

MModal Inc.
Form 10-K
March 15, 2012

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

Form 10-K

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

For the fiscal year ended December 31, 2011

Commission file number 1-35069

MMODAL INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

98-0676666

(I.R.S. Employer Identification No.)

9009 Carothers Parkway, Franklin, TN 37067

(Address of principal executive offices and Zip Code)

Registrant's telephone number, including area code:

(615) 261-1740

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock, \$0.10 par value per share

Name of each exchange on which registered

The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein and will not be contained, to the best of registrant's knowledge, in definite proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act. (Check One):

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

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant based on the last reported sale price of the common stock on June 30, 2011, was \$412,316,503. Such aggregate market value was computed by reference to the closing price of the common stock as reported on the Global Market of The NASDAQ Stock Market LLC.

The number of registrant's shares of common stock, par value of \$0.10 per share, outstanding as of February 24, 2012 was 56,537,000.

Documents incorporated by reference

Portions of the definitive Proxy Statement for the 2012 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

MModal Inc.

Annual Report on Form 10-K

Table of Contents

	Page
<u>PART I</u>	
<u>Item 1. Business</u>	<u>4</u>
<u>Item 1A. Risk Factors</u>	<u>12</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>24</u>
<u>Item 2. Properties</u>	<u>24</u>
<u>Item 3. Legal Proceedings</u>	<u>24</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>25</u>
<u>PART II</u>	
<u>Item 5. Market For Registrant's Common Equity, Related Shareholder Matters And Issuer Purchases Of Equity Securities</u>	<u>26</u>
<u>Item 6. Selected Financial Data</u>	<u>27</u>
<u>Item 7. Management's Discussion And Analysis Of Financial Condition And Results Of Operations</u>	<u>28</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>48</u>
<u>Item 8. Financial Statements And Supplementary Data</u>	<u>48</u>
<u>Item 9. Changes In And Disagreements With Accountants On Accounting And Financial Disclosure</u>	<u>48</u>
<u>Item 9A. Evaluation of Disclosure Controls and Procedures</u>	<u>48</u>
<u>Item 9B. Other Information</u>	<u>49</u>
<u>PART III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>50</u>
<u>Item 11. Executive Compensation</u>	<u>50</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management</u>	<u>50</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>50</u>
<u>Item 14. Principal Accountant Fees and Services</u>	<u>50</u>
<u>PART IV</u>	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	<u>51</u>
<u>Index to Consolidated Financial Statements</u>	<u>F-1</u>

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that are based on current expectations, estimates, forecasts and projections about us, the industry in which we operate and other matters, as well as management's beliefs and assumptions and other statements regarding matters that are not historical facts. These statements include, in particular, statements about our plans, strategies and prospects. For example, when we use words such as “projects,” “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “should,” “would,” “could,” “will,” “opportunity,” “may,” variations of such words or other words that convey uncertainty of future events or outcomes, we are making forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (“Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (“Exchange Act”). Our forward-looking statements are subject to risks and uncertainties. Actual events or results may differ materially from the results anticipated in these forward-looking statements as a result of a variety of factors. While it is impossible to identify all such factors, factors that could cause actual results to differ materially from those estimated by us include:

- each of the factors discussed in this Item 1A, Risk Factors as well as risks discussed elsewhere in this report;
- each of the matters discussed in Item 3, Legal Proceedings;
- our ability to recruit and retain qualified medical transcriptionists (“MTs”), medical editors (“MEs”), and other employees;
- changes in law, including, without limitation, the impact HIPAA has on our business; and
- the impact of our new services and products on the demand for our existing services and products.

Except where the context otherwise requires, or where otherwise indicated, references in this report to “the Company,” “we,” “us,” or “our” are to MModal Inc. (formerly MedQuist Holdings Inc. and CBaySystems Holdings Limited) and its subsidiaries, references to “MModal MQ Inc.” are to MModal MQ Inc. (formerly 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.

PART I

Item 1. Business

Overview

We are a leading provider of clinical documentation solutions providing clinical narrative capture services, Speech and Language Understanding™ technology and clinical documentation workflow solutions for the healthcare industry. Our end-to-end technology-enabled solutions convert the physicians' dictation into a comprehensive patient story through high-quality clinical documentation with rich context that can be leveraged across a healthcare enterprise for reimbursement, clinical decision support, business intelligence and distribution.

We provide comprehensive dictation and transcription solutions and services that automate the input and management of medical information. Our cloud-based solutions provide platforms to generate and distribute clinical documentation through the use of advanced dictation and transcription, and allow us to deliver scalable, highly productive medical transcription solutions. Our solutions also enable us to accelerate future innovation to transform the way healthcare providers document patient care, through improved interface with electronic medical records and extraction of clinical information to support the billing and insurance reimbursement processes. We also offer speech recognition solutions for radiology, cardiology, pathology and related specialties, that help healthcare providers dictate, edit and sign reports without manual transcription.

Our innovative solutions provide for a deeply valuable medical record that is contextually important in driving clinical decisions from analytical data available directly to the caregiver and provides for collaborative intelligence through services and technology that facilitate engagement, collaboration and intelligence among all stakeholders in the healthcare ecosystem.

Our industry

Growth of clinical documentation in the United States

Over the last twenty years, the clinical documentation 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, increasing prevalence of chronic illnesses, clinical documentation improvement initiatives, increased regulatory reporting requirements and expanded insurance coverage for more Americans from Healthcare Reform. All stakeholders - from providers to patients to payers - seek a system that delivers quality care and avoids medical errors.

Compliance with ICD-10 coding initiatives will be a daunting challenge for healthcare providers. It will more than quadruple the amount of codes and modifiers that must be recognized and assigned by medical coders for both hospitals and physician practices. It is an extremely challenging project for healthcare providers given the complexity and number of new codes, and coder shortage. ICD-10 is the primary focus of the healthcare industry. Combined with electronic health records ("EHR") adoption, new reporting initiatives and Healthcare Reform, the transition to ICD-10 is complex for many healthcare providers.

The myriad of factors facing healthcare providers foster the need to create more value and efficiency from clinical documentation. Accurate and timely clinical documentation has become a critical requirement of the growing U.S.

healthcare system. Medicare, Medicaid and payer organizations demand extensive patient care documentation. The Health Information Technology for Economic and Clinical Health Act (“HITECH Act”), which was enacted into law on February 17, 2009 as part of the American Recovery and Reinvestment Act of 2009 (“ARRA”), includes numerous incentives to promote the adoption and meaningful use of 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. While adopting EHRs, physicians are also seeking to improve documentation efficiency and enhance traditional template-based systems, augmenting their narrative data captured at the point of the patient encounter.

Importance of the physician narrative

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

In many hospital and clinical settings, dictation is the most popular method for capturing clinical data. 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 and improves quality of care with real-time information available. 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. Narrative documentation also captures the full context of the patient story and is essential in delivering quality care, engaging and collaborating with all providers, and for such needs as coding, billing and revenue cycle management.

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 automated speech recognition ("ASR") and workflow platforms, and low-cost offshore resources are available to drive substantial improvements in productivity and cost.

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 form which is available for editing. The effective use of this technology lowers the cost of production relative to conventional transcription services. 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.

M*Modal Fluency™

Our speech and workflow products are marketed under the M*Modal Fluency™ umbrella brand. Our M*Modal Fluency™ family of products pervasively capture the patient story through front-end speech, voice capture and transcription services. In connection with our recent rebranding efforts in January 2012, Fluency was chosen because it's reflective of when someone is highly proficient in both speaking and listening to a particular language. The word also communicates fluidity, which maps to the workflow capabilities of our products.

The M*Modal Fluency™ umbrella brand of products include:

- M*Modal Fluency for Transcription™
- M*Modal Fluency™
- M*Modal Fluency Mobile™
- M*Modal Fluency Direct™
- M*Modal Fluency for Practices™
- M*Modal Fluency for Imaging™
- M*Modal Fluency for Coding™

M*Modal Fluency for Transcription™, our core platform, provides a powerful and flexible transcription solution that integrates the process of dictation, transcription, speech and language understanding, editing, 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 the platform through a licensing arrangement. 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.

Our front-end speech understanding family of solutions 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, M*Modal Fluency for Transcription™ offers end-to-end workflows that combine voice commands and dictation. This solution integrates with our enterprise platform in scenarios where a physician prefers to send text to our editors for review. It interfaces with EHRs and other healthcare systems to allow patient demographic information to be automatically populated, updated and distributed in real-time. The solution voice-enables customer EHRs to drive greater adoption, which will assist them in realizing incentive funds from the government for that adoption. Healthcare providers can now use their voice in addition to keyboard and mouse to seamlessly interact with their desktop clinical applications, including the dictation of medical narrative and speech-based navigation within third-party applications. Using this solution, providers can improve documentation efficiency and avoid the trap of template-based point-and-click systems, augmenting discretely captured data with a narrative of the patient's story.

M*Modal Fluency for Coding™ is our web-based workflow and workforce management system that manages the entire coding process for our customers. Health records are fed into the system where natural language processing technology scans the information and delivers suggested codes to the hospital coding staff. This allows them to become more accurate, reduce turnaround time and increase productivity. All of these factors contribute to increased revenue and improved cash flow by shortening the revenue cycle and making fewer errors that can result in denials by payors.

M*Modal Catalyst™

Our intelligence products are marketed under the M*Modal Catalyst™ umbrella brand. Our M*Modal Catalyst™ family of products enable our customers and partners to monetize that captured story through coding, analytics and integration of codified data into the EHR. Catalyst was chosen because of our unique ability to enrich textual information with context to make it more useful for analytics. Catalyst also provides the spark that helps physicians improve on their documentation while providing insights to possible coding deficiencies that could streamline the back-end revenue cycle.

The M*Modal Catalyst umbrella brand of products include:

- M*Modal Catalyst™
- M*Modal Catalyst for Quality™

- M*Modal Catalyst for Imaging™
- M*Modal Catalyst for Coding™

Selling and marketing

We utilize a focused, direct and in-direct sales teams and professional services organization to address the market and implementation requirements of the healthcare industry. Direct distribution is supplemented by distributors and partnerships with electronic medical records application and other healthcare IT providers such as Allscripts, Greenway and Merge Healthcare. Our healthcare solutions are priced under a traditional software perpetual licensing model, on an on-demand model, charged as a subscription and priced by volume of usage such as number of visual black characters or lines transcribed.

Research and development

We devote substantial resources to research and development to ensure that our solutions meet both current and future customer requirements. Much of the technology in our integrated solutions is proprietary. 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. Our development personnel follow a rigorous development methodology that ensures repeatable, high quality and timely delivery of solutions.

We also utilize third-party resources for certain technologies, such as ASR, capture-assisted codes, encoders, databases, portal technologies and reporting. ASR is a key component of our narrative-based solutions, and we license software for a portion of our ASR capabilities. We dual source license ASR software that we incorporate into our transcription platforms and other products.

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 MedQuist® and SpeechQ®. We have common law rights over a number of unregistered trademarks. Our portfolio of United States and foreign patents and patent applications covers various aspects of our products, processes and technologies.

On August 18, 2011, we completed the acquisition and merger ("Merger") of 100% of the shares of MultiModal Technologies, Inc. ("MultiModal"). The Merger provides us ownership of speech and natural language understanding technologies, and is expected to facilitate consolidation to a single back-end speech recognition platform, provide a broader product offering to local and regional transcription partners and leverage MultiModal's cloud-based services to enhance gross margins. MultiModal contributed revenue of \$10.8 million and net income of \$4.4 million for the period from August 18, 2011 to December 31, 2011, which includes profits from a \$3.5 million license agreement executed during the fourth quarter of 2011.

On June 30, 2011, MModal MQ Inc. and Nuance Communications, Inc., ("Nuance"), entered into an agreement whereby MModal MQ Inc. agreed to pay Nuance an agreed upon amount in full satisfaction of MModal MQ Inc.'s license fee obligations with respect to certain products through June 30, 2015. MModal MQ Inc. also agreed to pay Nuance for one year of maintenance services to be provided by Nuance to MModal MQ Inc. with respect to the licensed products. The maintenance services will automatically renew for successive one-year terms unless canceled in writing by MModal MQ Inc. prior to the annual renewal date or the underlying agreement expires. The installments due under the agreement were paid during the second and third quarters of 2011. During the fourth quarter of 2011, we began execution of a plan for consolidation to a single back-end speech recognition platform, the MultiModal platform. The transition is expected to be completed during the third quarter of 2012.

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 Nuance;
- local or regional medical transcription service organizations;
- ASR software vendors, such as Nuance, 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.

We believe we compete effectively on all of the above criteria based on many factors, including:

Leader in a large, fragmented market: We are one of the largest providers by revenue of clinical documentation solutions based on the physician narrative in the United States. 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 we believe enables us to devote significantly more resources to enhancing our solutions through research than most of our competitors. Our clients include approximately 3,000 hospitals and clinics - including some of the nation's leading healthcare institutions - approximately 850 physician practices and approximately 200,000 physicians - as well as leading EHR application providers and medical transcription organizations. The average tenure of our top 50 customers is more than five years, and the majority of our revenue is generated from recurring services

with a 97% client retention rate. 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.

Highly-efficient operating model: Over the past two years, we have driven down our cost structure through leveraging our scalable infrastructure, standardizing processes, increased utilization of ASR and utilizing our global delivery capabilities. Our use of ASR, which has grown from 39% of our volume in the fourth quarter of 2008 to 74% in the fourth quarter of 2011, has increased our productivity. Additionally, our expanding footprint in India has enabled us to increase our offshore production from 28% of our volume to 47% over this same period. The financial impact of these measures has been an improvement in gross margins during this timeframe from 34% to 46%.

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 front-end speech, voice capture and transmission, ASR, medical transcription and editing, and clinical documentation workflow automation. The end result is value-added clinical documentation with high accuracy and quick turn-around times.

Cloud enabled solutions: Because our Company's solutions are available via the cloud, they can be accessed from any internet-ready input device (computers, smartphones, tablets, etc.) and have their unique voice recognized from within any software application and can be used with any clinical software application. Additionally, they can be deployed without the traditional on-premise hardware requirements, which is particularly valuable in mobility solutions.

Leader in Speech and Language Understanding™: We believe we are the only provider that can deliver Speech and Language Understanding™ capabilities beyond that of simple speech recognition to capture the context and meaning of speech, and convert it to clinically-relevant documents within a single process. This drives such benefits as ICD-10 coding transition, improved quality reporting, greater business intelligence for accurate reimbursement and enhanced quality of care. We provide true language-understanding services. This is much more than simple speech recognition that only captures the words from dictation. Within healthcare we are a market leader in front end speech recognition with a large client base of providers.

Ecosystem of partners: We believe our ability to enable other forms of clinical documentation improve physician productivity and satisfaction, enhance revenue cycle performance, facilitate the adoption of EHR and achievement of Meaningful Use, and position healthcare for the future of ICD-10 coding initiatives. We work with an ecosystem of more than 40 partners that include EHR developers such as Allscripts, Greenway Health Systems and Merge Healthcare, imaging technology solution providers and leading healthcare institutions providing their own health record solutions.

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.

We primarily compete with Nuance in addition to a number of small providers of clinical documentation solutions market. Some of our competitors or potential competitors, such as Nuance, have significantly greater financial, technical and marketing resources than we do. These competitors may be able to respond more rapidly than we can to new or emerging technologies or changes in customer requirements. They may also devote greater resources to the development, promotion and sale of their products than we do.

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 Health Insurance Portability and Accountability Act of 1996 ("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 protected health information ("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 Health Information Technology for Economic and Clinical Health Act ("HITECH Act") 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 electronic protected health information ("E PHI"). We are required by regulation and contract to protect the security of E PHI 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 E PHI. To comply with our regulatory and contractual obligations, we may have to reorganize processes and invest in new technologies. We are 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.

Employees

As of December 31, 2011, we had more than 12,000 employees across five countries. Most of our employees are MTs and MEs involved in the production and quality assurance of clinical documentation. As of December 31, 2011, approximately 6,300 of our employees were located in the United States and 5,600 of our employees, the majority of whom provide transcription and editing services, and are based in India. Our employees are not represented by any labor union and are not organized under a collective bargaining agreement, and we have never experienced a work stoppage. We believe that our relationships with our employees are generally good.

Company Information

We were organized in 1998. During January of 2011, we re-domiciled from the British Virgin Islands to become a Delaware corporation and we changed our name from CBaySystems Holdings Ltd. to MedQuist Holdings Inc. On January 24, 2012, we announced the unification of the Company's advanced speech and language understanding technologies, medical transcription, coding, HIM professional services and analytics under our new name MModal Inc. Shares of the Company's common stock began trading on the NASDAQ Global Select Market under the symbol "MODL" on January 25, 2012.

We operate in one reportable operating segment, which is clinical documentation solutions for the healthcare industry. No single customer accounted for more than 10% of our revenues in any period and there is no single geographic area of concentration of revenues other than the United States.

Recent developments

U.S. Initial Public Offering

On January 27, 2011, we changed our name from CBaySystems Holdings Limited to MedQuist Holdings Inc., re-domiciled from a British Virgin Islands company to a Delaware corporation and authorized 300 million shares of common stock at \$0.10 par value per share and 25 million shares of preferred stock at \$0.10 par value per share. In connection with our re-domiciliation, 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 re-domiciliation was converted into one share of our common stock upon our re-domiciliation. All shares of common stock and per share data included in the consolidated financial statements reflect the reverse stock split. Our re-domiciliation and reverse share split resulted in no change to our common stockholders' relative ownership interests in us.

In February 2011, we completed our U.S. initial public offering of common stock ("IPO") selling 3 million shares of our common stock and 1.5 million shares of our common stock owned by selling shareholders at an offer price of \$8.00 per share, resulting in gross proceeds to us of \$24.0 million and net proceeds to us after underwriting fees of \$22.3 million. Our common stock was listed on The NASDAQ Global Market under the symbol "MEDH".

Effective January 23, 2012, we changed our name to MModal Inc. The name change was effected pursuant to Section 253 of the Delaware General Corporation Law (the "DGCL") through the Company's merger with a newly formed wholly-owned subsidiary which, under the DGCL, does not require stockholder approval. Pursuant to Section 253 of the DGCL, such merger had the effect of amending the Company's Certificate of Incorporation to reflect the new legal name of the Company. The Company also amended the Company's By-laws, effective as of the same date, to reflect the name change.

The merger and resulting name change did not affect the rights of stockholders of the Company. There were no other changes to the Company's Certificate of Incorporation or By-laws. On January 25, 2012, the Company's common stock, which trades on the NASDAQ Global Select Market, ceased trading under the ticker symbol "MEDH" and commenced trading under the ticker symbol "MODL."

Private Exchange

Certain of MModal MQ Inc.'s (formerly MedQuist Inc.) noncontrolling stockholders entered into an exchange agreement with us (the "Exchange Agreement") whereby we issued 4.8 million shares of our common stock in exchange for their 4.8 million shares of MModal MQ Inc. common stock. We refer to this transaction as the Private Exchange. The Private Exchange was completed on February 11, 2011 and increased our ownership in MModal MQ Inc. from 69.5% to 82.2%.

Public Exchange Offer

In addition to the Private Exchange referred to above, in February 2011, we commenced our public exchange offer (the "Public Exchange Offer"), to those noncontrolling MModal MQ Inc. stockholders who did not participate in the Private Exchange to exchange shares of our common stock for shares of MModal MQ Inc. common stock. The Public Exchange Offer expired on March 11, 2011. We accepted and consummated the exchange of, all MModal MQ Inc. shares of common stock that were validly tendered in the Public Exchange Offer. As a result of the Public Exchange Offer, we increased our ownership in MModal MQ Inc. from 82.2% to approximately 97%. We issued 5.4 million shares of our common stock in exchange for 5.4 million shares of MModal MQ Inc. common stock.

Short Form Merger

In accordance with the terms of the stipulation of settlement entered into in connection with the settlement of certain MModal MQ Inc. shareholder litigation, on October 18, 2011, we completed a short-form merger (the “Short Form Merger”) with MModal MQ Inc., resulting in MModal MQ Inc. becoming our indirect wholly-owned subsidiary and MModal MQ Inc. common stock no longer trading on the OTCQB or on any other market. As a result of the Short Form Merger, the remaining approximately 3% issued and outstanding shares of MModal MQ Inc. not held by us were canceled and converted in the Short Form Merger to the right to receive one share of our common stock. In the Short Form Merger, we issued an additional 1.2 million shares of our common stock, which resulted in us owning 100% of MModal MQ Inc. The Short Form Merger resulted in a reclassification from noncontrolling interest to common stock and additional paid-in-capital.

Available Information

All periodic and current reports, registration statements, and other filings that we are required to file with the SEC, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act, are available free of charge from the SEC's website (www.sec.gov) or public reference room at 100 F Street N.E., Washington, DC 20549 (1-800-SEC-0330) or through our website at www.mmodal.com. Such documents are available as soon as reasonably practicable after electronic filing of the material with the SEC. Copies of these reports (excluding exhibits) may also be obtained free of charge, upon written request to: Investor Relations, MModal Inc., 9009 Carothers Parkway, Franklin, TN 37067. The website addresses included in this report are for identification purposes. The information contained therein or connected thereto are not intended to be incorporated into this report.

Item 1A. Risk Factors

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 are 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 competitors 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 or acquire, 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 or acquire technologies to provide service systems comparable to those of our competitors as they develop new technology. If we are unable to effectively develop or acquire and integrate new technologies, we may not be able to compete effectively with our competitors. In addition, if the cost of developing or acquiring and integrating new technologies is high, we may not realize our expected return on investment.

12

Speech recognition and natural language understanding technologies may not achieve widespread acceptance, which could limit our ability to grow our business.

Our business is primarily focused on, and we continue to invest heavily in, the development and marketing of speech recognition and natural language understanding technologies. The market for such technologies is relatively new and rapidly evolving. Our ability to increase revenue in the future depends in large measure on the acceptance of these technologies in general and our products in particular. The continued development of the market for our current and future speech understanding solutions will also depend on:

• physician, hospital and other healthcare provider demand for speech-enabled applications; and

• continuous improvement in speech recognition and natural language understanding technology.

Licensing of our products would be harmed if the market for these technologies does not continue to develop or develops slower than we expect, and, consequently, our business could be harmed.

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

Technological innovations to which our current and potential customers might have access could reduce or eliminate their need for our products. 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.

In particular, many of MultiModal's speech recognition customers are direct competitors of our medical transcription business and may feel threatened by our acquisition of MultiModal. We have had discussions with these customers and vendors in order to retain their business and services, respectively. If certain customers or vendors terminate their contracts with us, our speech recognition business could be materially impacted in a negative way.

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 includ