended December 31, 2010, our net revenues were approximately $110.5 million, our income from continuing operations before income taxes and noncontrolling interests was approximately $3.7 million and our Adjusted EBITDA was approximately $27.6 million. Our estimate for Adjusted EBITDA is based on our estimates for income from continuing operations before income taxes and noncontrolling interests of approximately $3.7 million, plus interest expense, net of approximately $7.3 million, depreciation and amortization of approximately $8.9 million (including approximately $3.9 million of amortization related to acquired intangibles), cost of legal proceedings and settlements of approximately $800,000, acquisition-related charges of approximately $500,000, restructuring charges of approximately $1.8 million, the loss on early extinguishment of debt of approximately $13.5 million and less equity in income of affiliated companies (principally the gain on the sale of A-Life) of $8.9 million. See page 16 in Summary Historical and Unaudited Pro Forma Consolidated Financial Data for a description of Adjusted EBITDA. Cash taxes paid during the three months ended December 31, 2010 were approximately $300,000. As of December 31, 2010 we had approximately $66.8 million of cash and approximately $294.5 million of total debt outstanding. On January 3, 2011, we made a $25.0 million cash payment, of which $20 million was an optional payment, to reduce the principal amount of our outstanding Term Loan.

Net revenues for the three months ended December 31, 2010 increased approximately $24.7 million, or approximately 28.8%, to approximately $110.5 million, compared with $85.8 million for the three months ended December 31, 2009 (excluding for both periods the revenues associated with the PFS business, which was sold in December 2010). The Spheris Acquisition contributed approximately $29.9 million in incremental revenue for the three months ended December 31, 2010, which was partially offset by a decrease in legacy maintenance service revenues and lower average pricing realized for our transcription services.

Our income from continuing operations before income taxes and noncontrolling interests was approximately $3.7 million and $2.6 million for the three months ended December 31, 2010 and 2009, respectively. Our income from continuing operations before income taxes and noncontrolling interests for the three months ended December 31, 2010 as compared to December 31, 2009 reflects an increase in operating income of approximately $10.4 million and an increase in equity in income of affiliated companies of approximately $8.9 million, representing primarily the gain on the sale of A-Life during the 2010 quarter. These increases were offset by higher interest expense, net of approximately $5.1 million during the 2010 quarter, as compared to 2009, reflecting higher borrowing levels during the 2010 quarter and the loss on early extinguishment of debt of approximately $13.5 million during the 2010 quarter. Amounts for both periods exclude amounts attributable to the PFS business.

The improvement in gross profit and operating income during the three months ended December 31, 2010 was attributable to cost reductions associated with increased utilization of ASR and increased offshore production, as well as overhead savings realized as a result of the Spheris integration efforts. Our use of ASR increased to approximately 71% of volume during the three months ended December 31, 2010 compared with approximately 53% of volume in the three months ended December 31, 2009. Additionally, our expanding footprint in India enabled us to increase our offshore production to approximately 42% of volume for the three months ended December 31, 2010 compared with 39% of volume for the three months ended December 31, 2009. The cost savings and synergies resulting from the

Spheris Acquisition contributed approximately $7 million of cost savings for the three months ended December 31, 2010.

Adjusted EBITDA for the three months ended December 31, 2010 increased approximately $10.9 million, or approximately 65%, to approximately $27.6 million, compared with $16.7 million for the three months ended

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December 31, 2009. Adjusted EBITDA as a percentage of net revenues increased to 25.0% for the three months ended December 31, 2010, compared with 19.3% for the three months ended December 31, 2009. The improvement in Adjusted EBITDA was attributable to the factors described above.

Corporate information

Our principal executive offices are located at 9009 Carothers Parkway, Franklin, TN 37067. The telephone number of our principal executive offices is (615) 261-1740.

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The Offering

Common stock offered by us	3,500,000 shares
Common stock offered by the selling stockholders	4,326,549 shares
Common stock to be outstanding immediately after this offering (1)	51,087,766 shares
Over-allotment option	We have granted the underwriters a 30-day option to purchase up to 1,173,982 additional shares.

Use of proceeds

We estimate that our net proceeds from this offering, after deducting the underwriting discounts and commissions and estimated offering expenses, will be approximately $28.5 million, assuming an initial public offering price of $11.00 per share, the midpoint of the price range shown on the cover page of this prospectus. We intend to use the net proceeds from this offering for working capital and other general corporate purposes. We may also use a portion of the net proceeds for the acquisition of complementary companies or businesses, although we currently do not have any acquisition or investment planned. We will not receive any proceeds from the sale of shares by the selling stockholders.

Dividend policy

We currently expect to retain future earnings, if any, for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. Payments of future dividends, if any, will be at the sole discretion of our board of directors after taking into account various factors, including our business, operating results and financial condition, current and anticipated cash needs, plans for expansion and any legal or contractual limitations on our ability to pay dividends. Our ability to pay dividends on our common stock is limited by the covenants of the agreements governing our indebtedness and may be further restricted by the terms of any future debt or preferred securities.

The NASDAQ Global Market listing

We have applied to list our common stock on The NASDAQ Global Market under the symbol MEDH.

Assumptions in this prospectus

Unless we indicate otherwise, all information in this prospectus:

- assumes our redomiciliation under the laws of the state of Delaware and gives effect to the conversion;
- assumes consummation of the Private Exchange based on an exchange ratio of one share of our common stock for each MedQuist Inc. share of common stock;
- assumes a full exchange in the Registered Exchange Offer;
- assumes no exercise by the underwriters of their over-allotment option; and
- assumes an initial public offering price of $11.00 per share, the midpoint of the price range shown on the cover page of this prospectus.

(1) The number of shares of common stock to be outstanding after this offering consists of (i) 3.5 million shares issued by us in this offering; (ii) 35.2 million shares held by our existing stockholders, (iii) 4.8 million shares of common stock to be issued in the Private Exchange, (iv) 6.7 million shares of our common stock to be issued in the Registered Exchange Offer, assuming a full exchange, and (v) 959,355 shares of our common stock issuable pursuant to an agreement, or the Consulting Services Agreement, we entered into at the time of the MedQuist Inc. Acquisition, and excludes (i) approximately 3.5 million shares of common stock reserved for issuance under our equity incentive plans, of which options to purchase approximately 2.7 million shares with a weighted average exercise price of $5.66 were outstanding as of September 30, 2010 and (ii) 81,488 shares of our common stock issuable pursuant to a warrant agreement, exercisable at a price of £3.15 per share, between us and Oosterveld International BV, dated March 19, 2009. See Certain Relationships and Related Party Transactions.

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Summary Historical and Unaudited Pro Forma Consolidated Financial Data

The following table sets forth our summary historical consolidated financial data for the years ended December 31, 2007, 2008 and 2009 and as of September 30, 2010 and for the nine months ended September 30, 2009 and 2010. The summary historical consolidated financial data for the years ended December 31, 2007, 2008 and 2009 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary historical consolidated financial data as of September 30, 2010 and for the nine months ended September 30, 2009 and 2010 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus. We prepared the unaudited historical information on a basis consistent with that used in preparing our audited consolidated financial statements, which reflect all adjustments, consisting of only normal recurring adjustments, that we consider necessary to present fairly our financial position and results of operations for the unaudited periods.

Our summary historical consolidated statements of operations and other operating data reflect the consolidation of the results of operations of MedQuist Inc. since August 6, 2008 and Spheris since April 22, 2010, the respective dates of their acquisition. Our summary historical consolidated statements of operations and other operating data do not give effect to the reclassification for discontinued operations for the sale of our PFS business, which was sold on December 31, 2010.

The summary consolidated financial data also sets forth our unaudited pro forma condensed combined statements of operations for the year ended December 31, 2009 and the nine months ended September 30, 2010 and our unaudited pro forma condensed consolidated balance sheet as of September 30, 2010. The unaudited pro forma condensed combined statements of operations and the unaudited pro forma condensed consolidated balance sheet have been derived from the historical consolidated financial information of us and Spheris, which are included elsewhere in this prospectus. The unaudited pro forma condensed combined statements of operations and the unaudited pro forma consolidated balance sheet give effect to the reclassification for discontinued operations. See Unaudited Pro Forma Condensed Consolidated Financial Information Discontinued Operations.

The pro forma combined statements of operations and other operating data for the year ended December 31, 2009 and the nine months ended September 30, 2010 give effect to the following transactions as if they had occurred on January 1, 2009:

- the Spheris Acquisition and the incurrence by MedQuist Inc. of $113.6 million of debt to finance the Spheris Acquisition;
- the incurrence by MedQuist Inc. of $285.0 million of indebtedness under the Senior Secured Credit Facility and Senior Subordinated Notes, the simultaneous repayment of $80.0 million of indebtedness under the Acquisition Credit Facility, the repayment of $13.6 million of indebtedness under the Acquisition Subordinated Promissory Notes, the payment of a $176.5 million special dividend to MedQuist Inc. s stockholders, of which we received $122.6 million and the noncontrolling stockholders of MedQuist Inc. received $53.9 million, and the repayment by us, using the proceeds of such dividend of $104.1 million to extinguish our 6% Convertible Notes including a $7.7 million premium on early prepayment, and $3.7 million under certain other lines of credit;
- the issuance of 4.8 million shares of our common stock in exchange for 4.8 million shares of MedQuist Inc. common stock pursuant to the terms of the Exchange Agreement with certain noncontrolling stockholders of MedQuist Inc., which will increase our ownership in MedQuist Inc. from 69.5% to 82.2%;
- the issuance of 959,355 shares of our common stock pursuant to the Consulting Services Agreement; and
- the issuance of 6.7 million shares of our common stock to be issued in exchange for 6.7 million shares of MedQuist Inc. common stock in the Registered Exchange Offer, assuming a full exchange. This would increase our ownership in MedQuist Inc. from 82.2% to 100%.

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The pro forma combined statements of operations and other operating data for the year ended December 31, 2009 and the nine months ended September 30, 2010 do not give effect to the following:

- the impact on net revenues from volume declines resulting from Spheris customer terminations prior to the Spheris Acquisition. The pro forma net revenues for the year ended December 31, 2009 and for the nine months ended September 30, 2010 include $24.6 million and $2.4 million, respectively, of net revenues associated with such terminations; and
- the full impact on Adjusted EBITDA of cost savings and synergies resulting from the Spheris Acquisition, which we have implemented since the Spheris Acquisition and expect to yield $7.0 million of cost savings in the fourth quarter of 2010, representing an annualized benefit of $28.0 million. Our results for the nine months ended September 30, 2010 reflect $4.9 million of such cost savings.

The pro forma balance sheet data as of September 30, 2010 gives effect to the Recapitalization Transactions, the Private Exchange, the Registered Exchange Offer, the reclassification for discontinued operations and the shares of our common stock issuable pursuant to the Consulting Services Agreement, as if they occurred as of September 30, 2010.

The pro forma as adjusted balance sheet data as of September 30, 2010 also gives effect to the issuance of 3.5 million shares of common stock in this offering at an assumed initial public offering price of $11.00 per share, the midpoint of the price range shown on the cover of this prospectus, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us as if such transaction occurred as of September 30, 2010.

Our historical consolidated financial information has been adjusted in the unaudited pro forma condensed combined financial information to give effect to pro forma events that are (1) directly attributable to the Spheris Acquisition, the Corporate Reorganization, the shares of our common stock issuable pursuant to the Consulting Services Agreement (2) factually supportable and (3) with respect to the statements of operations, expected to have a continuing impact on the combined results. The pro forma information does not reflect revenue opportunities and cost savings that may be realized after the Spheris Acquisition. The pro forma financial information also does not reflect expenses related to integration activity that may be incurred by us in connection with the Spheris Acquisition.

The pro forma data is based upon available information and certain assumptions that we believe are reasonable. The pro forma data is for informational purposes only and does not purport to represent what our results of operations or financial position actually would have been if such events had occurred on the dates specified above and does not purport to project the results of operations or financial position for any future period or date. The pro forma data should be read in conjunction with our historical consolidated financial statements, and related notes included elsewhere in this prospectus as adjusted for the acquisition of Spheris using the acquisition method of accounting.

You should read the following summary financial and other data together with our consolidated financial statements and related notes included elsewhere in this prospectus and the information under the sections entitled Capitalization, Unaudited Pro Forma Condensed Combined Financial Information, Selected Consolidated Financial and Other Data and Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this prospectus.

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	Historical					Pro forma	
	Years ended December 31,			Nine months ended September 30,		Year ended December 31,	Nine months ended September 30,
	2007	2008	2009	2009	2010	2009	2010
				(Unaudited)		(Unaudited)	
				(In thousands)			
Statement of Operations Data							
Net revenues	$ 57,694	$ 193,673	$ 371,768	$ 281,828	$ 316,977	$ 510,528	$ 350,163
Cost of revenues	30,209	125,074	239,549	182,924	200,234	338,760	226,229
Gross profit	27,485	68,599	132,219	98,904	116,743	171,768	123,934
Operating expenses							
Selling, general and administrative	25,137	51,243	60,632	46,594	49,374	72,182	51,828
Research and development		6,099	9,604	7,235	8,945	9,604	9,137
Depreciation and amortization	2,915	14,906	26,977	20,329	24,377	39,126	27,587
Cost of legal proceedings and settlements		5,311	14,943	13,540	2,785	16,189	2,785
Acquisition related charges			1,246		6,895		
Goodwill impairment charge		98,972					
Restructuring charges		2,106	2,727	481	1,951	3,502	1,912
Total operating expenses	28,052	178,637	116,129	88,179	94,327	140,603	93,249
Operating income (loss)	(567)	(110,038)	16,090	10,725	22,416	31,165	30,685
Interest expense, net	(2,108)	(3,954)	(9,132)	(6,945)	(12,031)	(31,490)	(24,238)
Equity in income (loss) of affiliated companies	(105)	66	1,933	2,534	616	1,933	616
Other income	14	9	11		589	2,138	511
Income (loss) from continuing operations before income taxes and noncontrolling interests	(2,766)	(113,917)	8,902	6,314	11,590	3,746	7,574
Income tax provision (benefit)	(113)	(5,398)	1,082	1,253	(69)	372	(31)
Net income (loss) from continuing operations	(2,653)	(108,519)	7,820	5,061	11,659	3,374	7,605
Discontinued operations							

Income (loss) from discontinued Patient Financial Services business						(1,281)	426
Income tax provision (benefit)						70	(23)
Income (loss) from discontinued operations						(1,351)	449
Net income (loss)	(2,653)	(108,519)	7,820	5,061	11,659	2,023	8,054
Less: Net (income) loss attributable to noncontrolling interests	57	(5,154)	(7,085)	(5,291)	(5,234)		11
Net income (loss) attributable to MedQuist Holdings Inc.	$ (2,596)	$ (113,673)	$ 735	$ (230)	$ 6,425	$ 2,023	$ 8,065
Net income per common share from continuing operations							
Basic						$ 0.03	$ 0.16
Diluted						$ 0.03	$ 0.16
Net income (loss) per common share from discontinued operations							
Basic						$ (0.03)	$ 0.01
Diluted						$ (0.03)	$ 0.01
Net income (loss) per common share attributable to MedQuist Holdings Inc.							
Basic	$ (0.20)	$ (5.08)	$ (0.06)	$ (0.07)	$ 0.12	$ 0.00	$ 0.17
Diluted	$ (0.20)	$ (5.08)	$ (0.06)	$ (0.07)	$ 0.12	$ 0.00	$ 0.17

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	Historical					Pro forma	
	Years ended December 31,			Nine months ended September 30,		Year ended December 31,	Nine months ended September 30,
	2007	2008	2009	2009	2010	2009	2010
				(Unaudited) (In thousands)		(Unaudited)	
Weighted average shares outstanding:							
Basic	12,873	22,593	34,692	34,586	35,083	47,122	47,513
Diluted	12,873	22,593	34,692	34,586	35,893	47,122	48,323
Adjusted EBITDA (1)(2)	$ 641	$ 16,914	$ 59,687	$ 42,991	$ 57,855	$ 91,074	$ 63,480

(1) See below for reconciliations of net income (loss) attributable to MedQuist Holdings Inc. to Adjusted EBITDA. Adjusted EBITDA does not include earnings attributable to our investment in A-Life, which was sold in October 2010.

(2) Pro forma amounts do not give effect to (i) the impact on net revenues from volume declines, resulting from pre-acquisition customer terminations at Spheris, of $24.6 million and $2.4 million in net revenues for the year ended December 31, 2009 and the nine months ended September 30, 2010, respectively, and (ii) the full impact of cost savings and synergies resulting from the Spheris Acquisition, which we have implemented since the Spheris Acquisition and expect to yield $7.0 million of cost savings in the fourth quarter of 2010, representing an annualized benefit of $28.0 million. Our results for the nine months ended September 30, 2010 reflect $4.9 million of such cost savings. See Unaudited Pro Forma Condensed Combined Financial Information.

The following table sets forth certain historical financial and operating data for us, MedQuist Inc. and Spheris.

	Historical					Pro forma	
	Years ended December 31,			Nine months ended September 30,		Year ended December 31,	Nine months ended September 30,
	2007	2008	2009	2009	2010	2009	2010
				(Unaudited) (In thousands)		(Unaudited)	
Other Data							
Net Revenues:							
Consolidated (1)(2)	$ 57,694	$ 193,673	$ 371,768	$ 281,828	$ 316,977	$ 510,528	$ 350,163
MedQuist Inc.	340,342	326,853	307,200				
Spheris	200,392	182,843	156,596				
Adjusted EBITDA (3)							
Consolidated (1)	$ 641	$ 16,914	$ 59,687	$ 42,991	$ 57,855	$ 91,074	$ 63,480
MedQuist Inc.	3,480	32,337	55,636				
Spheris	28,227	26,317	30,569				

(1) Pro forma amounts do not give effect to (i) the impact on net revenues from volume declines, resulting from pre-acquisition customer terminations at Spheris, of $24.6 million and $2.4 million in net revenues for the year

ended December 31, 2009 and the nine months ended September 30, 2010, respectively, and (ii) the full impact of cost savings and synergies resulting from the Spheris Acquisition, which we have implemented since the Spheris Acquisition and expect to yield $7.0 million of cost savings in the fourth quarter of 2010, representing an annualized benefit of $28.0 million. Our results for the nine months ended September 30, 2010 reflect $4.9 million of such cost savings. See Unaudited Pro Forma Condensed Combined Financial Information.

(2) Includes revenues of the PFS business, which was sold on December 31, 2010. PFS business contributed revenues of $15.5 million, $22.3 million and $17.8 million for the years ended December 31, 2007, 2008 and 2009 respectively, and $13.7 million and $10.2 million for the nine months ended September 30, 2009 and 2010, respectively.

(3) See below for reconciliations of net income (loss) attributable to MedQuist Holdings Inc. to Adjusted EBITDA. Adjusted EBITDA does not include earnings attributable to our investment in A-Life, which was sold in October 2010.

	As of September 30, 2010		
Balance Sheet Data	**Actual**	**Pro forma (Unaudited) (In thousands)**	**Pro forma as adjusted**
Cash and cash equivalents [a]	$ 24,025	$ 35,253	$ 63,758
Working capital [b]	11,618	26,450	26,450
Total assets	379,304	397,882	426,387
Long term debt, including current portion of debt	204,172	294,848	294,848
Total equity	83,568	16,112	44,617

(a) Pro forma as adjusted amount gives effect to $2.5 million of a total $5.0 million payment to SAC PCG in connection with the Corporate Reorganization and does not reflect $19.5 million in proceeds received from the sale of our investment in A-Life in October 2010 and $13.5 million in proceeds received from the sale of the PFS business in December 2010 and does not reflect our $25.0 million repayment of a portion of our Term loan borrowings in January 2011.

(b) Working capital is defined as total current assets, excluding cash and cash equivalents, minus total current liabilities, excluding current portion of debt.

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The following table presents a reconciliation of net income (loss) attributable to MedQuist Holdings Inc. to Adjusted EBITDA:

	Historical					Pro forma	
	Years ended December 31,			Nine months ended September 30,		Year ended December 31,	Nine months ended September 30,
	2007	2008	2009	2009	2010	2009	2010
				(Unaudited)		(Unaudited)	
				(In thousands)			
Net income (loss) attributable to MedQuist Holdings Inc.	$ (2,596)	$ (113,673)	$ 735	$ (230)	$ 6,425	$ 2,023	$ 8,065
Net income (loss) attributable to noncontrolling interests	(57)	5,154	7,085	5,291	5,234		(11)
Income tax provision (benefit) [(a)]	(113)	(5,398)	1,082	1,253	(69)	372	(31)
Interest expense, net	2,108	3,954	9,132	6,945	12,031	31,490	24,238
Depreciation and amortization[(b)]	2,915	14,906	26,977	20,329	24,377	39,126	27,587
Cost of legal proceedings and settlements		5,311	14,943	13,540	2,785	16,189	2,785
Acquisition-related charges		5,620	1,246		6,895		
Goodwill impairment charge		98,972					
Restructuring charges		2,106	2,727	481	1,951	3,502	1,912
Equity in (income) loss of affiliated companies	105	(66)	(1,933)	(2,534)	(616)	(1,933)	(616)
(Income) loss from discontinued operations						1,351	(449)
Receivable write-offs, asset impairment charges, severance charges and accrual reversals [(c)]		2,000	(1,864)	(1,864)		(1,046)	
PFS business [(d)]	(1,721)	(1,972)	(443)	(220)	(1,158)		
Adjusted EBITDA [(e)]	$ 641	$ 16,914	$ 59,687	$ 42,991	$ 57,855	$ 91,074	$ 63,480

(a) We had $130.0 million of federal net operating loss carry forwards as of December 31, 2009 and will record approximately $30.0 million of annual tax amortization related to intangible assets, including goodwill, that will reduce future taxable income. Due to the existence of federal net operating loss carry forwards and the impact of tax amortization related to intangible assets, including goodwill, cash taxes paid were $84,000, $160,000, $796,000 for the years ended December 31, 2007, 2008 and 2009, respectively, and $667,000 and $30,000 for the nine months ended September 30, 2009 and 2010, respectively.

(b)

Includes amortization of acquired intangibles of $698,000, $7.1 million, $12.8 million for the years ended December 31, 2007, 2008 and 2009, respectively, $9.8 million and $11.7 million for the nine months ended September 30, 2009 and 2010, respectively and $19.2 million and $16.5 million on a pro forma basis for the year ended December 31, 2009 and the nine months ended September 30, 2010, respectively.

(c) Includes the write-off of amounts due from an unconsolidated affiliate of Spheris, an impairment charge to write-off the balance of an investment and the reversal of certain accruals, related to litigation claims, as a result of the expiration of the applicable statute of limitations.

(d) Includes the effect of the PFS business, which was sold on December 31, 2010.

(e) Pro forma amounts do not give effect to (i) the impact on net revenues from volume declines, resulting from pre-acquisition customer terminations at Spheris prior to the Spheris Acquisition, of $24.6 million and $2.4 million in net revenues for the year ended December 31, 2009 and the nine months ended September 30, 2010, respectively, and (ii) the full impact of cost savings and synergies resulting from the Spheris Acquisition, which we have implemented since the Spheris Acquisition and expect to yield $7.0 million of cost savings in the fourth quarter of 2010, representing an annualized benefit of $28.0 million. Our results for the nine months ended September 30, 2010 reflect $4.9 million of such cost savings. Adjusted EBITDA does not include earnings attributable to our investment in A-Life, which was sold in October 2010.

The following table presents a reconciliation of net income (loss) to Adjusted EBITDA for MedQuist Inc.:

	Years ended December 31, 2007	2008	2009
	(In thousands)		
Net income (loss)	$ (15,206)	$ (68,795)	$ 23,291
Income tax provision (benefit)	2,339	(16,513)	1,975
Interest (income) expense, net	(8,366)	(2,438)	134
Depreciation and amortization	16,499	17,504	15,672
Restructuring and acquisition-related charges	2,756	2,055	2,727
Acquisition-related charges			1,263
Cost of legal proceedings and settlements, net	6,083	19,738	14,843
Goodwill impairment charge		82,233	
Equity in income of affiliated companies [(a)]	(625)	(236)	(2,015)
Other income and accrual reversals [(b)]		(1,211)	(2,254)
Adjusted EBITDA	$ 3,480	$ 32,337	$ 55,636

(a) Represents proportionate share of earnings from our equity method investment in A-Life, which was sold in October 2010.

(b) Represents the reversal of certain accruals relating to certain litigation claims as a result of the expiration of the applicable statute of limitations.

The following table presents a reconciliation of net loss to Adjusted EBITDA for Spheris:

	Years ended December 31, 2007	2008	2009
	(In thousands)		
Net loss	$ (11,361)	$ (19,179)	$ (187,383)
Income tax provision (benefit)	(5,856)	3,870	(14,571)
Interest expense, net	21,171	19,104	17,439
Depreciation and amortization	24,273	21,613	7,230
Operational restructuring charges		484	775
Transaction charge			6,961
Cost of legal proceedings and settlements		425	1,246
Goodwill impairment charge			198,872
Adjusted EBITDA	$ 28,227	$ 26,317	$ 30,569

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Adjusted EBITDA is a metric used by management to measure operating performance. Adjusted EBITDA is defined as net income (loss) attributable to MedQuist Holdings Inc., MedQuist Inc. or Spheris, as applicable, plus net income (loss) attributable to noncontrolling interests, income taxes, interest expense, depreciation and amortization, cost of legal proceedings and settlements, acquisition related charges, goodwill impairment charge, restructuring charges, equity in income (loss) of affiliated company, asset impairment charges, severance costs, certain unusual or nonrecurring items and the effect of our PFS business. We present Adjusted EBITDA as a supplemental performance measure because we believe it facilitates operating performance comparisons from period to period and company to company by backing out the following:

- potential differences caused by variations in capital structures (affecting interest expense, net), tax positions (such as the impact on periods or companies for changes in effective tax rates), the age and book depreciation of fixed assets (affecting depreciation expense);
- the impact of non-cash charges, such as goodwill impairment charges and asset impairment charges; and
- the impact of unusual expenses or events, such as acquisition related charges, restructuring charges, severance costs and certain unusual or nonrecurring items.

Because Adjusted EBITDA facilitates internal comparisons of operating performance on a more consistent basis, we also use Adjusted EBITDA in measuring our performance relative to that of our competitors. Adjusted EBITDA is not a measurement of our financial performance under GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with GAAP or as an alternative to cash flow from operating activities as measures of our profitability or liquidity. We understand that although Adjusted EBITDA is frequently used by securities analysts, lenders and others in their evaluation of companies, Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- although depreciation is a non-cash charge, the assets being depreciated will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements; and
- other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider the following risk factors, as well as other information in this prospectus, before deciding whether to invest in shares of our common stock. The occurrence of any of the following risks, or other risks that are currently unknown or unforeseen by us, could harm our business, financial condition, results of operations or growth prospects. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks related to our business

We compete with many others in the market for clinical documentation solutions which may result in lower prices for our services, reduced operating margins and an inability to maintain or increase our market share.

We compete with other outsourced clinical documentation solutions companies in a highly fragmented market that includes national, regional and local service providers, as well as service providers with global operations. These companies have services that are similar to ours, and certain of these companies have substantially larger or have significantly greater financial resources than we do. We also compete with the in-house medical transcription staffs of our customers and potential customers. There can be no assurance that we will be able to compete effectively against our competitors or timely implement new products and services. Many of our competitors attempt to differentiate themselves by offering lower priced alternatives to our outsourced medical transcription services and customers could elect to utilize less comprehensive solutions than the ones we offer due to the lower costs of those competitive products. Some competition may even be willing to accept less profitable business in order to grow revenue. Increased competition and cost pressures affecting the healthcare markets in general may result in lower prices for our services, reduced operating margins and the inability to maintain or increase our market share.

Our business is dependent upon the continued demand for transcription services. If EHR companies produce alternatives to medical transcription that reduce the need for transcription, the demand for our solutions could be reduced.

EHR companies solutions for the collection of clinical data typically require physicians to directly enter and organize patient information through point-and-click templates which attempt to reduce or eliminate the need for transcription. A second alternative to conventional transcription involves a physician dictating a record of patient encounters and receiving a speech-recognized draft of their dictation, which the physician can self-edit. There is significant uncertainty and risk as to the demand for, and market acceptance of, these solutions for the creation of electronic clinical documentation. In the event that these and other solutions are successful and gain wide acceptance, the demand for our solutions could be reduced and our business, financial condition and results of operations could be adversely affected.

Our growth is dependent on the willingness of new customers to outsource and adopt our technology platforms.

We plan to grow, in part, by capitalizing on perceived market opportunities to provide our services to new customers. These new customers must be willing to outsource functions which may otherwise have been performed within their organizations, adopt new technologies and incur the time and expense needed to integrate those technologies into their existing systems. For example, the up-front cost and time involved in changing medical transcription providers or in converting from an in-house medical transcription department to an outsourced provider may be significant. Many customers may prefer to remain with their current provider or keep their transcription in-house rather than invest the time and resources required for the implementation of a new system. Also, as the maintenance of accurate medical records is a critical element of a healthcare provider s ability to deliver quality care to its patients and to receive proper and timely reimbursement for the services it renders, potential customers may be reluctant to outsource or change providers of such an important function.

Our success will depend on our ability to support existing technologies as well as to adopt and integrate new technology into our workflow platforms.

Our ability to remain competitive in the clinical documentation industry is based, in part, on our ability to develop, utilize and support technology in the services and solutions that we provide to our customers. As our customers advance technologically, we must be able to effectively integrate our solutions with their systems and provide advanced data collection technology. We also may need to develop technologies to provide service systems comparable to those of our competitors as they develop new technology. If we are unable to effectively develop and integrate new technologies, we may not be able to compete effectively with our competitors. In addition, if the cost of developing and integrating new technologies is high, we may not realize our expected return on investment.

Technology innovations in the markets that we serve may create alternatives to our products and result in reduced sales.

Technology innovations to which our current and potential customers might have access could reduce or eliminate their need for our products. A new or other disruptive technology that reduces or eliminates the use of one or more of our products could negatively impact the sale of these products. Our failure to develop, introduce or enhance products able to compete with new technologies in a timely manner could have an adverse effect on our business, results of operation and financial condition.

Many of our customer contracts are terminable at will by our customers, and our ability to sustain and grow profitable operations is dependent upon the ability to retain customers.

Many of our contracts can be terminated at will by our customers. If a significant number of our customers were to cancel or materially change their commitments with us, we could have significantly decreased revenue, which would harm our business, operating results and financial condition. We must, therefore, engage in continual operational support and sales efforts to maintain revenue stability and future growth with these customers. If a significant number of our customers terminate or fail to renew their contracts with us, our business could be negatively impacted if additional business is not obtained to replace the business which was lost.

Customer retention is largely dependent on providing quality service at competitive prices. Customer retention may be impacted by events outside of our control, such as changes in customer ownership, management, financial condition and competitors sales efforts. If we experience a higher than expected rate of customer attrition the resulting loss of business could adversely affect results of operations and financial condition.

Our indebtedness could adversely affect our ability to raise additional capital to fund our operations and limit our ability to pursue our growth strategy or to react to changes in the economy or our industry, and our debt obligations include restrictive covenants which may restrict our operations or otherwise adversely affect us.

After the consummation of the Corporate Reorganization, we will have approximately $269.8 million of indebtedness outstanding, consisting of $175.0 million of Term Loan debt under our Senior Secured Credit Facility, $85.0 million of Senior Subordinated Notes and other indebtedness consisting of capital leases and borrowings under other credit facilities, and we may incur additional indebtedness in the future. For the years 2010 through 2014, assuming no change in our indebtedness following this offering, we will have average, annual payment obligations of approximately $20.0 million for the principal amount of our indebtedness. Our net interest expense for the year ended December 31, 2009 and the nine months ended September 30, 2010 was $9.1 million and $12.0 million, respectively. Our variable rate indebtedness bears interest at LIBOR plus 5.50% with a LIBOR floor of 1.75%. Because the LIBOR floor is currently in effect, a 1.25% increase in LIBOR above current LIBOR levels would not increase our effective interest rate. A 1.0% increase in the interest rate above this floor would impact our interest expense by approximately

$2.0 million. This indebtedness could have important negative consequences to our business, including:

- increasing the difficulty of our ability to make payments on our outstanding debt;

- n increasing our vulnerability to general economic and industry conditions because our debt payment obligations may limit our ability to use our cash to respond to or defend against changes in the industry or the economy;
- n requiring a substantial portion of our cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flow to fund our operations, capital expenditures and future business opportunities;
- n limiting our ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes;
- n limiting our ability to pursue our growth strategy; and
- n placing us at a disadvantage compared to our competitors who are less leveraged and may be better able to use their cash flow to fund competitive responses to changing industry, market or economic conditions.

In addition, under our debt financing agreements, we must abide by certain financial and other restrictive covenants that, among other things, require us to maintain a minimum consolidated interest coverage ratio, a maximum total leverage ratio and a maximum consolidated senior leverage ratio. Upon a breach of any of the covenants in our debt financing agreements, the lenders could declare us to be in default and could further require any outstanding borrowings to be immediately due and payable, and terminate all commitments to extend further credit.

We are dependent on third party speech recognition software incorporated in certain of our technologies, and the inability to maintain, support or enhance such third party software over time could harm our business.

We license speech recognition software from third parties, both of which are competitors, that we incorporate into several of our key products and solutions. Our ability to continue to sell and support these products and solutions depends on continued support from these licensors. If we were to experience the loss of one of these licenses, the portion of our business that relies on this software would be adversely affected while we transitioned it to the software provided under our other license. If we were to experience the loss of both of these licenses at any one time, our business would be adversely affected until we identify, license and integrate, or develop and integrate equivalent software, which we may be unable to do. There can be no assurance that such third party licensors will continue to invest the appropriate levels of resources in the software to maintain and enhance the capabilities of the software and if such third party licensors do not continue to develop their products, the development of our solutions to meet the requirements of our customers and potential customers could be adversely affected.

Our use of open source and third-party software could impose unanticipated conditions or restrictions on our ability to commercialize our solutions.

We incorporate open source software into our workflow solutions platforms and other software solutions. Open source software is accessible, usable and modifiable by anyone, provided that users and modifiers abide by certain licensing requirements. Under certain conditions, the use of some open source code to create derivative code may obligate us to make the resulting derivative code available to others at no cost. The circumstances under which our use of open source code would compel us to offer derivative code at no cost are subject to varying judicial interpretations, and we cannot guarantee that a court would not require certain of our core technology be made available as open source code. The use of such open source code may also ultimately require us to take remedial action, such as replacing certain code used in our products, paying a royalty to use some open source code, making certain proprietary source code available to others or discontinuing certain products, any of which may divert resources away from our development efforts.

We may also find that we need to incorporate certain proprietary third-party technologies, including software programs, into our products in the future. Licenses to relevant third-party technologies may not be available to us on commercially reasonable terms, or at all. Therefore, we could face delays in product releases until equivalent technology can be identified, licensed or developed and integrated into our current products. Such delays could materially adversely affect our business, operating results and financial condition.

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Our ability to expand our business depends on our ability to effectively manage our domestic and offshore production capacity, which we may not be able to do.

Our success depends, in part, upon our ability to effectively manage our domestic and offshore production capacity, including our ability to attract and retain qualified MTs and MEs who can provide accurate medical transcription. We must also effectively manage our offshore transcription labor pool, which is currently located in India. If the productivity of our Indian employees does not outpace any increase in wages, our profits could suffer. Because medical transcription is a skilled position in which experience is valuable, we require that our MTs and MEs have substantial experience or receive substantial training before being hired. Competition may force us to increase the compensation and benefits paid to our MTs and MEs, which could reduce our operating margins and profitability.

If we fail to comply with contractual obligations and applicable laws and regulations governing the handling of patient identifiable medical information, we could suffer material losses or be adversely affected by exposure to material penalties and liabilities.

As part of the operation of our business, our customers provide us with certain patient identifiable medical information. Although many regulatory and governmental requirements do not directly apply to our operations, we and our hospital and other healthcare provider customers must comply with a variety of requirements related to the handling of patient information, including laws and regulations protecting the privacy, confidentiality and security of protected health information, or PHI. Most of our customers are covered entities under the Health Insurance Portability and Accountability Act of 1996, or HIPAA, and, in many of our relationships, we function as a business associate. The provisions of HIPAA, require our customers to have business associate agreements with us under which we are required to appropriately safeguard the PHI we create or receive on their behalf. Further, we and our customers are required to comply with HIPAA security regulations that require us and them to implement certain administrative, physical and technical safeguards to ensure the confidentiality, integrity and availability of electronic PHI, or EPHI. We are required by regulation and contract to protect the security of EPHI that we create, receive, maintain or transmit for our customers consistent with these regulations. To comply with our regulatory and contractual obligations, we may have to reorganize processes and invest in new technologies. We also are required to train personnel regarding HIPAA requirements. If we, or any of our MTs, MEs or subcontractors, are unable to maintain the privacy, confidentiality and security of the PHI that is entrusted to us, we and/or our customers could be subject to civil and criminal fines and sanctions and we could be found to have breached our contracts with our customers.

We are bound by business associate agreements with covered entities that require us to use and disclose PHI in a manner consistent with HIPAA in providing services to those covered entities. The HITECH Act, which was enacted into law on February 17, 2009 as part of the American Recovery and Reinvestment Act of 2009, or ARRA, enhances and strengthens the HIPAA privacy and security standards and makes certain provisions applicable to business associates of covered entities. As of February 17, 2010, some provisions of HIPAA apply directly to us. In addition, the HITECH Act creates new security breach notification requirements. The direct applicability of the new HIPAA Privacy and Security provisions will require us to incur additional costs and may restrict our business operations. In addition, these new provisions will result in additional regulations and guidance issued by the United States Department of Health and Human Services and will be subject to interpretation by various courts and other governmental authorities, thus creating potentially complex compliance issues for us and our customers.

As of February 17, 2010, we are directly subject to HIPAA s criminal and civil penalties for breaches of our privacy and security obligations.

Security and privacy breaches in our systems may damage customer relations and inhibit our growth.

The uninterrupted operation of our hosted solutions and the confidentiality and security of third-party information is critical to our business. Any failures or perceived failures in our security and privacy measures could have a material adverse effect on our financial position and results of operations. If we are unable to protect, or our customers perceive that we are unable to protect, the security and privacy of our electronic information, our growth could be materially adversely affected. A security or privacy breach may:

n cause our customers to lose confidence in our solutions;

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- harm our reputation;
- expose us to liability; and
- increase our expenses from potential remediation costs.

While we believe that we use proven applications designed for data security and integrity to process electronic transactions, there can be no assurance that our use of these applications will be sufficient to address changing market conditions or the security and privacy concerns of existing and potential customers.

Our business depends on the reliable and secure operation of our computer hardware, software, Internet applications and data centers.

A substantial portion of our business involves the transfer of large amounts of data to and from our workflow platforms. These workflow platforms, and their underlying technologies, are designed to operate and to be accessible by our customers 24 hours a day, seven days a week. Network and information systems, the Internet and other technologies are critical to our business activities. We have periodically experienced short term outages with our workflow platforms that have not significantly disrupted our business. However, a long term outage could adversely affect our ability to provide service to our customers.

We also perform data center and/or hosting services for certain customers, including the storage of critical patient and administrative data. Failure of public power and backup generators, impairment of telecommunications lines, a concerted denial of service cyber attack, damage (environmental, accidental, intentional or pandemic) to the buildings, the equipment inside the buildings housing our data centers, the customer data contained therein and/or the personnel trained to operate such facilities could cause a disruption in operations and negatively impact customers who depend on us for data center and system support services. Any interruption in operations at our data centers and/or customer support facilities could damage our reputation, cause us to lose existing clients, hurt our ability to obtain new customers, result in revenue loss, create potential liabilities for our customers and us and increase insurance and other operating costs.

Recent and proposed legislation and possible negative publicity may impede our ability to utilize offshore production capabilities.

Certain state laws that have recently been enacted and bills introduced in recent sessions of the U.S. Congress seek to restrict the transmission of personally identifiable information regarding a U.S. resident to any foreign affiliate, subcontractor or unaffiliated third party without adequate privacy protections or without providing notice of the transmission and an opportunity to opt out. Some of the proposals would require patient consent. If enacted, these proposed laws would impose liability on healthcare businesses arising from the improper sharing or other misuse of personally identifiable information. Some proposals would create a private civil cause of action that would allow an injured party to recover damages sustained as a result of a violation of the new law. A number of states have also considered, or are in the process of considering, prohibitions or limitations on the disclosure of medical or other information to individuals or entities located outside of the U.S. Further, as a result of concerns regarding the possible misuse of personally identifiable information, some of our customers have contractually limited our ability to use MTs and MEs located outside of the U.S. The effect of these proposals would be to limit our ability to utilize our lower-cost offshore production facilities for affected customers, which could adversely affect our operating margins.

Any change in legislation, regulation or market practices in the United States affecting healthcare or healthcare insurance may materially adversely affect our business and results of operations.

Over the past twenty years the U.S. healthcare industry has experienced a variety of regulatory and market driven changes to how it is operated and funded. Further changes, whether by government policy shift, insurance company changes or otherwise, may happen, and any such changes may adversely affect the U.S. healthcare information and services market. As business process outsourcing and off-shoring have grown in recent years, concerns have also grown about the impact of these phenomena on jobs in the United States. These concerns could drive government policy in a way which is disadvantageous to us. Further, if government regulation or market practices leads to fewer individuals seeking medical treatment, we could experience a decline in our processed volumes.

Our business, financial condition and results of operations could be adversely affected by the political and economic conditions in India.

A significant portion of our operations is located in India. Multiple factors relating to our Indian operations could have a material adverse effect on our business, financial condition and results of operations. These factors include:

- n changes in political, regulatory, legal or economic conditions;
- n governmental actions, such as restrictions on the transfer or repatriation of funds and foreign investments;
- n civil disturbances, including terrorism or war;
- n political instability;
- n public health emergencies;
- n changes in employment practices and labor standards;
- n local business and cultural factors that differ from our customary standards and practices; and
- n changes in tax laws.

In addition, the Indian economy may differ favorably or unfavorably from other economies in several respects, including the growth rate of GDP, the rate of inflation, resource self-sufficiency and balance of payments position. The Indian government has traditionally exercised and continues to exercise a significant influence over many aspects of the Indian economy. Further actions or changes in policy, including taxation, of the Indian central government or the respective Indian state governments could have a significant effect on the Indian economy, which could adversely affect private sector companies, market conditions and the success of our operations.

U.S. and Indian transfer pricing regulations require that any international transactions involving associated enterprises are undertaken at an arm s length price. Applicable income tax authorities review our tax returns and if they determine that the transfer prices we have applied are not appropriate, we may incur increased tax liabilities, including accrued interest and penalties, which would cause our tax expense to increase, possibly materially, thereby materially reducing our profitability and cash flows. Indian tax authorities reviewed our transfer pricing practices at Spheris India Pvt. Ltd. for tax years ended March 2004 and 2005, prior to our ownership of Spheris, and concluded that the transfer price was not at arms length. They assessed additional taxes for these years, which we have paid or fully reserved. However, we continue to dispute this assessment and the matter is currently under appeal.

We are exposed to fluctuations of the value of the Indian rupee against the U.S. dollar, which could adversely affect our operations.

Although our accounts are prepared in U.S. dollars, much of our operations are carried out in India with payments to staff and suppliers made in Indian Rupees. The exchange rate between the Indian Rupee and the U.S. dollar has changed substantially and could fluctuate in the future. Movements in the rate of exchange between the Indian Rupee and the U.S. dollar could result in increases or decreases in our costs and earnings, and may also affect the book value of our assets located outside the United States and the amount of our equity.

We are highly dependent on certain key personnel, and the loss of any or all of these key personnel may have an adverse impact upon future performance.

Our operations and future success are dependent upon the existence and expertise in this sector of certain key personnel. The loss of services of any of these individuals for any reason or our inability to attract suitable replacements would have a material adverse effect on the financial condition of our business and operations.

We have grown, and may continue to grow, through acquisitions, which could dilute existing stockholders and could involve substantial integration risks.

As part of our business strategy, we have in the past acquired, and expect to continue to acquire, other businesses and technologies. We may issue equity securities for future acquisitions, which would dilute existing stockholders,

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perhaps significantly depending on the terms of the acquisition. We may also incur additional debt in connection with future acquisitions, which may place additional restrictions on the ability to operate the business. Furthermore, prior acquisitions have required substantial integration and management efforts. Acquisitions involve a number of risks, including:

- difficulty in integrating the operations and personnel of the acquired businesses, including different and complex accounting and financial reporting systems;
- potential disruption of ongoing business and distraction of management;
- potential difficulty in successfully implementing, upgrading and deploying in a timely and effective manner new operational information systems and upgrades of finance and accounting systems;
- difficulty in incorporating acquired technology and rights into products and technology;
- unanticipated expenses and delays in completing acquired development projects and technology integration;
- management of geographically remote offices and operations;
- impairment of relationships with partners and customers;
- customers delaying purchases or seeking concessions pending resolution of integration between existing and newly acquired services or technology platforms;
- entering markets or types of businesses in which management has limited experience; and
- potential loss of customers or key employees of the acquired company.

As a result of these and other risks, we may not realize anticipated benefits from acquisitions. Any failure to achieve these benefits or failure to successfully integrate acquired businesses and technologies could materially and adversely affect our business and results of operations.

We will be subject to additional regulatory compliance requirements, including section 404 of the Sarbanes-Oxley Act of 2002, as a result of this offering. If we fail to maintain an effective system of internal controls, our reputation and our business could be harmed.

As a U.S. public company, our ongoing compliance with various rules and regulations, including the Sarbanes-Oxley Act of 2002, will increase our legal and finance compliance costs and will make some activities more time-consuming and costly. These rules and requirements may be modified, supplemented or amended from time to time. Implementing these changes may take a significant amount of time and may require specific compliance training of our personnel. For example, Section 404 of the Sarbanes-Oxley Act requires that our management report on, and our independent auditors attest to, the effectiveness of our internal control over financial reporting in our annual reports filed with the SEC. Section 404 compliance may divert internal resources and will take a significant amount of time and effort to complete. We may not be able to successfully complete the procedures and certification and attestation requirements of Section 404 by the time we will be required to do so. If we fail to do so, or if in the future our Chief Executive Officer, Chief Financial Officer or independent registered public accounting firm determines that our internal controls over financial reporting are not effective as defined under Section 404, we could be subject to sanctions or investigations by The NASDAQ Global Market, the SEC, or other regulatory authorities. As a result, investor perceptions of our company may suffer, and this could cause a decline in the market price of our common stock. Irrespective of compliance with these rules and regulations, including the requirements under the Sarbanes-Oxley Act, any failure of our internal controls could have a material adverse effect on our stated results of operations and harm our business and reputation. If we are unable to implement these changes effectively or efficiently, it could harm our operations, financial reporting or financial results and could result in an adverse opinion on internal controls from our independent auditors.

The historical and unaudited pro forma financial information included elsewhere in this prospectus may not be representative of our results as a combined company after the Spheris Acquisition, and accordingly, you have limited financial information on which to evaluate the combined company and your investment decision.

We and Spheris operated as separate companies prior to the Spheris Acquisition. We have had no prior history as a combined company and our operations have not previously been managed on a combined basis. The pro forma financial information included elsewhere in this prospectus, which was prepared in accordance with Article 11 of the SEC s Regulation S-X, is presented for informational purposes only and is not necessarily indicative of the financial position or results of operations that would have actually occurred had the Spheris Acquisition been completed at or as of the dates indicated, nor is it indicative of the future operating results or financial position of the combined company. The unaudited pro forma condensed combined consolidated statement of operations does not reflect future events that may occur after the Spheris Acquisition, including the potential realization of operating cost savings (synergies) or restructuring activities or other costs related to the planned integration of Spheris, and do not consider potential impacts of current market conditions on revenues, expense efficiencies or asset dispositions. The pro forma financial information presented in this prospectus is based in part on certain assumptions regarding the Spheris Acquisition that we believe are reasonable under the circumstances. We cannot assure you that our assumptions will prove to be accurate over time.

Our ability to use our net operating loss carryforwards may be limited.

As of December 31, 2009, we had approximately $130.0 million of federal net operating loss, or NOL, carryforwards to offset future taxable income, which will begin to expire in 2026 if not utilized, and approximately $250.0 million of state NOLs. Under the relevant federal and state tax provisions currently in effect, certain substantial cumulative changes in our ownership may further limit the amount of NOL carryforwards that can be utilized annually in the future to offset taxable income. Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, imposes limitations on a company s ability to use NOL carryforwards if such company experiences a more-than-50-percent ownership change, or an ownership change, over a three-year testing period. We believe that, as a result of this offering or as a result of future issuances of capital stock, it is possible that such an ownership change may occur. Although we do not currently anticipate a significant limitation as a result of an ownership change in connection with this offering, if we experience an ownership change in connection with or subsequent to this offering, our ability to use our United States federal NOL carryforwards in any future periods may be restricted. If we are limited in our ability to use our NOL carryforwards, we will pay more taxes than if we were able to utilize such NOL carryforwards fully. As a result, any inability to use our NOL carryforwards could adversely affect our financial condition and results of operations.

We may not own 100% of the stock of certain of our subsidiaries.

Unless the Private Exchange closes and the Registered Exchange Offer is completed at the highest acceptance level, we will not wholly own MedQuist Inc., and our ability to gain 100% ownership of MedQuist Inc. could be adversely affected by provisions of New Jersey corporate law described below, that limit certain business combinations between corporations such as MedQuist Inc. organized in New Jersey and their significant stockholders. If we do not wholly own MedQuist Inc., our interests in MedQuist Inc. could conflict with the interests of MedQuist Inc. s remaining noncontrolling stockholders. Also, MedQuist Inc. may need to seek the consent of its noncontrolling stockholders and/or independent members of its board of directors in order to take certain actions, and those consents may not be forthcoming. Our costs could also be adversely affected by our inability to fully integrate MedQuist Inc. into our consolidated operations and management structure.

Section 14A:10A of the New Jersey Business Corporation Act, or the NJBCA, prohibits certain business combinations involving New Jersey corporations and an interested stockholder. An interested stockholder is defined generally as a stockholder who is the beneficial owner, directly or indirectly, of 10% or more of the voting power of the outstanding stock of the corporation. The NJBCA prohibits business combinations subject to the NJBCA for a period of five years after the date the interested stockholder acquired its stock, unless the transaction was approved by the corporation s board of directors prior to the time the interested stockholder acquired its shares. After the five year period expires, the prohibition on business combinations with an interested stockholder continues unless: (i) the business combination is approved by the board of directors of the target corporation; (ii) the business combination is approved by a vote of two-thirds of the voting stock not owned by the interested stockholder; or (iii) the stockholders of the corporation receive a price in accordance with a fair price formula set forth in the NJBCA.

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In August 2008, we, through our subsidiary, CBay Inc., acquired over 10% of the outstanding shares of MedQuist, Inc., a New Jersey corporation, from Royal Philips Electronics. The board of directors of MedQuist Inc. did not approve future business combinations with us or CBay Inc. prior to that acquisition for purposes of the provisions of NJBCA Section 14A:10A and, accordingly, we believe that these provisions of the NJBCA apply to CBay Inc. and us.

CBay Inc. and we are Delaware corporations. If CBay Inc. or we own at least 90% of MedQuist Inc. following the Registered Exchange Offer, we may be able to utilize a short-form back-end merger through Section 267 of the Delaware General Corporation Law, or the DGCL. Under Section 267 of the DGCL, if (i) at least 90% of the outstanding shares of each class of stock of a corporation is owned by an entity, (ii) one of the entities is a Delaware corporation and (ii) the entity that is not a Delaware corporation is an entity of a state, the laws of which do not forbid such merger, the entity having such stock ownership may either merge the entity into itself and assume all of its obligations, or merge itself into the other entity. If the required 90% threshold is reached, Section 267 of the DGCL would permit us to merge MedQuist Inc. into us or CBay Inc. without MedQuist Inc. shareholder approval if such merger is not forbidden by the laws of New Jersey.

Section 14A:10-7(4) of the NJBCA governs short-form mergers between a New Jersey corporation and a foreign corporation. This provision allows a non-New Jersey corporation owning at least 90% of the outstanding shares of each class and series of a New Jersey corporation to merge the other corporation into itself, or merge itself into any subsidiary corporation, without approval of the shareholders of either corporation, though the board of the parent corporation must approve a plan of merger. However, the New Jersey courts have not interpreted Section 14A:10-7(4) in the context of Section 14A:10A since the adoption of New Jersey s Shareholder Protection Act.

We have made no determination whether, if the conditions of Section 267 of the DGCL and Section 14A:10-7(4) of the NJBCA are met in relation to MedQuist Inc., we will engage in a merger with MedQuist Inc. No assurance can be given regarding whether or when, if ever, we will acquire 100% ownership of MedQuist Inc.

Risks related to our common stock

Our stock price may fluctuate significantly.

An active U.S. public market for our common stock may not develop or be sustained after the completion of this offering. While our common stock was formerly listed on AIM, we have delisted from AIM and January 27, 2011 was the last day on which our shares traded on AIM. In connection with this offering, we have applied to list our shares on the NASDAQ Global Market under the symbol MEDH. We will negotiate and determine the offering price of the shares offered hereby with the underwriters based on several factors. This price may vary from the market price of our common stock after this offering. You may be unable to sell your shares of common stock at or above the initial offering price. The stock market, particularly in recent years, has experienced significant volatility, and the volatility of stocks often does not relate to the operating performance of the companies represented by the stock. Factors that could cause volatility in the market price of our common stock include:

n market conditions affecting our customers businesses, including the level of mergers and acquisitions activity;
n the loss of any major customers or the acquisition of new customers for our services;
n announcements of new services or functions by us or our competitors;
n actual and anticipated fluctuations in our quarterly operating results;
n rumors relating to us or our competitors;
n actions of stockholders, including sales of shares by our directors and executive officers;
n additions or departures of key personnel; and
n developments concerning current or future strategic alliances or acquisitions.

These and other factors may cause the market price and demand for our common stock to fluctuate substantially, which may limit or prevent investors from readily selling their shares of common stock and may otherwise negatively affect the liquidity of our common stock. In addition, in the past, when the market price of a stock has been volatile, holders of that stock have instituted securities class action litigation against the company that issued the stock. If any of our stockholders brought a lawsuit against us, we could incur substantial costs defending the lawsuit. Such a lawsuit could also divert the time and attention of our management.

Our largest stockholder will exercise significant control over our company.

After the Corporate Reorganization, affiliates of SAC PCG will beneficially own in the aggregate shares representing approximately 34.0% of our outstanding capital stock. Furthermore, we have entered into a Stockholders Agreement with affiliates of SAC PCG pursuant to which they will have the right to nominate to our board three, two or one directors for so long as they hold at least 20%, 10% or 5% of our voting power, respectively. This concentration of ownership of our shares and the Stockholders Agreement could delay or prevent proxy contests, mergers, tender offers, open-market purchase programs or other purchases of shares of our common stock that might otherwise give you the opportunity to realize a premium over the then-prevailing market price of our common stock. This concentration of ownership may also adversely affect our stock price.

Our certificate of incorporation contains a provision renouncing our interest and expectancy in certain corporate opportunities, which could adversely affect our business or prospects.

Our certificate of incorporation provides that we will renounce any interest or expectancy in, or in being offered an opportunity to participate in, any business opportunity that may be from time to time presented to (i) members of our board of directors who are not our employees, (ii) their respective employers and (iii) affiliates of the foregoing (other than us and our subsidiaries), other than opportunities expressly presented to such directors solely in their capacity as our director. This provision will apply even if the opportunity is one that we might reasonably have pursued or had the ability or desire to pursue if granted the opportunity to do so. Furthermore, no such person will be liable to us for breach of any fiduciary duty, as a director or otherwise, by reason of the fact that such person pursues or acquires any such business opportunity, directs any such business opportunity to another person or fails to present any such business opportunity, or information regarding any such business opportunity. None of such persons or entities will have any duty to refrain from engaging directly or indirectly in the same or similar business activities or lines of business as us or any of our subsidiaries. See Description of Capital Stock.

For example, affiliates of our non-employee directors may become aware, from time to time, of certain business opportunities such as acquisition opportunities and may direct such opportunities to other businesses in which they have invested or advise, in which case we may not become aware of or otherwise have the ability to pursue such opportunities. Further, such businesses may choose to compete with us for these opportunities. As a result, our renouncing our interest and expectancy in any business opportunity that may be from time to time presented to such persons or entities could adversely impact our business or prospects if attractive business opportunities are procured by such persons or entities for their own benefit rather than for ours.

Future sales of our shares by our existing stockholders could cause our stock price to decline.

Upon the completion of this offering, and, after giving effect to (i) the Private Exchange, (ii) the Registered Exchange Offer, assuming a full exchange and (iii) the issuance of 959,355 shares of our common stock pursuant to the Consulting Services Agreement, we will have outstanding 51.1 million shares of common stock, or 52.2 million shares if the underwriters exercise their overallotment option, in each case, assuming no exercise of outstanding options. If our existing stockholders sell, or indicate an intent to sell, substantial amounts of our common stock in the public market after the consummation of this offering, the trading price of our common stock could decline significantly.

Of the 51.1 million shares of our common stock outstanding upon the completion of the Corporate Reorganization, (i) 23.7 million shares will be subject to a 180-day contractual lock-up, (ii) 3.8 million shares will be subject to a 90-day contractual lock-up, (iii) 3.8 million shares will be subject to a 45-day contractual lock-up and (iv) 19.9 million shares, including the 7.8 million shares being sold in this offering and the 6.7 million shares being issued in the Registered Exchange Offer, assuming a full exchange will not be subject to any contractual lock-up. If our existing stockholders sell, or indicate an intent to sell, substantial amounts of our common stock in the public market after the applicable contractual lock-up and other applicable legal restrictions on resale discussed in this prospectus lapse, the trading price of our common stock could decline significantly. Lazard Capital Markets LLC and Macquarie Capital (USA) Inc. may, in their sole discretion, permit our officers, directors, employees and other stockholders to sell shares prior to the expiration of the lock-up agreements. We cannot predict the effect, if any, that public sales of these shares or the availability of these shares for sale will have on the market price of our common stock.

In addition, the shares subject to outstanding options under our equity incentive plans and the shares reserved for future issuance under our equity incentive plans will become eligible for sale in the public market in the future, subject to certain legal and contractual limitations. Moreover, 180 days after the completion of this offering, holders of approximately 21.3 million shares of our common stock will have the right to require us to register these shares under the Securities Act of 1933, as amended, or the Securities Act, pursuant to registration rights (17.3 million under demand registration rights and 4.0 million under piggyback registration rights). If our existing stockholders sell substantial amounts of our common stock in the public market, or if the public perceives that such sales could occur, this could have an adverse impact on the market price of our common stock, even if there is no relationship between such sales and the performance of our business.

Provisions of Delaware law and our charter documents could delay or prevent an acquisition of our company, even if the acquisition would be beneficial to our stockholders, and could make it more difficult for you to change management.

Provisions of Delaware law and our certificate of incorporation and by-laws may discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable, including transactions in which stockholders might otherwise receive a premium for their shares. These provisions may also prevent or delay attempts by stockholders to replace or remove our current management or members of our board of directors. These provisions include:

- a classified board of directors;
- limitations on the removal of directors;
- advance notice requirements for stockholder proposals and nominations;
- the inability of stockholders to act by written consent or to call special meetings;
- the ability of our board of directors to make, alter or repeal our by-laws; and
- the authority of our board of directors to issue preferred stock with such terms as our board of directors may determine.

In addition, we are subject to Section 203 of the Delaware General Corporation Law, which limits business combination transactions with stockholders of 15% or more of our outstanding voting stock that our board of directors has not approved. These provisions and other similar provisions make it more difficult for stockholders or potential acquirers to acquire us without negotiation. These provisions may apply even if some stockholders may consider the transaction beneficial to them.

As a result, these provisions could limit the price that investors are willing to pay in the future for shares of our common stock. These provisions might also discourage a potential acquisition proposal or tender offer, even if the acquisition proposal or tender offer is at a premium over the then current market price for our common stock.

If equity research analysts do not publish research or reports about our business or if they issue unfavorable commentary or downgrade our common stock, the price of our common stock could decline.

The trading market for our common stock will rely in part on the research and reports, that equity research analysts publish about us and our business. The price of our common stock could decline if one or more securities analysts downgrade our common stock or if those analysts issue other unfavorable commentary or cease publishing reports about us or our business.

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We do not currently intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We do not intend to pay any cash dividends on our common stock for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth, including growth through acquisitions. The payment of any future dividends will be determined by the board of directors in light of conditions then existing, including our earnings, financial condition and capital requirements, business conditions, corporate law requirements and other factors. See Dividend Policy.

We may apply the proceeds of this offering to uses that do not improve our operating results or increase the value of your investment.

We currently intend to use a substantial portion of the net proceeds from this offering for general corporate purposes, including working capital and other general corporate purposes. We may also use a portion of the net proceeds for the execution of our strategic plans, either through the acquisition of companies or by other means that we believe will complement our business. However, we do not have more specific plans for the net proceeds from this offering. Our board of directors and management will have broad discretion in how we use the net proceeds of this offering and may spend the proceeds in a manner that our stockholders do not deem desirable. These proceeds could be applied in ways that do not improve our operating results or increase the value of your investment.

Special Note Regarding Forward-Looking Statements

This prospectus contains forward-looking statements within the meaning of the federal securities laws. All statements other than statements of historical facts included in this prospectus, including statements regarding our future financial position, economic performance and results of operations, as well as our business strategy, and projected costs and plans and objectives of management for future operations, and the information referred to under Management s Discussion and Analysis of Financial Condition and Results of Operations, are forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology, such as may, will, expect, intend, estimate, anticipate, believe or continue or similar terminology.

Such forward-looking statements include but are not limited to statements regarding:

- potential synergies from the acquisition of Spheris;
- our ability to adopt and integrate new technologies;
- our expectation as to the future growth of the healthcare industry;
- increases in the productivity of MTs and MEs in order to outpace the decline in prices for medical transcription;
- customer retention;
- potential benefits of our size and scale;
- our ability to develop and adopt new technologies;
- our ability to gain new customers;
- our ability to increase sales;
- our intended use of proceeds from this offering; and
- our ability to consummate the Private Exchange and the Registered Exchange Offer.

The preceding list is not intended to be an exhaustive list of all of our forward-looking statements. Forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management s beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, you are cautioned that any forward-looking statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Although we believe that the expectations reflected in our forward-looking statements are reasonable as of the date made, expectations may prove to have been materially different from the results expressed or implied by such forward-looking statements. Unless otherwise required by law, we also disclaim any obligation to update our view of any such risks or uncertainties or to announce publicly the result of any revisions to the forward-looking statements made in this prospectus.

All written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements. You should evaluate all forward-looking statements made in this prospectus in the context of these risks and uncertainties.

Corporate Reorganization

Recapitalization Transactions

On October 1, 2010, MedQuist Inc., as borrower, and our subsidiaries, MedQuist Transcriptions, Ltd. and CBay Inc., as co-borrowers and guarantors, and we and certain of our other subsidiaries, as guarantors, entered into the Senior Secured Credit Facility with General Electric Capital Corporation, as administrative agent, and the lenders party thereto, providing for (i) a $200.0 million Term Loan and (ii) a $25.0 million revolving credit facility. On September 30, 2010, MedQuist Inc., as issuer, and our subsidiaries, MedQuist Transcriptions, Ltd. and CBay Inc., as co-issuers and guarantors, and we and certain of our other subsidiaries, as guarantors, entered into a Note Purchase Agreement with BlackRock Kelso Capital Corporation, PennantPark Investment Corporation, Citibank, N.A., and THL Credit, Inc. providing for the issuance of $85.0 million aggregate principal amount of 13% Senior Subordinated Notes due 2016. Interest on the Senior Subordinated Notes is payable in quarterly installments at the issuers option at either (i) 13% in cash or (ii) 12% in cash plus 2% in the form of additional Senior Subordinated Notes. See Description of Indebtedness for a more detailed description of the Senior Secured Credit Facility and the Senior Subordinated Notes.

The closing and funding of the Term Loan and the Senior Subordinated Notes occurred on October 14, 2010. MedQuist Inc. used the proceeds to repay $80.0 million of indebtedness under its Acquisition Credit Facility, to repay $13.6 million of indebtedness under the Acquisition Subordinated Promissory Note it issued in connection with the Spheris Acquisition and to pay a $176.5 million special dividend to its stockholders. We received $122.6 million of this special dividend and used $104.1 million to redeem our 6% Convertible Notes, and $3.7 million to extinguish certain other lines of credit.

Private Exchange

We have entered into an Exchange Agreement with certain of MedQuist Inc. s noncontrolling stockholders that currently hold in the aggregate approximately 12.7% of MedQuist Inc. s outstanding shares. Pursuant to the Exchange Agreement, those MedQuist Inc. stockholders will receive one share of our common stock for each MedQuist Inc. share and will enter into a stockholders agreement with us that, among other things, provides them with registration rights and contains provisions regarding their voting in the election of our directors. The closing under the Exchange Agreement is conditioned upon, among other conditions, our completion of an initial public offering and the listing of our shares on The NASDAQ Global Market and would increase our ownership in MedQuist Inc. from 69.5% to 82.2%.

Registered Exchange Offer

On October 18, 2010, we filed with the SEC a registration statement on Form S-4 in order to offer those noncontrolling MedQuist Inc. stockholders that did not participate in the Private Exchange shares of our common stock in exchange for their MedQuist Inc. shares. Assuming the Private Exchange is consummated, a full exchange in the Registered Exchange Offer would increase our ownership in MedQuist Inc. from 82.2% to 100.0%. We can give no assurance regarding the level of participation in the Registered Exchange Offer.

Redomiciliation and share conversion

On January 27, 2011, we changed our name from CBaySystems Holdings Limited to MedQuist Holdings Inc. and redomiciled from a British Virgin Islands company to a Delaware corporation. In connection with our redomiciliation, we adjusted the number of our shares outstanding through a reverse share split, pursuant to which every 4.5 shares of our common stock outstanding prior to our redomiciliation was converted into one share of our common stock upon our redomiciliation. Our redomiciliation and the conversion resulted in no change to our stockholders relative ownership interests in us. Unless otherwise noted, all information regarding our shares of common stock and all per share information presented herein gives effect to the conversion.

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Use of Proceeds

We estimate that the net proceeds from this offering, after deducting the underwriting discounts and commissions and estimated offering expenses, will be approximately $28.5 million, assuming an initial public offering price of $11.00 per share, the midpoint of the estimated price range set forth on the cover page of this preliminary prospectus. A $1.00 increase (decrease) in the assumed initial public offering price of $11.00 per share would increase (decrease) the net proceeds to us from this offering by approximately $3.3 million, assuming the number of shares offered by us, as set forth on the cover page of this preliminary prospectus, remains the same. A 100,000 share increase (decrease) in the number of shares of common stock sold by us in this offering would increase (decrease) the net proceeds to us from this offering by approximately $1.0 million, assuming an initial public offering price per share equal to the midpoint of the estimated price range set forth on the cover page of this preliminary prospectus and after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We intend to use the net proceeds from this offering for working capital and other general corporate purposes. We may also use a portion of the net proceeds for the acquisition of complementary companies or businesses, although we currently do not have any acquisition or investment planned. We will not receive any proceeds from the sale of shares of common stock by the selling stockholders.

The primary purposes of this offering are to raise additional capital and create a U.S. public market for our common stock, which we hope will provide for greater liquidity than the trading market on AIM and, in turn, allow potential future access to the U.S. public markets should we need more capital in the future. In addition, other purposes of the offering are to increase the profile and prestige of our company with existing and possible future customers, vendors and strategic partners and make our stock more valuable and attractive to our employees and potential employees for compensation purposes.

Dividend Policy

We currently expect to retain future earnings, if any, for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. Payments of future dividends, if any, will be at the sole discretion of our board of directors after taking into account various factors, including our business, operating results and financial condition, current and anticipated cash needs, plans for expansion and any legal or contractual limitations on our ability to pay dividends. Our ability to pay dividends on our common stock is limited by the covenants of the agreements governing our indebtedness and may be further restricted by any future debt or preferred securities. See Description of Indebtedness.

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Capitalization

The following table sets forth our capitalization as of September 30, 2010:

- on an actual basis;
- on a pro forma basis to give effect to the Corporate Reorganization (but excluding the common stock offered hereby), the reclassification for discontinued operations and the issuance of stock pursuant to the Consulting Services Agreement; and
- on a pro forma as adjusted basis to give effect to the completion of this offering.

You should read this table together with the information contained in this prospectus, including Corporate Reorganization, Use of Proceeds, Unaudited Pro Forma Condensed Combined Financial Information, Selected Consolidated Financial and Other Data and Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and the related notes thereto included elsewhere in this prospectus.

	As of September 30, 2010		
	Actual	Pro forma [5]	Pro forma as adjusted
	($ in thousands)		
Cash and cash equivalents [1]	$ 24,025	$ 35,253	$ 63,758
Short-term debt [2]	36,224	22,949	22,949
Long-term debt			
Term loans	1,075	343	343
Senior Secured Credit Facility	55,000	185,000	185,000
Senior Subordinated Notes	13,898	85,000	85,000
6% Convertible Notes	96,419		
Other debt [3]	1,556	1,556	1,556
Total debt	204,172	294,848	294,848
Equity			
Stockholders equity:			
Preferred stock: 25 million shares authorized, none issued or outstanding			
Common stock: 300 million shares authorized, 35.2 million shares issued and outstanding (actual); 47.6 million shares issued and outstanding (pro forma); 51.1 million shares issued and outstanding (pro forma as adjusted)	3,516	4,759	5,109
Additional paid in capital	149,100	134,487	162,642
Accumulated deficit	(109,261)	(123,154)	(123,154)
Accumulated other comprehensive loss	(385)	(385)	(385)
Total stockholders equity	42,970	15,707	44,212
Noncontrolling interests	40,598	405	405
Total equity	83,568	16,112	44,617
Total capitalization [4]	$ 287,740	$ 310,960	$ 339,465

(1) Pro forma as adjusted gives effect to $2.5 million of a total $5.0 million payment to SAC PCG in connection with the Corporate Reorganization, does not reflect $19.5 million in proceeds received from our sale of our investment in A-Life, which was sold in October 2010 and $13.5 million in proceeds received from the sale of the PFS business in December 2010, and does not reflect our $25.0 million repayment of a portion of our Term Loan borrowings in January 2011.

(2) Short-term debt includes amount outstanding under our short-term credit facilities, the current portion of long-term borrowings and the current portion of capital lease obligations.

(3) Other debt includes capital lease obligations and indebtedness outstanding under our credit agreement with ICICI Bank and with IndusInd Bank.

(4) A $1.00 increase (decrease) in the assumed initial public offering price of $11.00 per share would increase (decrease) total stockholders capital and total capitalization by approximately $3.3 million, assuming the number of shares offered by us, as set forth on the cover page of this preliminary prospectus, remains the same and after deducting the estimated underwriting discounts and estimated expenses related to this offering payable by us. A 100,000 share increase (decrease) in the number of shares of common stock sold by us in this offering would increase (decrease) the net proceeds to us from this offering by approximately $1.0 million, assuming an initial public offering price per share equal to the midpoint of the estimated price range set forth on the cover page of this preliminary prospectus and after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

(5) Pro forma basis reflects (i) the $200.0 million borrowings under the Term Loan, (ii) the issuance of $85.0 million of Senior Subordinated Notes, (iii) our repayment of the 6% Convertible Notes, (iv) the issuance of 4.8 million shares of our common stock in the Private Exchange, (v) the issuance of 6.7 million shares of our common stock in the Registered Exchange Offer, assuming a full exchange and (vi) the issuance of 959,355 shares of our common stock pursuant to the Consulting Services Agreement.

Unaudited Pro Forma Condensed Combined Financial Information

The following unaudited pro forma condensed consolidated financial information includes our unaudited pro forma condensed combined statements of operations for the year ended December 31, 2009 and the nine months ended September 30, 2010 and our unaudited pro forma condensed consolidated balance sheet as of September 30, 2010. The unaudited pro forma condensed combined statements of operations and the unaudited pro forma condensed consolidated balance sheet have been derived from the historical consolidated financial information of us and Spheris, which are included elsewhere in this prospectus. The unaudited pro forma condensed combined statements of operations and the unaudited pro forma consolidated balance sheet gives effect to the reclassification for discontinued operations. See Unaudited Pro Forma Condensed Consolidated Financial Information Discontinued Operations.

The pro forma combined statements of operations and other operating data for the year ended December 31, 2009 and the nine months ended September 30, 2010 give effect to the following transactions as if they had occurred on January 1, 2009:

- the Spheris Acquisition and the incurrence by MedQuist Inc. of $113.6 million of debt to finance the Spheris Acquisition;
- the incurrence by MedQuist Inc. of $285.0 million of indebtedness under the Senior Secured Credit Facility and Senior Subordinated Notes, the simultaneous repayment of $80.0 million of indebtedness under the Acquisition Credit Facility, the repayment of $13.6 million of indebtedness under the Acquisition Subordinated Promissory Notes, the payment of a $176.5 million special dividend to MedQuist Inc. s stockholders, of which we received $122.6 million and the noncontrolling stockholders of MedQuist Inc. received $53.9 million, and the repayment by us, using the proceeds of such dividend, of $104.1 million to extinguish our 6% Convertible Notes including a $7.7 million premium on early prepayment and $3.7 million under certain of our other lines of credit;
- the issuance of 4.8 million shares of our common stock in exchange for 4.8 million shares of MedQuist Inc. common stock pursuant to the terms of the Exchange Agreement with certain noncontrolling stockholders of MedQuist Inc., which will increase our ownership in MedQuist Inc. from 69.5% to 82.2%;
- the issuance of 959,355 shares of our common stock pursuant to the Consulting Services Agreement; and
- the issuance of 6.7 million shares of our common stock in exchange for 6.7 million shares of MedQuist Inc. common stock, assuming a full exchange. This would increase our ownership in MedQuist Inc. from 82.2% to 100%.

The pro forma combined statements of operations and other operating data for the year ended December 31, 2009 and the nine months ended September 30, 2010 do not give effect to the following:

- the impact on net revenues from volume declines resulting from Spheris customer terminations prior to the Spheris Acquisition. The pro forma net revenues for the year ended December 31, 2009 and for the nine months ended September 30, 2010 include $24.6 million and $2.4 million, respectively, of net revenues associated with such terminations; and
- the full impact on Adjusted EBITDA of cost savings and synergies resulting from the Spheris Acquisition, which we have implemented since the Spheris Acquisition and expect to yield $7.0 million of cost savings in the fourth quarter of 2010, representing an annualized benefit of $28.0 million. Our results for the nine months ended September 30, 2010 reflect $4.9 million of such cost savings.

The pro forma balance sheet data as of September 30, 2010 gives effect to the Recapitalization Transactions, the Private Exchange, the Registered Exchange Offer, the reclassification for discontinued operations and the shares of our common stock issuable pursuant to the Consulting Services Agreement, as if they occurred as of September 30, 2010.

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The pro forma as adjusted balance sheet data as of September 30, 2010 also gives effect to the issuance of 3.5 million shares of common stock in this offering at an assumed initial public offering price of $11.00 per share, the midpoint of the price range shown on the cover of this prospectus, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us as if such transaction occurred as of September 30, 2010.

Our historical consolidated financial information has been adjusted in the unaudited pro forma condensed combined financial information to give effect to pro forma events that are (1) directly attributable to the Spheris Acquisition, the Corporate Reorganization the shares of our common stock issuable pursuant to the Consulting Services Agreement, (2) factually supportable and (3) with respect to the statements of operations, expected to have a continuing impact on the combined results. The pro forma information does not reflect revenue opportunities and cost savings that may be realized after the Spheris Acquisition. The pro forma financial information also does not reflect expenses related to integration activity that may be incurred by us in connection with the Spheris Acquisition.

The pro forma data is based upon available information and certain assumptions that we believe are reasonable. The pro forma data is for informational purposes only and does not purport to represent what our results of operations or financial position actually would have been if such events had occurred on the dates specified above and does not purport to project the results of operations or financial position for any future period or date. The unaudited pro forma condensed combined statements of operations and the unaudited pro forma condensed consolidated balance sheet should be read in conjunction with the accompanying notes, our historical consolidated financial statements, and related notes included elsewhere in this prospectus as adjusted for the acquisition of Spheris using the acquisition method of accounting.

You should read the following unaudited pro forma condensed consolidated financial information with our consolidated financial statements and related notes included elsewhere in this prospectus and the information under the section Capitalization, Selected Consolidated Financial and Other Data and Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this prospectus.

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MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries
Unaudited Pro Forma Condensed Combined Statement of Operations
For the year ended December 31, 2009

	Historical MedQuist Holdings Inc.[1]	Spheris	Spheris Acquisition pro forma adjustments	Spheris Acquisition pro forma combined	Recapitalization Transactions and Private Exchange pro forma adjustments	Pro forma before Registered Exchange Offer	Registered Exchange Offer pro forma adjustments	Pro fo
	(In thousands, except per share amounts)							
evenues	$ 353,932	$ 156,596		$ 510,528		$ 510,528		$ 510
f revenues	229,701	109,059		338,760		338,760		338
profit	124,231	47,537		171,768		171,768		171
ating expenses								
g, general and istrative	53,089	19,093		72,182		72,182		72
rch and development	9,604			9,604		9,604		9
ciation and zation	25,366	7,230	6,530 [a]	39,126		39,126		39
f legal proceedings ttlements	14,943	1,246		16,189		16,189		16
sition and uptcy related charges	1,246	6,961	(8,207) [d]					
vill impairment e		198,872	(198,872) [c]					
cturing charges	2,727	775		3,502		3,502		3
operating expenses	106,975	234,177	(200,549)	140,603		140,603		140
ating income	17,256	(186,640)	200,549	31,165		31,165		31
st expense, net	(9,019)	(17,439)	6,611 [b]	(19,847)	(11,643) [g]	(31,490)		(31
in income of ted companies	1,933			1,933		1,933		1
income	13	2,125		2,138		2,138		2
e (loss) from nuing operations e income taxes and ntrolling interests	10,183	(201,954)	207,160	15,389	(11,643)	3,746		3
	1,012	(14,571)	15,204 [e]	1,645	(1,273) [i]	372		

e tax provision fit)								
come (loss) from uing operations	9,171	(187,383)	191,956	13,744	(10,370)	3,374		3
ntinued operations								
rom discontinued Financial Services ess	(1,281)			(1,281)		(1,281)		(1
e tax provision	70			70		70		
e (loss) from tinued operations	(1,351)			(1,351)		(1,351)		(1
come (loss)	7,820	(187,383)	191,956	12,393	(10,370)	2,023		2
Net income table to ntrolling interests	(7,085)		(347) [f]	(7,432)	6,017 [h]	(1,415)	1,415 [k]	
come (loss) utable to MedQuist ngs Inc.	$ 735	$ (187,383)	$ 191,609	$ 4,961	$ (4,353)	$ 608	$ 1,415	$ 2
come (loss) per on share from uing operations								
	$ (0.02)			$ 0.10		$ 0.00		$
d	$ (0.02)			$ 0.10		$ 0.00		$
ss per common from discontinued tions								
	$ (0.04)			$ (0.04)		$ (0.03)		$ (
d	$ (0.04)			$ (0.04)		$ (0.03)		$ (
come (loss) per on share utable to MedQuist ngs Inc.								
	$ (0.06)			$ 0.06		$ (0.03)		$
d	$ (0.06)			$ 0.06		$ (0.03)		$
ted average shares nding:								
	34,692			34,692	5,736 [h,j]	40,428	6,694 [k]	47
d	34,692			34,692	5,736 [h,j]	40,428	6,694 [k]	47

(1) Our historical financial information gives effect to the reclassification for discontinued operations. See Unaudited Pro Forma Condensed Consolidated Financial Information Discontinued Operations.

The accompanying notes are an integral part of the unaudited pro forma condensed combined financial statements.

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MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries
Unaudited Pro Forma Condensed Combined Statement of Operations
For the nine months ended September 30, 2010

	Historical MedQuist Holdings Inc.[1]	Spheris	Spheris Acquisition pro forma adjustments	Spheris Acquisition pro forma combined	Recapitalization Transactions and Private Exchange pro forma adjustments	Pro forma before Registered Exchange Offer	Registered Exchange Offer pro forma adjustments	Pro form
	(In thousands, except per share amounts)							
t revenues	$ 306,792	$ 43,371		$ 350,163		$ 350,163		$ 350,16
st of revenues	194,886	31,343		226,229		226,229		226,22
oss profit	111,906	12,028		123,934		123,934		123,93
erating expenses								
ling, general and ninistrative	45,665	6,163		51,828		51,828		51,82
earch and development	8,945	192		9,137		9,137		9,13
preciation and ortization	23,745	1,850	1,992 (l)	27,587		27,587		27,58
st of legal proceedings settlements	2,785			2,785		2,785		2,78
quisition and kruptcy related charges	6,895	1,730	(8,625) (n)					
structuring charges	1,912			1,912		1,912		1,91
al operating expenses	89,947	9,935	(6,633)	93,249		93,249		93,24
erating income	21,959	2,093	6,633	30,685		30,685		30,68
erest expense, net	(11,970)	(3,459)	139 (m)	(15,290)	(8,948) (q)	(24,238)		(24,23
uity in income of liated companies	616			616		616		61
er income (expense)	559	(48)		511		511		51
ome (loss) from tinuing operations ore reorganization ns and income taxes	11,164	(1,414)	6,772	16,522	(8,948)	7,754		7,57
organization items		(5,762)	5,762 (n)					
	11,164	(7,176)	12,534	16,522	(8,948)	7,574		7,57

ome from continuing erations before income es and noncontrolling erests								
ome tax provision nefit)	(46)	(2,822)	2,800 [o]	(68)	37 [t]	(31)		(3
t income (loss) from tinuing operations	11,210	(4,354)	9,734	16,590	(8,985)	7,605		7,60
continued operations								
ome from discontinued ient Financial Services iness	426			426		426		42
ome tax (benefit)	(23)			(23)		(23)		(2
ome (loss) from continued operations	449			449		449		44
t income (loss)	11,659	(4,354)	9,734	17,039	(8,985)	8,054		8,05
s: Net (income) loss ibutable to controlling interests	(5,234)		(1,143) [p]	(6,377)	4,799 [r]	(1,578)	1,589 [u]	1
t income attributable MedQuist Holdings .	$ 6,425	$ (4,354)	$ 8,591	$ 10,662	$ (4,186)	$ 6,476	$ 1,589	$ 8,06
t income per common re from continuing erations								
ic	$ 0.11			$ 0.23		$ 0.15		$ 0.1
uted	$ 0.11			$ 0.23		$ 0.14		$ 0.1
t income per common re from discontinued erations								
ic	$ 0.01			$ 0.02		$ 0.01		$ 0.0
uted	$ 0.01			$ 0.01		$ 0.02		$ 0.0
t income per common re attributable to dQuist Holdings Inc.								
ic	$ 0.12			$ 0.25		$ 0.16		$ 0.1
uted	$ 0.12			$ 0.24		$ 0.16		$ 0.1
ighted average shares standing:								
ic	35,083			35,083	5,736 [r,s]	40,819	6,694 [u]	47,51
uted	35,893			35,893	5,736 [r,s]	41,629	6,694 [u]	48,32

(1) Our historical financial information gives effect to the reclassification for discontinued operations. See Unaudited Pro Forma Condensed Consolidated Financial Information Discontinued Operations.

The accompanying notes are an integral part of the unaudited pro forma condensed combined financial statements.

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MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries
Unaudited Pro Forma Condensed Consolidated Balance Sheet
As of September 30, 2010

	Historical MedQuist Holdings Inc. (1)	Recapitalization Transactions and Private Exchange pro forma adjustments	Pro forma before Registered Exchange Offer	Registered Exchange Offer pro forma adjustments	Pro forma
		(In thousands)			
ASSETS					
Current assets					
Cash and cash equivalents	$ 23,235	$ 12,018 (v,w,x,y)	$ 35,253		$ 35,253
Accounts receivable, net	72,482		72,482		72,482
Other current assets	19,544	927 (v)	20,471		20,471
Assets held for sale	14,645		14,645		14,645
Total current assets	129,906	12,945	142,851		142,851
Property and equipment, net	23,572		23,572		23,572
Goodwill	90,254		90,254		90,254
Other intangible assets, net	111,754		111,754		111,754
Deferred income taxes	3,873		3,873		3,873
Other assets	19,945	5,633 (v)	25,578		25,578
Total assets	$ 379,304	$ 18,578	$ 397,882		$ 397,882
LIABILITIES AND EQUITY					
Current liabilities					
Current portion of debt	$ 35,951	$ (13,002) (w)	$ 22,949		$ 22,949
Accounts payable	11,879		11,879		11,879
Accrued expenses and other current liabilities	33,635	(2,065) (v)	31,570		31,570
Accrued compensation	24,035		24,035		24,035
Deferred revenue	10,287		10,287		10,287
Liabilities held for sale	3,377		3,377		3,377
Total current liabilities	119,164	(15,067)	104,097		104,097
Due to related parties	2,850	(2,850) (z)			
Long term portion of debt	167,948	103,951 (w)	271,899		271,899
Deferred income taxes	3,972		3,972		3,972

Other non-current liabilities	1,802		1,802		1,802
Total liabilities	295,736	86,034	381,770		381,770
Equity					
MedQuist Holdings Inc. stockholders equity					
Common stock	3,516	574 (y,z)	4,090	669 (aa)	4,759
Additional paid-in capital	149,100	(5,946) (y,z)	143,154	(8,667) (aa)	134,487
Accumulated deficit	(109,261)	(13,893) (v,w)	(123,154)		(123,154)
Accumulated other comprehensive loss	(385)		(385)		(385)
Total MedQuist Holdings Inc. stockholders equity	42,970	(19,265)	23,705	(7,998)	15,707
Noncontrolling interests	40,598	(48,191) (x,y)	(7,593)	7,998 (aa)	405
Total equity	83,568	(67,456)	16,112		16,112
Total liabilities and equity	$ 379,304	$ 18,578	$ 397,882		$ 397,882

(1) Our historical financial information gives effect to the reclassification for discontinued operations. See Unaudited Pro Forma Condensed Consolidated Financial Information Discontinued Operations.

The accompanying notes are an integral part of the unaudited pro forma condensed consolidated balance sheet.

MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries

Notes to Unaudited Pro Forma Condensed Combined Financial Information

1. Basis of presentation

The unaudited pro forma condensed combined financial information is based on our and Spheris historical financial information, and it is prepared and presented pursuant to the regulations of the SEC regarding pro forma financial information. The 2009 unaudited pro forma condensed combined financial information includes our audited consolidated statement of operations for the year ended December 31, 2009. Spheris historical financial information includes its audited consolidated statement of operations for the year ended December 31, 2009. The 2010 presentation includes our unaudited historical consolidated statement of operations for the nine months ended September 30, 2010. Spheris historical information includes its unaudited historical consolidated statement of operations for the period January 1, 2010 through April 21, 2010, the date prior to the date of the Spheris Acquisition. The unaudited pro forma condensed combined statements of operations for the year ended December 31, 2009 and for the nine months ended September 30, 2010 also include the effects of the Corporate Reorganization and the shares of our common stock issuable under the Consulting Services Agreement. The unaudited pro forma condensed consolidated balance sheet as of September 30, 2010 is our historical unaudited consolidated balance sheet as of September 30, 2010 and is adjusted as if the Corporate Reorganization and the shares of our common stock issuable under the Consulting Services Agreement had occurred as of September 30, 2010.

The unaudited pro forma condensed combined financial information was prepared using the acquisition method of accounting under Financial Accounting Standards Board Accounting Standards Codification, or ASC, Topic 805, Business Combinations. ASC Topic 805 requires, among other things, that identifiable assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date, which is presumed to be the closing date of the Spheris Acquisition. Accordingly, the pro forma adjustments reflected in the accompanying unaudited pro forma condensed combined financial information may be materially different from the actual acquisition accounting adjustments required as of the acquisition date.

Under ASC Topic 820, Fair Value Measurements and Disclosures, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 specifies a hierarchy of valuation techniques based on the nature of the inputs used to develop the fair value measures. This is an exit price concept for the valuation of the asset or liability. In addition, market participants are assumed to be unrelated buyers and sellers in the principal or the most advantageous market for the asset or liability. Fair value measurements for an asset assume the highest and best use by these market participants. Many of these fair value measurements can be highly subjective, and it is also possible that other professionals, applying reasonable judgment to the same facts and circumstances, could develop and support a range of alternative estimated amounts.

Total acquisition-related transaction costs incurred by us are expensed in the periods in which the costs are incurred. Under ASC Topic 805, acquisition-related transaction costs (such as advisory, legal, valuation and other professional fees) are not included as components of consideration transferred but are accounted for as expenses in the periods in which the costs are incurred.

Reorganization items for Spheris directly relate to the process of reorganizing Spheris under voluntary Chapter 11 Bankruptcy petitions filed by Spheris and certain subsidiaries on February 3, 2010.

The historical consolidated financial information has been adjusted in the unaudited pro forma condensed combined financial information to give effect to pro forma events that are (1) directly attributable to the Corporate

Reorganization and the shares of our common stock issuable under the Consulting Services Agreement, (2) factually supportable, and (3) with respect to the statement of operations, expected to have a continuing impact on the combined results. The pro forma financial information does not reflect revenue opportunities and cost savings that we may realize after the Spheris Acquisition. No assurance can be given with respect to the estimated revenue opportunities and operating cost savings that may be realized as a result of the Spheris Acquisition. The pro forma financial information also does not reflect expenses related to integration activity or exit costs that may be incurred by us in connection with integrating the businesses.

MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries

Notes to Unaudited Pro Forma Condensed Combined Financial Information (Continued)

Certain Spheris amounts have been reclassified to conform to our presentation. These reclassifications had no effect on previously reported net income (loss). There were no material transactions between us and Spheris during the periods presented in the unaudited pro forma condensed combined financial information that would need to be eliminated.

2. Description of the Spheris Acquisition

On April 22, 2010, we, together with our MedQuist Inc. subsidiary, completed the acquisition of substantially all of the domestic assets of Spheris and the stock of certain of its foreign affiliates, pursuant to the terms of the Stock and Asset Purchase Agreement entered into on April 15, 2010. The purchase price consisted of approximately $98.8 million of cash and MedQuist Inc. s issuance of a promissory note, net of discount, totaling $13.6 million, or the Acquisition Subordinated Promissory Note. We had no prior material relationship with Spheris other than the agreements related to the Spheris Acquisition described elsewhere in this prospectus.

In connection with the Spheris Acquisition, MedQuist Transcriptions, Ltd., a subsidiary of MedQuist Inc., and certain other subsidiaries of MedQuist Inc., or collectively, the Loan Parties, entered into a credit agreement, or the Acquisition Credit Facility, with General Electric Capital Corporation, CapitalSource Bank, and Fifth Third Bank. The Acquisition Credit Facility provided for up to $100.0 million in senior secured credit facilities, consisting of a $50.0 million term loan, and a revolving credit facility of up to $50.0 million. The credit facilities were secured by a first priority lien on substantially all of the property of the Loan Parties. Borrowings under the revolving credit facility were able to be made from time to time, subject to availability under such facility, until the fourth anniversary of the closing date. Amounts borrowed under the Acquisition Credit Facility bore interest at a rate selected by MedQuist Transcriptions, Ltd. equal to the Base Rate or the Eurodollar Rate (each as defined in the Acquisition Credit Facility agreement) plus a margin. At September 30, 2010, the revolving credit facility and the term loan had interest rates of 6.25% and 6.75%, respectively. The Acquisition Credit Facility was repaid in full in October 2010 in connection with the Recapitalization Transactions.

In connection with the Spheris Acquisition, MedQuist Inc. also entered into the Acquisition Subordinated Promissory Note, with Spheris Inc. The note was to mature in five years from the date of the Spheris Acquisition. The face amount of the Acquisition Subordinated Promissory Note was $17.5 million with provisions for prepayment at discounted amounts, ranging from 77.5% of the principal if paid within six months, 87.5% from six to nine months, 97.5% from nine to twelve months, 102.0% between the first and second year, 101.0% between the second and third year and 100.0% thereafter. For purposes of the purchase price allocation, the note was discounted at 77.5% of the principal, or $13.6 million. The Acquisition Subordinated Promissory Note bore interest at 8.0% for the first six months. The Acquisition Subordinated Promissory Note was repaid at 77.5% of the face amount on October 14, 2010 in connection with the Recapitalization Transactions.

On April 22, 2010, we transferred the following consideration for the purchase of Spheris:

		(In thousands)
Cash consideration paid	$	98,834

Fair value of unsecured Acquisition Subordinated Promissory Note		13,570
Total consideration transferred	$	112,404

The Acquisition Subordinated Promissory Note would have matured in five years from the date of closing, and it had provisions for prepayment at discounted amounts. We estimated the fair value of the Acquisition Subordinated Promissory Note to be $13.6 million. The fair value was determined using a Monte Carlo simulation valuation model with the following key assumptions: volatility of 3.9% and cost of debt of 10.5%. The fair value of the Acquisition Subordinated Promissory Note is included in the total purchase price.

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MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries

Notes to Unaudited Pro Forma Condensed Combined Financial Information (Continued)

The following table summarizes the consideration the amounts of identified assets acquired and liabilities assumed at the acquisition date. The total amount assigned to identified intangible assets and the related amortization period is shown below:

	(In thousands)
Fair value of Spheris net assets acquired	
Cash	$ 797
Trade receivables	22,407
Other current assets	4,142
Property, plant and equipment	9,133
Deposits	1,036
Developed technology (included in intangibles)	11,390
Customer relationships (included in intangibles)	37,210
Trademarks and trade name (included in intangibles)	1,640
Goodwill	44,917
Trade and other payables	(20,268)
Identifiable assets acquired and liabilities assumed	$ 112,404

The total assigned to identified intangible assets and the related amortization period is as follows:

	Fair value (In thousands)	Amortization period
Developed technology	$ 11,390	9 years
Customer relationships	$ 37,210	7-9 years
Trademarks and Tradenames	$ 1,640	4 years
Goodwill	$ 44,917	Indefinite

The amounts and lives of the identified intangibles other than goodwill were valued at fair value. The analysis included a combination of the cost approach and an income approach. We used discount rates from 15% to 17%. The goodwill is attributable to the workforce and synergies expected to occur after the Spheris Acquisition. The goodwill and intangible assets are deductible for tax purposes.

We have performed a review of Spheris s accounting policies and procedures. As a result of that review, we did not identify any differences between the accounting policies and procedures of the two companies that, when conformed, would have a material impact on the future operating results.

3. The Recapitalization Transactions

On September 30, 2010, MedQuist Inc., as issuer, and our subsidiaries MedQuist Transcription Ltd., and CBay Inc., as co-issuers and guarantors, and we and certain of our other subsidiaries, as guarantors, entered into the Note Purchase Agreement for the issuance of $85.0 million aggregate principal amount of 13% Senior Subordinated Notes due 2016 to BlackRock Kelso Capital Corporation, PennantPark Investment Corporation, Citibank, N.A., and THL Credit, Inc. Interest on the notes is payable in quarterly installments at the issuers option at either (i) 13% in cash or (ii) 12% in cash plus 2% in the form of additional Senior Subordinated Notes. Closing and funding of the Senior Subordinated Notes occurred on October 14, 2010.

On October 1, 2010, MedQuist Inc., as borrower, and our subsidiaries MedQuist Transcriptions, Ltd., and CBay Inc., as co-borrowers and guarantors, and we and certain of our other subsidiaries, as guarantors, entered into the

MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries

Notes to Unaudited Pro Forma Condensed Combined Financial Information (Continued)

Senior Secured Credit Facility with General Electric Capital Corporation, as administrative agent, and the parties thereto, consisting of (i) a $200.0 million Term Loan and (ii) a $25.0 million Revolving Credit Facility. Closing and funding under the Term Loan occurred on October 14, 2010. The Senior Secured Credit Facility bears an interest rate of LIBOR plus 5.50% and a LIBOR floor of 1.75%. In addition, the Revolving Credit Facility bears a fee of 50 basis points on undrawn amounts.

The proceeds from the borrowings from the Term Loan and the Senior Subordinated Notes were used as follows:

- Repayment of the then outstanding indebtedness under the Acquisition Credit Facility of $80.0 million as of September 30, 2010. With the repayment on October 14, 2010, the Acquisition Credit Facility was terminated.
- Repayment of the Acquisition Subordinated Promissory Note on October 14, 2010. The amount paid to satisfy and extinguish the principal amount of the Acquisition Subordinated Promissory Note was $13.6 million.
- Declaration and payment of a special dividend on October 18, 2010 by MedQuist Inc. of $4.70 per share. The total amount of the MedQuist Inc. dividend was $176.5 million, of which $122.6 million was paid to us.
- Repayment on October 14, 2010 of our 6% Convertible Notes due to Philips. The 6% Convertible Notes were settled at $104.1 million including $7.7 million as a negotiated prepayment premium to the outstanding balance at the time of the repayment.
- Repayment of $3.7 million on certain of our other lines of credit.

The sources and uses of funds related to the Recapitalization Transactions are shown as if they had occurred as of September 30, 2010 (in millions):

Sources		Uses	
Term Loan	$ 200.0	Extinguishment of Acquisition Credit Facility	$ 80.0
Senior Subordinated Notes	85.0	Extinguishment of Acquisition Subordinated Promissory Note	13.6
		Extinguishment of 6% Convertible Notes (includes premium on early prepayment)	104.1
		Extinguishment of other debt agreements	3.7
		Dividend distribution to noncontrolling stockholders	53.9
		Cash to working capital	11.7
		Expenses (Private Exchange)	2.5
		Fees and expenses (Recapitalization Transactions)	15.5
Total Sources	$ 285.0	Total Uses	$ 285.0

MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries

Notes to Unaudited Pro Forma Condensed Combined Financial Information (Continued)

4. Private Exchange

On September 30, 2010, we entered into the Exchange Agreement with certain MedQuist Inc. stockholders that hold in the aggregate approximately 12.7% of MedQuist Inc. s outstanding shares. The Private Exchange would increase our ownership in MedQuist Inc. from 69.5% to 82.2%. Pursuant to the Exchange Agreement, those MedQuist Inc. stockholders will receive one share of our common stock for each MedQuist Inc. share and will enter into a stockholders agreement with us that, among other things, provides them with registration rights and contains provisions regarding their voting in the election of our directors. The closing under the Exchange Agreement is conditioned upon, among other conditions, our completion of an initial public offering, listing our shares on The NASDAQ Global Market and our redomiciliation in Delaware.

5. Registered Exchange Offer

On October 18, 2010, we filed with the SEC a registration statement on Form S-4 in order to offer those noncontrolling MedQuist Inc. stockholders who did not participate in the Private Exchange shares of our common stock in exchange for their MedQuist Inc. shares. The terms of the Registered Exchange Offer are described in such registration statement. Assuming the Private Exchange is consummated, a full exchange in the Registered Exchange Offer would increase our ownership in MedQuist Inc. from 82.2% to 100.0%.

6. Pro forma adjustments related to the unaudited pro forma condensed combined statement of operations for the year ended December 31, 2009

Spheris Acquisition pro forma adjustments:

a. Adjustment to reflect increased amortization of acquired intangibles as shown in the table below:

	Amount (In thousands)	Estimated life	Annual amortization
Trademarks and Tradenames	$ 1,640	4 years	$ 410
Developed technology	11,390	9 years	1,266
Customer relationships	37,210	7-9 years	4,651
	$ 50,240		$ 6,327

Additional depreciation of approximately $203,000 would be incurred related to fair value adjustments for certain tangible assets, primarily equipment and leasehold improvements.

b. Adjustment to reflect interest expense related to the Spheris Acquisition, as shown in the table below:

		(In thousands)
Acquisition Credit Facility interest	$	6,177
Interest on the Acquisition Subordinated Promissory Note		2,678
Amortization of deferred financing costs		1,973
		10,828
Less: Spheris historical interest expense		17,439
Adjustment to interest expense	$	(6,611)

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MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries

Notes to Unaudited Pro Forma Condensed Combined Financial Information (Continued)

The Acquisition Credit Facility and the Acquisition Subordinated Promissory Note were repaid in connection with the Recapitalization Transactions.

c. Adjustment to eliminate the 2009 Spheris goodwill impairment charge.

d. Adjustment to eliminate the direct incremental acquisition related costs incurred by us and Spheris for bankruptcy related and reorganization costs.

e. Adjustment to eliminate the historical income tax benefit of Spheris and to record the income tax provision of the combined entities at our historical effective tax rate in effect for the respective period. However, the effective tax rate of the combined company could be different depending on post-acquisition activities.

f. Adjustment to recognize noncontrolling interest in MedQuist Inc.

Recapitalization Transactions and the Private Exchange pro forma adjustments:

g. Adjustment to reflect interest expense as shown below:

		(In thousands)
Interest on Term Loan	$	14,500
Interest on Senior Subordinated Notes		11,050
Amortization of related deferred financing fees		3,044
Total		28,594
Less: Interest that would not have been incurred under the prior debt agreements, as follows:		
Acquisition Credit Facility		6,177
Acquisition Subordinated Promissory Note		2,678
6% Convertible Notes		5,447
Other debt agreements		676
Amortization of previous deferred financing fees		1,973
Adjustment to interest expense	$	11,643

The Term Loan bears a variable interest rate. Each 1/8% increase in the base rate (prime or LIBOR) would result in a $0.3 million increase in annual interest expense.

In connection with the Recapitalization Transactions and our repayment and termination of the Acquisition Credit Facility, Acquisition Subordinated Promissory Note and 6% Convertible Notes, we expensed $6.2 million of financing fees and recorded a loss of $7.7 million on the repayment of the 6% Convertible Notes. As these amounts are non recurring and resulted directly from the Recapitalization Transactions they have not been reflected in the pro forma adjustments.

h. In connection with the Private Exchange, noncontrolling stockholders holding 4.8 million shares of MedQuist Inc. have agreed to exchange their MedQuist Inc. shares for shares of our common stock whereby they will receive one share of our common stock for each share of MedQuist Inc., which will result in 4.8 million additional shares outstanding. After the Private Exchange, we will own approximately 82.2% of MedQuist Inc., and the noncontrolling interest will decrease from approximately 30.5% to 17.8%. As we hold a controlling interest in MedQuist Inc. before and after the Private Exchange, the exchange is recorded as an equity transaction. Additionally, we agreed to pay up to $2.5 million of expenses incurred by certain stockholders who are party to the Exchange Agreement. We will account for the payment as a capital transaction.

MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries

Notes to Unaudited Pro Forma Condensed Combined Financial Information (Continued)

Basic and diluted weighted average shares outstanding and net income (loss) per share amounts have been adjusted to reflect the issuance of 4.8 million shares of our common stock in exchange for MedQuist Inc. shares as if the shares had been outstanding from January 1, 2009.

i. Adjustment to record the income tax provision of the Recapitalization Transactions at our historical effective tax rate in effect for the respective period. However, the effective tax rate after the Recapitalization Transactions could be different.

j. Adjustment to satisfy our obligations under the Consulting Services Agreement. Based upon an $11.00 per share price for shares issuable, the number of shares of our common stock issuable would be 959,355 shares. Basic and diluted weighted average shares outstanding and net income (loss) per share amounts have been adjusted to reflect the issuance of 959,355 shares of our common stock.

Registered Exchange Offer pro forma adjustments:

k. Adjustments to eliminate the net income attributable to noncontrolling interests assuming 100% of the MedQuist Inc. stockholders participate in the Registered Exchange Offer.

Basic and diluted weighted average shares outstanding and net income (loss) per share amounts have been adjusted to reflect the issuance of 6.7 million of our shares issued in exchange for MedQuist Inc. shares as if the shares had been outstanding from January 1, 2009.

7. Pro forma adjustments related to the unaudited pro forma condensed combined statement of operations for the nine months ended September 30, 2010

Spheris Acquisition pro forma adjustments:

l. Adjustment to reflect increased amortization of acquired intangibles as shown in the table below:

	Amount	Estimated life (In thousands)	Annual amortization
Trademarks and Tradenames	$ 1,640	4 years	$ 410
Developed technology	11,390	9 years	1,266
Customer relationships	37,210	7-9 years	4,651
	$ 50,240		$ 6,327
Amortization for the period January 1, 2010 to April 21, 2010			$ 1,924

Additional depreciation of $68,000 would be incurred related to fair value adjustments for certain tangible assets, primarily equipment and leasehold improvements.

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MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries

Notes to Unaudited Pro Forma Condensed Combined Financial Information (Continued)

m. Adjustment to reflect interest expense related to the Spheris Acquisition, as shown in the table below:

	(In thousands)	
Acquisition Credit Facility interest January 1, 2010 to April 21, 2010	$	1,894
Interest on Acquisition Subordinated Promissory Note January 1, 2010 to April 21, 2010		821
Amortization of deferred financing costs		605
		3,320
Less: Spheris historical interest expense		3,459
Adjustment to interest expense	$	(139)

n. Adjustment to eliminate direct incremental acquisition related costs incurred by us and Spheris for bankruptcy related and reorganization costs.

o. Adjustment to eliminate the historical income tax benefit of Spheris and to record the income tax provision of the combined entities at our historical effective tax rate in effect for the respective period. However, the effective tax rate of the combined company could be different depending on post-acquisition activities.

p. Adjustment to reflect the noncontrolling interest in MedQuist Inc.

Recapitalization Transactions and Private Exchange pro forma adjustments

q. Adjustment to reflect interest expense as shown below:

	(In thousands)	
Interest on Term Loan for nine months	$	10,875
Interest on Senior Subordinated Notes for nine months		8,288
Amortization of related deferred financing fees		2,283
Total		21,446
Less: Interest that would not have been incurred under the prior debt agreements as follows:		
Acquisition Credit Facility		4,633
Acquisition Subordinated Promissory Note		2,008
6% Convertible Notes		4,085
Other debt agreements		1,480
Amortization of previous deferred financing fees		292

Adjustment to interest expense	$	8,948

The Term Loan bears a variable interest rate. Each 1/8% increase in the base rate (prime or LIBOR) would result in a $0.3 million increase in annual interest expense.

In connection with the Recapitalization Transactions and our repayment and termination of the Acquisition Credit Facility, Acquisition Subordinated Promissory Note and 6% Convertible Notes, we expensed $6.2 million of financing fees and recorded a loss of $7.7 million on the repayment of the 6% Convertible Notes. As these amounts are nonrecurring and resulted directly from the Recapitalization Transactions, they have not been reflected in the pro forma adjustment.

r. In connection with the Private Exchange, noncontrolling stockholders holding 4.8 million shares of MedQuist Inc. have agreed to exchange their MedQuist Inc. shares for shares of our common stock whereby they will

MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries

Notes to Unaudited Pro Forma Condensed Combined Financial Information (Continued)

receive one share of our common stock for each share of MedQuist Inc., which will result in 4.8 million additional shares outstanding. After the Private Exchange, we will own approximately 82.2% of MedQuist Inc., and the noncontrolling interest will decrease from approximately 30.5% to 17.8%. As we hold a controlling interest in MedQuist Inc. before and after the Private Exchange, the exchange is recorded as an equity transaction. Additionally, we agreed to pay up to $2.5 million of expenses incurred by certain stockholders who are party to the Exchange Agreement. We will account for the payment as a capital transaction.

Basic and diluted weighted average shares outstanding and net income (loss) per share amounts have been adjusted to reflect the issuance of 4.8 million shares of our common stock in exchange for MedQuist Inc. shares as if the shares had been outstanding from January 1, 2009.

s. Adjustment to satisfy our obligations under the Consulting Services Agreement. Based upon an $11.00 per share price, the number of shares of our common stock issuable would be 959,355 shares. Basic and diluted weighted average shares outstanding and net income loss per share amounts have been adjusted to reflect the issuance of 959,355 shares of our common stock.

t. Adjustment to record the tax provision of the Recapitalization Transactions at our historical effective tax rate in effect for the respective period. However, the effective tax rate after the Recapitalization Transactions could be different.

Registered Exchange Offer pro forma adjustments:

u. Adjustment to eliminate the net income attributable to noncontrolling interests assuming 100% of the MedQuist Inc. noncontrolling stockholders participate in the Registered Exchange Offer.

Basic and diluted weighted average shares outstanding and net income (loss) per share amounts have been adjusted to reflect the issuance of 6.7 million shares of our common stock in exchange for MedQuist Inc. shares as if the shares had been outstanding from January 1, 2009.

8. Pro forma adjustments related to the unaudited pro forma condensed consolidated balance sheet as of September 30, 2010

Recapitalization Transactions and Private Exchange pro forma adjustments

v. We incurred debt issuance costs of $15.5 million, of which $2.1 million was accrued and $700,000 of which was paid as of September 30, 2010, in connection with the Term Loan and Senior Subordinated Notes. Of the $15.5 million, $6.2 million was expensed and the balance was capitalized. These amounts will be capitalized as other assets. This adjustment reflects the incremental debt issuance costs to be capitalized.

w. The proceeds of the Term Loan and Senior Subordinated Notes were used to repay debt consisting of the Acquisition Credit Facility, the Acquisition Subordinated Promissory Note and other term loans and credit facilities maintained by us at the parent company level. We recorded a loss of $7.7 million on the

MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries

Notes to Unaudited Pro Forma Condensed Combined Financial Information (Continued)

extinguishment of our 6% Convertible Notes related to an early redemption premium. The adjustment is as follows:

	Current	Classification Non-current (In thousands)	Total
New Debt			
Term Loan	$ 15,000	$ 185,000	$ 200,000
Senior Subordinated Notes		85,000	85,000
Debt Repayment			
Acquisition Credit Facility	25,000	55,000	80,000
Acquisition Subordinated Promissory Notes		13,898	13,898
6% Convertible Notes		96,419	96,419
Other debt repayment	3,002	732	3,734
Net Adjustment	$ (13,002)	$ 103,951	$ 90,949

x. Adjustment reflects the dividend paid to noncontrolling stockholders of MedQuist Inc. totaling $53.9 million which reduces our noncontrolling interest.

y. Reflects the issuance of 4.8 million shares of our common stock in exchange for 4.8 million shares of MedQuist Inc. common stock. The impact of the Private Exchange is a reclassification of $5.7 million between noncontrolling interest and additional paid in capital. Additionally, we agreed to pay up to $2.5 million of expenses incurred by certain stockholders who are party to the Exchange Agreement. We will account for the payment as a capital transaction.

z. Reflects the issuance of 959,355 shares of our common stock issuable pursuant to the Consulting Services Agreement, assuming a share issuance at $11.00 per share.

Registered Exchange Offer pro forma adjustments

aa. Adjustment to reduce noncontrolling interest assuming 100% of the MedQuist Inc. noncontrolling stockholders participate in the Registered Exchange Offer. Reflects the issuance of 6.7 million shares of our common stock in exchange for 6.7 million shares of MedQuist Inc. common stock. The impact of the Registered Exchange Offer is a reclassification of $8.0 million between noncontrolling interest and additional paid in capital.

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Unaudited Pro Forma Condensed Consolidated Financial Information Discontinued Operations

The following unaudited pro forma condensed consolidated financial information includes our unaudited pro forma condensed consolidated statements of operations for the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2009 and 2010 and our unaudited pro forma condensed consolidated balance sheet as of September 30, 2010. The unaudited pro forma condensed consolidated statements of operations and the unaudited pro forma condensed consolidated balance sheet have been derived from our historical consolidated financial information, which are included elsewhere in this prospectus.

The pro forma consolidated statements of operations data for the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2009 and 2010 give effect to the reclassification of the operating results of our PFS business into discontinued operations. On December 30, 2010, we entered into an agreement to sell the assets and liabilities of our PFS reporting unit, a non-strategic asset, which closed December 31, 2010.

The pro forma consolidated balance sheet data as of September 30, 2010 gives effect to the reclassification of assets and liabilities related to the PFS business, as held for sale as of September 30, 2010.

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MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries

Unaudited Pro Forma Condensed Consolidated Statements of Operations Discontinued Operations
For the years ended December 31, 2007, 2008 and 2009

	2007			2008			2009		
	Historical	Adjustments[a]	Pro forma	Historical	Adjustments[a]	Pro forma	Historical	Adjustments[a]	Pro
	(In thousands, except per share amounts)								
nues	$ 57,694	$ (15,503)	$ 42,191	$ 193,673	$ (22,260)	$ 171,413	$ 371,768	$ (17,836)	$ 3
evenues	30,209	(8,101)	22,108	125,074	(11,947)	113,127	239 549	(9,848)	2
ofit	27,485	(7,402)	20,083	68,599	(10,313)	58,286	132 219	(7,988)	1
ng expenses:									
general and rative	25,137	(5,681)	19,456	51,243	(8,341)	42,902	60,632	(7,543)	
and development				6,099		6,099	9,604		
tion and ion	2,915	(778)	2,137	14,906	(1,418)	13,488	26,977	(1,611)	
egal proceedings ments				5,311		5,311	14,943		
on related charges							1,246		
impairment				98,972	(9,339)	89,633			
ring charges				2,106		2,106	2,727		
erating expenses	28,052	(6,459)	21,593	178,637	(19,098)	159,539	116,129	(9,154)	1
g income (loss)	(567)	(943)	(1,510)	(110,038)	8,785	(101,253)	16,090	1,166	
xpense, net	(2,108)	451	(1,657)	(3,954)	141	(3,813)	(9,132)	113	
income of companies	(105)		(105)	66		66	1,933		
ome	14	14	28	9		9	11	2	
loss) from ng operations come taxes and rolling interests	(2,766)	(478)	(3,244)	(113,917)	8,926	(104,991)	8,902	1,281	
ax provision	(113)	(71)	(184)	(5,398)	(133)	(5,531)	1,082	(70)	
me (loss) from ng operations nued Operations	(2,653)	(407)	(3,060)	(108,519)	9,059	(99,460)	7,820	1,351	

loss) from ued Patient Services business		478	478		(8,926)	(8,926)		(1,281)	
ax provision		71	71		133	133		70	
loss) from nued operations		407	407		(9,059)	(9,059)		(1,351)	
me (loss)	(2,653)		(2,653)	(108,519)		(108,519)	7,820		
income ble to olling interests	57		57	(5,154)		(5,154)	(7,085)		
me (loss) ble to MedQuist s Inc.	$ (2,596)	$	$ (2,596)	$ (113,673)	$	$ (113,673)	$ 735	$	$
me (loss) per share from ng operations									
			$ (0.23)			$ (4.68)			$
			$ (0.23)			$ (4.68)			$
me (loss) per share from nued operations									
			$ 0.03			$ (0.40)			$
			$ 0.03			$ (0.40)			$
me (loss) per share ble to MedQuist s Inc.									
	$ (0.20)		$ (0.20)	$ (5.08)		$ (5.08)	$ (0.06)		$
	$ (0.20)		$ (0.20)	$ (5.08)		$ (5.08)	$ (0.06)		$
l average shares ng									
	12,873		12,873	22,593		22,593	34,692		
	12,873		12,873	22,593		22,593	34,692		

The accompanying notes are an integral part of the unaudited pro forma condensed consolidated financial statements.

MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries

Unaudited Pro Forma Condensed Consolidated Statements of Operations Discontinued Operations
For the nine months ended September 30, 2009 and 2010

	2009			2010		
	Historical	Adjustments[a]	Pro forma	Historical	Adjustments[a]	Pro forma
	(In thousands except per share amounts)					
Net revenues	$ 281,828	$ (13,709)	$ 268,119	$ 316,977	$ (10,185)	$ 306,792
Cost of revenues	182,924	(7,479)	175,445	200,234	(5,348)	194,886
Gross profit	98,904	(6,230)	92,674	116,743	(4,837)	111,906
Operating expenses:						
Selling, general and administrative	46,594	(6,014)	40,580	49,374	(3,709)	45,665
Research and development	7,235		7,235	8,945		8,945
Depreciation and amortization	20,329	(1,409)	18,920	24,377	(632)	23,745
Cost of legal proceedings and settlements	13,540		13,540	2,785		2,785
Acquisition related charges				6,895		6,895
Restructuring charges	481		481	1,951	(39)	1,912
Total operating expenses	88,179	(7,423)	80,756	94,327	(4,380)	89,947
Operating income (loss)	10,725	1,193	11,918	22,416	(457)	21,959
Interest expense, net	(6,945)	80	(6,865)	(12,031)	61	(11,970)
Equity in income of affiliated companies	2,534		2,534	616		616
Other income		(4)	(4)	589	(30)	559
Income (loss) from continuing operations before income taxes and noncontrolling interests	6,314	1,269	7,583	11,590	(426)	11,164
Income tax provision (benefit)	1,253	(70)	1,183	(69)	23	(46)
Net income from continuing operations	5,061	1,339	6,400	11,659	(449)	11,210
Discontinued Operations						
Income (loss) from discontinued Patient Financial Services business		(1,269)	(1,269)		426	426
Income tax provision (benefit)		70	70		(23)	(23)
		(1,339)	(1,339)		449	449

Income (loss) from discontinued operations						
Net income	5,061		5,061	11,659		11,659
Less: Net (income) attributable to noncontrolling interests	(5,291)		(5,291)	(5,234)		(5,234)
Net income (loss) attributable to MedQuist Holdings Inc.	$ (230)	$	$ (230)	$ 6,425	$	$ 6,425
Net income (loss) per common share from continuing operations						
Basic			$ (0.03)			$ 0.11
Diluted			$ (0.03)			$ 0.11
Net income (loss) per common share from discontinued operations						
Basic			$ (0.04)			$ 0.01
Diluted			$ (0.04)			$ 0.01
Net income (loss) per common share attributable to MedQuist Holdings Inc.						
Basic	$ (0,07)		$ (0.07)	$ 0.12		$ 0.12
Diluted	$ (0,07)		$ (0.07)	$ 0.12		$ 0.12
Weighted average shares outstanding						
Basic	34,586		34,586	35,083		35,083
Diluted	34,586		34,586	35,893		35,893

The accompanying notes are an integral part of the unaudited pro forma condensed consolidated financial statements.

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MedQuist Holdings Inc. and Subsidiaries
Unaudited Pro Forma Condensed Consolidated Balance Sheet Discontinued Operations
As of September 30, 2010
(in thousands)

	Historical MedQuist Holdings Inc.	Impact of discontinued operations[(b)]	Pro forma
Assets			
Current assets			
Cash and cash equivalents	$ 24,025	$ (790)	$ 23,235
Accounts receivable, net	74,612	(2,130)	72,482
Other current assets	19,798	(254)	19,544
Assets held for sale		14,645	14,645
Total current assets	118,435	11,471	129,906
Property and equipment, net	23,826	(254)	23,572
Goodwill	99,030	(8,776)	90,254
Other intangible assets, net	114,195	(2,441)	111,754
Deferred income taxes	3,873		3,873
Other assets	19,945		19,945
Total assets	$ 379,304	$	$ 379,304
LIABILITIES AND EQUITY			
Current liabilities			
Current portion of debt	$ 36,224	$ (273)	$ 35,951
Account payable	12,033	(154)	11,879
Accrued expenses and other current liabilities	36,437	(2,802)	33,635
Accrued compensation	24,035		24,035
Deferred revenue	10,287		10,287
Liabilities held for sale		3,377	3,377
Total current liabilities	119,016	148	119,164
Due to related parties	2,850		2,850
Long term portion of debt	167,948		167,948
Deferred income taxes	4,120	(148)	3,972
Other non-current liabilities	1,802		1,802
Total liabilities	295,736		295,736
Equity			

MedQuist Holdings Inc. stockholders equity			
Common stock	3,516		3,516
Additional paid-in-capital	149,100		149,100
Accumulated deficit	(109,261)		(109,261)
Accumulated other comprehensive loss	(385)		(385)
Total MedQuist Holdings Inc. stockholders equity	42,970		42,970
Noncontrolling interests	40,598		40,598
Total equity	83,568		83,568
Total liabilities and equity	$ 379,304	$	$ 379,304

The accompanying notes are an integral part of the unaudited pro forma condensed consolidated financial statements

MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries

Notes to Unaudited Pro Forma Condensed Consolidated Financial Information Discontinued Operations

1. Basis of presentation and description of sale of PFS

In the fourth quarter of 2010, we entered into a letter of intent to sell the assets and liabilities of our PFS business, a non-strategic asset. The sale closed on December 31, 2010. The selling price was $14.8 million; of which $13.5 million was received in cash and $1.3 million is in the form of a note payable to us. The note payable has a one-year term and bears interest at 5.25%. The estimated gain on the sale of the discontinued operations is expected to be approximately $0.7 million.

2. Pro forma adjustments related to the unaudited pro forma condensed consolidated statements of operations for all periods presented

a. Adjustments to reclassify the operating results of PFS into discontinued operations. Discontinued businesses, including assets held for sale, are removed from the results of continuing operations. The results of operations in the current and prior year periods, along with any cost to exit such businesses in the year of discontinuation, are classified as discontinued operations in the unaudited pro forma condensed consolidated statements of operations.

3. Pro forma adjustments related to unaudited pro forma condensed consolidated balance sheet as of September 30, 2010

b. Adjustments to reclassify assets and liabilities of PFS into assets and liabilities held for sale. We have separately classified $14.6 million and $3.4 million of carrying value associated with its assets held for sale and liabilities held for sale, respectively, in the unaudited pro forma condensed consolidated balance sheet as of September 30, 2010. The assets held for sale consist primarily of $2.1 million of accounts receivable, $8.8 million of goodwill and $2.4 million of intangible assets. The liabilities held for sale consist primarily of $2.8 million of accrued liabilities and a total of $0.6 million of other liabilities.

4. Summary of discontinued operations for all periods presented

The following table sets forth the net revenues and the components of income (loss) from discontinued operations for the years ended December 31, 2007, 2008 and 2009 and for the nine months ended September 30, 2009 and 2010:

	Years ended December 31,			Nine months ended September 30,	
	2007	2008	2009	2009	2010
	(In thousands)				
Net revenues	$ 15,503	$ 22,260	$ 17,836	$ 13,709	$ 10,185
Income (loss) from discontinued operations	$ 478	$ (8,926)	$ (1,281)	$ (1,269)	$ 426
Income tax provision (benefit)	$ 71	$ 133	$ 70	$ 70	$ (23)
Discontinued operations, net of tax	$ 407	$ (9,059)	$ (1,351)	$ (1,339)	$ 449

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Selected Consolidated Financial and Other Data

The following tables summarize our consolidated financial data for the periods presented. You should read the following selected consolidated financial data in conjunction with our consolidated financial statements and the related notes included elsewhere in this prospectus and the Management s Discussion and Analysis of Financial Condition and Results of Operations section of this prospectus.

We derived the statement of operations data for the years ended December 31, 2007, 2008 and 2009 and the balance sheet data as of December 31, 2008 and 2009 from our audited consolidated financial statements, which are included elsewhere in this prospectus. We derived the statement of operations data for the years ended December 31, 2005 and 2006 and the balance sheet data as of December 31, 2005, 2006 and 2007 from our audited consolidated financial statements, which are not included in this prospectus. We derived the statement of operations data for the nine months ended September 30, 2009 and 2010 and the balance sheet data as of September 30, 2010 from our unaudited consolidated financial statements, which are included elsewhere in this prospectus. In the opinion of our management, the unaudited consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements and include all adjustments, consisting of only normal recurring adjustments that we consider necessary to present fairly the financial information set forth in those statements. Our historical results for any prior period are not necessarily indicative of results to be expected for a full year or any future period.

Our selected historical consolidated statements of operations and other operating data reflect the consolidation of the results of operations of MedQuist Inc. since August 6, 2008 and Spheris since April 22, 2010, the respective dates of their acquisitions. Our selected historical consolidated statements of operations and other operating data does not give effect to the reclassification for discontinued operations for the sale of our PFS business, which was sold on December 31, 2010.

	Years ended December 31,					Nine months ended September 30,	
	2005	2006	2007	2008	2009	2009	2010
						(Unaudited)	
	(In thousands, except per share amounts)						
Statement of Operations Data							
Net revenues	$ 31,806	$ 41,862	$ 57,694	$ 193,673	$ 371,768	$ 281,828	$ 316,977
Cost of revenues	15,999	20,613	30,209	125,074	239,549	182,924	200,234
Gross profit	15,807	21,249	27,485	68,599	132,219	98,904	116,743
Operating expenses							
Selling, general and administrative	13,237	17,318	25,137	51,243	60,632	46,594	49,374
Research and development				6,099	9,604	7,235	8,945
Depreciation and amortization	2,635	2,258	2,915	14,906	26,977	20,329	24,377

Cost of legal proceedings and settlements				5,311	14,943	13,540	2,785
Acquisition related charges					1,246		6,895
Goodwill impairment charge				98,972			
Restructuring charges				2,106	2,727	481	1,951
Total operating expenses	15,872	19,576	28,052	178,637	116,129	88,179	94,327
Operating income (loss)	(65)	1,673	(567)	(110,038)	16,090	10,725	22,416
Interest expense, net	(606)	(1,628)	(2,108)	(3,954)	(9,132)	(6,945)	(12,031)
Equity in income (loss) of affiliated companies			(105)	66	1,933	2,534	616
Other income	18	18	14	9	11		589
Income (loss) before income taxes and noncontrolling interests	(653)	63	(2,766)	(113,917)	8,902	6,314	11,590
Income tax provision (benefit)	45	(46)	(113)	(5,398)	1,082	1,253	(69)
Net income (loss)	(698)	109	(2,653)	(108,519)	7,820	5,061	11,659
Less: Net (income) loss attributable to noncontrolling interest	(6)	31	57	(5,154)	(7,085)	(5,291)	(5,234)

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	Years ended December 31, 2005	2006	2007	2008	2009	Nine months ended September 30, 2009 (Unaudited)	2010 (Unaudited)
	(In thousands, except per share amounts)						
Net income (loss) attributable to Medquist Holdings Inc.	$ (704)	$ 140	$ (2,596)	$ (113,673)	$ 735	$ (230)	$ 6,425
Net income (loss) per common share attributable to MedQuist Holdings Inc.							
Basic	$ (0.26)	$ 0.05	$ (0.20)	$ (5.08)	$ (0.06)	$ (0.07)	$ 0.12
Diluted	$ (0.26)	$ 0.05	$ (0.20)	$ (5.08)	$ (0.06)	$ (0.07)	$ 0.12
Weighted average shares outstanding:							
Basic	2,731	2,736	12,873	22,593	34,692	34,586	35,083
Diluted	2,731	2,736	12,873	22,593	34,692	34,586	35,893
Other Operating Data (unaudited)							
Adjusted EBITDA [1]	$ 2,576	$ 3,001	$ 641	$ 16,914	$ 59,687	$ 42,991	$ 57,855

(1) See above for reconciliations of net income (loss) attributable to MedQuist Holdings Inc. to Adjusted EBITDA. Adjusted EBITDA does not include earnings attributable to our investment in A-Life, which was sold in October 2010.

	As of December 31, 2005	2006	2007	2008	2009	As of September 30, 2010 (Unaudited)
	(In thousands)					
Cash and cash equivalents	$ 2,344	$ 515	$ 2,667	$ 42,868	$ 29,633	$ 24,025
Working capital (deficit) [a]	2,832	6,166	10,870	1,128	(5,114)	11,618
Total assets	20,722	31,817	51,420	279,177	253,068	379,304
Long term debt, including current portion of debt	3,899	21,283	14,075	126,008	107,340	204,172
Total equity	13,708	5,326	29,854	79,350	72,301	83,568

(a) Working capital is defined as total current assets, excluding cash and cash equivalents, minus total current liabilities, excluding current portion of debt.

The following table presents a reconciliation of net income (loss) attributable to MedQuist Holdings Inc. to Adjusted EBITDA:

	Years ended December 31,					Nine months ended September 30, (Unaudited)	
	2005	2006	2007	2008	2009	2009	2010
	(In thousands)						
Net income (loss) attributable to MedQuist Holdings Inc.	$ (705)	$ 138	$ (2,596)	$ (113,673)	$ 735	$ (230)	$ 6,425
Net income (loss) attributable to noncontrolling interests	(6)	31	(57)	5,154	7,085	5,291	5,234
Income tax provision (benefit) [(a)]	45	(46)	(113)	(5,398)	1,082	1,253	(69)
Interest expense, net	607	1,628	2,108	3,954	9,132	6,945	12,031
Depreciation and amortization[(b)]	2,635	2,258	2,915	14,906	26,977	20,329	24,377
Cost of legal proceedings and settlements				5,311	14,943	13,540	2,785
Acquisition related charges				5,620	1,246		6,895
Goodwill impairment charge				98,972			
Restructuring charges				2,106	2,727	481	1,951
Equity in (income) loss of affiliated companies			105	(66)	(1,933)	(2,534)	(616)
Asset impairment charge, severance charges and accrual reversals [(c)]				2,000	(1,864)	(1,864)	
PFS business [(d)]		(1,008)	(1,721)	(1,972)	(443)	(220)	(1,158)
Adjusted EBITDA [(e)]	$ 2,576	$ 3,001	$ 641	$ 16,914	$ 59,687	$ 42,991	$ 57,855

(a) We have $130.0 million of federal net operating loss carry forwards as of December 31, 2009 and will record approximately $30.0 million of annual tax amortization related to intangible assets, including goodwill, that will reduce future taxable income. Due to the existence of federal net operating loss carry forwards and the impact of tax amortization related to intangible assets, including goodwill, cash taxes paid were $84,000, $160,000, $796,000 for the years ended December 31, 2007, 2008 and 2009, respectively, and $667,000 and $30,000 for the nine months ended September 30, 2009 and 2010, respectively.

(b) Includes amortization of acquired intangibles of $698,000, $7.1 million and $12.8 million for the years ended December 31, 2007, 2008 and 2009, respectively, and $9.8 million and $11.7 million for the nine months ended September 30, 2009 and 2010, respectively.

(c) Includes an impairment charge to write-off the amount paid related to severance of one of our former executives and the reversal of certain accruals, related to litigation claims, as a result of the expiration of the applicable statute of limitations.

(d) Includes the effect of the PFS business, which was sold on December 31, 2010.

(e) Adjusted EBITDA does not include earnings attributable to our investment in A-Life, which was sold in October 2010.

Adjusted EBITDA is a metric used by management to measure operating performance. Adjusted EBITDA is defined as net income (loss) attributable to MedQuist Holdings Inc. plus net income (loss) attributable to noncontrolling interests, income taxes, interest expense, depreciation and amortization, cost of legal proceedings and settlements, acquisition related charges, goodwill impairment charge, restructuring charges, equity in income (loss) of affiliated company, asset impairment charge, severance costs, certain unusual or nonrecurring items and the effect of our PFS business. We present Adjusted EBITDA as a supplemental performance measure because we

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believe it facilitates operating performance comparisons from period to period and company to company by backing out the following:

- potential differences caused by variations in capital structures (affecting interest expense, net), tax positions (such as the impact on periods or companies for changes in effective tax rates), the age and book depreciation of fixed assets (affecting depreciation expense);
- the impact of non-cash charges, such as goodwill impairment charges and asset impairment charges; and
- the impact of unusual expenses or events, such as acquisition related charges, restructuring charges, severance costs and certain unusual or nonrecurring items.

Because Adjusted EBITDA facilitates internal comparisons of operating performance on a more consistent basis, we also use Adjusted EBITDA in measuring our performance relative to that of our competitors. Adjusted EBITDA is not a measurement of our financial performance under GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with GAAP or as an alternative to cash flow from operating activities as measures of our profitability or liquidity. We understand that although Adjusted EBITDA is frequently used by securities analysts, lenders and others in their evaluation of companies, Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- although depreciation is a non-cash charge, the assets being depreciated will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements; and
- other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

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Market Price Information for Our Shares

We expect our shares to be listed on The NASDAQ Global Market upon consummation of this offering under the symbol MEDH. They have not previously been listed on The NASDAQ Global Market or any other U.S. market.

The share information presented below gives effect to our redomiciliation and the related conversion of our shares, pursuant to which every 4.5 shares of our common stock outstanding prior to our redomiciliation were converted into one share of our common stock upon our redomiciliation.

As of December 30, 2010, there were 35.2 million shares outstanding and approximately 133 holders of record of our shares. After the Corporate Reorganization, there will be 51.1 million shares outstanding, which includes (i) 3.5 million shares issued by us in this offering; (ii) 35.2 million shares held by our existing stockholders, (iii) 4.8 million shares to be issued in the Private Exchange, (iv) 6.7 million shares to be issued in the Registered Exchange Offer, assuming a full exchange, and (v) 959,355 shares issuable pursuant to the Consulting Services Agreement.

Our shares were formerly listed on AIM under the symbol CBAY. Our shares began trading on AIM in June 2007. However, we have delisted from AIM and January 27, 2011 was the last day on which our shares traded on AIM. Since December 24, 2010, the date we announced the schedule for the delisting of our shares from AIM, the average daily trading volume for our shares on AIM has been less than 1,000 shares and our shares were traded on AIM on only three of the sixteen trading days during that period. The closing price of our shares on AIM on December 24, 2010, was £6.08, equivalent to $9.36 per share based on the Federal Reserve noon buying rate of $1.54 to £1.00 in effect on December 24, 2010.

The following table shows the high and low market prices for our shares for each fiscal quarter for the two most recent fiscal years. Market prices for our shares have fluctuated significantly since they were listed on AIM and trading volumes on AIM have generally been very small in relation to the number of our total outstanding shares. On many trading days no shares have traded. During 2009, the average daily trading volume of our shares on AIM was 1,568* shares. Between January 1, 2010 and December 24, 2010, the average daily volume of our shares on AIM was 2,313 shares. As a result, the market prices shown in the following table may not be indicative of the market prices at which our shares will trade after this offering.

* Excludes a single trade on July 24, 2009 of 3.4 million shares.

	Share price (pounds)	
	High	Low
Year		
2010	9.54	2.51
2009	3.80	1.51
2008	3.80	1.82
2007	5.04(1)	2.86(1)
2006		

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Quarter	Share price (pounds) High	Low
Fourth Quarter 2010	7.20	5.18
Third Quarter 2010	6.12	5.06
Second Quarter 2010	6.98	3.89
First Quarter 2010	9.54	2.81
Fourth Quarter 2009	3.80	3.11
Third Quarter 2009	3.69	1.73
Second Quarter 2009	1.82	1.51
First Quarter 2009	2.07	1.64

(1) We were admitted to AIM on June 18, 2007. Data for 2007 reflects closing prices from June 18, 2007 to December 31, 2007.

Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operation should be read in conjunction with the consolidated financial statements and related notes of each of us, MedQuist Inc. and Spheris Inc. and with the information under Unaudited Pro Forma Condensed Consolidated Financial Information and Selected Consolidated Financial and Other Data appearing elsewhere in this prospectus. In addition to historical information, this discussion and analysis contains forward looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward looking statements as a result of certain factors. We discuss factors that we believe could cause or contribute to these differences below and elsewhere in this prospectus, including those set forth under Risk Factors.

Overview

We are a leading provider of integrated clinical documentation solutions for the U.S. healthcare system. Our end-to-end solutions convert physicians dictation of patient interactions, or the physician narrative, into a high quality and customized electronic record. These solutions integrate technologies and services for voice capture and transmission, ASR, medical transcription and editing, workflow automation, and document management and distribution to deliver a complete managed service for our customers. Our solutions enable hospitals, clinics, and physician practices to improve the quality of clinical data as well as accelerate and automate the documentation process, and we believe our solutions improve physician productivity and satisfaction, enhance revenue cycle performance, and facilitate the adoption and use of electronic health records.

Key factors affecting our performance

In 2008 and 2010, we completed two large acquisitions which have materially impacted our financial results. Our results have also been impacted by volume and pricing trends, operating improvements and selling, general and administrative expense savings. These key factors are described below for the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2009 and 2010.

MedQuist Inc. Acquisition

In August 2008, an affiliate of SAC PCG invested $124.0 million to acquire a majority interest in us. Concurrent with this investment, we acquired a 69.5% interest in MedQuist Inc., the largest medical transcription service provider by revenue in the United States at the time. The purchase price was $239.7 million of which $118.3 million was allocated to goodwill. The transaction was financed using a combination of the investment proceeds and debt financing.

MedQuist Inc. was more than four times the size of us as measured by lines processed in 2008. Additionally, MedQuist Inc. offered a complete integrated solution for clinical documentation, which was a strong complement to our low-cost service offering. However, prior to the acquisition, MedQuist Inc. was facing deteriorating financial performance from declining volumes, customer attrition issues, ongoing litigation and a lack of offshore capabilities.

We believed that MedQuist Inc., despite its operational challenges and substantial overhead, had strong underlying technology, deep healthcare domain expertise, and a long-tenured customer base. Following our acquisition of MedQuist Inc., we embarked upon a strategy to enhance the management team, streamline operations, improve relationships with customers, leverage our offshore resources, increase the utilization of ASR technology, and resolve all outstanding litigation. This strategy resulted in a stabilization of volume trends starting

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in the second quarter of 2009. The following table shows the percentage change in MedQuist Inc. s volume for the nine quarters ended March 31, 2010, the last quarter prior to the Spheris Acquisition.

MedQuist Inc.	2008 Prior to the MedQuist Inc. Acquisition				2009				2010
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Volume % Change over Previous Year	(3.3)%	(4.7)%	(0.1)%	(0.4)%	(2.2)%	0.8%	2.5%	2.8%	4.0%

Our operational improvements and integration efforts have resulted in tangible financial improvements to our profitability. MedQuist Inc. s Adjusted EBITDA grew from $3.5 million in 2007 to $55.6 million in 2009. See Summary Historical and Unaudited Pro Forma Consolidated Financial Data for a reconciliation of Adjusted EBITDA to net income. Gross profit margin has increased from 23% in 2007 to 33% in 2009. Selling, general and administrative expense for MedQuist Inc. has decreased from $62.3 million or 18% of revenue in 2007 to $33.4 million or 11% of revenue in 2009.

Spheris Acquisition

On April 22, 2010, we acquired certain assets, principally customer contracts, from Spheris in a transaction conducted under Section 363 of the Bankruptcy Code. The purchase price was $112.4 million of which $44.9 million was allocated to goodwill. Spheris was the second largest U.S. medical transcription service provider by revenue at the time. Spheris had experienced declines in volumes due principally to customer attrition, which we believed was attributable to quality issues and underinvestment in product development caused by financial constraints leading up to its bankruptcy. Some volume declines continued after the date of our acquisition as the result of notices of termination given prior to that date. The following table shows the percentage change in Spheris volume for the nine quarters ended March 31, 2010, the last quarter prior to the Spheris Acquisition.

Spheris	2008				2009				2010
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Volume % Change over Previous Year	(4.8)%	(4.7)%	(5.9)%	(11.6)%	(13.3)%	(10.9)%	(7.9)%	(6.5)%	(5.5)%

We considered the negative volume trend for Spheris in our acquisition valuation. Net revenues for Spheris were $156.6 million and $35.2 million for the year ended December 31, 2009 and the three months ended March 31, 2010, respectively. Customers who submitted notices of termination prior to the acquisition generated revenues of $24.6 million and $1.7 million during the year ended December 31, 2009 and the three months ended March 31, 2010, respectively. Therefore, net revenues for the year ended December 31, 2009 and for the three months ended March 31, 2010, less revenue attributable to customers who submitted notices of termination prior to the Spheris Acquisition, were $132.0 million and $33.5 million, respectively.

Our Spheris integration efforts have focused on merging the new customer base acquired, integrating systems and eliminating cost redundancies. We expect the measures we have implemented since the Spheris Acquisition to yield $7.0 million of cost savings in the fourth quarter of 2010, representing an annualized impact of $28.0 million. Our results for the nine months ended September 30, 2010 reflect $4.9 million of such cost savings. We expect that the integration of Spheris will be fully completed by the first half of 2011.

Volume and pricing trends

The vast majority of our revenue is generated by providing clinical documentation services to our customers. Medical transcription by our MTs and MEs accounted for 89% of our net revenues for the nine months ended September 30,

2010. Product sales and related maintenance contracts, patient financial services revenues and other made up the balance of our revenues. Our customers are generally charged a rate per character multiplied by the number of characters that we process. MedQuist Inc. volume had been declining prior to the MedQuist Inc. Acquisition, and we have been able to reverse this trend by increasing our sales (through the acquisition of new accounts and additional work types from existing customers) and decreasing our losses of existing customers. We have reduced losses of MedQuist Inc. customers primarily by improving our quality and improving our account management efforts. MedQuist Inc. volume increased 1% in 2009 compared to 2008.

We base our pricing on various factors, principally market forces, the extent to which we can utilize our offshore production facilities, the extent to which customers utilize the ASR technology available in our solutions, the scope of services provided, and turn-around times requested by a particular customer. We work with our customers to evaluate how different solutions affect pricing and to determine what for them is an optimal mix of service level and price. Higher utilization of offshore production and ASR leads to lower costs for us, which permits us to offer better pricing to our customers while at the same time contributing to margin growth. We have successfully migrated a significant portion of MedQuist Inc. s volume offshore and we will continue these efforts in relation to our combined businesses.

As technological advances and increased use of offshore resources have driven down industry costs, the average price per character has also declined as healthcare providers have sought to participate in the economic gains. We intend to monitor and adjust our pricing accordingly to remain competitive as these industry trends continue.

Operating improvements

We have executed significant operational improvements since the MedQuist Inc. Acquisition. Cost of revenues on a per unit basis has declined due to the increased utilization of ASR technology and the increased percentage of volume produced offshore. Our use of speech recognition technology has increased from 39% to 67% over the eight quarters ended September 30, 2010. Additionally we have increased our offshore production as a percentage of our volume from 28% to 42% for the same period. As we continue to increase the use of ASR technology and move volume offshore, we expect to continue to reduce costs.

Some of our contracts specify lower prices for work performed offshore or using speech recognition technology. Therefore, our operating income will not increase by the full amount of the savings we realize. Additionally, management has been reducing support staff headcount in order to further reduce operating costs.

These improvements have resulted in gross margin percentages which have improved from 33.8% to 38.5% over the eight quarters ended September 30, 2010 despite lower average prices.

Selling, general and administrative expense savings

We have made significant reductions in selling, general and administrative expenses since 2008. Such expenses were 26% of revenue in 2008 compared to 16% of revenue for the nine months ended September 30, 2010. These savings were achieved primarily through headcount reductions and aggressive efforts to reduce other administrative expenses.

In connection with the Spheris Acquisition we have identified potential specific savings in the sales and marketing and general and administrative areas. We anticipate that these savings will be implemented throughout the remainder of 2010 and 2011.

Basis of presentation

Revenue

We derive revenue primarily from providing clinical documentation solutions to health systems, hospitals and large group medical practices. Our customers are generally charged a fixed rate multiplied by the volume of work that we transcribe or edit. To a lesser extent we earn revenue by providing maintenance contracts, digital dictation solutions, speech recognition solutions and revenue cycle services. Approximately 98% of our revenue is from recurring services.

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Cost of revenues

Cost of revenues includes compensation of our direct employees and subcontractors involved in production, other production costs primarily related to operational and production management, quality assurance, quality control and customer and field service personnel and telecommunication and facility costs. Cost of revenues also includes the direct cost of technology products sold to customers. Compensation costs for personnel in the United States are directly related to clinical documentation revenue and are generally based on lines transcribed or edited multiplied by a specific rate, while personnel at our offshore production centers are generally paid fixed wages. Cost of revenues does not include depreciation or amortization.

Selling, general and administrative expense

Our selling, general and administrative expense consists primarily of marketing and sales costs, accounting costs, information technology costs, professional fees, corporate facility costs and corporate payroll and benefits expense.

Research and development expense

Our research and development expense consists primarily of personnel and related costs, including salaries and employee benefits for software engineers and consulting fees paid to independent consultants who provide software engineering services to us. To date, our research and development efforts have been devoted to new products and service offerings and increases in features and functionality of our existing products and services.

Depreciation and amortization

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from two to seven years for furniture, equipment and software, and the lesser of the lease term or estimated useful life for leasehold improvements. Intangible assets are being amortized using the straight-line method over their estimated useful lives which range from three to twenty years.

Cost of legal proceedings and settlements

Cost of legal proceedings and settlements includes settlement of claims, ongoing litigation, and associated legal and other professional fees incurred.

Critical accounting policies and use of estimates

We prepare our consolidated financial statements in accordance with generally accepted accounting principles in the United States, or GAAP. We believe there are several accounting policies that are critical to understanding our historical and future performance, as these policies affect the reported amounts of revenue and other significant areas that involve management s judgments and estimates. These critical accounting policies and estimates have been discussed with our audit committee.

The preparation of our consolidated financial statements requires us to make estimates and judgments that affect our reported amounts of assets, liabilities, expense and related disclosure of contingent liabilities. On an ongoing basis, we evaluate these estimates and judgments. We base these estimates on historical experience and on various other assumptions that are believed to be reasonable at such time, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other independent sources. Actual results may ultimately differ from these estimates. Critical accounting policies are those policies that require management s subjective and complex judgments, often as a result of the need to make estimates about the effect of inherently uncertain matters that may change in subsequent periods. While there are a number of accounting policies, methods and estimates affecting our consolidated financial statements as addressed in Note 2 to our consolidated financial statements, our critical accounting policies include the following:

Revenue recognition

We recognize medical transcription services revenue when persuasive evidence of an arrangement exists, the price is fixed or determinable, services have been rendered and collectability is reasonably assured. These services are recorded using contracted rates and are net of estimates for customer credits. Historically, our estimates have been reasonably accurate. If actual results are higher or lower than our estimates, we would have to adjust our estimates and financial statements in future periods.

Accounts receivable and allowance for doubtful accounts

Accounts receivable are recorded at the invoiced amount and do not bear interest. The carrying value of accounts receivable approximates fair value. The allowance for doubtful accounts is our best estimate of potential losses resulting from the inability of our customers to make required payments due. This allowance is used to state trade receivables at estimated net realizable value.

We estimate uncollectible amounts based upon our historical write-off experience, current customer receivable balances, aging of customer receivable balances, the customer s financial condition and current economic conditions. Historically, our estimates have been adequate to provide for our accounts receivable exposure.

Additionally, we enter into medical transcription service contracts that may contain provisions for performance penalties in the event we do not meet certain required service levels, primarily related to turn-around time on transcribed reports. We reduce revenue for any such performance penalties and service level credits incurred and have included an estimate of such penalties and credits in our allowance for uncollectible accounts.

Valuation of long-lived and other intangible assets and goodwill

In connection with acquisitions, we allocate portions of the purchase price to tangible and intangible assets, consisting primarily of acquired technologies and customer relationships, with the remainder allocated to goodwill. We prepared the purchase price allocations and, in doing so, considered the report of an independent valuation firm. As of September 30, 2010, we had $99.0 million of goodwill and $114.2 million of intangible assets. We assess the realizability of goodwill and intangible assets with indefinite useful lives at least annually, or sooner if events or changes in circumstances indicate that the carrying amount may not be recoverable. We have determined that we have three reporting units but a sole operating segment.

We review our long-lived assets, including amortizable intangibles, for impairment when events indicate that their carrying amount may not be recoverable. When we determine that one or more impairment indicators are present for an asset, we compare the carrying amount of the asset to net future undiscounted cash flows that the asset is expected to generate. If the carrying amount of the asset is greater than the net future undiscounted cash flows that the asset is expected to generate, we then compare the fair value to the book value of the asset. If the fair value is less than the book value, we recognize an impairment loss. The impairment loss is the excess of the carrying amount of the asset over its fair value.

Some of the events that we consider as impairment indicators for our long-lived assets, including goodwill, are:

- our net book value is greater than the fair value;
- significant adverse economic and industry trends;
- significant decrease in the market value of the asset;

- the extent that we use an asset or changes in the manner that we use it;
- significant changes to the asset since we acquired it; and
- other changes in circumstances that potentially indicate all or a portion of our business will be sold.

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Deferred income taxes

Deferred tax assets represent future tax benefits that we expect to be able to apply against future taxable income. Our ability to utilize the deferred tax assets is dependent upon our ability to generate future taxable income. To the extent that we believe it is more likely than not that all or a portion of the deferred tax asset will not be utilized, we record a valuation allowance against that asset. In making that determination we consider all positive and negative evidence and give stronger consideration to evidence that is objective in nature.

Commitments and contingencies

We routinely evaluate claims and other potential litigation to determine if a liability should be recorded in the event it is probable that we will incur a loss and can estimate the amount of such loss.

Customer accommodation program

In response to customers concerns regarding historical billing matters, MedQuist Inc. established a plan to offer financial accommodations to certain of its customers during 2005 and 2006 and recorded the related liability at such time. In 2008 MedQuist Inc. reached an agreement on customer litigation resolving all claims by the named parties. Since then we have not made additional offers. The liability balance was $10.4 million as of September 30, 2010.

MedQuist Inc. is unable to predict how many customers, if any, may accept the outstanding accommodation offers on the terms proposed by it, nor it is able to predict the timing of the acceptance (or rejection) of any outstanding accommodation offers. Until any offers are accepted, MedQuist Inc. may withdraw or modify the terms of the accommodation program or any outstanding offers at any time. In addition, MedQuist Inc. is unable to predict how many future offers, if made, will be accepted on the terms proposed by it. We regularly evaluate whether to proceed with, modify or withdraw the accommodation program or any outstanding offers. To the extent the program were withdrawn or modified, our financial statements would be affected.

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Consolidated results of operations

Comparison of nine months ended September 30, 2009 and 2010

The following tables set forth our unaudited consolidated results of operations for the periods indicated below:

	Nine months ended September 30, 2009		2010	
	Amount	% of net revenues	Amount	% of net revenues
	(Unaudited) (In thousands)			
Net revenues	$ 281,828	100%	$ 316,977	100%
Cost of revenues	182,924	65%	200,234	63%
Gross profit	98,904	35%	116,743	37%
Operating expenses				
Selling, general and administrative	46,594	17%	49,374	16%
Research and development	7,235	3%	8,945	3%
Depreciation and amortization	20,329	7%	24,377	8%
Cost of legal proceedings and settlements	13,540	5%	2,785	1%
Acquisition related charges			6,895	2%
Restructuring charges	481	0%	1,951	1%
Total operating expenses	88,179	31%	94,327	30%
Operating income	10,725	4%	22,416	7%
Interest expense, net	(6,945)	(2)%	(12,031)	(4)%
Equity in income of affiliated companies	2,534	1%	616	0%
Other income			589	0%
Income before income taxes and noncontrolling interests	6,314	2%	11,590	4%
Income tax provision (benefit)	1,253	0%	(69)	0%
Net income	5,061	2%	11,659	4%
Less: Net income attributable to noncontrolling interests	(5,291)	(2)%	(5,234)	(2)%
Net income (loss) attributable to MedQuist Holdings Inc.	$ (230)	0%	$ 6,425	2%
Adjusted EBITDA [1]	$ 42,991		$ 57,855	

(1) See Selected Consolidated Financial and Other Data for a reconciliation of net income (loss) attributable to MedQuist Holdings Inc. to Adjusted EBITDA.

Net revenues

Net revenues increased by $35.2 million, or 12%, to $317.0 million for the nine months ended September 30, 2010 compared to $281.8 million for the nine months ended September 30, 2009. The Spheris Acquisition contributed $57.0 million in incremental revenue for the nine months ended September 30, 2010 which was partially offset primarily by a decrease in legacy maintenance services revenue from $13.7 million in 2009 to $12.4 million in 2010 and a decrease of $21.7 million in revenues from clinical documentation solutions due to lower prices, as well as lower revenue cycle management and product revenue.

Cost of revenues

Cost of revenues increased $17.3 million, or 9%, to $200.2 million for the nine months ended September 30, 2010 compared to $182.9 million for the nine months ended September 30, 2009.

As a percentage of net revenues, cost of revenues decreased to 63% for the nine months ended September 30, 2010 from 65% for the same period in 2009 primarily due to increased utilization of speech recognition

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technologies, increased utilization of offshore resources, and other operating cost reduction initiatives. The increase in total dollars versus the prior year-period was primarily due to direct incremental costs associated with the incremental Spheris volumes as well as a nonrecurring $1.2 million credit during 2009 related to medical claim costs.

Selling, general and administrative

Selling, general and administrative expense increased $2.8 million, or 6%, to $49.4 million for the nine months ended September 30, 2010 compared to $46.6 million for the nine months ended September 30, 2009. As a percentage of net revenues, selling general and administrative expenses decreased to 16% of net revenues for the nine months ended September 30, 2010 from 17% for the same period in 2009 primarily due to the impact of synergies realized for the Spheris Acquisition and other cost reduction initiatives.

Research and development

Research and development expense increased $1.7 million, to $8.9 million for the nine months ended September 30, 2010 compared to $7.2 million for the nine months ended September 30, 2009. The increase was primarily due to costs associated with historical Spheris research and development activities partially offset by synergies realized.

Depreciation and amortization

Depreciation and amortization increased $4.0 million, or 20%, to $24.4 million for the nine months ended September 30, 2010 compared to $20.3 million for the nine months ended September 30, 2009. The increase was primarily due to the amortization of acquired intangible assets associated with the Spheris Acquisition.

Cost of legal proceedings and settlements

Cost of legal proceedings and settlements decreased $10.7 million, or 79%, to $2.8 million for the nine months ended September 30, 2010 compared to $13.5 million for the nine months ended September 30, 2009. The decrease was due to the costs incurred in 2009 related to the Anthurium settlement of $5.9 million, related legal fees of $3.8 million and other legal fees of $1.2 million.

Acquisition related charges

We incurred acquisition related charges of $6.9 million related to the Spheris Acquisition for the nine months ended September 30, 2010.

Restructuring charges

During the nine months ended September 30, 2010, we recorded restructuring charges of $2.0 million primarily related to employee severance. We expect that restructuring activities and related charges will continue into early 2011 as management identifies opportunities for synergies resulting from the Spheris Acquisition including the elimination of redundant functions.

Interest expense, net

Interest expense, net increased $5.1 million, or 73%, to $12.0 million for the nine months ended September 30, 2010 compared to $6.9 million for the nine months ended September 30, 2009. The increase was due to the debt incurred in connection with the Spheris Acquisition, partially offset by a decrease of $1.2 million in interest expense as a result of the 2009 repayment of the bridge note incurred in connection with the MedQuist Inc. Acquisition.

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Income tax provision

Our consolidated income tax expense consists principally of an increase in deferred tax liabilities related to goodwill amortization deductions for income tax purposes during the applicable period as well as state and foreign income taxes, offset by a tax benefit related to the reversal of reserves for various state jurisdictions as agreements on the liabilities were reached. The tax benefit for the nine months ended September 30, 2010 includes the reversal of approximately $500,000 from our accrual for various state uncertain tax positions as a result of filing voluntary disclosure agreements with state jurisdictions. We recorded a valuation allowance to reduce our net deferred tax assets to an amount that is more likely than not to be realized in future years.

We expect that our consolidated income tax expense for the year ended December 31, 2010, similar to the year ended December 31, 2009, will consist principally of an increase in deferred tax liabilities related to goodwill amortization deductions for income tax purposes during the applicable year as well as state and foreign income taxes. We regularly assess the future realization of deferred taxes and whether the valuation allowance against the majority of domestic deferred tax assets is still warranted. To the extent sufficient positive evidence, including past results and future projections, exists to benefit all or part of these benefits, the valuation allowance will be released accordingly.

Net income attributable to noncontrolling interests

Net income attributable to noncontrolling interests for the nine months ended September 30, 2010 decreased by $57,000 to $5.2 million. The decrease in net income attributable to noncontrolling interests was due to the decrease in the net income of MedQuist Inc.

Comparison of years ended December 31, 2008 and 2009

The following table sets forth our consolidated results of operations for the periods indicated below:

	Years ended December 31,			
	2008		2009	
	Amount	% of net revenues	Amount	% of net revenues
	(In thousands)			
Net revenues	$ 193,673	100%	$ 371,768	100%
Cost of revenues	125,074	65%	239,549	64%
Gross profit	68,599	35%	132,219	36%
Operating expenses				
Selling, general and administrative	51,243	26%	60,632	16%
Research and development	6,099	3%	9,604	3%
Depreciation and amortization	14,906	8%	26,977	7%
Cost of legal proceedings and settlements	5,311	3%	14,943	4%
Acquisition related charges			1,246	0%
Goodwill impairment charge	98,972	51%		
Restructuring charges	2,106	1%	2,727	1%

Total operating expenses	178,637	92%	116,129	31%
Operating income (loss)	(110,038)	(57)%	16,090	4%
Interest expense, net	(3,954)	(2)%	(9,132)	(2)%
Equity in income of affiliated companies	66	0%	1,933	1%
Other income	9	0%	11	0%
Income (loss) before income taxes and noncontrolling interests	(113,917)	(59)%	8,902	2%
Income tax (provision) benefit	5,398	3%	(1,082)	0%
Net income (loss)	(108,519)	(56)%	7,820	2%
Less: Net income attributable to noncontrolling interest	(5,154)	(3)%	(7,085)	(2)%
Net income (loss) attributable to MedQuist Holdings Inc.	$ (113,673)	(59)%	$ 735	0%
Adjusted EBITDA [1]	$ 16,914		$ 59,687	

(1) See Selected Consolidated Financial and Other Data for a reconciliation of net income (loss) attributable to MedQuist Holdings Inc. to Adjusted EBITDA.

Net revenues

Net revenues increased $178.1 million, or 92%, to $371.8 million for the year ended December 31, 2009 compared to $193.7 million for the year ended December 31, 2008. This increase was attributable primarily to:

- $171.5 million from the consolidation of MedQuist Inc. for a full year resulting from our acquisition of MedQuist Inc. in August 2008; and
- an increase in clinical documentation revenue of $11.0 million due to organic volume growth partially offset by a decrease in our revenue cycle management revenue by $4.4 million largely due to customer attrition.

Cost of revenues

Cost of revenues increased $114.5 million, or 92%, to $239.5 million for the year ended December 31, 2009 compared to $125.1 million for the year ended December 31, 2008. This increase was attributable primarily to:

- $110.8 million from the consolidation of MedQuist Inc. for a full year; and
- an increase of $5.7 million in clinical documentation cost of revenues, primarily due to increased personnel cost to support expansion of capacity, partially offset by a reduction on $2.1 million in our revenue cycle management business costs to better align costs with revenue.

Selling, general and administrative

Selling, general and administrative expense increased $9.4 million, or 18%, to $60.6 million for the year ended December 31, 2009 compared to $51.2 million for the year ended December 31, 2008. This increase was primarily attributable to:

- consolidation of a full-year of MedQuist Inc. selling, general and administrative expense of $13.9 million;
- increase in share based compensation charge of $798,000;
- full year impact of the cost of our new management team and corporate costs in 2009 amounting to $2.6 million; offset by
- charges in 2008 amounting to $7.6 million comprised of $5.6 million of acquisition related costs incurred in connection with the MedQuist Inc. Acquisition and $2.1 million for the write-off of uncollectible accounts receivable.

Research and development

Research and development expense increased $3.5 million, or 57%, to $9.6 million for the year ended December 31, 2009 compared to $6.1 million for the year ended December 31, 2008. This increase was attributable primarily to the consolidation of a full-year of MedQuist Inc. s research and development expenses.

Depreciation and amortization

Depreciation and amortization expense increased $12.1 million, or 81%, to $27.0 million for the year ended December 31, 2009 compared to $14.9 million for the year ended December 31, 2008. This increase was attributable primarily to the consolidation of a full-year of MedQuist Inc. depreciation and amortization expense including the impact of amortization of acquired intangible assets amounting to $12.5 million.

Cost of legal proceedings and settlement

Cost of legal proceedings and settlement increased $9.6 million, or 181%, to $14.9 million for the year ended December 31, 2009 compared with $5.3 million for the year ended December 31, 2008. This increase was due primarily to the consolidation of a full year of MedQuist Inc. s cost of legal proceedings and settlements, which includes legal fees incurred in connection with both the SEC investigations and proceedings and as well as the defense of certain civil litigation and proceedings. Included in 2009 are costs incurred related to the Anthurium settlement of $5.9 million and related legal fees of $3.8 million.

Acquisition related charges

We incurred costs of $1.2 million during the year ended December 31, 2009 related to the Spheris Acquisition.

Goodwill impairment charge

We carried out our annual impairment test in the fourth quarter of 2008, which included our annual testing date in December. During our annual impairment testing, we determined the fair value using a combination of market capitalization based on market price per share for approximately the 60 days before December 31, 2008 including a control premium and a discounted cash flow analysis. Determining fair value requires the exercise of significant judgment, including judgment about appropriate discount rates, perpetual growth rates, the amount and timing of expected future cash flows, as well as relevant comparable company earnings multiples for the market-based approach. The cash flows employed in the discounted cash flow analyses were based on our internal business model for 2009 and, for years beyond 2009 the growth rates we used are an estimate of the future growth in the industry in which we participate. The discount rates used in the discounted cash flow analyses are intended to reflect the risks inherent in the future cash flows of the reporting unit and are based on an estimated cost of capital, which we determined based on estimated cost of capital relative to the capital structure. In addition, the market-based approach utilizes comparable company public trading values, research analyst estimates and, where available, values observed in private market transactions. The analysis indicated that the reporting units fair value was below the book value for the MedQuist Inc. and revenue cycle management reporting units and accordingly, a goodwill impairment charge of $99.0 million was recorded.

In 2009, the fair value of the MedQuist Inc. reporting unit substantially exceeded its carrying value and the fair value of the revenue cycle management reporting unit exceeded its carrying value by 7%, and accordingly, no second step of the goodwill impairment test was performed and no impairment charge was recorded.

In estimating the fair value of our CBay transcription reporting unit, the market approach and the income approach were used. The fair value of the reporting unit substantially exceeded its carrying value, and accordingly, no second step of the goodwill impairment test was performed and no impairment charge was recorded in 2009 or 2008.

Interest expense, net

Interest expense, net primarily reflects interest paid on our credit facilities and long term debt, net of interest earned on deposits with banks. Interest expense, net increased $5.2 million, or 131%, to $9.1 million for the year ended December 31, 2009 compared with $4.0 million for the year ended December 31, 2008. This increase was attributable to the full year impact of interest expense on the acquisition related debt related to the MedQuist Inc. Acquisition amounting to $4.9 million and other increases of $200,000.

Income tax provision

The effective income tax rate for the year ended December 31, 2009 was 12.2% compared with an effective income tax benefit rate of 4.7% for the year ended December 31, 2008. The 2009 tax expense includes an increase in the deferred tax liabilities associated with indefinite life intangible assets related to goodwill, an increase in the deferred tax liability associated with an equity method investment, the reduction of the foreign valuation allowance and adjustments related to state tax exposures. After consideration of all evidence, both positive and negative, management concluded again in 2009, that it was more likely than not that a significant portion of the domestic deferred income tax assets would not be realized; therefore, we have a valuation allowance to reduce our net deferred tax assets to an amount that is more likely than not to be realized in future years. The 2008 tax benefit includes the reversal of approximately $5.6 million of deferred tax liabilities associated with indefinite life intangible assets related to goodwill which was impaired in 2008.

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Net income attributable to noncontrolling interest

Net income attributable to noncontrolling interest increased $1.9 million, or 37%, to $7.1 million for the year ended December 31, 2009 compared to $5.2 million for the year ended December 31, 2008. This increase was attributable to the consolidation of MedQuist Inc. for the full year of 2009.

Comparison of years ended December 31, 2007 and 2008

The following table sets forth our consolidated results of operations for the periods indicated below:

	Years ended December 31, 2007 Amount	2007 % of net revenues	2008 Amount	2008 % of net revenues
	(In thousands)			
Net revenues	$ 57,694	100%	$ 193,673	100%
Cost of revenues	30,209	52%	125,074	65%
Gross profit	27,485	48%	68,599	35%
Operating expenses				
Selling, general and administrative	25,137	44%	51,243	26%
Research and development			6,099	3%
Depreciation and amortization	2,915	5%	14,906	8%
Cost of legal proceedings and settlements			5,311	3%
Goodwill impairment charge			98,972	51%
Restructuring charges			2,106	1%
Total operating expenses	28,052	49%	178,637	92%
Operating loss	(567)	(1)%	(110,038)	(57)%
Interest expense, net	(2,108)	(4)%	(3,954)	(2)%
Equity in loss (income) of affiliated companies	(105)	0%	66	0%
Other income	14	0%	9	0%
Loss before income taxes and noncontrolling interests	(2,766)	(5)%	(113,917)	(59)%
Income tax benefit	113	0%	5,398	3%
Net loss	(2,653)	(5)%	(108,519)	(56)%
Less: Net (income) loss attributable to noncontrolling interest	57	0%	(5,154)	(3)%
Net loss attributable to MedQuist Holdings Inc.	(2,596)	(4)%	(113,673)	(59)%
Adjusted EBITDA [1]	$ 641		$ 16,914	

(1) See Selected Consolidated Financial and Other Data for a reconciliation of net income (loss) attributable to MedQuist Holdings Inc. to Adjusted EBITDA.

Net revenues

Net revenues increased $136.0 million to $193.7 million for the year ended December 31, 2008 compared with $57.7 million for the year ended December 31, 2007. This increase was attributable primarily to:

- $124.6 million from the consolidation of MedQuist Inc. since the date of our acquisition of MedQuist Inc. in August 2008; and
- an increase of $4.6 million in clinical documentation revenue as a result of our organic volume growth and an increase of $6.8 million in revenue cycle management revenue primarily due to the full-year impact of revenue from AMS Plus, Inc., a revenue cycle management business that we acquired in August 2007.

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Cost of revenues

Cost of revenues increased $94.9 million to $125.1 million for the year ended December 31, 2008 compared with $30.2 million for the year ended December 31, 2007. This increase was attributable primarily to:

- $88.8 million from the consolidation of MedQuist Inc. s cost of revenues from the date of the MedQuist Inc. Acquisition in August 2008; and
- increase in clinical documentation and revenue cycle management cost of revenues by $6.1 million, primarily due to both increased personnel cost to support expansion of capacity as well as the full-year impact of our acquisition of AMS Plus, Inc., which contributed $5.2 million to the increase. Revenue cycle management costs declined by $1.3 million due to a reduction in the workforce as part of cost realignment with the reduced revenue. The cost of revenue for our clinical documentation business increased by $2.2 million.

Selling, general and administrative

Selling, general and administrative expense increased $26.1 million, or 104%, to $51.2 million for the year ended December 31, 2008 compared to $25.1 million for the year ended December 31, 2007. This increase was primarily attributable to:

- consolidation of MedQuist Inc. s selling, general and administrative expense from the date of the MedQuist Inc. Acquisition in August 2008 of $17.5 million; and
- an increase of $5.6 million for expenses related to the MedQuist Inc. Acquisition, and
- an increase of $2.8 million in clinical documentation and revenue cycle management due to the full-year impact of AMS Plus, Inc.; and offset by
- a decline in share based compensation charge of $1.2 million and other savings of $0.6 million.

Research and development

Research and development expense increased $6.1 million for the year ended December 31, 2008 compared to $0 for the year ended December 31, 2007. This increase was attributable to the consolidation of MedQuist Inc.

Depreciation and amortization

Depreciation and amortization expense increased $12.0 million, to $14.9 million for the year ended December 31, 2008 compared with $2.9 million for the year ended December 31, 2007. This increase was attributable primarily to:

- consolidation of a partial year of MedQuist Inc. depreciation and amortization expense, including the impact of amortization of acquired intangible assets associated with the acquisition of MedQuist Inc. amounting to $10.0 million; and
- an increase of $1.9 million in clinical documentation and revenue cycle management.

Cost of legal proceedings and settlements

Cost of legal proceedings and settlements increased $5.3 million for the year ended December 31, 2008 compared with no such costs for the year ended December 31, 2007. This increase was due to the consolidation of a partial year of MedQuist Inc. s cost of legal proceedings and settlement, which includes legal fees incurred in connection with the SEC and U.S. Department of Justice investigations and proceedings as well as the defense of certain civil litigation and proceedings. See Note 14 to our audited consolidated financial statements included elsewhere in this prospectus.

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Goodwill impairment charge

We carried out our annual impairment test in the fourth quarter of 2008, which included our annual testing date in December. During our annual impairment testing, we determined the fair value using a combination of market capitalization based on market price per share for approximately the 60 days before December 31, 2008 including a control premium, and a discounted cash flow analysis. Determining fair value requires the exercise of significant judgment, including judgment about appropriate discount rates, perpetual growth rates, the amount and timing of expected future cash flows, as well as relevant comparable company earnings multiples for the market-based approach. The cash flows employed in the discounted cash flow analyses were based on our internal business model for 2009 and, for years beyond 2009 the growth rates we used are an estimate of the future growth in the industry in which we participate. The discount rates used in the discounted cash flow analyses are intended to reflect the risks inherent in the future cash flows of the reporting unit and are based on an estimated cost of capital, which we determined based on estimated cost of capital relative to the capital structure. In addition, the market-based approach utilizes comparable company public trading values, research analyst estimates and, where available, values observed in private market transactions. The analysis indicated that the reporting units fair value was below the book value for the MedQuist Inc. and revenue cycle management reporting units and accordingly, a goodwill impairment charge of $99.0 million was recorded.

Restructuring charges

During 2008, we recorded a restructuring charge of $2.1 million for severance obligations related to a reduction in workforce of 189 employees in order to better align costs with revenue.

Interest expense, net

Interest expense, net primarily reflects interest paid on our credit facilities and long term debt, net of interest earned on deposits with banks. Interest expense, net increased $1.8 million, or 88%, to $4.0 million for the year ended December 31, 2008 compared to $2.1 million for the year ended December 31, 2007. This increase was attributable to interest expense on acquisition related debt related to the MedQuist Inc. Acquisition amounting to $2.5 million offset by a $654,000 reduction in interest expense due to the repayment of other debt.

Income tax provision

The effective income tax rate for the year ended December 31, 2008 was an income tax benefit rate of 4.7% compared with an effective income tax benefit rate of 4.1% for the year ended December 31, 2007. The 2008 tax benefit includes the reversal of approximately $5.6 million of deferred tax liabilities associated with indefinite life intangible assets related to goodwill which was impaired in 2008. After consideration of all evidence, both positive and negative, management concluded again in 2008, that it was more likely than not that a significant portion of the domestic deferred income tax assets would not be realized; therefore, we have a valuation allowance to reduce our net deferred tax assets to an amount that is more likely than not to be realized in future years.

Net income attributable to noncontrolling interest

Net income attributable to noncontrolling interest increased $5.2 million to $5.2 million for the year ended December 31, 2008 compared with $57,000 for the year ended December 31, 2007. This increase was attributable to the consolidation of MedQuist Inc. from the date of the MedQuist Inc. Acquisition.

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Unaudited quarterly results of operations

The following table sets forth our unaudited consolidated quarterly results of operations for each of the eight quarters during the period from October 1, 2008 to September 30, 2010. In our management s opinion, the unaudited results of operations for each quarter have been prepared on the same basis as the audited consolidated financial statements included in this prospectus and reflect all necessary adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of our results of operations for the quarters presented. You should read this information together with our consolidated financial statements and the related notes appearing elsewhere in this prospectus. Operating results for any fiscal quarter are not necessarily indicative of results for the full year. Historical results are not necessarily indicative of the results to be expected in future periods.

	Three months ended							
	2008	2009				2010		
	December 31,	March 31,	June 30,	September 30,	December 31,	March 31,	June 30,	September 3
	(Unaudited) (In thousands)							
t revenues	$ 94,215	$ 94,669	$ 93,871	$ 93,289	$ 89,939	$ 88,604	$ 111,988	$ 116,385
st of revenues	62,376	62,103	59,651	61,170	56,625	56,513	72,128	71,593
oss profit	31,839	32,566	34,220	32,119	33,314	32,091	39,860	44,792
erating expenses								
ling, general and ministrative	20,354	16,008	15,757	14,830	14,037	15,826	16,880	16,668
search and velopment	3,346	2,416	2,380	2,439	2,369	2,281	3,312	3,352
preciation and ortization	8,597	6,603	7,007	6,719	6,648	6,363	8,705	9,309
st of legal ceedings and tlements	1,829	7,774	4,384	1,382	1,403	1,043	1,109	633
quisition related arges					1,246	924	5,121	850
odwill impairment arge	98,972							
structuring charges	2,136			481	2,246	60	906	985
tal operating benses	135,234	32,801	29,528	25,851	27,949	26,497	36,033	31,797
erating income ss)	(103,395)	(235)	4,692	6,268	5,365	5,594	3,827	12,995
erest expense, net	(2,410)	(2,342)	(2,317)	(2,286)	(2,187)	(1,891)	(5,460)	(4,680
uity in income ss) of affiliated mpanies	18	72	336	2,127	(602)	514	32	70

her income	9				11	108		481
come (loss) before ome taxes and ncontrolling erests	(105,778)	(2,505)	2,711	6,109	2,587	4,325	(1,601)	8,866
ome tax provision nefit)	(7,573)	355	286	613	(172)	8	(334)	257
t income (loss)	(98,205)	(2,860)	2,425	5,496	2,759	4,317	(1,267)	8,609
ss: net income ributable to ncontrolling interest	(6,852)	(335)	(2,000)	(2,957)	(1,793)	(2,229)	(268)	(2,737
t income (loss) ributable to edQuist Holdings c.	$ (105,057)	$ (3,195)	$ 425	$ 2,539	$ 966	$ 2,088	$ (1,535)	$ 5,872
nes processed								
ASR	39%	41%	47%	49%	53%	57%	62%	67
Offshore	28%	30%	34%	37%	39%	41%	39%	42

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The following table presents a reconciliation of net income (loss) attributable to MedQuist Holdings Inc., to Adjusted EBITDA.

	Three months ended (Unaudited) (In thousands)							
	2008	2009				2010		
	December 31,	March 31,	June 30,	September, 30,	December, 31,	March 31,	June 30,	September 30,
Net income (loss) attributable to MedQuist Holdings Inc.	$ (105,057)	$ (3,195)	$ 425	$ 2,539	$ 966	$ 2,088	$ (1,535)	5,872
Net income attributable to noncontrolling interests	6,852	335	2,000	2,957	1,793	2,229	268	2,737
Income tax provision (benefit) [(a)]	(7,573)	355	286	613	(172)	8	(334)	257
Interest expense, net	2,410	2,342	2,317	2,286	2,187	1,891	5,460	4,680
Depreciation and amortization [(b)]	8,597	6,603	7,007	6,719	6,648	6,363	8,705	9,309
Cost of legal proceedings and settlements	1,829	7,774	4,384	1,382	1,403	1,043	1,109	633
Acquisition related charges					1,246	924	5,121	
Goodwill impairment charge	98,972							850
Restructuring charges	2,136			481	2,246	60	906	985
Equity in (income) loss of affiliated companies	(18)	(72)	(336)	(2,127)	602	(514)	(32)	(70)
Asset impairment charges, severance charges and accrual reversals [(c)]	2,000	(563)	(1,301)					
PFS business [(d)]	(1,120)	137	(160)	(197)	(223)	(304)	(430)	(424)
Adjusted EBITDA	$ 8,928	$ 13,716	$ 14,622	$ 14,653	$ 16,696	$ 13,788	$ 19,238	$ 24,829

(a) We have $130.0 million of federal net operating loss carry forwards as of December 31, 2009 and will record approximately $30.0 million of annual tax amortization related to intangible assets, including goodwill, that will reduce future taxable income. Due to the existence of federal net operating loss carry forwards and the impact of tax amortization related to intangible assets, including goodwill, cash taxes paid were $84,000, $160,000, $796,000 for the years ended December 31, 2007, 2008 and 2009, respectively, and $667,000 and $30,000 for the nine months ended September 30, 2009 and 2010, respectively.

(b) Includes amortization of acquired intangibles of $3.4 million, $3.0 million, $3.2 million, $3.6 million, $3.0 million, $3.0 million, $4.2 million and $4.5 million for the eight quarters ended September 30, 2010, respectively.

(c) Includes an impairment charge to write-off the amount paid related to severance of one of our former executives and the reversal of certain accruals, related to litigation claims, as a result of the expiration of the applicable statute of limitations.

(d) Includes the effect of the PFS business, which was sold on December 31, 2010.

Our net revenues increased in the quarter ended December 31, 2008 due to the consolidation of MedQuist Inc. for the full quarter and then again in the quarter ended June 30, 2010 with the consolidation of Spheris starting April 22, 2010. We experience minor fluctuations in our revenue as a result of variations in the number of business days in certain months and the deferral by consumers of elective medical procedures during certain holiday periods.

Our gross profit as a percentage of net revenues has increased from 34% in the quarter ended December 31, 2008 to 38% for the quarter ended September 30, 2010. This improvement was due to the increased use of speech recognition technology, which increased from 39% to 67% over the eight quarters ended September 30, 2010 and the increase in our offshore production, which, as percentage of our volume has increased from 28% to 42% for the same period. Additionally we reduced our indirect operating headcount to further reduce our costs.

Selling, general and administrative expense has decreased from $20.4 million for the quarter ended December 31, 2008 to $16.7 million for the quarter ended September 30, 2010. As a percentage of revenue selling, general and administrative expense has decreased from 22% to 14% over the same period. This was due to headcount reductions and reductions in other administrative expenses.

Our Adjusted EBITDA has increased over the eight quarter period from $8.9 million in the quarter ended December 31, 2008 to $24.9 million in the quarter ended September 30, 2010. This is the result of the MedQuist Inc. Acquisition and Spheris Acquisition, the operating improvements and the expense reductions made over the period.

Liquidity and capital resources

Our principal sources of liquidity include cash generated from operations, available cash on hand, and availability under our Senior Secured Credit Facility, as described below.

Available cash at September 30, 2010 was $24.0 million compared to $29.6 million at December 31, 2009. During the nine-month period ended September 30, 2010, we received $100.0 million in cash inflow from our Acquisition Credit Facility which was utilized to fund the Spheris Acquisition. Additionally, several other items impacted cash flows for the nine month period ended September 30, 2010, resulting in a net decrease of $5.6 million, including:

- addition of cash flows provided by Spheris operations;
- cash used to pay financing costs associated with the Acquisition Credit Facility (as defined below);
- $20 million in principal payments on the Acquisition Credit Facility;
- acquisition-related charges associated with the Spheris Acquisition;
- restructuring payments; and
- other working capital changes.

We believe our existing cash, cash equivalents, cash to be generated from operations and available borrowings under our revolving credit facility will be sufficient to finance our operations for the next twelve months. However, if we fail to generate adequate cash flows from operations in the future, due to an unexpected decline in our net revenues, or due to increased cash expenditures in excess of the net revenues generated, then our cash balances may not be sufficient to fund our continuing operations without obtaining additional debt or equity. There are no assurances that sufficient funding from external sources will be available to us on acceptable terms, if at all.

Prior to the Corporate Reorganization

In connection with the Spheris Acquisition, MedQuist Transcriptions, Ltd., a subsidiary of MedQuist Inc., and certain other subsidiaries of MedQuist Inc., or collectively, the Loan Parties, entered into a credit agreement, or the Acquisition Credit Facility, with General Electric Capital Corporation, CapitalSource Bank, and Fifth Third Bank. The Acquisition Credit Facility provided for up to $100.0 million in senior secured credit facilities, consisting of a $50.0 million term loan, and a revolving credit facility of up to $50.0 million. The credit facilities were secured by a first priority lien on substantially all of the property of the Loan Parties. Borrowings under the revolving credit facility were able to be made from time to time, subject to availability under such facility, until the fourth anniversary of the closing date. Amounts borrowed under the Acquisition Credit Facility bore interest at a rate selected by MedQuist Transcriptions, Ltd. equal to the Base Rate or the Eurodollar Rate (each as defined in the Acquisition Credit Facility agreement) plus a margin. At September 30, 2010, the revolving credit facility and the term loan had interest rates of

6.25% and 6.75%, respectively. The Acquisition Credit Facility was repaid in full on October 14, 2010 in connection with the Recapitalization Transactions.

In connection with the Spheris Acquisition, MedQuist Inc. also entered into the Acquisition Subordinated Promissory Note, with Spheris Inc. The note was to mature in five years from the date of the Spheris Acquisition.

The face amount of the Acquisition Subordinated Promissory Note was $17.5 million with provisions for prepayment at discounted amounts, ranging from 77.5% of the principal if paid within six months, 87.5% from six to nine months, 97.5% from nine to twelve months, 102.0% between the first and second year, 101.0% between the second and third year and 100.0% thereafter. For purposes of the purchase price allocation, the note was discounted at 77.5% of the principal, or $13.6 million. The Acquisition Subordinated Promissory Note bore interest at 8.0% for the first six months. The Acquisition Subordinated Promissory Note was repaid at 77.5% of the face amount on October 14, 2010 in connection with the Recapitalization Transactions.

In connection with the MedQuist Inc. Acquisition, we issued the 6% Convertible Notes to Philips. The 6% Convertible Notes were extinguished on October 14, 2010 in connection with the Recapitalization Transactions.

We are party to a credit agreement with ICICI Bank, Mumbai, India in the amount of $2.8 million, at interest rates ranging from LIBOR plus 2.5% and 15.5%, respectively, which is secured by CBay Systems (India) Pvt. Ltd. s, or CBay India, current assets and fixed assets. The amount outstanding as of September 30, 2010, December 31, 2009 and 2008 was $341,000, $1.4 million and $1.7 million, respectively. For the nine months ended September 30, 2010 and the years ended December 31, 2009, 2008 and 2007 we recorded $81,000, $205,000, $98,000 and $36,000, respectively, of interest expense in our consolidated statements of operations.

We had revolving lines of credit from K Bank. Subject to certain terms and conditions of the agreement with K Bank, the agreement provided a revolving line of credit of a maximum of $5.7 million. These revolving lines of credit with K Bank were repaid in full on October 14, 2010 in connection with the Recapitalization Transactions.

We are party to a credit agreement with IndusInd Bank, Mumbai, India of $3.2 million at interest rates of LIBOR plus 3%, which is secured by current assets and fixed assets of CBay India. The amount outstanding under this credit agreement as of September 30, 2010 and December 31, 2009 was $3.2 million and $0, respectively.

Subsequent to the Corporate Reorganization

In connection with the Corporate Reorganization, on October 1, 2010, MedQuist Inc., as borrower, and our subsidiaries, MedQuist Transcriptions, Ltd. and CBay Inc., as co-borrowers and guarantors, and we and certain of our other subsidiaries, as guarantors, entered into the Senior Secured Credit Facility with General Electric Capital Corporation, as administrative agent, and the parties thereto, consisting of (i) a $200.0 million Term Loan and (ii) a $25.0 million Revolving Credit Facility. The Senior Secured Credit Facility is secured by a first priority lien on substantially all existing and after-acquired property of the borrowers and the guarantors. The Term Loan is repayable in equal quarterly installments of $5.0 million commencing on the first fiscal quarter after the closing date, with the balance payable 5 years from the closing date. The term loan interest rate is LIBOR plus 5.50% with a LIBOR floor of 1.75% and is payable monthly. We may also structure borrowings as Eurodollar loans with an interest rate based on LIBOR rates. Currently, the LIBOR floor is in effect. We may prepay the term loan with certain prepayment penalties. Mandatory prepayments are required when we generate excess cash flows as defined under the Senior Secured Credit Facility. Under the Senior Secured Credit Facility, we are required to maintain (i) a minimum consolidated interest coverage ratio, initially, of 2.75x and increasing over the term of the facility to 4.00x, (ii) a maximum total leverage ratio, initially of 4.00x and declining over the term of the facility to 1.50x and (iii) a maximum consolidated senior leverage ratio, initially of 3.00x and declining over the term of the facility to 1.00x.

In addition to the Senior Secured Credit Agreement, in connection with the Corporate Reorganization, on September 30, 2010, MedQuist Inc., as issuer, MedQuist Transcriptions, Ltd. and CBay Inc. as co-issuers and guarantors, and we and certain of our other subsidiaries, as guarantors, entered into the Note Purchase Agreement for the issuance of $85.0 million aggregate principal amount of 13% Senior Subordinated Notes due 2016 to BlackRock Kelso Capital Corporation, PennantPark Investment Corporation, Citibank, N.A., and THL Credit, Inc. Interest on the notes is payable in quarterly installments at the issuers option at either (i) 13% in cash or (ii) 12% in cash plus 2% in the form of additional senior subordinated notes. Closing and funding of the Senior Secured Credit Facility and the Senior Subordinated Notes occurred on October 14, 2010. See Description of Indebtedness for a more detailed description of the Senior Secured Credit Facility and the Senior Subordinated Notes.

Proceeds from the Senior Secured Credit Facility and the Senior Subordinated Notes were used by MedQuist Inc. to repay $80.0 million of indebtedness under the Acquisition Credit Facility, to repay $13.6 million indebtedness under the Acquisition Subordinated Promissory Note and to pay a $176.5 million special dividend to its stockholders. We received $122.6 million of this special dividend and used $104.1 million to extinguish our 6% Convertible Notes issued in connection with the MedQuist Inc. Acquisition and $3.7 million to extinguish other lines of credit.

Operating activities

Cash flow provided by operating activities was $32.1 million for the nine months ended September 30, 2009 and $28.7 million for the same period in 2010. For 2009, changes in operating assets and liabilities resulted in a net cash flow of $5.0 million. The primary components of that inflow were a $5.8 million lower accounts receivable balance due to lower revenue and the timing of collections and a $4.6 million higher accrued compensation balance due to higher accrued but unpaid incentive compensation, partially offset by a cash usage resulting from lower accrued expenses and current liabilities balance. For the nine months ended September 30, 2010 changes in operating assets and liabilities resulted in a use of cash of $12.2 million, consisting primarily of $4.5 million in higher other current assets due to an increase in deferred financing fees and $9.1 million due to decreased accrued expenses and other current liabilities. This was primarily due to payments for assumed liabilities of Spheris and settlement costs related to the Kaiser litigation. Partially offsetting those outflows were cash inflows of $2.1 million related to an increased accounts payable balance and $2.5 million of higher accrued compensation.

Cash flow provided by operating activities was $3.3 million, ($2.6) million and $42.7 million for the years ended December 31, 2007, 2008 and 2009, respectively. Changes in operating assets and liabilities resulted in net cash flow of $1.9 million in 2007, net use of cash of $7.9 million for 2008, and net cash flow of $2.5 million for 2009. For 2007, the primary changes were an outflow of $5.0 million from higher accounts receivable balances as a result of an increase in direct billings to third party customers offset by an inflow of $6.2 million from lower other current assets due to the receipt of amounts from a related party billed in the prior year. For 2008, the primary components of the $7.9 million use of cash were a $10.9 million cash outflow related to a decrease in accrued expenses and other current liabilities and lower other non-current liabilities of $4.8 million. This was due to payments to customers under MedQuist Inc. s customer accommodation program and the settlement of a previously accrued litigation. These outflows were partially offset by cash inflows from an increase in accounts payable of $2.0 million and deferred revenue of $3.4 million. The increase in deferred revenue represents cash received for maintenance contracts and certain product sales in advance of the recognition of the associated revenue. For 2009, the primary components of the $2.5 million cash flow from operating assets and liabilities were $3.8 million related to improved receivables collections and lower receivable balances due to lower revenue, and a cash inflow of $2.2 million from other current assets. These inflows were partially offset by outflows of $2.1 million related to deferred revenue primarily due to lower maintenance contract revenue and a $3.6 million outflow as a result of a decrease in accrued expenses and other current liabilities primarily due to the payment of accrued expenses associated with the MedQuist Inc. Acquisition.

Investing activities

Cash used in investing activities was $8.2 million for the nine months ended September 30, 2009 which reflects the purchase of property and equipment and additions to intangible assets (primarily capitalized software). Cash used by investing activities was $107.3 million for the nine months ended September 30, 2010. The Spheris Acquisition accounted for $97.7 million and purchases of property and equipment and intangible assets accounted for $9.6 million of the 2010 cash used by investing activities. Cash used by investing activities was $18.5 million, $76.5 million and $12.2 million for the year ended December 31, 2007, 2008 and 2009 respectively. Payments for acquisitions and interests in affiliates were $10.2 million, $69.3 million and $2.7 million for 2007, 2008 and 2009, respectively, and the remaining cash used in investing activities primarily related to the purchase of property and equipment.

Financing activities

Cash used by financing activities was $43.9 million for the nine months ended September 30, 2009. This was due to the dividend paid by MedQuist Inc. to non-controlling shareholders of $15.3 million and the repayment of a bridge note related to the MedQuist Inc. Acquisition. For the nine months ended September 30, 2010 cash provided by financing activities was $73.2 million primarily related to the financing of Spheris Acquisition and subsequent partial repayment of the Acquisition Credit Facility. Financing activities used $44.4 million for the year ended December 31, 2009 representing dividends of $15.3 million to noncontrolling interests and $28.6 million related to repayments of loans. For the year ended December 31, 2008 cash provided by financing activities was $121.4 million which was primarily the result of the $124.0 million investment by our majority stockholder. For the year ended December 31, 2007, the cash provided by financing activities was $16.1 million of which the primary components were the proceeds from the sale of stock offset by repayments of indebtedness.

Contractual obligations

The following table summarizes our obligations to make future payments under current contracts as of December 31, 2009 (in thousands):

	Payment due by period				
	Total	Less than 1 year	1-3 years	3-5 years	After
			(In thousands)		
Operating lease obligations	$ 20,770	$ 5,561	$ 13,152	$ 2,057	
Purchase obligations [1]	10,869	8,666	2,203		
Long-term debt, including current maturities	107,340	6,207	3,040	98,093	
Total contractual obligations	$ 138,979	$ 20,434	$ 18,395	$ 100,150	

[1] Purchase obligations are for telecommunication contracts ($9.6 million), software development cost ($1.0 million) and other recurring purchase obligations ($250,000).

Our debt obligations changed materially as of September 30, 2010 because of the incurrence of the debt associated with the Spheris Acquisition. The following table summarizes our obligations to make future payments of principal (excluding interest) under debt obligations as of September 30, 2010 (in thousands):

2010	$ 13,090
2011	23,467
2012	117,292
2013	1,087
2014	35,278
2015 and thereafter	13,958
Total	$ 204,172

Our debt obligations changed materially subsequent to September 30, 2010 because of the incurrence and refinancing of debt obligations then outstanding. The following table summarizes our obligations to make future payments of principal (excluding interest) under debt obligations as of September 30, 2010 on a pro forma basis after giving effect to the Recapitalization Transactions (in thousands):

2010	$ 9,932
2011	23,337
2012	20,832
2013	20,408
2014	20,278
2015 and thereafter	200,061
Total	$ 294,848

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Off-balance sheet arrangements

We are not involved in any off-balance sheet arrangements that have or are reasonably likely to have a material current or future impact on our financial condition, changes in financial condition, revenue or expense, results of operations, liquidity, capital expenditures, or capital resources.

Quantitative and qualitative disclosures about market risk

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in interest rates. We do not hold or issue financial instruments for trading purposes. Our offshore production costs are subject to foreign exchange fluctuation as these costs are primarily paid in Indian Rupees. We have entered in to foreign exchange contracts to offset such fluctuation. As of September 30, 2010, we had forward Indian rupee purchase contracts totaling $5.3 million at an average contract price of 47.01 Indian rupees. Such contracts have various maturities through April 14, 2011.

Interest rate sensitivity

We earn interest income from our balances of cash and cash equivalents. This interest income is subject to market risk related to changes in interest rates, which affects primarily our investment portfolio. We invest in instruments that meet high credit quality standards, as specified in our investment policy.

The Term Loan of our Senior Secured Credit Facility bears interest at LIBOR plus 5.50% with a LIBOR floor of 1.75%. Our interest expense associated with this loan will increase if LIBOR increases. Because the LIBOR floor is currently in effect, a 1.25% increase in LIBOR above current LIBOR levels would not increase our effective interest rate. A 1% increase in LIBOR above this floor would result in an approximate $2.0 million annual increase in our interest expense.

Recent accounting pronouncements

In June 2009, the Financial Accounting Standards Board, or FASB, issued, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles. This establishes the codification as the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under federal securities laws are also sources of authoritative GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority.

In September 2009, the FASB ratified two consensuses affecting revenue recognition:

n The first consensus, Revenue Recognition Multiple-Element Arrangements, sets forth requirements that must be met for an entity to recognize revenue from the sale of a delivered item that is part of a multiple-element arrangement when other items have not yet been delivered. One of those current requirements is that there be objective and reliable evidence of the standalone selling price of the undelivered items, which must be supported by either vendor-specific objective evidence, or VSOE, or third-party evidence, or TPE. This consensus eliminates the requirement that all undelivered elements have VSOE or TPE before an entity can recognize the portion of an overall arrangement fee that is attributable to items that already have been delivered. In the absence of VSOE or TPE of the standalone selling price for one or more delivered or undelivered elements in a multiple-element arrangement, entities will be required to estimate the selling prices of those elements. The overall arrangement fee will be allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by VSOE or TPE or are based on the entity s estimated selling price. Application of the residual method of allocating an overall arrangement fee between delivered and undelivered elements will no longer be permitted.

n The second consensus, Software-Revenue Recognition, addresses the accounting for a transaction involving software to exclude from its scope tangible products that contain both software and non-software components that function together to deliver a product s functionality.

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The consensuses are effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. We are evaluating the potential impact of these requirements on our financial statements.

Changes in independent auditors

In October 2008, we informed Grant Thornton, India, or Grant Thornton, that Grant Thornton was being dismissed as our principal accountants effective immediately. We determined to use the same accountants as our subsidiary, MedQuist Inc. after the respective audit committees of MedQuist Inc. and MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) evaluated our options and selected KPMG LLP, or KPMG. Our decision to dismiss Grant Thornton was approved by our audit committee.

Grant Thornton s audit reports on our consolidated financial statements as of and for the years ended December 31, 2007 and 2006 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles.

During the years ended December 31, 2007 and 2006, and in the subsequent interim period preceding Grant Thornton s dismissal, there were: (i) no disagreements between us and Grant Thornton on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Grant Thornton, would have caused Grant Thornton to make reference to the subject matter of the disagreement in their reports on the financial statements for such years, and; (ii) no reportable events within the meaning of Item 304(a)(1)(v) of Regulation S-K.

We requested that Grant Thornton furnish a letter addressed to the SEC stating whether or not it has reviewed and agrees with the above statements. A copy of Grant Thornton s letter dated November 24, 2010 is included as an exhibit to the registration statement of which this prospectus is part.

In October 2008, we engaged KPMG as our new principal accountants for the year ending December 31, 2008. Our decision to engage KPMG was approved by our audit committee. In deciding to engage KPMG, our audit committee reviewed auditor independence issues and prior commercial relationships with KPMG and concluded that KPMG has no commercial relationship with us that would impair its independence for the year ended December 31, 2008. During the years ended December 31, 2007 and 2006, and in the subsequent interim period through October 2008, neither we nor anyone acting on our behalf has consulted with KPMG on any of the matters or events set forth in Item 304(a)(2) of Regulation S-K.

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Business

Overview

We are a leading provider of integrated clinical documentation solutions for the U.S. healthcare system. Our end-to-end solutions convert physicians dictation of patient interactions, or the physician narrative, into a high quality and customized electronic record. These solutions integrate technologies and services for voice capture and transmission, ASR, medical transcription and editing, workflow automation, and document management and distribution to deliver a complete managed service for our customers. Our solutions enable hospitals, clinics, and physician practices to improve the quality of clinical data as well as accelerate and automate the documentation process, and we believe our solutions improve physician productivity and satisfaction, enhance revenue cycle performance, and facilitate the adoption and use of electronic health records.

We are the largest provider by revenue of clinical documentation solutions based on the physician narrative in the United States. During the three months ended September 30, 2010, we processed, on an annualized run rate basis, more than 3.4 billion lines of clinical documentation on our platform. The significant majority of lines we process are edited or transcribed by our approximately 14,000 MTs and MEs. Of this volume, for the three months ended September 30, 2010, 67% was processed using ASR technology and 42% was produced offshore. Our size allows us to handle the clinical documentation requirements of many of the largest and most complex healthcare delivery networks in the United States, provides us with economies of scale, and enables us to devote significantly more resources to enhancing our solutions through research and development than most of our competitors.

We serve more than 2,400 hospitals, clinics, and physician practices throughout the United States, including 40% of hospitals with more than 500 licensed beds. As of September 30, 2010, the average tenure of our top 50 customers was over five years, and approximately 98% of our revenue was from recurring services. Insights gained from our broad, long-standing customer relationships allow us to optimize our integrated solutions, and we believe that this positions us for future growth as we target new customers.

We have realized significant increases in both revenue and profitability as the result of two large acquisitions, MedQuist Inc., in which we acquired a majority interest in August 2008, and Spheris, which we acquired in April 2010. From 2007 to 2009, our net revenue increased from $57.7 million to $371.8 million. Over this same period, our Adjusted EBITDA increased from $0.7 million to $59.7 million, and our Adjusted EBITDA margins expanded from 1.1% to 16.1%. For a reconciliation of our net income (loss) attributable to MedQuist Holdings Inc. to Adjusted EBITDA, see Selected Consolidated Financial and Other Data.

Our industry

Growth of clinical documentation in the United States

Over the past several decades, our industry has evolved from almost exclusively in-house production to outsourced services and from labor-intensive services to technologically-enabled solutions. The market opportunity for our solutions is driven by overall healthcare utilization and cost containment efforts in the United States. Numerous factors are driving increases in the demand for healthcare services including population growth, longer life expectancy, the increasing prevalence of chronic illnesses, and expanded coverage from healthcare reform. According to a September 2010 report by the U.S. Centers for Medicare and Medicaid Services, spending on healthcare grew from $1.2 trillion in 1998 to $2.3 trillion in 2008, representing a compound annual growth rate of 7.0%. It also projects that healthcare spending will grow to reach $4.2 trillion, or 19.3% of U.S. gross domestic product, by 2018, representing a compound annual growth rate of 6.3%. At the same time, U.S. healthcare providers remain under substantial pressure to reduce costs while maintaining or improving the quality of care.

Accurate and timely clinical documentation has become a critical requirement of the growing U.S. healthcare system. Medicare, Medicaid, and insurance companies demand extensive patient care documentation. The HITECH Act includes numerous incentives to promote the adoption and meaningful use of electronic health records, or EHRs, across the healthcare industry. Consequently, healthcare providers are increasingly using EHRs to input, store, and manage their clinical data in a digital format. Healthcare providers that use EHRs require accurate, easy-to-use, and cost-effective means to input clinical data that are not disruptive to the physician workflow.

Importance of the physician narrative

Physicians generally use one of two methods to capture clinical data in a digital format: dictation and on-screen data entry. Dictation allows a physician to use his or her voice to document patient interactions, which is then converted into a text format or EHR record. On-screen data entry enables a physician to populate templates or drop-down menus in an EHR system, typically with a handheld or other hardware device.

In many hospital settings, dictation is the most popular method for capturing clinical data because of the many advantages it provides over on-screen data entry. From an efficiency standpoint, a physician s time is typically the most expensive labor component of a clinical documentation process, and reducing the time required for data capture lowers costs. It is generally faster to dictate than enter data on-screen, and dictation frees up the physician to do other tasks in parallel. From a documentation standpoint, dictation allows for a flexible narration of patient interactions. Templates and drop-down menus typically restrict input to a structured format. While dictation can be converted into structured format later, it provides a more flexible method for data capture.

Market opportunity

The need to convert and manage the physician narrative represents a substantial market opportunity. Historically, in-house hospital labor was used to transcribe clinical reports using analog recordings from physicians. Later, healthcare providers began to outsource production to domestic providers and use digital formats. Today, advanced automation technologies, such as ASR and workflow platforms, and low-cost offshore resources are available to drive substantial improvements in productivity and cost.

Outsourcing enables healthcare providers to reduce costs, gain access to leading technologies, accelerate turn-around times, improve accuracy, and fulfill security and compliance requirements. In a March 2010 report, ValueNotes estimated that spending on outsourced transcription services by hospitals, clinics, and physician practices in the United States reached $5.4 billion in 2009. ValueNotes further projected that the market for outsourced transcription would grow 8.2% per annum to $8.0 billion by 2014. As this market expands, ValueNotes projects that outsourcing will grow relative to in-house alternatives from 33% of production in 2009 to 38% by 2014.

Market segmentation and trends

While outsourcing provides many benefits, the landscape for outsourced service providers is highly fragmented with varying degrees of technological automation and offshore capabilities amongst providers. Thousands of local and regional providers offer limited services without technology offerings. A small set of national providers offer a combination of technology and services, but have varying degrees of technological sophistication and production capacity. Some vendors also focus more on pure technology, offering ASR software, with partnerships for third-party services, though most of these vendors lack production scale.

Over the last five years, technological automation and a rise in offshore capabilities have substantially decreased the cost of production and have further differentiated outsourcing providers. ASR has been a key technological driver of productivity gains. ASR converts the physician narrative into a text format which is available for editing. The effective use of this technology lowers the cost of production relative to conventional transcription services by replacing transcription labor with editing, which, while still required, is much less time consuming. Another key driver for cost reductions has been the increased use of offshore infrastructure and resources. Historically, most U.S. healthcare providers that outsourced their production did so to domestic service providers. With the advent of internet-based technologies and improvements in the quality and training of offshore personnel, the clinical documentation industry has seen a shift towards offshore resources to reduce costs. India is by far the most popular destination for outsourcing given relatively low wages and a highly educated English-speaking workforce.

As the industry s cost of production has declined through increases in technological automation and offshore capabilities, the average market price for medical transcription services has also declined. This has allowed healthcare providers to participate in these economic gains. However, we believe that participants in our industry must expand their technology platforms and offshore capabilities to remain competitive.

Our competitive strengths

Our competitive strengths include:

- **Leader in a large, fragmented market** We are the largest provider by revenue of clinical documentation solutions based on the physician narrative in the United States. Our size enables us to meet the needs of large, sophisticated healthcare customers, provides economies of scale, and enables us to devote significantly more resources to research and development and quality assurance than many other providers.

- **Integrated solutions delivered as a complete managed service** We offer fully-integrated end-to-end managed services that capture and convert the physician narrative into a high quality customized electronic record. We integrate technologies and services for voice capture and transmission, ASR, medical transcription and editing, workflow automation, and document management and distribution. The end result is value-added clinical documentation with high accuracy and quick turn-around times.

- **Large and diversified customer base with long-term relationships** We serve more than 2,400 hospitals, clinics and physician practices throughout the United States, including 40% of hospitals with more than 500 licensed beds. We have a long-standing history with our customers, and as of September 30, 2010, approximately 98% of our revenue was from recurring services.

- **Highly-efficient operating model** Over the past two years, we have driven down our cost structure through the use of technology automation, standardized processes, and offshore resources. Our use of ASR, which has grown from 39% of our volume in the fourth quarter of 2008 to 67% in the third quarter of 2010, has increased our productivity. Additionally, our expanding footprint in India has enabled us to increase our offshore production from 28% of our volume to 42% over this same period. The financial impact of these measures has been an improvement in gross margins during this timeframe from 33.8% to 38.5%. We have grown our volume, excluding volume provided by the Spheris Acquisition, by 2.3% over this same period while sharing cost savings with our customers in the form of lower prices.

- **Proven management team** We have assembled an outstanding senior leadership team with significant industry experience and domain expertise in both domestic and offshore operations. Our management team has delivered substantial results and brings an entrepreneurial spirit with proven experience in managing growth, driving operational improvements, and successfully integrating acquisitions.

Our strategy

Key elements of our strategy include:

- **Expand our customer base and increase existing customer penetration** We intend to grow our customer base by targeting three market segments: large healthcare providers still using in-house services, large healthcare providers currently using competing outsourced alternatives, and small-to-medium medical practices. Given our market leadership, strong solution offerings, and low cost structure, we believe we are well positioned to both replace in-house solutions as well as displace competing outsourced alternatives for large healthcare providers. For small-to-medium sized physician practices, we offer an easy-to-use web-based clinical documentation platform, CBayScribe, to expand our market share in this segment, which we believe to be underpenetrated. In order to increase penetration within our existing customer base, we intend to continue targeting additional healthcare clinical areas and facilities of our current customers. Additionally, as healthcare providers centralize their purchasing decisions, we believe that our ability to deliver outstanding services for large, complex requirements provides us with increasing access to new sales opportunities within our existing customer base and through existing customer relationships.

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- **Continue to develop and enhance our integrated solutions** We seek to differentiate our integrated solutions through sophisticated technology and process improvement. We have over 100 employees dedicated to research and development. Over the last year, we launched numerous enhancements, including a front end speech platform for general medicine, additional EHR system integration, and advanced performance monitoring.

- **Enhance profitability through technical and operational expertise** We have made significant improvements in productivity through business process and infrastructure improvements. Notwithstanding reductions in customer pricing, our gross margins have expanded from 33.8% in the fourth quarter of 2008, our first fiscal quarter after we acquired MedQuist Inc., to 38.5% in the third quarter of 2010, and our Adjusted EBITDA margins have expanded from 9.5% to 21.4% for the same periods. Our management team has proven its ability to implement continuous process improvements and we intend to further increase offshore production and our use of technological automation, including ASR, to lower costs and enhance our profitability.

- **Facilitate the adoption and promote meaningful use of EHR systems** Our integrated solutions provide a comprehensive, accurate and effective method to incorporate physician narrative into an EHR system. We interface with substantially all of the leading EHR vendors to integrate our clinical documentation solutions and to help our customers realize the full potential of their EHR systems through the use of the physician narrative. In our experience, when EHR is adopted, customers tend to consolidate their purchase decisions, which benefits us as a leading provider of clinical documentation solutions.

- **Pursue strategic acquisitions** We believe that there are significant opportunities available to create value through strategic acquisitions. We intend to seek appropriate opportunities to grow our customer base, enhance our solutions, consolidate costs, and expand our value proposition to our customers.

Our solutions

Clinical documentation solutions for healthcare providers

We provide enterprise-class solutions for healthcare providers ranging from fully-integrated end-to-end managed services to stand-alone offerings. These solutions represent the large majority of our revenues. Our solutions enable our customers to easily access advanced technologies with confidence that their clinical documentation requirements will be completed accurately and quickly. Our industry-leading solutions integrate voice capture and transmission, automated speech recognition, transcription services, workflow management, and document management and distribution capabilities.

With proprietary and licensed technologies, we enable our customers to efficiently manage their narrative-based documentation through customizable workflows. A typical workflow includes the following steps:

- **Capture** As the first step in a workflow process, users can dictate into one of several input devices, including a variety of handheld dictation devices, smartphone applications, or standard telephones. PC-based dictation stations can also be used for users who prefer to edit their own files from speech recognition. By supporting a wide array of capture methods, we provide flexibility to our customers to decide which approach works best with their workflow.

- **Manage** Captured voice files are merged with patient information from our customers information systems and loaded into our enterprise platform for processing. Our platform balances production resources across both in-house and outsourced personnel, and its web-based management capabilities allow administrators to easily manage workflows from anywhere at any time. We generate draft reports using ASR technology which are reviewed by our MEs. We can also use conventional transcription services from our MTs. To maintain high quality and efficiency, our platform automatically matches voice files from various specialties and acuity levels to the MTs or MEs with the appropriate skill sets. It also includes random quality checks to give timely feedback to our personnel. Turn-around time is an important metric for our customers, and so the system optimizes processing to ensure we fulfill our contracted service level agreements, which typically range from one hour to 48 hours.

- **Analyze** Completed reports are routed back to physicians or other healthcare professionals for review, final editing (as required), and authentication. These reports are then available to drive additional value added services, such as coding, data abstraction, and billing services. We provide customers with sophisticated reporting capabilities and integrated electronic signature solutions to simplify and accelerate the review of their clinical reports. We use Quantify^{tm}, our patent-pending natural language processing technology, to convert final reports into structured documentation formats. These structured formats allow data to be loaded into an EHR system, easily analyzed for clinical documentation improvement initiatives, or used for quality measures for reporting to government agencies. In addition, reports can drive revenue cycle management processes through our web-based CodeRunnerCAC platform, which provides a complete coding workflow and workforce management solution.

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- **Distribute** After being approved by the physician, electronic records are distributed. We provide a fully featured distribution solution for printing, faxing and electronic distribution to referring physicians. We have developed thousands of interfaces with major, mid-level and proprietary hospital information systems, radiology information systems, health information repositories and electronic health record systems. Our solution supports HL7 and XML-based formats which further allows us to meet the needs of each individual customer. Throughout the entire workflow, our managed service platform maintains security measures and audit trails in full compliance with HIPAA privacy and security standards and regulations and the protection of the confidentiality of patient information.

In delivering these customized workflows, we offer a variety of software products. These can work either as stand-alone solutions or as integrated solutions with our other managed services. These solutions include:

- **Enterprise platform** Our core platform provides a powerful and flexible transcription solution that integrates the process of dictation, transcription, speech recognition, and document delivery into a unified clinical information management workflow. We offer the platform typically as a managed service. For those customers that prefer to use their own services, we also offer it on a license basis. Our platform provides a high performance and highly customizable clinical documentation workflow. It integrates with every major hospital system vendor, such as Epic, Cerner, and Meditech, and we developed thousands of interfaces with customer systems.

- **SpeechQ** Our front end speech recognition solution enables physicians to dictate, edit, and sign their reports in real-time. With workflows customized for numerous medical practices, such as radiology and general medicine, SpeechQ offers end-to-end workflows that combine voice commands and dictation. SpeechQ integrates with our enterprise platform in scenarios where a physician prefers to send text to our editors for review. Additionally, it interfaces with EHR and other healthcare systems to allow patient demographic information to be automatically populated, updated, and distributed.

- **DocQVoice** Our web-based enterprise digital voice capture and transport solution is deployed at the customer s location and integrates with both our enterprise platform and legacy dictation systems.

Clinical documentation solutions for physician group practices, clinics and small hospitals

Small healthcare providers, such as physician group practices, clinics, and small hospitals, have many of the same requirements as larger providers, but they frequently lack in-house expertise in IT systems. For these providers, we offer fully-integrated end-to-end managed services that have been tailored for their requirements. We market these offerings under CBayScribe. Through this service, we provide online access to advanced technologies through a web-based platform. This gives small healthcare providers access to functionality that was previously only available to larger hospitals. With much of the same functionality as our enterprise platform, CBayScribe gives smaller healthcare providers the same confidence and capabilities to manage their clinical documentation in an accurate and timely fashion.

Our proprietary and licensed technologies enable small healthcare providers to efficiently manage their narrative-based documentation through numerous workflows. Like our solutions for large healthcare providers, CBayScribe utilizes and maintains security measures and audit trails that establish our compliance with and assist our customers in their compliance with privacy and security standards and HIPAA regulations.

Revenue cycle management

We offer coding and other revenue cycle management solutions to improve customers reimbursement, compliance and other revenue cycle processes. CodeRunner, our internet-based coding workflow, offers coding services which are used by certain of the largest healthcare institutions in the industry. We recently added computer assisted coding to CodeRunner which, like speech recognition, provides the customer with improved productivity, increased accuracy and more consistent coding. In addition, in 2013 there is a mandate to change to the ICD-10 coding system which will increase the number of code possibilities five-fold. The only way healthcare organizations can effectively deal with this change is to adopt technology. We provide total departmental outsourcing of coding, on-site temporary assistance and remote-coding services through both VPN-enabled access to customer systems and CodeRunner. We also offer complete recovery audit and consulting services, as well as traditional coding audit services. These solutions enable our customers to utilize an end-to-end solution from dictation to billing. Revenue cycle management is a small part of our business.

Selling and marketing

As of September 30, 2010, we employed more than 100 personnel in our sales force and account management organization. Our sales force is focused on new customer sales opportunities including both the conversion of customers that are using in-house solutions as well as the displacement of competitive offerings. This sales organization employs consultative sales techniques to deliver customized programs and solutions that respond to the customer s unique requirements. Our account management organization is responsible for continuity of our current customer relationships and the expansion of those relationships to include additional services, facilities, or work types.

We complement our sales efforts with numerous marketing initiatives, including:

- telemarketing and direct mail programs;
- attending and sponsoring industry trade shows of national organizations, such as the American Health Information Management Association, Healthcare Information and Management Systems Society, Association for Healthcare Documentation Integrity, Radiological Society of North America, Society for Imaging Informatics in Medicine, and Medical Transcription Industry Alliance;
- participating in work groups and leadership committees of the industry associations; and
- advertising in trade journals related to our industry.

We market our integrated clinical documentation solutions using multiple brands. For health systems, hospitals and large group medical practices, we primarily market our offerings through the MedQuist Inc. brand. For small-to-medium sized physician practices, we primarily use the CBayScribe brand.

Operations

We serve our customers 24 hours a day, seven days a week with our integrated clinical documentation solutions. We use ASR in most of our production, which we complement with skilled, English-speaking MTs and MEs.

Approximately 14,000 of our MTs and MEs are located in the United States and India. We believe this is the largest workforce of any company providing clinical documentation services. The size of our global pool of resources allow us to quickly and efficiently provide customers with the capacity needed to implement comprehensive, scalable solutions.

Technology

Technology development

We devote substantial resources to research and development to ensure that our solutions meet both current and future customer requirements. As of September 30, 2010, we employed a development staff of over 90 employees. Our development staff has expertise in multiple disciplines, including service oriented architectures, web-based clients, high volume transactional databases, data warehouses, web services and integration with third-party systems. We also outsource development for specific technologies, such as ASR, capture-assisted codes, encoders, databases, portal technologies and reporting. Much of the technology in our integrated solutions is proprietary. Our development personnel follow a rigorous development methodology that ensures repeatable, high quality and timely delivery of solutions.

ASR is a key component of our narrative-based solutions, and we license software for a portion of our ASR capabilities. We dual source ASR software licenses.

Technology operations

Together with our subsidiaries, we currently operate data centers in the United States and in India. These data centers have internal and external redundancy to protect data and maintain service levels. We have three production data centers of which two are owned and maintained, by third parties. The services provided by these third party vendors are generally available commercially at comparable rates from other vendors. We operate six non-production data centers which are located in existing office locations at reduced rates. Our data centers are scalable to service additional customers without significant capital investment.

Our clinical documentation solutions are hosted by us and accessed using high-speed internet connections or private network connections. We have devoted significant resources to producing software applications and managed services to meet the functionality and performance expectations of our customers. We use commercially available hardware and a combination of proprietary and commercially-available licensed software to provide our clinical documentation solutions.

Competition

Because we integrate technologies and services, we compete with companies in a number of different sectors. These competitors include:

- in-house service departments of healthcare providers, which we believe produce the majority of clinical documentation today based on the physician narrative;
- national medical transcription service providers, such as Focus Informatics, Inc. (a subsidiary of Nuance Communications, Inc., or Nuance), Heartland Information Services, Transcend Services, Inc., and Webmedex, Inc.;
- local or regional medical transcription service organizations;
- ASR software vendors, such as Nuance and Multimodal Technologies, Inc., or Multimodal, which market ASR as a means to reduce clinical documentation labor; and
- EHR software vendors which promote their systems as a replacement to narrative-based input by using on-screen templates and drop-down boxes for data entry.

Competition for our integrated clinical documentation solutions is based primarily on the following factors:

- accuracy and timeliness of documentation produced;
- pricing;
- ability to provide fully-integrated end-to-end solutions;
- ease of upgrades and ability to add complementary offerings;
- capacity to handle large volumes and complex workflows;
- physician acceptance and productivity;
- analytics provided to customers;
- domestic or offshore production capabilities;
- time to implement for new customers; and
- financial stability.

We believe we compete effectively on all of the above criteria. We provide fully integrated end-to-end managed services that translate the physician narrative into a customized electronic record with high accuracy and low turn-around time. We believe that our production cost structure allows us to offer competitive prices while continuing to invest in the development of new technologies and services. We have the largest production capacity in our industry, which we believe strengthens our operational capabilities and assists us in meeting customer demands for timely implementation of our solutions for new accounts.

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Government regulation

The provision of clinical documentation solutions is heavily regulated by federal and state statutes and regulations. We and our healthcare customers must comply with a variety of requirements, including HIPAA and other restrictions regarding privacy, confidentiality, and security of health information.

We have structured our operations to comply with HIPAA and other regulatory and contractual requirements. We have implemented appropriate safeguards related to the access, use, or disclosure of PHI, to address the privacy and security of PHI consistent with our regulatory and contractual requirements. We also train our personnel regarding HIPAA and other requirements. We have made and continue to make investments in systems to support customer operations that are regulated by HIPAA and other regulations. Because these standards are subject to interpretation and change, we cannot predict the future impact of HIPAA or other regulations on our business and operations.

HIPAA and HITECH Act

HIPAA establishes a set of national privacy and security standards for protecting the privacy, confidentiality and security of PHI. Under HIPAA, health plans, healthcare clearinghouses, and healthcare providers, together referred to as covered entities for purposes of HIPAA, and their business associates must meet certain standards in order to protect individually identifiable health information. The HITECH Act which was enacted into law on February 17, 2009 as part of the ARRA, enhances and strengthens the HIPAA privacy and security standards and makes certain provisions of HIPAA applicable to business associates of covered entities.

As part of the operation of our business, our customers provide us with certain PHI, and we are considered to be a business associate of most of our customers for purposes of HIPAA. The provisions of HIPAA require our customers to have agreements in place with us whereby we are required to appropriately safeguard the PHI we create or receive on their behalf. As a business associate, we also have statutory and regulatory obligations under HIPAA. We are bound by our business associate agreements to use and disclose PHI in a manner consistent with HIPAA in providing services to those covered entities.

We and our customers are also subject to HIPAA security regulations that require the implementation of certain administrative, physical and technical safeguards to ensure the confidentiality, integrity and availability of EPHI. We are required by regulation and contract to protect the security of EPHI that we create, receive, maintain or transmit for our customers consistent with these regulations. These requirements include implementing administrative, physical and technical safeguards that reasonably and appropriately protect the confidentiality, integrity and availability of such EPHI. To comply with our regulatory and contractual obligations, we may have to reorganize processes and invest in new technologies. On February 17, 2010, we became directly subject to HIPAA s criminal and civil penalties for any breaches of our privacy and security obligations.

Other restrictions regarding privacy, confidentiality, and security of health information

In addition to HIPAA, numerous other state and federal laws govern the collection, dissemination, use, access to, confidentiality and security of PHI. In addition, Congress and some states are considering new laws and regulations that further protect the privacy and security of medical records or medical information. In many cases, these state laws are not preempted by the HIPAA privacy and security standards.

Intellectual property

We rely on a combination of copyright, patent, trademark, trade secret and other intellectual property laws, nondisclosure agreements, license agreements, contractual provisions and other measures to protect our proprietary rights. We have a number of registered trademarks in the United States and abroad, including CBay®, MedQuist® and SpeechQ®. We have common law rights over a number of unregistered trademarks. We also own a limited number of United States and foreign patents and patent applications that relate to our products, processes and technologies.

We dual source license ASR software that we incorporate into our DEP, SpeechQ for Radiology and SpeechQ for General Medicine proprietary products.

MedQuist Inc. licenses speech recognition and processing software from Nuance pursuant to a licensing agreement entered into in November 2009. Under its agreement with Nuance, MedQuist Inc. pays a licensing fee based upon a per line charge for each transcribed line of text processed using the software licensed from Nuance. MedQuist Inc. s licensing agreement with Nuance expires in June 2015. Thereafter, upon written notice to Nuance, MedQuist Inc. has the right to renew the licensing agreement for two successive periods of five years each on the same terms (except pricing) and conditions of the licensing agreement then in effect.

Nuance granted MedQuist Inc. co-ownership rights to and interests in its SpeechQ product in exchange for a fixed sum, pursuant to a supply agreement entered into in November 2009. The supply agreement also provides that MedQuist Inc. receive, in exchange for periodic fees, the exclusive right in the United States, Canada and certain Caribbean islands to sell, service and deliver SpeechQ. MedQuist Inc. s supply agreement with Nuance expires in June 2015. Upon written notice to Nuance, MedQuist Inc. has the right to renew the agreement for two successive terms of five years each on the same terms (except pricing) and conditions of the agreement then in effect.

MedQuist Inc. also licenses the speech recognition and processing software used for SpeechQ from Nuance, under a separate licensing agreement entered into in November 2009. Under this agreement, MedQuist Inc. pays a licensing fee based on total number of individual users or named-user licenses per customer order. This agreement expires in June 2015. Thereafter, upon written notice to Nuance, MedQuist Inc. has the right to renew the licensing agreement for two successive periods of five years each on the same terms (except pricing) and conditions of the licensing agreement then in effect.

We also license speech recognition and processing software from Multimodal. Our principal license agreement with Multimodal was entered into by MedQuist Inc. in March 2010. Under that licensing agreement, MedQuist Inc. pays Multimodal a monthly fee in exchange for a fixed number of minutes of recording. Each minute of recording that exceeds the fixed number is charged at a specified rate per minute. MedQuist Inc. s agreement with Multimodal expires in April 2013. Thereafter, the agreement automatically renews and is extended for up to seven additional successive one-year periods, unless MedQuist Inc. notifies Multimodal in writing of its election not to extend at least sixty days prior to the last day of the term. We are in discussions with Multimodal regarding an amendment to the licensing agreement that would modify the structure of the term of the agreement. As part of that modified structure, MedQuist Inc. would have the ability to use the software licensed under the agreement through April 2021. In the event of a change of control that results in a direct competitor of Multimodal having, directly or indirectly, a 50% or greater ownership interest in MedQuist Inc. or 50% or more of the voting control of MedQuist Inc., or in the event we, through any acquisition of a direct competitor of Multimodal, begin selling or licensing a software product other than Multimodal s that is directly competitive with such technology, Multimodal shall have the right to terminate its agreement with MedQuist Inc.

Employees

As of September 30, 2010, we had approximately 6,700 employees in the United States and approximately 5,700 in India. Most of our employees are MTs and MEs involved in the production and quality assurance of clinical documentation. We have approximately 5,900 such specialists in the United States, virtually all of whom work from home, and approximately 5,000 in India, who primarily work at company-operated facilities. In addition, we engage approximately 3,000 MTs and MEs who are not our employees. Our large production capacity allows us to service the needs of large, complex healthcare organizations, and we estimate it is nearly three times as high as our next largest competitor.

We believe we have good relationships with our employees. Our employees are not subject to collective bargaining agreements or union representation.

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Legal proceedings

When we acquired MedQuist Inc. in August 2008, MedQuist Inc. was involved in a number of legal matters, including customer and stockholder issues and regulatory investigations. Substantially all of these legal matters have been resolved. As of September 30, 2010, one legal matter remains open related to MedQuist Inc. s billing practices prior to the MedQuist Inc. Acquisition. The SEC is pursuing civil litigation against MedQuist Inc. s former chief financial officer, whose employment ended with MedQuist Inc. in July 2004. Pursuant to its by-laws, MedQuist Inc. has been providing indemnification for the legal fees of this individual.

From time to time, we are involved in legal proceedings or regulatory investigations arising in the ordinary course of our business. We are not currently a party to any material legal proceedings that we believe would likely have a material adverse effect on our financial condition, results of operations or cash flows. See Note 14 to our audited consolidated financial statements included elsewhere in this prospectus.

Properties

We lease 34 facilities in the U.S. and India representing approximately 677,550 square feet including our administrative headquarters for our United States operations, which is located in an approximately 48,000 square foot facility in Franklin, Tennessee and our sales, administrative and research and development office, which is located in an approximately 19,500 square foot facility in Norcross, Georgia.

Management

Set forth below are the names and ages as of December 31, 2010 and positions of the persons who will serve as our directors and executive officers upon the consummation of this offering.

Name	Age	Position
Robert M. Aquilina	55	Chairman and Chief Executive Officer
V. Raman Kumar	49	Vice Chairman and Director of MedQuist Holdings Inc. and Chief Executive Officer of CBay India
Michael Seedman	54	Chief Technology Officer and Director
Clyde Swoger	51	Chief Financial Officer
Peter Masanotti	56	President and Chief Executive Officer of MedQuist Inc.
Michael F. Clark	48	Co-Chief Operating Officer of MedQuist Inc.
Anthony James	44	Chief Financial Officer and Co-Chief Operating Officer of MedQuist Inc.
Frank Baker	38	Director
Peter Berger	61	Director
Merle Gilmore	62	Director
Jeffrey Hendren	50	Director
Kenneth John McLachlan	61	Director
James Patrick Nolan	50	Director

Robert M. Aquilina, Chairman and Chief Executive Officer

Mr. Aquilina has served as the Chairman of our board of directors since August 2008 and as Chief Executive Officer since October 2010. He also serves as chairman of the MedQuist Inc. board of directors and its compensation committee. He has also served as an Executive Partner, a senior operating consulting role, to SAC PCG since 2007. From 2002 to 2004, he served as an Industrial Partner with Ripplewood Holdings LLC, or Ripplewood, a private equity firm based in New York, and held the role of Co-Chairman of Flag Telecom Group Ltd. Mr. Aquilina was a board member of Japan Telecom Inc. from 2003 to 2004. Prior to these positions, Mr. Aquilina was a senior operating executive of AT&T, Inc. with a 21-year career. His last post at AT&T, ending in 2001 was as Co-President of AT&T Consumer Services and a member of the Chairman s Operating Group. Within AT&T, Mr. Aquilina held a variety of senior positions including President of Europe, Middle East & Africa, Vice Chairman of AT&T Unisource, Vice Chairman of WorldPartners, Chairman of AT&T-UK, and General Manager of Global Data Services. Mr. Aquilina has been a Member of Cooper Union s Board of Trustees since 2000. Mr. Aquilina received an M.B.A. from The University of Chicago and a B.Sc. in Engineering degree from The Cooper Union for the Advancement of Science & Art in New York (Cooper Union).

V. Raman Kumar, Vice Chairman and Director of MedQuist Holdings Inc. and Chief Executive Officer of CBay India

Mr. Kumar is our co-founder and serves as a director. He has served as our Vice Chairman since February 2007 and, from February 2007 to October 2010, was also our Chief Executive Officer. He has also served as the President of

CBay Inc. since December 2008, as Chairman & President of CBay Systems & Services Inc. since April 2010 and as Executive Chairman & Chief Executive of CBay Systems (India) Private Limited since July 2010. Prior to his current position at CBay Systems (India) Private Limited, Mr. Kumar served as its Chairman & Managing Director from October 2005 to July 2010. Prior to our founding in 1997, he worked as a Senior Vice President (International Trade Finance and Marketing) at the Essar Group, a multinational conglomerate. Mr. Kumar also currently serves on the board of directors of CBay Inc., CBay Systems & Services

Inc. as well as several other of our subsidiaries. Mr. Kumar has a BA (Honors) and Masters Degree in History from St. Stephens s College, New Delhi, India.

Michael Seedman, Chief Technology Officer and Director

Mr. Seedman has served as our Chief Technology Officer and as a director since August 2008. He also serves on the MedQuist Inc. board of directors. He has more than 35 years of senior executive management, leadership and technological innovation expertise and experience. Mr. Seedman has served as an Executive Partner, a senior operating consulting role, to SAC PCG since 2007. In January 2000, he founded Seedman and Associates, a private equity firm, where he worked until 2007. From 2002 to 2005, he served as the founder and President of Chrysalis Technology LLC. He was an Industrial Partner with Ripplewood from September 1997 to June 2003, where he served on the D&M Holdings Inc. board of directors from 1999 to 2003 and was Chairman of the Board for Digital Networks North America from 2000 to 2003. Prior to this, Mr. Seedman founded and was the Chairman