MedQuist Holdings Inc.
Form S-4/A
October 04, 2011

As filed with the Securities and Exchange Commission on October 4, 2011

Registration No. 333-176582

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Amendment No. 1 to
Form S-4
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, Tennessee 37067
(615) 261-1740
(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)
Roger L. Davenport
Chief Executive Officer
MedQuist Holdings Inc.
9009 Carothers Parkway
Franklin, Tennessee 37067
(615) 261-1740
(Name, address, including zip code, and telephone number, including area code, of agent for service)

With copy to:
Steven J. Abrams, Esq.
Pepper Hamilton LLP
3000 Two Logan Square
Eighteenth and Arch Streets
Philadelphia, PA 19103-2779
(215) 981-4241

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement is declared effective and upon consummation of the transactions described in the enclosed prospectus.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, please 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(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, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issue Tender Offer) o

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer) o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered (1)	Proposed Maximum Offering Price Per Share (2)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee (3)(4)
Common stock, par value US$0.10 per share	1,231,246	Not applicable	$9,148,158	$1,049

(1) This Registration Statement registers the maximum number of shares of the Registrant s common stock par value $0.10 per share, that may be issued in connection with the merger of a newly-formed subsidiary of CBay Inc. with and into MedQuist Inc. as described in the enclosed prospectus.

(2) Pursuant to Rule 457(c) and Rule 457(f), and solely for the purpose of calculating the registration fee, the proposed maximum aggregate offering price is equal to the market value of the total number shares of MedQuist Inc. common stock estimated to be held by holders as of the date hereof that may be issued in the merger, based upon a market value of $7.43 per share of MedQuist Inc. common stock, the average of the high and low prices of shares of MedQuist Inc. common stock as reported by the OTCQB on September 30, 2011.

(3) Pursuant to Rule 457(f), the fee is calculated by multiplying the product of the maximum aggregate offering price by .0001146.

(4) Previously paid.

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.

NOTICE OF MERGER
OF
MEDQUIST MERGER CORPORATION
(A WHOLLY-OWNED SUBSIDIARY OF MEDQUIST HOLDINGS INC.)
WITH AND INTO
MEDQUIST INC.

October , 2011.

To the Shareholders of MedQuist Inc.:

We are pleased to give you notice that, pursuant to Section 14A:10-5.1 of the New Jersey Business Corporation Act, MedQuist Merger Corporation, a New Jersey corporation (Merger Subsidiary) and wholly-owned, indirect subsidiary of MedQuist Holdings Inc., will merge (the Merger) with and into MedQuist Inc., a New Jersey corporation on the date hereof. Under applicable New Jersey law, the Merger will be effected pursuant to an Agreement and Plan of Merger dated the date hereof between MedQuist Holdings Inc., Merger Subsidiary and MedQuist Inc. (the Merger Agreement), a copy of which accompanies this notice. The Merger Agreement and the Merger were approved by the board of directors of MedQuist Holdings Inc. and Merger Subsidiary. No action on the part of the MedQuist Inc. shareholders is required for the Merger to become effective.

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY.

As a result of the Merger, MedQuist Inc. will be the surviving corporation and the separate corporate existence of Merger Subsidiary will cease. Each outstanding share of MedQuist Inc. common stock, no par value per share (MedQuist Inc. Common Stock), other than shares held by Merger Subsidiary, will be canceled and converted in the Merger to the right to receive one share of MedQuist Holdings Inc. common stock, par value $0.10 per share (MedQuist Holdings Inc. Common Stock).

To receive certificates representing shares of MedQuist Holdings Inc. Common Stock issued in the Merger, MedQuist Inc. shareholders must complete and execute the enclosed Letter of Transmittal and deliver their certificates representing MedQuist Inc. Common Stock and the Letter of Transmittal to American Stock Transfer & Trust Company, LLC, the Exchange Agent, at the following address:

By hand or overnight courier:

American Stock Transfer & Trust Company, LLC
Operations Center,
Attn: Reorganization Department,
6201 15th Avenue, Brooklyn, New York 11219

By mail:

American Stock Transfer & Trust Company, LLC
Operations Center,
Attn: Reorganization Department,
P.O. Box 2042, New York, New York 10272-2042

The Prospectus accompanying this Notice of Merger describes the terms of the Merger, certain background information and other information concerning MedQuist Holdings Inc. and MedQuist Inc. We urge you to read the Prospectus carefully.

Very truly yours,

/s/ Roger L. Davenport

Roger L. Davenport
Chief Executive Officer

The information in this prospectus is not complete and may be changed. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where such offer is not permitted.

Subject to Completion, dated October 4, 2011
MedQuist Holdings Inc.

Merger with MedQuist Inc.

1,231,246 shares of MedQuist Holdings Inc. common stock for all issued and outstanding shares of MedQuist Inc. common stock not already owned by MedQuist Holdings Inc. or its subsidiaries

MedQuist Holdings Inc. is furnishing this Prospectus to those persons, other than MedQuist Merger Corporation, a New Jersey corporation (Merger Subsidiary) and wholly-owned, indirect subsidiary of MedQuist Holdings Inc., who hold common stock, no par value per share, of MedQuist Inc., a New Jersey corporation, immediately prior to the merger (the Merger) of Merger Subsidiary, a New Jersey corporation (Merger Subsidiary) and wholly-owned, indirect subsidiary of MedQuist Holdings Inc., with and into MedQuist Inc. Immediately prior to the Merger, MedQuist Holdings Inc. owns all of the outstanding capital stock of CBay Inc., a Delaware corporation, which in turn owns all of the outstanding capital stock of Merger Subsidiary, which in turn owns approximately 97% of the outstanding shares of MedQuist Inc.

The Merger, which does not require the affirmative vote of any shareholder of MedQuist Inc. under applicable law, will become effective upon the filing of the certificate of merger with the Department of the Treasury of the State of New Jersey on the date hereof (the Effective Time). At the Effective Time, each share of MedQuist Inc. common stock will be canceled and converted into the right to receive one share of MedQuist Holdings Inc. common stock.

The table below sets forth certain information regarding the MedQuist Inc. common stock that is the subject of the Merger.

		MERGER CONSIDERATION PER SHARE	
CUSIP	**TITLE OF SECURITY**	**SHARES OF OUR COMMON STOCK** (1)	**ESTIMATED VALUE** (1)
584949101	MedQuist Inc. common stock	One	$ 8.95

(1) The estimated value of the per share merger consideration is equal to the closing price per share of our common stock on The NASDAQ Global Market on September 26, 2011.

Because the number of shares of our common stock to be issued in the Merger is fixed, changes in the trading prices of our common stock will result in the market value of our common stock you receive pursuant to the conversion of your shares in the Merger being different than the value reflected in the table above.

Our common stock is listed on The NASDAQ Global Market under the symbol MEDH. The closing price of our shares on The NASDAQ Global Market on September 26, 2011 was $8.95. See Market Price Information for Common Stock herein. MedQuist Inc. common stock trades on the OTCQB under the symbol MEDQ.

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY.

We urge you to carefully read the Risk Factors section of this prospectus beginning on page 23.

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

The Exchange Agent for the Merger is:
American Stock Transfer & Trust Company LLC

Prospectus dated October , 2011.

Table of Contents

This prospectus incorporates important business and financial information about MedQuist Holdings Inc. and MedQuist Inc. that is not included in or delivered with this document and is included as an exhibit to the registration statement of which this prospectus is a part. Copies of documents referred to in this prospectus will be made available to holders in the Merger at no cost. See Where You Can Find More Information.

About This Prospectus

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission, or the SEC, and we will not consummate the Merger until the SEC has declared the registration statement effective. You should read this prospectus, including the annex, together with the registration statement, the exhibits thereto and the additional information described under the heading Where You Can Find More Information.

None of MedQuist Holdings Inc. or the Exchange Agent have authorized any person (including any dealer, salesperson or broker) to provide you with any information or to make any representation other than as contained in this prospectus. MedQuist Holdings Inc. does not take any responsibility for, and can provide no assurance as to the reliability of, any information that others may give you. The information included in this prospectus is accurate as of the date of this prospectus. You should not assume that the information included in this prospectus is accurate as of any other date.

The Merger will be effected pursuant to an Agreement and Plan of Merger (the Merger Agreement). The conversion of your shares of common stock into shares of common stock of MedQuist Holdings Inc. as a result of the Merger will be made on the basis of this prospectus, the Merger Agreement and the letter of transmittal and is subject to the terms described in this prospectus and the letter of transmittal. Investors should not construe anything in this prospectus, the Merger Agreement and the letter of transmittal as legal, investment, business or tax advice. Each investor should consult its advisors as needed.

This prospectus contains summaries believed to be accurate with respect to certain documents, but reference is made to the actual documents themselves for complete information. All such summaries are qualified in their entirety by such reference. Copies of documents referred to in this prospectus will be made available to holders in the Merger at no cost. See Where You Can Find More Information.

You should not rely on or assume the accuracy of any representation or warranty in any agreement that we have filed as an exhibit to any document that we have publicly filed or that we may otherwise publicly file in the future because such representation or warranty may be subject to exceptions and qualifications contained in separate disclosure schedules, may have been included in such agreement for the purpose of allocating risk between the parties to the particular transaction, and may no longer continue to be true as of any given date.

Except where the context otherwise requires, or where otherwise indicated, references to the Company, we, us, or ou are to MedQuist Holdings Inc. and its subsidiaries, and references to Spheris are to Spheris Inc. for the period prior to April 22, 2010 and to the business we acquired from Spheris Inc. for the period after such date.

References in this prospectus to dollars or $ are to the currency of the United States and references to £ , pound or pence 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.

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.

Questions and Answers About the Merger

These answers to questions that you may have as a holder of MedQuist Inc. common stock are highlights of selected information included elsewhere in this prospectus. To fully understand the Merger and the risks associated with holding shares of MedQuist Holdings Inc. common stock, you should carefully read this prospectus in its entirety, including the section entitled Risk Factors and our financial statements and related notes.

Why are we consummating the Merger?

We intend to consummate the Merger as part of our ongoing plan to acquire full ownership of our majority-owned subsidiary MedQuist Inc. Since our acquisition of the majority ownership stake in MedQuist Inc., our management and directors have been aware that further consolidating our operations with those of MedQuist Inc. could lead to substantial overhead reductions and allow us to capitalize on our underlying technology, healthcare domain expertise and attractive long-term relationships with customers of MedQuist Inc.

In February 2011, we consummated an exchange agreement, or Exchange Agreement, with certain of MedQuist Inc. s noncontrolling shareholders pursuant to which we issued 4.8 million shares of our common stock in exchange for their 4.8 million shares of MedQuist Inc. common stock. This private exchange increased our ownership in MedQuist Inc. from 69.5% to 82.2%. We then commenced a public registered exchange offer with the same exchange ratio as the private exchange to those noncontrolling MedQuist Inc. shareholders who did not participate in the private exchange, which we refer to as the Registered Exchange Offer, to exchange shares of our common stock for shares of MedQuist Inc. common stock as an additional means to acquire full ownership of MedQuist Inc. As a result of the Registered Exchange Offer, we increased our ownership in MedQuist Inc. from 82.2% to approximately 97%.

We continue to believe that if we acquire full ownership of MedQuist Inc. it will simplify our capital structure, help us to achieve greater integration with MedQuist Inc., and reduce costs and eliminate potential conflicts of interests between us and MedQuist Inc. Therefore we intend to consummate the Merger as a step in our plan to acquire full ownership of MedQuist Inc.

We intend to consummate a merger of Merger Subsidiary with and into MedQuist Inc. The purpose of the Merger is to acquire all of the issued and outstanding shares of MedQuist Inc. stock not already owned by us. Pursuant to the Shareholder Litigation (described below), we agreed that if, as a result of the Registered Exchange Offer, we obtained ownership of at least 90% of the outstanding common stock of MedQuist Inc., we would conduct a short-form merger under applicable law to acquire the remaining shares of MedQuist Inc. common stock that we do not currently own at the same exchange ratio applicable under the Registered Exchange Offer. The terms of the Merger Agreement will provide that each remaining issued and outstanding share of MedQuist Inc. common stock will be converted into the right to receive one share of MedQuist Holdings Inc. common stock. Please see the section of this prospectus entitled MedQuist Holdings Inc. Business Legal proceedings for more information on the Shareholder Litigation.

What will you receive in the Merger?

You will receive one share of our common stock for each share of MedQuist Inc. common stock that you hold at the effective time of the Merger. Shares of our common stock issued in the Merger will be issued in book-entry form.

Merger consideration per share

CUSIP	Title of security	Shares of our common stock (1)	Estimated value (1)
584949101	MedQuist Inc. common stock	One	$ 8.95

(1) The estimated value of the per share merger consideration is equal to the closing price per share of our common stock on The NASDAQ Global Market on September 26, 2011.

Because the number of shares of our common stock to be issued in the Merger is fixed, changes in the trading prices of our common stock will result in the market value of our common stock you receive pursuant to the conversion of your shares in the Merger being different than the value reflected in the table above. Our common stock is listed on The NASDAQ Global Market under the symbol MEDH. The closing price of our shares on The NASDAQ Global Market on September 26, 2011 was $8.95.

MedQuist Inc. common stock trades on the OTCQB under the symbol MEDQ. The closing price of shares of MedQuist Inc. common stock on the OTCQB on September 26, 2011 was $9.10. See Market Price Information for Common Stock herein.

Your right to receive the Merger consideration in the Merger is subject to the terms set forth in this prospectus, the Merger Agreement and the related letter of transmittal.

Do you have a choice in whether to participate in the Merger?

No. Upon the consummation of the Merger, your shares of MedQuist Inc. common stock will automatically convert into the right to receive an equal number of shares of MedQuist Holdings common stock.

Will our common stock to be issued in the Merger be listed for trading?

Yes. The shares of our common stock to be issued in the Merger have been approved for listing on The NASDAQ Global Market under the symbol MEDH. For more information regarding the market for our common stock, see the section of this prospectus entitled Comparative Market Price and Dividend Information.

Will MedQuist Inc. deregister under the Securities Exchange Act of 1934, as amended, or the Exchange Act, following the Merger?

Yes. Following the consummation of the Merger, we intend to cause MedQuist Inc. to deregister its common stock under the Exchange Act and MedQuist Inc. will cease to be a separate SEC reporting company. Please see the section of this prospectus entitled The Merger Registration Under Exchange Act.

How do you get shares of MedQuist Holdings common stock pursuant to the Merger?

The MedQuist Inc. shareholders will receive written instructions set forth in a letter of transmittal from the exchange agent detailing how to exchange their MedQuist Inc. stock certificates for certificates representing shares of MedQuist Holdings common stock or evidence of such shares in book entry form.

What are the potential benefits of the Merger to holders of MedQuist Inc. common stock?

We believe the Merger will enable MedQuist Inc. and us to create a simpler, unified capital structure in which equity investors would participate in the equity of MedQuist Holdings Inc. and MedQuist Inc. through ownership at the MedQuist Holdings Inc. level.

We believe that unifying public stockholders at a single level could lead to greater liquidity for investors, particularly for the former holders of MedQuist Inc. common stock, due to the increased combined public float.

Additionally, the unified capital structure that would result from the Merger would facilitate the investment and transfer of funds between MedQuist Holdings Inc. and MedQuist Inc. and our respective subsidiaries, thereby facilitating more efficient uses of our consolidated financial resources.

Finally, by acquiring full ownership of MedQuist Inc. we will eliminate any potential conflicts between our interests and the interests of the other MedQuist Inc. shareholders. We currently have the ability to cause the election of all of the members of the MedQuist Inc. board of directors, the appointment of new management and the approval of actions requiring the approval of MedQuist Inc. shareholders, including amendments to its certificate of incorporation and mergers or sales of substantially all of its assets. The directors we elect are able to make decisions affecting the capital structure of MedQuist Inc., including decisions to issue additional capital stock, implement stock repurchase programs and declare dividends. Without full ownership of MedQuist Inc. our interests could conflict with the interests of MedQuist Inc., and the interests of its other shareholders.

How long will it take to complete the Merger?

We will not consummate the Merger until the SEC has declared the registration statement of which this prospectus is a part effective. As soon as practicable after such registration statement is declared effective we intend to cause the Merger to take place.

Why is there no MedQuist Inc. shareholder vote for the Merger?

Your vote is not required for the Merger. Section 14A:10-5.1 of the New Jersey Business Corporations Act (the NJBCA) governs short-form mergers between two New Jersey corporations (the NJ Short-Form Merger Statute). This provision allows a New Jersey corporation owning at least 90% of the outstanding shares of each class and series of another New Jersey corporation to merge the subsidiary corporation into itself, or merge itself into the subsidiary corporation, without approval of the shareholders of either corporation, though the board of the parent corporation must approve the plan of merger. Section 14A:10-5.1(6) of the NJBCA requires the approval of the shareholders of the parent corporation when the subsidiary corporation will be the surviving corporation in the short-form merger. Our board of directors and the board of directors and sole shareholder of the Merger Subsidiary approved the Merger.

Prior to the Merger, we will contribute the shares of MedQuist Inc. common stock that we hold to CBay Inc., our majority-owned subsidiary, pursuant to a contribution agreement (the MedQuist Holdings Contribution Agreement). In consideration of our contribution of such shares pursuant to the MedQuist Holdings Contribution Agreement, we will receive shares of CBay Inc. common stock. Immediately following the contribution of shares pursuant to the MedQuist Holdings Contribution Agreement, CBay Inc. will enter into a contribution agreement (the CBay Contribution Agreement) with Merger Subsidiary pursuant to which CBay Inc. will contribute the shares of MedQuist Inc. common stock that it then holds to Merger Subsidiary. Immediately following the contributions pursuant to the MedQuist Holdings Contribution Agreement and the CBay Contribution Agreement, Merger Subsidiary will own approximately 97% of MedQuist Inc. We will then consummate the Merger by merging Merger Subsidiary with and into MedQuist Inc. in accordance with the NJ Short-Form Merger Statute. As a result of the Merger, the separate corporate existence of Merger Subsidiary will terminate and MedQuist Inc. will survive the Merger and exist as a wholly-owned subsidiary of ours.

Will you have to pay any fees or commissions upon the automatic conversion of your shares pursuant to the Merger?

Holders are not obligated to pay brokerage fees or commissions to us or the exchange agent in connection with the Merger. If your shares of MedQuist Inc. common stock are held through a broker or other nominee who transmits the MedQuist Inc. common stock on your behalf in connection with the Merger, your broker may charge you a commission for doing so. You should consult with your broker or nominee to determine whether any charges will apply. See The Merger.

What are the U.S. federal income tax consequences of participating in the Merger?

For United States federal income tax purposes, your receipt of shares pursuant to the Merger generally will be taxable to you. Please see the section of this prospectus entitled Material United States Federal Income Tax Consequences for more information. You should consult your own tax advisor for a full understanding of the tax consequences to you of the Merger.

What is the impact of the Merger to our earnings per share and capitalization?

As a result of the Merger described herein, we intend to issue an additional 1.2 million shares of our common stock resulting in an aggregate of 56.3 million shares being issued and outstanding. This will result in dilution of ownership to existing holders of our common stock. However, our share of MedQuist Inc. s net income will increase as a result of the Merger. After giving effect to the Spheris Acquisition (as defined in Summary History MedQuist Inc.), the Recapitalization Transactions (as defined in Summary Recent Developments Recapitalization Transactions), the private exchange, the Registered Exchange Offer and our initial public offering, or IPO, for the year ended December 31, 2010 and the six months ended June 30, 2011, the incremental impact of the Merger on our diluted earnings per share would have been an increase of $0.01 and $0.03 per share of our common stock on a pro forma basis, respectively.

The impact of the Merger will be a reclassification between noncontrolling interests and additional paid in capital with no net impact to stockholders equity as a result of the Merger. See The Merger Accounting treatment.

Do our directors or executive officers beneficially own any shares of MedQuist Inc. common stock that will be subject to the Merger?

As of September 26, 2011, our directors and executive officers beneficially owned in the aggregate 66 shares of MedQuist Inc. common stock that are subject to the Merger.

What percentage of our common stock will current MedQuist Inc. shareholders own after the Merger?

We anticipate that the Merger will result in the conversion of the outstanding shares of MedQuist Inc. s common stock that we do not currently own into approximately 2.2% of shares of our common stock outstanding at the consummation of the Merger. In general, this assumes that:

- 55.1 million shares of our common stock are outstanding before giving effect to the Merger; and
- 1.2 million shares of our common stock will be issued in the Merger.

Are dissenters or appraisal rights available in the Merger?

You do not have dissenters or appraisal rights as a result of the Merger. Under New Jersey law, which governs your rights as a shareholder of a New Jersey corporation, you do not have the right to dissent in the Merger. See The Merger No appraisal rights.

With whom may you talk if you have questions about the Merger?

If you have questions regarding the Merger, please contact the exchange agent. The contact information for the exchange agent is set forth on the back cover of this prospectus. Holders of MedQuist Inc. common stock may also contact their brokers, dealers, commercial banks, trust companies or other nominees through whom they hold their

MedQuist Inc. common stock with questions and requests for assistance.

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. 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.

Overview

The Companies

MedQuist Holdings Inc.

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 meaningful use of electronic health records. 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.

On August 18, 2011, we completed the acquisition of MultiModal Technologies, Inc. With this acquisition, we now provide speech and natural language understanding technologies to healthcare providers and to local and regional transcription partners.

MedQuist Inc.

MedQuist Inc. is a leading provider of integrated clinical documentation solutions for the U.S. healthcare system. Its end-to-end solutions convert physicians dictation of 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 its customers. MedQuist Inc. s solutions enable hospitals, clinics, and physician practices to improve the quality of clinical data as well as accelerate and automate the documentation process, and MedQuist Inc. believes its solutions improve physician productivity and satisfaction, enhance revenue cycle performance, and facilitate the adoption and meaningful use of electronic health records.

Merger Subsidiary

Merger Subsidiary will be a New Jersey corporation, wholly-owned by CBay Inc., one of our majority-owned subsidiaries. Merger Subsidiary will be formed to facilitate the short-form merger with MedQuist Inc. At the time of the Merger, Merger Subsidiary will have engaged in no activities and have no material assets or liabilities of any kind, in each case other than those incidental to its formation and its activities and obligations in connection with the Merger.

The Clinical Documentation Industry

Over the past several decades, 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 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 Health Information Technology for Economic and Clinical Health Act, or HITECH Act, which was enacted into law on February 17, 2009 as part of the American Recovery and Reinvestment Act of 2009, or ARRA, 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 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.

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 hospitals, clinics and physician practices throughout the United States. We have a long-standing history with our customers and the majority of our revenue is from recurring services.
- **Highly-efficient operating model** Since we acquired MedQuist Inc. in the fourth quarter of 2008, we have driven down our cost structure through leveraging our scalable infrastructure, standardizing processes, and increased utilization of ASR. Our use of ASR, which has grown from 39% of our volume in the fourth quarter of 2008 to 74% in the second quarter of 2011, has increased our productivity. With the acquisition of MultiModal, we now own our own ASR technology which we expect will further reduce our cost structure. 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 34% to 40%.
- **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. 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. Through our acquisition of MultiModal, we have expanded our customer base to include medical transcription service organizations, or MTSOs. We intend to grow our business by providing new and innovative speech and natural language understanding technologies and new products to these transcription partners.
- **Continue to develop and enhance our integrated solutions** We seek to differentiate our integrated solutions through sophisticated technology and process improvement. With the acquisition of MultiModal, we now have over 200 employees dedicated to research and development, with in-house expertise in speech and natural language understanding technologies. 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 34% in the fourth quarter of 2008, our first fiscal quarter after we acquired MedQuist Inc., to 40% in the second quarter of 2011. 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. We also expect that the acquisition of MultiModal will further enhance our gross margins by building market share in the in-house transcription market.

- **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 or expand our solutions, incorporate synergy opportunities, and expand our value proposition to our customers. For example, we recently completed our acquisition of MultiModal which provides us with ownership of speech and natural language understanding technologies, and is expected to facilitate consolidation to a single speech recognition platform, provide a broader product offering to local and regional transcription partners and leverage MultiModal s cloud based services to enhance our gross margins.

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 23. 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.

History

MedQuist Holdings Inc.

We began operations 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. In August 2011 we completed the acquisition of MultiModal Technologies, Inc. which provides us with ownership of speech and natural language understanding technologies, and is expected to facilitate consolidation to a single speech recognition platform, provide a broader product offering to local and regional transcription partners and leverage cloud-based services to enhance gross margins.

MedQuist Inc.

MedQuist Inc. was established in 1970 and developed a computer-based medical transcription package that replaced tape and cassette recorders with digital recording equipment. MedQuist Inc. purchased Transcriptions Ltd. in May 1994, and grew quickly over the next few years through sales and acquisitions of smaller transcription service organizations. With several strategic acquisitions in 2001 and 2002, MedQuist Inc. obtained the technology and expertise to offer comprehensive document workflow management products and solutions.

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.

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.

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.

MultiModal Technologies, Inc.

On August 18, 2011, we completed the acquisition of Multimodal Technologies, Inc., or MultiModal, through a series of mergers between MultiModal and certain of our direct wholly-owned subsidiaries (the MultiModal Merger). As a result of the MultiModal Merger, MultiModal became a direct wholly-owned subsidiary of ours. The MultiModal Merger provides us ownership of speech and natural language understanding technologies, and is expected to facilitate consolidation to a single 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.

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 shareholders. We received $122.6 million of this special dividend and used $104.1 million to extinguish our 6% convertible notes, or the 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 collectively as the Recapitalization Transactions.

Private Exchange

Certain of MedQuist Inc. s noncontrolling shareholders entered into the Exchange Agreement, whereby we issued 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 was completed on February 11, 2011 and increased our ownership in MedQuist Inc. from 69.5% to 82.2%.

Registered Exchange Offer

In addition to the Private Exchange referred to above, in February 2011, we commenced a public exchange offer, or Registered Exchange Offer, to those noncontrolling MedQuist Inc. shareholders who did not participate in the Private Exchange to exchange shares of our common stock for shares of MedQuist Inc. common stock. The Registered Exchange Offer expired on March 11, 2011. We accepted and consummated the exchange of MedQuist Inc. shares of common stock that were validly tendered in the Registered Exchange Offer. As a result of the Registered Exchange Offer, we increased our ownership in MedQuist Inc. from 82.2% to approximately 97%.

U.S. Initial Public Offering

The U.S. initial public offering of our common stock closed on February 9, 2011. Our common stock is listed on The NASDAQ Global Market under the symbol MEDH.

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 such reverse share split resulted in no change to our common stockholders relative ownership interests in us.

For a more detailed description of the Recapitalization Transactions, the Private Exchange, the Registered Exchange Offer, our U.S. initial public offering and the redomiciliation and share conversion, collectively, the Corporate Reorganization, see Corporate Reorganization.

Acquisition of MultiModal Technologies, Inc.

On August 18, 2011 (the Closing Date), we completed the acquisition of MultiModal through a series of mergers between MultiModal and certain of our direct wholly-owned subsidiaries. As a result of the MultiModal Merger, MultiModal became a direct wholly-owned subsidiary of ours. On the Closing Date, we paid an aggregate of approximately $48.4 million in cash to MultiModal s shareholders, optionholders and other third parties and issued an aggregate of 4,134,896 shares of our common stock (the Shares) to MultiModal s shareholders who are accredited investors (the MultiModal Accredited Investors) within the meaning of Regulation D promulgated under the Securities Act of 1933. We are also obligated to pay up to approximately $28.8 million of additional cash consideration in three installments of approximately $16.3 million, $4.8 million and $7.7 million, respectively, following the first, second and third anniversaries of the Closing Date. Also on the Closing Date, we granted to certain of MultiModal s employees that become employees of ours up to $10 million of restricted shares of our common stock.

Amendment to Senior Secured Credit Facility

On September 14, 2011, we amended the Senior Secured Credit Facility to, among other things, (i) add an accordion feature that allows for additional borrowing capacity of up to $50.0 million in the form of additional revolving credit commitments or incremental term loans, subject to the satisfaction of certain conditions, and (ii) permit repurchases of our outstanding common stock in an aggregate amount not to exceed $25.0 million.

Stock Repurchase Program

On September 19, 2011, our board of directors authorized the repurchase of up to $25.0 million of our outstanding common stock from time to time during the six months following the completion of the Merger (hereinafter referred to as the Share Repurchase Program). Under the Share Repurchase Program, shares may be repurchased in the open market or in privately negotiated transactions at our discretion. The Share Repurchase Program does not require us to repurchase any specific number of shares, and we may terminate the Share Repurchase Program at any time. We will not repurchase any shares directly from our directors and officers or S.A.C. PEI CB Investment L.P. and its affiliates under the Share Repurchase Program.

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.

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

Background and Reasons for the Merger

Background of our investment in MedQuist Inc.

MedQuist Inc. was established in 1970 and developed a computer-based medical transcription package that replaced tape and cassette recorders with digital recording equipment. MedQuist Inc. purchased Transcriptions Ltd. in May 1994, and grew quickly over the next few years through sales and acquisitions of smaller transcription service organizations. Royal Philips Electronics purchased approximately 60% of MedQuist Inc. in June 2000, and later increased its holdings to 69.5%. With several strategic acquisitions in 2001 and 2002, MedQuist Inc. obtained the technology and expertise to offer comprehensive document workflow management products and solutions.

In August 2008, Royal Philips Electronics sold its 69.5% ownership interest in MedQuist Inc. to us, a holding company with a portfolio of investments in medical transcription, healthcare technology and healthcare financial services, for a total consideration of $239.7 million. The transaction was completed following the subscription to approximately 89 million shares in our common stock by S.A.C. PEI CB Investment, L.P. Additionally, in April 2010, MedQuist Inc. completed the purchase of the domestic business of Spheris Inc. while simultaneously, CBay Inc., one of our subsidiaries that directly holds the majority ownership in MedQuist Inc., acquired the stock of Spheris India Private Limited, a subsidiary of Spheris, creating a combined company for healthcare providers to improve their clinical documentation and drive toward electronic health record, or EHR, adoption faster and at a lower cost through advanced technology and expanded domestic and global services.

In early 2011, certain of MedQuist Inc.   s noncontrolling shareholders entered into the exchange agreement with us whereby we issued 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 was completed on February 11, 2011 and increased our ownership in MedQuist Inc. from 69.5% to 82.2%.

In addition to the Private Exchange, we commenced the Registered Exchange Offer to those noncontrolling MedQuist Inc. shareholders who did not participate in the Private Exchange to exchange shares of our common stock for shares of MedQuist Inc. common stock. The Registered Exchange Offer expired on March 11, 2011. As a result of the Registered Exchange Offer, we increased our ownership in MedQuist Inc. from 82.2% to approximately 97%.

Background of the Merger

Since our acquisition of the majority ownership stake in MedQuist Inc., our management and directors have been aware that further consolidating our operations with those of MedQuist Inc. could lead to substantial overhead reductions and allow us to capitalize on our underlying technology, healthcare domain expertise and attractive long-term relationships with customers of MedQuist Inc.

During the course of our consultations with our financial advisors and outside counsel in the summer of 2010, our management determined that a two-tiered private and public exchange offer was the best method for acquiring the remaining shares of MedQuist Inc. common stock held by third parties. Our management wanted to pursue the most efficient course for combining MedQuist Inc. and our company, and believed that offering to buy shares of MedQuist Inc. common stock directly from the other MedQuist Inc. shareholders would result in an expedited and fair process. Additionally, our management concluded that pursuing a two-tiered exchange offer, whereby a significant portion of the minority MedQuist Inc. shareholders agreed to participate in a private exchange of their MedQuist Inc. common stock for our common stock, followed by a registered public exchange for the remaining MedQuist Inc. common stock, gave us the best opportunity to acquire the highest number of shares of MedQuist Inc. common stock in the most efficient and expeditious manner. In choosing to recommend the two-tiered exchange offer structure to our board, our management sought to choose a path consistent with recent precedents for transactions involving the acquisition of the minority interests of publicly traded companies by their principal stockholders. In contrast to an exchange offer transaction, our management also considered a merger transaction, but due to certain provisions of New Jersey corporate law, a merger transaction was deemed not to be a viable option at that time.

On September 30, 2010, our board of directors met to consider the advisability of the two-tiered exchange offer. At this meeting, the board engaged in a discussion, with members of our management, outside counsel and financial advisors participating, of the proposed two-tiered exchange offer structure. Following this discussion, our board of directors determined unanimously to approve the Private Exchange.

At its meeting on October 17, 2010, our board of directors unanimously approved the Registered Exchange Offer. In reaching its conclusion, our board of directors considered, among others, the following factors:

- the completion of the Registered Exchange Offer would enable MedQuist Inc. and us to create a simpler, unified capital structure in which equity investors would participate in the equity of us and MedQuist Inc. only at the MedQuist Holdings Inc. level. Our board also believed that unifying public stockholdings at a single level could lead to greater liquidity for investors, particularly for the former holders of MedQuist Inc. common stock, due to the increased combined public float;
- the unified capital structure that would result from the Registered Exchange Offer would facilitate the investment and transfer of funds between us and MedQuist Inc. and its subsidiaries, thereby facilitating more efficient uses of our consolidated financial resources;
- the belief that we will be better positioned than MedQuist Inc. on a stand-alone basis to develop and exploit MedQuist Inc. s assets, including through acquisitions and dispositions;
- the elimination of public shareholders at the MedQuist Inc. level would create opportunities for cost reductions through the reduction of overhead and reporting and compliance costs;
- the opportunity to eliminate, by converting the public s ownership of MedQuist Inc. common stock into ownership of our common stock through the Registered Exchange Offer, the potential for conflicts of interest between us, on the one hand, and the assets of MedQuist Inc. and its public shareholders, on the other, including with respect to the disposition or use of MedQuist Inc. for the benefit of us and our stockholders;
- the exchange ratio;
- the ability of MedQuist Inc. s shareholders, through ownership of our common stock, to participate in the growth of MedQuist Inc. s business and our other businesses;
- the financial and operating results of MedQuist Inc.;
- the terms and conditions of the Registered Exchange Offer; and
- the level of dilution that our current stockholders would experience in connection with the Registered Exchange Offer.

The Private Exchange was completed on February 11, 2011 and increased our ownership in MedQuist Inc. from 69.5% to 82.2%.

The Registered Exchange Offer expired on March 11, 2011. As a result of the Registered Exchange Offer, we increased our ownership in MedQuist Inc. from 82.2% to approximately 97%.

We intend to consummate the Merger in connection with our ongoing plan to acquire full ownership of our majority-owned subsidiary MedQuist Inc. In addition, pursuant to the Shareholder Litigation, we agreed that if, as a result of the Registered Exchange Offer, we obtained ownership of at least 90% of the outstanding common stock of MedQuist Inc., we would conduct a short-form merger under applicable law to acquire the remaining shares of MedQuist Inc. common stock that we do not currently own at the same exchange ratio applicable under the Registered Exchange Offer. On October 3, 2011, our board of directors unanimously approved the Merger. In reaching its conclusion, our board of directors reiterated that it continues to believe that if we acquire full ownership of MedQuist Inc. it will simplify our capital structure, achieve greater integration between us and MedQuist Inc., and reduce costs and eliminate potential conflicts of interests between us and MedQuist Inc. The board of directors also considered the same factors listed above from its October 17, 2010 meeting as applied to the Merger. Please see Background and Reasons for the Merger for more information on our desire to acquire full ownership of MedQuist Inc.

CBay Inc., one of our majority-owned subsidiaries, intends to consummate a merger of one of its newly-formed subsidiaries with and into MedQuist Inc. Pursuant to the terms of the Merger, each remaining issued and outstanding share of MedQuist Inc. common stock will convert into the right to receive one share of MedQuist Holdings Inc. common stock.

Please see MedQuist Holdings Inc. Business Legal proceedings for more information on the Shareholder Litigation.

Interests of directors and executive officers

As of September 26, 2011, our directors and executive officers beneficially owned in the aggregate 66 shares of MedQuist Inc. common stock that are subject to the Merger.

Summary of Terms of the Merger

We have summarized the terms of the Merger below. You should read the discussion under The Merger in this prospectus for further information regarding the Merger.

Merger	Pursuant to the Merger Agreement, the certificate of merger and in accordance with the NJBCA, Merger Subsidiary will merge with and into MedQuist Inc., the separate corporate existence of Merger Subsidiary will terminate and MedQuist Inc. will survive the Merger and exist as a wholly owned subsidiary of ours. Merger Subsidiary has not conducted any activities other than those incidental to its formation and the matters contemplated by the certificate of merger.
Ongoing Trading and Reporting	Following the Merger, MedQuist Inc. shares will no longer trade on the OTCQB and MedQuist Inc. will terminate its reporting obligations to the SEC.
Consideration to be Received in the Merger	At the effective time of the Merger, each outstanding share of MedQuist Inc. common stock will be converted into the right to receive one share of MedQuist Holdings Inc. common stock.
Procedures for Exchange of Certificates	We have appointed American Stock Transfer & Trust Company LLC as the exchange agent for the purpose of exchanging certificates and uncertificated shares of MedQuist Inc. common stock for the Merger consideration. Contemporaneously with the effective date of the Merger, the exchange agent will mail transmittal materials to each holder of MedQuist Inc. common stock, advising such holders of the procedure for surrendering their share certificates (or an appropriate affidavit) to the exchange agent in exchange for shares of our common stock. Each holder of a share of MedQuist Inc. common stock that has been converted into a right to receive shares of our common stock will receive such shares upon surrender to the exchange agent of the applicable MedQuist Inc. common stock certificate (or an appropriate affidavit), together with an executed letter of transmittal covering such shares and such other documents as the exchange agent may reasonably require. After the effective time and until surrendered, each certificate that previously represented shares of MedQuist Inc. common stock will represent only the right to receive shares of our common stock as described above under Consideration to be Received in the Merger. In addition, MedQuist Inc. will not register any transfers of shares of MedQuist Inc. common stock after the effective time of the Merger. Holders of MedQuist Inc. common stock should not send in their MedQuist Inc. stock certificates until they receive, complete and submit a signed letter of transmittal sent by the exchange agent with instructions for the surrender of MedQuist Inc. stock certificates.

Closing and Effective Time of the Merger	The Merger will become effective upon the filing of the certificate of merger with the Department of the Treasury of the State of New Jersey. The filing of the certificate of merger will occur as soon as reasonably practicable after the effectiveness of the registration statement.
No Appraisal Rights	No appraisal rights are available to holders of MedQuist Inc. common stock in connection with the Merger.

Comparative Market Price Information	MedQuist Inc. common stock is currently traded on the OTCQB under the symbol MEDQ. On September 26, 2011, the closing price of MedQuist Inc. common stock on the OTCQB was $9.10 per share. Our common stock is listed on The NASDAQ Global Market under the symbol MEDH. On September 26, 2011, the closing price of our shares on The NASDAQ Global Market was $8.95.
Accounting Treatment	The Merger will be accounted for as an equity transaction, as we would retain control of MedQuist Inc. after the transaction.
Comparison of Rights of Holders of Our Common Stock and MedQuist Inc. Common Stock	After the completion of the Merger, you will become a stockholder of our company and your rights as a stockholder will be governed by our certificate of incorporation and by-laws. There are differences between the certificates of incorporation and by-laws of MedQuist Inc. and our company. MedQuist Inc. is a New Jersey corporation and our company is a Delaware corporation, so your rights will be governed by Delaware law after the completion of the Merger. For a summary comparison of the rights of holders of our common stock and holders of MedQuist Inc. common stock, see Comparison of Rights of Holders of Our Common Stock and MedQuist Inc. Common Stock.
Risk Factors	The Merger is subject to a number of risks. You should consider carefully all of the information set forth in this prospectus and, in particular, you should evaluate the specific factors set forth under Risk Factors in order to assess the impact of the Merger.
United States Federal Income Tax Considerations For MedQuist Inc. Common Stock Holders	The receipt of shares pursuant to the Merger generally will be taxable to you for United States federal income tax purposes. The tax consequences to you pursuant to the Merger will depend on the facts and circumstances of your own situation. Please consult your tax adviser for a full understanding of the tax consequences to you. See Material United States Federal Income Tax Consequences.
Use of Proceeds	We will not receive any cash proceeds from the conversion of the MedQuist Inc. common stock pursuant to the Merger.
Brokerage Commissions	If your shares of MedQuist Inc. common stock are held through a broker or other nominee who transmits shares of MedQuist Inc. common stock on your behalf in connection with the Merger, your broker may charge you a commission for doing so.
Exchange Agent	American Stock Transfer & Trust Company, LLC has been appointed as the exchange agent for the Merger. We have agreed to pay American Stock Transfer & Trust Company, LLC reasonable and customary fees for its services and will reimburse American Stock Transfer & Trust Company, LLC for its reasonable out-of-pocket expenses.
Further Information	If you have questions regarding the Merger, please contact the exchange agent. If you would like additional copies of this prospectus, our annual, quarterly, and current reports, proxy statement and other information, please contact the

exchange agent. The contact information for the exchange agent is set forth on the back cover of this prospectus.

Summary Historical and Unaudited Pro Forma Consolidated Financial Data

MedQuist Holdings Inc.

The following table sets forth our summary historical consolidated financial data for the years ended December 31, 2008, 2009 and 2010 and as of June 30, 2011 and for the six months ended June 30, 2010 and 2011. The summary historical consolidated financial data for the years ended December 31, 2008, 2009 and 2010 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary historical consolidated financial data as of June 30, 2011 and for the six months ended June 30, 2010 and 2011 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 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, 2010 and the six months ended June 30, 2011 and our unaudited pro forma condensed consolidated balance sheet as of June 30, 2011. 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 pro forma combined statements of operations and other operating data for the year ended December 31, 2010 and the six months ended June 30, 2011 give effect to the following transactions as if they had occurred on January 1, 2010:

- n the Spheris Acquisition and the incurrence by MedQuist Inc. of $113.6 million of debt to finance the Spheris Acquisition;
- n 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 shareholders, of which we received $122.6 million and the noncontrolling shareholders 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;
- n 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 shareholders of MedQuist Inc., which increased our ownership in MedQuist Inc. from 69.5% to 82.2%;
- n the issuance of 0.8 million shares of our common stock pursuant to the Consulting Services Agreement (as defined in Certain Relationships and Related Party Transactions Agreements with SAC PCG and affiliates and related transactions Consulting Services Agreement,);
- n the issuance of 5.4 million shares of our common stock in exchange for 5.4 million shares of MedQuist Inc. common stock under the Registered Exchange Offer. This increased our ownership in MedQuist Inc. from

82.2% to approximately 97%; and

- the issuance of approximately 1.2 million shares of our common stock in exchange for 1.2 million shares of MedQuist Inc. common stock under the Merger. This would increase our ownership in MedQuist Inc. from approximately 97% to 100%.

The pro forma balance sheet data as of June 30, 2011 gives effect to the Merger as if it occurred as of June 30, 2011.

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 (excluding our U.S. Initial Public Offering), the Merger and the shares of our common stock issued 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 summary historical and unaudited pro forma 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 of MedQuist Holdings Inc. and Management s Discussion and Analysis of Financial Condition and Results of Operations of MedQuist Holdings Inc. appearing elsewhere in this prospectus.

	Historical					Pro forma	
	Years ended December 31,			Six months ended June 30,		Year ended December 31,	Six months ended June 30,
	2008	2009	2010	2010	2011	2010	2011
				(Unaudited)		(Unaudited)	
	(In thousands, except per share amounts)						
Statement of Operations Data							
Net revenues	$ 171,413	$ 353,932	$ 417,326	$ 193,592	$ 219,675	$ 460,697	$ 219,675
Cost of revenues	113,127	229,701	259,194	124,950	130,637	290,537	130,637
Gross profit	58,286	124,231	158,132	68,642	89,038	170,160	89,038
Operating costs and expenses							
Selling, general and administrative	37,282	53,089	61,062	30,099	30,267	67,225	30,267
Research and development	6,099	9,604	12,030	5,593	4,892	12,222	4,892
Depreciation and amortization	13,488	25,366	32,617	14,620	17,297	36,459	17,297
Cost (benefit) of legal proceedings, settlements and accommodations	5,311	14,943	3,605	2,152	(6,932)	3,605	(6,932)
Goodwill impairment charge	89,633						
Acquisition and restructuring	7,726	3,973	11,079	7,011	11,269	4,184	11,269
Total operating costs and expenses	159,539	106,975	120,393	59,475	56,793	123,695	56,793
Operating income (loss)	(101,253)	17,256	37,739	9,167	32,245	46,465	32,245
Gain on sale of investment			8,780			8,780	
Equity in income of affiliated company	66	1,933	693	546		693	
Other income	9	13	460	78	7	412	7
Loss on extinguishment of debt			(13,525)			(13,525)	
Interest expense, net	(3,813)	(9,019)	(19,268)	(7,306)	(13,998)	(29,491)	(13,998)

Income (loss) from continuing operations before income taxes and noncontrolling interests	(104,991)	10,183	14,879	2,485	18,254	13,334	18,254
Income tax provision (benefit)	(5,531)	1,012	(2,312)	(382)	2,030	(2,067)	2,030
Net income (loss) from continuing operations	$ (99,460)	$ 9,171	$ 17,191	$ 2,867	$ 16,224	$ 15,401	$ 16,224
Discontinued operations							
Income (loss) from discontinued Patient Financial Services business, net of tax	(9,059)	(1,351)	556	183		556	
Net income (loss)	(108,519)	7,820	17,747	3,050	16,224	15,957	16,224
Less: Net income attributable to noncontrolling interests	(5,154)	(7,085)	(9,240)	(2,497)	(1,777)		
Net income (loss) attributable to MedQuist Holdings Inc.	$ (113,673)	$ 735	$ 8,507	$ 553	$ 14,447	$ 15,957	$ 16,224
Net income (loss) per common share from continuing operations							
Basic	$ (4.68)	$ (0.02)	$ 0.14	$ (0.03)	$ 0.17	$ 0.31	$ 0.29
Diluted	$ (4.68)	$ (0.02)	$ 0.14	$ (0.03)	$ 0.17	$ 0.30	$ 0.28
Net income (loss) per common share from discontinued operations							
Basic	$ (0.40)	$ (0.04)	$ 0.02	$ 0.01	$	$ 0.01	$
Diluted	$ (0.40)	$ (0.04)	$ 0.02	$ 0.01	$	$ 0.01	$
Net income (loss) per common share attributable to MedQuist Holdings Inc.							
Basic	$ (5.08)	$ (0.06)	$ 0.16	$ (0.02)	$ 0.17	$ 0.32	$ 0.29
Diluted	$ (5.08)	$ (0.06)	$ 0.16	$ (0.02)	$ 0.17	$ 0.31	$ 0.28
Weighted average shares outstanding:							
Basic	22,593	34,692	35,102	35,046	45,128	47,333	49,714
Diluted	22,593	34,692	35,954	35,046	46,410	48,185	50,996
Adjusted EBITDA[1]	$ 17,038	$ 60,543	$ 86,265	$ 33,350	$ 55,206	$ 91,890	$ 55,206

(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.

Ratio of Earnings to Fixed Charges

The following table shows our historical ratio of earnings to fixed charges for each of the five fiscal years ended December 31, 2006, 2007, 2008, 2009 and 2010 and for the six months ended June 30, 2010 and 2011 and our pro forma ratio of earnings to fixed charges for the fiscal year ended December 31, 2010 and for the six months ended June 30, 2011.

	Historical					Pro Forma
	Years ended December 31,					Year ended December 31,
	2006	2007	2008	2009	2010	2010 (Unaudited)
Ratio of earnings to fixed charges[1]	0.88	(0.56)	(16.12)	1.75	1.61	1.41

	Historical Six months ended June 30,		Pro forma Six months ended June 30,
	2010	2011	2011
	(Unaudited)		(Unaudited)
Ratio of earnings to fixed charges[1]	1.25	1.84	2.07

(1) For the purposes of calculating the ratio of earnings to fixed charges, earnings consists of income (loss) from continuing operations before income taxes and noncontrolling interests increased by fixed charges. Fixed charges consists of interest expense including an estimate of the interest within rental expense and amounts payable to our principal stockholders. Earnings were insufficient to cover fixed charges in the fiscal years ended December 31, 2006, 2007 and 2008.

	As of June 30, 2011	
	Actual	Pro forma
	(Unaudited) (In thousands, except per share amounts)	
Balance Sheet Data		
Cash and cash equivalents	$ 60,801	$ 60,801
Working capital[(a)]	32,057	32,057
Current assets	159,726	159,726

Non-current assets		239,353		239,353
Total assets		399,079		399,079
Current liabilities		78,893		78,893
Non-current liabilities		266,131		266,131
Long term debt, including current portion of debt		269,832		269,832
Total equity		54,055		54,055
Book value per share	$	1.11	$	1.07

(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:

	Historical					Pro forma	
	Years ended December 31,			Six months ended June 30,		Year ended December 31,	Six months ended June 30,
	2008	2009	2010	2010	2011	2010	2011
				(Unaudited)		(Unaudited)	
				(In thousands)			
Net income (loss) attributable to MedQuist Holdings Inc.	$ (113,673)	$ 735	$ 8,507	$ 553	$ 14,447	$ 15,957	$ 16,224
Net income (loss) attributable to noncontrolling interests	5,154	7,085	9,240	2,497	1,777		
Income tax provision (benefit)	(5,531)	1,012	(2,312)	(382)	2,030	(2,067)	2,030
Interest expense, net	3,813	9,019	19,268	7,306	13,998	29,491	13,998
Depreciation and amortization	13,488	25,366	32,617	14,620	17,297	36,459	17,297
Cost (benefit) of legal proceedings, settlements and accommodations	5,311	14,943	3,605	2,152	(6,932)	3,605	(6,932)
Acquisition and restructuring	7,726	3,973	11,079	7,011	11,269	4,184	11,269
Goodwill impairment charge	89,633						
Equity in (income) loss of affiliated companies	(66)	(1,933)	(693)	(546)		(693)	
Gain on sale of investment			(8,780)			(8,780)	
Loss on extinguishment of debt			13,525			13,525	
(Income) loss from discontinued operations	9,059	1,351	(556)	(183)		(556)	
Asset impairment charges, severance charges and accrual reversals(a)	2,000	(1,864)					
Share based compensation and other non-cash awards	124	856	765	322	1,320	765	1,320

Adjusted EBITDA	$	17,038	$	60,543	$	86,265	$	33,350	$	55,206	$	91,890	$	55,206

(a) 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.

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., as applicable, plus net income (loss) attributable to noncontrolling interests, income taxes, interest expense, depreciation and amortization, cost (benefit) of legal proceedings and settlements, acquisition and restructuring charges, goodwill impairment charge, equity in income (loss) of affiliated company, (income) loss from discontinued operations resulting from the sale of our PFS business, asset impairment charges, severance costs, certain unusual or nonrecurring items and share based compensation and other non-cash awards. 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 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 generally accepted accounting principles in the United States, or 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.

MedQuist Inc.

The following table sets forth the summary historical consolidated financial data of MedQuist Inc. for the years ended December 31, 2008, 2009 and 2010 and as of June 30, 2011 and for the six months ended June 30, 2010 and 2011. The summary historical consolidated financial data for the years ended December 31, 2008, 2009 and 2010 have been derived from MedQuist Inc. s audited consolidated financial statements included elsewhere in this prospectus. The summary historical consolidated financial data as of June 30, 2011 and for the six months ended June 30, 2010 and 2011 have been derived from MedQuist Inc. s unaudited consolidated financial statements included elsewhere in this prospectus. MedQuist Inc. prepared the unaudited historical information on a basis consistent with that used in preparing its audited consolidated financial statements, which reflect all adjustments, consisting of only normal recurring adjustments, that it considers necessary to present fairly its financial position and results of operations for the unaudited periods.

As a result of the Private Exchange, on February 11, 2011, MedQuist Holdings ownership interest in MedQuist Inc. increased to 82.2%. Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 805-50-S99-1 Business Combinations-Related issues governs the application of push down accounting in situations where ownership is increased to 80% or more. The post-February 11, 2011 consolidated financial statements for MedQuist Inc. reflect the new basis of accounting as required by the authoritative guidance under ASC 805-50-S99-1, and have applied the SEC rules and guidance regarding push down accounting treatment.

Accordingly, MedQuist Inc. s consolidated financial statements prior to the closing of the Private Exchange reflect the historical accounting basis in its assets and liabilities and are labeled Predecessor Company, while such consolidated financial statements subsequent to the Private Exchange are labeled Successor Company and reflect the push down basis of accounting for the fair values of assets and liabilities acquired by MedQuist Holdings in August 2008, rolled forward to February 11, 2011. This effect is presented in MedQuist Inc. s consolidated financial statements by a vertical black line division between the columns entitled Predecessor Company and Successor Company on the statements and relevant notes. The black line signifies that the amounts shown for the periods prior to and subsequent to the exchange agreement are not comparable.

MedQuist Inc. s summary historical consolidated statements of operations and other operating data reflect the consolidation of the results of operations of Spheris since April 22, 2010, the date of its acquisition.

You should read the following summary historical financial information with MedQuist Inc. s consolidated financial statements and related notes included elsewhere in this prospectus Selected Consolidated Financial and Other Data of MedQuist Inc. and Management s Discussion and Analysis of Financial Condition and Results of Operations of MedQuist Inc. appearing elsewhere in this prospectus.

	Predecessor Company					Successor Company
	Years ended December 31,			For the six months ended June 30,	For the period January 1, to February 11,	For the period February 12, to June 30,
	2008	2009	2010	2010 (unaudited)	2011 (unaudited)	2011 (unaudited)
	(In thousands, except per share amounts)					
Statement of Operations Data						
Net revenues	$ 326,853	$ 307,200	$ 375,240	$ 171,509	$ 47,048	$ 154,588
Operating costs and expenses						
Cost of revenues	230,375	206,265	249,571	116,923	29,987	99,840
Selling, general and administrative	47,520	33,441	37,070	18,817	5,219	15,046
Research and development	15,848	9,604	12,813	5,593	1,302	4,244
Depreciation and amortization	17,504	15,672	21,989	9,531	2,554	12,021
Cost (benefit) of legal proceedings and settlements	19,738	14,843	3,603	2,152	174	(7,524)
Acquisition and integration related charges		1,263	7,007	5,659	278	1,267
Goodwill impairment charge	82,233					
Restructuring Charges	2,055	2,727	2,829	930		2,965
Total operating costs and expenses	415,273	283,815	334,882	159,605	39,514	127,859
Operating income (loss)	(88,420)	23,385	40,358	11,904	7,534	26,729
Gain on sale of investment			9,911			
Equity in income of affiliated company	236	2,015	693	546		
Other income	438					

Loss on extinguishment of debt			(5,811)			
Interest income (expense), net	2,438	(134)	(13,429)	(3,779)	(3,115)	(10,526)
Income (loss) before income taxes	(85,308)	25,266	31,722	8,671	4,419	16,203
Income tax provision (benefit)	(16,513)	1,975	671	447	453	1,115
Net income (loss)	$ (68,795)	$ 23,291	$ 31,051	$ 8,224	$ 3,966	$ 15,088
Net income (loss) per common share						
Basic	$ (1.83)	$ 0.62	$ 0.83	$ 0.22	$ 0.11	$ 0.40
Diluted	$ (1.83)	$ 0.62	$ 0.83	$ 0.22	$ 0.10	$ 0.40
Weighted average shares outstanding:						
Basic	37,549	37,556	37,556	37,556	37,556	37,556
Diluted	37,549	37,556	37,556	37,556	37,852	37,803

	Successor Company As of June 30, 2011 (Unaudited) (In thousands, except per share amounts)	
Balance Sheet Data		
Cash and cash equivalents	$	24,383
Working capital[(a)]		40,050
Current assets		109,043
Non-current assets		220,694
Total assets		329,737
Current liabilities		49,610
Non-current liabilities		261,603
Long term debt, including current portion of debt		260,000
Total equity		18,524
Book value per share	$	0.49

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

Comparative per share data

In the following table we present historical per share data for MedQuist Holdings Inc. and MedQuist Inc., unaudited pro forma condensed combined per share data for MedQuist Holdings Inc., and equivalent pro forma per share data for MedQuist Inc. for, and as of, the year ended December 31, 2010 and for, and as of, the six months ended June 30, 2011 using certain assumptions as set forth in the footnotes to the table. The data does not purport to be indicative of:

- the results of operations or financial position which would have been achieved if the Corporate Reorganization (excluding our U.S. Initial Public Offering) and the stock issuance under the Consulting Services Agreement had occurred at the beginning of the period or as of the date indicated, or
- the results of operations or financial position which may be achieved in the future.

For further information regarding the calculation of pro forma net income per share, see Summary Historical and Unaudited Pro Forma Consolidated Financial Data above, and Unaudited Pro Forma Condensed Combined Financial Information of MedQuist Holdings Inc.

	Six months ended June 30, 2011	Year ended December 31, 2010
Net income per share:		
MedQuist Holdings Inc. historical basic	$ 0.17	$ 0.16
MedQuist Holdings Inc. historical diluted	$ 0.17	$ 0.16
MedQuist Holdings Inc. pro forma basic[1]	$ 0.29	$ 0.32
MedQuist Holdings Inc. pro forma diluted[1]	$ 0.28	$ 0.31
MedQuist Inc. historical basic[2]	$ 0.51	$ 0.83
MedQuist Inc. historical diluted[2]	$ 0.50	$ 0.83
MedQuist Inc. pro forma equivalent basic[3]	$ 0.29	$ 0.32
MedQuist Inc. pro forma equivalent diluted[3]	$ 0.28	$ 0.31
Cash dividends per share:		
MedQuist Holdings Inc. historical		
MedQuist Inc. historical		$ 4.70
MedQuist Inc. pro forma equivalent[3]		

	As of June 30, 2011	As of December 31, 2010
Book value per share:		
MedQuist Holdings Inc. historical	$ 1.11	$ 1.25
MedQuist Holdings Inc. pro forma[4]	$ 1.07	N/A
MedQuist Inc. historical	$ 0.49	$ (0.81)
MedQuist Inc. pro forma equivalent[3]	$ 1.07	N/A

(1) Determined by dividing the pro forma net income by the pro forma number of weighted average shares outstanding for the year ended December 31, 2010 and the six months ended June 30, 2011.

(2) Represents MedQuist Inc. historical net income per share. Comprised of $0.11 (basic) and $0.10 (diluted) for Predecessor Company and $0.40 for Successor Company for the six months ended June 30, 2011.

(3) The MedQuist Inc. equivalent pro forma amounts are calculated by multiplying MedQuist Holdings Inc. pro forma combined amounts by one.

(4) Determined by dividing the pro forma shareholders equity by the pro forma number of shares outstanding as of December 31, 2010 and June 30, 2011.

Risk Factors

In addition to the other information included in this prospectus, including the matters addressed in Special Note Regarding Forward-Looking Statements, you should carefully consider the matters described below in order to assess the risks associated with the Merger and holding shares of MedQuist Holdings Inc. common stock.

Risks related to the Merger

The conversion of shares pursuant to the Merger generally will be a taxable event for U.S. federal income tax purposes.

The conversion of MedQuist Inc. common stock into our common stock pursuant to the Merger generally will be a taxable event for U.S. federal income tax purposes. In general, U.S. holders will recognize gain for U.S. federal income tax purposes as a result of the Merger in an amount per share equal to the difference between the closing price of our common stock on the date of the Merger and the U.S. holders adjusted basis in such share of MedQuist Inc. common stock. Holders should discuss the tax treatment of the Merger to them with their tax advisors. See Material United States Federal Income Tax Consequences for more information.

We will issue one share of our common stock for each share of MedQuist Inc. common stock in the Merger. This conversion ratio is fixed and will not be adjusted. The market price of our common stock may fluctuate, and the market price of the shares of our common stock upon the consummation of the Merger could be less than the market price at the time of this prospectus.

We will issue one share of our common stock for each share of MedQuist Inc. common stock in the Merger. This conversion ratio is fixed and will not be adjusted regardless of any increase or decrease in the market price of our common stock or the MedQuist Inc. common stock between the date of this prospectus and the consummation of the Merger. Therefore, the market price of our common stock at the time you receive our common stock when we deliver our common stock in exchange for MedQuist Inc. common stock, could be less than the market price at the time of this prospectus. The market price of our common stock has recently been subject to significant fluctuations and volatility.

We may fail to realize all of the anticipated benefits of the Merger.

The primary goal of the Merger is to unify public stockholdings at a single level, which we believe could lead to greater liquidity for investors, particularly for the former holders of MedQuist Inc. common stock, due to the increased combined public float. We also believe that the unified capital structure that would result from the Merger would also facilitate the investment and transfer of funds between us and MedQuist Inc. and its subsidiaries, thereby facilitating more efficient uses of our consolidated financial resources. To the extent the challenges of unifying our corporate structure turn out to be greater than we have expected we may fail to realize these and other anticipated benefits. Our costs could also be adversely affected by our inability to fully integrate MedQuist Inc. into our consolidated operations and management structure.

We have not obtained a third-party determination that the Merger is fair to holders of the MedQuist Inc. common stock.

The Merger consideration was not determined by arms length negotiation and there was no formal valuation by an independent third party. Neither we, CBay Inc. or MedQuist Inc. has obtained a fairness opinion by an investment banking firm or other qualified appraiser in connection with the Merger. Because the Merger is being effected pursuant to a short form merger statute, the board of directors of MedQuist Inc. have not considered or made any determination as to whether the terms of the Merger are fair to, or in the best interests, of the holders of MedQuist Inc. common stock. Under the terms of the Memorandum of Understanding, or MOU, relating to the Shareholder Litigation, we agreed to conduct a short-form merger to acquire the remaining shares of MedQuist Inc. common stock that we do not currently own at the same exchange ratio under the Registered Exchange Offer (one-for-one). On April 1, 2011, the parties executed the Stipulation of Settlement that memorialized the terms of the settlement outlined in the MOU. On June 17, 2011, the Court entered an Order and Final Judgment, or Final

Judgment, that, among other things, found the terms set forth in the Stipulation of Settlement to be fair and reasonable and in the best interests of the Settlement Class.

We do not own 100% of the stock of MedQuist Inc., which may impact our ability to consummate the Merger.

We do not wholly own MedQuist Inc., and our ability to gain 100% ownership of MedQuist Inc. through a short-form merger 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 shareholders. 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 NJBCA prohibits certain business combinations involving New Jersey corporations and an interested shareholder. An interested shareholder is defined generally as a shareholder 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 shareholder acquired its stock, unless the transaction was approved by the corporation s board of directors prior to the time the interested shareholder acquired its shares. After the five year period expires, the prohibition on business combinations with an interested shareholder continues unless: (i) the business combination is approved by the board of directors of the target corporation prior to the time the interested shareholder acquired its shares; (ii) the business combination is approved by a vote of two-thirds of the voting stock not owned by the interested shareholder; or (iii) the shareholder of the corporation receive a price in accordance with a fair price formula set forth in the NJBCA.

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, CBay Inc. or any of our affiliates 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., us and our other affiliates.

We intend to contribute the shares of MedQuist Inc. common stock that we hold to CBay Inc. CBay Inc. intends, promptly following the contribution, to contribute the shares of MedQuist Inc. common stock that CBay Inc. then holds to Merger Subsidiary. Merger Subsidiary will then own at least 90% of MedQuist Inc. Since Merger Subsidiary will own at least 90% of MedQuist Inc., we will be able to utilize a short-form merger through Section 14A:10-5.1 of the NJBCA by which Merger Subsidiary will merge with and into MedQuist Inc. and each share of MedQuist Inc. common stock will be automatically converted into the right to receive a share of our common stock. The New Jersey courts have not interpreted the ability of a corporation to effect a short-form merger in the context of Section 14A:10A since the adoption of New Jersey s Shareholder Protection Act. Therefore, our ability to consummate the short-form merger could be challenged.

The price of our common stock may be affected by factors different from those affecting the price of common stock of MedQuist Inc.

If we complete the Merger, you will become a holder of our common stock. Our business is broader than the business of MedQuist Inc., and the results of our operations, as well as the market price of our common stock, may be affected by factors different from those affected MedQuist Inc. s results of operations and the market price of MedQuist Inc. common stock. As a result, factors that had little or no effect on the price of MedQuist Inc. s common stock may adversely affect the price of our common stock.

Our stock price may decline due to the number of shares of our common stock that could be sold in the market after the Merger.

The market price of our common stock could decline as a result of the large number of shares of our common stock that could be sold in the market after the Merger or the perception that such sales could occur. This also might make it more difficult for stockholders to sell shares in the future at a time and at a price they would deem appropriate.

We will issue approximately 1.2 million shares of our common stock pursuant to the Merger. As of September 26, 2011 there were 55.1 million shares outstanding.

We may issue preferred stock in the future, which may adversely affect the market price of our common stock.

Our board of directors is authorized to issue one or more classes or series of preferred stock from time to time without any action on the part of the stockholders. Our board of directors also has the power, without stockholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights, conversion rights and preferences over our common stock with respect to dividends or upon our dissolution, winding up and liquidation and other terms. If we issue preferred shares in the future that are convertible into common stock, have a preference over our common stock with respect to the payment of dividends or upon liquidation, or if we issue preferred shares with voting rights that dilute the voting power of our common stock, the rights of holders of our common stock or the market price of our common stock could be adversely affected.

The shares of our common stock to be received by MedQuist Inc. shareholders will have different rights from the shares of MedQuist Inc. common stock.

Upon receipt of shares of MedQuist Holdings Inc. common stock pursuant to the Merger, MedQuist Inc. shareholders will become MedQuist Holdings Inc. stockholders and their rights as stockholders will be governed by the certification of incorporation and bylaws of MedQuist Holdings Inc. Certain of the rights associated with MedQuist Holdings Inc. are different from the rights associated with MedQuist Inc. common stock. See Comparison of Rights of Holders of Our Common Stock and MedQuist Inc. Common Stock.

Risks related to our business

Integration of our acquired MultiModal business may be costly and may cause disruption to the existing business operations.

On August 18, 2011, we completed our acquisition of MultiModal. On the closing date of the acquisition we paid an aggregate of approximately $48.4 million in cash to MultiModal s shareholders, optionholders and other third parties and issued an aggregate of 4,134,896 shares of our common stock (the Shares) to certain of MultiModal s shareholders. We are also obligated to pay up to approximately $28.8 million of additional cash consideration in three installments of approximately $16.3 million, $4.8 million and $7.7 million, respectively, following the first, second and third anniversaries of the closing date of the acquisition. Also on the closing date of the acquisition, we granted to certain of MultiModal s employees that became employees of ours up to $10 million of restricted shares of our common stock. The costs to acquire and integrate MultiModal may limit the our ability to pursue other growth opportunities, unless additional capital can be obtained. The successful integration of independent businesses like us and MultiModal is a complex, costly, and time-consuming process that, even with proper planning and implementation, could significantly disrupt the business of MultiModal and our other operations. Achieving anticipated synergies and other benefits of the acquisition is subject to a number of uncertainties, including the timely integration of technology, operations and personnel of the two businesses. The challenges involved in this integration include:

- Combining solutions in a coherent and effective manner;
- Preserving customer, vendor and other important relationships of both MedQuist and MultiModal;
- Minimizing the diversion of management attention from ongoing business concerns;
- Retaining key employees;
- Managing new business structures; and

- Coordinating and combining operations, relationships and facilities.

Failure to successfully integrate the MultiModal business may reduce or eliminate the anticipated benefits of the MultiModal acquisition, which in turn could result in increased costs, decreased revenues, and diversion of management s time and energy and could materially impact MedQuist s, MultiModal s and the combined businesses financial condition and results of operations, as well as the market price of MedQuist common stock.

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 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.

Many of MultiModal s speech recognition customer contracts and vendor agreements can be terminated by its customers and vendors, respectively, which could have a materially negative impact on our speech recognition business.

Due to the closing of our recent acquisition of MultiModal, many of MultiModal s speech recognition customer contracts and vendor agreements can be terminated by its customers and vendors, respectively. 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 continue to have 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.

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.

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 medical transcription contracts can be terminated at will by our customers. If a significant number of our customers were to cancel or materially change their medical transcription 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 medical transcription 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.

As of June 30, 2011 we had 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 2011 through 2014, assuming no change in our indebtedness, 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, 2010 and the six months ended June 30, 2011 was $19.3 million and $14.0 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. At June 30, 2011, a 1.0% increase in the interest rate above this floor would impact our interest expense by approximately $1.75 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;
- 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;
- 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;
- limiting our ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes;
- limiting our ability to pursue our growth strategy, including restricting us from making strategic acquisitions or causing us to make non-strategic divestitures; and
- 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.

The deterioration of the credit and capital markets may adversely affect our access to sources of funding.

We rely on our credit facilities to fund a portion of our working capital needs and other general corporate purposes. If any of the banks in the syndicates backing these facilities were unable to perform on its commitments, our liquidity could be impacted, which could adversely affect funding of working capital requirements and other general corporate purposes. In the event that we need to access the capital markets or other sources of financing, there can be no assurance that we will be able to obtain financing on acceptable terms or within an acceptable time, if at all. Our inability to obtain financing on terms and within a time acceptable to us could have an adverse impact on our operations, financial condition, and liquidity.

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 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.

Since February 17, 2010, we have been 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;

- 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.

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:

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

n difficulty in integrating the operations and personnel of the acquired businesses, including different and complex accounting and financial reporting systems;
n potential disruption of ongoing business and distraction of management;
n 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;
n difficulty in incorporating acquired technology and rights into products and technology;
n unanticipated expenses and delays in completing acquired development projects and technology integration;
n management of geographically remote offices and operations;
n impairment of relationships with partners and customers;
n

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 are subject to additional regulatory compliance requirements, including section 404 of the Sarbanes-Oxley Act of 2002. 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 Stock 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, 2010, we had approximately $102 million of federal net operating loss, or NOL, carryforwards to offset future taxable income, which will begin to expire in 2025 if not utilized, and approximately $286 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 shift, over a three-year testing period. We believe that, as a result of our initial public offering or as a result of future issuances of capital stock, it is possible that such an ownership change may occur. If we experience an ownership change, our ability to use our United States federal and state 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.

Our largest stockholder may exercise significant control over our company.

Affiliates of SAC PCG, our largest stockholder, beneficially own in the aggregate shares representing approximately 32% of our outstanding capital stock. Furthermore, we have entered into a Stockholders Agreement with affiliates of SAC PCG pursuant to which they have the right to nominate to our board three, two or one directors for so long as they own 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.

Risks related to our intellectual property and technology

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 certain speech recognition software from a third party, which is a competitor, which 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 this licensor. If we were to experience the loss of this license, the portion of our business that relies on this software would be adversely affected while we transitioned it to our speech recognition software. There can be no assurance that such third party licensor 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 licensor does not continue to develop its 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 speech recognition software 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.

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.

Speech software products and services are not 100% accurate, and we could be subject to claims related to the performance of our products and services. Any claims, whether successful or unsuccessful, could result in significant costs and could damage our reputation.

Speech recognition and natural language understanding technologies, including our own, are not accurate in every instance. Our customers, including hospital systems and medical transcription service organizations, or MTSOs, use our products to provide important clinical documentation services to their customers. Any misrecognition of voice commands in connection with these services could result in claims against our customers or us for losses incurred. Although our contracts usually contain provisions designed to limit our exposure to such liability claims, a claim brought against us based on misrecognition, even if unsuccessful, could be time-consuming, divert management s attention from our business operations, result in costly litigation and harm our reputation. If any such claim is successful, we could be exposed to an award of substantial damages and our reputation could be harmed greatly. Moreover, existing or future laws or unfavorable judicial decisions could limit the enforceability of limitations of liability, disclaimers of warranty or other protective provisions contained in many, but not all of, our contracts.

Third-party intellectual property rights may limit the development and protection of our intellectual property, which could adversely affect our competitive position.

Our success is dependent, in large part, on our ability to: obtain patent protection for our products and processes; preserve our trade secrets and propriety technology; and operate without infringing upon the patents or other proprietary rights of third parties. The speech recognition and natural language understanding industry has been characterized by extensive litigation regarding patents and other intellectual property rights. Companies in the speech recognition and natural language understanding industry have employed intellectual property litigation to gain a competitive advantage. Certain competitors and potential competitors of ours may have obtained patents which purport to cover the application of certain technologies that could be used for our products. We have not been a party to any suits asserting patent infringement against us. In addition, international patents may not be interpreted in the same manner as any counterpart United States patent.

Costly and protracted litigation may be necessary to protect our intellectual property rights.

We may have to engage in time consuming and costly litigation to protect our intellectual property rights or to determine the proprietary rights of third-parties and others. In addition, we may become subject to patent infringement claims or litigation, or interference proceedings declared by the United States Patent and Trademark Office to determine the priority of inventions. Defending and prosecuting intellectual property suits, United States Patent and Trademark Office interference proceedings and related legal and administrative proceedings are both costly and time-consuming. We may be required to litigate further to:

- enforce assignment and/or license agreements against our third-party developers;
- enforce our issued patents;
- protect our trade secrets or know-how;
- enforce non-compete agreements; or
- determine the enforceability, scope and validity of the proprietary rights of others.

Any litigation or interference proceedings may result in substantial expense and significant diversion of effort by technical and management personnel. If the results of such litigation or interference proceedings are adverse to us, then the results may:

- require us to seek licenses from third parties;
- prevent us from selling our products in certain markets or at all;
- subject us to significant liabilities to third parties; or
- require us to modify or remove our products from the market.

Although patent and intellectual property disputes are often settled through licensing and similar arrangements, costs associated with such arrangements may be substantial and could include ongoing royalties. Furthermore, we may not be able to obtain the necessary licenses on satisfactory terms, if at all.

Adverse determinations in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent us from further developing and/or selling our products. This could result in substantial harm to our business and our business may not be able to sustain such a loss.

Risks related to our common stock

Our stock price may fluctuate significantly.

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. The market price of our common stock could be subject to significant fluctuations because of general market conditions and because of factors specifically related to our businesses. Factors that could cause volatility in the market price of our common stock include:

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

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.

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.

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 of MedQuist Holdings Inc., 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 terminology.

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

- our ability to successfully integrate the MultiModal business;
- potential synergies from the acquisition of Spheris;
- our ability to develop, adopt and integrate new technologies;
- acceptance of speech recognition and natural language understanding 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 gain new customers;
- our ability to increase sales; our ability to recruit and retain qualified MTs, MEs and other employees;
- changes in law, including, without limitation, the impact HIPAA will have on our business;
- potential litigation related to speech software services and products or litigation to protect our intellectual property rights; and
- the impact of our new services and products on the demand for our existing services and products.

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, and except for any material updates or revisions to the forward-looking statements made in this prospectus occurring prior to the consummation of the Merger, we 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, or 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 shareholders. 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

On September 30, 2010, we entered into an exchange agreement with certain of MedQuist Inc. s noncontrolling shareholders that held in the aggregate approximately 12.7% of MedQuist Inc. s outstanding shares. Pursuant to the exchange agreement, those MedQuist Inc. shareholders received one share of our common stock for each MedQuist Inc. share and entered 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 occurred on February 11, 2011 and increased our ownership in MedQuist Inc. from 69.5% to 82.2%.

Registered Exchange Offer

In addition to the Private Exchange referred to above, in February 2011, we commenced our Registered Exchange Offer to those noncontrolling MedQuist Inc. shareholders who did not participate in the Private Exchange to exchange shares of our common stock for shares of MedQuist Inc. common stock. The Registered Exchange Offer expired on March 11, 2011. We accepted and consummated the exchange of MedQuist Inc. shares of common stock that were validly tendered in the Registered Exchange Offer. As a result of the Registered Exchange Offer, we increased our ownership in MedQuist Inc. from 82.2% to approximately 97%.

U.S. Initial Public Offering

The U.S. initial public offering of our common stock closed on February 9, 2011. Our common stock is listed on The NASDAQ Global Market under the symbol MEDH.

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 reverse share split 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 give effect to the reverse share split.

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.

Capitalization

The following table sets forth our capitalization as of June 30, 2011:

- on an actual basis; and
- on a pro forma basis to give effect to the Merger.

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 of MedQuist Holdings Inc., Selected Consolidated Financial and Other Data of MedQuist Holdings Inc. and Management s Discussion and Analysis of Financial Condition and Results of Operations of MedQuist Holdings Inc. and the consolidated financial statements and the related notes thereto included elsewhere in this prospectus.

	As of June 30, 2011	
	Actual	**Pro forma** [3]
	($ in thousands)	
Cash and cash equivalents	$ 60,801	$ 60,801
Short-term debt [1]	12,025	12,025
Long-term debt		
Term loan	170,000	170,000
Senior Subordinated Notes	85,000	85,000
Other debt [2]	2,807	2,807
Total debt	269,832	269,832
Equity		
Stockholders equity:		
Preferred stock: 25 million shares authorized, none issued or outstanding		
Common stock: 300 million shares authorized, 49.2 million shares issued and outstanding (actual); 50.4 million shares issued and outstanding (pro forma)	4,917	5,041
Additional paid in capital	142,336	141,885
Accumulated deficit	(92,732)	(92,732)
Accumulated other comprehensive loss	(139)	(139)
Total stockholders equity	54,382	54,055
Noncontrolling interests	(327)	
Total equity	54,055	54,055
Total capitalization	$ 323,887	$ 323,887

(1) 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.

(2)

Other debt includes the long-term portion of capital lease obligations and indebtedness outstanding under our credit agreement with ICICI Bank and with IndusInd Bank.

(3) Pro forma basis reflects the issuance of 1.2 million shares of our common stock in the Merger.

Unaudited Pro Forma Condensed Combined Financial Information of MedQuist Holdings Inc.

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, 2010 and the six months ended June 30, 2011 and our unaudited pro forma condensed consolidated balance sheet as of June 30, 2011. 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 pro forma combined statements of operations and other operating data for the year ended December 31, 2010 and the six months ended June 30, 2011 give effect to the following transactions as if they had occurred on January 1, 2010:

- 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 shareholders, of which we received $122.6 million and the noncontrolling shareholders 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 shareholders of MedQuist Inc., which increased our ownership in MedQuist Inc. from 69.5% to 82.2%;
- the issuance of 0.8 million shares of our common stock pursuant to the Consulting Services Agreement;
- the issuance of 5.4 million shares of our common stock in exchange for 5.4 million shares of MedQuist Inc. common stock under the Registered Exchange Offer. This increased our ownership in MedQuist Inc. from 82.2% to approximately 97%; and
- the issuance of approximately 1.2 million shares of our common stock in exchange for 1.2 million shares of MedQuist Inc. common stock pursuant to the Merger. This would increase our ownership in MedQuist Inc. from approximately 97% to 100%.

The pro forma balance sheet data as of June 30, 2011 gives effect to the Merger as if it occurred as of June 30, 2011.

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 (excluding our U.S. Initial Public Offering), the shares of our common stock issued pursuant to the Consulting Services Agreement and the Merger (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 of MedQuist Holdings Inc. and Management s Discussion and Analysis of Financial Condition and Results of Operations of MedQuist Holdings Inc. appearing elsewhere in this prospectus.

MedQuist Holdings Inc. and Subsidiaries
Unaudited Pro Forma Condensed Combined Statement of Operations
For the year ended December 31, 2010

	Historical		Spheris	Spheris	Recapitalization Transactions, Private Exchange and Registered Exchange			
	MedQuist Holdings Inc.	Spheris	Acquisition pro forma adjustments	Acquisition pro forma combined	Offer pro forma adjustments	Pro forma before the Merger	Merger pro forma adjustments	Pro form
	(In thousands, except per share amounts)							
revenues	$ 417,326	$ 43,371	$	$ 460,697	$	$ 460,697	$	$ 460,69
t of revenues	259,194	31,343		290,537		290,537		290,53
ss profit	158,132	12,028		170,160		170,160		170,16
erating costs and enses								
ing, general and ninistrative	61,062	6,163		67,225		67,225		67,22
earch and development	12,030	192		12,222		12,222		12,22
oreciation and ortization	32,617	1,850	1,992 (a)	36,459		36,459		36,45
t of legal proceedings, lements and ommodations	3,605			3,605		3,605		3,60
uisition and ructuring	11,079	1,730	(8,625) (b)	4,184		4,184		4,18
al operating expenses	120,393	9,935	(6,633)	123,695		123,695		123,69
erating income	37,739	2,093	6,633	46,465		46,465		46,46
n on sale of investment	8,780			8,780		8,780		8,78
ity in income of liated company	693			693		693		69
er income	460	(48)		412		412		41
s on extinguishment of t	(13,525)			(13,525)		(13,525)		(13,52
rest expense, net	(19,268)	(3,459)	139 (c)	(22,588)	(6,903) (f)	(29,491)		(29,49

ome (loss) from tinuing operations ore reorganization ns, income taxes and ncontrolling interests	14,879	(1,414)	6,772	20,237	(6,903)	13,334		13,3
organization items		(5,762)	5,762 [b]					
ome from continuing rations before income es and noncontrolling erests	14,879	(7,176)	12,534	20,237	(6,903)	13,334		13,3
ome tax benefit	(2,312)	(2,822)	2,000 [d]	(3,134)	1,067 [g]	(2,067)		(2,0
income (loss) from tinuing operations	17,191	(4,354)	10,534	23,371	(7,970)	15,401		15,40
continued operations								
ome from discontinued ent Financial Services iness, net of tax	556			556		556		5
income (loss)	17,747	(4,354)	10,534	23,927	(7,970)	15,957		15,9
s: Net income ibutable to controlling interests	(9,240)		(1,616) [e]	(10,856)	9,770 [h]	(1,086)	1,086 [j]	
income attributable MedQuist Holdings .	$ 8,507	$ (4,354)	$ 8,918	$ 13,071	$ 1,800	$ 14,871	$ 1,086	$ 15,9
income per common re from continuing rations								
ic	$ 0.14			$ 0.27		$ 0.29		$ 0.
uted	$ 0.14			$ 0.27		$ 0.29		$ 0.
income per common re from discontinued rations								
ic	$ 0.02			$ 0.02		$ 0.01		$ 0.0
uted	$ 0.02			$ 0.02		$ 0.01		$ 0.0
income per common re attributable to dQuist Holdings Inc.								
ic	$ 0.16			$ 0.29		$ 0.30		$ 0.
uted	$ 0.16			$ 0.29		$ 0.30		$ 0.
ighted average shares standing:								
ic	35,102			35,102	11,000 [h,i]	46,102	1,231 [k]	47,3
uted	35,954			35,954	11,000 [h,i]	46,954	1,231 [k]	48,1

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

MedQuist Holdings Inc. and Subsidiaries
Unaudited Pro Forma Condensed Combined Statement of Operations
For the six months ended June 30, 2011

	Historical MedQuist Holdings Inc.	Merger pro forma adjustments	Pro forma
	(In thousands, except per share amounts)		
Net revenues	$ 219,675		$ 219,675
Cost of revenues	130,637		130,637
Gross profit	89,038		89,038
Operating costs and expenses:			
Selling, general and administrative	30,267		30,267
Research and development	4,892		4,892
Depreciation and amortization	17,297		17,297
Cost (benefit) of legal proceedings, settlements and accommodations	(6,932)		(6,932)
Acquisition and restructuring	11,269		11,269
Total operating costs and expenses	56,793		56,793
Operating income	32,245		32,245
Other income	7		7
Interest expense, net	(13,998)		(13,998)
Income before income taxes and noncontrolling interests	18,254		18,254
Income tax provision	2,030		2,030
Net income	16,224		16,224
Less: Net income attributable to noncontrolling interests	(1,777)	1,777 (l)	
Net income attributable to MedQuist Holdings Inc.	$ 14,447	$ 1,777	$ 16,224
Net income per common share attributable to MedQuist Holdings Inc.			
Basic	$ 0.17		$ 0.29
Diluted	$ 0.17		$ 0.28
Weighted average shares outstanding:			
Basic	45,128	4,586 (m)	49,714
Diluted	46,410	4,586 (m)	50,996

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

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MedQuist Holdings Inc. and Subsidiaries
Unaudited Pro Forma Condensed Consolidated Balance Sheet
As of June 30, 2011

	Historical MedQuist Holdings Inc.	Merger pro forma adjustments	Pro forma
		(In thousands)	
ASSETS			
Current assets			
Cash and cash equivalents	$ 60,801		$ 60,801
Accounts receivable, net	74,025		74,025
Other current assets	24,900		24,900
Total current assets	159,726		159,726
Property and equipment, net	21,984		21,984
Goodwill	90,328		90,328
Other intangible assets, net	102,552		102,552
Deferred income taxes	7,089		7,089
Other assets	17,400		17,400
Total assets	$ 399,079		$ 399,079
LIABILITIES AND EQUITY			
Current liabilities			
Current portion of debt	$ 12,025	$	$ 12,025
Accounts payable	14,921		14,921
Accrued expenses and other current liabilities	29,663		29,663
Accrued compensation	9,731		9,731
Deferred revenue	8,553		8,553
Related party payable	4,000		4,000
Total current liabilities	78,893		78,893
Long term portion of debt	257,807		257,807
Deferred income taxes	5,666		5,666
Related party payable, non-current			
Other non-current liabilities	2,658		2,658
Total liabilities	345,024		345,024
Equity			
MedQuist Holdings Inc. stockholders equity			
Preferred stock			

Common stock	4,917	124 (n)	5,041
Additional paid-in capital	142,336	(451) (n)	141,885
Accumulated deficit	(92,732)		(92,732)
Accumulated other comprehensive loss	(139)		(139)
Total MedQuist Holdings Inc. stockholders equity	54,382	(327)	54,055
Noncontrolling interests	(327)	327 (n)	
Total equity	54,055		54,055
Total liabilities and equity	$ 399,079	$	$ 399,079

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

MedQuist Holdings Inc. 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 2010 unaudited pro forma condensed combined financial information includes our audited consolidated statement of operations for the year ended December 31, 2010. The 2011 presentation includes our unaudited historical consolidated statement of operations for the six months ended June 30, 2011. 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, 2010 and for the six months ended June 30, 2011 also include the effects of the Corporate Reorganization (excluding our U.S. Initial Public Offering), the shares of our common stock issued under the Consulting Services Agreement and as a result of the Merger. The unaudited pro forma condensed consolidated balance sheet as of June 30, 2011 is our historical unaudited consolidated balance sheet as of June 30, 2011 and is adjusted as if the Merger had been completed as of June 30, 2011.

The unaudited pro forma condensed combined financial information was prepared using the acquisition method of accounting under Financial Accounting Standards Board Accounting Standards Codification 805, Business Combinations, or ASC Topic 805. 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 Financial Accounting Standards Board Accounting Standards Codification 820, Business Combinations, or ASC Topic 820, 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 Topic 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 Spheris Acquisition, the Corporate Reorganization (excluding our U.S. Initial Public Offering), the shares of our common stock issued under the Consulting Services Agreement and as a result of the Merger, (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. 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 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 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. 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 an acquisition subordinated promissory note, or the Acquisition Subordinated Promissory Note, with Spheris Inc. The Acquisition Subordinated Promissory 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.

MedQuist Holdings Inc. 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. 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 Royal Philips Electronics. 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 were (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

4. Private Exchange

On September 30, 2010, we entered into the Exchange Agreement with certain MedQuist Inc. shareholders that held in the aggregate approximately 12.7% of MedQuist Inc. s outstanding shares. The Private Exchange closed on February 11, 2011 and increased our ownership in MedQuist Inc. from 69.5% to 82.2%. Pursuant to the Exchange Agreement, those MedQuist Inc. shareholders received one share of our common stock for each MedQuist Inc. share, and entered 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.

MedQuist Holdings Inc. and Subsidiaries

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

5. Registered Exchange Offer

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

6. Merger

On August 31, 2011, we filed a registration statement on Form S-4, of which this prospectus is a part, in order to register shares of our common stock to be issued to MedQuist Inc. shareholders (other than us) pursuant to the Merger. The terms of the Merger are described in this prospectus. The Merger would increase our ownership in MedQuist Inc. from approximately 97.0% to 100.0%.

7. Pro forma adjustments related to the unaudited pro forma condensed combined statement of operations for the year ended December 31, 2010

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 (In thousands)
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
Amortization for the period January 1 to April 21, 2010	$ 50,240		$ 6,327
			$ 1,924

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

b. Adjustment to eliminate direct incremental costs incurred by us and Spheris for bankruptcy and bankruptcy related matters.

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

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

MedQuist Holdings Inc. 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.

d. 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.

e. Adjustment to recognize noncontrolling interest in MedQuist Inc.

Recapitalization Transactions, Private Exchange and Registered Exchange Offer pro forma adjustments:

f. Adjustment to reflect interest expense as shown below:

		(In thousands)
Interest on Term Loan	$	11,761
Interest on Senior Subordinated Notes		8,963
Amortization of related deferred financing fees		2,283
Total		23,007
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		(5,477)
Other debt agreements		(292)
Amortization of previous deferred financing fees		(1,480)
Adjustment to interest expense	$	(6,903)

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.

g. Adjustment to record the income tax provision of the Recapitalization Transactions, Private Exchange and Registered Exchange Offer at our historical effective tax rate in effect for the respective period. However, the effective tax rate after these transactions could be different.

h. In connection with the Private Exchange and the Registered Exchange Offer, noncontrolling shareholders holding 10.2 million shares of MedQuist Inc. exchanged their MedQuist Inc. shares for shares of our common stock and received one share of our common stock for each share of MedQuist Inc. exchanged, which resulted in approximately 10.2 million additional shares outstanding. As a result of the Private Exchange and the Registered Exchange Offer, we own approximately 97.0% of MedQuist Inc., and the noncontrolling interest decreased from approximately 30.5% to 3.0%. As we hold a controlling interest in MedQuist Inc. before and after the Private Exchange and the Registered Exchange Offer, the exchanges were recorded as equity transactions. Additionally, we paid $2.5 million of expenses incurred by certain shareholders who are party to the Exchange Agreement. We accounted for the payment as a capital transaction.

MedQuist Holdings Inc. 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 10.2 million shares of our common stock in exchange for MedQuist Inc. shares as if the shares had been outstanding from January 1, 2010.

i. To record the changes in shares outstanding as a result of the Private Exchange, the Registered Exchange Offer and the Consulting Services Agreement.

Merger pro forma adjustments:

j. Adjustment to reflect the change in noncontrolling interests as a result of the proposed Merger which would increase our ownership to 100%.

k. To record the change in shares outstanding as a result of the Merger.

7. Pro forma adjustments related to the unaudited pro forma condensed combined statement of operations for the six months ended June 30, 2011

Merger pro forma adjustments:

l. Adjustment to reflect the change in noncontrolling interests as a result of the proposed Merger which would increase our ownership to 100%.

m. To reflect the impact of the issuance of approximately 1.2 million shares of our common stock as a result of the Merger. To also reflect the impact on our weighted average shares outstanding resulting from the common shares issued during 2011 pursuant to the Private Exchange, Registered Exchange Offer and the Consulting Services Agreement.

8. Pro forma adjustments related to the unaudited pro forma condensed consolidated balance sheet as of June 30, 2011

Merger pro forma adjustments:

n. To adjust common stock, additional paid in capital and noncontrolling interests to reflect the issuance of approximately 1.2 million shares of our common stock in exchange for 1.2 million shares of MedQuist Inc. common stock as a result of the Merger that would increase our ownership in MedQuist Inc. from approximately 97% to 100%.

Selected Consolidated Financial and Other Data of MedQuist Holdings Inc.

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 of MedQuist Holdings Inc. section of this prospectus.

We derived the statement of operations data for the years ended December 31, 2008, 2009 and 2010 and the balance sheet data as of December 31, 2009 and 2010 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, 2006 and 2007 and the balance sheet data as of December 31, 2006, 2007 and 2008 from our audited consolidated financial statements, which are not included in this prospectus. We derived the statement of operations data for the six months ended June 30, 2010 and 2011 and the balance sheet data as of June 30, 2011 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 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,					Six months ended June 30,	
	2006	2007	2008	2009	2010	2010	2011
						(Unaudited)	
	(In thousands, except per share amounts)						
Statement of Operations Data							
Net revenues	$ 35,222	$ 42,191	$ 171,413	$ 353,932	$ 417,326	$ 193,592	$ 219,675
Cost of revenues	17,585	22,108	113,127	229,701	259,194	124,950	130,637
Gross profit	17,637	20,083	58,286	124,231	158,132	68,642	89,038
Operating expenses							
Selling, general and administrative	14,655	19,442	37,282	53,089	61,062	30,099	30,267
Research and development			6,099	9,604	12,030	5,593	4,892
Depreciation and amortization	1,875	2,151	13,488	25,366	32,617	14,620	17,297
Cost (benefit) of legal proceedings, settlements and accommodations			5,311	14,943	3,605	2,152	(6,932)
Goodwill impairment charge			89,633				
Acquisition and restructuring related charges			7,726	3,973	11,079	7,011	11,269
Total operating expenses	16,530	21,593	159,539	106,975	120,393	59,475	56,793
Operating income (loss)	1,107	(1,510)	(101,253)	17,256	37,739	9,167	32,245
Gain on sale of investment					8,780		
Equity in income (loss) of affiliated companies		(105)	66	1,933	693	546	
Other income	19		9	13	460	78	7
Loss on extinguishment of debt					(13,525)		

Interest expense, net	(1,323)	(1,657)	(3,813)	(9,019)	(19,268)	(7,306)	(13,998)
Income (loss) from continuing operations before income taxes and noncontrolling interests	(197)	(3,272)	(104,991)	10,183	14,879	2,485	18,254
Income tax provision (benefit)	(59)	(184)	(5,531)	1,012	(2,312)	(382)	2,030
Net income from continuing operations	(138)	(3,088)	(99,460)	9,171	17,191	2,867	16,224
Income (loss) from discontinued operations, net of tax	247	435	(9,059)	(1,351)	556	183	
Net income (loss)	109	(2,653)	(108,519)	7,820	17,747	3,050	16,224
Less: Net (income) loss attributable to noncontrolling interest	31	57	(5,154)	(7,085)	(9,240)	(2,497)	(1,777)
Net income (loss) attributable to MedQuist Holdings Inc.	$ 140	$ (2,596)	$ (113,673)	$ 735	$ 8,507	$ 553	$ 14,447
Net income (loss) per common share attributable to MedQuist Holdings Inc.							
Basic	$ 0.05	$ (0.20)	$ (5.08)	$ (0.06)	$ 0.16	$ (0.02)	$ 0.17
Diluted	$ 0.05	$ (0.20)	$ (5.08)	$ (0.06)	$ 0.16	$ (0.02)	$ 0.17
Weighted average shares outstanding:							
Basic	2,736	12,873	22,593	34,692	35,102	35,046	45,128
Diluted	2,736	12,873	22,593	34,692	35,954	35,046	46,410
Other Operating Data (unaudited)							
Adjusted EBITDA[1]	$ 3,001	$ 1,949	$ 17,038	$ 60,543	$ 86,265	$ 33,350	$ 55,206

(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.

	As of December 31, 2006	2007	2008	2009	2010	As of June 30, 2011 (Unaudited)
	(In thousands)					
Cash and cash equivalents	$ 515	$ 2,667	$ 42,868	$ 29,633	$ 66,779	$ 60,801
Working capital (deficit)[(a)]	6,166	10,870	1,128	(5,114)	29,988	32,057
Total assets	31,817	51,420	279,177	253,068	414,879	399,079
Long term debt, including current portion of debt	21,283	14,075	126,008	107,340	294,494	269,832
Total equity	5,326	29,854	79,350	72,301	34,511	54,055

(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, 2006	2007	2008	2009	2010	Six months ended June 30, 2010	2011
						(Unaudited)	
	(In thousands)						
Net income (loss) attributable to MedQuist Holdings Inc.	$ 140	$ (2,596)	$ (113,673)	$ 735	$ 8,507	$ 553	$ 14,447
Net income (loss) attributable to noncontrolling interests	(31)	(57)	5,154	7,085	9,240	2,497	1,777
(Income) loss from discontinuing operations	(247)	(435)	9,059	1,351	(556)	(183)	
Income tax provision (benefit)	(59)	(184)	(5,531)	1,012	(2,312)	(382)	2,030
Interest expense, net	1,323	1,657	3,813	9,019	19,268	7,306	13,998
Loss on extinguishment of debt					13,525		
Depreciation and amortization	1,875	2,151	13,488	25,366	32,617	14,620	17,297
Acquisition and restructuring charges			7,726	3,973	11,079	7,011	11,269
Cost (benefit) of legal proceedings and			5,311	14,943	3,605	2,152	(6,932)

settlements							
Goodwill impairment charge			89,633				
Gain on sale of investment					(8,780)		
Equity in income of affiliated company		105	(66)	(1,933)	(693)	(546)	
Asset impairment charges, severance charges and accrual reversals[a]			2,000	(1,864)			
Share based compensation and other non-cash awards		1,308	124	856	765	322	1,320
Adjusted EBITDA	$ 3,001	$ 1,949	$ 17,038	$ 60,543	$ 86,265	$ 33,350	$ 55,206

[a] Includes 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.

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., as applicable, plus net income (loss) attributable to noncontrolling interests, income taxes, interest expense, depreciation and amortization, cost (benefit) of legal proceedings and settlements, acquisition and restructuring charges, goodwill impairment charge, equity in income (loss) of affiliated company, (income) loss from discontinued operations resulting from the sale of our PFS business, asset impairment charges, severance costs, certain unusual or nonrecurring items and share based compensation and other non-cash awards. 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 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.

Selected Consolidated Financial and Other Data of MedQuist Inc.

The following tables summarize MedQuist Inc. s consolidated financial data for the periods presented. You should read the following selected consolidated financial data in conjunction with its 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 of MedQuist Inc. section of this prospectus.

We derived the statement of operations data for the years ended December 31, 2008, 2009 and 2010 and the balance sheet data as of December 31, 2009 and 2010 from MedQuist Inc s audited consolidated financial statements, which are included elsewhere in this prospectus. We derived the statement of operations data for the years ended December 31, 2006 and 2007 and the balance sheet data as of December 31, 2006, 2007 and 2008 from MedQuist Inc. s audited consolidated financial statements, which are not included in this prospectus.

As a result of the Private Exchange, on February 11, 2011, MedQuist Holdings ownership interest in MedQuist Inc. increased to 82.2%. Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 805-50-S99-1 Business Combinations-Related issues governs the application of push down accounting in situations where ownership is increased to 80% or more. The post-February 11, 2011 consolidated financial statements for MedQuist Inc. reflect the new basis of accounting as required by the authoritative guidance under ASC 805-50-S99-1, and have applied the SEC rules and guidance regarding push down accounting treatment. Accordingly, MedQuist Inc. s consolidated financial statements prior to the closing of the Private Exchange reflect the historical accounting basis in its assets and liabilities and are labeled Predecessor Company, while such consolidated financial statements subsequent to the Private Exchange are labeled Successor Company and reflect the push down basis of accounting for the fair values of assets and liabilities acquired by MedQuist Holdings in August 2008, rolled forward to February 11, 2011. This effect is presented in MedQuist Inc. s consolidated financial statements by a vertical black line division between the columns entitled Predecessor Company and Successor Company on the statements and relevant notes. The black line signifies that the amounts shown for the periods prior to and subsequent to the exchange agreement are not comparable.

In the opinion of MedQuist Inc. s management, the unaudited consolidated financial statements have been prepared on the same basis as its audited consolidated financial statements and include all adjustments, consisting of only normal recurring adjustments that it considers necessary to present fairly the financial information set forth in those statements. MedQuist Inc. s historical results for any prior period are not necessarily indicative of results to be expected for a full year or any future period.

MedQuist Inc. s selected historical consolidated statements of operations and other operating data reflect the consolidation of the results of operations of Spheris since April 22, 2010, the date of its acquisition.

	Predecessor Company							Successor Company
	Years ended December 31,					For the six months ended June 30,	For the period January 1, to February 11,	For the period February 12 2011 to June 30,
	2006	2007	2008	2009	2010	2010	2011 (unaudited)	2011 (unaudited)
	(In thousands, except per share amounts)							
Statement of Operations Data								
Net revenues	$ 358,091	$ 340,342	$ 326,853	$ 307,200	$ 375,240	$ 171,509	$ 47,048	$ 154,588
Cost of revenues	280,273	260,879	230,375	206,265	249,571	116,923	29,987	99,840
Operating expenses								
Selling, general and administrative	53,675	62,288	47,520	33,441	37,070	18,817	5,219	15,046
Research and development	13,219	13,695	15,848	9,604	12,813	5,593	1,302	4,244
Depreciation and amortization	17,631	16,499	17,504	15,672	21,989	9,531	2,554	12,021
Cost (benefit) of legal proceedings, settlements and accommodations	13,001	6,083	19,738	14,843	3,603	2,152	174	(7,524)
Acquisition and integration related charges				1,263	7,007	5,659	278	1,267
Goodwill impairment charge			82,233					
Restructuring charges	3,442	2,756	2,055	2,727	2,829	930		2,965
Total operating expenses	381,241	362,200	415,273	283,815	334,882	159,605	39,514	127,859
Operating income (loss)	(23,150)	(21,858)	(88,420)	23,385	40,358	11,904	7,534	26,729
Gain on sale of investment					9,911			
Equity in income of affiliated company	874	625	236	2,015	693	546		

Other income			438					
Loss on extinguishment of debt					(5,811)			
Interest income (expense), net	7,628	8,366	2,438	(134)	(13,429)	(3,779)	(3,115)	(10,526)
Income (loss) before income taxes	(14,648)	(12,867)	(85,308)	25,266	31,722	8,671	4,419	16,203
Income tax provision (benefit)	2,294	2,339	(16,513)	1,975	671	447	453	1,115
Net income (loss)	$ (16,492)	$ (15,206)	$ (68,795)	$ 23,291	$ 31,051	$ 8,224	$ 3,966	$ 15,088
Net income (loss) per common share								
Basic	$ (0.45)	$ (0.41)	$ (1.83)	$ 0.62	$ 0.83	$ 0.22	$ 0.11	$ 0.40
Diluted	$ (0.45)	$ (0.41)	$ (1.83)	$ 0.62	$ 0.83	$ 0.22	$ 0.10	$ 0.40
Weighted average shares outstanding:								
Basic	37,484	37,488	37,549	37,556	37,556	37,556	37,556	37,556
Diluted	37,484	37,488	37,549	37,556	37,556	37,556	37,852	37,803

Management s Discussion and Analysis of Financial Condition and Results of Operations of MedQuist Holdings Inc.

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 of MedQuist Holdings Inc. and Selected Consolidated Financial and Other Data of MedQuist Holdings Inc. 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 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 (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 meaningful use of electronic health records. 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.

Key factors affecting our performance

In 2010, we completed the acquisition of Spheris and in 2008 we completed the acquisition of MedQuist Inc., both of which materially impacted our financial results. In addition, our results have also been impacted by volume changes, pricing impacts as we move to ASR and offshore production, as well as operating improvements and selling, general and administrative expense savings resulting from leveraging our scalable platform.

These key factors are described below for the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2010 and 2011.

Volume and pricing trends

Historically, the vast majority of our revenue was generated by providing clinical documentation services to our customers. Medical transcription and medical editing by our MTs and MEs, respectively, accounted for 95% of our net revenues for the six months ended June 30, 2011. Product sales and related maintenance contracts and other made up the balance of our historical net revenues. Our transcription customers are generally charged a rate per character multiplied by the number of characters that we process.

We base our transcription 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 transcription customer. We work with our transcription 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 transcription customers while at the same time contributing to margin growth. We have successfully migrated a significant portion of our transcription volume offshore and we will continue these efforts.

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 transcription pricing accordingly to remain competitive as these industry trends continue.

Operating improvements

We have executed significant operational improvements since acquiring MedQuist Inc. in the fourth quarter of 2008. Cost of revenues on a per unit basis has declined due to the increased percentage of volume produced offshore and the increased utilization of ASR technology, as well as reductions of support staff headcount as we shift volume to India in order to further reduce operating costs. We have increased our offshore production volumes from 28% to 42% for the same period. Additionally, our use of ASR technology has increased from 39% in the fourth quarter of 2008 to 74% in the quarter ended June 30, 2011. 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.

Selling, general and administrative expense savings

We have made significant reductions in selling, general and administrative expenses since 2008. Such expenses were 14% of revenue for the six months ended June 30, 2011 compared to 22% of net revenue in 2008. These savings were achieved primarily through headcount reductions and aggressive efforts to reduce other administrative expenses.

In connection with the Spheris Acquisition and the integration of MedQuist Inc. into us, 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 2011. We have shut down certain redundant facilities in the USA and India.

Adjusted EBITDA

Adjusted EBITDA increased to $86.3 million, or 21% of net revenues, for 2010, compared with $60.5 million, or 17% of net revenues, for 2009. Adjusted EBITDA increased to $55.2 million and $27.7 million or 25.1% and 25.6% of net revenues, for the first six months and second quarter of 2011, respectively compared with $33.4 million and $19.4 million, or 17.2% and 17.9% of net revenues for the same period last year. The increase in Adjusted EBITDA is the result of higher utilization of offshore resources and ASR technologies, as well as increased volumes resulting from the acquisition of Spheris and related synergies. The full year 2010 results only reflect $12 million of Spheris acquisition synergies due to timing of the acquisition, of which $7 million was realized in the fourth quarter. Adjusted EBITDA is a non-GAAP financial measure. See section Adjusted EBITDA (Non-GAAP financial measure) below for further discussion of this financial measure.

Basis of Presentation

U.S. Initial Public Offering

On January 27, 2011, we changed our name from CBaySystems Holdings Limited to MedQuist Holdings Inc. and re-domiciled from a British Virgin Islands company to a Delaware corporation and authorized 300.0 million shares of common stock par value at $0.10 per share and 25.0 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. 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 IPO selling 3.0 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 is listed on The NASDAQ Global Market under the symbol MEDH.

Private Exchange

Pursuant to the Exchange Agreement, we issued 4.8 million shares of our common stock in exchange for 4.8 million shares of MedQuist Inc. common stock from certain of MedQuist Inc. s noncontrolling shareholders. The Private Exchange was completed on February 11, 2011 and increased our ownership in MedQuist Inc. from 69.5% to 82.2%.

Registered Exchange Offer

In addition to the Private Exchange referred to above, in February 2011, we commenced our Registered Exchange Offer to those noncontrolling MedQuist Inc. shareholders who did not participate in the Private Exchange to exchange shares of our common stock for shares of MedQuist Inc. common stock. The Registered Exchange Offer expired on March 11, 2011. We accepted and consummated the exchange of, all MedQuist Inc. shares of common stock that were validly tendered in the Registered Exchange Offer. As a result of the Registered Exchange Offer, we increased our ownership in MedQuist 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 MedQuist Inc. common stock.

Business Segment and Reporting Unit

We currently operate in one business segment and have one reporting unit, which is clinical documentation solutions for the healthcare industry. The Patient Financial Services (PFS) business was sold on December 31, 2010 and results of the PFS business have been accounted for as discontinued operations for the relevant periods presented.

MultiModal Merger Agreement

On August 18, 2011, or the Closing Date, we completed the acquisition of MultiModal through a series of mergers between MultiModal and certain of our direct wholly-owned subsidiaries, which we refer to as the MultiModal Merger. As a result of the MultiModal Merger, MultiModal became a direct wholly-owned subsidiary of ours. On the Closing Date, we paid an aggregate of approximately $48.4 million in cash to MultiModal s shareholders, optionholders and other third parties and issued an aggregate of 4,134,896 shares of our common stock to MultiModal s shareholders who are accredited investors within the meaning of Regulation D promulgated under the Securities Act of 1933, or the MultiModal Accredited Investors. We are also obligated to pay up to approximately $28.8 million of additional cash consideration in three installments of approximately $16.3 million, $4.8 million and $7.7 million, respectively, following the first, second and third anniversaries of the Closing Date. To help fund the cash portion of the purchase price, MedQuist Inc. loaned $19 million to CBay Inc., one of our wholly-owned subsidiaries, or the Payor , on the Closing Date. The loan is evidenced by a Subordinated Intercompany Note dated as of the Closing Date, which matures two years from the Closing Date and bears a 15% interest rate per annum on the unpaid principal amount thereof, all or a portion of which may be prepaid by the Payor at any time upon one business day s notice.

The MultiModal Merger provides us ownership of speech and natural language understanding technologies, and is expected to facilitate consolidation to a single 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.

Net Revenues

We derive revenues primarily from providing clinical documentation services to integrated delivery networks, academic centers, group practices and community hospitals. Our customers are generally charged a rate times the volume of work that we transcribe or edit. In the clinical documentation workflow, we provide, in addition to medical transcription technology and services, maintenance services, digital dictation, speech recognition and electronic signature services.

Net revenues from customers in the U.S. were $411.0 million, $342.8 million, and $167.9 million for the years ended December 31, 2010, 2009 and 2008, respectively. Net revenues from customers outside the U.S. were

$6.3 million, $11.1 million, and $3.5 million for the years ended December 31, 2010, 2009, and 2008, respectively. As of the six months ended June 30, 2011 and 2010, net revenues from customers in the U.S. represent 95% or more of our total revenues.

Cost of revenues

Cost of revenues includes compensation of our direct employees and subcontractors, 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. MT and ME costs are directly related to medical transcription and medical editing, respectively.

Selling, general and administrative expense

Our selling, general and administrative expenses include marketing and sales costs, accounting costs, information technology costs, professional fees, corporate facility costs, corporate payroll and benefits expenses.

Research and development expense

Our research and development expenses consist 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. Our research and development efforts have been devoted to new products and services 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, settlements and accommodations

Cost of legal proceedings, settlements and accommodations 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 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, expenses 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. A critical accounting estimate must meet two criteria: (1) it requires assumptions about highly uncertain matters, and (2) there would be a material effect on the financial statements from either using a different, although reasonable, amount within the range of the estimate in the current period or from reasonably likely period-to-period changes in the estimate. 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, areas that are particularly significant and critical include:

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 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 compared to our 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 the company will be sold.

Deferred income taxes. Deferred tax assets represent future tax benefits that we expect to be able to apply against future taxable income or that will result in future net operating losses that we can carry forward to use against future taxable earnings. 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.

Revenue recognition. We recognize clinical documentation services revenues when there is persuasive evidence that 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 adequate. 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.

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. Since 2008, MedQuist Inc. has not made additional offers. In March

2011, the Board of Directors of MedQuist Inc. terminated the Customer Accommodation Program. As a result, any amounts that had not been offered to customers were reversed.

Consolidated results of operations

Comparison of six months ended June 30, 2010 and 2011

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

	Six months ended June 30,			
	2010		2011	
	Amount	% of net revenues	Amount	% of net revenues
	($ in thousands)			
Net revenues	$ 193,592	100.0%	$ 219,675	100.0%
Cost of revenues	124,950	64.5%	130,637	59.5%
Gross profit	68,642	35.5%	89,038	40.5%
Operating costs and expenses:				
Selling, general and administrative	30,099	15.5%	30,267	13.8%
Research and development	5,593	2.9%	4,892	2.2%
Depreciation and amortization	14,620	7.6%	17,297	7.9%
Cost (benefit) of legal proceedings, settlements and accommodations	2,152	1.1%	(6,932)	(3.2)%
Acquisition and restructuring	7,011	3.6%	11,269	5.1%
Total operating costs and expenses	59,475	30.7%	56,793	25.9%
Operating income	9,167	4.7%	32,245	14.7%
Equity in income of affiliated company	546	0.3%		
Other income	78		7	
Interest expense, net	(7,306)	(3.8)%	(13,998)	(6.4)%
Income from continuing operations before income taxes and noncontrolling interests	2,485	1.3%	18,254	8.3%
Income tax provision (benefit)	(382)	(0.2)%	2,030	0.9%
Net income from continuing operations	2,867	1.5%	16,224	7.4%
Income from discontinued operations	183	0.1%		
Net income	3,050	1.6%	16,224	7.4%
Less: Net income attributable to noncontrolling interests	(2,497)	(1.3)%	(1,777)	(0.8)%
Net income attributable to MedQuist Holdings Inc.	$ 553	0.3%	$ 14,447	6.6%

Net revenues

Net revenues increased $26.1 million, or 13.5%, to $219.7 million for the six months ended June 30, 2011 compared with $193.6 million for the six months ended June 30, 2010 due to increased revenue resulting from the Spheris acquisition. The Spheris acquisition in April 2010, contributed approximately $37.8 million in incremental revenue for the six months ended June 30, 2011 arising from a full period consolidation, offset by decreases in price due to higher speech recognition and offshore volume.

Cost of revenues

Cost of revenues were $130.6 million for the six months ended June 30, 2011 compared with $125.0 million for the six months ended June 30, 2010. As a percentage of net revenues, cost of revenues decreased to 59.5% for the six months ended June 30, 2011 from 64.5% for the same period in 2010 primarily due to increased utilization of speech recognition technologies, increased utilization of offshore resources, and other operating cost reduction initiatives.

Selling, general and administrative

SG&A expenses were 13.8% of net revenues for the six month period ended June 30, 2011 compared to 15.5% for the same period in the prior year. The improvement versus prior year is due to the impact of synergies realized from the Spheris acquisition and other cost savings initiatives.

Research & development

R&D expenses as a percentage of net revenues were 2.2% for the six months ended June 30, 2011 and 2.9% for the six months ended June 30, 2010. This decrease was due to the impact of synergies realized from the Spheris acquisition and other cost saving initiatives.

Depreciation and amortization

Depreciation and amortization expense as a percentage of net revenues was 7.9% for the six months ended June 30, 2011 compared with 7.6% for the same period in 2010. This increase is primarily due to amortization of intangibles related to the Spheris acquisition.

Cost (benefit) of legal proceedings, settlements and accommodations

During the six months ended June 30, 2011 we reversed $9.7 million of the accommodation accrual as the MedQuist Inc. board of directors terminated the Customer Accommodation Program on March 31, 2011. We also recorded a charge for a settlement of our indemnification obligations with the former chief financial officer of MedQuist Inc., and fees in connection with the Shareholder Litigation.

Acquisition and restructuring

We incurred Acquisition and restructuring charges of $11.3 million for the six months ended June 30, 2011. During the six months ended June 30, 2011, we recorded net restructuring charges of $7.4 million including approximately $4.3 million from a reduction in workforce and a charge of $1.5 million representing future lease payments on MedQuist Inc.   s former corporate headquarters in Mt. Laurel, New Jersey and former data center in Sterling, Virginia, net of estimated sublease rentals. The future minimum lease payments on the Mt. Laurel facility total $2.5 million. In addition we recorded non-cash stock compensation charges of $0.8 million due to the acceleration of stock option vesting and the extension of the stock option exercise period for terminated employees. Acquisition charges related to the completion of the Spheris integration plus charges related to other acquisitions. We expect that restructuring activities may continue in 2011 as management identifies opportunities for synergies from the integration of MedQuist Inc. into MedQuist Holdings Inc., including elimination of redundant functions as we may complete other acquisitions.

Interest expense, net

Interest expense, net during the six months ended June 30, 2011 was $14.0 million, compared to $7.3 million for the six months ended June 30, 2010. The increase in interest expense is primarily due to the 2010 debt restructuring.

Income tax provision

The effective tax rate was 11.1% for the six months ended June 30, 2011 as compared to (15.4%) for the same period prior year. This increase in the effective tax rate was due to increases in the deferred tax liability related to excess tax goodwill over book goodwill due to amortization of Spheris goodwill for domestic tax purposes. The tax benefit for the six months ended June 30, 2010 includes the reversal of approximately $0.5 million from our accrual for various state uncertain tax positions as a result of filing voluntary disclosure agreements with state jurisdictions.

Net income attributable to noncontrolling interests

Net income attributable to noncontrolling interests for the six months ended June 30, 2011 was $1.8 million compared to $2.5 million in the same period in 2010. During 2011 the impact of both the Private Exchange and the Registered Exchange Offer reduced the noncontrolling interest of MedQuist Inc. from 30.5% to 3%.

Adjusted EBITDA (Non-GAAP financial measure)

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

	For the six months ended June 30,	
	2010	**2011**
	(In thousands)	
Net income attributable to MedQuist Holdings Inc.	$ 553	$ 14,447
Net income attributable to noncontrolling interest	2,497	1,777
Income tax provision (benefit)	(382)	2,030
Interest expense, net	7,306	13,998
Depreciation and amortization	14,620	17,297
Cost (benefit) of legal proceedings, settlements and accommodations	2,152	(6,932)
Acquisition and restructuring	7,011	11,269
Discontinued operations	(183)	
Equity in income of affiliated company	(546)	
Share based compensation and other non-cash awards	322	1,320
Adjusted EBITDA	$ 33,350	$ 55,206
Percent of Net revenues	17.2%	25.1%

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., as applicable, plus net income (loss) attributable to noncontrolling interests, income taxes, interest expense, depreciation and amortization, cost (benefit) of legal proceedings and settlements, acquisition and restructuring charges, goodwill impairment charge, equity in income (loss) of affiliated company, (income) loss from discontinued operations resulting from the sale of our PFS business, asset impairment charges, severance costs, certain unusual or nonrecurring items and share based compensation and other non-cash awards. 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, and
- the impact of acquisition and integration related charges, restructuring charges, 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.

Comparison of years ended December 31, 2009 and 2010

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

	Years ended December 31,			
	2009		2010	
	Amount	% of net revenues	Amount	% of net revenues
	($ in thousands)			
Net revenues	$ 353,932	100%	$ 417,326	100%
Cost of revenues	229,701	65%	259,194	62%
Gross profit	124,231	35%	158,132	38%
Operating costs and expenses				
Selling, general and administrative	53,089	15%	61,062	15%
Research and development	9,604	3%	12,030	3%
Depreciation and amortization	25,366	7%	32,617	8%
Cost of legal proceedings and settlements	14,943	4%	3,605	1%
Acquisition and integration related charges	1,246		7,407	2%
Restructuring charges	2,727	1%	3,672	1%
Total operating costs and expenses	106,975	30%	120,393	29%
Operating income	17,256	5%	37,739	9%
Gain on the sale of investment			8,780	2%
Interest expense, net	(9,019)	(3)%	(19,268)	(5)%
Equity in income of affiliated companies	1,933	1%	693	
Loss on extinguishment of debt			(13,525)	(3)%
Other income	13		460	
Income from continuing operations before income taxes and noncontrolling interests	10,183	3%	14,879	4%
Income tax provision (benefit)	1,012		(2,312)	(1)%

Net income from continuing operations	9,171	3%	17,191	4%
Discontinued operations				
Income from discontinued Patient Financial Services business, net of tax	(1,351)		556	
Income from discontinued operations	(1,351)		556	
Net income	7,820	2%	17,747	4%
Less: Net (income) attributable to noncontrolling interest	(7,085)	(2)%	(9,240)	(2)%
Net income attributable to MedQuist Holdings Inc.	$ 735		$ 8,507	2%
Adjusted EBITDA[1]	$ 60,543		$ 86,265	

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

Net revenues

Net revenues increased $63.4 million, or 18%, to $417.3 million for the year ended December 31, 2010 compared to $353.9 million for the year ended December 31, 2009. The Spheris Acquisition contributed approximately $88.1 million in incremental revenue for the year ended December 31, 2010 which was partially offset by a decrease in legacy maintenance service revenues from $22.3 million in 2009 to $17.7 million in 2010. Current year net revenues were also unfavorably impacted by effects of lower average pricing realized for our transcription services.

Cost of revenues

Cost of revenues as a percentage of net revenues was 62% in 2010, compared with 65% in 2009 primarily due to increased utilization of offshore resources, increased utilization of ASR technologies and other operating cost reduction initiatives. The increase in total cost versus the prior year period was primarily due to direct incremental costs associated with the Spheris Acquisition as well as a nonrecurring $1.2 million credit in 2009 related to medical claim costs.

Selling, general and administrative

Selling, general and administrative expense, as a percentage of revenue, improved in 2010 compared to 2009 due to synergies and other cost reduction initiatives.

Research and development

Research and development expense increased $2.4 million, to $12.0 million for the year ended December 31, 2010 compared to $9.6 million for the year ended December 31, 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 $7.3 million to $32.6 million for the year ended December 31, 2010 compared to $25.4 million for the year ended December 31, 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 $11.3 million, or 76%, to $3.6 million for the year ended December 31, 2010 compared to $14.9 million for the year ended December 31, 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. In 2010 we settled the Kaiser litigation.

Acquisition and integration related charges

We incurred acquisition and integration related charges of $7.4 million related to the Spheris Acquisition for the year ended December 31, 2010 and $1.2 million in 2009.

Restructuring charges

For the years ended December 31, 2010 and 2009 we recorded restructuring charges of $3.7 million and $2.7 million, respectively, primarily for employee severance obligations and facility exit costs. We expect that restructuring activities and related charges will continue into 2011 as management identifies opportunities for synergies resulting from the Spheris Acquisition including the elimination of redundant functions.

Gain on sale of investment

We recorded a pre-tax gain of $8.8 million for the year ended December 31, 2010 related to the sale of our shares in A-Life, an equity method investment, in October 2010.

Loss on extinguishment of debt

We incurred loss on extinguishment of debt charges of $13.5 million for the year ended December 31, 2010 related to $7.7 million redemption premium on repayment of 6% Convertible Notes and $5.8 million of costs incurred in connection with Corporate Refinancing in October 2010. See discussion below in Liquidity and Capital Resources.

Interest expense, net

Interest expense, net increased $10.2 million to $19.3 million for the year ended December 31, 2010 compared to $9.0 million for the year ended December 31, 2009. The increase was due to the debt incurred in connection with the Spheris Acquisition and the Corporate Refinancing in October 2010, partially offset by a decrease of $3.0 million in interest expense as a result of the 2009 repayment of the bridge note and repayment of 6% Convertible Notes issued to Royal Philips Electronics, incurred in connection with the MedQuist Inc. acquisition.

Income tax provision

The effective income tax benefit rate for 2010 was 15.5% compared to an effective tax rate of 9.9% in 2009. The 2010 tax benefit includes the following items, the recording of deferred tax benefits for losses incurred in India, the release of valuation allowance on our UK subsidiary based on management s assessment of future earnings available to utilize the deferred tax assets, the reduction in various tax reserves related to settlements in certain state jurisdictions, the reduction in the deferred tax liability related to the sale of the investment in A-Life, an increase in the tax reserve for various uncertain tax positions taken in 2010 and an increase in the deferred tax liability associated with indefinite life intangibles. The recording of a tax benefit in 2010 on pre-tax book income is due primarily to the company s recording of a tax benefit for losses generated in India, the release of the UK valuation allowance and the release of a valuation allowance on deferred tax assets related to net operating losses in the United States which were utilized to offset domestic earnings.

Net income attributable to noncontrolling interest

Net income attributable to noncontrolling interests for the year ended December 31, 2010 increased by $2.2 million to $9.2 million for the year ended December 31, 2010 compared to $7.1 million for the year ended December 31, 2009. The increase in net income attributable to noncontrolling interests was due to the increase 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 Amount	2008 % of net revenues	2009 Amount	2009 % of net revenues
	($ in thousands)			
Net revenues	$ 171,413	100%	$ 353,932	100%
Cost of revenues	113,127	66%	229,701	65%
Gross profit	58,286	34%	124,231	35%
Operating costs and expenses				
Selling, general and administrative	37,282	22%	53,089	15%
Research and development	6,099	4%	9,604	3%
Depreciation and amortization	13,488	8%	25,366	7%
Cost of legal proceedings and settlements	5,311	3%	14,943	4%
Acquisition and integration related charges	5,620	3%	1,246	
Goodwill impairment charge	89,633	52%		
Restructuring charges	2,106	1%	2,727	1%
Total operating costs and expenses	159,539	93%	106,975	30%
Operating income (loss)	(101,253)	(59)%	17,256	5%
Equity in income of affiliated companies	66		1,933	1%
Other income	9		13	
Interest expense, net	(3,813)	(2)%	(9,019)	(3)%
Income (loss) from continuing operations before income taxes and noncontrolling interests	(104,991)	(61)%	10,183	3%
Income tax (provision) benefit	(5,531)	(3)%	1,012	
Net income (loss) from continuing operations	(99,460)	(58)%	9,171	3%
Discontinued operations				
Loss from discontinued Patient Financial Services business, net of tax	(9,059)	(5)%	(1,351)	
Loss from discontinued operations	(9,059)	(5)%	(1,351)	
Net income (loss)	(108,519)	(63)%	7,820	2%
Less: Net (income) attributable to noncontrolling interest	(5,154)	(3)%	(7,085)	(2)%
	$ (113,673)	(66)%	$ 735	

Net income (loss) attributable to MedQuist Holdings Inc.		
Adjusted EBITDA[1]	$ 17,038	$ 60,543

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

Net revenues

Net revenues increased $182.5 million, or 106%, to $353.9 million for the year ended December 31, 2009 compared to $171.4 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.

Cost of revenues

Cost of revenues, as a percentage of net revenues was 65% and 66% in 2009 and 2008, respectively. In absolute terms, costs increased $116.6 million, or 103%, to $229.7 million for the year ended December 31, 2009 compared to $113.1 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.

Selling, general and administrative

Selling, general and administrative expense, as a percentage of net revenues, improved to 15% in 2009, compared to 22% in 2008. In absolute terms, such expenses increased $15.8 million, or 42%, to $53.1 million for the year ended December 31, 2009 compared to $37.3 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 $0.8 million; and
- full year impact of the cost of our new management team and corporate costs in 2009 amounting to $2.6 million.

Research and development

Research and development expense as a percentage of net revenues were 3% in 2009 compared to 4% in 2008. In absolute terms, expenses 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 $11.9 million, or 88%, to $25.4 million for the year ended December 31, 2009 compared to $13.5 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.

Cost of legal proceedings and settlements

Cost of legal proceedings and settlements 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 and integration related charges

We incurred costs of $1.2 and $5.6 million during the years ended December 31, 2009 and 2008, respectively, related to the Spheris Acquisition and the acquisition of MedQuist Inc.

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. The analysis indicated that the reporting unit s fair value was below the book value for the MedQuist Inc. reporting unit and we recorded a goodwill impairment charge of $89.6 million.

In 2009, the fair value of the MedQuist Inc. 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.

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 137%, to $9.0 million for the year ended December 31, 2009 compared with $3.8 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 9.9% compared with an effective income tax benefit rate of 5.3% 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.

Loss from discontinued operations

We incurred losses of $1.4 million and $9.1 million during the years ended December 31, 2009 and 2008, respectively, related to the PFS business, which was sold in December 2010. In 2008, the loss primarily related to a $9.3 million goodwill impairment charge for our PFS reporting unit.

Adjusted EBITDA (Non-GAAP financial measure)

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

	2006	2007	2008	2009	2010
			($ in thousands)		
Net income (loss) attributable to MedQuist Holdings Inc.	$ 140	$ (2,596)	$ (113,673)	$ 735	$ 8,507
Net income (loss) attributable to noncontrolling interest	(31)	(57)	5,154	7,085	9,240
Income tax provision (benefit)	(59)	(113)	(5,531)	1,012	(2,312)
Interest expense, net	1,323	2,108	3,813	9,019	19,268
Depreciation and amortization	1,875	2,915	13,488	25,366	32,617
Cost of legal proceedings and settlements			5,311	14,943	3,605
Acquisition and integration related charges			5,620	1,246	7,407
Goodwill impairment charge			89,633		
Restructuring charges			2,106	2,727	3,672
Equity in income (loss) of affiliated company		105	(66)	(1,933)	(693)
Gain on the sale of investment					(8,780)
Loss on extinguishment of debt					13,525
Asset impairment charges, severance charges and accrual reversals			2,000	(1,864)	
(Income) loss of discontinued operations	(247)	(1,721)	9,059	1,351	(556)
Share based compensation		1,308	124	856	765
Adjusted EBITDA	$ 3,001	$ 1,949	$ 17,038	$ 60,543	$ 86,265
Percent of Net revenues	8.5%	4.6%	9.9%	17.1%	20.7%

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., as applicable, plus net income (loss) attributable to noncontrolling interests, income taxes, interest expense, depreciation and amortization, cost (benefit) of legal proceedings and settlements, acquisition and restructuring charges, goodwill impairment charge, equity in income (loss) of affiliated company, (income) loss from discontinued operations resulting from the sale of our PFS business, asset impairment charges, severance costs, certain unusual or nonrecurring items and share based compensation and other non-cash awards. 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 acquisition and integration related charges, disposition 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.

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 July 1, 2009 to June 30, 2011. 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(a)							
	2009		**2010**				**2011**	
	September 30,	**December 31,**	**March 31,**	**June 30,**	**September 30,**	**December 31,**	**March 31,**	**June 30,**
	(Unaudited) ($ in thousands)							
revenues	$ 89,071	$ 85,812	$ 85,087	$ 108,505	$ 113,200	$ 110,534	$ 111,236	$ 108,43
t of revenues	58,900	54,253	54,615	70,335	69,936	64,308	65,486	65,15
oss profit	30,171	31,559	30,472	38,170	43,264	46,226	45,750	43,28
erating costs and enses								
ing, general and inistrative	13,078	12,481	14,480	15,619	15,566	15,397	16,276	13,99
earch and elopment	2,439	2,369	2,281	3,312	3,352	3,085	2,702	2,19
reciation and rtization	5,886	6,446	6,139	8,481	9,125	8,872	8,418	8,87
t (benefit) of legal ceedings and ements	1,382	1,403	1,043	1,109	633	820	(7,513)	58
uisition and gration related rges		1,246	924	5,121	850	513	1,467	2,37
tructuring charges	481	2,246	60	906	946	1,759	5,411	2,02
al operating costs expenses	23,266	26,191	24,927	34,548	30,472	30,446	26,761	30,03
	6,905	5,368	5,545	3,622	12,792	15,780	18,989	13,25

erating income s)								
rest expense, net	(2,258)	(2,150)	(1,869)	(5,437)	(4,663)	(7,299)	(7,037)	(6,96
ity in income s) of affiliated npanies	2,127	(602)	514	32	70	77		
er income		13	77	1	481	(99)	10	(
s on nguishment of t						(13,525)		
n on sale of A-Life						8,780		
ome (loss) from tinuing rations before ome taxes and controlling rests	6,774	2,629	4,267	(1,782)	8,680	3,714	11,962	6,29
ome tax provision nefit)	596	(220)	(20)	(362)	227	(2,157)	1,144	88
income (loss) n continuing rations	6,178	2,849	4,287	(1,420)	8,453	5,871	10,818	5,40
ome (loss) from continued rations, net of tax	(615)	(99)	30	153	155	218		
income (loss)	5,563	2,750	4,317	(1,267)	8,608	6,089	10,818	5,40
s: Net income butable to controlling interest	(2,957)	(1,790)	(2,229)	(268)	(2,737)	(4,006)	(1,506)	(27
income (loss) ibutable to dQuist Holdings .	$ 2,606	$ 960	$ 2,088	$ (1,535)	$ 5,871	$ 2,083	$ 9,312	$ 5,13
es processed								
ASR	49%	53%	57%	62%	67%	71%	72%	7
Offshore	37%	39%	41%	39%	42%	42%	41%	4

(a) Certain reclassifications have been made to conform to the current presentation, including for discontinued operations.

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.

Operating activities

Cash provided by operating activities was $23.0 million and $13.8 million for the six months ended June 30, 2011 and 2010, respectively. The significant items impacting operating cash flows during the six months ended June 30, 2011, included:

- Improvements in net income, which increased to $16.2 million for the six months ended June 30, 2011 compared to $3.0 million for the same period prior year.
- Working capital changes that included (a) improved collections of accounts receivable balances, which provided $6.2 million of cash in the current period, (b) timing of accounts payable and accrued expenses, which used $2.2 million of cash, (c) payment of 2010 accrued compensation which was a $7.1 million use of cash and (d) a $10.2 million prepayment to a technology vendor impacting current and non current assets, with additional installments due during the third quarter of 2011.

Cash flow provided by operating activities was $36.2 million for the year ended December 31, 2010 and $42.7 million for the same period in 2009. Net income was $17.7 million in 2010 and $7.8 million in 2009. The significant non cash adjustments to reconcile net income to cash provided by operating activities included:

- $33.5 million and $27.0 million of depreciation and amortization in 2010 and 2009, respectively;
- $13.5 million non-cash loss on debt extinguishment in 2010;
- gain on sale and equity in income of affiliated company (A-Life) of $9.5 million and $1.9 million in 2010 and 2009 respectively; and
- non cash interest expense of $4.1 million in 2010 and $3.3 million in 2009.

Working capital changes that impacted cash flow from operations in 2010 included (a) $10.0 million higher accounts receivable balance due to the timing of collections, (b) $4.2 million lower accrued compensation balance due to a change in timing of payroll payments and (c) $5.4 million reduction in accrued expenses including the $2.0 million settlement of Kaiser litigation, and additional expenditures as a result of the acquisition, offset by an increase in interest accrued of $2.6 million.

Investing activities

Cash used in investing activities was $10.9 million and $105.0 million for the six months ended June 30, 2011 and 2010, respectively. During the six months ended June 30, 2010 we invested $98.3 million for the acquisition of Spheris and its affiliates.

Cash used in investing activities was $82.1 million and $12.2 million in 2010 and 2009 respectively. In 2010, $99.8 million of cash was used for the Spheris acquisition, $14.3 million for capital spending and capitalized software offset by $32.0 million in proceeds from the sale of investments and subsidiaries. During 2009 we spent $9.5 million for capital spending and capitalized software and $2.7 million as additional investments.

In the quarter ended September 30, 2011, we acquired several transcription companies at a purchase price of $9.8 million paid in cash.

Financing activities

Cash used in financing activities was $18.2 million and $84.6 million for the six months ended June 30, 2011 and 2010, respectively. The activities impacting cash flow from financing activities during the six months ended June 30, 2011 included:

- In January 2011, we made an optional prepayment of $20.0 million in addition to the $5.0 million due under the Senior Secured Credit Facility. No additional principal payments are required until April 2012 under the Senior Secured Credit Facility.

- In February 2011, we completed our IPO selling 3.0 million shares of our common stock at an offer price of $8.00 per share, resulting in gross proceeds to us of $24.0 million, or $22.3 million after underwriting discounts.
- We made payments of $17.2 million in the period related to the IPO, the Private Exchange the Registered Exchange Offer.

Cash provided by financing activities in 2010 included $392.4 million in borrowings, offset by $229.7 million in debt repayments, a use of $53.9 million for dividends, $3.7 million in payments related to our initial public offering, and $21.6 million used for debt issuance costs. In 2009, cash used in financing activities were principally due to $28.6 million of debt repayments and $15.3 million of dividends paid.

As part of our business strategy, we plan to consider and, as appropriate, make acquisitions of other businesses, products, product rights or technologies. Our cash reserves and other liquid assets may be inadequate to consummate such acquisitions and it may be necessary for us to issue stock or raise substantial additional funds in the future to complete future transactions. In addition, as a result of our acquisition efforts, we are likely to experience significant charges to earnings for merger and related expenses (whether or not our efforts are successful) that may include transaction costs, closure costs or costs of restructuring activities.

On August 18, 2011, or the Closing Date , we completed the acquisition of MultiModal through a series of mergers between MultiModal and certain of our direct wholly-owned subsidiaries. As a result of the MultiModal Merger, MultiModal became a direct wholly-owned subsidiary of ours. On the Closing Date, we paid an aggregate of approximately $48.4 million in cash to MultiModal s shareholders, optionholders and other third parties and issued an aggregate of 4,134,896 shares of our common stock, or the Shares, to MultiModal s shareholders who are accredited investors within the meaning of Regulation D promulgated under the Securities Act of 1933, or the MultiModal Accredited Investors. We are also obligated to pay up to approximately $28.8 million of additional cash consideration in three installments of approximately $16.3 million, $4.8 million and $7.7 million, respectively, following the first, second and third anniversaries of the Closing Date. To help fund the cash portion of the purchase price, MedQuist Inc. loaned $19 million to CBay Inc., a wholly-owned subsidiary of ours, or the Payor, on the Closing Date. The loan is evidenced by a Subordinated Intercompany Note dated as of the Closing Date, which matures two years from the Closing Date and bears a 15% interest rate per annum on the unpaid principal amount thereof, all or a portion of which may be prepaid by the Payor at any time upon one business day s notice.

In connection with the MultiModal Merger and on the Closing Date, we and the MultiModal Accredited Investors entered into a Stockholders Agreement, or the MultiModal Stockholders Agreement . The MultiModal Stockholders Agreement provides for, among other things, certain registration rights and trading restrictions for the MultiModal Accredited Investors. With respect to the registration rights, we will register the Shares for resale on a shelf registration statement in April 2012 and the MultiModal Accredited Investors have piggyback registration rights to participate in certain public offerings of our common stock. With respect to the restrictions on trading, those MultiModal Accredited Investors that were not employees of MultiModal as of the Closing Date are prohibited from selling (i) 75% of the Shares received by such persons in the MultiModal Merger during the period beginning on the six month anniversary of the Closing Date and ending immediately prior to the one year anniversary of the Closing Date and (ii) 25% of the Shares received by such persons in the MultiModal Merger during the period beginning on the one year anniversary of the Closing Date and ending immediately prior to the eighteen month anniversary of the Closing Date. In addition, three MultiModal Accredited Investors are restricted, in general, to selling Shares equal to no more than 20% of the average daily trading volume of our common stock in any given day during the period beginning on the six month anniversary of the Closing Date and ending on the one year anniversary of the Closing Date.

Under a Registration Rights Agreement dated February 4, 2011 by and among us and S.A.C. PEI CB Investment L.P., a Cayman Islands limited partnership (SAC CBI), S.A.C. PEI CB Investment II, LLC, a Delaware limited liability company (SAC CBI II) and International Equities (S.A.C. Asia) Limited, a company incorporated under the Companies Act of 2001 of Mauritius (SAC Asia and, collectively with SAC CBI and SAC CBI II and each of their respective affiliates, the SAC Stockholders) we provide registration rights with respect to shares of our common stock held by the SAC Stockholders (the Registration Rights Agreement). The Registration Rights Agreement provides a mechanism for cutting back on the number of shares included in a registration based upon the advice of the underwriters in such registration (the Underwriter Cutbacks). In connection with the MultiModal Merger and on the Closing Date, we and the SAC Stockholders entered into Amendment No. 1 to Registration Rights Agreement (the Registration Rights Amendment). The Registration Rights Amendment provides for the MultiModal Accredited Investors to be treated the same as the SAC Stockholders in the Underwriter Cutbacks for a period of six months beginning on the Closing Date.

We believe our existing cash, cash equivalents, and 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 selling additional equity. There are no assurances that sufficient funding from external sources will be available to us on acceptable terms, if at all.

Amendment to Senior Secured Credit Facility

On September 14, 2011, we amended the Senior Secured Credit Facility to, among other things, (i) add an accordion feature that would allow for potential additional borrowing capacity of up to $50.0 million in the form of additional revolving credit commitments or incremental term loans, subject to the satisfaction of, and agreement to, certain conditions, and (ii) permit repurchases of our outstanding common stock in an aggregate amount not to exceed $25.0 million.

On September 30, 2011, MedQuist initiated a draw down of $22 million under the Revolving Credit Facility for general corporate purposes (the ***Advance***). The Advance bears an interest rate of 7.75% per annum. With the Advance and all previous draw downs, the entire $25 million of the Revolving Credit Facility has been drawn upon and remains outstanding.

Stock Repurchase Program

On September 19, 2011, our board of directors authorized the repurchase of up to $25.0 million of our outstanding common stock from time to time during the six months following the completion of the Merger (hereinafter referred to as the Share Repurchase Program). Under the Share Repurchase Program, shares may be repurchased in the open market or in privately negotiated transactions at our discretion. The Share Repurchase Program does not require us to repurchase any specific number of shares, and we may terminate the Share Repurchase Program at any time. We will not repurchase any shares directly from our directors and officers or S.A.C. PEI CB Investment L.P. and its affiliates under the Share Repurchase Program.

Contractual obligations

The following table summarizes our obligations to make future payments under current contracts as of December 31, 2010 (in thousands):

	Payment due by period				
	Total	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**After**
			(In thousands)		
Operating lease obligations	$ 28,944	$ 7,230	$ 12,056	$ 7,329	$ 2,329

Purchase obligations[1]	21,311	8,567	11,820	924	
Severance and Other Obligations	3,960	3,223	470	267	
Long-term debt, including current maturities	294,494	27,817	41,347	140,330	85,000
Total contractual obligations[2]	$ 348,709	$ 46,837	$ 65,693	$ 148,850	$ 87,329

(1) Purchase obligations are for ASR agreements ($12,150), telecommunication contracts ($8,636), software development ($275) and other recurring purchase obligations ($250).

(2) MedQuist Inc. made certain payments to Nuance Communications, Inc. (Nuance) on June 30, 2011 and is obligated to make one additional payments to Nuance during the third quarter of 2011 in full satisfaction of MedQuist Inc. s license fee obligations with respect to certain products through June 30, 2015 pursuant to a Fee Agreement with Nuance dated June 30, 2011. On the Closing Date of the MultiModal Merger we paid an aggregate amount of approximately $48.4 million in cash to MultiModal s shareholders, optionholders and other third parties. We are also obligated to

pay up to approximately $28.8 million of additional cash consideration in three installments of approximately $16.3 million, $4.8 million and $7.7 million, respectively, following the first, second and third anniversaries of the Closing Date of the MultiModal Merger.

We have agreements with certain of our named executive officers that provide for severance payments to the employee in the event the employee is terminated without cause. The maximum cash exposure under these agreements was approximately $5.0 million as of December 31, 2010.

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, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources. In 2011 we entered into currency hedge contracts for up to $72.0 million related to our operations in India, of which $49 million were remaining as of June 30, 2011. In January 2011, as required under our Credit Agreement, we entered into Interest Rate Cap Contracts (for $60.0 million notional amounts which will amortize over time and expire on January 2013) to limit the risk of increases in interest rates.

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.

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. As of June 30, 2011, a 1% increase in LIBOR above this floor would result in an approximate $1.75 million annual increase in our interest expense.

In January 2011, as required under our Credit Agreement, we entered into Interest Rate Cap Contracts (for $60.0 million notional amount which will amortize over time) to limit the risk of increases in interest rates.

Recent accounting pronouncements

In June 2011, the FASB issued ASU 2011-05, which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of shareholders equity. Instead, we must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. ASU 2011-05 will be effective for public companies during the interim and annual periods beginning after December 15, 2011 with early adoption permitted. The adoption of ASU 2011-05 will not have an impact on our consolidated financial statements as it only requires a change in the format of the current presentation.

In September 2009, the Financial Accounting Standards Board (FASB) ratified two consensuses affecting revenue recognition:

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 (VSOE) or third-party evidence (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. The second consensus, *Software-Revenue Recognition* addresses the accounting for transactions involving software to exclude from its scope tangible products that contain both software and non-software and not-software components that function together to deliver a products functionality.

The Consensuses are effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The standards were adopted in the first quarter of 2011 and did not have a material impact on our results of operations or our financial position.

Changes in independent auditors

There have been no changes or disagreements with our independent auditors during our two most recent fiscal years or any subsequent interim periods.

Management s Discussion and Analysis of Financial Condition and Results of Operations of MedQuist Inc.

Overview

MedQuist Inc. is a leading provider of integrated clinical documentation solutions for the U.S. healthcare system. Its end-to-end solutions convert 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 MedQuist Inc. s customers. MedQuist Inc. s solutions enable hospitals, clinics, and physician practices to improve the quality of clinical data as well as accelerate and automate the documentation process, and MedQuist Inc. believes its solutions improve physician productivity and satisfaction, enhance revenue cycle performance, and facilitate the adoption and meaningful use of electronic health records.

Key factors affecting our performance

In 2010, MedQuist Inc. completed the acquisition of Spheris which materially impacted its financial results. In addition MedQuist Inc. s results have also been impacted by volume changes and pricing impacts as it moves to ASR and offshore production, as well as operating improvements and selling, general and administrative expense savings leveraging from MedQuist Inc. s scalable platform. These key factors are described below for the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2010 and 2011.

Volume and pricing trends

The vast majority of MedQuist Inc. s revenue is generated by providing clinical documentation services to its customers. Medical transcription and medical editing by its MTs and MEs, respectively, accounted for 94% of our net revenues for the six months ended June 30, 2011. Product sales and related maintenance contracts and other made up the balance of MedQuist Inc. s net revenues. MedQuist Inc. s customers are generally charged a rate per character multiplied by the number of characters that it processes.

MedQuist Inc. bases its pricing on various factors, principally market forces, the extent to which it can utilize its offshore production facilities, the extent to which customers utilize the ASR technology available in MedQuist Inc. s solutions, the scope of services provided, and turn-around times requested by a particular customer. MedQuist Inc. works with its 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 MedQuist Inc., which permits it to offer better pricing to its customers while at the same time contributing to margin growth. MedQuist Inc. has successfully migrated a significant portion of its volume offshore and it will continue these efforts.

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. MedQuist Inc. intends to monitor and adjust its pricing accordingly to remain competitive as these industry trends continue.

Operating improvements

Cost of revenues on a per unit basis has declined due to the increased percentage of volume produced offshore and the increased utilization of ASR technology, as well as reductions of support staff headcount as MedQuist Inc. shifts volume to India in order to further reduce operating costs. MedQuist Inc. s use of ASR technology has increased from 47% to 72% from the fourth quarter of 2008 to the quarter ended June 30, 2011. As MedQuist Inc. continues to increase the use of ASR technology and move volume offshore, it expects to continue to reduce costs.

Some of MedQuist Inc. s contracts specify lower prices for work performed offshore or using speech recognition technology. Therefore, MedQuist Inc. s operating income will not increase by the full amount of the savings it realizes.

Selling, general and administrative expense savings

MedQuist Inc. has made significant reductions in selling, general and administrative expenses since 2008. Such expenses were 14.5% of net revenues in 2008 compared to 9.9% of net revenues for 2010. These savings were achieved primarily through headcount reductions and aggressive efforts to reduce other administrative expenses.

In connection with the Spheris Acquisition MedQuist Inc. has identified potential specific savings in the sales and marketing and general and administrative areas. MedQuist Inc. also expects to consolidate facilities in 2011. MedQuist Inc. anticipates that these savings will be implemented throughout 2011.

Basis of Presentation

Net revenues

MedQuist Inc. derives revenues primarily from providing clinical documentation services to integrated delivery networks, academic centers, group practices and community hospital. MedQuist Inc. s customers are generally charged a rate times the volume of work that it transcribes or edits. In the clinical documentation workflow, MedQuist Inc. provides, in addition to medical transcription technology and services, maintenance services, digital dictation, speech recognition and electronic signature services.

Net revenues from customers in the U.S. were \$368.9 million, \$301.1 million, and \$321.0 million for the years ended December 31, 2010, 2009 and 2008, respectively. Net revenues from customers outside the U.S. were \$6.3 million, \$6.1 million, and \$5.8 million for the years ended December 31, 2010, 2009, and 2008, respectively.

Cost of revenues

Cost of revenues includes compensation of MedQuist Inc. s U.S. based employee MTs and MEs and MedQuist Inc. s subcontractor MTs and MEs, 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. MT and ME costs are directly related to medical transcription and medical editing, respectively, revenues and are based on lines transcribed or edited multiplied by a specific rate.

Selling, general and administrative

MedQuist Inc. s selling, general and administrative expenses include marketing and sales costs, accounting costs, information technology costs, professional fees, corporate facility costs, corporate payroll and benefits expenses.

Research and development

MedQuist Inc. s research and development expenses consist 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 MedQuist Inc. MedQuist Inc. s research and development efforts have been devoted to new products and services offerings and increases in features and functionality of its 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 20 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.

Other

On February 11, 2011, certain of MedQuist Inc. s shareholders entered into the Exchange Agreement with us which increased our ownership interest in MedQuist Inc. to 82.2%. Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 805-50-S99-1 Business Combinations-Related issues governs the application of push down accounting in situations where ownership is increased to 80% or more. The post-February 11, 2011 consolidated financial statements reflect the new basis of accounting as required by the authoritative guidance under ASC 805-50-S99-1, and have applied the SEC rules and guidance regarding push down accounting treatment. Accordingly, MedQuist Inc. s consolidated financial statements prior to the closing of the Exchange Agreement reflect the historical accounting basis in our assets and liabilities and are labeled Predecessor Company, while such consolidated financial statements subsequent to the Exchange Agreement are labeled Successor Company and reflect the push down basis of accounting for the fair values of assets and liabilities acquired by us in August 2008, rolled forward to February 11, 2011. This effect is presented in MedQuist Inc. s consolidated financial statements by a vertical black line division between the columns entitled Predecessor Company and Successor Company on the statements and relevant notes. The black line signifies that the amounts shown for the periods prior to and subsequent to the Exchange Agreement are not comparable.

Critical Accounting Policies, Judgments and Estimates

MedQuist Inc. prepares its consolidated financial statements in accordance with GAAP. MedQuist Inc. believes there are several accounting policies that are critical to understanding its historical and future performance, as these policies affect the reported amounts of revenues and other significant areas that involve management s judgments and estimates. These critical accounting policies and estimates have been discussed with MedQuist Inc. s audit committee.

The preparation of MedQuist Inc. s consolidated financial statements requires MedQuist Inc. to make estimates and judgments that affect its reported amounts of assets, liabilities, expenses and related disclosure of contingent liabilities. On an ongoing basis, MedQuist Inc. evaluates these estimates and judgments. MedQuist Inc. bases 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. A critical accounting estimate must meet two criteria: (1) it requires assumptions about highly uncertain matters, and (2) there would be a material effect on the financial statements from either using a different, although reasonable, amount within the range of the estimate in the current period or from reasonably likely period-to-period changes in the estimate. While there are a number of accounting policies, methods and estimates affecting MedQuist Inc. s consolidated financial statements as addressed in Note 2 to our consolidated financial statements, areas that are particularly significant and critical include:

Valuation of Long-Lived and Other Intangible Assets and Goodwill: In connection with acquisitions, MedQuist Inc. allocates portions of the purchase price to tangible and intangible assets, consisting primarily of acquired technologies, and customer relationships, with the remainder allocated to goodwill. MedQuist Inc. assesses 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. MedQuist Inc. has determined that the reporting unit level is its sole operating segment.

MedQuist Inc. reviews its long-lived assets, including amortizable intangibles, for impairment when events indicate that their carrying amount may not be recoverable. When MedQuist Inc. determines that one or more impairment indicators are present for an asset, it compares 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, MedQuist Inc. then compares the fair value to the book value of the asset. If the fair value is less than the book value, MedQuist Inc. recognizes 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 MedQuist Inc. considers as impairment indicators for its long-lived assets, including goodwill, are:

- n its net book value compared to its fair value;
- n significant adverse economic and industry trends;
- n significant decrease in the market value of the asset;
- n the extent that MedQuist Inc. uses an asset or changes in the manner that it uses it;
- n significant changes to the asset since MedQuist Inc. acquired it; and
- n other changes in circumstances that potentially indicate all or a portion of the company will be sold.

Deferred income taxes. Deferred tax assets represent future tax benefits that MedQuist Inc. expects to be able to apply against future taxable income or that will result in future net operating losses that MedQuist Inc. can carry forward to use against future taxable earnings. MedQuist Inc. s ability to utilize the deferred tax assets is dependent upon its ability to generate future taxable income. To the extent that MedQuist Inc. believes it is more likely than not that all or a portion of the deferred tax asset will not be utilized, MedQuist Inc. records a valuation allowance against that asset. In making that determination MedQuist Inc. considers all positive and negative evidence and give stronger consideration to evidence that is objective in nature.

Commitments and contingencies. MedQuist Inc. routinely evaluates claims and other potential litigation to determine if a liability should be recorded in the event it is probable that MedQuist Inc. will incur a loss and can estimate the amount of such loss.

Revenue recognition. MedQuist Inc. recognizes clinical documentation services revenues when there is persuasive evidence that 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, MedQuist Inc. s estimates have been adequate. If actual results are higher or lower than its estimates, MedQuist Inc. would have to adjust its 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 MedQuist Inc. s best estimate of potential losses resulting from the inability of its customers to make required payments due. This allowance is used to state trade receivables at estimated net realizable value.

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

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. Since 2008, MedQuist Inc. has not made additional offers. In March 2011, the Board of Directors of MedQuist Inc. terminated the Customer Accommodation Program. As a result, any amounts that had not been offered to customers were reversed.

Consolidated Results of Operations

For purposes of providing a comparison between MedQuist Inc. s year-to-date 2011 results and the corresponding 2010 periods, we have presented its year-to-date 2011 results as the mathematical addition of the Predecessor Company and Successor Company, each of which are GAAP financial measures, for the six months ended June 30, 2011. MedQuist Inc. believes that this presentation provides the most meaningful information about its results of operations. This approach is not consistent with GAAP, may yield results that are not strictly comparable on a period-to-period basis, and may not reflect the actual results MedQuist Inc. would have achieved. MedQuist Inc. has presented a reconciliation of our financial statements to the combined total, which is a non-GAAP financial measure.

	Predecessor Company For the period January 1, to February 11, 2011	Successor Company For the period February 12, to June 30, 2011	Combined Total For the six months ended June 30, 2011
		(In thousands)	
Net revenues			
Operating costs and expenses:	$ 47,048	$ 154,588	$ 201,636
Cost of revenues	29,987	99,840	129,827
Selling, general and administrative	5,219	15,046	20,265
Research and development	1,302	4,244	5,546
Depreciation	1,043	4,040	5,083
Amortization of intangible assets	1,511	7,981	9,492
Cost (benefit) of legal proceedings, settlements and accommodations	174	(7,524)	(7,350)
Acquisition and restructuring	278	4,232	4,510
Total operating costs and expenses	39,514	127,859	167,373
Operating income	7,534	26,729	34,263
Interest expense, net	(3,115)	(10,526)	(13,641)
Income before income taxes	4,419	16,203	20,622
Income tax provision	453	1,115	1,568
Net income	$ 3,966	$ 15,088	$ 19,054

Consolidated results of operations

Comparison of six months ended June 30, 2011 and 2010

The following tables set forth our consolidated results of operations for the six months ended June 30, 2011 and 2010:

	Six months ended June 30,					
	2011		2010			Change in
	Amount	% of Net Revenues	Amount	% of Net Revenues	$ Change	% of Net Revenues
			($ in thousands)			
Net revenues	$ 201,636	100.0%	$ 171,509	100.0%	$ 30,127	
Operating costs and expenses:						
Cost of revenues	129,827	64.4%	116,923	68.2%	12,904	(3.8)%
Selling, general and administrative	20,265	10.1%	18,817	11.0%	1,448	(0.9)%
Research and development	5,546	2.8%	5,593	3.3%	(47)	(0.5)%
Depreciation	5,083	2.5%	4,696	2.7%	387	(0.2)%
Amortization of intangible assets	9,492	4.7%	4,835	2.8%	4,657	1.9%
Cost (benefit) of legal proceedings, settlements and accommodations	(7,350)	(3.6)%	2,152	1.3%	(9,502)	(4.9)%
Acquisition and restructuring	4,510	2.2%	6,589	3.8%	(2,079)	(1.6)%
Total operating costs and expenses	167,373	83.0%	159,605	93.1%	7,768	(10.1)%
Operating income	34,263	17.0%	11,904	6.9%	22,359	10.1%
Equity in income of affiliated company			546	0.3%	(546)	(0.3)%
Interest expense, net	(13,641)	(6.8)%	(3,779)	(2.2)%	(9,862)	(4.6)%
Income before income taxes	20,622	10.2%	8,671	5.1%	11,951	5.2%
Income tax provision	1,568	0.8%	447	0.3%	1,121	0.5%
Net income	$ 19,054	9.4%	$ 8,224	4.8%	$ 10,830	4.7%

Net revenues

Net revenues increased $30.1 million, or 17.6%, to $201.6 million for the six months ended June 30, 2011 compared with $171.5 million for the six months ended June 30, 2010 due to increased revenue resulting from the Spheris acquisition. The Spheris acquisition in April 2010, contributed approximately $37.8 million in incremental revenue for the six months ended June 30, 2011 arising from a full period consolidation, offset by decreases in price due to higher speech recognition and offshore volume.

Cost of revenues

Cost of revenues were $129.8 million for the six months ended June 30, 2011, compared with $116.9 million for the six months ended June 30, 2010. As a percentage of net revenues, cost of revenues decreased to 64.4% for the six months ended June 30, 2011 from 68.2% for the same period in 2010 primarily due to increased utilization of speech recognition technologies, increased utilization of offshore resources and other operating cost reduction initiatives.

Selling, general and administrative

SG&A expenses were 10.1% of net revenues for the six month period ended June 30, 2011, compared to 11.0% for the same period in the prior year. The decrease versus prior year is due to the impact of synergies realized from the Spheris acquisition and other cost savings initiatives.

Research & development

R&D expenses as a percentage of net revenues were 2.8% for the six months ended June 30, 2011, compared to 3.3% for the same period in the prior year. This decrease was due to the impact of synergies realized from the Spheris acquisition and other cost saving initiatives.

Depreciation

De