

MedQuist Holdings Inc.  
Form 424B3  
February 03, 2011

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**Filed Pursuant to Rule 424(b)(3)  
Registration No. 333-170003**

**MedQuist Holdings Inc.  
(formerly CBaySystems Holdings Limited)**

**Offer to Exchange**

**Up to 6,688,648 shares of MedQuist Holdings Inc. common stock for any and all issued  
and outstanding shares of MedQuist Inc. common stock**

We are offering to exchange, upon the terms and subject to the conditions set forth in this prospectus and in the related letter of transmittal, or the exchange offer, shares of MedQuist Holdings Inc. common stock, par value \$0.10 per share, or our common stock, for properly tendered and accepted shares of MedQuist Inc. common stock. For each share of MedQuist Inc. common stock that we accept for exchange in accordance with the terms of the exchange offer, we will issue one share of our common stock. We refer to the number of shares of our common stock we will issue for each share of MedQuist Inc. common stock we accept in the exchange offer as the exchange ratio.

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

CUSIP	TITLE OF SECURITY	EXCHANGE OFFER CONSIDERATION PER SHARE	
		SHARES OF OUR COMMON STOCK <sup>(1)</sup>	EXCHANGE VALUE <sup>(1)</sup>
584949101	MedQuist Inc. common stock	One	\$ 11.00

<sup>(1)</sup> The exchange value is equal to the number of shares of our common stock offered per share of MedQuist Inc. common stock multiplied by the midpoint of the price range for our common stock in our proposed U.S. initial public offering of common stock described below.

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

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

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

December 24, 2010. See [Market Price Information for Our Shares](#) herein.

The exchange offer will expire at 5:00 p.m., New York City time, on March 4, 2011, or the expiration date, unless extended or earlier terminated by us. You must validly tender your shares of MedQuist Inc. common stock for exchange in the exchange offer on or prior to the expiration date to receive the exchange offer consideration. You should carefully review the procedures for tendering shares of MedQuist Inc. common stock beginning on page 140 of this prospectus. You may withdraw shares of MedQuist Inc. common stock tendered in the exchange offer at any time prior to the expiration date. There will be no record date for determining holders of MedQuist Inc. common stock entitled to participate in the exchange.

The exchange offer is subject to a number of conditions that must be satisfied or waived by us. These conditions include our redomiciliation (as defined herein) as a Delaware corporation, the completion of our proposed U.S. initial public offering and the consummation of the private exchange (as defined herein). The exchange offer is not conditioned on any minimum number of MedQuist Inc. common stock being tendered.

**We urge you to carefully read the [Risk Factors](#) section of this prospectus beginning on page 25 before you make any decision regarding the exchange offer.**

**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 Dealer Manager for the exchange offer is:  
MACQUARIE CAPITAL**

**The Information Agent for the Tender Offer is:**

105 Madison Avenue  
New York, New York 10016  
(212) 929-5500 (Call Collect)  
or  
(800) 322-2885 (Toll Free)  
tenderoffer@mackenziepartners.com (E-Mail Address)  
www.mackenziepartners.com (Website)

**Exchange Agent for the exchange offer is:  
American Stock Transfer & Trust Company LLC**

Prospectus dated February 3, 2011.

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This prospectus incorporates important business and financial information about MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) 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. You may obtain copies of these documents, without charge, upon written or oral request to our Information Agent, MacKenzie Partners, Inc., collect at (212) 929-5500 or toll-free at (800) 322-2885. To obtain timely delivery of copies of these documents, you should request them no later than five business days prior to the expiration of this offer. Unless this offer is extended, the latest you should request copies of these documents is February 24, 2011.

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**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 exchange offer 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., the Dealer Manager, the Exchange Agent or the Information Agent have authorized any person (including any dealer, salesperson or broker) to provide you with any information or to make any representation than as contained in this prospectus. MedQuist Holdings Inc. and the Dealer Manager do 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 exchange offer is being made on the basis of this prospectus and the letter of transmittal and is subject to the terms described in this prospectus and the letter of transmittal. This prospectus does not constitute an offer to participate in the exchange offer to any person in any jurisdiction in which it would be unlawful to make such exchange offers. Any decision to participate in the exchange offer must be based on the information included in this prospectus. In making an investment decision, prospective investors must rely on their own examination of MedQuist Holdings Inc. and the terms of the exchange offer, including the merits and risks involved. Investors should not construe anything in this prospectus and the letter of transmittal as legal, investment, business or tax advice. Each investor should consult its advisors as needed to make its investment decision and to determine whether it is legally permitted to participate in the exchange offer under applicable laws or regulations.

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 exchange offer 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.

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.

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, or our redomiciliation. 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. We refer to this herein as the conversion. Our redomiciliation and the conversion resulted in no change to our stockholders' relative ownership interests in us. Unless otherwise noted, all

information regarding shares of our common stock and all per share information presented herein give effect to the conversion.

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

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*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 exchange offer and the other considerations that may be important to your decision about whether to participate in it, 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 making the exchange offer?**

We are making this offer to acquire full ownership of our majority-owned subsidiary MedQuist Inc. We 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.

**What shares of stock are being sought in the exchange offer?**

We are offering to exchange, upon the terms and subject to the conditions set forth in this prospectus and in the related letter of transmittal, properly tendered and accepted shares of MedQuist Inc. common stock, or MedQuist Inc. common stock, for shares of our common stock.

**What will you receive in the exchange offer if you tender your shares of MedQuist Inc. common stock and they are accepted?**

For each share of MedQuist Inc. common stock tendered and accepted for exchange we are offering the exchange offer consideration, or the exchange offer consideration, set forth in the table below.

CUSIP	Title of security	Exchange offer consideration per share	
		Our common stock <sup>(1)</sup>	Exchange value <sup>(1)</sup>
584949101	MedQuist Inc. common stock	One	\$ 11.00

<sup>(1)</sup> The exchange value is equal to the number of shares of our common stock offered per share of MedQuist Inc. common stock multiplied by the midpoint of the price range for our common stock in our proposed U.S. initial public offering of common stock described below.

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

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

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

Your right to receive the exchange offer consideration in the exchange offer is subject to all of the conditions set forth in this prospectus and the related letter of transmittal. These conditions include the completion of our proposed U.S. initial public offering, the listing of our common stock on The NASDAQ Global Market and the consummation of the private exchange.

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**How many shares of our common stock will you receive for each share of MedQuist Inc. common stock that you tender in the exchange offer?**

You will receive one share of our common stock for each share of MedQuist Inc. common stock that you validly tender in this exchange offer that is accepted by us. We sometimes refer to this number in this document as the exchange ratio. Shares of our common stock issued in this exchange offer will be issued in book-entry form.

**Do you have a choice in whether to tender your MedQuist Inc. common stock?**

Yes. You are not required to tender your MedQuist Inc. common stock pursuant to this prospectus. All rights and obligations under the certificate of incorporation pursuant to which MedQuist Inc. common stock was issued will continue with respect to the MedQuist Inc. common stock that remains outstanding after the expiration date.

**What happens if you choose not to take part in this exchange offer?**

You will retain the same rights, obligations and interests which you presently have with respect to your ownership of the MedQuist Inc. common stock. However, depending on the number of shares of MedQuist Inc. common stock tendered in the exchange offer, the MedQuist Inc. common stock may be de-listed from The NASDAQ Global Market, which may adversely affect the liquidity and value of any shares of MedQuist Inc. common stock held by investors.

**Will our common stock to be issued in the exchange offer be listed for trading?**

Yes. We have applied to list shares of our common stock to be issued in the exchange offer on The NASDAQ Global Market under the symbol MEDH. The approval of our application to list our common stock on The NASDAQ Global Market is a condition for the consummation of the exchange offer. We have delisted our common stock from AIM and January 27, 2011 was the last day on which our shares traded on AIM. For more information regarding the market for our common stock, see the section of this prospectus entitled Comparative Market Price and Dividend Information.

**Will the MedQuist Inc. common stock continue to be listed on The NASDAQ Global Market if the offer is consummated?**

Depending on the number of shares of MedQuist Inc. common stock tendered in the exchange offer, the MedQuist Inc. common stock may be delisted from The NASDAQ Global Market, which may adversely affect the liquidity and value of any shares of MedQuist Inc. common stock held by investors following the completion of the exchange offer. If the MedQuist Inc. common stock is delisted from The NASDAQ Global Market, it is possible that it will trade in the over-the-counter market; however, that market may have less liquidity, which may adversely affect the value of any shares of MedQuist Inc. common stock that remain outstanding following the completion of the exchange offer.

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

It is our intent to have MedQuist Inc. become our wholly-owned subsidiary. Whether MedQuist Inc. deregisters under the Exchange Act and ceases being a separate SEC reporting company will depend on, among other factors, the number of remaining holders of MedQuist Inc. common stock. If there are less than 300 holders of MedQuist Inc. common stock following the completion of the exchange offer, we may elect to deregister MedQuist Inc.'s common stock under the Exchange Act.



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**What happens if we do not gain 100% ownership of MedQuist Inc. through the exchange offer?**

If we do not gain 100% ownership of MedQuist Inc. through the exchange offer, there can be no assurance that we will engage in any future transaction that will result in our acquisition of MedQuist Inc. shares. If we decide to engage in any such transaction, there can be no assurance regarding the timing or terms thereof. See Risk Factors-We may not own 100% of the stock of certain of our subsidiaries.

**What are the potential benefits of this exchange offer to holders of MedQuist Inc. common stock?**

We believe the completion of the 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 MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and MedQuist Inc. through ownership at the MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) 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 exchange offer would facilitate the investment and transfer of funds between MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and MedQuist Inc. and our respective subsidiaries, thereby facilitating more efficient uses of our consolidated financial resources.

**May you tender only a portion of the MedQuist Inc. common stock that you hold?**

Yes. You do not have to tender all of your MedQuist Inc. common stock to participate in the exchange offer. You may choose to tender in the exchange offer all or any portion of the MedQuist Inc. common stock that you hold.

**How does the amount of consideration that you will receive if you validly tender shares of MedQuist Inc. common stock in the exchange offer compare to amounts that you would otherwise receive if you do not tender?**

Should you decide to not participate in this offer, we make no assurance that you will be entitled to any future consideration from us for your shares of MedQuist Inc. common stock. Any value received from any sale of your shares of MedQuist Inc. common stock will depend on such factors as the market prices and the level of demand for the MedQuist Inc. common stock.

**Has MedQuist Inc. made a recommendation regarding the exchange offer?**

MedQuist Inc. will file a Solicitation/Recommendation Statement on Schedule 14D-9 with the SEC conveying to MedQuist Inc. shareholders the recommendation of the Audit Committee of the MedQuist Inc. board of directors, consisting of directors unaffiliated with us, on behalf of MedQuist Inc.'s board, that MedQuist Inc. shareholders tender their MedQuist Inc. shares in the exchange offer. Once filed, the MedQuist Inc. Schedule 14D-9 will be mailed to MedQuist Inc. shareholders. MedQuist Inc. shareholders are urged to read the MedQuist Inc. Schedule 14D-9 because it will contain important information. The MedQuist Inc. Schedule 14D-9 will be available free of charge at the web site maintained by the SEC at [www.sec.gov](http://www.sec.gov).

**When does the exchange offer expire?**

Unless earlier terminated by us, the exchange offer will expire at 5:00 p.m., New York City time, on March 4, 2011, or at such other time if this date is extended by us. MedQuist Inc. common stock tendered may be validly withdrawn

at any time before the expiration date, but not thereafter. If a broker, dealer, commercial bank, trust company or other nominee holds your MedQuist Inc. common stock, such nominee may have an earlier deadline for accepting the exchange offer. You should promptly contact the broker, dealer, commercial bank, trust company or other nominee that holds your MedQuist Inc. common stock to determine its deadline.

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### **What are the conditions to the exchange offer?**

The exchange offer is conditioned upon the closing conditions described in The Exchange Offer Conditions of the Exchange Offer. These conditions include the completion of our proposed U.S. initial public offering, the listing of our common stock on The NASDAQ Global Market and the consummation of the private exchange. The exchange offer is not conditioned upon any minimum number of shares of MedQuist Inc. common stock being tendered. We may waive certain conditions of the exchange offer described in this prospectus prior to the expiration date. If any of the conditions are not satisfied or waived, we will not complete the exchange offer.

### **Under what circumstances can the exchange offer be extended, amended or terminated?**

We reserve the right to extend the exchange offer for any reason or no reason at all. We also expressly reserve the right, at any time or from time to time, to amend the terms of the exchange offer in any respect prior to the expiration date. Further, we may be required by law to extend the exchange offer if we make a material change in the terms of the exchange offer or in the information contained in this prospectus or waive a material condition to the exchange offer. During any extension of the exchange offer, MedQuist Inc. common stock that was previously tendered and not validly withdrawn will remain subject to the exchange offer. We reserve the right, in our sole and absolute discretion, but subject to applicable law, to terminate the exchange offer at any time prior to the expiration date if any condition to the exchange offer is not met. If the exchange offer is terminated, no shares of MedQuist Inc. common stock will be accepted for purchase, and any shares of MedQuist Inc. common stock that have been tendered will be promptly returned to the holder. For more information regarding our right to extend, amend or terminate the exchange offer, see The Exchange Offer Expiration date; extensions; termination; amendment.

### **How will you be notified if the exchange offer is extended, amended or terminated?**

If the exchange offer is extended, amended or terminated, we will promptly make a public announcement thereof. For more information regarding notification of extensions, amendments or the termination of the exchange offer, see The Exchange Offer Expiration date; extensions; termination; amendment.

### **How do you tender shares of MedQuist Inc. common stock in the exchange offer?**

Certain shares of MedQuist Inc. common stock were issued in book-entry form, and are all currently represented by one or more global certificates held for the account of the Depository Trust Company, or DTC. If your securities are book entry securities, you may tender your shares of MedQuist Inc. common stock by transferring them through DTC's Automated Tender Offer Program, or ATOP, or following the other procedures described under The Exchange Offer Procedures for tendering.

If your interest as a holder of MedQuist Inc. common stock is in certificated form, you must deliver to the exchange agent (1) the certificates for the shares of your MedQuist Inc. common stock to be exchanged in the manner specified in the accompanying letter of transmittal and (2) a properly completed letter of transmittal.

If you hold your shares of MedQuist Inc. common stock through a bank, broker or other nominee, in order to validly tender your shares of MedQuist Inc. common stock in the exchange offer, you must follow the instructions provided by your bank, broker, custodian, commercial bank, trust company or other nominee with regard to procedures for tendering, in order to enable your bank, broker, custodian, commercial bank, trust company or other nominee to comply with the procedures described below. Beneficial owners are urged to appropriately instruct their bank, broker, custodian, commercial bank, trust company or other nominee at least five business days prior to the expiration date in order to allow adequate processing time for their instruction.

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In order for a bank, broker, custodian, commercial bank, trust company or other nominee to validly tender your shares of MedQuist Inc. common stock in the exchange offer, such bank, broker, custodian, commercial bank, trust company or other nominee must deliver to the exchange agent an electronic message that will contain:

- n your acknowledgment and agreement to, and agreement to be bound by, the terms of the accompanying letter of transmittal; and

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- n a timely confirmation of book-entry transfer of your shares of MedQuist Inc. common stock into the exchange agent's account.

If you are unable to tender your MedQuist Inc. common stock before 5:00 p.m., New York City time, on March 4, 2011, or such other time if this date is extended by us, you may comply with the guaranteed delivery procedures set forth in The Offer Guaranteed delivery beginning on page 141.

Should you have any questions as to the procedures for tendering your shares of MedQuist Inc. common stock, please call your bank, broker, custodian, trust company or other nominee; or call the information agent.

**What happens to tendered shares of MedQuist Inc. common stock that are not accepted for exchange?**

If your tendered shares of MedQuist Inc. common stock are not accepted for exchange for any reason pursuant to the terms and conditions of the exchange offer, such shares will be returned without expense to you or, in the case of shares of MedQuist Inc. common stock tendered by book-entry transfer, such shares will be credited to an account maintained at DTC, designated by the participant who delivered such shares, in each case, promptly following the expiration date or the termination of the exchange offer.

**If you change your mind, can you withdraw your tender of MedQuist Inc. common stock?**

You may withdraw previously tendered MedQuist Inc. common stock at any time until the exchange offer has expired, unless extended by us. See The Exchange Offer Withdrawal of tenders.

**Will you have to pay any fees or commissions if you tender your MedQuist Inc. common stock?**

Tendering holders are not obligated to pay brokerage fees or commissions to us or to the dealer manager, the information agent or the exchange agent. If your shares of MedQuist Inc. common stock are held through a broker or other nominee who tenders the MedQuist Inc. common stock on your behalf, 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 Exchange Offer.

**What risks should you consider in deciding whether or not to tender any or all of your MedQuist Inc. common stock?**

In deciding whether to participate in the exchange offer, you should carefully consider the discussion of risks and uncertainties pertaining to the exchange offer, and those affecting our businesses and an investment in our common stock, described in this section Questions and Answers About the Exchange Offer, and in the section entitled Risk Factors.

**What are the U.S. federal income tax considerations of participating in the exchange offer?**

Please see the section of this prospectus entitled Material United States Federal Income Tax Consequences. You should consult your own tax advisor for a full understanding of the tax considerations of participating in the exchange offer.

**What is the impact of the exchange offer to our earnings per share and capitalization?**

As a result of the exchange of the MedQuist Inc. common stock described herein and assuming a full exchange pursuant to the private exchange, the number of outstanding shares of our common stock will increase, which 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 this exchange offer and the private exchange. The incremental impact of this exchange offer and the private exchange on our earnings per share would have been an increase of \$0.05 and \$0.06 per share of our common stock on a pro forma basis, after giving effect to the Spheris Acquisition and the Recapitalization Transactions, for the year ended December 31, 2009 and the nine months ended September 30,

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2010, respectively. Future dividends, if any, on the MedQuist Inc. common stock will not be paid to holders whose MedQuist Inc. common stock has been exchanged.

Assuming a sufficient number of outstanding shares of MedQuist Inc. common stock are validly tendered and accepted and not withdrawn so that we issue all 6.7 million shares of our common stock being offered pursuant to this prospectus, and assuming the issuance of (i) 4.8 million shares pursuant to the private exchange, (ii) 3.5 million shares of our common stock in connection with our proposed U.S. initial public offering, and (iii) 959,355 shares of our stock pursuant to an agreement, the Consulting Services Agreement, we entered into at the time of our acquisition of MedQuist Inc., we would have 51,087,766 shares of our common stock outstanding or 52,216,748 if the underwriters of our U.S. initial public offering exercise their overallotment option.

The impact of the exchange offer will be a reclassification between noncontrolling interests and additional paid in capital with no net impact to stockholders' equity as a result of this exchange. See "The Exchange Offer - Accounting treatment."

### **Do our directors or executive officers beneficially own any shares of MedQuist Inc. common stock?**

As of December 31, 2010, our directors and executive officers beneficially owned 226,166 shares of MedQuist Inc. common stock (all of which are issuable under options that are exercisable within 60 days and which number excludes shares of MedQuist Inc. held directly by CBay Inc.), which constitutes approximately 0.60% of the beneficial ownership of MedQuist Inc. common stock.

### **What percentage of our common stock will current MedQuist Inc. stockholders own after the successful consummation of the exchange offer?**

We anticipate that the completion of the exchange offer will result in the exchange of the outstanding shares of MedQuist Inc.'s common stock that we do not currently own (excluding shares to be acquired in the private exchange) into approximately 13.1% of the shares of our common stock outstanding at the conclusion of the exchange offer. In general, this assumes full acceptance of the exchange offer and that:

- n 44.4 million shares of our common stock are outstanding (including, 3.5 million shares issued in connection with our proposed U.S. initial public offering, 4.8 million shares issued in connection with the private exchange and 959,355 shares issued pursuant to the Consulting Services Agreement) before giving effect to the completion of the exchange offer; and
- n 6.7 million shares of our common stock will be issued in the exchange offer.

### **With whom may you talk if you have questions about the exchange offer?**

If you have questions regarding the procedures for tendering in the exchange offer or require assistance in tendering your MedQuist Inc. common stock, please contact the dealer manager or the exchange agent listed on the back cover of this prospectus. If you would like additional copies of this prospectus, our annual, quarterly, and current reports or proxy statement, please contact the information agent. The contact information for the dealer manager, the exchange agent and the information 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.

**IF YOU HOLD YOUR MEDQUIST INC. COMMON STOCK THROUGH A BROKER, DEALER, COMMERCIAL BANK, TRUST COMPANY OR OTHER NOMINEE, YOU SHOULD KEEP IN MIND THAT SUCH ENTITY MAY REQUIRE YOU TO TAKE ACTION WITH RESPECT TO THE EXCHANGE OFFER A**

NUMBER OF DAYS BEFORE THE EXPIRATION DATE IN ORDER FOR SUCH ENTITY TO TENDER MEDQUIST INC. COMMON STOCK ON YOUR BEHALF ON OR PRIOR TO THE EXPIRATION DATE. TENDERS NOT RECEIVED BY THE EXCHANGE AGENT ON OR PRIOR TO THE EXPIRATION DATE WILL BE DISREGARDED AND HAVE NO EFFECT. IF YOUR INTEREST AS A HOLDER OF MEDQUIST INC. COMMON STOCK IS IN CERTIFICATED FORM, YOU MUST DELIVER THE MEDQUIST INC. COMMON STOCK CERTIFICATE TO BE EXCHANGED IN THE MANNER SPECIFIED IN THE ACCOMPANYING LETTER OF TRANSMITTAL AND A PROPERLY COMPLETED LETTER OF TRANSMITTAL.

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**Summary**

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

*Except where the context otherwise requires, or where otherwise indicated, references in this prospectus to we, us, or our are to MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and its subsidiaries, references to MedQuist Inc. are to MedQuist Inc. and its subsidiaries and references to Spheris are to Spheris Inc. and its subsidiaries for the period prior to April 22, 2010 and to the business we acquired from Spheris Inc. for the period after such date.*

**Overview**

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

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

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

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

**Our industry**

Over the past several decades, our industry has evolved from almost exclusively in-house production to outsourced services and from labor-intensive services to technologically-enabled solutions. The market opportunity for our solutions is driven by overall healthcare utilization and cost containment efforts in the United States. Numerous factors are driving increases in the demand for healthcare services including population growth, longer life expectancy, the increasing prevalence of chronic illnesses, and expanded coverage from healthcare reform.

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According to a September 2010 report by the U.S. Centers for Medicare and Medicaid Services, spending on healthcare grew from \$1.2 trillion in 1998 to \$2.3 trillion in 2008 representing a compound annual growth rate of 7.0%. It also projects that healthcare spending will grow to reach \$4.2 trillion, or 19.3% of U.S. gross domestic product, by 2018, representing a compound annual growth rate of 6.3%. At the same time, U.S. healthcare providers remain under substantial pressure to reduce costs while maintaining or improving the quality of care.

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

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

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

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

## **Our competitive strengths**

Our competitive strengths include:

- n **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.
- n **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.
- n **Large and diversified customer base with long-term relationships** We serve more than 2,400 hospitals, clinics and physician practices throughout the United States, including 40% of hospitals with more than 500

licensed beds. We have a long-standing history with our customers and, as of September 30, 2010, approximately 98% of our revenue was from recurring services.

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

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





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

**Risks associated with our business**

Our business is subject to a number of risks which you should be aware of before making an investment decision. Those risks are discussed more fully in Risk Factors beginning on page 25. For example:

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

**Our history**

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

***Acquisitions***

*MedQuist Inc.*

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

We believed that MedQuist Inc., despite its operational challenges and substantial overhead, had strong underlying technology, deep healthcare domain expertise, and a long-tenured customer base. Following our acquisition of MedQuist Inc., we embarked upon a strategy to enhance the management team, streamline operations, improve relationships with customers, leverage our offshore resources, increase the utilization of ASR technology, and resolve all outstanding litigation. This strategy resulted in a stabilization of volume trends starting in the second quarter of 2009. The following table shows the percentage change in MedQuist Inc.'s volume for the nine quarters ended March 31, 2010, the last quarter prior to our acquisition of Spheris, or the Spheris Acquisition.

	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>MedQuist Inc.</b>	<b>Prior to the MedQuist Inc. Acquisition</b>		

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	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>
Volume % Change over Previous Year	(3.3)%	(4.7)%	(0.1)%	(0.4)%	(2.2)%	0.8%	2.5%	2.8%	4.0%

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

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

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

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

**Pricing**

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

**Recent developments**

***Recapitalization transactions***

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

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Electronics in connection with the MedQuist Inc. Acquisition and \$3.7 million to extinguish certain other lines of credit. We refer to these transactions as the Recapitalization Transactions.

### ***Private exchange***

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

### ***Our proposed U.S. initial public offering and redomiciliation***

On October 18, 2010, we filed an initial registration statement on Form S-1 with the SEC as the first step towards completing a U.S. initial public offering of our common stock. The successful consummation of our proposed U.S. initial public offering and the listing of the shares of our common stock on The NASDAQ Global Market are both conditions to the consummation of the exchange offer.

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.

In connection with our proposed U.S. initial public offering we have applied to list our shares on The NASDAQ Global Market under the symbol MEDH.

For a more detailed description of the Recapitalization Transactions, the private exchange and our proposed U.S. initial public offering, collectively with this exchange offer and the common stock offered hereby, the Corporate Reorganization, see Corporate Reorganization.

### ***Sale of A-Life Investment***

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

### ***Sale of PFS***

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

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

The following information is based on our preliminary unaudited results for the three months ended December 31, 2010. This information is derived from preliminary internal financial reports and is subject to revision based on the completion of the year-end accounting and financial reporting processes necessary to finalize our consolidated financial statements as of and for the year ended December 31, 2010. We cannot assure you that, upon

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completion of the audit of our consolidated financial statements as of and for the year ended December 31, 2010, we will not report results materially different than those set forth below. We do not expect to file our audited consolidated financial statements as of and for the year ended December 31, 2010 with the SEC until after this offering is completed.

We currently estimate that for the three months ended December 31, 2010, our net revenues were approximately \$110.5 million, our income from continuing operations before income taxes and noncontrolling interests was approximately \$3.7 million and our Adjusted EBITDA was approximately \$27.6 million. Our estimate for Adjusted EBITDA is based on our estimates for income from continuing operations before income taxes and noncontrolling interests of approximately \$3.7 million, plus interest expense, net of approximately \$7.3 million, depreciation and amortization of approximately \$8.9 million (including approximately \$3.9 million of amortization related to acquired intangibles), cost of legal proceedings and settlements of approximately \$800,000, acquisition-related charges of approximately \$500,000, restructuring charges of approximately \$1.8 million, the loss on early extinguishment of debt of approximately \$13.5 million and less equity in income of affiliated companies (principally the gain on the sale of A-Life) of \$8.9 million. See page 23 in Summary Historical and Unaudited Pro Forma Consolidated Financial Data for a description of Adjusted EBITDA. Cash taxes paid during the three months ended December 31, 2010 were approximately \$300,000. As of December 31, 2010 we had approximately \$66.8 million of cash and approximately \$294.5 million of total debt outstanding. On January 3, 2011, we made a \$25.0 million cash payment, of which \$20 million was an optional payment, to reduce the principal amount of our outstanding Term Loan.

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

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

The improvement in gross profit and operating income during the three months ended December 31, 2010 was attributable to cost reductions associated with increased utilization of ASR and increased offshore production, as well as overhead savings realized as a result of the Spheris integration efforts. Our use of ASR increased to approximately 71% of volume during the three months ended December 31, 2010 compared with approximately 53% of volume in the three months ended December 31, 2009. Additionally, our expanding footprint in India enabled us to increase our offshore production to approximately 42% of volume for the three months ended December 31, 2010 compared with 39% of volume for the three months ended December 31, 2009. The cost savings and synergies resulting from the Spheris Acquisition contributed approximately \$7 million of cost savings for the three months ended December 31, 2010.

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

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



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***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 1000 Bishops Gate Blvd. Suite 300, Mount Laurel, NJ 08054-4632. The telephone number of the principal executive offices of MedQuist Inc. is (856) 206-4000.

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**Background and Reasons for the Exchange Offer**

**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 percent of MedQuist Inc. in June 2000, and later increased its holdings to 69.5 percent. 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 percent 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 new ordinary 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.

**Background of the exchange offer**

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. stockholders 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. stockholders 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 this 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.

**Our reasons for the exchange offer**

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

- n the completion of the 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

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- the MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) 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;
- n the unified capital structure that would result from the 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;
  - n 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;
  - n the elimination of public stockholders at the MedQuist Inc. level would create opportunities for cost reductions through the reduction of overhead and reporting and compliance costs;
  - n the opportunity to eliminate, by converting the public s ownership of MedQuist Inc. common stock into ownership of our common stock through the exchange offer, the potential for conflicts of interest between us, on the one hand, and the assets of MedQuist Inc. and its public stockholders, on the other, including with respect to the disposition or use of MedQuist Inc. for the benefit of us and our stockholders;
  - n the exchange ratio;
  - n the ability of MedQuist Inc. s stockholders, through ownership of our common stock, to participate in the growth of MedQuist Inc. s business and our other businesses;
  - n the financial and operating results of MedQuist Inc.;
  - n the terms and conditions of the exchange offer; and
  - n the level of dilution that our current stockholders would experience in connection with the exchange offer.

**Interests of directors and executive officers**

As of December 31, 2010, our directors and executive officers beneficially owned 226,166 shares of MedQuist Inc. common stock (all of which are issuable under options that are exercisable within 60 days and which number excludes shares of MedQuist Inc. beneficially owned by MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited)), which constitutes approximately 0.60% of the beneficial ownership of MedQuist Inc. common stock.

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**Summary of Terms of the Exchange Offer**

*We have summarized the terms of the exchange offer below. You should read the discussion under "The Exchange Offer" in this prospectus for further information regarding the exchange offer.*

Exchange Offer	We are offering to exchange newly issued shares of our common stock for properly tendered and accepted shares of MedQuist Inc. common stock. All shares of our common stock validly tendered and not withdrawn and accepted by us will be exchanged at a ratio of one share of our common stock for each share of MedQuist Inc. common stock, on the terms and subject to the conditions of this exchange offer. The terms and conditions of this exchange offer are described in this document, the letter of transmittal and the instructions to the letter of transmittal. We will promptly return any shares of MedQuist Inc. common stock not accepted by us for exchange following the expiration date.
Expiration Date	The exchange offer will expire at 5:00 p.m., New York City time, on March 4, 2011, unless extended or earlier terminated by us. If a broker, dealer, commercial bank, trust company or other nominee holds your MedQuist Inc. common stock, such nominee may have an earlier deadline for accepting the offer. You should promptly contact the broker, dealer, commercial bank, trust company or other nominee that holds your shares of MedQuist Inc. common stock to determine its deadline.
Settlement Date	The settlement date in respect of any shares of MedQuist Inc. common stock that are validly tendered prior to the expiration date will be promptly following the expiration date and is anticipated to be on or about March 8, 2011. See "The Exchange Offer" Settlement date.
Certain Consequences to Non-Tendering Holders	Shares of MedQuist Inc. common stock not tendered in the exchange offer will remain outstanding after the consummation of the exchange offer. Depending on the number of shares of MedQuist Inc. common stock tendered in the exchange offer, MedQuist Inc. may be delisted from The NASDAQ Global Market, which may adversely affect the liquidity and value of any shares of MedQuist Inc. common stock held by investors.
Conditions to the Exchange Offer	The exchange offer is conditioned upon the closing conditions described in "The Exchange Offer" Conditions of the exchange offer. These conditions include the completion of our proposed U.S. initial public offering, the listing of our common stock on The NASDAQ Global Market and the consummation of the private exchange. Our obligation to exchange is not subject to any minimum tender condition.
Procedures For Tendering Shares of MedQuist Inc. Common Stock	Most shares of MedQuist Inc. common stock were issued in book-entry form, and are all currently represented by one or more global certificates held for the account of the DTC. If your securities are book entry securities, you may tender your shares of common stock by transferring them through DTC's ATOP or following the other procedures described under "The Exchange Offer" Procedures for tendering.

If your interest as a holder of common stock is in certificated form, you must deliver to the exchange agent a properly completed and duly executed letter of transmittal or a duly executed copy thereof, along with any additional information required by the exchange agent as well as payment for transfer or similar taxes, if any.

If you wish to tender shares of MedQuist Inc. common stock pursuant to the exchange offer and your MedQuist Inc. common stock certificates are not immediately available, you cannot deliver the MedQuist Inc. common stock certificates and all other required documents to the exchange agent

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prior to the expiration of the exchange offer or you cannot complete the procedure for book-entry transfer on a timely basis, your shares of MedQuist Inc. common stock may nevertheless be tendered, so long as all of the following conditions are satisfied:

n you make your tender by or through an eligible institution;  
n a properly completed and duly executed notice of guaranteed delivery, substantially in the form made available by us, is received by the exchange agent as provided below on or prior to the expiration of the exchange offer; and  
n the certificates for all tendered shares of MedQuist Inc. common stock (or a confirmation of a book-entry transfer of such securities into the exchange agent's account at DTC as described above), in proper form for transfer, together with a properly completed and duly executed letter of transmittal or a manually signed facsimile with any required signature guarantees, or, in the case of a book-entry transfer, an agent's message, and all other documents required by the letter of transmittal are received by the exchange agent within three business days after the date of execution of the notice of guaranteed delivery.

You may deliver the notice of guaranteed delivery by hand or transmit it by facsimile transmission or mail to the exchange agent.

In all cases, we will exchange shares of MedQuist Inc. common stock tendered and accepted for exchange pursuant to the exchange offer only after timely receipt by the exchange agent of certificates for shares of MedQuist Inc. common stock, or timely confirmation of a book-entry transfer of those shares of MedQuist Inc. common stock into the exchange agent's account at DTC, a properly completed and duly executed letter of transmittal or a manually signed facsimile thereof, or an agent's message in connection with a book-entry transfer, and any other required documents.

If you beneficially own common stock through an account maintained by a broker, dealer, commercial bank, trust company or other DTC participant and you desire to tender common stock, you should contact your DTC participant promptly and instruct it to tender your shares of common stock on your behalf. Beneficial owners are urged to appropriately instruct their bank, broker, custodian, commercial bank, trust company or other nominee at least five business days prior to the expiration date in order to allow adequate processing time for their instruction.

In order for your bank, broker, custodian, commercial bank, trust company or other nominee to validly tender shares of common stock in the exchange offer, such bank, broker, custodian, commercial bank, trust company or other nominee must deliver to the exchange agent via DTC an electronic message that will contain certain information specified under "The Exchange Offer Procedures for tendering - How to tender if you are a beneficial owner but not a DTC participant?"

To participate in the exchange offer, a DTC participant must:

n comply with the ATOP procedures of DTC described under "The Exchange Offer Procedures for tendering - Tendering through DTC S ATOP"; or

n (i) complete and sign and date the letter of transmittal, or a facsimile of the letter of transmittal; (ii) have the signature on the letter of transmittal guaranteed if the letter of transmittal so requires; and (iii) mail or deliver the letter of transmittal or facsimile to the exchange agent prior to the expiration date.



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In addition, a DTC participant must comply with the additional procedures set forth under The Exchange Offer Procedures for tendering How to tender if you are a DTC participant?

On the date of any tender for exchange, if your interest is in certificated form, you must do each of the following in order to validly tender for exchange:

- n complete and manually sign the accompanying letter of transmittal provided by the exchange agent, or a facsimile of the exchange notice, and deliver the signed letter to the exchange agent;
- n surrender the certificates of your shares of common stock to the exchange agent;
- n if required, furnish appropriate endorsements and transfer documents; and
- n if required, pay all transfer or similar taxes.

If you are using a letter of transmittal or notice of withdrawal, you must have signatures guaranteed by a member firm of a registered national securities exchange or of the Financial Industry Regulatory Authority, Inc., a commercial bank or trust company having an office or correspondent in the United States, or an eligible guarantor institution within the meaning of Rule 17Ad-15 under the Exchange Act. In addition, such entity must be a member of one of the recognized signature guarantee programs identified in the letter of transmittal. Signature guarantees are not required, however, if the shares of common stock are tendered for the account of a member firm of a registered national securities exchange or of the Financial Industry Regulatory Authority, Inc., a commercial bank or trust company having an office or correspondent in the United States, or an eligible guarantor institution.

**IF YOUR INTEREST AS A HOLDER OF MEDQUIST INC. COMMON STOCK IS IN CERTIFICATED FORM, YOU MUST DELIVER THE MEDQUIST INC. COMMON STOCK CERTIFICATES TO BE EXCHANGED IN THE MANNER SPECIFIED IN THE ACCOMPANYING LETTER OF TRANSMITTAL AND A PROPERLY COMPLETED LETTER OF TRANSMITTAL.**

Extensions, Termination or  
Amendment of the Exchange Offer

We reserve the right to extend the exchange offer for any reason or no reason at all. We also expressly reserve the right, at any time or from time to time, to amend the terms of the exchange offer in any respect prior to the expiration date. Further, we may be required by law to extend the exchange offer if we make a material change in the terms of the exchange offer or in the information contained in this prospectus or waive a material condition to the exchange offer. During any extension of the exchange offer, MedQuist Inc. common stock that was previously tendered and not validly withdrawn will remain subject to the exchange offer. We reserve the right, in our sole and absolute discretion, but subject to applicable law, to terminate the exchange offer at any time prior to the expiration date if any condition to the exchange offer is not met. If the exchange offer is terminated, no shares of MedQuist Inc. common stock will be accepted for purchase, and any shares of MedQuist Inc. common stock that have been tendered will be promptly returned to the holder. For more

information regarding our right to extend, terminate or amend the exchange offer, see The Exchange Offer Expiration date; extensions; termination; amendment.

Withdrawal Rights

You may withdraw any MedQuist Inc. common stock tendered in the exchange offer at any time prior to the expiration date. Pursuant to Section 14(d)(5) of the Exchange Act, you may also withdraw your shares of MedQuist Inc. common stock at any time after 60 days from February 3, 2011, the date that the exchange offer was commenced, unless we have previously accepted them. If

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you validly request to withdraw your shares of MedQuist Inc. common stock prior to the expiration of the exchange offer, they will be returned without expense to you or, in the case of shares of MedQuist Inc. common stock tendered by book-entry transfer, such shares of MedQuist Inc. common stock will be credited to an account maintained at DTC, designated by the participant therein who so delivered such shares of MedQuist Inc. common stock, in each case, promptly following the expiration date or the termination of the exchange offer.

For further information regarding the withdrawal of tendered MedQuist Inc. common stock, see [The Exchange Offer](#) [Withdrawal of tenders](#).

**Return of Unaccepted Shares**

If any tendered shares of MedQuist Inc. common stock are not accepted for payment for any reason pursuant to the terms and conditions of the exchange offer, such shares will be returned without expense to the tendering holder or, in the case of shares tendered by book-entry transfer, such shares will be credited to an account maintained at DTC, designated by the participant therein who so delivered such shares, in each case, promptly following the expiration date or the termination of the exchange offer.

**No Appraisal Rights**

No appraisal rights are available to holders of MedQuist Inc. common stock in connection with the exchange offer.

**Comparative Market Price Information**

MedQuist Inc. common stock is currently listed on The NASDAQ Global Market under the symbol [MEDQ](#). On January 24, 2011, the closing price of MedQuist Inc. common stock on The NASDAQ Global Market was \$9.11 per share.

We expect the initial public offering price of our common stock in our proposed U.S. initial public offering will be between \$10.00 and \$12.00 per share. We have applied to list the shares of our common stock to be issued in the exchange offer on The NASDAQ Global Market under the symbol [MEDH](#).

Our common stock was formerly listed on AIM. However, we have delisted from AIM and January 27, 2011 was the last day on which our shares traded on AIM. See [Market Price Information for Our Shares](#) herein.

**Accounting Treatment**

Assuming we acquire all shares of MedQuist Inc. common stock pursuant to the exchange offer, the transaction would 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 exchange offer, 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 will be a Delaware corporation, so your rights will be governed by Delaware law after the completion of the exchange offer. 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

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 before deciding whether to participate in the exchange offer.

United States Federal Income Tax Considerations For MedQuist Inc. Common Stock Holders

We intend to take the position that the exchange offer will be treated for United States federal income tax purposes as a transaction described in

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Section 351(a) of the Internal Revenue Code of 1986, as amended, under which you would generally not recognize gain or loss upon the receipt of shares of our common stock in exchange for your shares of MedQuist Inc. common stock. The tax consequences to you 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 tender of the MedQuist Inc. common stock pursuant to the exchange offer.

Brokerage Commissions

If your shares of MedQuist Inc. common stock are held through a broker or other nominee who tenders shares of MedQuist Inc. common stock on your behalf, 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 exchange offer. 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.

Information Agent

MacKenzie Partners, Inc. has been appointed as the information agent for the exchange offer. We have agreed to pay MacKenzie Partners, Inc. reasonable and customary fees for its services and will reimburse MacKenzie Partners, Inc. for its reasonable out-of-pocket expenses.

Dealer Manager

The dealer manager for the exchange offer is Macquarie Capital (USA) Inc. As the dealer manager for the exchange offer, Macquarie Capital (USA) Inc. will perform services customarily provided by investment banking firms acting as dealer managers of exchange offers of a like nature, including, but not limited to, soliciting tenders of shares of MedQuist Inc. common stock pursuant to the exchange offer and communicating generally regarding the exchange offer with banks, brokers, custodians, nominees and other persons, including the holders of the shares of MedQuist Inc. common stock. We will pay the dealer manager reasonable and customary fees for its services and will reimburse it for certain out-of-pocket expenses.

Market-Trading

Shares of MedQuist Inc. common stock are traded on The NASDAQ Global Market under the symbol MEDQ . See Comparative Market Price and Dividend Information.

We have applied to list shares of our common stock to be issued in our proposed U.S. initial public offering and the exchange offer on The NASDAQ Global Market under the symbol MEDH. The approval of our application to list our common stock on The NASDAQ Global Market is a condition for the consummation of the exchange offer. Our common stock was formerly listed on AIM. However, we have delisted from AIM and January 27, 2011 was the last day on which our shares traded on AIM. See Market Price Information for Our Shares herein.

Further Information

If you have questions regarding the procedures for tendering in the exchange offer or require assistance in tendering your shares of MedQuist Inc. common stock, please contact the dealer manager, the exchange agent or the information agent. If you would like additional copies of this prospectus, our annual, quarterly, and current reports, proxy statement and other information, please contact the information agent. The contact information for the dealer manager, the exchange agent and the information agent is set forth on the back cover of this prospectus.

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**Summary Historical and Unaudited Pro Forma Consolidated Financial Data**

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

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

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

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

- 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 stockholders, of which we received \$122.6 million and the noncontrolling stockholders of MedQuist Inc. received \$53.9 million, and the repayment by us, using the proceeds of such dividend of \$104.1 million to extinguish our 6% Convertible Notes including a \$7.7 million premium on early prepayment, and \$3.7 million under certain other lines of credit;
- 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 stockholders of MedQuist Inc., which will increase our ownership in MedQuist Inc. from 69.5% to 82.2%;
- n the issuance of 959,355 shares of our common stock pursuant to the Consulting Services Agreement; and
- n the issuance of 6.7 million shares of our common stock to be issued in exchange for 6.7 million shares of MedQuist Inc. common stock in this exchange offer, assuming a full exchange. This would increase our ownership in MedQuist Inc. from 82.2% to 100%.





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

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

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

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

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

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

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

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

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

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

<sup>(1)</sup> 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.

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

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

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

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

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

- (2) Includes revenues of the PFS business, which was sold on December 31, 2010. The PFS business contributed revenues of \$15.5 million, \$22.3 million and \$17.8 million for the years ended December 31, 2007, 2008 and 2009 respectively, and \$13.7 million and \$10.2 million for the nine months ended September 30, 2009 and 2010, respectively.
- (3) See below for reconciliations of net income (loss) attributable to MedQuist Holdings Inc. to Adjusted EBITDA. Adjusted EBITDA does not include earnings attributable to our investment in A-Life, which was sold in October 2010.

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The following table shows our historical ratio of earnings to fixed charges for each of the five fiscal years ended December 31, 2005, 2006, 2007, 2008 and 2009 and for the nine months ended September 30, 2009 and 2010 and our pro forma ratio of earnings to fixed charges for the fiscal year ended December 31, 2009 and for the nine months ended September 30, 2010.

	<b>Historical</b>					<b>Pro forma</b>
	<b>2005</b>	<b>Years ended December 31,</b>			<b>2009</b>	<b>Year ended December 31, 2009 (Unaudited)</b>
		<b>2006</b>	<b>2007</b>	<b>2008</b>		
Ratio of earnings to fixed charges <sup>(1)</sup>	0.17	1.03	(0.09)	(17.16)	1.63	1.11

  

	<b>Historical</b>		<b>Pro forma</b>
	<b>Nine months ended</b>		<b>Nine months ended</b>
	<b>September 30, 2009 (Unaudited)</b>	<b>2010 (Unaudited)</b>	<b>September 30, 2010 (Unaudited)</b>
Ratio of earnings to fixed charges <sup>(1)</sup>	1.58	1.73	1.29

<sup>(1)</sup> 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 shareholders. Earnings were insufficient to cover fixed charges in the fiscal years ended December 31, 2005, 2007 and 2008.

	<b>As of September 30, 2010</b>		
	<b>Actual</b>	<b>Pro forma (Unaudited)</b>	<b>Pro forma as adjusted</b>
<b>Balance Sheet Data</b>	<b>(In thousands)</b>		
Cash and cash equivalents <sup>(a)</sup>	\$ 24,025	\$ 35,253	\$ 63,758
Working capital <sup>(b)</sup>	11,618	26,450	26,450
Current assets	118,435	142,851	171,356
Non-current assets	260,869	255,031	255,031
Total assets	379,304	397,882	426,387

Current liabilities	119,016	104,097	104,097
Non-current liabilities	176,720	277,673	277,673
Long term debt, including current portion of debt	204,172	294,848	294,848
Total equity	83,568	16,112	44,617
Book value per share	1.22	0.34	0.94

- (a) Pro forma as adjusted amount gives effect to \$2.5 million of a total \$5.0 million payment to SAC PCG in connection with the Corporate Reorganization and does not reflect \$19.5 million in proceeds received from the sale of our investment in A-Life in October 2010 and \$13.5 million in proceeds received from the sale of the PFS business in December 2010, and does not reflect our \$25.0 million repayment of a portion of our Term Loan borrowings in January 2011.
- (b) Working capital is defined as total current assets, excluding cash and cash equivalents, minus total current liabilities, excluding current portion of debt.

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

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

(a)



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

- (b) Includes amortization of acquired intangibles of \$698,000, \$7.1 million, \$12.8 million for the years ended December 31, 2007, 2008 and 2009, respectively, \$9.8 million and \$11.7 million for the nine months ended September 30, 2009 and 2010, respectively and \$19.2 million and \$16.5 million on a pro forma basis for the year ended December 31, 2009 and the nine months ended September 30, 2010, respectively.
- (c) Includes the write-off of amounts due from an unconsolidated affiliate of Spheris, an impairment charge to write-off the balance of an investment and the reversal of certain accruals, related to litigation claims, as a result of the expiration of the applicable statute of limitations.
- (d) Includes the effect of the PFS business, which was sold on December 31, 2010.
- (e) Pro forma amounts do not give effect to (i) the impact on net revenues from volume declines, resulting from pre-acquisition customer terminations at Spheris prior to the Spheris Acquisition, of \$24.6 million and \$2.4 million in net revenues for the year ended December 31, 2009 and the nine months ended September 30, 2010, respectively, and (ii) the full impact of cost savings and synergies resulting from the Spheris Acquisition, which we have implemented since the Spheris Acquisition and expect to yield \$7.0 million of cost savings in the fourth quarter of 2010, representing an annualized benefit of \$28.0 million. Our results for the nine months ended September 30, 2010 reflect \$4.9 million of such cost savings. Adjusted EBITDA does not include earnings attributable to our investment in A-life, which was sold in October 2010.

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

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

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

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

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

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



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

- n 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);
- n the impact of non-cash charges, such as goodwill impairment charges and asset impairment charges; and
- n the impact of unusual expenses or events, such as acquisition related charges, restructuring charges, severance costs and certain unusual or nonrecurring items.

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

- n Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- n Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- n 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
- n other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

**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, 2009 and for, and as of, the nine months ended September 30, 2010 using certain assumptions as set forth in the footnotes to the table. The data does not purport to be indicative of:

- n the results of operations or financial position which would have been achieved if the Corporate Reorganization and the stock issuance under the Consulting Services Agreement had occurred at the beginning of the period or as of the date indicated, or
- n the results of operations or financial position which may be achieved in the future.

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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.

	<b>Nine months ended September 30, 2010</b>		<b>Year ended December 31, 2009</b>	
<b>Net income (loss) per share:</b>				
MedQuist Holdings Inc. historical basic	\$	0.12	\$	(0.06)
MedQuist Holdings Inc. historical diluted	\$	0.12	\$	(0.06)
MedQuist Holdings Inc. pro forma basic <sup>(1)</sup>	\$	0.17	\$	0.00
MedQuist Holdings Inc. pro forma diluted <sup>(1)</sup>	\$	0.17	\$	0.00
MedQuist Inc. historical basic <sup>(2)</sup>	\$	0.46	\$	0.62
MedQuist Inc. historical diluted <sup>(2)</sup>	\$	0.46	\$	0.62
MedQuist Inc. pro forma equivalent basic <sup>(3)</sup>	\$	0.17	\$	0.00
MedQuist Inc. pro forma equivalent diluted <sup>(3)</sup>	\$	0.17	\$	0.00
<b>Cash dividends per share:</b>				
MedQuist Holdings Inc. historical	\$		\$	
MedQuist Inc. historical <sup>(5)</sup>	\$		\$	1.33
MedQuist Inc. pro forma equivalent <sup>(3)</sup>	\$		\$	
		<b>As of September 30, 2010</b>		<b>As of December 31, 2009</b>
<b>Book value per share:</b>				
MedQuist Holdings Inc. historical	\$	1.22	\$	1.06
MedQuist Holdings Inc. pro forma <sup>(4)</sup>	\$	0.34	\$	N/A
MedQuist Inc. historical	\$	3.51	\$	3.06
MedQuist Inc. pro forma equivalent <sup>(3)</sup>	\$	0.34	\$	N/A

(1) Determined by dividing the pro forma net income by the pro forma number of weighted average shares outstanding for the nine months ended September 30, 2010 and the year ended December 31, 2009.

(2) Represents MedQuist Inc. historical net income per share.

(3) The MedQuist Inc. equivalent pro forma amounts are calculated by multiplying MedQuist Holdings Inc. pro forma combined amounts by one, which is the exchange ratio.

(4) Determined by dividing the pro forma shareholders' equity by the pro forma number of shares outstanding as of September 30, 2010.

(5) Does not include a \$4.70 per share special dividend paid by MedQuist Inc. on October 18, 2010.

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**Risk Factors**

**Risks related to the exchange offer**

***You will be affected by this exchange offer whether or not you tender your shares of MedQuist Inc. common stock.***

Your investment in MedQuist Inc. common stock will be subject to different risks as a result of this exchange offer. As a holder of shares of MedQuist Inc. common stock, you will be affected by this exchange offer regardless of whether you tender all, some or none of your shares of MedQuist Inc. common stock in this exchange offer.

The MedQuist Inc. common stock may be delisted from The NASDAQ Global Market which may adversely affect the liquidity and value of any shares of MedQuist Inc. common stock held by investors for an indefinite period of time. In addition, depending on the number of holders of common stock of MedQuist Inc. following the completion of the exchange offer, MedQuist may deregister under the Exchange Act.

If less than all holders of MedQuist Inc. common stock participate in the exchange offer, then we may fail to realize the full benefits of the exchange offer.

If the number of holders of MedQuist Inc. common stock materially decreases, or if MedQuist Inc. common stock is delisted from The NASDAQ Global Market, equity research coverage of MedQuist Inc. common stock may be discontinued, which could adversely affect the liquidity and valuation of MedQuist Inc. common stock.

***You may not receive any premium on the issuance of our common stock in exchange for MedQuist Inc. common stock.***

We cannot predict whether or to what extent there will be a premium at the end of this exchange offer. As a result, if you tender your shares of MedQuist Inc. common stock in this exchange offer, you may not receive any premium. Any premium that you would receive through your participation in this exchange offer will depend upon a variety of factors including the market prices of shares of MedQuist Inc. common stock and our common stock at the time of the closing of this exchange offer, which we cannot predict. Even if you receive a premium in this exchange offer, it is possible that over time, the market value of the number of shares of MedQuist Inc. common stock tendered and accepted in this exchange offer will exceed the market value of our common stock received in this exchange offer.

***The number of shares of our common stock offered per share of MedQuist Inc. common stock in the exchange offer 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 settlement of the exchange offer could be less than the market price at the time you tender your MedQuist Inc. common stock.***

The number of shares of our common stock offered for each share of MedQuist Inc. common stock accepted for exchange is fixed at the amounts specified on the cover of this prospectus 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 settlement date. Therefore, the market price of our common stock at the time you receive our common stock on the settlement date, or any extension of the exchange offer, when we deliver our common stock in exchange for MedQuist Inc. common stock, could be less than the market price at the time you tender your MedQuist Inc. common stock. The market price of our common stock has recently been subject to significant fluctuations and volatility.

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

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 exchange offer 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.

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Assuming all shares of outstanding MedQuist Inc. common stock subject to the offer to exchange are validly tendered and accepted for exchange, we will issue 6.7 million shares of our common stock in this exchange offer. As of December 30, 2010, there were 35.2 million shares outstanding and approximately of our shares. After our proposed U.S. initial public offering, there will be 51.1 million shares of our common stock outstanding, or 52.2 million shares of our common stock if the underwriters of our U.S. initial public offering exercise their overallotment option, which includes (i) 3.5 million shares issued by us in our proposed U.S. initial public offering; (ii) 35.2 million shares held by our existing stockholders, (iii) 4.8 million shares to be issued in the private exchange, (iv) 6.7 million shares to be issued in the exchange offer, assuming a full exchange, and (v) 959,355 shares issuable pursuant to the Consulting Services Agreement. See Certain Relationships and Related Party Transactions.

### ***We may fail to realize all of the anticipated benefits of the exchange offer.***

The primary goal of the exchange offer 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 exchange offer 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. If we do not wholly own MedQuist Inc., our interests in MedQuist Inc. could conflict with the interests of MedQuist Inc.'s remaining noncontrolling stockholders. Also, MedQuist Inc. may need to seek the consent of its noncontrolling stockholders and/or independent members of its board of directors in order to take certain actions, and those consents may not be forthcoming. Our costs could also be adversely affected by our inability to fully integrate MedQuist Inc. into our consolidated operations and management structure.

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

We are not making a recommendation as to whether or not you should exchange your MedQuist Inc. common stock in the exchange offer. We have not retained, and do not intend to retain, any unaffiliated representative to act solely on behalf of the holders of the MedQuist Inc. common stock for purposes of negotiating the exchange offer or preparing a report concerning the fairness of the exchange offer. You must make your own independent decision regarding your participation in the exchange offer.

### ***Failure to successfully complete the exchange offer could negatively affect the price of MedQuist Inc. common stock.***

Several conditions must be satisfied or waived in order to complete the exchange offer, including that no event has occurred that in our reasonable judgment would materially impair the anticipated benefits to us of the exchange offer or that has had, or could reasonably be expected to have, a material adverse effect on us, our businesses, condition (financial or otherwise) or prospects. See The Exchange Offer Conditions of the exchange offer. The foregoing conditions may not be satisfied, and if not satisfied or waived, the exchange offer may not occur or may be delayed.

If the exchange offer is not completed or is delayed, we and MedQuist Inc. may be subject to material risks, including the risk that the market price of MedQuist Inc. common stock may decline to the extent that the current market price of MedQuist Inc. common stock reflects a market assumption that the exchange offer has been or will be completed.

### ***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

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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.

### ***There can be no assurances the exchange of shares pursuant to the exchange offer will qualify as a non-taxable exchange for U.S. federal income tax purposes***

We intend to take the position for U.S. federal income tax purposes that the exchange of shares of MedQuist Inc. common stock for our common stock pursuant to the exchange offer is a transaction described in Section 351(a) of the Internal Revenue Code of 1986, as amended, or 351 Exchange. Assuming such exchange qualifies as a 351 Exchange, then, in general, U.S. holders of shares of MedQuist Inc. common stock will not recognize gain or loss for U.S. federal income tax purposes from the exchange of MedQuist Inc. common stock solely for our common stock. There is no direct tax authority for treatment of such exchange as a 351 Exchange and 351 Exchange treatment depends on numerous factors, including factors beyond our control. As a result, there can be no assurances that the exchange will qualify as a 351 Exchange. Neither we nor MedQuist Inc. has or will seek any ruling from the Internal Revenue Service regarding any matters relating to the exchange pursuant to the exchange offer, and as a result, there can be no assurance that the Internal Revenue Service will not disagree with or challenge our position that such exchange qualifies as a 351 Exchange. U.S. investors should discuss the tax treatment of an exchange pursuant to the exchange offer with their tax advisors. See Material United States Federal Income Tax Consequences.

## **Risks related to our business**

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

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

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

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

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

We plan to grow, in part, by capitalizing on perceived market opportunities to provide our services to new customers. These new customers must be willing to outsource functions which may otherwise have been performed within their organizations, adopt new technologies and incur the time and expense needed to integrate those technologies into

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their existing systems. For example, the up-front cost and time involved in changing medical transcription providers or in converting from an in-house medical transcription department to an outsourced provider may be significant. Many customers may prefer to remain with their current provider or keep their transcription in-house rather than invest the time and resources required for the implementation of a new system. Also, as the maintenance of accurate medical records is a critical element of a healthcare provider's ability to deliver quality care to its patients and to receive proper and timely reimbursement for the services it renders, potential customers may be reluctant to outsource or change providers of such an important function.

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

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

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

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

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

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

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

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

After the consummation of the Corporate Reorganization, we will have approximately \$269.8 million of indebtedness outstanding, consisting of \$175.0 million of Term Loan debt under our Senior Secured Credit Facility, \$85.0 million

of Senior Subordinated Notes and other indebtedness consisting of capital leases and borrowings under other credit facilities, and we may incur additional indebtedness in the future. For the years 2010 through 2014, assuming no change in our indebtedness following our proposed U.S. initial public offering, we will have average, annual payment obligations of approximately \$20.0 million for the principal amount of our indebtedness. Our net interest expense for the year ended December 31, 2009 and the nine months ended September 30,

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2010 was \$9.1 million and \$12.0 million, respectively. Our variable rate indebtedness bears interest at LIBOR plus 5.50% with a LIBOR floor of 1.75%. Because the LIBOR floor is currently in effect, a 1.25% increase in LIBOR above current LIBOR levels would not increase our effective interest rate. A 1.0% increase in the interest rate above this floor would impact our interest expense by approximately \$2.0 million. This indebtedness could have important negative consequences to our business, including:

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

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

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

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

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

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

code used in our products, paying a royalty to use some open source code, making certain proprietary source code available to others or discontinuing certain products, any of which may divert resources away from our development efforts.

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

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

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

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

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



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

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

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

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

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

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

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

Certain state laws that have recently been enacted and bills introduced in recent sessions of the U.S. Congress seek to restrict the transmission of personally identifiable information regarding a U.S. resident to any foreign affiliate, subcontractor or unaffiliated third party without adequate privacy protections or without providing notice of the transmission and an opportunity to opt out. Some of the proposals would require patient consent. If enacted, these proposed laws would impose liability on healthcare businesses arising from the improper sharing or other misuse of personally identifiable information. Some proposals would create a private civil cause of action that would allow an injured party to recover damages sustained as a result of a violation of the new law. A number of states have also considered, or are in the process of considering, prohibitions or limitations on the disclosure of medical or other information to individuals or entities located outside of the U.S. Further, as a result of concerns regarding the possible

misuse of personally identifiable information, some of our customers have contractually limited our ability to use MTs and MEs located outside of the U.S. The effect of these proposals would be to limit our ability to utilize our lower-cost offshore production facilities for affected customers, which could adversely affect our operating margins.

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

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

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

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

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

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

U.S. and Indian transfer pricing regulations require that any international transactions involving associated enterprises are undertaken at an arm's length price. Applicable income tax authorities review our tax returns and if they determine that the transfer prices we have applied are not appropriate, we may incur increased tax liabilities, including accrued interest and penalties, which would cause our tax expense to increase, possibly materially, thereby materially reducing our profitability and cash flows. Indian tax authorities reviewed our transfer pricing practices at Spheris India Pvt. Ltd. for tax years ended March 2004 and 2005, prior to our ownership of Spheris, and concluded that the transfer price was not at arm's 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.

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***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;
- n entering markets or types of businesses in which management has limited experience; and
- n potential loss of customers or key employees of the acquired company.

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

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

As a U.S. public company, our ongoing compliance with various rules and regulations, including the Sarbanes-Oxley Act of 2002, will increase our legal and finance compliance costs and will make some activities more time-consuming and costly. These rules and requirements may be modified, supplemented or amended from time to time. Implementing these changes may take a significant amount of time and may require specific compliance training of our personnel. For example, Section 404 of the Sarbanes-Oxley Act requires that our management report on, and our independent auditors attest to, the effectiveness of our internal control over financial reporting in our annual reports filed with the SEC. Section 404 compliance may divert internal resources and will take a significant amount of time and effort to complete. We may not be able to successfully complete the procedures and certification and attestation requirements of Section 404 by the time we will be required to do so. If we fail to do so, or if in the future our Chief Executive Officer, Chief Financial Officer or independent registered public accounting firm determines that our

internal controls over financial reporting are not effective as defined under Section 404, we could be subject to sanctions or investigations by The NASDAQ Global Market, the SEC, or other regulatory authorities. As a result, investor perceptions of our company may suffer, and this could cause a decline in the market price of our common stock. Irrespective of compliance with these rules and

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regulations, including the requirements under the Sarbanes-Oxley Act, any failure of our internal controls could have a material adverse effect on our stated results of operations and harm our business and reputation. If we are unable to implement these changes effectively or efficiently, it could harm our operations, financial reporting or financial results and could result in an adverse opinion on internal controls from our independent auditors.

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

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

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

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

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

Unless the private exchange closes and the exchange offer is completed at the highest acceptance level, we will not wholly own MedQuist Inc., and our ability to gain 100% ownership of MedQuist Inc. could be adversely affected by provisions of New Jersey corporate law described below, that limit certain business combinations between corporations such as MedQuist Inc. organized in New Jersey and their significant stockholders. If we do not wholly own MedQuist Inc., our interests in MedQuist Inc. could conflict with the interests of MedQuist Inc.'s remaining noncontrolling stockholders. Also, MedQuist Inc. may need to seek the consent of its noncontrolling stockholders and/or independent members of its board of directors in order to take certain actions, and those consents may not be



forthcoming. Our costs could also be adversely affected by our inability to fully integrate MedQuist Inc. into our consolidated operations and management structure.

Section 14A:10A of the New Jersey Business Corporation Act, or the NJBCA, prohibits certain business combinations involving New Jersey corporations and an interested stockholder. An interested stockholder is

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

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

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

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

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

### **Risks related to our common stock**

#### ***Our stock price may fluctuate significantly.***

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

price of our common stock include:

- n market conditions affecting our customers' businesses, including the level of mergers and acquisitions activity;
- n the loss of any major customers or the acquisition of new customers for our services;

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- n announcements of new services or functions by us or our competitors;
- n actual and anticipated fluctuations in our quarterly operating results;
- n rumors relating to us or our competitors;
- n actions of stockholders, including sales of shares by our directors and executive officers;
- n additions or departures of key personnel; and
- n developments concerning current or future strategic alliances or acquisitions.

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

***Our largest stockholder will exercise significant control over our company.***

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

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

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

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

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

Upon the completion of our proposed U.S. initial public offering, and, after giving effect to (i) the private exchange, (ii) this exchange offer, assuming a full exchange, and (iii) the issuance of 959,355 shares of our common stock pursuant to the Consulting Services Agreement, we will have outstanding 51.1 million shares of common stock, or 52.2 million if the underwriters of our U.S. initial public offering exercise their overallotment option, in each case, assuming no exercise of outstanding options. If our existing stockholders sell, or indicate an

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intent to sell, substantial amounts of our common stock in the public market after the consummation of our proposed U.S. initial public offering, the trading price of our common stock could decline significantly.

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

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

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

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

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

In addition, upon the closing of our proposed U.S. initial public offering, we will be 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.

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***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.



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**Special Note Regarding Forward-Looking Statements**

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

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

- n potential synergies from the acquisition of Spheris;
- n our ability to adopt and integrate new technologies;
- n our expectation as to the future growth of the healthcare industry;
- n increases in the productivity of MTs and MEs in order to outpace the decline in prices for medical transcription;
- n customer retention;
- n potential benefits of our size and scale;
- n our ability to develop and adopt new technologies;
- n our ability to gain new customers;
- n our ability to increase sales; and
- n our ability to complete our proposed U.S. initial public offering, and consummate the private exchange described under Recent Developments Private Exchange.

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 during the pendency of the exchange offer, 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.

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**Corporate Reorganization**

**Recapitalization Transactions**

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

Description of Indebtedness for a more detailed description of the Senior Secured Credit Facility and the Senior Subordinated Notes.

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

**Private Exchange**

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

**Our proposed U.S. initial public offering**

On October 18, 2010, we filed a registration statement on Form S-1 with the SEC as the first step towards completing a U.S. initial public offering of our common stock. The successful consummation of our proposed U.S. initial public offering and the listing of the shares of our common stock on The NASDAQ Global Market are both conditions to the consummation of the exchange offer.

**Redomiciliation and share conversion**

On January 27, 2011, we changed our name from CBaySystems Holdings Limited to MedQuist Holdings Inc. and redomiciled from a British Virgin Islands company to a Delaware corporation. In connection with our redomiciliation, we adjusted the number of our shares outstanding through a reverse share split, pursuant to which every 4.5 shares of

our common stock outstanding prior to our redomiciliation was converted into one share of our common stock upon our redomiciliation. Our redomiciliation and the 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.

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**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.

**Table of Contents****Capitalization**

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

- n on an actual basis;
- n on a pro forma basis to give effect to the Corporate Reorganization (but excluding the common stock offered in our proposed U.S. initial public offering), the reclassification for discontinued operations and the issuance of stock pursuant to the Consulting Services Agreement; and
- n on a pro forma as adjusted basis to give effect to the completion of our proposed U.S. initial public offering.

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

	<b>As of September 30, 2010</b>		
	<b>Actual</b>	<b>Pro forma <sup>(5)</sup> (\$ in thousands)</b>	<b>Pro forma as adjusted</b>
Cash and cash equivalents <sup>(1)</sup>	\$ 24,025	\$ 35,253	\$ 63,758
Short-term debt <sup>(2)</sup>	36,224	22,949	22,949
Long-term debt			
Term loans	1,075	343	343
Senior Secured Credit Facility	55,000	185,000	185,000
Senior Subordinated Notes	13,898	85,000	85,000
6% Convertible Notes	96,419		
Other debt <sup>(3)</sup>	1,556	1,556	1,556
<b>Total debt</b>	<b>204,172</b>	<b>294,848</b>	<b>294,848</b>
<b>Equity</b>			
Stockholders' equity:			
Preferred stock: 25 million shares authorized, none issued or outstanding			
Common stock: 300 million shares authorized, 35.2 million shares issued and outstanding (actual); 47.6 million shares issued and outstanding (pro forma); 51.1 million shares issued and outstanding (pro forma as adjusted)	3,516	4,759	5,109
Additional paid in capital	149,100	134,487	162,642
Accumulated deficit	(109,261)	(123,154)	(123,154)
Accumulated other comprehensive loss	(385)	(385)	(385)

Total stockholders' equity	42,970	15,707	44,212
Noncontrolling interests	40,598	405	405
Total equity	83,568	16,112	44,617
Total capitalization <sup>(4)</sup>	\$ 287,740	\$ 310,960	\$ 339,465

- (1) Pro forma as adjusted gives effect to \$2.5 million of a total \$5.0 million payment to SAC PCG in connection with the Corporate Reorganization, does not reflect \$19.5 million in proceeds received from our sale of our investment in A-Life, which was sold in October 2010 and \$13.5 million in proceeds received from the sale of the PFS business in December 2010, and does not reflect our \$25.0 million repayment of a portion of our Term Loan borrowings in January 2011.
- (2) Short-term debt includes amount outstanding under our short-term credit facilities, the current portion of long-term borrowings and the current portion of capital lease obligations.
- (3) Other debt includes capital lease obligations and indebtedness outstanding under our credit agreement with ICICI Bank and with IndusInd Bank.
- (4) A \$1.00 increase (decrease) in the assumed initial public offering price of \$11.00 per share would increase (decrease) total stockholders' capital and total capitalization by approximately \$3.3 million, assuming the number of shares offered by us in our proposed U.S. initial public offering remains the same and after deducting the estimated underwriting discounts and estimated expenses related to our proposed U.S. initial public offering payable by us. A 100,000 share increase (decrease) in the number of shares of common stock sold by us in our proposed U.S. initial public offering would increase (decrease) the net proceeds to us from our proposed U.S. initial public offering by approximately \$1.0 million, assuming an initial public offering price per share equal to the midpoint of the estimated price range set forth on the cover page of this preliminary prospectus and after deducting underwriting discounts and commissions and estimated offering expenses payable by us.
- (5) Pro forma basis reflects (i) the \$200.0 million borrowings under the Term Loan, (ii) the issuance of \$85.0 million of Senior Subordinated Notes, (iii) our repayment of the 6% Convertible Notes, (iv) the issuance of 4.8 million shares of our common stock in the private exchange, (v) the issuance of 6.7 million shares of our common stock in this exchange offer, assuming a full exchange, and (vi) the issuance of 959,355 shares of our common stock pursuant to the Consulting Services Agreement.

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**Unaudited Pro Forma Condensed Combined Financial Information**

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

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

- 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 stockholders, of which we received \$122.6 million and the noncontrolling stockholders of MedQuist Inc. received \$53.9 million, and the repayment by us, using the proceeds of such dividend of \$104.1 million to extinguish our 6% Convertible Notes including a \$7.7 million premium on early prepayment and \$3.7 million under certain of our other lines of credit;
- 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 stockholders of MedQuist Inc., which will increase our ownership in MedQuist Inc. from 69.5% to 82.2%;
- n the issuance of 959,355 shares of our common stock pursuant to the Consulting Services Agreement; and
- n the issuance of 6.7 million shares of our common stock in exchange for 6.7 million shares of MedQuist Inc. common stock assuming a full exchange. This would increase our ownership in MedQuist Inc. from 82.2% to 100%.

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

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

The pro forma balance sheet data as of September 30, 2010 gives effect to the Recapitalization Transactions, the private exchange, the exchange offer, the reclassification for discontinued operations and the shares of our common

stock issuable pursuant to the Consulting Services Agreement, as if they occurred as of September 30, 2010.

The pro forma as adjusted balance sheet data as of September 30, 2010 also gives effect to the issuance of 3.5 million shares of common stock in our proposed U.S. initial public offering at an assumed initial public



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offering price of \$11.00 per share, the midpoint of the price range shown on the cover of this prospectus, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us as if such transaction occurred as of September 30, 2010.

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

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

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

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

	<b>Historical</b>		<b>Recapitalization Transactions and private exchange pro formal</b>			<b>Pro forma</b>	<b>Offer pro forma</b>	<b>Pro fo</b>
	<b>MedQuist Holdings Inc.<sup>(1)</sup></b>	<b>Spheris</b>	<b>Spheris Acquisition pro forma adjustments</b>	<b>Spheris Acquisition pro forma combined</b>	<b>pro formal adjustments</b>	<b>before the offer</b>	<b>adjustments</b>	<b>Pro fo</b>
	<b>(In thousands, except per share amounts)</b>							
<b>Revenues</b>	\$ 353,932	\$ 156,596		\$ 510,528		\$ 510,528		\$ 510,528
of revenues	229,701	109,059		338,760		338,760		338,760
<b>Operating profit</b>	124,231	47,537		171,768		171,768		171,768
<b>Operating expenses</b>								
Advertising, general and administrative	53,089	19,093		72,182		72,182		72,182
Research and development	9,604			9,604		9,604		9,604
Depreciation and amortization	25,366	7,230	6,530 <sup>(a)</sup>	39,126		39,126		39,126
Cost of legal proceedings and settlements	14,943	1,246		16,189		16,189		16,189
Restructuring and transition charges	1,246	6,961	(8,207) <sup>(d)</sup>					
Goodwill impairment		198,872	(198,872) <sup>(c)</sup>					
Manufacturing charges	2,727	775		3,502		3,502		3,502
<b>Operating expenses</b>	106,975	234,177	(200,549)	140,603		140,603		140,603
<b>Operating income</b>	17,256	(186,640)	200,549	31,165		31,165		31,165
Interest expense, net	(9,019)	(17,439)	6,611 <sup>(b)</sup>	(19,847)	(11,643) <sup>(g)</sup>	(31,490)		(31,490)
Income of discontinued companies	1,933			1,933		1,933		1,933
Other income	13	2,125		2,138		2,138		2,138
<b>Income (loss) from continuing operations</b>								
Income taxes and minority interest	10,183	(201,954)	207,160	15,389	(11,643)	3,746		3,746
<b>Income from continuing operations</b>	1,012	(14,571)	15,204 <sup>(e)</sup>	1,645	(1,273) <sup>(i)</sup>	372		372

Income tax provision									
(Income tax benefit)									
<b>Income (loss) from continuing operations</b>	9,171	(187,383)	191,956	13,744	(10,370)	3,374			3
<b>Income (loss) from discontinued operations</b>									
Income from discontinued operations									
Income from discontinued operations - Financial Services									
Loss	(1,281)			(1,281)		(1,281)			(1)
Income tax provision	70			70		70			
<b>Income (loss) from discontinued operations</b>	(1,351)			(1,351)		(1,351)			(1)
<b>Income (loss)</b>	7,820	(187,383)	191,956	12,393	(10,370)	2,023			2
Net income									
Income attributable to controlling interests	(7,085)		(347) <sup>(f)</sup>	(7,432)	6,017 <sup>(h)</sup>	(1,415)	1,415 <sup>(k)</sup>		
<b>Income (loss) attributable to MedQuist Holdings Inc.</b>	\$ 735	\$ (187,383)	\$ 191,609	\$ 4,961	\$ (4,353)	\$ 608	\$ 1,415	\$	2
<b>Income (loss) per common share from continuing operations</b>									
Income	\$ (0.02)			\$ 0.10		\$ 0.00		\$	
Loss	\$ (0.02)			\$ 0.10		\$ 0.00		\$	
<b>Income (loss) per common share from discontinued operations</b>									
Income	\$ (0.04)			\$ (0.04)		\$ (0.03)		\$	
Loss	\$ (0.04)			\$ (0.04)		\$ (0.03)		\$	
<b>Income (loss) per common share attributable to MedQuist Holdings Inc.</b>									
Income	\$ (0.06)			\$ 0.06		\$ (0.03)		\$	
Loss	\$ (0.06)			\$ 0.06		\$ (0.03)		\$	
Weighted average shares outstanding:									
Income	34,692			34,692	5,736 <sup>(h,j)</sup>	40,428	6,694 <sup>(k)</sup>		47
Loss	34,692			34,692	5,736 <sup>(h,j)</sup>	40,428	6,694 <sup>(k)</sup>		47

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

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

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

	<b>Historical MedQuist Holdings Inc.<sup>(1)</sup></b>	<b>Spheris Acquisition pro forma adjustments</b>	<b>Spheris Acquisition pro forma combined</b>	<b>Recapitalization Transactions and private exchange pro forma adjustments</b>	<b>Pro forma before the offer</b>	<b>Offer pro forma adjustments</b>	<b>Pro forma</b>
	(In thousands, except per share amounts)						
<b>Revenues</b>	\$ 306,792	\$ 43,371		\$ 350,163	\$ 350,163		\$ 350,163
Cost of revenues	194,886	31,343		226,229	226,229		226,229
<b>Gross profit</b>	111,906	12,028		123,934	123,934		123,934
<b>Operating expenses</b>							
Selling, general and administrative	45,665	6,163		51,828	51,828		51,828
Research and development	8,945	192		9,137	9,137		9,137
Depreciation and amortization	23,745	1,850	1,992 <sup>(1)</sup>	27,587	27,587		27,587
Cost of legal proceedings and settlements	2,785			2,785	2,785		2,785
Acquisition and bankruptcy related charges	6,895	1,730	(8,625) <sup>(n)</sup>				
Restructuring charges	1,912			1,912	1,912		1,912
<b>Total operating expenses</b>	89,947	9,935	(6,633)	93,249	93,249		93,249
<b>Operating income</b>	21,959	2,093	6,633	30,685	30,685		30,685
Interest expense, net	(11,970)	(3,459)	139 <sup>(m)</sup>	(15,290)	(8,948) <sup>(q)</sup>	(24,238)	(24,238)
Equity in income of affiliated companies	616			616	616		616
Other income (expense)	559	(48)		511	511		511
<b>Income (loss) from continuing operations before reorganization costs and income taxes</b>	11,164	(1,414)	6,772	16,522	(8,948)	7,754	7,754
Reorganization items		(5,762)	5,762 <sup>(n)</sup>				
	11,164	(7,176)	12,534	16,522	(8,948)	7,754	7,754

<b>Income from continuing operations before income taxes and noncontrolling interests</b>								
Income tax provision (benefit)	(46)	(2,822)	2,800 <sup>(o)</sup>	(68)	37 <sup>(t)</sup>	(31)		(3)
<b>Income (loss) from continuing operations</b>	11,210	(4,354)	9,734	16,590	(8,985)	7,605		7,605
<b>Income (loss) from discontinued operations</b>								
Income from discontinued operations: Net (income) loss	426			426		426		426
Income tax (benefit)	(23)			(23)		(23)		(23)
<b>Income (loss) from discontinued operations</b>	449			449		449		449
<b>Income (loss)</b>	11,659	(4,354)	9,734	17,039	(8,985)	8,054		8,054
Adjustments: Net (income) loss attributable to noncontrolling interests	(5,234)		(1,143) <sup>(p)</sup>	(6,377)	4,799 <sup>(r)</sup>	(1,578)	1,589 <sup>(u)</sup>	1,589
<b>Income attributable to MedQuist Holdings Inc.</b>	\$ 6,425	\$ (4,354)	\$ 8,591	\$ 10,662	\$ (4,186)	\$ 6,476	\$ 1,589	\$ 8,065
<b>Income per common share from continuing operations</b>								
Basic	\$ 0.11			\$ 0.23		\$ 0.15		\$ 0.15
Diluted	\$ 0.11			\$ 0.23		\$ 0.14		\$ 0.14
<b>Income per common share from discontinued operations</b>								
Basic	\$ 0.01			\$ 0.02		\$ 0.01		\$ 0.01
Diluted	\$ 0.01			\$ 0.01		\$ 0.02		\$ 0.02
<b>Income per common share attributable to MedQuist Holdings Inc.</b>								
Basic	\$ 0.12			\$ 0.25		\$ 0.16		\$ 0.16
Diluted	\$ 0.12			\$ 0.24		\$ 0.16		\$ 0.16
Weighted average shares outstanding:								
Basic	35,083			35,083	5,736 <sup>(r,s)</sup>	40,819	6,694 <sup>(u)</sup>	47,513
Diluted	35,893			35,893	5,736 <sup>(r,s)</sup>	41,629	6,694 <sup>(u)</sup>	48,323

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

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



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

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

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

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

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



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

**Notes to Unaudited Pro Forma Condensed Combined Financial Information**

**1. Basis of presentation**

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

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

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

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

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

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

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

**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Unaudited Pro Forma Condensed Combined Financial Information (Continued)**

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

**2. Description of the Spheris Acquisition**

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

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

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

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

	<b>(In thousands)</b>
Cash consideration paid	\$ 98,834
Fair value of unsecured Acquisition Subordinated Promissory Note	13,570

Total consideration transferred	\$	112,404
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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.

**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Unaudited Pro Forma Condensed Combined Financial Information (Continued)**

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

	<b>(In thousands)</b>
<b>Fair value of Spheris net assets acquired</b>	
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:

	<b>Fair value (In thousands)</b>	<b>Amortization period</b>
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

**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Unaudited Pro Forma Condensed Combined Financial Information (Continued)**

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

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

- n 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.
- n 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.
- n 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.
- n Repayment on October 14, 2010 of our 6% Convertible Notes due to Philips. The 6% Convertible Notes were settled at \$104.1 million including \$7.7 million as a negotiated prepayment premium to the outstanding balance at the time of the repayment.
- n Repayment of \$3.7 million on certain of our other lines of credit.

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

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





**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Unaudited Pro Forma Condensed Combined Financial Information (Continued)****4. Private Exchange**

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

**5. Exchange Offer**

On October 18, 2010, we filed a registration statement on Form S-4, of which this prospectus is a part, in order to offer those noncontrolling MedQuist Inc. stockholders who did not participate in the private exchange shares of our common stock in exchange for their MedQuist Inc. shares. The terms of the exchange offer are described in this prospectus. A full exchange in the exchange offer would increase our ownership in MedQuist Inc. from 82.2% to 100.0%.

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

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

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

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

**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Unaudited Pro Forma Condensed Combined Financial Information (Continued)**

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

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

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

- c. Adjustment to eliminate the 2009 Spheris goodwill impairment charge.
- d. Adjustment to eliminate the direct incremental acquisition related costs incurred by us and Spheris for bankruptcy related and reorganization costs.
- e. Adjustment to eliminate the historical income tax benefit of Spheris and to record the income tax provision of the combined entities at our historical effective tax rate in effect for the respective period. However, the effective tax rate of the combined company could be different depending on post-acquisition activities.
- f. Adjustment to recognize noncontrolling interest in MedQuist Inc.

***Recapitalization Transactions and the private exchange pro forma adjustments:***

g. Adjustment to reflect interest expense as shown below:

	<b>(In thousands)</b>
Interest on Term Loan	\$ 14,500
Interest on Senior Subordinated Notes	11,050
Amortization of related deferred financing fees	3,044
Total	28,594

Less: Interest that would not have been incurred under the prior debt agreements, as follows:

Acquisition Credit Facility	6,177
Acquisition Subordinated Promissory Note	2,678
6% Convertible Notes	5,447
Other debt agreements	676
Amortization of previous deferred financing fees	1,973
Adjustment to interest expense	\$ 11,643

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

In connection with the Recapitalization Transactions and our repayment and termination of the Acquisition Credit Facility, Acquisition Subordinated Promissory Note and 6% Convertible Notes, we expensed \$6.2 million of financing fees and recorded a loss of \$7.7 million on the repayment of the 6% Convertible Notes. As

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

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

these amounts are non recurring and resulted directly from the Recapitalization Transactions they have not been reflected in the pro forma adjustments.

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

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

- i. Adjustment to record the income tax provision of the Recapitalization Transactions at our historical effective tax rate in effect for the respective period. However, the effective tax rate after the Recapitalization Transactions could be different.
- j. Adjustment to satisfy our obligations under the Consulting Services Agreement. Based upon an \$11.00 per share price for shares issuable, the number of shares of our common stock issuable would be 959,355 shares. Basic and diluted weighted average shares outstanding and net income (loss) per share amounts have been adjusted to reflect the issuance of 959,355 shares of our common stock.

***Exchange offer pro forma adjustments:***

- k. Adjustments to eliminate the net income attributable to noncontrolling interests assuming 100% of the MedQuist Inc. stockholders participate in the exchange offer.

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

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

***Spheris acquisition pro forma adjustments:***

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

Amount	Estimated life	Annual amortization
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(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
	\$ 50,240		\$ 6,327

Amortization for the period January 1, 2010 to April 21, 2010 \$ 1,924

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

**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Unaudited Pro Forma Condensed Combined Financial Information (Continued)**

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

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

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

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

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

***Recapitalization Transactions and private exchange pro forma adjustments***

q. Adjustment to reflect interest expense as shown below:

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

Adjustment to interest expense \$ 8,948

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

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

- r. In connection with the private exchange, noncontrolling stockholders holding 4.8 million shares of MedQuist Inc. have agreed to exchange their MedQuist Inc. shares for shares of our common stock whereby they will receive one share of our common stock for each share of MedQuist Inc., which will result in approximately 4.8 million additional shares outstanding. After the private exchange, we will own approximately 82.2% of

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

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

MedQuist Inc., and the noncontrolling interest will decrease from approximately 30.5% to 17.8%. As we hold a controlling interest in MedQuist Inc. before and after the private exchange, the exchange is recorded as an equity transaction. Additionally, we agreed to pay up to \$2.5 million of expenses incurred by certain stockholders who are party to the Exchange Agreement. We will account for the payment as a capital transaction.

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

- s. Adjustment to satisfy our obligations under the Consulting Services Agreement. Based upon an \$11.00 per share price, the number of shares of our common stock issuable would be 959,355. Basic and diluted weighted average shares outstanding and net income loss per share amounts have been adjusted to reflect the issuance of 959,355 million shares of our common stock.
- t. Adjustment to record the tax provision of the Recapitalization Transactions at our historical effective tax rate in effect for the respective period. However, the effective tax rate after the Recapitalization Transactions could be different.

***Exchange Offer pro forma adjustments:***

- u. Adjustment to eliminate the net income attributable to noncontrolling interests assuming 100% of the MedQuist Inc. noncontrolling stockholders participate in the exchange offer.

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



**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Unaudited Pro Forma Condensed Combined Financial Information (Continued)****8. Pro forma adjustments related to the unaudited pro forma condensed consolidated balance sheet as of September 30, 2010*****Recapitalization Transactions and private exchange pro forma adjustments***

- v. We incurred debt issuance costs of \$15.5 million, of which \$2.1 million was accrued and \$700,000 of which was paid as of September 30, 2010, in connection with the Term Loan and Senior Subordinated Notes. Of the \$15.5 million, \$6.2 million was expensed and the balance was capitalized. These amounts will be capitalized as other assets. This adjustment reflects the incremental debt issuance costs to be capitalized.
- w. The proceeds of the Term Loan and Senior Subordinated Notes were used to repay debt consisting of the Acquisition Credit Facility, the Acquisition Subordinated Promissory Note and other term loans and credit facilities maintained by us at the parent company level. We recorded a loss of \$7.7 million on the extinguishment of our 6% Convertible Notes related to an early redemption premium. The adjustment is as follows:

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

- x. Adjustment reflects the dividend paid to noncontrolling stockholders of MedQuist Inc. totaling \$53.9 million which reduces our noncontrolling interest.
- y. Reflects the issuance of 4.8 million shares of our common stock in exchange for 4.8 million shares of MedQuist Inc. common stock. The impact of the private exchange is a reclassification of \$5.7 million between noncontrolling interest and additional paid in capital. Additionally, we agreed to pay up to \$2.5 million of expenses incurred by certain stockholders who are party to the Exchange Agreement. We will account for the payment as a capital transaction.
- z. Reflects the issuance of 959,355 shares of our common stock issuable pursuant to the Consulting Services Agreement, assuming a share issuance at \$11.00 per share.

*Exchange Offer pro forma adjustments*

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

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**Unaudited Pro Forma Condensed Consolidated Financial Information    Discontinued Operations**

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

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

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

**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Unaudited Pro Forma Condensed Consolidated Statements of Operations – Discontinued Operations  
For the years ended December 31, 2007, 2008 and 2009**

	2007			2008			2009		
	Historical	Adjustments <sup>(a)</sup>	Pro forma	Historical	Adjustments <sup>(a)</sup>	Pro forma	Historical	Adjustments <sup>(a)</sup>	Pro forma
<b>(In thousands, except per share amounts)</b>									
Revenues	\$ 57,694	\$ (15,503)	\$ 42,191	\$ 193,673	\$ (22,260)	\$ 171,413	\$ 371,768	\$ (17,836)	\$ 353,932
Operating expenses:									
General and administrative	30,209	(8,101)	22,108	125,074	(11,947)	113,127	239,549	(9,848)	229,701
Research and development									
Depreciation and amortization	27,485	(7,402)	20,083	68,599	(10,313)	58,286	132,219	(7,988)	124,231
Legal proceedings									
Restructuring charges	25,137	(5,681)	19,456	51,243	(8,341)	42,902	60,632	(7,543)	53,089
Goodwill impairment				6,099		6,099	9,604		9,604
Other operating charges	2,915	(778)	2,137	14,906	(1,418)	13,488	26,977	(1,611)	25,366
Operating income (loss)	(567)	(943)	(1,510)	(110,038)	8,785	(101,253)	16,090	1,166	17,256
Income tax expense, net	(2,108)	451	(1,657)	(3,954)	141	(3,813)	(9,132)	113	(8,998)
Income of discontinued operations	(105)		(105)	66		66	1,933		2,038
Income of continuing operations	14	14	28	9		9	11	2	11
Income (loss) from continuing operations	(2,766)	(478)	(3,244)	(113,917)	8,926	(104,991)	8,902	1,281	(113,702)
Income taxes and rolling interests	(113)	(71)	(184)	(5,398)	(133)	(5,531)	1,082	(70)	(10,020)
Income (loss) from continuing operations	(2,653)	(407)	(3,060)	(108,519)	9,059	(99,460)	7,820	1,351	(123,722)
Income (loss) from discontinued Operations		478	478		(8,926)	(8,926)		(1,281)	(9,207)

(loss) from MedQuist Patient Services business									
Tax provision	71	71		133	133				70
<b>(loss) from MedQuist operations</b>	407	407		(9,059)	(9,059)				(1,351)
<b>Income (loss)</b>	(2,653)	(2,653)	(108,519)		(108,519)	7,820			
Income									
Available to controlling interests	57	57	(5,154)		(5,154)	(7,085)			
<b>Income (loss) available to MedQuist Inc.</b>	\$ (2,596)	\$ (2,596)	\$ (113,673)	\$	\$ (113,673)	\$ 735	\$	\$	\$
<b>Income (loss) per share from controlling operations</b>		\$ (0.23)			\$ (4.68)				\$
		\$ (0.23)			\$ (4.68)				\$
<b>Income (loss) per share from MedQuist operations</b>		\$ 0.03			\$ (0.40)				\$
		\$ 0.03			\$ (0.40)				\$
<b>Income (loss) per share available to MedQuist Inc.</b>	\$ (0.20)	\$ (0.20)	\$ (5.08)	\$	\$ (5.08)	\$ (0.06)	\$	\$	\$
	\$ (0.20)	\$ (0.20)	\$ (5.08)	\$	\$ (5.08)	\$ (0.06)	\$	\$	\$
Weighted average shares outstanding	12,873	12,873	22,593		22,593	34,692			
	12,873	12,873	22,593		22,593	34,692			

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

**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Unaudited Pro Forma Condensed Consolidated Statements of Operations – Discontinued Operations  
For the nine months ended September 30, 2009 and 2010**

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

**Income (loss) from discontinued operations**

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

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

**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries**

**Unaudited Pro Forma Condensed Consolidated Balance Sheet    Discontinued Operations**  
**As of September 30, 2010**  
**(in thousands)**

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



**Equity****MedQuist Holdings Inc. stockholders equity**

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

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

**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Unaudited Pro Forma Condensed Consolidated Financial Information Discontinued Operations****1. Basis of presentation and description of sale of PFS**

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

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

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

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

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

**4. Summary of discontinued operations for all periods presented**

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

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





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

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	<b>Years ended December 31,</b>					<b>Nine months ended</b>	
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>September 30,</b>	<b>2010</b>
	<b>(Unaudited)</b>						
	<b>(In thousands, except per share amounts)</b>						
<b>Net income (loss)</b>	(698)	109	(2,653)	(108,519)	7,820	5,061	11,659
Less: Net (income) loss attributable to noncontrolling interest	(6)	31	57	(5,154)	(7,085)	(5,291)	(5,234)
<b>Net income (loss) attributable to MedQuist Holdings Inc.</b>	\$ (704)	\$ 140	\$ (2,596)	\$ (113,673)	\$ 735	\$ (230)	\$ 6,425
<b>Net income (loss) per common share attributable to MedQuist Holdings Inc.</b>							
Basic	\$ (0.26)	\$ 0.05	\$ (0.20)	\$ (5.08)	\$ (0.06)	\$ (0.07)	\$ 0.12
Diluted	\$ (0.26)	\$ 0.05	\$ (0.20)	\$ (5.08)	\$ (0.06)	\$ (0.07)	\$ 0.12
Weighted average shares outstanding:							
Basic	2,731	2,736	12,873	22,593	34,692	34,586	35,083
Diluted	2,731	2,736	12,873	22,593	34,692	34,586	35,893
<b>Other Operating Data (unaudited)</b>							
Adjusted EBITDA <sup>(1)</sup>	\$ 2,576	\$ 3,001	\$ 641	\$ 16,914	\$ 59,687	\$ 42,991	\$ 57,855

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

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

<sup>(a)</sup> 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:

	2005	Years ended December 31,			2009	Nine months ended September 30, 2009 2010 (Unaudited)	
		2006	2007	2008			
	(In thousands)						
Net income (loss) attributable to MedQuist Holdings Inc.	\$ (705)	\$ 138	\$ (2,596)	\$ (113,673)	\$ 735	\$ (230)	\$ 6,425
Net income (loss) attributable to noncontrolling interests	(6)	31	(57)	5,154	7,085	5,291	5,234
Income tax provision (benefit) <sup>(a)</sup>	45	(46)	(113)	(5,398)	1,082	1,253	(69)
Interest expense, net	607	1,628	2,108	3,954	9,132	6,945	12,031
Depreciation and amortization <sup>(b)</sup>	2,635	2,258	2,915	14,906	26,977	20,329	24,377
Cost of legal proceedings and settlements				5,311	14,943	13,540	2,785
Acquisition related charges				5,620	1,246		6,895
Goodwill impairment charge				98,972			
Restructuring charges				2,106	2,727	481	1,951
Equity in (income) loss of affiliated companies			105	(66)	(1,933)	(2,534)	(616)
				2,000	(1,864)	(1,864)	

Asset impairment charge, severance charges and accrual reversals <sup>(c)</sup>								
PFS business <sup>(d)</sup>		(1,008)	(1,721)	(1,972)	(443)	(220)	(1,158)	
Adjusted EBITDA <sup>(e)</sup>	\$ 2,576	\$ 3,001	\$ 641	\$ 16,914	\$ 59,687	\$ 42,991	\$ 57,855	

- (a) We have \$130.0 million of federal net operating loss carry forwards as of December 31, 2009 and will record approximately \$30.0 million of annual tax amortization related to intangible assets, including goodwill, that will reduce future taxable income. Due to the existence of federal net operating loss carry forwards and the impact of tax amortization related to intangible assets, including goodwill, cash taxes paid were \$84,000, \$160,000, \$796,000 for the years ended December 31, 2007, 2008 and 2009, respectively, and \$667,000 and \$30,000 for the nine months ended September 30, 2009 and 2010, respectively.
- (b) Includes amortization of acquired intangibles of \$698,000, \$7.1 million and \$12.8 million for the years ended December 31, 2007, 2008 and 2009, respectively, and \$9.8 million and \$11.7 million for the nine months ended September 30, 2009 and 2010, respectively.
- (c) Includes an impairment charge to write-off the amount paid related to severance of one of our former executives and the reversal of certain accruals, related to litigation claims, as a result of the expiration of the applicable statute of limitations.
- (d) Includes the result of operations of the PFS business, which was sold on December 31, 2010.
- (e) Adjusted EBITDA does not include earnings attributable to our investment in A-Life, which was sold in October 2010.



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

- n 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);
- n the impact of non-cash charges, such as goodwill impairment charges and asset impairment charges; and
- n the impact of unusual expenses or events, such as acquisition related charges, restructuring charges, severance costs and certain unusual or nonrecurring items.

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

- n Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- n Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- n 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
- n other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

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

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

**Overview**

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

**Key factors affecting our performance**

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

***MedQuist Inc. Acquisition***

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

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

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



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

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

Our operational improvements and integration efforts have resulted in tangible financial improvements to our profitability. MedQuist Inc.'s Adjusted EBITDA grew from \$3.5 million in 2007 to \$55.6 million in 2009. See

Summary Historical and Unaudited Pro Forma Consolidated Financial Data for a reconciliation of Adjusted EBITDA to net income. Gross profit margin has increased from 23% in 2007 to 33% in 2009. Selling, general and administrative expense for MedQuist Inc. has decreased from \$62.3 million or 18% of revenue in 2007 to \$33.4 million or 11% of revenue in 2009.

**Spheris Acquisition**

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

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

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

2010, less revenue attributable to customers who submitted notices of termination prior to the Spheris Acquisition, were \$132.0 million and \$33.5 million, respectively.

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

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### ***Volume and pricing trends***

The vast majority of our revenue is generated by providing clinical documentation services to our customers. Medical transcription by our MTs and MEs accounted for 89% of our net revenues for the nine months ended September 30, 2010. Product sales and related maintenance contracts, patient financial services revenues and other made up the balance of our revenues. Our customers are generally charged a rate per character multiplied by the number of characters that we process. MedQuist Inc. volume had been declining prior to the MedQuist Inc. Acquisition, and we have been able to reverse this trend by increasing our sales (through the acquisition of new accounts and additional work types from existing customers) and decreasing our losses of existing customers. We have reduced losses of MedQuist Inc. customers primarily by improving our quality and improving our account management efforts. MedQuist Inc. volume increased 1% in 2009 compared to 2008.

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

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

### ***Operating improvements***

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

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

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

### ***Selling, general and administrative expense savings***

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

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



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### **Basis of presentation**

#### ***Revenue***

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

#### ***Cost of revenues***

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

#### ***Selling, general and administrative expense***

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

#### ***Research and development expense***

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

#### ***Depreciation and amortization***

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

#### ***Cost of legal proceedings and settlements***

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

### **Critical accounting policies and use of estimates**

We prepare our consolidated financial statements in accordance with generally accepted accounting principles in the United States, or GAAP. We believe there are several accounting policies that are critical to understanding our historical and future performance, as these policies affect the reported amounts of revenue and other significant areas



that involve management's judgments and estimates. These critical accounting policies and estimates have been discussed with our audit committee.

The preparation of our consolidated financial statements requires us to make estimates and judgments that affect our reported amounts of assets, liabilities, expense and related disclosure of contingent liabilities. On an ongoing

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

### ***Revenue recognition***

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

### ***Accounts receivable and allowance for doubtful accounts***

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

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

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

### ***Valuation of long-lived and other intangible assets and goodwill***

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

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

over its fair value.

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

- n our net book value is greater than the fair value;
- n significant adverse economic and industry trends;

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- n significant decrease in the market value of the asset;
- n the extent that we use an asset or changes in the manner that we use it;
- n significant changes to the asset since we acquired it; and
- n other changes in circumstances that potentially indicate all or a portion of our business 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. Our ability to utilize the deferred tax assets is dependent upon our ability to generate future taxable income. To the extent that we believe it is more likely than not that all or a portion of the deferred tax asset will not be utilized, we record a valuation allowance against that asset. In making that determination we consider all positive and negative evidence and give stronger consideration to evidence that is objective in nature.

***Commitments and contingencies***

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

***Customer accommodation program***

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

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

**Table of Contents****Consolidated results of operations*****Comparison of nine months ended September 30, 2009 and 2010***

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

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

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

*Net revenues*

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

*Cost of revenues*

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

As a percentage of net revenues, cost of revenues decreased to 63% for the nine months ended September 30, 2010 from 65% for the same period in 2009 primarily due to increased utilization of speech recognition technologies, increased utilization of offshore resources, and other operating cost reduction initiatives. The

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increase in total dollars versus the prior year-period was primarily due to direct incremental costs associated with the incremental Spheris volumes as well as a nonrecurring \$1.2 million credit during 2009 related to medical claim costs.

***Selling, general and administrative***

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

***Research and development***

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

***Depreciation and amortization***

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

***Cost of legal proceedings and settlements***

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

***Acquisition related charges***

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

***Restructuring charges***

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

***Interest expense, net***

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





**Table of Contents*****Income tax provision***

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

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

***Net income attributable to noncontrolling interests***

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

**Comparison of years ended December 31, 2008 and 2009**

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

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

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

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

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### ***Net revenues***

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

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

### ***Cost of revenues***

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

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

### ***Selling, general and administrative***

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

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

### ***Research and development***

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

### ***Depreciation and amortization***

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

### ***Cost of legal proceedings and settlement***

Cost of legal proceedings and settlement increased \$9.6 million, or 181%, to \$14.9 million for the year ended December 31, 2009 compared with \$5.3 million for the year ended December 31, 2008. This increase was due primarily to the consolidation of a full year of MedQuist Inc.'s cost of legal proceedings and settlements, which

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includes legal fees incurred in connection with both the SEC investigations and proceedings and as well as the defense of certain civil litigation and proceedings. Included in 2009 are costs incurred related to the Anthurium settlement of \$5.9 million and related legal fees of \$3.8 million.

### **Acquisition related charges**

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

### ***Goodwill impairment charge***

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

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

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

### ***Interest expense, net***

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

### ***Income tax provision***

The effective income tax rate for the year ended December 31, 2009 was 12.2% compared with an effective income tax benefit rate of 4.7% for the year ended December 31, 2008. The 2009 tax expense includes an increase in the deferred tax liabilities associated with indefinite life intangible assets related to goodwill, an increase in the deferred tax liability associated with an equity method investment, the reduction of the foreign valuation allowance and adjustments related to state tax exposures. After consideration of all evidence, both positive and negative,

management concluded again in 2009, that it was more likely than not that a significant portion of the domestic deferred income tax assets would not be realized; therefore, we have a valuation allowance to reduce our net deferred tax assets to an amount that is more likely than not to be realized in future years. The 2008 tax benefit includes the reversal of approximately \$5.6 million of deferred tax liabilities associated with indefinite life intangible assets related to goodwill which was impaired in 2008.

**Table of Contents****Net income attributable to noncontrolling interest**

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

**Comparison of years ended December 31, 2007 and 2008**

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

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

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

*Net revenues*

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

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



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### ***Cost of revenues***

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

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

### ***Selling, general and administrative***

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

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

### ***Research and development***

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

### ***Depreciation and amortization***

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

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

### ***Cost of legal proceedings and settlements***

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



**Table of Contents*****Goodwill impairment charge***

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

***Restructuring charges***

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

***Interest expense, net***

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

***Income tax provision***

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

***Net income attributable to noncontrolling interest***

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

**Table of Contents****Unaudited quarterly results of operations**

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

	<b>Three months ended</b>							
	<b>2008</b>		<b>2009</b>				<b>2010</b>	
	<b>December 31,</b>	<b>March 31,</b>	<b>June 30,</b>	<b>September 30,</b>	<b>December 31,</b>	<b>March 31,</b>	<b>June 30,</b>	<b>September 30,</b>
	<b>(Unaudited)</b>							
	<b>(In thousands)</b>							
<b>Total revenues</b>	\$ 94,215	\$ 94,669	\$ 93,871	\$ 93,289	\$ 89,939	\$ 88,604	\$ 111,988	\$ 116,385
Cost of revenues	62,376	62,103	59,651	61,170	56,625	56,513	72,128	71,593
<b>Gross profit</b>	31,839	32,566	34,220	32,119	33,314	32,091	39,860	44,792
<b>Operating expenses</b>								
Selling, general and administrative	20,354	16,008	15,757	14,830	14,037	15,826	16,880	16,668
Research and development	3,346	2,416	2,380	2,439	2,369	2,281	3,312	3,352
Depreciation and amortization	8,597	6,603	7,007	6,719	6,648	6,363	8,705	9,309
Cost of legal proceedings and settlements	1,829	7,774	4,384	1,382	1,403	1,043	1,109	633
Acquisition related charges					1,246	924	5,121	850
Goodwill impairment charge	98,972							
Restructuring charges	2,136			481	2,246	60	906	985
<b>Total operating expenses</b>	135,234	32,801	29,528	25,851	27,949	26,497	36,033	31,797
<b>Operating income (loss)</b>	(103,395)	(235)	4,692	6,268	5,365	5,594	3,827	12,995
Interest expense, net	(2,410)	(2,342)	(2,317)	(2,286)	(2,187)	(1,891)	(5,460)	(4,680)
Equity in income (loss) of affiliated companies	18	72	336	2,127	(602)	514	32	70

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Net income	9				11	108		481
<b>Income (loss) before income taxes and noncontrolling interests</b>	(105,778)	(2,505)	2,711	6,109	2,587	4,325	(1,601)	8,866
Income tax provision (benefit)	(7,573)	355	286	613	(172)	8	(334)	257
<b>Net income (loss)</b>	(98,205)	(2,860)	2,425	5,496	2,759	4,317	(1,267)	8,609
Loss: net income attributable to noncontrolling interest	(6,852)	(335)	(2,000)	(2,957)	(1,793)	(2,229)	(268)	(2,737)
<b>Net income (loss) attributable to MedQuist Holdings Inc.</b>	\$ (105,057)	\$ (3,195)	\$ 425	\$ 2,539	\$ 966	\$ 2,088	\$ (1,535)	\$ 5,872
<b>Cases processed</b>								
% ASR	39%	41%	47%	49%	53%	57%	62%	67%
% Offshore	28%	30%	34%	37%	39%	41%	39%	42%

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

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

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

nine months ended September 30, 2009 and 2010, respectively.

- (b) Includes amortization of acquired intangibles of \$3.4 million, \$3.0 million, \$3.2 million, \$3.6 million, \$3.0 million, \$3.0 million, \$4.2 million and \$4.5 million for the eight quarters ended September 30, 2010, respectively.
- (c) Includes an impairment charge to write-off the amount paid related to severance of one of our former executives and the reversal of certain accruals, related to litigation claims, as a result of the expiration of the applicable statute of limitations.
- (d) Includes the results of operations of the PFS business, which was sold on December 31, 2010.

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

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

Selling, general and administrative expense has decreased from \$20.4 million for the quarter ended December 31, 2008 to \$16.7 million for the quarter ended September 30, 2010. As a percentage of revenue selling, general

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and administrative expense has decreased from 22% to 14% over the same period. This was due to headcount reductions and reductions in other administrative expenses.

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

## **Liquidity and capital resources**

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

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

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

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

## ***Prior to the Corporate Reorganization***

In connection with the Spheris Acquisition, MedQuist Transcriptions, Ltd., a subsidiary of MedQuist Inc., and certain other subsidiaries of MedQuist Inc., or collectively, the Loan Parties, entered into a credit agreement, or the Acquisition Credit Facility, with General Electric Capital Corporation, CapitalSource Bank, and Fifth Third Bank. The Acquisition Credit Facility provided for up to \$100.0 million in senior secured credit facilities, consisting of a \$50.0 million term loan, and a revolving credit facility of up to \$50.0 million. The credit facilities were secured by a first priority lien on substantially all of the property of the Loan Parties. Borrowings under the revolving credit facility were able to be made from time to time, subject to availability under such facility, until the fourth anniversary of the closing date. Amounts borrowed under the Acquisition Credit Facility bore interest at a rate selected by MedQuist Transcriptions, Ltd. equal to the Base Rate or the Eurodollar Rate (each as defined in the Acquisition Credit Facility agreement) plus a margin. At September 30, 2010, the revolving credit facility and the term loan had interest rates of 6.25% and 6.75%, respectively. The Acquisition Credit Facility was repaid in full on October 14, 2010 in connection with the Recapitalization Transactions.

In connection with the Spheris Acquisition, MedQuist Inc. also entered into the Acquisition Subordinated Promissory Note, with Spheris Inc. The note was to mature in five years from the date of the Spheris Acquisition. The face amount of the Acquisition Subordinated Promissory Note was \$17.5 million with provisions for prepayment at



discounted amounts, ranging from 77.5% of the principal if paid within six months, 87.5% from six to nine months, 97.5% from nine to twelve months, 102.0% between the first and second year, 101.0% between the second and third year and 100.0% thereafter. For purposes of the purchase price allocation, the note was discounted at 77.5% of the principal, or \$13.6 million. The Acquisition Subordinated Promissory Note bore

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interest at 8.0% for the first six months. The Acquisition Subordinated Promissory Note was repaid at 77.5% of the face amount on October 14, 2010 in connection with the Recapitalization Transactions.

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

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

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

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

### ***Subsequent to the Corporate Reorganization***

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

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

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

**Table of Contents*****Operating activities***

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

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

***Investing activities***

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

***Financing activities***

Cash used by financing activities was \$43.9 million for the nine months ended September 30, 2009. This was due to the dividend paid by MedQuist Inc. to non-controlling shareholders of \$15.3 million and the repayment of a bridge note related to the MedQuist Inc. Acquisition. For the nine months ended September 30, 2010 cash provided by financing activities was \$73.2 million primarily related to the financing of Spheris Acquisition and subsequent partial

repayment of the Acquisition Credit Facility. Financing activities used \$44.4 million for the year ended December 31, 2009 representing dividends of \$15.3 million to noncontrolling interests and \$28.6 million related to repayments of loans. For the year ended December 31, 2008 cash provided by financing activities was \$121.4 million which was primarily the result of the \$124.0 million investment by our majority

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stockholder. For the year ended December 31, 2007, the cash provided by financing activities was \$16.1 million of which the primary components were the proceeds from the sale of stock offset by repayments of indebtedness.

**Contractual obligations**

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

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

<sup>(1)</sup> Purchase obligations are for telecommunication contracts (\$9.6 million), software development cost (\$1.0 million) and other recurring purchase obligations (\$250,000).

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

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

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

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

**Off-balance sheet arrangements**

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

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### **Quantitative and qualitative disclosures about market risk**

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

### **Interest rate sensitivity**

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

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

### **Recent accounting pronouncements**

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

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

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



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

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***Changes in independent auditors***

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

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

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

We requested that Grant Thornton furnish a letter addressed to the SEC stating whether or not it has reviewed and agrees with the above statements. A copy of Grant Thornton's letter dated December 2, 2010 is included as an exhibit to the registration statement of which this prospectus is part.

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

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### **Business**

#### **Overview**

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

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

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

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

#### **Our industry**

##### ***Growth of clinical documentation in the United States***

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

representing a compound annual growth rate of 6.3%. At the same time, U.S. healthcare providers remain under substantial pressure to reduce costs while maintaining or improving the quality of care.

Accurate and timely clinical documentation has become a critical requirement of the growing U.S. healthcare system. Medicare, Medicaid, and insurance companies demand extensive patient care documentation. The HITECH Act includes numerous incentives to promote the adoption and meaningful use of electronic health records, or EHRs, across the healthcare industry. Consequently, healthcare providers are increasingly using EHRs to input, store,

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and manage their clinical data in a digital format. Healthcare providers that use EHRs require accurate, easy-to-use, and cost-effective means to input clinical data that are not disruptive to the physician workflow.

### ***Importance of the physician narrative***

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

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

### ***Market opportunity***

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

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

### ***Market segmentation and trends***

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

Over the last five years, technological automation and a rise in offshore capabilities have substantially decreased the cost of production and have further differentiated outsourcing providers. ASR has been a key technological driver of productivity gains. ASR converts the physician narrative into a text format which is available for editing. The effective use of this technology lowers the cost of production relative to conventional transcription services by replacing transcription labor with editing, which, while still required, is much less time consuming. Another key driver for cost reductions has been the increased use of offshore infrastructure and resources. Historically, most U.S. healthcare providers that outsourced their production did so to domestic service providers. With the advent of

internet-based technologies and improvements in the quality and training of offshore personnel, the clinical documentation industry has seen a shift towards offshore resources to reduce costs. India is by far the most popular destination for outsourcing given relatively low wages and a highly educated English-speaking workforce.

As the industry's cost of production has declined through increases in technological automation and offshore capabilities, the average market price for medical transcription services has also declined. This has allowed

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healthcare providers to participate in these economic gains. However, we believe that participants in our industry must expand their technology platforms and offshore capabilities to remain competitive.

**Our competitive strengths**

Our competitive strengths include:

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

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





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access to new sales opportunities within our existing customer base and through existing customer relationships.

- n **Continue to develop and enhance our integrated solutions** We seek to differentiate our integrated solutions through sophisticated technology and process improvement. We have over 100 employees dedicated to research and development. Over the last year, we launched numerous enhancements, including a front end speech platform for general medicine, additional EHR system integration, and advanced performance monitoring.
- n **Enhance profitability through technical and operational expertise** We have made significant improvements in productivity through business process and infrastructure improvements. Notwithstanding reductions in customer pricing, our gross margins have expanded from 33.8% in the fourth quarter of 2008, our first fiscal quarter after we acquired MedQuist Inc., to 38.5% in the third quarter of 2010, and our Adjusted EBITDA margins have expanded from 9.5% to 21.4% for the same periods. Our management team has proven its ability to implement continuous process improvements and we intend to further increase offshore production and our use of technological automation, including ASR, to lower costs and enhance our profitability.
- n **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.
- n **Pursue strategic acquisitions** We believe that there are significant opportunities available to create value through strategic acquisitions. We intend to seek appropriate opportunities to grow our customer base, enhance our solutions, consolidate costs, and expand our value proposition to our customers.

## **Our solutions**

### ***Clinical documentation solutions for healthcare providers***

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

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

- n **Capture** As the first step in a workflow process, users can dictate into one of several input devices, including a variety of handheld dictation devices, smartphone applications, or standard telephones. PC-based dictation stations can also be used for users who prefer to edit their own files from speech recognition. By supporting a wide array of capture methods, we provide flexibility to our customers to decide which approach works best with their workflow.
- n **Manage** Captured voice files are merged with patient information from our customers' information systems and loaded into our enterprise platform for processing. Our platform balances production resources across both in-house and outsourced personnel, and its web-based management capabilities allow administrators to easily manage workflows from anywhere at any time. We generate draft reports using ASR technology which are reviewed by our MEs. We can also use conventional transcription services from our MTs. To maintain high quality and efficiency, our platform automatically matches voice files from various specialties and acuity levels to the MTs or MEs with the appropriate skill sets. It also includes random quality checks to give timely feedback to our personnel. Turn-around time is an important metric for our customers, and so the system optimizes processing to ensure we fulfill our contracted service level agreements, which typically range from one hour to 48 hours.
- n **Analyze** Completed reports are routed back to physicians or other healthcare professionals for review, final editing (as required), and authentication. These reports are then available to drive additional value added services, such as coding, data abstraction, and billing services. We provide customers with sophisticated reporting capabilities and integrated electronic signature solutions to simplify and accelerate the review of their clinical reports. We use Quantify™, our patent-pending natural language processing technology, to convert final reports into structured documentation formats. These structured formats allow data to be loaded into an EHR system, easily analyzed for clinical documentation improvement initiatives, or used for quality measures for reporting to government agencies. In addition, reports can drive revenue

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cycle management processes through our web-based CodeRunnerCAC platform, which provides a complete coding workflow and workforce management solution.

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

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

- n **Enterprise platform** Our core platform provides a powerful and flexible transcription solution that integrates the process of dictation, transcription, speech recognition, and document delivery into a unified clinical information management workflow. We offer the platform typically as a managed service. For those customers that prefer to use their own services, we also offer it on a license basis. Our platform provides a high performance and highly customizable clinical documentation workflow. It integrates with every major hospital system vendor, such as Epic, Cerner, and Meditech, and we developed thousands of interfaces with customer systems.
- n **SpeechQ** Our front end speech recognition solution enables physicians to dictate, edit, and sign their reports in real-time. With workflows customized for numerous medical practices, such as radiology and general medicine, SpeechQ offers end-to-end workflows that combine voice commands and dictation. SpeechQ integrates with our enterprise platform in scenarios where a physician prefers to send text to our editors for review. Additionally, it interfaces with EHR and other healthcare systems to allow patient demographic information to be automatically populated, updated, and distributed.
- n **DocQVoice** Our web-based enterprise digital voice capture and transport solution is deployed at the customer's location and integrates with both our enterprise platform and legacy dictation systems.

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

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

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

***Revenue cycle management***

We offer coding and other revenue cycle management solutions to improve customers' reimbursement, compliance and other revenue cycle processes. CodeRunner, our internet-based coding workflow, offers coding services which are used by certain of the largest healthcare institutions in the industry. We recently added computer assisted coding to CodeRunner which, like speech recognition, provides the customer with improved productivity, increased accuracy and more consistent coding. In addition, in 2013 there is a mandate to change to the ICD-10 coding

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system which will increase the number of code possibilities five-fold. The only way healthcare organizations can effectively deal with this change is to adopt technology. We provide total departmental outsourcing of coding, on-site temporary assistance and remote-coding services through both VPN-enabled access to customer systems and CodeRunner. We also offer complete recovery audit and consulting services, as well as traditional coding audit services. These solutions enable our customers to utilize an end-to-end solution from dictation to billing. Revenue cycle management is a small part of our business.

## **Selling and marketing**

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

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

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

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

## **Operations**

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

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

## **Technology**

### ***Technology development***

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

technologies and reporting. Much of the technology in our integrated solutions is proprietary. Our development personnel follow a rigorous development methodology that ensures repeatable, high quality and timely delivery of solutions.

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

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### ***Technology operations***

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

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

### ***Competition***

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

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

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

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

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

timely implementation of our solutions for new accounts.



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### ***Government regulation***

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

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

### ***HIPAA and HITECH Act***

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

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

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

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

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

### ***Intellectual property***

We rely on a combination of copyright, patent, trademark, trade secret and other intellectual property laws, nondisclosure agreements, license agreements, contractual provisions and other measures to protect our proprietary

rights. We have a number of registered trademarks in the United States and abroad, including CBay®, MedQuist® and SpeechQ®. We have common law rights over a number of unregistered trademarks. We also own a limited number of United States and foreign patents and patent applications that relate to our products, processes and technologies.

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

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

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

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

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

## **Employees**

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

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



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**Legal proceedings**

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

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

**Properties**

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

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

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

**Robert M. Aquilina, Chairman and Chief Executive Officer**

Mr. Aquilina has served as the Chairman of our board of directors since August 2008 and as Chief Executive Officer since October 2010. He also serves as chairman of the MedQuist Inc. board of directors and its compensation committee. He has also served as an Executive Partner, a senior operating consulting role, to SAC PCG since 2007. From 2002 to 2004, he served as an Industrial Partner with Ripplewood Holdings LLC, or Ripplewood, a private equity firm based in New York, and held the role of Co-Chairman of Flag Telecom Group Ltd. Mr. Aquilina was a board member of Japan Telecom Inc. from 2003 to 2004. Prior to these positions, Mr. Aquilina was a senior operating executive of AT&T, Inc. with a 21-year career. His last post at AT&T, ending in 2001 was as Co-President of AT&T Consumer Services and a member of the Chairman's Operating Group. Within AT&T, Mr. Aquilina held a variety of senior positions including President of Europe, Middle East & Africa, Vice Chairman of AT&T Unisource, Vice Chairman of WorldPartners, Chairman of AT&T-UK, and General Manager of Global Data Services. Mr. Aquilina has been a Member of Cooper Union's Board of Trustees since 2000. Mr. Aquilina received an M.B.A. from The University of Chicago and a B.Sc. in Engineering degree from The Cooper Union for the Advancement of Science & Art in New York (Cooper Union).

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

Mr. Kumar is our co-founder and serves as a director. He has served as our Vice Chairman since February 2007 and, from February 2007 to October 2010, was also our Chief Executive Officer. He has also served as the President of CBay Inc. since December 2008, as Chairman & President of CBay Systems & Services Inc. since April 2010 and as Executive Chairman & Chief Executive of CBay Systems (India) Private Limited since July 2010. Prior to his current position at CBay Systems (India) Private Limited, Mr. Kumar served as its Chairman & Managing Director from October 2005 to July 2010. Prior to our founding in 1997, he worked as a Senior Vice President (International Trade Finance and Marketing) at the Essar Group, a multinational conglomerate. Mr. Kumar also currently serves on the board of directors of CBay Inc., CBay Systems & Services Inc. as well as several other of our subsidiaries. Mr. Kumar has a BA (Honors) and Masters Degree in History from St. Stephens s College, New Delhi, India.

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**Michael Seedman, Chief Technology Officer and Director**

Mr. Seedman has served as our Chief Technology Officer and as a director since August 2008. He also serves on the MedQuist Inc. board of directors. He has more than 35 years of senior executive management, leadership and technological innovation expertise and experience. Mr. Seedman has served as an Executive Partner, a senior operating consulting role, to SAC PCG since 2007. In January 2000, he founded Seedman and Associates, a private equity firm, where he worked until 2007. From 2002 to 2005, he served as the founder and President of Chrysalis Technology LLC. He was an Industrial Partner with Ripplewood from September 1997 to June 2003, where he served on the D&M Holdings Inc. board of directors from 1999 to 2003 and was Chairman of the Board for Digital Networks North America from 2000 to 2003. Prior to this, Mr. Seedman founded and was the Chairman of Entrega Technologies (acquired by Xircom), a computer peripheral designer and manufacturer, in 1997. From 1993 to 1997, Mr. Seedman was the Senior Vice President and General Manager of U.S. Robotics Personal Communications Division (acquired by 3Com Corporation). Prior to this, he served as CEO and President of Practical Peripherals, which he founded in 1981 and sold to Hayes Microcomputer, Inc. in 1989. Mr. Seedman has served as a director of several public and private companies and currently serves as a director of Renew Systems Inc., Cleversafe Inc. and LS Research, LLC. Mr. Seedman attended the University of Southern California from 1974 to 1979 in Business and Accounting.

**Clyde Swoger, Chief Financial Officer**

Mr. Swoger has served as our Chief Financial Officer since August 2008. Mr. Swoger has also served as a senior operating consultant to SAC PCG since August 2007, assisting with the identification and evaluation of acquisition opportunities. Mr. Swoger founded Creative Business Solutions LLC, a start-up management consulting firm, in September 2006, where he currently serves as President. Between 2004 and July 2006 Mr. Swoger provided consulting and management services to several start-up companies. From 2001 to 2003, Mr. Swoger served as Senior Vice President and General Manager of DeVilbiss Air Power Company (Pentair). He also held the position of Vice President of Business Development of Pentair Tools Group in 2001. Prior to this, Mr. Swoger held various executive positions in Sanford Corporation and Kohler International Ltd including Vice President Business Development and Group Controller. Mr. Swoger has a B.Sc. in Materials Engineering and an M.B.A. from the University of Michigan.

**Peter L. Masanotti, President and Chief Executive Officer of MedQuist Inc.**

Mr. Masanotti has served as MedQuist Inc.'s Chief Executive Officer since September 2008 and as MedQuist Inc.'s President since November 2008. Prior to this, Mr. Masanotti was Managing Director and Global Head of Business Process Sourcing at Deutsche Bank, an international bank, since May 2007, where he was responsible for offshore and onshore labor productivity and efficiency for the investment banking platform. From July 2005 through May 2007, Mr. Masanotti was the Chief Operating Officer and Executive Vice President of Office Tiger LLC, a business outsourcing firm which services major investment banks and Fortune 500 companies. From December 2001 to May 2005, Mr. Masanotti served as Chief Operating Officer of Geller & Company, a privately held finance and accounting outsourcing firm. He also held executive positions at Baltimore Technologies Inc., a Dublin, Ireland-based e-security solutions provider, and at International Telecommunication Data Systems Inc., a leading billing and customer care solutions provider to the wireless telecommunication industry. Mr. Masanotti has a B.A. in economics from the University of Connecticut-Storrs. He is also a graduate of the Temple University School of Law.

**Michael F. Clark, Co-Chief Operating Officer of MedQuist Inc.**

Mr. Clark has served as MedQuist Inc.'s Co-Chief Operating Officer since June 2009. From February 2005 to June 2009, Mr. Clark served as MedQuist Inc.'s Senior Vice President of Operations. From November 2003 until February 2005, Mr. Clark served as MedQuist Inc.'s Senior Vice President of Operations for its Western Division. From May



2002 until November 2003, Mr. Clark served as MedQuist Inc.'s Vice President of Operations for its Southwest Division and from January 1998 until July 2000, he served as MedQuist Inc.'s Region Vice President for the Southeast. Mr. Clark joined MedQuist Inc. in 1998 through MedQuist Inc.'s acquisition of MRC Group, where he served as Vice President, Marketing and Corporate Services. From May 2001 until May 2002, Mr. Clark also served as Chief Operating Officer for eScribe, a firm that outsources the HIM function in hospitals. Mr. Clark

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has a B.S. in Marketing and International Business from Miami University in Oxford, Ohio and an M.B.A. from the University of Miami in Coral Gables, Florida.

**Anthony James, Chief Financial Officer and Co-Chief Operating Officer of MedQuist Inc.**

Mr. James has served as MedQuist Inc.'s Co-Chief Operating Officer since June 2010, following MedQuist Inc.'s acquisition of Spheris and, in November 2010, was named MedQuist Inc.'s Chief Financial Officer. Mr. James served as the Chief Operating Officer for Spheris from 2006 to April 2010. From 2001 to 2006, Mr. James served as Spheris Chief Financial Officer and from 1991 to 2001, he served as its Corporate Controller. Prior to this, Mr. James worked in a variety of financial roles over a seven-year tenure with Mariner Post-Acute Network, a long-term healthcare company. Mr. James is a certified public accountant and has a B.A. in Accounting from the University of Northern Iowa.

**Frank Baker, Director**

Mr. Baker has served as a director since August 2008. He also serves as a non-executive director of MedQuist Inc. Mr. Baker is a co-founder of SAC PCG and has been a Managing Director since 2007. From 1999 to 2006, Mr. Baker was at Ripplewood, a New York based private equity firm, and RHJ International, a financial services company incorporated under the laws of Belgium, where he was responsible for making various private equity investments. Prior to joining Ripplewood, Mr. Baker spent over three years in investment banking as an Associate at J.P. Morgan Securities Inc. in its Capital Markets Group and as an Analyst at Goldman, Sachs & Co. in its mergers and acquisitions department. Mr. Baker also currently serves as director of Cosmos Bank, Taiwan. Mr. Baker has a B.A. in Economics from the University of Chicago and an M.B.A. from Harvard Business School.

**Peter Berger, Director**

Mr. Berger has served as a director since August 2008. He also serves as a non-executive director of MedQuist Inc. Mr. Berger is a co-founder of SAC PCG and has been a Managing Director since 2006. From 1995 to 1998 and 2000 to 2006, Mr. Berger was a founding member of Ripplewood, a New York based private equity firm, and served as both a Managing Director of Ripplewood and as a Special Senior Advisor to the Board of RHJ International, a financial services company incorporated under the laws of Belgium. From 1999 to 2000, Mr. Berger served as Managing Director and Chief Executive Officer of Mediacom Ventures LLC, a boutique investment advisory firm. From 1989 to 1991, he served as a Managing Director in investment banking at Bear Stearns Companies. Prior to this, Mr. Berger was a senior partner and global head of the Corporate Finance Group at Arthur Andersen & Co., where he began his career in 1974. He also served as Non-Executive Chairman of the Board of Kepner-Tregoe, Inc., a management consulting company. Mr. Berger also currently serves as director of Cosmos Bank, Taiwan. Mr. Berger has a B.Sc. from Boston University and an M.B.A. from Columbia University Graduate School of Business.

**Merle L. Gilmore, Director**

Mr. Gilmore has served as a director since August 2008. He has been President of LKR Technology Partners, LLC since 2001. Mr. Gilmore served as an Industrial Partner of Ripplewood from 2001 to 2008 and has been an Executive Partner, a senior operating consultant role, of SAC PCG since 2009. Mr. Gilmore was a senior executive of Motorola, Inc., holding numerous senior management positions including Executive Vice President and President of the Land Mobile Products Sector from 1993 to 1997, Executive Vice President and President for Europe, Middle East and Africa from 1997 to 1998 and Executive Vice President and President of the Communications Enterprise from 1998 to 2000. Mr. Gilmore has been a director of Revenew Systems LLC, a marketing company, since 2006. In April, 2010 he was named Chairman of the Board of Airvana Network Solutions, Inc. He was previously a member of the Proxim Corp., Japan Telecom, Inc. and Mediabolic, Inc. boards of directors and the Chairman of the Board and a

representative officer of D&M Holdings Inc. from 2001 to 2006. Mr. Gilmore received his B.S. in Electrical Engineering from the University of Illinois and his M.S. in Electrical Engineering from Florida Atlantic University.

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### **Jeffrey Hendren, Director**

Mr. Hendren has served as a director since August 2008 and as Vice Chairman of Finance since May 2010. He is a co-founder of SAC PCG and has been a Managing Director since 2007. From 1997 to 2007, Mr. Hendren was a Managing Director at Ripplewood, a New York based private equity firm, and RHJ International, a financial services company incorporated under the laws of Belgium, where he was responsible for making various private equity investments and was also a director of RHJ International, which was publicly traded on the Brussels Stock Exchange. Before joining Ripplewood and RHJ International, Mr. Hendren was a member of Goldman, Sachs & Co.'s mergers and acquisitions department from 1989 to 1997. From 1981 to 1988, Mr. Hendren held various positions at Georgia Pacific Corp, a manufacturer and marketer of paper and building products. Mr. Hendren also currently serves as a director of Cosmos Bank, Taiwan and served as its acting chairman from February 2009 to December 2009 and its acting president from March 2009 to December 2009. Mr. Hendren has a B.Sc. from Indiana University and an M.B.A. from Harvard Business School.

### **Kenneth John McLachlan, Director**

Mr. McLachlan has served as a director since May 2007. He is the founder and has been the chairman McLachlan & Associates since January 1992. Prior to that, he held leadership positions at companies such as PricewaterhouseCoopers, a consulting firm, Boehringer Mannheim, a pharmaceuticals company, and Mackie Plc. Mr. McLachlan has held directorships at various UK international private companies, including Vitaflo International Ltd. He is a qualified Chartered Accountant in Scotland and a Registered Accountant in the Netherlands. He is also a Fellow of the Institute of Taxation in the UK.

### **James Patrick Nolan, Director**

Mr. Nolan has served as a director since August 2008. He has been Executive Vice President at Royal Philips Electronics and Head of Mergers & Acquisitions since June 2005. From 2000-2005, Mr. Nolan served as an executive in the Mergers and Acquisitions department at Royal Phillips Electronics. Prior to joining Royal Phillips Electronics, Mr. Nolan held merger and acquisition roles at companies including Credit Commercial de France, a commercial bank, Coopers & Lybrand Management Consultants and Rabobank Internations, a financial services provider. He has held several board positions including being a board member of Navteq Inc., the world's leading digital navigation software company, and SHL Telemedicine Ltd., an IT-based healthcare company. Mr. Nolan qualified as a barrister after graduating in Law from the University of Oxford in the United Kingdom and has an MBA from INSEAD, France.

There are no family relationships among any of our executive officers and directors.

We currently expect that, following the Corporate Reorganization, we will appoint Mr. Masanotti as our Chief Executive Officer and Mr. James as our Chief Financial Officer. In that event, we expect that Mr. Aquilina would continue to serve as our Chairman. Mr. Swoger would cease to serve as one of our executive officers but would continue to assist us with accounting matters.

### **Director qualifications**

When determining that each of Messrs. Aquilina, Kumar, Seedman, Baker, Berger, Gilmore, Hendren, McLachlan and Nolan is particularly well-suited to serve on our board of directors and that each individual has the experience, qualifications, attributes and skills, taken as a whole, to enable our board of directors to satisfy its oversight responsibilities effectively in light of our business and structure, we considered the experience and qualifications described above under Management. We also noted that, as executive officers, Messrs. Aquilina and Kumar bring a

management perspective to board deliberations and provide valuable information about the status of our day-to-day operations. Additionally, Mr. Kumar is a founder of our company and has played an integral role in our successful growth. Our directors contribute the following individual strengths:

*Mr. Aquilina:* We considered Mr. Aquilina's experience chairing a board of directors, in particular, that of our majority owned subsidiary, MedQuist Inc. Mr. Aquilina also brings perspective, having served on other boards of directors and has extensive professional experience in engineering.

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*Mr. Kumar:* We considered Mr. Kumar's unique familiarity with our business, structure, culture and history as a founder of our business as well as his extensive management experience and experience holding directorships at various private companies.

*Mr. Seedman:* In addition to his insights as our Chief Technology Officer, we considered Mr. Seedman's entrepreneurial and executive experience as the founder of several companies in the financial and technology industries and his significant executive management and leadership experience.

*Mr. Baker:* We considered Mr. Baker's extensive financial experience as a private equity investor and his experience serving on the board of directors of various public and private companies.

*Mr. Berger:* We considered Mr. Berger's extensive financial experience as a private equity investor and his experience serving on the board of directors of various public and private companies.

*Mr. Gilmore:* We considered Mr. Gilmore's engineering background, his experience as a senior executive of Motorola, Inc. and his experience serving on the board of directors of various public companies.

*Mr. Hendren:* We considered Mr. Hendren's extensive financial experience as a private equity investor and his experience serving on the board of directors of various public and private companies.

*Mr. McLachlan:* We considered Mr. McLachlan's managerial and entrepreneurial skills, his expertise in tax and accounting and his experience serving on the board of directors of various international private companies.

*Mr. Nolan:* We considered Mr. Nolan's significant expertise in mergers and acquisitions and his experience with the software and healthcare industries.

## **Board of directors**

Our board of directors, or board, currently consists of nine directors. Messrs. McLachlan and Nolan are independent directors under the Corporate Governance Standards of The NASDAQ Global Market and the independence requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Within twelve months after our common stock is listed on The NASDAQ Global Market, we expect that a majority of our board members will be independent as such term is defined in Rule 10A-3(b)(i) under the Exchange Act and in The NASDAQ Listing Rule 5605(a)(2).

## **Committees of the board**

Our board currently includes an audit committee, a remuneration committee and a nomination committee. After the Corporate Reorganization and the completion of our proposed U.S. initial public offering, the committees of our board will consist of an audit committee, a remuneration committee and a nomination and corporate governance committee.

### ***Audit committee***

Our audit committee currently consists of Messrs. McLachlan and Berger. Mr. McLachlan qualifies as an independent director under the corporate governance standards of The NASDAQ Global Market and the independence requirements of Rule 10A-3 under the Exchange Act. We expect to have a second independent member within 90 days of the completion of our proposed U.S. initial public offering and a third independent member within one year of the completion of our proposed U.S. initial public offering so that all of our audit committee members will be independent as such term is defined in Rule 10A-3(b)(i) under the Exchange Act and in NASDAQ Listing

Rule 5605(a)(2). The independent member of our audit committee, upon the completion of our proposed U.S. initial public offering, will qualify as an audit committee financial expert as such term is defined in Item 407(d)(5) of Regulation S-K.

The purpose of the audit committee will be to assist our board in overseeing and monitoring (1) the quality and integrity of our financial statements, (2) our compliance with legal and regulatory requirements, (3) our

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independent registered public accounting firm's qualifications and independence, (4) the performance of our internal audit function and (5) the performance of our independent registered public accounting firm.

Our board will adopt a written charter for the audit committee, which will be available on our website at the time of listing.

### ***Remuneration committee***

Our remuneration committee currently consists of Messrs. Baker, Hendren, Aquilina and Gilmore. We expect to have an independent director under the corporate governance standards of The NASDAQ Global Market at the completion of our proposed U.S. initial public offering, a second independent member within 90 days of the completion of our proposed U.S. initial public offering and the remaining members as independent within one year of the completion of our proposed U.S. initial public offering so that all of our remuneration committee members will be independent as such term is defined in NASDAQ Listing Rule 5605(a)(2). The purpose of the remuneration committee is to assist our board in discharging its responsibilities relating to (1) setting our compensation program and compensation of our executive officers and directors and (2) monitoring our incentive and equity-based compensation plans. Following the completion of our proposed U.S. initial public offering, the remuneration committee will also assist our board in preparing the compensation committee report required to be included in our proxy statement under the rules and regulations of the SEC.

Our board will adopt a written charter for the remuneration committee, which will be available on our website at the time of listing.

### ***Nomination committee***

Our nomination committee currently consists of Messrs. Berger, Baker, Hendren and McLachlan. Mr. McLachlan qualifies as an independent director under the corporate governance standards of The NASDAQ Global Market. We expect to have a second independent member within 90 days of the completion of our proposed U.S. initial public offering and the remaining members as independent within one year of the completion of our proposed U.S. initial public offering so that all of our nomination and corporate governance committee members will be independent as such term is defined in NASDAQ Listing Rule 5605(a)(2). The purpose of our nomination committee is to assist our board in discharging its responsibilities relating to (1) developing and recommending criteria for selecting new directors and (2) screening and recommending to the board individuals qualified to become executive officers.

Our board will adopt a written charter for the nominating committee, which will be available on our website at the time of listing.

### **Duties of directors**

Under Delaware law, our directors will have a duty of loyalty to act honestly and in good faith with a view to our best interests. Our directors will also have a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our certificate of incorporation and by-laws. A stockholder has the right to seek damages if a duty owed by our directors is breached. You should refer to [Description of Capital Stock](#) for additional information on our standard corporate governance under Delaware law.

### **Remuneration committee interlocks and insider participation**



We do not anticipate any interlocking relationships between any member of our remuneration committee and any of our executive officers that would require disclosure under the applicable rules promulgated under the federal securities laws.

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### **Code of business conduct and ethics**

We expect that, prior to the completion of the offering, our board will adopt a code of business conduct and ethics applicable to our directors, officers and employees, in accordance with applicable rules and regulations of the SEC and The NASDAQ Global Market.

### **Compensation discussion and analysis**

#### ***Named executive officers***

For the fiscal year ended December 31, 2010, the following individuals constitute our named executive officers, or NEOs:

- n Robert Aquilina, our Chairman and Chief Executive Officer;
- n V. Raman Kumar, our Vice Chairman;
- n Clyde Swoger, our Chief Financial Officer;
- n Michael Seedman, our Chief Technology Officer; and
- n Peter Masanotti, President and Chief Executive Officer of MedQuist Inc.

#### ***Remuneration committee***

Our remuneration committee currently consists of Messrs. Baker, Aquilina and Gilmore. The key responsibilities of the remuneration committee are to consider and recommend to our board the framework for the remuneration of our executive officers. The remuneration committee is also required to consider and recommend to our board the total individual remuneration package of each employee director and executive officer, including bonuses, incentive payments and stock options or other equity and equity-based awards. The remuneration committee is also empowered to review the design of all equity and equity-based incentive plans and recommend the approval of such plans to our board. None of the directors votes on decisions concerning his or her own remuneration.

#### ***MedQuist Inc. compensation committee***

MedQuist Inc., our majority-owned subsidiary, has a separately constituted compensation committee composed of Messrs. Aquilina, Baker, Berger and Pinckert. Mr. Pinckert is an independent director of MedQuist Inc. and also serves as the Chairman of the MedQuist Inc. audit committee. The key responsibilities of the compensation committee are to make recommendations to the MedQuist Inc. board of directors regarding the following:

- n the corporate and individual goals and objectives relevant to the compensation of MedQuist Inc. s executive officers;
- n the evaluation of MedQuist Inc. s corporate performance and the performance of its executive officers in light of such goals and objectives; and
- n the compensation of MedQuist Inc. s executive officers based on such evaluations.

#### ***Compensation philosophy***

We provide our NEOs with incentives tied to the achievement of our corporate objectives or, in the case of Mr. Masanotti, objectives that are tied to the performance of MedQuist Inc.

The remuneration and compensation committees have each separately established a total compensation philosophy and structure designed to accomplish the following objectives:

- n attract, retain and motivate executives who can thrive in a competitive environment of continuous change and who can achieve positive business results in light of challenging circumstances;
- n provide executives with a total compensation package that recognizes individual contributions, as well as overall business results; and

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- n promote and reward the achievement of objectives that our board or the MedQuist Inc. board, as applicable, and management believe will lead to long-term growth in shareholder value.

To achieve these objectives, we intend to maintain compensation arrangements that tie a substantial portion of our NEOs' overall compensation to the achievement of our key strategic, operational and financial goals or to our individual business divisions, as applicable.

### ***Role of named executive officers in setting compensation***

Our NEOs do not play a role in their own compensation determinations, other than discussing individual performance objectives with members of the remuneration or compensation committee, as applicable.

### ***Elements of compensation***

Our and MedQuist Inc.'s executive compensation programs utilize four primary elements to accomplish the objectives described above:

- n base salary;
- n annual cash incentives linked to corporate and individual performance;
- n long-term incentives in the form of equity-based awards;
- n severance and/or change in control benefits; and
- n perquisites.

We believe that we can meet the objectives of our executive compensation program by achieving a balance among these elements that is competitive with our industry peers and creates appropriate incentives for our NEOs. Actual compensation levels are a function of both corporate and individual performance as described under each compensation element set forth below. In making compensation determinations, the remuneration and compensation committees consider the competitiveness of compensation both in terms of individual pay elements and the aggregate compensation package provided to our NEOs. However, neither we nor MedQuist Inc. engage in any formal benchmarking or specifically target a percentile of compensation within any peer groups as a reference point on which to base compensation decisions.

### ***Base salary***

We provide our NEOs with base salary in the form of fixed cash compensation to compensate them for services rendered during the fiscal year. The current salaries for our NEOs were negotiated at the time that they were hired and are set forth in their employment agreements, which were negotiated individually with each executive. The remuneration and compensation committees believe that the initial salaries of our NEOs were set at levels competitive with individuals with similar responsibilities in similarly-sized public companies in the healthcare IT sector. The base salary of each of our NEOs is reviewed annually by the remuneration or compensation committee, as applicable, to determine if any salary adjustments are appropriate. Generally, in making a determination of whether to make base salary adjustments, the remuneration and compensation committees consider the following factors:

- n success in meeting our (or, in the case of Mr. Masanotti, MedQuist Inc.'s) strategic operational and financial goals;
- n an assessment of such executive officer's individual performance; and
- n changes in scope of responsibilities of such executive officer.

In addition, the remuneration and compensation committees consider internal equity within our organization and the aggregate levels of compensation earned by our NEOs.

None of our NEOs received base salary increases during 2009 since each of them had commenced employment in the second half of 2008 in accordance with newly negotiated employment arrangements. In addition, no base salary adjustments for our NEOs were made for 2010 or 2011 in light of the difficult economic climate and

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because it was determined that the salaries were sufficient to retain and incentivize our executives. The current base salaries of our NEOs are as follows:

<b>Name</b>	<b>2011 Annual base salary rate (\$)</b>
Robert Aquilina	\$ 500,000
V. Raman Kumar	\$ 500,000
Clyde Swoger	\$ 300,000
Michael Seedman	\$ 120,000
Peter Masanotti	\$ 500,000

*Annual cash compensation performance-based incentive bonus program*

We believe that performance-based cash incentives play an essential role to motivate our NEOs to achieve defined annual goals. The objectives of our and MedQuist Inc.'s annual management incentive plans are to:

- n align the interests of executives and senior management with our strategic plan and critical performance goals;
- n motivate and reward achievement of specific, measurable annual individual and corporate performance objectives;
- n provide payouts commensurate with corporate performance;
- n provide competitive total compensation opportunities; and
- n enable us to attract, motivate and retain talented executive management.

Our incentive bonus plans are designed to reward our executives for the achievement of pre-established annual financial targets and for personal performance. The financial objectives are established for each individual NEO based upon the scope of his responsibility. Specifically, Messrs. Aquilina, Swoger and Seedman's bonuses were based upon our consolidated performance (including MedQuist Inc.), Mr. Kumar's bonus was based upon the performance of our operations (excluding MedQuist Inc.) in 2009 and upon consolidated performance, including MedQuist Inc., in 2010. Mr. Masanotti's bonus was based on the performance of MedQuist Inc. alone.

*2009 incentive plans*

Each of our NEOs was eligible to earn an annual bonus up to either a predetermined dollar amount or a percentage of such executive's base salary, as set forth in each NEO's employment agreement. Our NEOs are eligible to earn their annual bonus based upon the achievement of target performance objectives under our 2009 Incentive Plan and, for Mr. Masanotti, under the MedQuist Inc. 2009 Incentive Plan (together with our 2009 Incentive Plan, the 2009 Plans), as follows:

<b>Executive</b>	<b>Maximum bonus for 2009 and 2010</b>
Robert Aquilina	\$ 750,000

V. Raman Kumar	\$ 750,000
Clyde Swoger	\$ 400,000
Michael Seedman	\$ 180,000
Peter Masanotti	\$ 700,000 <sup>(1)</sup>

<sup>(1)</sup> Represents 140% of base salary.

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Payments of incentive awards were based on the achievement of a combination of corporate performance objectives which were established for each NEO and an assessment of individual performance toward achievement of such corporate objectives as a way to communicate and measure our performance expectations and to maintain and unify our executives' focus on our key strategic objectives. The actual bonus payable for a particular year is bifurcated into a corporate performance-based element and a discretionary element based on the remuneration and compensation committees' subjective assessment of the applicable NEO's individual performance in relation to the achievement of pre-established net revenues and adjusted EBITDA goals established exclusively for the 2009 Plans. As noted below, the individual incentive pool was funded at 30% of the total of all participants' aggregate maximum incentives and was allocated to eligible participants at the discretion of our board in respect of the 2009 Incentive Plan and the MedQuist Inc. board in respect of the MedQuist Inc. 2009 Incentive Plan. For 2009, each NEO's cash bonus was based upon the achievement of the following criteria, with the percentage weightings as set forth below:

<b>Objective</b>	<b>Weighting</b>
Net revenues	35%
Adjusted EBITDA	35%
Personal performance	30%

Adjusted EBITDA is a non-GAAP financial measure that is defined for purposes of the 2009 Plans as net income (loss) attributable to MedQuist Holdings Inc., MedQuist Inc. or Spheris, as applicable, plus net income (loss) attributable to non-controlling interests, income taxes, interest expense, depreciation and amortization, cost of legal proceedings and settlements, acquisition related charges, goodwill impairment charges, restructuring charges, equity in income (loss) of affiliated company, asset impairment charges, severance costs, certain unusual or nonrecurring items and the effect of our PFS business. The adjusted EBITDA metric utilized under the bonus program was calculated differently than the Adjusted EBITDA figures disclosed in the section Management's Discussion and Analysis of Financial Condition and Results of Operations. Specifically, the bonus program metric was based on the sum of the adjusted EBITDA generated by the individual business units and, as such, the calculation of bonus targets and the actual performance did not include certain adjustments associated with accrual reversals, purchase accounting adjustments and certain corporate expenses. These adjustments were considered outside the operational control of the management and, therefore, were not included in the calculation of the bonus targets or actual performance against the targets.

The adjusted EBITDA for bonus calculation purposes can be reconciled to the Adjusted EBITDA reported elsewhere in the preliminary prospectus as follows:

Adjusted EBITDA	\$ 59.7 million
n Adjustment to remove non-operational items <sup>(1)</sup>	2.2 million
n Adjustment to remove consolidated items <sup>(2)</sup>	2.8 million
n Adjustment to remove certain corporate expenses	5.5 million
n Adjustment for effect of PFS business	0.4 million
Amount used for bonus calculation	\$ 70.6 million



- (1) Reflects removal of asset impairment, severance and accrual reversals
- (2) Reflects removal of impact of purchase accounting adjustments

The corporate performance-based element of the annual bonus incentive was calculated on the basis of achieving net revenues and adjusted EBITDA targets under the 2009 Plans, based on internal financial goals set in connection with the remuneration and compensation committees' consideration and approval of the annual operating plans for 2009 for us and for MedQuist Inc., respectively. The range of potential payouts under the 2009 Plans reflected the level of achievement of the applicable financial goals for 2009. No payout was available for performance below 80% of the adjusted EBITDA target and/or below 90% of the net revenues target. The maximum payout for each performance metric was capped at 170% of the pro-rated maximum bonus amount (and, with respect to the

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corporate performance targets, which maximum applied for performance in excess of 115% of the adjusted EBITDA target and/or for performance in excess of 110% of the net revenues target).

Actual corporate performance was measured against the targeted levels for each of the two financial objectives under the 2009 Plans and weighted in accordance with the weightings set forth above. In addition, the remuneration and compensation committees assessed each NEO's personal performance, with the potential payout percentage ranging from 0% to 170% for the individual performance portion of the annual bonus incentive. However, unlike the corporate performance portion of the annual bonus incentive, assessment of personal performance was discretionary and was not tied to any pre-determined individual performance objectives. Notwithstanding the foregoing, in no event could the total payout, based on an assessment of both corporate and personal performance, exceed the maximum bonus amount for each NEO set forth in his employment agreement. In exercising their discretion with respect to determining the payment for the portion of the 2009 Plans relating to personal performance, the remuneration and compensation committees considered each NEO's compensation toward achieving the short- and long-term objectives for our business, including the degree of achievement of the applicable net revenue and adjusted EBITDA metrics for the 2009 fiscal year. The remuneration and compensation committees have substantial discretion in performing this assessment. During 2009, the remuneration committee considered Mr. Kumar's favorable performance in expanding our offshore production capacity in its decision to award him the maximum amount allocated for the personal performance portion of his bonus award. The remuneration committee considered the limited progress of certain financial and administrative initiatives in deciding that Mr. Swoger would not receive any bonus payment for the personal performance portion of his bonus award. With respect to the remaining NEOs, the remuneration and compensation committees, as applicable, determined that the level of bonus payments for the personal performance portion of the bonus award should approximate the overall degree of achievement of the applicable revenue and adjusted EBITDA metrics for the 2009 fiscal year for us and MedQuist Inc., respectively.

For fiscal 2009, as established exclusively for our 2009 Incentive Plan, our consolidated net revenues goal was \$389.4 million and the adjusted EBITDA goal was \$69.1 million, which targets were achieved at 46% and 110%, respectively for the 2009 fiscal year. For fiscal 2009, the net revenues goal for our operations excluding MedQuist Inc. was \$85.8 million and the adjusted EBITDA goal for our operations excluding MedQuist Inc. was \$17.3 million, neither of which targets was achieved. For fiscal 2009, as established exclusively for the MedQuist Inc. 2009 Incentive Plan, the net revenues goal was \$315.6 million and the adjusted EBITDA goal was \$52.8 million, which targets were achieved at 97% and 110%, respectively.

The actual bonus payment made to each of the NEOs was based upon the actual performance for the quantifiable financial performance objectives as well as a subjective assessment of the individual's performance. In addition to determining the applicable payout percentages based on the achievement of the applicable corporate financial goals for our NEOs, set forth above, the remuneration and compensation committees determined the level of achievement of each NEO's personal performance, and then approved the overall bonus payment for 2009. Based on actual performance measured against plan objectives, as well as the committees' subjective assessment of each NEO's personal performance, the remuneration and compensation committees, as applicable, approved the following cash incentive payments for 2009:

<b>Executive</b>	<b>Net revenues</b>	<b>Adjusted EBITDA</b>	<b>Personal</b>	<b>Total 2009 incentive bonus payout (\$) (% of maximum)</b>
Robert Aquilina	\$ 120,750 (46%)	\$ 289,013 (110%)	\$ 175,500 (78%)	\$ 585,263 (78%)
V. Raman Kumar	\$ 0 (0%)	\$ 0 (0%)	\$ 382,500 (170%)	\$ 382,500 (51%)

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Clyde Swoger	\$ 64,400 (46%)	\$ 154,140 (110%)	\$ 0 (0%)	\$ 218,500 (55%)
Michael Seedman	\$ 28,980 (46%)	\$ 69,363 (110%)	\$ 42,120 (78%)	\$ 140,463 (78%)
Peter Masanotti	\$ 238,385 (97%)	\$ 269,500 (110%)	\$ 192,115 (92%)	\$ 700,000 (100%)

The foregoing table also shows the payment as a percentage of the maximum bonus for each NEO.

The bonus payments are normally paid by the end of the first quarter of the year following the year in which the bonus is earned. If for any reason the bonus payment is delayed, it generally accrues interest between

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March 31st and the actual date of payment, which shall not be later than December 31, 2010, at the rate of 7% per year.

*2010 management incentive plans*

The maximum bonus opportunities under the 2010 management incentive plans for us and MedQuist Inc., or the 2010 Plans, remained unchanged from 2009 levels for each of our NEOs. However, the remuneration and compensation committees had approved several changes to the 2010 Plans to take into account certain changes in title and scope of responsibilities for Mr. Kumar, as well as our and MedQuist Inc.'s increased emphasis on the importance of EBITDA as a measure of corporate performance for all of the NEOs. Specifically, the financial performance objectives for Mr. Kumar for fiscal year 2010 were based on our consolidated financial performance, including MedQuist Inc. operations. Additionally, the percentage weightings for the corporate and personal objectives under the 2010 Plans for all of the NEOs were changed as follows:

<b>Executive</b>	<b>Adjusted EBITDA</b>	<b>Net revenues</b>	<b>Personal objectives</b>
Robert Aquilina	50%	25%	25%
V. Raman Kumar	50%	10%	40%
Clyde Swoger	50%	10%	40%
Michael Seedman	50%	10%	40%
Peter Masanotti	50%	25%	25%

As noted above, payments of incentive awards for 2010 (which will be made in March 2011) will be based on the achievement of a combination of corporate performance objectives which were established for each NEO, and an assessment of individual performance toward the achievement of such corporate objectives. No payout under the 2010 Plans will be available for performance below 100% of the adjusted EBITDA target. In addition, no payout will be available with respect to the net revenue portion of the incentive award for performance below 95% of the revenue target. The maximum payout for each element of the incentive award will be capped at 170% of the maximum amount which may be earned by each NEO with respect to each element of the total incentive award for 2010.

*Equity-based incentive plans**Equity incentive awards*

Our equity award program is the primary vehicle for offering long-term incentives to our NEOs. Historically, all of our equity awards have been in the form of stock options. We believe that equity-based compensation provides our NEOs with a direct interest in our long-term performance, creates an ownership culture and aligns the interests of our NEOs and our stockholders. Grants of stock options, including those to our NEOs, are approved by our board and are granted at an exercise price at our above the fair market value of our common stock on the date of grant. Options are generally subject to a time-based vesting schedule, which furthers our objective of employee retention, as it provides an incentive to our executives to remain in our employ during the vesting period. Similarly, MedQuist Inc. has implemented its own equity award program to offer long-term incentives to its executives, including Mr. Masanotti who holds options granted under a MedQuist Inc. equity incentive plan, as described in greater detail below.

*Options granted to named executive officers under the 2007 plan*

Messrs. Aquilina, Kumar, Swoger and Seedman were awarded stock options under our 2007 Equity Incentive Plan, or the 2007 Plan, pursuant to the provisions of their employment agreements executed in August 2008 in connection with the completion of the MedQuist Inc. Acquisition. Such stock options were granted by our board on August 6, 2008 with an exercise price of £3.15 per share. The options are subject to the following vesting schedule: one-third of the shares vested on August 6, 2009, and one-sixth of the shares vest every six months thereafter, such that the options will be fully vested on August 6, 2011. Any unvested options will automatically vest if the executive's employment is terminated without cause or the executive quits for good reason (as each such term is defined in the executive's employment agreement). As noted above, subject to the NEO's continued service, all unvested options will accelerate automatically upon a change in control (as such term is defined in the executive's option agreement). Generally, an executive can exercise vested options following a termination of employment without cause or a resignation with or without good reason for a period of 90 days

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following such termination; however, this period will be extended to 12 months in the event of death or disability. Pursuant to the terms of the Management Stockholders Agreement, each executive is subject to a customary lock-up for a period of 180 days following our proposed U.S. initial public offering.

### *Stand-Alone executive option award*

On June 12, 2007, our board approved a grant of options over 311,129 shares of our common stock to Mr. Kumar outside of the 2007 Plan. The options were granted in three tranches, of which only options over 56,373 shares remain outstanding and exercisable. The options were granted with an exercise price of \$7.88 per share, which was equal to the price at which our common stock was issued in our initial public offering on AIM. The options vested on June 18, 2007, the date on which our shares were admitted for trading on AIM. The options will remain exercisable for a period of six months from the date of termination of Mr. Kumar's employment (except a termination for cause, unless otherwise determined by the remuneration committee). If not exercised, the options will expire on June 12, 2017.

### *MedQuist Inc. option grant*

On September 30, 2008, pursuant to the terms of Mr. Masanotti's employment agreement, MedQuist Inc. granted Mr. Masanotti an option to purchase up to 295,749 shares of MedQuist Inc. common stock at \$4.85 per share, which was the fair market value of MedQuist Inc. common stock on the date of grant. On March 2, 2009, MedQuist Inc. entered into an amended and restated stock option agreement with Mr. Masanotti to (i) amend the exercise price of the original stock option grant and (ii) to provide that if Mr. Masanotti's employment by MedQuist Inc. is terminated for cause (as defined in Mr. Masanotti's employment agreement), the option will terminate immediately in full. The amended option agreement:

- n increased the exercise price to \$8.25;
- n provides that the option vests as to one-third of the shares subject to the option on the first anniversary of the grant date and one-sixth of the shares subject to the option vest every six months thereafter, such that the option will be fully vested the third anniversary of the grant date; and
- n provides that upon the occurrence of a change in control (as such term is defined in the amended and restated option agreement) or termination of Mr. Masanotti's employment without cause or by him for good reason (each as defined in Mr. Masanotti's employment agreement), the options shall become immediately exercisable, to the extent not already vested.

In addition, in accordance with the terms of Mr. Masanotti's option agreement, in December 2010 the compensation committee approved an adjustment to the exercise price of Mr. Masanotti's option to \$2.22 per share to account for the payment of an extraordinary dividend of \$1.33 per share on September 15, 2009 and \$4.70 per share on October 15, 2010 to the stockholders of MedQuist Inc.

### *Severance and change in control benefits*

We and MedQuist Inc., as applicable, have entered into severance arrangements with each of Messrs. Aquilina, Kumar, Swoger, Seedman and Masanotti, as set forth in their respective employment agreements, and as discussed in detail under the heading Potential payments upon termination or change in control, below. These arrangements were determined on the basis of arm's length negotiations at the time we entered into the respective employment agreements with each of our NEOs. In general, the severance benefits are designed to provide economic protection to our key executives in order that they can remain focused on our business without undue personal concern in the event that an executive's position is eliminated or significantly altered, including in connection with a change in control. We recognize that circumstances may arise in which we may consider eliminating certain key positions that are no longer necessary, including in connection with a change in control transaction. These benefits are intended to provide the

security needed for the executives to remain focused and reduce the distraction regarding personal concerns during a transition.

In addition, under the terms of the option awards granted to our NEOs, all options that are unvested at the time of an executive's termination without cause or resignation for good reason will automatically vest in full upon such termination. Additionally, all unvested options will automatically accelerate in the event of a change of control of us or MedQuist Inc., as the case may be.

**Table of Contents***Benefits and perquisites*

We and MedQuist Inc. each maintain broad-based benefits for all of our respective full-time employees, including health, dental, life and disability insurance, as well as our 401(k) plan. These benefits are offered to our NEOs on the same basis as all other employees, except that we provide, and pay the premiums for, additional long-term disability and life insurance coverage for Mr. Masanotti.

*Tax and accounting considerations*

We structure our compensation program in a manner that is consistent with our compensation philosophy and objectives. Internal Revenue Code Section 162(m) (as interpreted by IRS Notice 2007-49) denies a federal income tax deduction for certain compensation in excess of \$1 million per year paid to the chief executive officer and the three other most highly-paid executive officers (other than the company's chief executive officer and chief financial officer) of a publicly-traded corporation. Certain types of compensation, including compensation based on performance criteria that are approved in advance by stockholders, are excluded from the deduction limit. In addition, grandfather provisions may apply to certain compensation arrangements that were entered into by a corporation before it was publicly held. Our policy will be to qualify compensation paid to our executive officers for deductibility for federal income tax purposes to the extent feasible. However, to retain highly skilled executives and remain competitive with other employers, the Remuneration and Compensation Committees will have the right to authorize compensation that would not otherwise be deductible under Section 162(m) or otherwise.

We endeavor to design our equity incentive awards in a manner that will result in equity accounting treatment under applicable accounting standards.

**Summary compensation table**

The following table sets forth, for the year ended December 31, 2010, summary information concerning the compensation of our NEOs.

Name and principal position	Year	Salary	Bonus <sup>(1)</sup>	Non-Equity		All other compensation	Total
				Options awards <sup>(2)</sup>	incentive plan compensation <sup>(3)</sup>		
Robert Aquilina, Chairman and Chief Executive Officer	2010	\$ 500,000					\$ 500,000
	2009	\$ 500,000	\$ 175,579		\$ 409,684		\$ 1,085,263
V. Raman Kumar, Vice Chairman and Director of MedQuist Holdings Inc. and Chief Executive Officer of CBay India	2010	\$ 500,000					\$ 500,000
	2009	\$ 500,000	\$ 382,500		\$ 0		\$ 882,500
Clyde Swoger, Chief Financial Officer	2010	\$ 300,000					\$ 300,000
	2009	\$ 300,000	\$		\$ 218,500		\$ 518,500
Michael Seedman, Chief Technology	2010	\$ 120,000					\$ 120,000
	2009	\$ 120,000	\$ 42,139		\$ 98,324		\$ 260,463



Officer

Peter Masanotti,	2010	\$ 500,000			\$ 500,000
President and Chief	2009	\$ 500,000	\$ 192,115	\$ 507,885	\$ 1,200,000
Executive Officer of MedQuist Inc.					

- (1) The amounts in this column represent payments made pursuant to the discretionary element of the 2009 Incentive Plans. The bonus payments earned by the NEOs for the 2010 fiscal year are not known at this time. We currently expect that the determination of any bonus payment for the 2010 fiscal year will be made in March 2011.
- (2) As discussed under the heading Equity-based incentive plans MedQuist option grant above, on September 30, 2008, MedQuist Inc. made a stock option grant to Mr. Masanotti to purchase up to 295,749 shares of MedQuist Inc. common stock, which agreement was subsequently amended on March 2, 2009. The amendment increasing the exercise price of the stock option grant from \$4.85 to \$8.25 per share did not result in any incremental fair value over the amount calculated for the 2008 fiscal year. In accordance with the terms of the option agreement, the option was further adjusted in December 2010 to decrease the

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exercise price to \$2.22 per share to account for the payment of extraordinary dividends to the stockholders of MedQuist Inc. The adjustment did not result in any incremental fair value over the amount calculated for the 2008 fiscal year.

- (3) The amounts in this column represent payments made pursuant to the corporate performance-based element of the 2009 Plans. The bonus payments earned by the NEOs for the 2010 fiscal year are not known at this time. We currently expect that the determination of any bonus payment for the 2010 fiscal year will be made in March 2011.

**Grants of plan-based awards in fiscal year 2010**

The following table sets forth each grant of an award made to each NEO for the year ended December 31, 2010.

Name	Estimated possible payouts under non-equity incentive plan awards <sup>(1)</sup>		
	Threshold (\$)	Target (\$)	Maximum (\$)
Robert Aquilina	\$ 421,875	\$ 562,500	\$ 750,000
V. Raman Kumar	\$ 393,750	\$ 450,000	\$ 750,000
Clyde Swoger	\$ 210,000	\$ 240,000	\$ 400,000
Michael Seedman	\$ 94,500	\$ 108,000	\$ 180,000
Peter Masanotti	\$ 393,750	\$ 525,000	\$ 700,000

- (1) Represents the performance-based element of the awards granted under the 2010 Plans. The material terms of these annual cash incentive awards are discussed above (see Compensation discussion and analysis Annual cash compensation performance-based incentive bonus program ).

**Narrative disclosure to summary compensation table and grants of plan-based awards table**

We have entered into written employment agreements with each of our NEOs that provide for the payment of base salary and for each NEO's participation in our bonus programs and employee benefit plans. See Executive employment agreements, below. In addition, each agreement specifies payments and benefits that would be due to such named executive officer upon the termination of his employment with us. See Potential payments upon termination or change in control below, for additional information regarding amounts payable upon termination to each of our NEOs.

**Outstanding equity awards at fiscal year-end**

The following table sets forth all outstanding equity awards held by each of our NEOs as of December 31, 2010.

Name	Number of securities underlying unexercised options (#)		Option exercise price	Option expiration date
	Exercisable	Unexercisable		

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MedQuist Holdings Inc. <sup>(1)</sup>				
Robert Aquilina	322,741	161,370	\$5.01 <sup>(3)</sup>	August 6, 2018
V. Raman Kumar	826,696	413,348	\$5.01 <sup>(3)</sup>	August 6, 2018
	56,373 <sup>(2)</sup>		\$7.88	June 12, 2017
Clyde Swoger	115,259	57,630	\$5.01 <sup>(3)</sup>	August 6, 2018
Michael Seedman	161,363	80,681	\$5.01 <sup>(3)</sup>	August 6, 2018
MedQuist Inc. <sup>(4)</sup>				
Peter Masanotti	197,166	98,583	\$2.22	September 30, 2018

<sup>(1)</sup> All options over shares of our common stock granted to each of our NEOs except Mr. Masanotti (with the exception of outstanding vested options over 57,630 of our shares of our common stock issued to Mr. Kumar as a stand-alone grant) were issued under the 2007 Plan on August 6, 2008. One-third of these options vested on August 6, 2009, with the remaining options vesting in one-sixth increments every six months thereafter. All outstanding unvested options will accelerate in full upon a change in control; the options will also accelerate following a termination of employment by us without cause or by the executive for good reason (see Equity-based incentive plans Equity incentive awards Options granted to named executive officers under the 2007 Plan, above).

<sup>(2)</sup> Represents options granted outside of the 2007 Plan which vested on June 18, 2007.

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- (3) The option exercise price has been converted to U.S. dollars based on the exchange rate in effect on January 27, 2011, the last day on which our common stock was traded on AIM and we redomiciled in Delaware.
- (4) As discussed under **Equity-based incentive plans** **Equity incentive awards** **MedQuist option grant** above, on September 30, 2008, MedQuist Inc. made an option grant to Mr. Masanotti over 295,749 shares of its common stock at the then applicable fair market value of \$4.85 per share. On March 2, 2009, MedQuist Inc. entered into an amended option agreement with Mr. Masanotti to, among other things, increase the exercise price of the option to \$8.25 per share. One third of the option vested on September 30, 2009 (the first anniversary of the grant date) and one-sixth of the option vests on each six month anniversary thereafter. The exercise price of the option was adjusted to \$2.22 per share in December 2010, in accordance with the terms of the option agreement, to account for the payment of an extraordinary dividend to the stockholders of MedQuist Inc. on each of September 15, 2009 and October 15, 2010.

### **Option exercises and stock vested during last fiscal year**

There were no option exercises by any of our NEOs during the year ended December 31, 2010.

### **Pension benefits and non-qualified deferred compensation**

None of our NEOs participates in any qualified or non-qualified defined benefit plan or any non-qualified deferred compensation plan that provides for payments or other benefits at or in connection with retirement sponsored by us or by MedQuist Inc.

### **Executive employment agreements**

#### ***Robert Aquilina***

We entered into an employment agreement with Robert Aquilina in August 2008 pursuant to which Mr. Aquilina serves as our Chairman and Chief Executive Officer. The term of the agreement expires on December 31, 2011, but will be automatically extended for additional one year periods unless notice is provided by either party that the term will not be extended.

Mr. Aquilina is entitled to an annual base salary of \$500,000, subject to increase as may be determined from time to time in the sole discretion of our board. Mr. Aquilina is eligible to earn an annual bonus award of up to \$750,000 based upon achievement of performance objectives established by our board. Mr. Aquilina also received a signing bonus in the amount of \$1 million, one-half of which was paid within 10 days following the commencement date, and the remaining half of which was paid on December 22, 2009. Additionally, Mr. Aquilina was granted stock options over 484,111 shares of our common stock, subject to the terms and conditions of the 2007 Plan.

The employment agreement provides that in the case of termination without cause (including our election not to extend the employment term) or resignation with good reason (as such terms are defined below), Mr. Aquilina is entitled to a payment of a pro-rata bonus for the year of termination and, subject to his execution of a release, continued payment of his base salary for a period of 12 months following the date of such termination.

Mr. Aquilina is also subject to certain restrictive covenants regarding non-competition, non-interference and non-solicitation of employees and consultants for a period of one year following termination of employment and certain restrictive covenants regarding non-disclosure of confidential information and intellectual property.

#### ***V. Raman Kumar***

We entered into an employment agreement with Mr. Kumar on August 2, 2008, which was amended and restated as of December 6, 2010, pursuant to which Mr. Kumar serves as our Vice-Chairman and previously served as our Chief Executive Officer. The term of the agreement expires December 31, 2011, but will be automatically extended for additional one-year periods unless notice is provided by either party that the term will not be extended.

Mr. Kumar is entitled to an annual base salary of \$500,000, subject to increase as may be determined from time to time in the sole discretion of our board. Mr. Kumar is eligible to earn an annual bonus award of up to \$750,000 based upon achievement of performance objectives established by our board. Additionally, Mr. Kumar received a signing bonus of \$1 million, one-half of which was paid on or within 10 days following the commencement date and the remaining half of which was paid on December 22, 2009. Additionally, Mr. Kumar was granted options over 1,240,044 shares of our common stock, subject to the terms and conditions of the 2007 Plan.

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Mr. Kumar is entitled to the same severance benefits and subject to the same restrictive covenants as Mr. Aquilina, as set forth above.

***Clyde Swoger***

We entered into an employment agreement with Clyde Swoger on August 7, 2008 pursuant to which Mr. Swoger serves as our Chief Financial Officer. The term of the agreement expires on December 31, 2011, but will be automatically extended for additional one-year periods unless notice is provided by either party that the term will not be extended.

Mr. Swoger is entitled to an annual base salary of \$300,000, subject to increase as may be determined from time to time in the sole discretion of our board. Mr. Swoger is eligible to earn an annual bonus award of up to \$400,000, based upon achievement of performance objectives established by our board. Mr. Swoger also received a signing bonus in the amount of \$500,000, one-half of which was paid within 10 days following the commencement date, the remaining half of which was paid on December 22, 2009. Additionally, Mr. Swoger was granted stock options over 172,889 shares of our common stock, subject to the terms and conditions of the 2007 Plan.

Mr. Swoger is entitled to the same severance benefits and is subject to the same restrictive covenants as Mr. Aquilina, as set forth above.

***Michael Seedman***

We entered into an employment agreement with Michael Seedman on August 8, 2008 pursuant to which Mr. Seedman serves as our Chief Technology Officer. The term of the agreement expires on December 31, 2011, but will be automatically extended for additional one-year periods unless notice is provided by either party that the term will not be extended.

Mr. Seedman is entitled to an annual base salary of \$120,000, subject to increase as may be determined from time to time in the sole discretion of our board. Mr. Seedman is eligible to earn an annual bonus award of up to \$180,000 based upon achievement of performance objectives established by our board. Mr. Seedman also received a signing bonus in the amount of \$750,000, one-half of which was paid within 10 days following the commencement date, and the remaining half of which was paid on December 22, 2009. Additionally, Mr. Seedman was granted stock options over 242,044 shares of our common stock, subject to the terms and conditions of the 2007 Plan.

Mr. Seedman is entitled to the same severance benefits and is subject to the same restrictive covenants as Mr. Aquilina, as set forth above.

***Peter Masanotti***

In connection with his appointment as MedQuist Inc.'s Chief Executive Officer, MedQuist Inc. entered into an employment agreement with Mr. Masanotti, dated as of September 3, 2008, pursuant to which he agreed to serve through December 31, 2011. The agreement renews automatically for successive one-year periods thereafter unless either party provides written notice that the term will not be extended.

In structuring Mr. Masanotti's compensation, the MedQuist Inc. board of directors considered the importance of motivating a new Chief Executive Officer to make a long-term commitment to MedQuist Inc. and to consistently grow its business. Pursuant to the terms of his employment agreement, Mr. Masanotti was entitled to receive up to \$800,000 on or prior to February 1, 2009 as a signing bonus based upon certain conditions which did not transpire; consequently, MedQuist Inc.'s obligation to pay this amount was extinguished. Mr. Masanotti is entitled to receive an

annual base salary of \$500,000 and an annual bonus award based upon the achievement of performance objectives established by the MedQuist Inc. board of up to 140% of his base salary.

Pursuant to the terms of his employment agreement, Mr. Masanotti received a stock option grant to purchase up to 295,749 shares of MedQuist Inc. common stock. See Equity-based incentive plans Equity incentive awards MedQuist option grant above, for additional information regarding the stock option grant to Mr. Masanotti.

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Mr. Masanotti is entitled to the same severance benefits as Mr. Aquilina, as set forth above. Mr. Masanotti is also subject to certain restrictive covenants regarding non-competition, non-interference and non-solicitation of employees and consultants for a period of one year following termination of employment, and certain restrictive covenants regarding non-disclosure of confidential information and intellectual property.

**Potential payments upon termination or change in control**

The following is a description of payments and benefits that would be due to each of our NEOs upon the termination of his employment with us or MedQuist Inc., as applicable, and upon a change in control of us or MedQuist, Inc., as the case may be. The amounts in the table below assume that each termination was effective as of December 31, 2010 and are merely illustrative of the impact of a hypothetical termination of each executive's employment or the consummation of a change in control on December 31, 2010 of us or MedQuist Inc., as applicable. The amounts that would be payable upon an actual termination of employment or an actual change in control can only be determined at the time of such termination based on the facts and circumstances then prevailing.

The following table provides the total dollar value of the compensation that would be paid to each of our NEOs assuming a change in control of us or MedQuist Inc., as applicable, or the termination of his employment in certain defined circumstances, on December 31, 2010, pursuant to the arrangements described above:

Named executive officer	Compensation	Termination on death or disability	Termination without cause or for good reason	Change in control
Robert Aquilina	Salary Continuation		\$ 500,000	
	Pro-Rata Bonus <sup>(1)</sup>	\$ 750,000	\$ 750,000	
	Option Acceleration <sup>(2)</sup>		\$ 760,440	\$ 760,440
	Total	\$ 750,000	\$ 2,010,440	\$ 760,440
V. Raman Kumar	Salary Continuation		\$ 500,000	
	Pro-Rata Bonus <sup>(1)</sup>	\$ 750,000	\$ 750,000	
	Option Acceleration <sup>(2)</sup>		\$ 1,947,861	\$ 1,947,861
	Total	\$ 750,000	\$ 3,197,861	\$ 1,947,861
Clyde Swoger	Salary Continuation		\$ 300,000	
	Pro-Rata Bonus <sup>(1)</sup>	\$ 400,000	\$ 400,000	
	Option Acceleration <sup>(2)</sup>		\$ 271,596	\$ 271,576
	Total	\$ 400,000	\$ 971,576	\$ 271,576
Michael Seedman	Salary Continuation		\$ 120,000	
	Pro-Rata Bonus <sup>(1)</sup>	\$ 180,000	\$ 180,000	
	Option Acceleration <sup>(2)</sup>		\$ 381,054	\$ 381,054
	Total	\$ 180,000	\$ 681,054	\$ 381,054
Peter Masanotti	Salary Continuation		\$ 500,000	
	Pro-Rata Bonus <sup>(1)</sup>	\$ 700,000	\$ 700,000	
	Option Acceleration <sup>(3)</sup>		\$ 633,889	\$ 633,889
	Total	\$ 700,000	\$ 1,833,889	\$ 633,889



Total	\$ 700,000	\$ 1,833,889	\$ 633,889
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- (1) Because the 2010 bonus amounts are not known at this time, the maximum bonus amount was used for illustrative purposes.
- (2) Value represents the gain the NEO would receive in the event all unvested options were accelerated on December 31, 2010, calculated as the positive difference, or spread, between our share price on December 31, 2010 of £6.21 per share and the exercise price of the option, converted into U.S. dollars using an exchange rate of \$1.54/£1, which is the Federal Reserve noon buying rate in effect on December 30, 2010.
- (3) Value represents the gain Mr. Masanotti would receive in the event all unvested options were accelerated on December 31, 2010, calculated as the positive difference between the share price for MedQuist Inc. common stock on December 31, 2010 of \$8.65 per share and the adjusted exercise price of \$2.22 per share.

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***Severance payments upon termination of employment***

Under the terms of their employment agreement with us, each of our NEOs is entitled to payments of a pro-rata bonus for the year of termination and continuation of his then current base salary for 12 months in the event that:

- n his employment is terminated by us or MedQuist Inc., as the case may be, without cause (as defined below), or
- n he resigns for good reason (as defined below).

Each of our NEOs is also entitled to the continuation of his then current base salary for 12 months in the event that we or MedQuist Inc., as the case may be, elect not to renew the executive's employment term beyond December 31, 2011.

In order to receive continued payments of base salary, the executive would be required to execute and deliver a general release of claims against us.

Additionally, each of our NEOs is entitled to receive a pro-rata bonus for the year in which his employment terminates on account of death or disability, calculated on the basis of our actual performance for the year and payable when such bonus would otherwise have been payable had the NEO's employment not terminated.

As used in the employment agreements with us and MedQuist Inc.,

- (1) Cause means the occurrence of any of the following: (a) executive's failure to substantially perform his duties (other than as a result of total or partial incapacity due to physical or mental illness) (b) willful dishonesty in the performance of executive's duties, (c) executive's conviction of, or plea of *nolo contendere* to a crime constituting (x) a felony under the laws of the United States or any state thereof or (y) a misdemeanor involving moral turpitude, (d) executive's willful malfeasance or willful misconduct in connection with his duties or any intentional (willful for Mr. Masanotti) act or omission which is demonstrably injurious to our financial condition or business reputation or that of our subsidiaries or affiliates, or (e) executive's breach of the employment agreement provisions relating to non-competition, non-interference, non-solicitation, confidentiality and our intellectual property.
- (2) For each of our NEOs except Mr. Masanotti, good reason means (a) breach by us of any material term of employment agreement, (b) any material diminution in executive's authority or responsibilities, or (c) relocation of the executive's primary place of employment to a location more than 30 miles from the location specified in his employment agreement; provided that any of the foregoing events shall constitute good reason only if we fail to cure such event within 30 days after receipt from the executive of written notice of the event which constitutes good reason; provided, further, that good reason shall cease to exist for an event on the 60th day following the later of its occurrence or the executive's knowledge thereof, unless he has given us written notice thereof prior to such date.
- (3) As used in Mr. Masanotti's employment agreement with MedQuist Inc., the term good reason means (a) the failure to pay or cause to be paid his base salary or annual bonus when due, (b) any reduction in his base salary or annual bonus opportunity set forth in the employment agreement, (c) any substantial and sustained diminution in his authority, title, reporting relationship or responsibilities from those described in the employment agreement, or (d) MedQuist Inc.'s material breach of the employment agreement; provided that any of the foregoing events shall constitute good reason only if MedQuist Inc. fails to cure such event within 30 days after receipt from Mr. Masanotti of written notice of the event which constitutes good reason; provided, further, that good reason shall cease to exist for an event on the 60th day following the later of its

occurrence or Mr. Masanotti's knowledge thereof, unless he has given us written notice thereof prior to such date. Further, "good reason" will not be deemed to have occurred by reason of Mr. Masanotti's reassignment to serve as the President or in another capacity as the most senior executive of a division if MedQuist Inc. materially expands its business.

As noted above, our NEOs are bound by certain non-competition, non-interference and non-solicitation covenants which extend for a period of 12 months following termination of employment for any reason.

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### ***Change in control benefits***

Pursuant to the terms of the option agreements under the 2007 Plan with each of our NEOs except Mr. Masanotti, all unvested options will accelerate in full upon a change in control (see Severance and change in control benefits, above).

Pursuant to the terms of Mr. Masanotti's amended and restated option agreement, all unvested options will accelerate in full upon a change in control of MedQuist Inc. For purposes of the amended and restated option agreement, change in control is defined as: (i) the sale or disposition of all or substantially all of MedQuist Inc.'s assets other than to certain permitted holders, (ii) any person or group (other than to certain permitted holders) becoming the beneficial owner of more than 50% of the total voting power of MedQuist Inc. common stock, (iii) a recapitalization or other corporate transaction in which the majority of the beneficial stock ownership of MedQuist Inc. before the transaction is not retained by the then current holders in substantially the same proportions, (iv) the incumbent directors ceasing to constitute a majority of the MedQuist Inc. board during any 12 month period, (v) we cease to own a majority interest in MedQuist Inc., or (vi) S.A.C. PEI CB Investment, L.P., or SAC CBI, ceases to remain obligated to file a Schedule 13D under the Exchange Act in respect of its beneficial ownership in MedQuist Inc.

### **Equity incentive plans**

#### ***2007 Equity Incentive Plan***

We maintain our 2007 Equity Incentive Plan which was adopted on June 12, 2007 and subsequently amended on September 4, 2008. The 2007 Plan provides a framework for the grant of equity and other-equity related incentives to our employees, directors, officers and consultants (excluding those who provide services exclusively to MedQuist Inc.). The aggregate number of shares of our common stock which may be issued and/or transferred pursuant to awards made under the 2007 Plan may not exceed, when aggregated with the number of shares issued or remaining issuable or transferred or remaining transferable in respect of awards made under the 2007 Plan, 10% of the number of shares then outstanding. No additional awards will be granted under the 2007 Plan following the closing of our proposed U.S. initial public offering, but the 2007 Plan will continue to govern the terms and conditions of all options granted under the 2007 Plan which remain outstanding.

#### ***Awards available for grant***

Benefits under the 2007 Plan consist of stock options, stock appreciation rights, restricted stock, restricted stock units and other share, share-based or cash awards. Awards granted under the 2007 Plan cannot be assigned, transferred, charged or otherwise disposed of or encumbered.

#### ***Stock options***

Stock options consist of a right to purchase shares which may be granted to participants at any time as determined by our board. Our board has the authority to determine the terms of any option award granted under the 2007 Plan. All options have been granted with an exercise price that equals or exceeds the fair market value for our common stock on the date of grant. Only options are currently outstanding under the 2007 Plan.

#### ***Change in control***

Pursuant to the terms of the options granted to our NEOs, in the event of a change in control (as defined below), all outstanding options will accelerate in full and the board will give executives reasonable notice and an opportunity to exercise any vested options in advance of the consummation of such change in control. Change in control means:

(i) the sale or disposition of all or substantially all of our assets, (ii) any person or group becoming the beneficial owner of more than 50% of the total voting power of our common stock, (iii) a recapitalization or other corporate transaction in which the majority of our beneficial stock ownership before the transaction is not retained by the then current holders in substantially the same proportions, (iv) the incumbent directors ceasing to constitute a majority of our board during any 12 month period, or (v) SAC CBI ceasing to be a beneficial owner of at least 5% of the total voting power of our voting stock.

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*Termination of employment or service*

In the case of a qualifying termination of employment or service by reason of death, disability, redundancy or retirement, or upon the transfer of an employing company or business, the award agreement will specify what portion of the award will lapse and, for vested options, the applicable period during which such awards may be exercised following termination of employment.

*Adjustments*

Our board may make or provide for such adjustments in the number and kind of shares and/or the exercise price of shares subject to outstanding awards granted under the 2007 Plan as it may determine as equitably required to prevent dilution or enlargement of the rights of participants that would otherwise result from any change in our capital structure including, but without limitation, from (a) any stock dividend, stock split, combination of shares, recapitalization or other change in our capital structure, (b) any merger, consolidation, spin off, reorganization, partial or complete liquidation or other distribution of assets, issuance of rights or warrants to purchase securities, or (c) any other corporate transaction or event having an effect similar to any of the foregoing (other than a change in control).

*Amendments*

Our board may at any time amend the 2007 Plan, in whole or in part, provided that any amendment which may require approval by our shareholders in order to comply with applicable law and the rules of any relevant stock exchange will not be effective until such approval has been obtained. The board may amend the terms of any award granted under the 2007 Plan provided that no amendment to the material advantage of participants may be made without the prior approval of our shareholders, and no amendment may impair the rights of any participant without his or her consent.

**MedQuist Inc. 2002 Stock Option Plan**

Set forth below is a summary of certain significant portions of the MedQuist Inc. 2002 Stock Option Plan, or the MedQuist Inc. Option Plan, pursuant to which the MedQuist Inc. board granted certain stock option awards to Mr. Masanotti.

*Eligibility and administration*

All officers, key employees and consultants of MedQuist Inc., including all non-employee directors, are eligible to receive options under the MedQuist Inc. Option Plan.

*Amendment and termination*

Options may not be granted pursuant to the MedQuist Inc. Option Plan after the tenth anniversary of the approval of the plan by shareholders of MedQuist Inc.. The board of MedQuist Inc. reserves the right to modify, amend, suspend or terminate the MedQuist Inc. Option Plan; provided, however, that such action shall not affect options granted under the MedQuist Inc. Option Plan prior to the actual date on which such action occurred. The MedQuist Inc. board will also seek shareholder approval for any amendment where such approval is required by law.

*Number of shares and adjustment*

As of October 1, 2010, the number of MedQuist Inc. shares of common stock which may be issued upon the exercise of options granted under the MedQuist Inc. Option Plan is 1,500,000 shares. The aggregate number and kind of shares issuable under the MedQuist Inc. Option Plan is subject to appropriate adjustment to reflect changes in the

capitalization of MedQuist Inc., such as by stock dividend, stock split or other similar circumstances. Any shares of MedQuist Inc. common stock subject to options that terminate unexercised will be available for future options granted under the MedQuist Inc. Option Plan.

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*Exercise price and terms*

The exercise price for options granted under the MedQuist Inc. Option Plan shall be equal to at least the fair market value of the MedQuist Inc. common stock as of the date of the grant of the option. Unless terminated earlier by the option's terms, options granted under the MedQuist Inc. Option Plan will generally expire ten years after the date they are granted.

*Termination of service; death; non-transferability*

Except in the case of an optionholder's death or disability, all unexercised options will terminate 90 days after the date either (i) the optionee ceases to perform services for MedQuist Inc., or (ii) MedQuist Inc. delivers or receives notice of an intention to terminate the employment relationship. An optionee who ceases to be an employee because of a disability must exercise the option within one year after he ceases to be an employee (but in no event later than the expiration date). The heirs or personal representative of a deceased employee who could have exercised an option while alive may exercise such option within one year following the employee's death (but in no event later than the expiration date). Unless the compensation committee provides otherwise, options granted under the MedQuist Inc. Option Plan are not transferable except in the event of death by will or the laws of descent and distribution.

**2010 Equity Incentive Plan**

We believe that the use of stock-based awards promotes our overall executive compensation objectives and expect that stock-based awards will continue to be a significant source of potential compensation for our executives. Therefore, prior to the closing of our proposed U.S. initial public offering, we intend to adopt the 2010 Equity Incentive Plan, or the 2010 Plan. The purpose of the 2010 Plan is to attract and retain key personnel and to provide a means for directors, officers, employees, consultants and advisors to acquire and maintain an interest in us, which interest may be measured by reference to the value of our common stock. The 2010 Plan is also designed to permit us to make cash-based awards and equity-based awards intended to qualify as performance-based compensation under Section 162(m) of the Code.

The principal features of the 2010 Plan are summarized below. This summary is qualified in its entirety by reference to the text of the 2010 Plan, which is filed as an exhibit to the registration statement of which this prospectus is a part.

*Administration*

Our remuneration committee will administer our 2010 Plan. The remuneration committee will have the authority to determine the terms and conditions of any agreements evidencing any awards granted under our 2010 Plan and to adopt, alter and repeal rules, guidelines and practices relating to our 2010 Plan. Our remuneration committee will have full discretion to administer and interpret the 2010 Plan and to adopt such rules, regulations and procedures as it deems necessary or advisable and to determine, among other things, the time or times at which the awards may be exercised and whether and under what circumstances an award may be exercised.



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### *Eligibility*

Our employees, directors, officers, advisors, consultants or affiliates are eligible to participate in the 2010 Plan. Our remuneration committee has the sole and complete authority to determine who will be granted an award under the 2010 Plan, however, it may delegate such authority to one or more of our officers under the circumstances set forth in our 2010 Plan.

### *Number of shares authorized*

The 2010 Plan reserves for awards not more than 7.5% of the total number of outstanding shares of our common stock, as determined following the completion of our proposed U.S. initial public offering, the private exchange and the exchange offer, less the number of shares that are subject to outstanding awards under the 2007 Equity Incentive Plan and the number of shares that will be reserved for issuance under the 2010 Employee Stock Purchase Plan, or the Share Reserve. No participant may be granted awards of options and stock appreciation rights with respect to more than 20% of the Share Reserve shares in any one year. No more than 20% of the Share Reserve shares may be granted under our 2010 Plan to any participant during any single year with respect to performance compensation awards in any one performance period. The maximum amount payable pursuant to a cash bonus for an individual employee or officer under our 2010 Plan for any single year during a performance period is \$5,000,000. If any award is forfeited or if any option terminates, expires or lapses without being exercised, the common stock subject to such award will again be made available for future grant. Shares that are used to pay the exercise price of an option or that are withheld to satisfy a participant's tax withholding obligation will not be available for re-grant under the 2010 Plan. If there is any change in our corporate capitalization, the remuneration committee will make or recommend to our board for approval substitutions or adjustments to the number of shares reserved for issuance under our 2010 Plan, the number of shares covered by awards then outstanding under our 2010 Plan, the limitations on awards under our 2010 Plan, the exercise price of outstanding options and such other equitable substitution or adjustments as it may determine appropriate in its sole discretion.

The 2010 Plan will have a term of ten years and no further awards may be granted under the 2010 Plan after the expiration of the term.

### *Awards available for grant*

The remuneration committee may grant awards of non-qualified stock options, incentive (qualified) stock options, stock appreciation rights, restricted stock awards, restricted stock units, stock bonus awards, dividend equivalents, performance compensation awards (including cash bonus awards) or any combination of the foregoing.

### *Options*

The remuneration committee will be authorized to grant options to purchase shares of common stock that are either qualified, meaning they are intended to satisfy the requirements of Section 422 of the Code for incentive stock options, or non-qualified, meaning they are not intended to satisfy the requirements of Section 422 of the Code. Options granted under our 2010 Plan will be subject to the terms and conditions established by the remuneration committee. Under the terms of our 2010 Plan, unless the remuneration committee determines otherwise in the case of an option substituted for another option in connection with a corporate transaction, the exercise price of the options will not be less than the fair market value of our common stock at the time of grant. Options granted under the 2010 Plan will be subject to such terms, including the exercise price and the conditions and timing of exercise, as may be determined by our remuneration committee and specified in the applicable award agreement. The maximum term of an option granted under the 2010 Plan will be ten years from the date of grant (or five years in the case of a qualified option granted to a 10% stockholder). Payment in respect of the exercise of an option may be made in cash or by

check, by surrender of unrestricted shares (at their fair market value on the date of exercise) that have been held by the participant for any period deemed necessary to avoid an additional compensation charge or have been purchased on the open market, or the remuneration committee may, in its discretion and to the extent permitted by law, allow such payment to be made through a broker-assisted cashless exercise mechanism, a net exercise method or by such other method as our remuneration committee may determine to be appropriate. Unless provided otherwise in the option agreement, options will vest in four equal installments on each of the first four anniversaries of the grant date.

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### *Stock appreciation rights*

Our remuneration committee will be authorized to award stock appreciation rights, or SARs, under the 2010 Plan. SARs will be subject to the terms and conditions established by the remuneration committee. An SAR is a contractual right that allows a participant to receive, either in the form of cash, shares or any combination of cash and shares, the appreciation, if any, in the value of a share over a certain period of time. An option granted under the 2010 Plan may include SARs and SARs may also be awarded to a participant independent of the grant of an option. SARs granted in connection with an option shall be subject to terms similar to the option corresponding to such SARs. The terms of the SARs shall be subject to terms established by the remuneration committee and reflected in the award agreement. Unless provided otherwise in the SAR agreement, SARs will vest in four equal installments on each of the first four anniversaries of the grant date.

### *Restricted stock*

Our remuneration committee will be authorized to award restricted stock under the 2010 Plan. Unless provided otherwise in the award agreement, restrictions on restricted stock will lapse in four equal installments on each of the first four anniversaries of the grant date. The remuneration committee will determine the terms of such restricted stock awards. Restricted stock is common stock that generally is non-transferable and is subject to other restrictions determined by the remuneration committee for a specified period. Unless the remuneration committee determines otherwise or specifies otherwise in an award agreement, if the participant terminates employment or service during the restricted period, then any unvested restricted stock will be forfeited.

### *Restricted stock unit awards*

Our remuneration committee will be authorized to award restricted stock unit awards. Unless provided otherwise in the award agreement, restricted stock units will vest in four equal installments on each of the first four anniversaries of the grant date. The remuneration committee will determine the terms of such restricted stock units. Unless the remuneration committee determines otherwise or specifies otherwise in an award agreement, if the participant terminates employment or service during the period of time over which all or a portion of the units are to be earned, then any unvested units will be forfeited. At the election of the remuneration committee, the participant will receive a number of shares of common stock equal to the number of units earned or an amount in cash equal to the fair market value of that number of shares at the expiration of the period over which the units are to be earned or at a later date selected by the remuneration committee.

### *Stock bonus awards*

Our remuneration committee will be authorized to grant awards of unrestricted common stock or other awards denominated in common stock, either alone or in tandem with other awards, under such terms and conditions as the remuneration committee may determine.

### *Dividend equivalents*

Our remuneration committee will be authorized to grant participants the right to receive the equivalent value (in cash or common stock) of dividends paid to holders of our common stock.

### *Performance compensation awards*

The remuneration committee will be authorized to grant any award under the 2010 Plan in the form of a performance compensation award by conditioning the vesting of the award on the satisfaction of certain performance goals. The

committee may establish these performance goals with reference to one or more of the following:

- n Net earnings or net income (before or after taxes);
- n Basic or diluted earnings per share (before or after taxes);
- n Net revenues or revenue growth;

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- n Net interest margin;
- n Operating profit (before or after taxes);
- n Return measures (including, but not limited to, return on assets or equity);
- n Cash flow (including, but not limited to, operating cash flow and free cash flow);
- n Share price (including, but not limited to, growth measures and total stockholder return);
- n Expense targets;
- n Margins;
- n Operating efficiency;
- n Measures of economic value added;
- n Asset quality;
- n Enterprise value;
- n Employee retention;
- n Objective measures of personal targets, goals or completion of projects;
- n Asset growth;
- n Dividend yield; or
- n Any combination of the foregoing.

*Transferability.*

Each award may be exercised during the participant's lifetime only by the participant or, if permissible under applicable law, by the participant's guardian or legal representative and may not be otherwise transferred or encumbered by a participant other than by will or by the laws of descent and distribution. The remuneration committee, however, may permit awards (other than incentive stock options) to be transferred to family equityholders, a trust for the benefit of such family equityholders, a partnership or limited liability company whose partners or stockholders are the participant and his or her family equityholders or anyone else approved by it.

*Amendment.*

Our 2010 Plan will have a term of ten years. Our board may amend, suspend or terminate our 2010 Plan at any time; however, stockholder approval to amend our 2010 Plan may be necessary if the law so requires. No amendment, suspension or termination will impair the rights of any participant or recipient of any award without the consent of the participant or recipient.

*Change in control.*

In the event of a Change in Control (as defined in the 2010 Plan), the remuneration committee may provide that all outstanding options and equity awards (other than performance compensation awards) issued under the 2010 Plan will become fully vested and that performance compensation awards will vest, as determined by the remuneration committee, based on the level of attainment of the specified performance goals. The remuneration committee may, in its discretion, cancel outstanding awards and pay the value of such awards to the participants in connection with a Change in Control. The remuneration committee can also provide otherwise in an award agreement under the 2010 Plan. Under the 2010 Plan, a change in control is generally defined as:

- n Any person or group becomes the beneficial owner of 50% or more of our voting shares;
- n A change in the composition of our board over a two-year period such that 50% or more of the equityholders of the board were elected through one or more contested elections;
- n A merger, share exchange, consolidation or other business transaction in which we are involved, directly or indirectly, other than a transaction which results in our outstanding voting securities immediately before the transaction continuing to represent a majority of the voting power of the acquiring company's outstanding

voting securities which are held in substantially the same proportions as immediately before the transaction, and after which no person or group beneficially owns 50% or more of the outstanding

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- voting securities of the surviving entity immediately after the transaction and at least a majority of our board following the transaction were equityholders of the incumbent board immediately prior to the transaction;
- n The sale, exchange or transfer of all or substantially all of our assets;
  - n The board's determination that as a consequence of any transaction or event, a change in control has occurred; or
  - n Shareholder approval of our liquidation or dissolution.

In addition, if an award under the 2010 Plan is subject to Section 409A of the Code, a change in control transaction may constitute a payment event only if the transaction is also a change in control event for purposes of Section 409A of the Code.

### ***United States federal income tax consequences***

The following is a general summary of the material United States federal income tax consequences of the grant, vesting and exercise of awards under the 2010 Plan and the disposition of shares acquired pursuant to the exercise of such awards and is intended to reflect the current provisions of the Code and the regulations thereunder. This summary is not intended to be a complete statement of applicable law, nor does it address foreign, state, local and payroll tax considerations. Moreover, the United States federal income tax consequences to any particular participant may differ from those described herein by reason of, among other things, the particular circumstances of such participant.

### ***Options***

The Code requires that, for treatment of an option as a qualified option, common stock acquired through the exercise of a qualified option cannot be disposed of before the later of (i) two years from the date of grant of the option or (ii) one year from the date of exercise. Holders of qualified options will generally incur no federal income tax liability at the time of grant or upon exercise of those options. However, the spread at exercise will be an item of tax preference, which may give rise to alternative minimum tax liability for the taxable year in which the exercise occurs. If the holder does not dispose of the shares before two years following the date of grant and one year following the date of exercise, the difference between the exercise price and the amount realized upon disposition of the shares will constitute long-term capital gain or loss, as the case may be. Assuming both holding periods are satisfied, we will not be allowed a deduction for federal income tax purposes in connection with the grant or exercise of the qualified option. If, within two years following the date of grant or within one year following the date of exercise, the holder of shares acquired through the exercise of a qualified option disposes of those shares, the participant will generally realize taxable compensation at the time of such disposition equal to the difference between the exercise price and the lesser of the fair market value of the share on the date of exercise or the amount realized on the subsequent disposition of the shares, and that amount will generally be deductible by us for federal income tax purposes, subject to the possible limitations on deductibility under Sections 280G and 162(m) of the Code for compensation paid to executives designated in those Sections. Finally, if an otherwise qualified option becomes first exercisable in any one year for shares having an aggregate value in excess of \$100,000 (based on the grant date value), the portion of the qualified option in respect of those excess shares will be treated as a non-qualified stock option for federal income tax purposes.

No income will be realized by a participant upon grant of a non-qualified stock option. Upon the exercise of a non-qualified stock option, the participant will recognize ordinary compensation income in an amount equal to the excess, if any, of the fair market value of the underlying exercised shares over the option exercise price paid at the time of exercise. We will be able to deduct this same amount for United States federal income tax purposes, but such deduction may be limited under Sections 280G and 162(m) of the Code for compensation paid to certain executives designated in those Sections.

*Restricted stock.* A participant will not be subject to tax upon the grant of an award of restricted stock unless the participant otherwise elects to be taxed at the time of grant pursuant to Section 83(b) of the Code. On the date an award of restricted stock becomes transferable or is no longer subject to a substantial risk of forfeiture, the participant will have taxable compensation equal to the difference between the fair market value of the shares



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on that date over the amount the participant paid for such shares, if any, unless the participant made an election under Section 83(b) of the Code to be taxed at the time of grant. If the participant made an election under Section 83(b), the participant will have taxable compensation at the time of grant equal to the difference between the fair market value of the shares on the date of grant over the amount the participant paid for such shares, if any. (Special rules apply to the receipt and disposition of restricted stock received by officers and directors who are subject to Section 16(b) of the Exchange Act). We will be able to deduct, at the same time as it is recognized by the participant, the amount of taxable compensation to the participant for United States federal income tax purposes, but such deduction may be limited under Sections 280G and 162(m) of the Code for compensation paid to certain executives designated in those Sections.

*Restricted stock units.* A participant will not be subject to tax upon the grant of a restricted stock unit award. Rather, upon the delivery of shares or cash pursuant to a restricted stock unit award, the participant will have taxable compensation equal to the fair market value of the number of shares (or the amount of cash) the participant actually receives with respect to the award. We will be able to deduct the amount of taxable compensation to the participant for United States federal income tax purposes, but the deduction may be limited under Sections 280G and 162(m) of the Code for compensation paid to certain executives designated in those Sections.

*SARs.* No income will be realized by a participant upon grant of an SAR. Upon the exercise of an SAR, the participant will recognize ordinary compensation income in an amount equal to the fair market value of the payment received in respect of the SAR. We will be able to deduct this same amount for United States federal income tax purposes, but such deduction may be limited under Sections 280G and 162(m) of the Code for compensation paid to certain executives designated in those Sections.

*Stock Bonus Awards and Dividend Equivalents.* A participant will have taxable compensation equal to the difference between the fair market value of the shares on the date the common stock subject to the award is transferred to the participant over the amount the participant paid for such shares, if any. We will be able to deduct, at the same time as it is recognized by the participant, the amount of taxable compensation to the participant for United States federal income tax purposes, but such deduction may be limited under Sections 280G and 162(m) of the Code for compensation paid to certain executives designated in those Sections. Dividend equivalents are taxable at ordinary income tax rates upon receipt.

*Section 162(m).* In general, Section 162(m) of the Code denies a publicly held corporation a deduction for United States federal income tax purposes for compensation in excess of \$1 million per year per person to its principal executive officer, and the three other officers (other than the principal executive officer and principal financial officer) whose compensation is disclosed in its prospectus or proxy statement as a result of their total compensation, subject to certain exceptions. Subject to obtaining approval of the 2010 Plan by our stockholders prior to the payment of any awards thereunder, the 2010 Plan is intended to satisfy an exception with respect to grants of options to covered employees. In addition, the 2010 Plan is designed to permit certain awards of restricted stock, restricted stock units, cash bonus awards and other awards to be awarded as performance compensation awards intended to qualify under the performance-based compensation exception to Section 162(m) of the Code.

***2010 Employee Stock Purchase Plan***

The purpose of the 2010 Employee Stock Purchase Plan, or the Employee Stock Purchase Plan, is to promote our interests and that of our shareholders by providing our employees with an opportunity to purchase our common stock at a discount through accumulated payroll deductions. By encouraging stock ownership, we seek to attract, retain and motivate employees and to encourage them to devote their best efforts to our business and financial success. The Employee Stock Purchase Plan is intended to qualify as an employee stock purchase plan within the meaning of Section 423 of the Code.

The following is a summary of the material terms of the Employee Stock Purchase Plan and is qualified in its entirety by reference to the text of the Employee Stock Purchase Plan, a copy of which is filed as an exhibit to the registration statement of which this prospectus is a part.

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### *Administration*

Our remuneration committee will administer the Employee Stock Purchase Plan and shall have full and exclusive discretionary authority to construe, interpret and apply the terms of the Employee Stock Purchase Plan, to determine eligibility and to adjudicate all disputed claims filed thereunder.

### *Share purchases*

Participation in the Employee Stock Purchase Plan is voluntary. The Employee Stock Purchase Plan permits shares of our common stock to be sold to participating employees on the last trading day of any offering period at a price that may not be not less than the lesser of 85% of the fair market value of our common stock at the beginning of an offering period and 85% of the fair market value of our common stock at the end of such offering period.

Each six-month period will constitute an offering period under the Employee Stock Purchase Plan. The remuneration committee may, in its discretion and with prior notice, change the duration and/or frequency of offering periods from time to time. The initial offering period under the Employee Stock Purchase Plan will commence on the first trading day on or after July 1, 2011 and end on the last trading day on or before December 1, 2011.

### *Eligible participants*

Each of our employees is eligible to participate in the Employee Stock Purchase Plan, provided that:

- a. the employee's customary employment is more than 20 hours per week and is more than five months per year; and
- b. the employee has been continuously employed by us or one of our eligible subsidiaries for at least 30 days prior to the start of the applicable offering period.

Our remuneration committee may also exclude any (i) highly compensated employee within the meaning of Code Section 414(q) or (ii) employee of a participating subsidiary if it determines that participation by employees of the participating subsidiary would not be permitted under applicable local laws, would be unduly burdensome as a result of constraints imposed by such laws or would cause a violation of Section 423 of the Code.

### *Number of shares*

The aggregate number of shares of our common stock that are available for purchase under the Employee Stock Purchase Plan will be determined by our remuneration committee but in any event will not exceed 2% of the total number of outstanding shares of our common stock determined following the completion of our initial public offering, the private exchange and the offer. The number of shares of common stock available for purchase under the Employee Stock Purchase Plan, as well as the price per share of our common stock covered by share purchase rights that have not been exercised, are subject to adjustment by the remuneration committee in the event of a stock split, reverse stock split, stock dividend, combination or reclassification of our common stock, or other increase or reduction of our outstanding common stock effected without the receipt of consideration, provided that conversion of convertible securities shall not be deemed to have been effected without consideration.

No employee may receive the right to purchase our common stock under the Employee Stock Purchase Plan: (i) to the extent that he or she would own or have the right to purchase stock possessing 5% or more of the total combined voting power or value of all classes of our common stock of us or any of our subsidiaries; or (ii) to the extent that his or her rights to purchase stock under all stock purchase plans of us or any of our subsidiaries would accrue at a rate

which exceeds \$25,000 in fair market value in any calendar year.

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### *Terms and conditions*

Eligible employees may elect to participate in the Employee Stock Purchase Plan by giving proper notice to us to withhold a specified percentage of the employee's base salary (in any multiple of 1% up to a maximum of 15%) on each pay period during the applicable offering period.

A participant may increase or decrease the amount of his or her contributions for future pay periods within an offering period, subject to limitations set by the remuneration committee. A participant may withdraw his or her cash contributions that have accumulated during an offering period but have not yet been used to purchase our common stock. Participants who withdraw from the Employee Stock Purchase Plan will not be permitted to re-enroll in the Employee Stock Purchase Plan until the next offering period. Upon a participant's termination of employment with us an eligible subsidiary for any reason, the participant will be deemed to have withdrawn from the Employee Stock Purchase Plan.

Participants have no interest or voting rights in shares of our common stock covered by share purchase rights until such rights have been exercised.

### *Duration, termination and amendment*

Unless earlier terminated by our board or the remuneration committee, the Employee Stock Purchase Plan will continue in effect for ten years from the later of the date that it is adopted by our board or approved by stockholders. The Employee Stock Purchase Plan permits our board or the remuneration committee to amend or terminate the Employee Stock Purchase Plan at any time, except that no amendment to the Employee Stock Purchase Plan may make any change in any share purchase rights previously granted that adversely affects the rights of any participant, except as otherwise provided in the Employee Stock Purchase Plan. In the event of a proposed sale of all or substantially all of our assets, or a merger with another corporation, each outstanding option shall be assumed or an equivalent option substituted by the successor corporation. In the event that the successor corporation refuses or assume or substitute for the options, any offering period(s) then in progress will be shortened by setting a new exercise date, and participants will be notified that their options will be exercised automatically on such new exercise date.

### *Transferability of contributions and purchase rights*

The right of a participant to purchase our common stock through the Employee Stock Purchase Plan will not be assignable or transferable by the participant, except by will or the laws of inheritance following a participant's death.

### *Holding period for purchased shares*

Once shares are purchased at the end of an offering period, the Employee Stock Purchase Plan requires that the participants hold the shares of common stock in a restricted account for a period of twenty-four months (or a shorter or longer period of time as may be established by the remuneration committee). The shares may not be sold or otherwise disposed of while held in the restricted account without the remuneration committee's prior written consent. However, in the event of a qualifying merger or asset sale, the twenty-four month holding period will no longer apply.

### *Federal Income Tax Consequences*

The following is a general summary of the material United States federal income tax consequences of the grant and exercise of awards under the 2010 Employee Stock Purchase Plan and the disposition of shares acquired pursuant to the exercise of such awards and is intended to reflect the current provisions of the Code and the regulations

thereunder. This summary is not intended to be a complete statement of applicable law, nor does it address foreign, state, local and payroll tax considerations. Moreover, the United States federal income tax consequences to any particular participant may differ from those described herein by reason of, among other things, the particular circumstances of such participant.

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The Employee Stock Purchase Plan is intended to qualify as an employee stock purchase plan within the meaning of Section 423 of the Code. The purchase of stock under the Employee Stock Purchase Plan is made with after-tax earnings. Generally, neither the grant of a right to buy stock under the Employee Stock Purchase Plan on the first trading day of the offering period, or the Grant Date, nor the exercise of the right to buy stock on the last trading day of the offering period will result in taxable income to a participant or a tax deduction for us. Thereafter, the federal income taxes for a participant who sells the stock will depend on when the participant sells the stock.

Generally, a participant in the Employee Stock Purchase Plan will recognize income in the year in which he or she disposes of the shares or in which he or she dies. The participant's federal tax liability will depend on whether the participant makes a qualifying or disqualifying disposition of the purchased shares. A qualifying disposition generally will occur if the sale or other disposition of the shares occurs after the participant has held the shares for (i) more than two years after the start of the offering period and (ii) more than one year after the last trading day of the offering period.

A participant who makes a qualifying disposition will recognize ordinary income in the year of the qualifying disposition equal to the lesser of (i) the excess of the fair market value on the Grant Date of the shares being sold or otherwise transferred over the aggregate purchase price for such shares and (ii) the excess of the amount realized for such shares on the date of the qualifying disposition over the aggregate purchase price paid for such shares. Any additional gain recognized upon a qualifying disposition will be a long-term capital gain. If the fair market value of the shares being sold or otherwise transferred on the date of the qualifying disposition is less than the aggregate purchase price paid for such shares, there will be no ordinary income, and any loss recognized will be a long-term capital loss.

A participant who makes a disqualifying disposition will recognize ordinary income in the year of the disqualifying disposition equal to the excess of (i) the fair market value of the shares on the last trading day of the offering period over (ii) the purchase price. Any additional gain or loss recognized upon a disqualifying disposition will be capital gain, which will be long-term if the shares are held for more than twelve months.

Generally, we are entitled to a tax deduction when a participant engages in a disqualifying disposition for the amount of ordinary income recognized by the participant. Otherwise, we are not entitled to a tax deduction under the Employee Stock Purchase Plan.

**Compensation of directors**

We currently do not pay Frank Baker, Peter Berger, Jeffrey Hendren or our employee directors any compensation for their service on our board. Our other non-employee directors are paid an annual retainer of \$50,000, except for Mr. McLachlan who receives \$60,000 annually which reflects an additional \$10,000 retainer for his role as chair of our audit committee. All directors are reimbursed for all reasonable expenses incurred by them in connection with their service on our board.

During 2010, our non-employee directors (other than Messrs. Berger, Baker and Hendren) received the following compensation from us:

<b>Director</b>	<b>Fees earned or paid in cash</b>	<b>Total (\$)</b>
Charles Siegfried Habermacher (former director)	\$ 50,000	\$ 50,000

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Atim Kabra (former director)	\$	50,000	\$ 50,000
Kenneth John McLachlan	\$	60,000	\$ 60,000
Merle Gilmore	\$	50,000	\$ 50,000
James Patrick Nolan	\$	50,000	\$ 50,000



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The following table and accompanying footnotes set forth information regarding the beneficial ownership of our shares as of December 30, 2010 based on the shares outstanding as of December 30, 2010, of (i) each person known by us to own beneficially more than 5% of our common stock, (ii) each selling stockholder in our proposed U.S. initial public offering, (iii) each of the named executive officers, (iv) each of our current directors, (v) all current members of the board and the executive officers as a group.

The amounts and percentages of shares beneficially owned are reported on the basis of SEC regulations governing the determination of beneficial ownership of securities. Under SEC rules, a person is deemed to be a beneficial owner of a security if that person has or shares voting power or investment power, which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days. Securities that can be so acquired are deemed to be outstanding for purposes of computing such person's ownership percentage, but not for purposes of computing any other person's percentage. Under these rules, more than one person may be deemed to be a beneficial owner of the same securities and a person may be deemed to be a beneficial owner of securities as to which such person has no economic interest.

The number of shares and percentages of beneficial ownership prior to our proposed U.S. initial public offering set forth below are based on the number of shares issued and outstanding as of December 30, 2010 and give effect to the private exchange. The number of shares and percentages of beneficial ownership after the exchange offer set forth below are based on the number of shares to be issued and outstanding immediately after the consummation of (i) our proposed U.S. initial public offering, (ii) the private exchange and (iii) the exchange offer, assuming a full exchange, or the Transactions.

Except as otherwise indicated in the footnotes below, each of the beneficial owners has, to our knowledge, sole voting and investment power with respect to the indicated shares of common stock. Unless otherwise noted, the address of each director and executive officer is c/o MedQuist Holdings Inc. (formerly CBay Systems Holdings Limited), 9009 Carothers Parkway, Franklin, TN 37067.

Name and address of beneficial owner	Prior to the Transactions		Number of shares being offered in our U.S. initial public offering	After the Transactions		Number of shares	Percent of shares
	Number of shares	Percent of shares		Assuming the underwriters option is not exercised	Assuming the underwriters option is exercised in full		
<b>Principal stockholders</b> S.A.C. PEI CB Investment, L.P. and affiliates <sup>(1)(2)</sup>	16,788,241	47.8%		17,347,922	34.0	17,347,922	33.2

Lehman Brothers Commercial Corporation Asia Limited (in Liquidation) <sup>(2)</sup>	4,228,584	12.0	2,222,222	2,006,362	3.9	2,006,362	3.8
GMO Emerging Markets Fund, a series of GMO Trust	2,643,634	7.5		2,643,634	5.2	2,643,634	5.1
Godrej Group <sup>(3)</sup>	2,138,787	6.1		2,138,787	4.2	2,138,787	4.1
<b>Directors and executive officers</b>							
Robert Aquilina <sup>(4)</sup>	322,660	*		322,660	*	322,660	*
V. Raman Kumar <sup>(5)</sup>	1,500,556	4.2		1,500,556	2.9	1,500,556	2.8
Michael Seedman <sup>(6)</sup>	161,323	*		161,323	*	161,323	*
Clyde Swoger <sup>(7)</sup>	115,230	*		115,230	*	115,230	*
Peter Masanotti Michael F. Clark Anthony James Frank Baker Peter Berger Merle Gilmore							

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Name and address of beneficial owner	Prior to the Transactions		Number of shares being offered in our U.S. initial public offering	After the Transactions			
	Number of shares	Percent of shares		Assuming the underwriters option is not exercised		Assuming the underwriters option is exercised in full	
				Number of shares	Percent of shares	Number of shares	Percent of shares
Jeffrey Hendren Kenneth John McLachlan James Patrick Nolan All directors and executive officers as a group (13 persons)	2,523,152	5.7		2,523,152	4.0	2,523,152	3.9
<b>Selling stockholders</b>							
Black Horse Capital <sup>(8)</sup>	1,150,295	3.2	825,000	325,295	*	325,295	*
Costa Brava Partnership III, L.P. <sup>(9)</sup>	2,873,142	7.6	694,444	2,178,698	4.3	2,178,698	4.2
Sansar Capital Holdings, Ltd. <sup>(10)</sup>	584,883	1.7	584,883				

\* Less than 1%.

- (1) Amounts shown under the heading "Prior to the Transactions" include 15,768,938 shares directly beneficially owned by S.A.C. PEI CB Investment, L.P., a Cayman Islands limited partnership, or SAC CBI, 715,128 shares directly beneficially owned by S.A.C. PEI CB Investment II, LLC, a Delaware limited liability company, or SAC CBI II, and 304,175 shares directly beneficially owned by International Equities (S.A.C. Asia) Limited, a Mauritius company, or SAC Asia. Amounts shown under the heading "After the Transactions" also include 559,681 shares which may be issued to SAC CBI II pursuant to the Consulting Services Agreement. See "Certain Relationships and Related Party Transactions."

The general partner of SAC CBI is S.A.C. PEI CB Investment GP, Limited, a Cayman Islands company, or SAC CBI GP; S.A.C. Private Equity Investors, L.P., a Cayman Islands limited partnership, or SAC PEI, is the sole shareholder of SAC CBI GP; S.A.C. Private Equity GP, L.P., a Cayman Islands limited partnership, or SAC PEI GP, is the general partner of SAC PEI; S.A.C. Capital Management, LLC, a Delaware limited liability company, or SAC Management LLC, is the general partner of SAC PEI GP; and Mr. Steven A. Cohen controls SAC Management LLC. The manager of SAC CBI II is SAC PCG, a Delaware limited liability company; S.A.C. Capital Advisors, L.P., a Delaware limited partnership, or SAC Advisors LP, manages SAC PCG; S.A.C. Capital Advisors Inc., a Delaware corporation, or SAC Advisors Inc., is the general partner of SAC Advisors LP; and Mr. Cohen controls SAC Advisors Inc. Pursuant to investment management agreements, SAC Advisors LP and S.A.C. Capital Advisors, LLC, a Delaware limited liability company, or SAC Advisors LLC, maintain voting and dispositive power with respect to securities held by SAC Asia; and Mr. Cohen controls SAC Advisors LLC. SAC CBI GP, SAC PEI, SAC PEI GP, SAC Management LLC, SAC PCG, SAC Advisors LP, SAC Advisors Inc., SAC Advisors LLC and Mr. Cohen expressly disclaim beneficial ownership of securities directly beneficially owned by any person or entity other than, to the extent of any pecuniary interest therein, the various accounts under their respective

management and control.

The address of SAC CBI is c/o Walkers Corporate Services Limited, Walker House, 87 Mary Street, George Town, Grand Cayman KY1-9002, Cayman Islands. The address of SAC CBI II is 72 Cummings Point Road, Stamford, Connecticut 06902. The address of SAC Asia is c/o Citco (Mauritius) Ltd., 4th Floor, Tower A, One CyberCity, Ebene, Mauritius.

- (2) In connection with our proposed U.S. initial public offering, LBCCA's limited partnership interest in SAC CBI will be redeemed by SAC CBI for cash of \$13.7 million plus a distribution to LBCCA of 4,228,584 shares. In connection with the redemption, LBCCA is expected to grant to SAC CBI an irrevocable proxy to vote such shares so long as they are beneficially owned by LBCCA. SAC CBI disclaims beneficial ownership of all shares owned by LBCCA, and such shares are not included in the amounts shown for SAC CBI and affiliates above. See Certain Relationships and Related Party Transactions. The address of Lehman Brothers Commercial Corporation Asia Limited (In Liquidation) is c/o KPMG, 8th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong. Messrs. Paul Brough, Edward Middleton and Patrick Cowley in their capacity as joint and several liquidators of LBCCA acting as agents without personal liability, have voting and dispositive power over the shares held by LBCCA pursuant to section 199 of the Companies Ordinance (Ch.32 of the laws of Hong Kong).
- (3) These shares include 1,818,255 shares held by Godrej Industries Limited and 320,532 shares held by Godrej International Limited.
- (4) Mr. Aquilina is our Chairman and our Chief Executive Officer. Of the shares shown as beneficially owned, all represent shares issuable pursuant to options that are currently vested and exercisable.
- (5) Mr. Kumar is our Vice Chairman and a director. These shares include 506,970 shares over which Mr. Kumar has sole voting and investment power, 110,516 shares over which Mr. Kumar has shared voting and investment power and 883,070 shares issuable pursuant to options that are currently vested and exercisable.
- (6) Mr. Seedman is our Chief Technology Officer and a director on our board. Of the shares shown as beneficially owned, all represent shares issuable pursuant to options that are currently vested and exercisable.
- (7) Mr. Swoger is our Chief Financial Officer. Of the shares shown as beneficially owned, all represent shares issuable pursuant to options that are currently vested and exercisable.
- (8) Amounts shown under the heading Prior to the Transactions include 1,150,295 shares issuable pursuant to the private exchange, and include 563,107 shares issuable to Black Horse Capital LP in the private exchange, 213,975 shares issuable to Black Horse Capital (QP) LP and 373,213 shares issuable to Black Horse Capital Master Fund Ltd. The address of Black Horse Capital is c/o Black Horse Capital Advisors LLC, 338 S. Sharon Amity Road, #202, Charlotte, North Carolina, 28211. Dale B. Chappell exercises voting and investment power over the securities held by Black Horse Capital LP, Black Horse Capital (QP) LP, and Black Horse Capital Master Fund Ltd.
- (9) Amounts shown under the heading Prior to the Transactions include 2,478,698 shares issuable pursuant to the private exchange and 394,444 shares outstanding as of the date hereof. The address of Costa Brava Partnership III, L.P. is 222 Berkeley Street, Boston, Massachusetts 02116. Seth Hamot exercises voting and investment power over the securities held by Costa Brava Partnership III, L.P.
- (10) Sansar Capital Holdings, Ltd., or SCH, is a Cayman Islands exempted company. The address of SCH is c/o Sansar Capital Management, LLC, 152 West 57th Street, 8th Floor, New York, New York 10019. Sanjay Motwani is the sole director of SCH, and in his capacity as the sole director of SCH, he exercises voting and investment power over the securities held by SCH.



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**Certain Relationships and Related Party Transactions**

**Agreements with SAC PCG and affiliates and related transactions**

***Subscription Agreement***

On May 21, 2008, we entered into a subscription agreement, or the Subscription Agreement, with SAC CBI and SAC PCG. Under the Subscription Agreement, we issued 19,997,522 shares of our common stock for an aggregate purchase price of \$124.0 million and SAC CBI thereby acquired a majority interest in us. We used the proceeds received under the Subscription Agreement to fund a portion of the costs of the MedQuist Inc. Acquisition.

***Stock purchase agreement***

On May 21, 2008, we and our wholly-owned subsidiary, CBay Inc., entered into a stock purchase agreement with Royal Philips Electronics N.V., or Philips, pursuant to which CBay Inc. purchased 26,085,086 shares of common stock, or approximately 69.5% of the outstanding common stock, of MedQuist Inc. for (i) \$98.1 million in cash, (ii) the \$90.9 million 6% Convertible Notes and (iii) a \$26.2 million promissory note. The 6% Convertible Notes and the \$26.2 million promissory note have been repaid.

***Management Stockholders Agreements***

In connection with the MedQuist Inc. Acquisition, we, SAC CBI and certain members of our senior management team, collectively, the Management Stockholders, including Robert Aquilina, Raman Kumar, Michael Seedman and Clyde Swoger, entered into stockholders agreements, collectively, the Management Stockholders Agreements. Each Management Stockholders Agreement provided that transfers to a third party of shares of our common stock owned by the relevant Management Stockholder generally required our consent and the consent of SAC CBI, provided for drag-along and tag-along rights in connection with certain sales of shares by SAC CBI and contained a grant by each Management Stockholder to SAC CBI of a proxy enabling SAC CBI to vote the shares held by the relevant Management Stockholder. The Management Stockholders Agreements are being amended, to eliminate all of the foregoing provisions. As amended, the Management Stockholders Agreements will contain provisions addressing the requirements of the Securities Act relating to the transferability of shares of our common stock issued to the Management Stockholders pursuant to option agreements entered into at the time of the MedQuist Inc. Acquisition and provisions requiring the Management Stockholders to enter into to lock-up agreements in respect of shares of our common stock owned by them in connection with certain public offerings of our common stock.

***Consulting Services Agreement***

On August 19, 2008, we entered into the Consulting Services Agreement with S.A.C. PEI CB Investment II, LLC, or SAC CBI II, an affiliate of SAC CBI, and LBCCA and collectively with SAC CBI II, the Consultants. The Consulting Services Agreement was entered into to, among other things, effect the economic understanding regarding the terms upon which SAC CBI acquired its ownership interest in us and to address potential dilutive and related effects at the time of SAC CBI's investment in us. It provides for annual payments, to be made in quarterly installments, of approximately \$1.9 million to SAC CBI II and \$0.9 million to LBCCA, which may at our option be paid in shares of our common stock at fair market value or in cash. We account for the annual payments as a capital transaction. In addition, we agreed to indemnify and reimburse the Consultants and their affiliates for their out-of-pocket expenses in connection with the services rendered under this agreement. Our payment obligations extend for five years from the date of the agreement, unless a change of control as defined in the agreement occurs, in which case the present value

of all amounts not previously paid become due upon the change of control. Accruals in the amount of \$1.1 million and \$2.8 million were recorded for the years ended December 31, 2008 and 2009, respectively. As of December 31, 2008 and 2009 and September 30, 2010, we have accrued and recorded in due to related parties \$1.1 million, \$2.2 million and \$2.9 million, respectively. In July 2009, we issued 570,266 shares of our common stock and in May 2010 we issued 144,862 shares of our common stock to satisfy a portion of the amounts due. The closing of our proposed U.S. initial public offering and

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of the private exchange will result in a change of control under the Consulting Services Agreement and we intend to issue additional shares to satisfy our remaining payment obligations under the agreement based upon the initial public offering price for our shares in our proposed U.S. initial public offering. Based upon the midpoint of the price range shown on the cover of this prospectus, the maximum number of shares issuable would be 959,355 shares. However, since provisional liquidators were appointed in respect of LBCCA in September 2008 and, because LBCCA is in liquidation, we are in discussions with LBCCA's liquidators regarding LBCCA's entitlement to payments under the agreement.

### ***Transaction fees***

In connection with the MedQuist Inc. Acquisition, we made a payment of \$8.0 million in the aggregate to two affiliates of SAC PCG and to LBCCA.

On May 4, 2010, the audit committee of MedQuist Inc.'s board of directors approved a \$1.5 million success-based payment to SAC PCG in connection with the Spheris Acquisition.

We have approved a \$5.0 million payment to SAC PCG in connection with the Corporate Reorganization.

In the future, SAC PCG and its affiliates may receive customary payments for other services rendered to us. If such services are rendered in the future, the payments will be negotiated from time to time on an arm's length basis and will be based on the services performed and the prevailing amounts then charged by third parties for comparable services.

### ***Voting agreement***

In connection with the private exchange, we entered into a voting agreement, dated September 30, 2010, with SAC CBI, SAC CBI II, and International Equities (S.A.C. Asia) Limited, the SAC Stockholders. Under this agreement, the SAC Stockholders agreed to vote the shares held by them in favor of any matter subject to a vote of our stockholders that is reasonably necessary for consummation of the transactions contemplated by the Exchange Agreement.

### ***Registration Rights Agreement***

In connection with our proposed U.S. initial public offering, we will enter into a Registration Rights Agreement with the SAC Stockholders, or the Registration Rights Agreement, to provide registration rights with respect to shares of our common stock held by the SAC Stockholders and their affiliates. The Registration Rights Agreement will provide them with an unlimited number of demand registrations and piggyback registration rights. In addition, the Registration Rights Agreement will provide that the SAC Stockholders and their affiliates may request that we file a shelf registration statement beginning on the 181st day after our proposed U.S. initial public offering. The Registration Rights Agreement will also provide that we will pay certain expenses relating to such registrations and indemnify against certain liabilities.

### ***Stockholders agreements***

In connection with our proposed U.S. initial public offering, we will enter into a stockholders agreement with the SAC Stockholders, or the IPO Stockholders Agreement. The IPO Stockholders Agreement will grant the SAC Stockholders and their affiliates the right to nominate to our board a number of designees, or SAC Directors, equal to: (i) three directors so long as they hold at least 20% of our voting power; (ii) two directors so long as they hold at least 10% of our voting power; and (iii) one director so long as they hold at least 5% of our voting power. They have the right to remove and replace their director-designees at any time and for any reason and to nominate any individual(s) to fill any such vacancies.



In connection with the private exchange, we will enter into a stockholders agreement, or the private exchange Stockholders Agreement, with the SAC Stockholders and the investors party to the private exchange. For so long as the SAC Stockholders have the right to nominate the SAC Directors, each Investor (as defined in the private exchange Stockholders Agreement) agrees, among other things (i) that for a period of one year from the closing

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under the private exchange and thereafter for so long as it owns at least three percent of our outstanding shares, it will vote all of its voting shares, or (as applicable) provide its written consent in respect thereof, in favor of the election of the SAC Directors to our board and (ii) not to take any action that would cause the number of directors constituting the entire board to be greater than nine without the prior written consent of SAC CBI.

Under the private exchange Stockholders Agreement, the Investors will have piggyback registration rights with respect to their shares of common stock in the event that we sell shares of our common stock. With respect to any underwritten public offering, each Investor also agrees to a lock-up period of 180 days beginning on the effective date of the initial public offering or 90 days beginning on the effective date of any other public offering.

### ***Redemption Agreement***

In connection with our proposed U.S. initial public offering, we expect to enter into an agreement, or the Redemption Agreement, with SAC CBI, SAC PEI, SAC CBI GP, LBCCA and the liquidators of LBCCA pursuant to which SAC PEI will contribute \$13.7 million in cash to SAC CBI in exchange for partnership interests in SAC CBI, SAC CBI will redeem all of LBCCA's limited partnership interests in SAC CBI for \$13.7 million in cash and 4,228,584 shares of our common stock, LBCCA will enter into a 180-day contractual lock-up on the shares of our common stock that LBCCA will own after the completion of our proposed U.S. initial public offering and LBCCA will grant to SAC CBI an irrevocable proxy to vote such shares so long as they are beneficially owned by LBCCA.

### **Other related party transactions**

Effective February 10, 2009, the former CEO and President of Mirrus Systems Inc., or Mirrus, Nanda Krishnaiah, who also formerly served as a director on our board, resigned from services with us. Under the terms of his settlement, we paid him \$390,000 in severance and purchased his 13% stake in Mirrus for \$690,000. Mirrus is now our wholly owned 100% subsidiary.

During 2007, we repaid a loan made to us from V. Raman Kumar, our Vice Chairman and a director, in the amount of \$226,706 plus interest. For the years ended December 31, 2007 and 2008, we received certain consulting services from Mr. Kumar for an aggregate amount of \$396,000 and \$96,000, respectively.

We sold software solution services to CBay Systems Limited, owned by our predecessor parent and in which Mr. Kumar was a director, in the amount of \$920,000 and \$471,000 for the years ended December 31, 2007 and 2008, respectively. During the year ended December 31, 2008, CBay Systems Limited transferred certain assets to us at an aggregate value of \$704,000 together with the related underlying liabilities against certain assets amounting to \$184,000 to be adjusted against receivables from CBay Systems Limited. During the year ended December 31, 2008, CBay Systems Limited settled amounts recoverable by transferring to us certain fixed assets of an aggregate value of \$614,000. The balance receivable from CBay Systems Limited of \$760,000 was not considered recoverable and accordingly it was written off. For the years ended December 31, 2007 and 2008, we provided transcription services of \$7.3 million and \$574,000 respectively, and for the year ended December 31, 2007, software and management services of \$1.2 million to CBay Systems Limited. For the years ended December 31, 2007 and 2008, we also provided customer relationship and front end services to CBay Systems Limited of \$683,000 and \$59,000, respectively. For the years ended December 31, 2007 and 2008, we received reimbursement of expenses of \$233,000 and \$120,000, respectively, and made reimbursements of expenses to CBay Systems Limited for an aggregate value of \$398,000 and \$107,000, respectively. Further, we have provided short term advances to CBay Systems Limited for an aggregate value of \$5.3 million for the year ended December 31, 2007. For the years ended December 31, 2007 and 2008, the net balance receivable from CBay Systems Limited in respect of the above transactions aggregated \$2.8 million and \$860,000, respectively.

For the years ended December 31, 2007 and 2008, we sold software solution services of \$920,000 and \$471,000, respectively, to Ztec Ventures Limited, a company in which Mr. Kumar is a director.

We occupied property owned by Godrej Group, a principal stockholder, and paid rent and service charges totaling \$557,000, \$429,000 and \$0 for the years ended December 31, 2007, 2008 and 2009, respectively.

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**Related person transaction approval policy**

Historically, any transaction involving us and related persons was presented to, evaluated by and needed to be approved by the disinterested directors on our board.

The board of MedQuist Inc. adopted a related party transaction policy in August 2007, which charges its Audit Committee (or the disinterested members of its board) with the responsibility of ratifying all related party transactions. Transactions involving compensation also required approval by the Compensation Committee. On July 28, 2009, the board of MedQuist Inc. amended the related party transaction policy such that any transaction involving compensation where the related party is CBay, Inc. or its affiliates must only be approved by the Audit Committee.

Prior to the completion of our proposed U.S. initial public offering, our board intends to consider adoption of a written statement of policy for the review, approval and monitoring of transactions involving us and related persons.

The \$8.0 million payment we made to two affiliates of SAC PCG and to LBCCA in connection with the MedQuist Inc. Acquisition was approved by our board, none of whom were interested parties in this payment.

The \$1.5 million payment MedQuist Inc. made to SAC PCG in connection with the Spheris Acquisition was approved by MedQuist Inc.'s audit committee in accordance with MedQuist Inc.'s related party transaction approval policy described above.

The \$5.0 million payment we have agreed to make to SAC PCG in connection with the Corporate Reorganization was approved by each of the disinterested directors on our board.

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**Use of Proceeds**

We will not receive any cash proceeds from the exchange offer. We will pay all fees and expenses related to the exchange offer, other than any commissions or concessions of any broker or dealer. Except as otherwise provided in the letter of transmittal, we will pay the transfer taxes, if any, on the exchange of any shares of MedQuist Inc. common stock.

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**The Exchange Offer**

PARTICIPATION IN THE EXCHANGE OFFER IS VOLUNTARY, AND YOU SHOULD CAREFULLY CONSIDER WHETHER TO PARTICIPATE. BEFORE YOU MAKE YOUR DECISION, WE URGE YOU TO CAREFULLY READ THIS PROSPECTUS IN ITS ENTIRETY, INCLUDING THE INFORMATION SET FORTH IN THE SECTION OF THIS PROSPECTUS ENTITLED RISK FACTORS. WE ALSO URGE YOU TO CONSULT YOUR OWN FINANCIAL AND TAX ADVISORS IN MAKING YOUR OWN DECISIONS ON WHAT ACTION, IF ANY, TO TAKE IN LIGHT OF YOUR OWN PARTICULAR CIRCUMSTANCES.

**General**

We are offering to exchange, upon the terms and subject to the conditions set forth in this prospectus and in the letter of transmittal, up to 6.7 million newly issued shares of our common stock for properly tendered and accepted shares of MedQuist Inc. common stock, as described below.

For each share of MedQuist Inc. common stock that we accept for exchange in accordance with the terms of the exchange offer, we will issue one share of our common stock. We refer to the number of shares of our common stock we will issue for each share of MedQuist Inc. common stock we accept in the exchange offer as the exchange ratio .

This prospectus and the letter of transmittal are being sent to all holders of MedQuist Inc. common stock. There will be no fixed record date for determining holders of MedQuist Inc. common stock entitled to participate in the exchange.

Any shares of MedQuist Inc. common stock tendered but not accepted because they were not validly tendered will remain outstanding upon completion of the exchange offer. If any tendered shares of MedQuist Inc. common stock are not accepted for exchange and payment because of an invalid tender, the occurrence of other events set forth in this prospectus or otherwise, all unaccepted shares of MedQuist Inc. common stock will be returned, without expense, to the tendering holder promptly after the expiration date or the termination date.

Our obligation to accept shares of MedQuist Inc. common stock tendered pursuant to the exchange offer is limited by the conditions listed below under Conditions of the exchange offer.

Shares of MedQuist Inc. common stock that are not exchanged in the exchange offer will remain outstanding and will be entitled to the rights and benefits their holders have.

We will be deemed to have accepted for exchange properly tendered shares of MedQuist Inc. common stock when we have given oral or written notice of the acceptance to the exchange agent. The exchange agent will act as agent for the holders of MedQuist Inc. common stock who tender their shares of MedQuist Inc. common stock in the exchange offer for the purposes of receiving the exchange offer consideration from us and delivering the exchange offer consideration to the exchanging holders. We expressly reserve the right, subject to applicable law, to amend or terminate the exchange offer, and not to accept for exchange any shares of MedQuist Inc. common stock not previously accepted for exchange, upon the occurrence of any of the conditions specified below under Conditions of the exchange offer.

**Purpose and background of the exchange offer**

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. stockholders would result in an expedited and fair process. Additionally, our management concluded that pursuing a two-tiered exchange offer, whereby a

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significant portion of the minority MedQuist Inc. stockholders 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, including review and approval by the independent directors of MedQuist Inc. 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 this 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 and 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 exchange offer.

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

For additional details, see Background and reasons for the exchange offer.

**Terms of the exchange offer**

We are offering to exchange, upon the terms and subject to the conditions set forth in this prospectus and in the letter of transmittal, up to 6.7 million newly issued shares of our common stock for properly tendered and accepted shares of MedQuist Inc. common stock. See Consideration below.

**Consideration**

Upon the terms and subject to the conditions set forth in this prospectus and the related letter of transmittal, for each share of MedQuist Inc. common stock that we accept for exchange, we will issue one share of our common stock. We refer to the number of shares of our common stock we will issue for each share of MedQuist Inc. common stock we accept in the exchange offer as the exchange ratio.

<b>CUSIP</b>	<b>Title of security</b>	<b>Exchange offer consideration per share</b>	<b>Exchange value <sup>(1)</sup></b>
		<b>Shares of our common stock <sup>(1)</sup></b>	



584949101

MedQuist Inc. common  
stock One \$ 11.00

- (1) The exchange value is equal to the number of shares of our common stock offered per share of MedQuist Inc. common stock multiplied by the midpoint of the price range for our common stock in our proposed U.S. initial public offering of common stock described below.

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

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

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

### **Source of consideration**

The shares of our common stock to be issued in the exchange offer are available from our authorized but unissued shares of our common stock.

### **Conditions of the exchange offer**

Notwithstanding any other provision of the exchange offer, we will not be obligated to accept for exchange validly tendered shares of MedQuist Inc. common stock pursuant to the exchange offer if the general conditions (as defined below) have not been satisfied with respect to the exchange offer. The exchange offer is not conditioned upon any minimum number of MedQuist Inc. common stock being tendered.

For purposes of the foregoing provisions, all of the "general conditions" shall be deemed to have been satisfied on the expiration date unless any of the following conditions shall have occurred and be continuing on or after the date of this prospectus and before the expiration date with respect to the exchange offer:

- n there shall have occurred (i) any general suspension of trading in, or limitation on prices for, securities in the United States securities or financial markets, (ii) a material impairment in the trading market for equity securities, (iii) a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States (whether or not mandatory), (iv) any limitation (whether or not mandatory) by any governmental authority on, or other event having a reasonable likelihood of affecting, the extension of credit by banks or other lending institutions in the United States, (v) any attack on, outbreak or escalation of hostilities or acts of terrorism that would reasonably be expected to have a materially adverse effect on our or our affiliates business, operations, properties, condition (financial or operating condition), assets, liabilities or prospects or (vi) any significant adverse change in the United States securities or financial markets generally;
- n there exists an order, statute, rule, regulation, executive order, stay, decree, judgment or injunction that shall have been enacted, entered, issued, promulgated, enforced or deemed applicable by any court or governmental, regulatory or administrative agency or instrumentality that, in our judgment, would or would be reasonably likely to prohibit, prevent or materially restrict or delay consummation of the exchange offer or that is, or is reasonably likely to be, materially adverse to our business, operations, properties, condition (financial or operating condition), assets, liabilities or prospects or those of our affiliates;
- n there shall have been instituted, threatened in writing or be pending any action or proceeding before or by any court, governmental, regulatory or administrative agency or instrumentality, or by any other person, in connection with the exchange offer, that is, or is reasonably likely to be, in our judgment, materially adverse to our business, operations, properties, condition (financial or operating condition), assets, liabilities or prospects or those of our affiliates, or which would or might, in our judgment, directly or indirectly prohibit, prevent, restrict or delay consummation of the exchange offer or otherwise adversely affect the exchange offer in any material manner;
- n there exists any other actual or threatened (in writing) legal impediment to the exchange offer or any other circumstances that would materially adversely affect the transactions contemplated by the exchange offer, or the contemplated benefits of the exchange offer to us or our affiliates;

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- n there shall have occurred any development which would, in our judgment, materially adversely affect our business, operations, properties, condition (financial or operating condition), assets, liabilities or prospects or those of our affiliates;
- n our proposed U.S. initial public offering of our common stock and the listing of our common stock on The NASDAQ Global Market shall not have been completed on or prior to February 28, 2011;
- n the private exchange contemplated by the Exchange Agreement shall not have been consummated; or
- n an event or events or the likely occurrence of an event or events that would or might reasonably be expected to prohibit, restrict or delay the consummation of the exchange offer or materially impair the contemplated benefits to us or our affiliates of the exchange offer.

In addition to the conditions described above, and notwithstanding any other provision of the exchange offer, we will not be required to accept for exchange, or to issue our common stock in respect of, any shares of MedQuist Inc. common stock tendered pursuant to the exchange offer, and may terminate, extend or amend the exchange offer and may (subject to Rule 14d-1 and Rule 14e-1 under the Exchange Act) postpone the acceptance for exchange of, and issuance of shares of our common stock in respect of, any shares of MedQuist Inc. common stock so tendered in the exchange offer unless the registration statement of which this prospectus forms a part becomes effective and no stop order suspending the effectiveness of the registration statement and no proceedings for that purpose have been instituted or are pending, or to our knowledge, are contemplated or threatened by the SEC.

We expressly reserve the right to amend or terminate the exchange offer and to reject for exchange any shares of MedQuist Inc. common stock not previously accepted for exchange, upon the occurrence of any of the conditions of the exchange offer specified above. In addition, we expressly reserve the right, at any time or at various times, to waive any of the conditions of the exchange offer, in whole or in part, except as to the requirement that the registration statement of which this prospectus forms a part be declared effective, which condition we will not waive. We will give oral or written notice (with any oral notice to be promptly confirmed in writing) of any amendment, non-acceptance, termination or waiver to the information and exchange agent as promptly as practicable, followed by a timely press release.

These conditions are for our sole benefit, and we may assert them regardless of the circumstances that may give rise to them or waive them in whole or in part at any or at various times in our sole discretion. If we fail at any time to exercise any of the foregoing rights, this failure will not constitute a waiver of such right. Each such right will be deemed an ongoing right that we may assert at any time or at various times.

All conditions to the exchange offer must be satisfied or waived prior to the expiration of the exchange offer. The exchange offer is not conditioned upon any minimum number of shares of MedQuist Inc. common stock being tendered for exchange.

**Procedures for tendering**

Most shares of MedQuist Inc. common stock were issued in book-entry form, and are all currently represented by one or more global certificates held for the account of the DTC. If your securities are book entry securities, you may tender your shares of common stock by transferring them through DTC's ATOP or following the other procedures described herein.

If your interest as a holder of common stock is in certificated form, you must deliver to the exchange agent the certificates for the shares of your common stock to be exchanged, a properly completed and duly executed letter of transmittal or a duly executed copy thereof, along with any additional information required by the exchange agent (as set forth below) as well as payment for transfer or similar taxes, if any.

If you are unable to tender your MedQuist Inc. common stock before 5:00 p.m., New York City time, on March 4, 2011, or such other time if this date is extended by us, you may comply with the guaranteed delivery procedures set forth in The Offer Guaranteed delivery beginning on page 141.

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### **Guaranteed delivery**

If you wish to tender shares of MedQuist Inc. common stock pursuant to the exchange offer and your certificates are not immediately available, you cannot deliver the certificates and all other required documents to the exchange agent prior to the expiration of the exchange offer or you cannot complete the procedure for book-entry transfer on a timely basis, your shares of MedQuist Inc. common stock may nevertheless be tendered, so long as all of the following conditions are satisfied:

- n you make your tender by or through an eligible institution;
- n a properly completed and duly executed notice of guaranteed delivery, substantially in the form made available by us, is received by the exchange agent as provided below on or prior to the expiration of the exchange offer; and
- n the certificates for all tendered shares of MedQuist Inc. common stock (or a confirmation of a book-entry transfer of such securities into the exchange agent's account at DTC as described above), in proper form for transfer, together with a properly completed and duly executed letter of transmittal or a manually signed facsimile with any required signature guarantees, or, in the case of a book-entry transfer, an agent's message, and all other documents required by the letter of transmittal are received by the exchange agent within three New York Stock Exchange trading days after the date of execution of the notice of guaranteed delivery.

You may deliver the notice of guaranteed delivery by hand or transmit it by facsimile transmission or mail to the exchange agent.

In all cases, we will exchange shares of MedQuist Inc. common stock tendered and accepted for exchange pursuant to the exchange offer only after timely receipt by the exchange agent of certificates for shares of MedQuist Inc. common stock, or timely confirmation of a book-entry transfer of those shares of MedQuist Inc. common stock into the exchange agent's account at DTC a properly completed and duly executed letter of transmittal or a manually signed facsimile thereof, or an agent's message in connection with a book-entry transfer, and any other required documents.

#### ***How to tender if you are a beneficial owner but not a DTC participant?***

If you beneficially own common stock through an account maintained by a broker, dealer, commercial bank, trust company or other DTC participant and you desire to tender common stock, you should contact your DTC participant promptly and instruct it to tender your shares of common stock on your behalf. Beneficial owners are urged to appropriately instruct their bank, broker, custodian, commercial bank, trust company or other nominee at least five business days prior to the expiration date in order to allow adequate processing time for their instruction.

Unless you follow the procedures for guaranteed delivery set forth above, in order for your bank, broker, custodian, commercial bank, trust company or other nominee to validly tender shares of common stock in the exchange offer, such bank, broker, custodian, commercial bank, trust company or other nominee must deliver to the exchange agent via DTC an electronic message that will contain:

- n your acknowledgment and agreement to, and agreement to be bound by, the terms of the accompanying letter of transmittal; and
- n a timely confirmation of book-entry transfer of your shares of common stock into the exchange agent's account.

#### ***How to tender if you are a DTC participant?***

To participate in the exchange offer, a DTC participant must:

n comply with the ATOP procedures of DTC described below; or

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- n (i) complete and sign and date the letter of transmittal, or a facsimile of the letter of transmittal; (ii) have the signature on the letter of transmittal guaranteed if the letter of transmittal so requires; and (iii) mail or deliver the letter of transmittal or facsimile to the exchange agent prior to the expiration date.

In addition, either:

- n the exchange agent must receive, prior to the expiration date, a properly transmitted agent's message; or
- n the exchange agent must receive, prior to the expiration date, a timely confirmation of book-entry transfer of such shares of common stock into the exchange agent's account at DTC according to the procedure for book-entry transfer described below and the letter of transmittal and other documents required by the letter of transmittal.

If a DTC participant chooses to tender by delivery of a letter of transmittal, to be validly tendered the exchange agent must receive any physical delivery of the letter of transmittal and other required documents at its address indicated on the back cover of this prospectus and the front cover of the letter of transmittal prior to the expiration date.

The tender by a holder that is not withdrawn prior to our acceptance of the tender will constitute a binding agreement between the holder and us in accordance with the terms and subject to the conditions described in this prospectus and in the letter of transmittal.

The method of delivery of the letter of transmittal and all other required documents to the exchange agent is at your election and risk. Rather than mail these items, we recommend that you use an overnight delivery service. In all cases, you should allow sufficient time to assure delivery to the exchange agent before the expiration date. You should not send the letter of transmittal to us.

### ***How to tender if your interest is in certificated format?***

On the date of any tender for exchange, if your interest is in certificated form, you must do each of the following in order to validly tender for exchange:

- n complete and manually sign the accompanying letter of transmittal provided by the exchange agent, or a facsimile of the exchange notice, and deliver the signed letter to the exchange agent;
- n surrender the certificates of your shares of common stock to the exchange agent;
- n if required, furnish appropriate endorsements and transfer documents; and
- n if required, pay all transfer or similar taxes.

If your stock certificates are registered in the name of a person other than the person who signs the letter of transmittal, the certificates must be endorsed or accompanied by appropriate stock powers, in either case signed exactly as the name or names of the registered owner or owners appear on the certificates, with the signature(s) on the certificates or stock powers guaranteed in the manner described below.

The method of delivery of your certificates and any other required documents is at your option and risk, and delivery will be deemed made only when actually received by the exchange agent. If delivery is by mail, we recommend registered mail with return receipt requested, properly insured. In all cases, you should allow sufficient time to ensure timely delivery.

### ***Signatures and signature guarantees***

If you are using a letter of transmittal or notice of withdrawal, you must have signatures guaranteed by a member firm of a registered national securities exchange or of the Financial Industry Regulatory Authority, Inc., a commercial bank or trust company having an office or correspondent in the United States, or an eligible guarantor institution within the meaning of Rule 17Ad-15 under the Exchange Act. In addition, such entity must be a member of one of the recognized signature guarantee programs identified in the letter of transmittal. Signature guarantees are not required, however, if the shares of common stock are tendered for the account of a member firm of a registered national securities exchange or of the Financial Industry Regulatory Authority, Inc., a commercial bank or trust company having an office or correspondent in the United States, or an eligible guarantor institution.



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### ***Tendering through DTC s ATOP***

The exchange agent and DTC have confirmed that any financial institution that is a participant in DTC s system may use DTC s ATOP to tender. DTC participants may, instead of physically completing and signing the letter of transmittal and delivering it to the exchange agent, transmit an acceptance of the exchange offer electronically. DTC participants may do so by causing DTC to transfer the shares of common stock to the exchange agent in accordance with its procedures for transfer. DTC will then send an agent s message to the exchange agent.

The term agent s message means a message transmitted by DTC, received by the exchange agent and forming part of the book-entry confirmation, to the effect that:

- n DTC has received an express acknowledgment from a DTC participant in its ATOP that it is tendering shares of common stock that are the subject of such book-entry confirmation;
- n such DTC participant has received and agrees to be bound by the terms of the letter of transmittal; and
- n the agreement may be enforced against such DTC participant.

### **Determination of validity**

We will determine in our sole discretion all questions as to the validity, form, eligibility, including time of receipt, and acceptance and withdrawal of tendered shares of MedQuist Inc. common stock, provided that disputes regarding our determination may be determined by a court of competent jurisdiction. We reserve the absolute right to reject any and all shares of MedQuist Inc. common stock not validly tendered or any shares of MedQuist Inc. common stock whose acceptance by us would, in the opinion of our counsel, be unlawful. We also reserve the right to waive any defects or irregularities either before or after the expiration date. Unless waived, any defects or irregularities in connection with tenders of shares of MedQuist Inc. common stock must be cured within a time period that we will determine. Neither we, the dealer manager, the information agent, the exchange agent nor any other person will have any duty to give notification of any defects or irregularities, nor will any of us or them incur any liability for failure to give such notification. Tenders of shares of MedQuist Inc. common stock will not be considered to have been made until any defects or irregularities have been cured or waived. Any shares of MedQuist Inc. common stock received by the exchange agent that are not validly tendered and as to which the defects or irregularities have not been cured or waived will be returned by the exchange agent to the tendering owners, via the facilities of DTC or in certificated form, as applicable, promptly following the expiration date or the termination date.

### **Acceptance; exchange of shares of MedQuist Inc. common stock**

On the expiration date, the exchange agent will tender to us the number of shares of MedQuist Inc. common stock tendered for exchange in the offer whereupon we will deliver to the exchange agent for delivery to tendering holders of the MedQuist Inc. common stock the number of shares of our common stock the tendering holders are entitled to receive upon exchange of their shares of MedQuist Inc. common stock.

We will issue our common stock upon the terms of the exchange offer and applicable law upon exchange of shares of MedQuist Inc. common stock validly tendered in the exchange offer promptly after the expiration date and our acceptance of the validly tendered MedQuist Inc. common stock. For purposes of the exchange offer, we will be deemed to have accepted for exchange validly tendered shares of MedQuist Inc. common stock or defectively tendered shares of MedQuist Inc. common stock with respect to which we have waived such defect, when, as and if we give written or oral notice of such acceptance to the exchange agent.

We will pay for shares of MedQuist Inc. common stock accepted for exchange by us pursuant to the exchange offer by depositing our common stock with the exchange agent. The exchange agent will act as your agent for the purpose of

receiving our common stock from us and transmitting such stock to you.

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In all cases, issuance of shares of our common stock for shares of MedQuist Inc. common stock accepted for exchange by us pursuant to the exchange offer will be made promptly after the expiration date and will be credited by the exchange agent to the appropriate account at DTC, subject to receipt by the exchange agent of:

- n timely confirmation of a book-entry transfer of the shares of MedQuist Inc. common stock into the exchange agent's account at DTC, pursuant to the procedures set forth in Procedures for tendering above;
- n a properly transmitted agent's message; and
- n any other documents required by the letter of transmittal.

**By tendering shares of MedQuist Inc. common stock pursuant to the exchange offer, the holder will be deemed to have represented and warranted that such holder has full power and authority to tender, sell, assign and transfer the shares of MedQuist Inc. common stock tendered thereby and that when such shares of MedQuist Inc. common stock are accepted for purchase and payment by us, we will acquire good title thereto, free and clear of all liens, restrictions, charges and encumbrances and not subject to any adverse claim or right. The holder will also be deemed to have agreed to, upon request, execute and deliver any additional documents deemed by the exchange agent or by us to be necessary or desirable to complete the sale, assignment and transfer of the shares of MedQuist Inc. common stock tendered thereby.**

### **Return of unaccepted shares of MedQuist Inc. common stock**

If any tendered shares of MedQuist Inc. common stock are not accepted for payment for any reason pursuant to the terms and conditions of the exchange offer, such shares of MedQuist Inc. common stock will be returned without expense to the tendering holder or, in the case of shares of MedQuist Inc. common stock tendered by book-entry transfer, such shares of MedQuist Inc. common stock will be credited to an account maintained at DTC, designated by the participant therein who so delivered such shares of MedQuist Inc. common stock, in each case, promptly following the expiration date or the termination of the exchange offer.

### **Expiration date; extensions; termination; amendment**

The exchange offer will expire at 5:00 p.m. New York City time, on March 4, 2011, unless we have extended the period of time that the exchange offer is open, or as such date and time may be extended, the expiration date. The expiration date will be at least 20 business days after the beginning of the exchange offer, as required by Rule 14e-1(a) under the Exchange Act.

We reserve the right to extend the period of time that the exchange offer is open, and delay acceptance for exchange of any shares of MedQuist Inc. common stock in accordance with applicable law, by giving oral or written notice to the exchange agent and by timely public announcement no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date. During any extension, all shares of MedQuist Inc. common stock previously tendered will remain subject to the exchange offer unless properly withdrawn.

In addition, we reserve the right to:

- n terminate or amend the exchange offer and not to accept for exchange any shares of MedQuist Inc. common stock not previously accepted for exchange upon the occurrence of any of the events specified above under Conditions of the exchange offer that have not been waived by us; and
- n amend the terms of the exchange offer in any manner permitted or not prohibited by law.

If we terminate or amend the exchange offer, we will notify the exchange agent by oral or written notice (with any oral notice to be promptly confirmed in writing) and will issue a timely press release or other public announcement

regarding the termination or amendment. Upon termination of the exchange offer for any reason, any shares of MedQuist Inc. common stock previously tendered in the exchange offer will be promptly returned to the tendering holders.

If we make a material change in the terms of the exchange offer or the information concerning the exchange offer, or waive a material condition of the exchange offer, we will promptly disseminate disclosure regarding the change to the exchange offer and extend the exchange offer, if required by law, to ensure that the exchange offer remains open a minimum of five business days from the date we disseminate disclosure regarding the change.

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If we make a change in the exchange offer consideration, including the number of shares of our common stock offered in the exchange, we will promptly disseminate disclosure regarding the change and extend the exchange offer, each if required by law, to ensure that the exchange offer remains open a minimum of ten business days from the date we disseminate disclosure regarding the change.

If, for any reason, acceptance for purchase of, or payment for, validly tendered shares of MedQuist Inc. common stock pursuant to the exchange offer is delayed, or we are unable to accept for purchase or to pay for validly tendered shares of MedQuist Inc. common stock pursuant to the exchange offer, then the exchange agent may, nevertheless, on our behalf, retain the tendered shares of MedQuist Inc. common stock, without prejudice to our rights described herein, but subject to applicable law and Rule 14e-1 under the Exchange Act, which requires that we pay the consideration offered or return the shares of MedQuist Inc. common stock tendered promptly after the termination or withdrawal of the exchange offer.

## **Settlement date**

The settlement date in respect of any shares of MedQuist Inc. common stock that are validly tendered prior to the expiration date and accepted by us is expected to occur promptly following the expiration date and is anticipated to be on or about March 8, 2011.

## **Withdrawal of tenders**

You may withdraw any MedQuist Inc. common stock tendered in the exchange offer at any time prior to the expiration date. Pursuant to Section 14(d)(5) of the Exchange Act, you may also withdraw your shares of MedQuist Inc. common stock at any time after 60 days from February 3, 2011, the date that the exchange offer was commenced, unless we have previously accepted them.

For a withdrawal of shares of MedQuist Inc. common stock to be effective, the exchange agent must receive a written or facsimile transmission containing a notice of withdrawal before the expiration date by a properly transmitted request message through ATOP. Such notice of withdrawal must (i) specify the name of the holder of shares of MedQuist Inc. common stock who tendered the shares of MedQuist Inc. common stock to be withdrawn, (ii) contain a description of the shares of MedQuist Inc. common stock to be withdrawn and the number of shares of MedQuist Inc. common stock, (iii) contain a statement that such holder of shares of MedQuist Inc. common stock is withdrawing the election to tender their shares of MedQuist Inc. common stock, and (iv) be signed by the holder of such shares of MedQuist Inc. common stock in the same manner as the original signature on the letter of transmittal (including any required signature guarantees) or be accompanied by evidence satisfactory to us that the person withdrawing the tender has succeeded to the beneficial ownership of the shares of MedQuist Inc. common stock. Any notice of withdrawal must identify the shares of MedQuist Inc. common stock to be withdrawn, including the name and number of the account at DTC to be credited and otherwise comply with the procedures of DTC. Withdrawal of shares of MedQuist Inc. common stock may only be accomplished in accordance with the foregoing procedures.

We will determine all questions as to the form and validity (including time of receipt) of any notice of withdrawal of a tender, in our sole discretion, which determination shall be final and binding. None of us, the dealer manager, the information agent, the exchange agent, or any other person will be under any duty to give notification of any defect or irregularity in any notice of withdrawal of a tender or incur any liability for failure to give any such notification.

## **Future purchases**

Following completion of the exchange offer, we or our affiliates may purchase additional shares of MedQuist Inc. common stock that remain outstanding in the open market, in privately negotiated transactions or otherwise. Future

purchases of shares of MedQuist Inc. common stock that remain outstanding after the exchange offer may be on terms that are more or less favorable than the exchange offer. However, Exchange Act Rules 14d-1 and 14e-5 generally prohibit us and our affiliates from purchasing any shares of MedQuist Inc. common stock other than pursuant to the exchange offer until 10 business days after the expiration date of the exchange offer, although there are some

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exceptions. Future purchases, if any, will depend on many factors, which include market conditions and the condition of our business.

### **Accounting treatment**

Assuming we acquire all shares of MedQuist Inc. common stock pursuant to the exchange offer, the transaction would be accounted for as an equity transaction, as we would retain control of MedQuist Inc. after the transaction.

### **Compliance with securities laws**

We are making the exchange offer to all holders of outstanding shares of MedQuist Inc. common stock. We are not aware of any state in which the making of the exchange offer is not in compliance with applicable law. If we become aware of any state in which the making of the exchange offer would not be in compliance with applicable law, we will make a good faith effort to comply with any such law. If, after such good faith effort, we cannot comply with any such law, the exchange offer will not be made to, nor will tenders of shares of MedQuist Inc. common stock be accepted from or on behalf of, the holders of shares of MedQuist Inc. common stock residing in any such state.

No action has been or will be taken in any jurisdiction other than in the United States that would permit a public offering of our common stock, or the possession, circulation or distribution of this prospectus or any other material relating to us or our common stock in any jurisdiction where action for that purpose is required. Accordingly, our common stock may not be offered or sold, directly or indirectly, and neither this prospectus nor any other offering material or advertisement in connection with our common stock may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of any such country or jurisdiction. This prospectus does not constitute an offer to sell or a solicitation of any offer to buy in any jurisdiction where such offer or solicitation would be unlawful. Persons into whose possession this prospectus comes are advised to inform themselves about and to observe any restrictions relating to this prospectus, the distribution of this prospectus, and the resale of the shares of our common stock.

### **Exchange agent**

American Stock Transfer & Trust Company, LLC has been appointed as the exchange agent for the exchange offer. 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. All required documents should be sent or delivered to the exchange agent at the address set forth on the back cover of this prospectus.

### **Information agent**

MacKenzie Partners, Inc. has been appointed as the information agent for the exchange offer. We have agreed to pay MacKenzie Partners, Inc. reasonable and customary fees for its services and will reimburse MacKenzie Partners, Inc. for its reasonable out-of-pocket expenses. Any questions and requests for assistance, or requests for additional copies of this prospectus, the letter of transmittal and other related documents should be directed to the information agent at the address set forth on the back cover of this prospectus.

### **Dealer manager**

The dealer manager for the exchange offer is Macquarie Capital (USA) Inc. As the dealer manager for the exchange offer, Macquarie Capital (USA) Inc. will perform services customarily provided by investment banking firms acting as dealer managers of exchange offers of a like nature, including, but not limited to, soliciting tenders of shares of

MedQuist Inc. common stock pursuant to the exchange offer and communicating generally regarding the exchange offer with banks, brokers, custodians, nominees and other persons, including the holders of the shares of MedQuist Inc. common stock. We will pay the dealer manager reasonable and customary fees for its services and will reimburse it for its reasonable out-of-pocket expenses.



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### **Fees and expenses**

Tendering holders of outstanding shares of MedQuist Inc. common stock will not be required to pay any expenses of soliciting tenders in the exchange offer. However, if a tendering holder handles the transactions through its broker, dealer, commercial bank, trust company or other institution, such holder may be required to pay brokerage fees or commissions. We will bear the fees and expenses of soliciting tenders for the exchange offer. The principal solicitation is being made by mail. However, additional solicitations may be made by facsimile transmission, telephone or in person by our officers and other employees. We will also pay the information agent and the exchange agent reasonable out-of-pocket expenses and we will indemnify each of the information agent and the exchange agent against certain liabilities and expenses in connection with the exchange offer, including liabilities under the federal securities laws.

### **Transfer taxes**

Holders who tender their shares of MedQuist Inc. common stock for exchange will not be obligated to pay any transfer taxes. If, however:

- n shares of our common stock are to be delivered to, or issued in the name of, any person other than the registered owner of the tendered shares of MedQuist Inc. common stock; or
- n the shares of MedQuist Inc. common stock are registered in the name of any person other than the person signing the letter of transmittal,
- n then the amount of any transfer taxes, whether imposed on the registered owner or any other persons, will be payable by the tendering holder. If satisfactory evidence of payment of such taxes or exemption from them is not submitted with the letter of transmittal, the amount of such transfer taxes will be billed directly to the tendering holder.

### **No appraisal rights**

No appraisal or dissenters' rights are available to holders of shares of MedQuist Inc. common stock under applicable law in connection with the exchange offer.

### **Fairness opinion**

We are not making a recommendation as to whether you should exchange your shares of MedQuist Inc. common stock in the exchange offer. We have not retained, and do not intend to retain, any unaffiliated representative to act solely on behalf of the holders of the shares of MedQuist Inc. common stock for purposes of negotiating the exchange offer or preparing a report concerning the fairness of the exchange offer. The value of our common stock to be issued in the exchange offer may not equal or exceed the value of the shares of MedQuist Inc. common stock tendered. You must make your own independent decision regarding your participation in the exchange offer.

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**Comparison of Rights of Holders of Our Common Stock and MedQuist Inc. Common Stock**

The following describes the material differences between the rights of holders of the shares of MedQuist Inc. common stock and our common stock. The material differences arise in part from differences between our governing documents and those of MedQuist Inc., and in part from differences between New Jersey and Delaware law. While we believe that the description covers the material differences between the shares of MedQuist Inc. common stock and our common stock, this summary may not contain all of the information that is important to you. The following description does not purport to be a complete statement of all the differences, or a complete description of the specific provisions referred to in this summary. The identification of specific differences is not intended to indicate that other equally or more significant differences do not exist. You should carefully read this entire prospectus and the other documents we refer to for a more complete understanding of the differences between being a holder of shares of MedQuist Inc. common stock and our common stock.

**Provision applicable to holders of MedQuist Inc. common stock**

**Provision applicable to holders of our common stock**

***Governing document***

Holders of shares of MedQuist Inc. common stock have their rights set forth in, and may enforce their rights under, New Jersey Business Corporation Act, or the NJBCA, and the MedQuist Inc. certification of incorporation and by-laws.

Holders of shares of our common stock have their rights set forth in, and may enforce their rights under, Delaware General Corporation Law, or the DGCL, and the MedQuist Holdings Inc. certification of incorporation and by-laws.

***Liquidation preference***

In the event of liquidation or dissolution, holders of MedQuist Inc. common stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preference of any outstanding preferred stock.

In the event of our liquidation or dissolution, holders of MedQuist Holdings Inc. common stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preference of any outstanding preferred stock.

***Ranking***

In the event of liquidation, dissolution or winding up of MedQuist Inc., MedQuist Inc. common stock would rank below all outstanding preferred stock, if any. As a result, holders of MedQuist Inc. common stock will not be entitled to receive any payment or other distribution of assets upon the liquidation or dissolution until after its obligations to its debt holders and holders of preferred stock, if any, have been satisfied.

In the event of our liquidation, dissolution or winding up, our common stock would rank below all outstanding preferred stock, if any. As a result, holders of our common stock will not be entitled to receive any payment or other distribution of assets upon the liquidation or dissolution until after our obligations to our debt holders and holders of preferred stock, if any, have been satisfied.

The common stock may rank junior to the preferred stock, if any, with respect to the payment of dividends.

The common stock may rank junior to the preferred stock, if any, with respect to the payment of dividends.

*Voting rights*

Holders of shares of MedQuist Inc. common stock are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders. Holders of shares of our common stock are entitled to one vote for each share held of record on all matters submitted to a vote of holders of common stock.

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**Provision applicable to holders of our common stock**

***Dividend rights***

The NJBCA generally provides that a corporation may pay dividends unless, after paying the dividend, (i) the corporation would not be able to pay its debts as they become due in the usual course of business or (ii) the corporation's total assets would be less than its total liabilities.

The DGCL permits a corporation to declare and pay dividends out of surplus or, if there is no surplus, out of its net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Surplus is defined as the excess of the net assets of the corporation over the amount determined to be the capital of the corporation by the board. The capital of the corporation is typically calculated to be (and cannot be less than) the aggregate par value of all issued shares of capital stock. Net assets equals the fair value of the total assets minus total liabilities. The DGCL also provides that dividends may not be paid out of net profits if, after the payment of the dividend, capital is less than the capital represented by the outstanding stock of all classes having a preference upon the distribution of assets.

Declaration and payment of any dividend will be subject to the discretion of our board. The time and amount of dividends will be dependent upon our financial condition, operations, cash requirements and availability, debt repayment obligations, capital expenditure needs and restrictions in our debt instruments, industry trends, the provisions of Delaware law affecting the payment of distributions to stockholders and other factors.

***Listing***

MedQuist Inc. common stock is listed and traded on The NASDAQ Global Market under the symbol MEDQ. The MedQuist Inc. common stock may be delisted from The NASDAQ Global Market.

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

***Stockholder meetings***

The annual shareholder meeting of MedQuist Inc. is held at such date and time and as is fixed from time to time by its board and stated in the notice of the meeting.

Our by-laws will provide that annual stockholder meetings will be held at a time, date and place selected by our board.

***Quorum for stockholder meetings***

Holders of shares entitled to cast a majority of the votes at a meeting constitute a quorum at any meeting of shareholders. When a quorum is once present to organize a meeting, the quorum will not be broken by the subsequent withdrawal of any holders of common stock.

Unless otherwise required by law or our certificate of incorporation, the holders of a majority of the voting power of the issued and outstanding shares of stock of our company entitled to vote thereat, present in person or represented by proxy, will constitute a quorum for the

transaction of business at all meetings of stockholders. When a quorum is once present to organize a meeting, the quorum will not be broken by the subsequent withdrawal of any holders of common stock. When a specified item of business requires a vote by a class or series (if the company shall then have outstanding shares of more than one class or series) voting as a class

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or series, the holders of a majority of the shares of such class or series shall constitute a quorum (as to such class or series) for the transaction of such item of business.

***Amendments to charter documents***

Under the NJBCA, a proposed amendment to a corporation's certificate of incorporation requires (i) approval by its board, (ii) adoption of the amendment by the affirmative vote of a majority of the votes cast by the holders of shares entitled to vote on the amendment, unless a specific provision of the NJBCA or the corporation's certificate of incorporation provides otherwise and (iii) the affirmative vote of a majority of the votes cast in each class or series of shares entitled to vote thereon as a class or series.

Under the DGCL, an amendment to a corporation's certificate of incorporation requires (i) the approval of the board, (ii) the approval of a majority of the outstanding stock entitled to vote upon the proposed amendment and (iii) the approval of the holders of a majority of the outstanding stock of each class entitled to vote thereon as a class.

***Amendments to by-laws***

The by-laws of MedQuist Inc. permit the board to alter, amend, or repeal existing by-laws, as well as adopt new by-laws, at any regular or special meeting of the board.

Our board will be expressly authorized to make, repeal, alter, amend and rescind our by-laws without the assent or vote of the stockholders, in any manner not inconsistent with the laws of the State of Delaware or our certificate of incorporation. The affirmative vote of the holders of at least 75% in voting power of all outstanding shares of stock of our company entitled to vote generally in the election of directors, voting together as a single class, will be required in order for the stockholders of our company to alter, amend or repeal certain sections of our by-laws or to adopt any provision inconsistent therewith.

Under the NJBCA, the initial by-laws of a corporation are adopted by the board at its organization meeting. Thereafter, the board has the power to make, alter and repeal by-laws unless such power is reserved to the shareholders in the certificate of incorporation, but by-laws made by the board may be altered or repealed, and new by-laws made, by the shareholders. The shareholders may prescribe in the by-laws that any by-law made by them may not be altered or repealed by the board. Whenever any amendment to the by-laws, other than as regards the election of directors, is to be taken by vote of the shareholders, it must be authorized by a majority of the votes cast at a meeting of shareholders by the holders of shares entitled to vote thereon, unless a greater plurality is required by the certificate of incorporation or the NJBCA.

***Authorized preferred stock and common stock***

The total authorized capital stock of MedQuist Inc. consists of 72,111,975 shares, of which 60,000,000 shares is common stock and 12,111,975 shares are shares of preferred stock. At the close of business on December 24, 2010, approximately 37,555,893 shares of MedQuist Inc. common stock and no shares of MedQuist Inc. preferred stock were issued and outstanding (including treasury shares).

Our certificate of incorporation will authorize our board to establish one or more series of preferred stock and to determine, with respect to any series of preferred stock, the terms and rights of that series, including designation, number of shares, dividend rights and rates and dates payable, if any, redemption rights and prices and other terms of redemption, if any, the voluntary and involuntary liquidation prices, the conversion or exchange privileges,

if any, restrictions on the issuance of shares for the same series or of any other class or series, and the voting rights, if any, applicable to that series.

The board of MedQuist Inc. is authorized to provide for the issuance from time to time of preferred stock in series and, as to each series, to fix the number, designation, rights, preferences and limitations, including the voting rights, if any, the voluntary and

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involuntary liquidation prices, the conversion or exchange privileges, if any, applicable to that series and the redemption price or prices and the other terms of redemption, if any, applicable to that series.

**Provision applicable to holders of our common stock**

Our board may issue preferred shares on terms calculated to discourage, delay or prevent a change of control of our company or the removal of our management. Moreover, our authorized but unissued shares of preferred stock will be available for future issuances without stockholder approval and could be utilized for a variety of corporate purposes, including future offerings to raise additional capital, acquisitions and employee benefit plans. The existence of authorized but unissued and unreserved shares of preferred stock could render more difficult or discourage an attempt to obtain control of our company by means of a proxy contest, tender offer, merger or otherwise.

***Number of directors***

The certificate of incorporation of MedQuist Inc. provides that the whole board of MedQuist Inc. shall be not less than five nor more than 20. Subject to any rights of holders of preferred stock, the exact number of directors within such maximum and minimum shall be determined by resolution duly adopted by the board. No decrease in the number of directors shall shorten the term of any incumbent directors.

Our certificate of incorporation and by-laws will provide that the number of directors will be fixed from time to time pursuant to a resolution adopted by the board, but must consist of not less than seven or more than 15 directors.

The by-laws of MedQuist Inc. provide that the number of directors which shall constitute the whole board of MedQuist Inc. shall be not less than four nor more than 20. Subject to any rights of holders of preferred stock, the exact number of directors within such maximum and minimum shall be determined by resolution duly adopted by the board. No decrease in the number of directors shall shorten the term of any incumbent directors.

The board of MedQuist Inc. currently consists of eight directors.

***Classification of directors***

The certificate of incorporation of MedQuist Inc. provides for one class of directors.

Our certificate of incorporation will provide that our board will be divided into three classes of directors, with the classes to be as nearly equal in number as possible. We will have a classified board, with three directors in Class I, three directors in Class II and three directors in Class III. The members of Class I will serve for a term expiring at the first succeeding annual meeting of stockholders. The members of Class II will serve for a term expiring at the second succeeding annual meeting of



stockholders. The members of Class III will serve for a term expiring at the third succeeding annual meeting of stockholders. As a result, approximately one- third of our board will be elected

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each year. A replacement director shall serve in the same class as the former director he or she is replacing. The classification of our board will have the effect of making it more difficult for stockholders to change the composition of our board.

***Removal of directors; vacancies***

The certificate of incorporation and by-laws of MedQuist Inc. provide that vacancies and any newly created directorships resulting from any increase in the authorized number of directors and any vacancies in the board resulting from death, resignation, retirement, disqualification, removal from office or other cause may be filled only by an affirmative vote of a majority of the remaining directors even though less than a quorum of the board, or by a sole remaining director, and directors so chosen shall hold office until the next annual meeting of the shareholders and until his or her successor is elected and qualified or until he or she sooner dies, resigns, is removed or becomes disqualified.

If one or more directors shall resign from the board effective as of a future date, a majority of the directors then in office, including those who have so resigned as of a future date, shall have the power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so elected shall hold office as provided in the by-laws in the filling of other vacancies, if any.

Under the NJBCA, shareholders may remove directors for cause or, unless the certificate of incorporation provides otherwise, without cause, in each case by the affirmative vote of the majority of votes cast by the holders of shares entitled to vote thereon. MedQuist Inc.'s certificate of incorporation does not prohibit shareholders of MedQuist Inc. from removing directors with or without cause.

Our certificate of incorporation will provide that directors other than those elected pursuant to any stockholders agreement in existence at the time of the adoption of our certificate of incorporation may be removed only for cause and only upon the affirmative vote of holders of a majority of the voting power of all then outstanding shares of stock entitled to vote generally in the election of directors, voting together as a single class. In addition, our by-laws provide that, except as set forth in any stockholders agreement in existence at the time of the adoption of our certificate of incorporation or any certificate of designation for preferred stock, any vacancies on our board will be filled only by the affirmative vote of a majority of the remaining directors, although less than a quorum, or by a sole remaining director.

***Cumulative voting***

Under the NJBCA, shareholders of a New Jersey corporation do not have the right to cumulate their votes in the election of directors unless that right is granted in the certificate of incorporation of the corporation. The MedQuist Inc. certificate of incorporation does not permit cumulative voting.

The DGCL provides that stockholders are not entitled to the right to cumulate votes in the election of directors unless an entity's certificate of incorporation provides otherwise. Our certificate of incorporation does not provide for cumulative voting.

***Special meetings of stockholders***

The NJBCA provides that holders of not less than 10% of all shares entitled to vote at a meeting may apply to the New Jersey Superior Court to request that a special meeting of the shareholders be called for good cause

Our certificate of incorporation will provide that special meetings of our stockholders may be called at any time only by or at the direction of the chairman of the board,

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shown. At such a meeting, the shareholders present in person or by proxy and having voting powers will constitute a quorum for the transaction of business described in such order.

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the board or a committee of the board which has been designated by the board.

***Shareholder action by written consent***

The NJBCA provides that, except as otherwise stated in the certificate of incorporation, shareholders who would have been entitled to cast the minimum number of votes that would be necessary to authorize a permitted or required action at a meeting at which all shareholders entitled to vote were present and voting may act by written consent without a meeting, except in regard to the annual election of directors, which may be by written consent only if unanimous. The MedQuist Inc. certificate of incorporation does not prohibit shareholders from acting by written consent. The NJBCA also provides that such shareholder action may not take effect unless the corporation gives all non-consenting shareholders advance notice of the action consented to, the proposed effective date of the action, and any conditions precedent to such action. Also, under the NJBCA, if the action gives rise to dissenters' rights, the board must fix a date for the tabulation of consents.

The DGCL permits stockholder action by written consent unless otherwise provided by a corporation's certificate of incorporation. Our certificate of incorporation will preclude stockholder action by written consent subject to certain exceptions.

***Advance notice requirements for stockholder proposals and director nominations***

Under the NJBCA, the written notice of any annual meeting must specify the purpose or purposes of the meeting. Therefore, business conducted at a MedQuist Inc. annual shareholder meeting is limited to the business specified in the meeting notice.

Our by-laws will provide that stockholders seeking to nominate candidates for election as directors or to bring business before an annual meeting of stockholders must provide timely notice of their proposal in writing to the corporate secretary.

The MedQuist Inc. by-laws provide that the board, or committee thereof delegated with the authority to select nominees for election to the board, shall consider written recommendations of nominees from shareholders so long as any such recommendation is received by the Secretary of MedQuist Inc., in the case of an annual meeting, not later than the date specified in the most recent proxy statement and, provided further, that any such recommendation is accompanied by (i) such information regarding each nominee as would be required to be included in a proxy statement filed pursuant to the Exchange Act, as amended, (ii) a description of any arrangements or understandings among the recommending shareholders and each nominee and any other person or entity with respect to such nomination, and (iii) the consent of each nominee to serve as a director of MedQuist Inc. if so elected.

Generally, to be timely, a stockholder's notice must be received at our principal executive offices not less than 90 days nor more than 120 days prior to the first anniversary date of the immediately preceding annual meeting of stockholders. Our by-laws also specify requirements as to the form and content of a stockholder's notice. These provisions, which do not apply to certain stockholders, may impede stockholders' ability to bring matters before a meeting of stockholders or make nominations for directors at a meeting of stockholders.



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***Business combinations***

The NJBCA provides that no corporation organized under the laws of New Jersey with its principal executive offices or significant operations located in New Jersey, or a resident domestic corporation, may engage in any business combination (as defined in the NJBCA) with any interested shareholder (generally a 10% or greater shareholder) of such corporation for a period of five years following such interested shareholder's stock acquisition, unless such business combination is approved by the board of such corporation prior to the stock acquisition. A resident domestic corporation, such as MedQuist Inc., cannot opt out of the foregoing provisions of the NJBCA.

In addition, after the conclusion of the five-year period referred to above, no resident domestic corporation may engage, at any time, in any business combination with any interested shareholder of such corporation other than: (i) a business combination approved by the board prior to the stock acquisition, (ii) a business combination approved by the affirmative vote of the holders of two-thirds of the voting stock not beneficially owned by such interested shareholder at a meeting called for such purpose or (iii) a business combination in which the interested shareholder pays a formula price designed to ensure that all other shareholders receive at least the highest price per share paid by such interested shareholder.

We will be governed by Section 203 of the DGCL which provides that we may not engage in certain business combinations with any interested stockholder for a three-year period following the time that the stockholder became an interested stockholder, unless:

n prior to such time, our board approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;

n upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of our voting stock outstanding at the time the transaction commenced, excluding certain shares; or

n at or subsequent to that time, the business combination is approved by our board and by the affirmative vote of holders of at least 66<sup>2</sup>/<sub>3</sub>% of the outstanding voting stock which is not owned by the interested stockholder.

Generally, a business combination includes a merger, asset or stock sale or other transaction resulting in a financial benefit to the interested stockholder. Subject to certain exceptions, an interested stockholder is a person who, together with that person's affiliates and associates, owns, or within the previous three years owned, 15% or more of our voting stock.

Under certain circumstances, this provision will make it more difficult for a person who would be an interested stockholder to effect various business combinations with a company for a three- year period. This provision may encourage companies interested in acquiring our company to negotiate in advance with our board because the stockholder approval requirement would be avoided if our board approves either the business combination or the transaction which results in the stockholder becoming an interested stockholder. These provisions also may have the effect of preventing changes in our board and may make it more difficult to accomplish transactions which stockholders may otherwise deem to be in their best interests.

*Corporate opportunity*

The NJBCA does not permit a corporation to renounce any interest or expectancy in, or in being offered an opportunity to participate in, any business opportunity

Our certificate of incorporation will provide that we renounce any interest or expectancy in, or in being offered an opportunity to participate in, any business opportunity which may be a corporate opportunity for

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presented to the corporation or its officers, directors or shareholders.

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members of our board who are not our employees (including any directors who also serve as officers) and their respective employers, and affiliates of the foregoing. We do not renounce our interest in any corporate opportunity offered to any such director if such opportunity is expressly offered to such person solely in his or her capacity as our director.

***Dissenters' rights of appraisal and payment***

Under the NJBCA, appraisal rights are available in connection with (i) a merger, consolidation or plan of exchange to which the corporation is a party, (ii) any sale, lease or exchange or other disposition of all or substantially all of a company's assets other than in the usual and regular course of business or (iii) a proposal to acquire some or all of the outstanding shares or assets of a legal entity, either directly or through a subsidiary, in exchange for the corporation's shares (a share exchange) if, as a result of the share exchange, the number of voting or participating shares issued in connection with the share exchange, when combined with shares already outstanding, would exceed by more than 40 percent the number of those shares outstanding immediately before the share exchange, unless an exception applies. A New Jersey corporation may provide in its certificate of incorporation that shareholders will have appraisal rights even in cases where the exceptions to the availability of appraisal rights discussed below exist. MedQuist Inc.'s certificate of incorporation does not so provide.

Under the DGCL, with certain exceptions, our stockholders will have appraisal rights in connection with a merger or consolidation of the company pursuant to which they will have the right to receive payment of the fair value of their shares as determined by the Delaware Court of Chancery.

***Stockholders' derivative actions***

Under the NJBCA, no action shall be brought by a shareholder in the name of the corporation unless the shareholder held shares or voting trust certificates in that corporation at the time of the transaction of which the shareholder complains, or the shareholder's shares or voting trust certificates devolved upon the shareholder by operation of law from a person who was a shareholder at the time of the complained transaction.

Under the DGCL, under certain circumstances, our stockholders may bring an action in our name to procure a judgment in our favor, also known as a derivative action, provided that the stockholder bringing the action is a stockholder at the time of the transaction to which the action relates or such stockholder's stock thereafter devolved by operation of law.

***Supermajority provisions***

Under the NJBCA, an affirmative vote of a majority of the votes cast by the holders of shares entitled to vote is one of the requirements for amending the certificate of incorporation. However, this voting requirement may be subject to greater requirements if so provided in the certificate of incorporation. The certificate of incorporation of MedQuist Inc. does not provide for greater voting requirements.

The DGCL provides generally that the affirmative vote of a majority of the outstanding shares of stock entitled to vote is required to amend a corporation's certificate of incorporation, unless the certificate of incorporation requires a greater percentage. Our certificate of incorporation will provide that certain provisions in our



certificate of incorporation and any provisions of our by-laws may be amended only by the affirmative vote of holders of at least 75% of the voting power entitled to

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vote generally in the election of directors, voting as a single class, which include the following provisions:

n the provisions regarding classified board (the election and term of our directors);

n the provisions regarding competition and corporate opportunities;

n the provisions regarding stockholder action by written consent;

n the provisions regarding calling meetings of stockholders;

n the provisions regarding filling vacancies on our board and newly created directorships;

n the advance notice requirements for stockholder proposals and director nominations;

n the indemnification provisions; and

n the amendment provision requiring that the above provisions be amended only with a 75% supermajority vote.

In addition, our certificate of incorporation will grant our board the authority to amend and repeal our by-laws without a stockholder vote in any manner not inconsistent with the laws of the State of Delaware or our certificate of incorporation.

***Limitations on liability and indemnification of officers and directors***

The by-laws of MedQuist Inc. provide that it shall, to the fullest extent permitted by applicable law, indemnify its directors and officers who were, or are a party or are threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (whether or not such action, suit or proceeding arises or arose by or in the right of MedQuist Inc. or other entity) by reason of the fact that such director or officer is or was a director or officer of MedQuist Inc. or is or was serving at the request of MedQuist Inc. as a director, officer, employee, general partner, agent or fiduciary of another corporation, partnership, joint venture, trust or other enterprise (including service

The DGCL authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breaches of directors' fiduciary duties. Our certificate of incorporation will include a provision that eliminates the personal liability of directors for monetary damages for breach of fiduciary duty as a director to the fullest extent permitted by Delaware law.

Section 102(b)(7) of the DGCL provides that a corporation may eliminate or limit the personal liability of

with respect to employee benefit plans), against expenses (including, but not limited to, attorneys' fees and costs), judgments, fines (including excise taxes assessed on a person with respect to any employee benefit plan) and amounts paid in settlement actually and reasonably incurred by such director or officer in accordance with such action, suit or proceeding, except as otherwise provided in its by-laws. Persons who were directors or officers of MedQuist Inc.

a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that such provision shall not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL (regarding, among other things, the payment of unlawful dividends) or (iv) for any transaction from which the director derived an improper personal benefit.

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prior to June 4, 2008, but who do not hold such office on or after such date, shall not be covered by the by-laws indemnification provisions.

Expenses incurred by a person covered by the by-laws indemnification provisions in defending a threatened, pending or completed civil or criminal action, suit or proceeding shall be paid by MedQuist Inc. in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such person to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by MedQuist Inc., except as otherwise provided in the by-laws.

In accordance with the NJBCA, indemnification of or advancement or reimbursement of expenses shall be provided (a) with respect to expenses or the payment of profits arising from the purchase or sale of securities of MedQuist Inc. in violation of Section 16(b) of the Exchange Act; (b) if a judgment or other final adjudication adverse to such director or officer establishes that his acts or omissions (i) were in breach of his duty of loyalty to MedQuist Inc. or its shareholders, (ii) were not in good faith or involved a knowing violation of law, or (iii) resulted in the receipt by such director or officer of an improper personal benefit; (c) for expenses or liabilities of any type whatsoever (including, but not limited to, judgments, fines, and amounts paid in settlement) which have been paid to, or for the benefit of, such person by an insurance carrier under a policy of liability insurance the premiums for which are paid by the corporation or an individual or entity other than such director or officer; and (d) for amounts paid in settlement of any threatened, pending or completed action, suit or proceeding without the written consent of the Corporation, which written consent shall not be unreasonably withheld.

The board of MedQuist Inc. is authorized, at any time by resolution, to add to the above list of exceptions from the right of indemnification or advancement or reimbursement of expenses but any such additional exception shall not apply with respect to any act or omission which has occurred prior to the date that the board in fact adopted such resolution. Any such additional exception may, at any time after its adoption, be amended, supplemented, waived, or terminated by further resolution of the board of MedQuist Inc. The by-laws of MedQuist Inc. further provide that it may, to the fullest extent permitted by applicable law, indemnify, and advance or reimburse expenses for, all persons (whether or not directors or officers) in all situations in which such indemnification, advancement

**Provision applicable to holders of our common stock**

In addition, Section 145 of the DGCL provides that a Delaware corporation has the power to indemnify its officers and directors in certain circumstances. Our by-laws also provide that we must indemnify our directors and officers to the fullest extent authorized by law. We are also expressly required to advance certain expenses to our directors and officers and carry directors and officers insurance providing indemnification for our directors and officers for some liabilities. We believe that these indemnification provisions and the directors and officers insurance are useful to attract and retain qualified directors and officers.

Section 145(a) of the DGCL empowers a corporation to indemnify any director, officer, employee or agent, or former director, officer, employee or agent, who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of his service as a director, officer, employee or agent of the corporation, or his service, at the corporation's request, as a director, officer, employee or agent of another corporation or enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding provided that such director or officer acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, provided that such director or officer had no reasonable cause to believe his conduct was unlawful.

Section 145(b) of the DGCL empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another enterprise, against expenses (including attorneys' fees) actually and reasonably incurred in connection with the defense or settlement of

such action or suit provided that such director or officer acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification may be made in respect of any claim, issue or matter as to which such director or officer shall have been adjudged to be liable to the corporation unless and only to the extent that the Delaware Court of

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**Provision applicable to holders of MedQuist Inc. common stock**

or reimbursement of expenses is not made mandatory under the by-laws indemnification provisions.

**Provision applicable to holders of our common stock**

Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such director or officer is fairly and reasonably entitled to indemnity for such expenses which the court shall deem proper.

The limitation of liability and indemnification provisions in our certificate of incorporation and by-laws may discourage stockholders from bringing a lawsuit against its directors for breach of their fiduciary duty. These provisions may also have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit our company and our stockholders. In addition, an investment in our common stock may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions.

There is currently no pending material litigation or proceeding involving any of our directors, officers or employees for which indemnification is sought.

***Constituency provisions***

The NJBCA provides that boards may, in determining the best interests of the corporation, in addition to considering the effects of any action on shareholders consider:

- n the effects of the action on the corporation s employees, suppliers and customers;
- n the effects of the action on the community in which the corporation operates; and
- n the long-term as well as short-term interests of the corporation and its shareholders, including the possibility that these interests may best be served by the continued independence of the corporation.

The DGCL does not contain a corresponding provision in this regard.

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**Description of Indebtedness**

**Senior secured credit facility**

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 certain lenders and General Electric Capital Corporation, as administrative agent.

The Senior Secured Credit Facility consists of:

- n a \$200 million term loan, advanced in one drawing on October 14, 2010, or the Closing Date, with a term of five years, repayable in equal quarterly installments of \$5 million, commencing on the first day of the first fiscal quarter beginning after the Closing Date, with the balance payable at maturity.
- n a \$25 million revolving credit facility under which borrowings may be made from time to time during the period from the Closing Date until the fifth anniversary of the Closing Date. The revolving facility includes a \$5 million letter-of-credit sub-facility and a \$5 million swing line loan sub-facility.

***Interest rate and fees***

The borrowings under the Senior Secured Credit Facility bear interest at a rate equal to an applicable margin plus, at the co-borrowers' option, either (a) a base rate determined by reference to the highest of (1) the rate last quoted by the Wall Street Journal as the Prime Rate in the United States, (2) the federal funds rate plus 1/2 of 1% and (3) the LIBOR rate for a one-month interest period plus 1.00% or (b) the higher of (i) a LIBOR rate determined by reference to the costs of funds for deposits in the currency of such borrowing for the interest period relevant to such borrowing adjusted for certain additional costs and (ii) 1.75%. The applicable margin is 4.50% with respect to base rate borrowings and 5.50% with respect to LIBOR borrowings.

In addition to paying interest on outstanding principal under the Senior Secured Credit Facility, the borrowers are required to pay a commitment fee to the lenders under the revolving credit facility in respect of the unutilized commitments thereunder at a rate per annum equal to 0.50%. The borrowers are also required to pay a fee on the average daily issued but undrawn face amount of all outstanding letters of credit at a rate per annum equal to the applicable margin then in effect with respect to LIBOR loans under the revolving credit facility, as well as a customary fronting fee of 0.125% and other customary letter of credit fees.

***Prepayments***

Subject to certain exceptions, the Senior Secured Credit Facility requires the co-borrowers to prepay outstanding term loans with:

- n prior to the earlier of December 31, 2013 or the date upon which we own 100% of the stock of MedQuist Inc., a percentage of excess cash flow of MedQuist Inc. ranging from 25% to 65% depending upon certain leverage tests;
- n following the earlier of December 31, 2013 or the date upon which we own 100% of the stock of MedQuist Inc., a percentage of our excess cash flow ranging from 60% to 65% depending upon certain leverage tests;
- n 50% of the net cash proceeds arising from the issuance or sale by us or any of our subsidiaries of its own stock, subject to certain exceptions, including exceptions for up to \$100 million of proceeds arising from one or more sales by us of its own stock pursuant to one or more underwritten public offerings; and

- n 100% of the net cash proceeds received by us or any of our subsidiaries from any loss, damage, destruction or condemnation of, or any sale, transfer or other disposition of, any asset, subject to certain thresholds and certain exceptions and reinvestment rights.



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The borrowers may voluntarily repay outstanding loans under the Senior Secured Credit Facility or voluntarily reduce unutilized portions of the revolving credit facility at any time, generally, without premium or penalty.

### ***Guaranty and security***

The obligations of the borrowers under the Senior Secured Credit Facility are unconditionally guaranteed by us and substantially all of our existing and future domestic subsidiaries. All obligations and related guarantees are secured by a first priority perfected security interest in substantially all existing and after-acquired real and personal property of the borrowers and the guarantors.

### ***Certain covenants and events of default***

The Senior Secured Credit Facility contains a number of significant covenants. We believe that these covenants are material terms of the credit agreement and that information about the covenants is material to an investor's understanding of our financial condition and liquidity. Covenant compliance EBITDA is used to determine our compliance with certain of these covenants. Any breach of covenants in the Senior Secured Credit Facility (including those that are tied to financial ratios based on covenant compliance EBITDA) could result in a default under our credit agreement and the lenders could elect to declare all amounts borrowed to be immediately due and payable.

Subject to certain exceptions and threshold amounts, the covenants under the credit agreement, among other things, restrict the ability of us and our subsidiaries to:

- n incur, create, assume or permit to exist any additional indebtedness;
- n incur, create, assume or permit to exist any lien on any property or assets (including stock or other securities of any person, including any of our subsidiaries);
- n enter into sale and lease-back transactions;
- n make investments, loans, or advances;
- n engage in mergers or consolidations;
- n make certain acquisitions;
- n pay dividends and distributions or repurchase our capital stock;
- n engage in certain transactions with affiliates;
- n change the business conducted by our company and our subsidiaries;
- n amend or modify certain material agreements governing our indebtedness (including the Senior Subordinated Notes); or
- n make capital expenditures in excess of certain amounts.

Under the Senior Secured Credit Facility, we are required to maintain (i) a minimum consolidated interest coverage ratio, initially, of 2.75x and increasing over the term of the facility to 4.00x, (ii) a maximum consolidated total leverage ratio, initially of 4.00x and declining over the term of the facility to 1.50x and (iii) a maximum consolidated senior leverage ratio, initially of 3.00x, and declining over the term of the facility to 1.00x.

The Senior Secured Credit Facility also contains certain affirmative covenants and events of default, including financial and other reporting requirements, as well as an event of default pursuant to a change of control as defined therein. As of January 5, 2010 we were in compliance in all material respects with all covenants and provisions in the Senior Secured Credit Facility.

### **The senior subordinated notes**

In addition to the Senior Secured Credit Facility, in connection with the Corporate Reorganization, MedQuist Inc., as issuer, and MedQuist Transcriptions, Ltd. and CBay Inc., as co-issuers and guarantors, and we and certain of our other subsidiaries, as guarantors, issued \$85.0 million aggregate principal amount of 13% Senior Subordinated Notes due 2016 pursuant to a Note Purchase Agreement with BlackRock Kelso Capital Corporation, PennantPark Investment Corporation, Citibank, N.A., and THL Credit, Inc. The Senior Subordinated Notes are guaranteed on a joint and several, absolute, unconditional and irrevocable basis, by us and certain of our

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subsidiaries. Interest on the notes is payable in quarterly installments at the issuers' option at either (i) 13% in cash or (ii) 12% in cash plus 2% in the form of additional Senior Subordinated Notes. Closing and funding of the Senior Secured Credit Facility and the Senior Subordinated Notes occurred on October 14, 2010. The Senior Subordinated Notes are non-callable for two years after the closing date after which they are redeemable at 105.0% declining ratably until four years after the closing date. The Senior Subordinated Notes contain a number of significant covenants that, among other things, restrict our ability to dispose of assets, repay other indebtedness, incur additional indebtedness, pay dividends, prepay subordinated indebtedness, incur liens, make capital expenditures, investments or acquisitions, engage in mergers or consolidations, engage in certain types of transactions with affiliates and otherwise restrict our activities. Under the Senior Subordinated Notes, we are required to satisfy and remain in compliance with specified financial ratios. Under the Senior Subordinated Notes, we are required to maintain (i) a minimum consolidated interest coverage ratio, initially of 2.50x and increasing over the term of the facility 3.60x, (ii) a maximum consolidated total leverage ratio, initially of 4.40x and declining over the term of the facility to 1.70x and (iii) a maximum consolidated senior leverage ratio, initially of 3.30x and declining over the term of the facility to 1.10x.

**Other indebtedness**

CBay Systems and Services, Inc., Mirrus Systems, Inc., CBay Inc. and CBay Systems (India) Pvt. Ltd. have entered into certain working capital facilities, term loans and revolving lines of credit for purposes of operating their respective businesses. In total, there are eight such financing arrangements currently in place. As of September 30, 2010, the amounts outstanding under these arrangements ranged from approximately \$750,000 to approximately \$2.9 million with interest rates from 6.00% to 12.00%. We anticipate entering into similar credit facilities from time to time in the future to satisfy working capital and other needs.

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

We are party to a credit agreement with IndusInd Bank, Mumbai, India of \$3.2 million at interest rates of LIBOR plus 3%, which is secured by current assets and fixed assets of CBay India. The amount outstanding under this credit agreement as of September 30, 2010 and December 31, 2009 was \$3.2 million and \$0, respectively. For the nine months ended September 30, 2010 and 2009 interest expense of \$38,000 and \$0, respectively, was recorded in interest expense in our consolidated statements of operations.

The foregoing agreements contain restrictive covenants applicable to our subsidiaries which are parties thereto, including with respect to the payment to us of dividends by such subsidiaries.

**Table of Contents****Comparative Market Price and Dividend Information****Market price information for our common stock**

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

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

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

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

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

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

<b><u>Year</u></b>	<b>Share price (pounds)</b>	
	<b>High</b>	<b>Low</b>
2010	9.54	2.51
2009	3.80	1.51
2008	3.80	1.82
2007	5.04 <sup>(1)</sup>	2.86 <sup>(1)</sup>
2006		

**Quarter**

Fourth Quarter 2010	7.20	5.18
Third Quarter 2010	6.12	5.06
Second Quarter 2010	6.98	3.89
First Quarter 2010	9.54	2.81
Fourth Quarter 2009	3.80	3.11
Third Quarter 2009	3.69	1.73
Second Quarter 2009	1.82	1.51
First Quarter 2009	2.07	1.64

<sup>(1)</sup> We were admitted to AIM on June 18, 2007. Data for 2007 reflects closing prices from June 15, 2007 to December 31, 2007.

**Table of Contents****MedQuist Inc.**

MedQuist Inc. common stock began trading on the NASDAQ Global Market under the ticker symbol MEDQ effective on July 17, 2008. Prior to that, MedQuist Inc. common stock traded on the Pink Sheets under the symbol MEDQ.PK . Set forth below are the high and low closing bid quotations for those periods MedQuist Inc. common stock was traded on the Pink Sheets (as reported by the Pink Sheets LLC) and the high and low sales prices for those periods MedQuist Inc. common stock was quoted on The NASDAQ Global Market (as reported by The NASDAQ Global Market) for the most recent five years and for each full financial quarter for the two most recent fiscal years. The over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily reflect the prices for actual transactions.

	Share price (dollars)	
	High	Low
<b><u>Year</u></b>		
2010	12.39	6.61
2009	9.32	0.87
2008	5.31	1.72
2007	6.91	3.90
2006	7.46	4.63
<b><u>Quarter</u></b>		
Fourth Quarter 2010	12.39	7.00
Third Quarter 2010	8.76	7.31
Second Quarter 2010	9.77	7.46
First Quarter 2010	9.00	6.61
Fourth Quarter 2009	7.89	5.74
Third Quarter 2009	9.32	5.04
Second Quarter 2009	6.88	2.12
First Quarter 2009	2.75	0.87

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**Description of Capital Stock**

The following discussion summarizes the material terms of the common stock to be issued in connection with the public offering contemplated by this prospectus. This discussion does not purport to be complete and is qualified in its entirety by reference to our certificate of incorporation and by-laws to be filed as exhibits to the registration statement of which this prospectus forms a part. You can obtain copies of those documents by following the instructions under **Where You Can Find More Information**.

Our purpose is to engage in any lawful act or activity for which corporations may now or hereafter be organized under the DGCL. Our certificate of incorporation authorizes us to issue up to 300 million shares of common stock, par value \$0.10 per share, and 25 million shares of preferred stock, par value \$0.10 per share. No shares of preferred stock will be issued or outstanding immediately after the public offering contemplated by this prospectus.

**Common stock**

The common stock has the voting rights described below under **Voting**, and the dividend rights described below under **Dividends**. Holders of common stock do not have conversion or redemption rights or any preemptive rights to subscribe for any of our unissued securities. The rights, preferences and privileges of holders of common stock are subject to the rights of the holders of any preferred shares which may be authorized and issued in the future.

**Preferred stock**

Our certificate of incorporation authorizes our board to establish one or more series of preferred stock and to determine, with respect to any series of preferred stock, the terms and rights of that series, including:

- n the designation of the series;
- n the number of shares of the series, which our board of directors may, except where otherwise provided in the preferred stock designation, increase (but not above the total number of authorized shares of the class) or decrease (but not below the number of shares then outstanding);
- n whether dividends, if any, will be cumulative or non-cumulative and the dividend rate of the series;
- n the dates at which dividends, if any, will be payable;
- n the redemption rights and price or prices, if any, for shares of the series;
- n the terms and amounts of any sinking fund provided for the purchase or redemption of shares of the series;
- n the amounts payable on shares of the series in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the affairs of our company;
- n whether the shares of the series will be convertible into shares of any other class or series, or any other security, of our company or any other company, and, if so, the specification of the other class or series or other security, the conversion price or prices or rate or rates, any rate adjustments, the date or dates as of which the shares will be convertible and all other terms and conditions upon which the conversion may be made;
- n restrictions on the issuance of shares of the same series or of any other class or series; and
- n the voting rights, if any, of the holders of the series.

**Voting**

Holders of our common stock are entitled to one vote per share on all matters to be voted on by holders of our common stock.





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### **Dividends**

The DGCL permits a corporation to declare and pay dividends out of surplus or, if there is no surplus, out of its net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Surplus is defined as the excess of the net assets of the corporation over the amount determined to be the capital of the corporation by the board. The capital of the corporation is typically calculated to be (and cannot be less than) the aggregate par value of all issued shares of capital stock. Net assets equals the fair value of the total assets minus total liabilities. The DGCL also provides that dividends may not be paid out of net profits if, after the payment of the dividend, capital is less than the capital represented by the outstanding stock of all classes having a preference upon the distribution of assets.

Declaration and payment of any dividend will be subject to the discretion of our board of directors. The time and amount of dividends will be dependent upon our financial condition, operations, cash requirements and availability, debt repayment obligations, capital expenditure needs and restrictions in our debt instruments, industry trends, the provisions of Delaware law affecting the payment of distributions to stockholders and other factors.

### **Stockholder meetings**

Our by-laws provide that annual stockholder meetings will be held at a time, date and place selected by our board.

### **Anti-takeover effects of certain provisions of our certificate of incorporation and by-laws**

Several provisions in our certificate of incorporation and by-laws have anti-takeover effects. These provisions are intended to avoid costly takeover battles, reduce our vulnerability to a hostile change of control and enhance the ability of our board to maximize stockholder value in connection with any unsolicited offer to acquire us. However, these anti-takeover provisions, which are summarized below, could also discourage, delay or prevent (1) the merger or acquisition of our company by means of a tender offer, a proxy contest or otherwise, that a stockholder may consider in its best interest, and (2) the replacement and/or removal of incumbent officers and directors.

### ***Authorized preferred stock and common stock***

Our board may issue preferred shares on terms calculated to discourage, delay or prevent a change of control of our company or the removal of our management. Moreover, our authorized but unissued shares of preferred stock will be available for future issuances without stockholder approval and could be utilized for a variety of corporate purposes, including future offerings to raise additional capital, acquisitions and employee benefit plans. The existence of authorized but unissued and unreserved shares of preferred stock could render more difficult or discourage an attempt to obtain control of our company by means of a proxy contest, tender offer, merger or otherwise.

### ***Classified board of directors***

Our certificate of incorporation provides that our board will be divided into three classes of directors, with the classes to be as nearly equal in number as possible. We will have a classified board, with three directors in Class I, three directors in Class II and three directors in Class III. The members of Class I will serve for a term expiring at the first succeeding annual meeting of stockholders. The members of Class II will serve for a term expiring at the second succeeding annual meeting of stockholders. The members of Class III will serve for a term expiring at the third succeeding annual meeting of stockholders. As a result, approximately one-third of our board of directors will be elected each year. A replacement director shall serve in the same class as the former director he or she is replacing. The classification of our board will have the effect of making it more difficult for stockholders to change the composition of our board. Our certificate of incorporation and by-laws provide that the number of directors will be fixed from time to time pursuant to a resolution adopted by the board, but must consist of not less than seven or more

than 15 directors.

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### ***Removal of directors; vacancies***

Our certificate of incorporation will provide that directors other than those elected pursuant to any stockholders agreement in existence at the time of the adoption of our certificate of incorporation may be removed only for cause and only upon the affirmative vote of holders of a majority of the voting power of all then outstanding shares of stock entitled to vote generally in the election of directors, voting together as a single class. In addition, our by-laws provide that, except as set forth in any stockholders' agreements in existence at the time of the adoption of our certificate of incorporation or any certificate of designation for preferred stock, any vacancies on our board will be filled only by the affirmative vote of a majority of the remaining directors, although less than a quorum, or by a sole remaining director.

### ***No cumulative voting***

The DGCL provides that stockholders are not entitled to the right to cumulate votes in the election of directors unless an entity's certificate of incorporation provides otherwise. Our certificate of incorporation does not provide for cumulative voting.

### ***Calling of special meetings of stockholders***

Our certificate of incorporation provides that special meetings of our stockholders may be called at any time only by or at the direction of the chairman of the board, the board or a committee of the board which has been designated by the board.

### ***Stockholder action by written consent***

The DGCL permits stockholder action by written consent unless otherwise provided by a corporation's certificate of incorporation. Our certificate of incorporation precludes stockholder action by written consent subject to certain exceptions.

### ***Advance notice requirements for stockholder proposals and director nominations***

Our by-laws provide that stockholders seeking to nominate candidates for election as directors or to bring business before an annual meeting of stockholders must provide timely notice of their proposal in writing to the corporate secretary.

Generally, to be timely, a stockholder's notice must be received at our principal executive offices not less than 90 days nor more than 120 days prior to the first anniversary date of the immediately preceding annual meeting of stockholders. Our by-laws also specify requirements as to the form and content of a stockholder's notice. These provisions, which do not apply to certain stockholders, may impede stockholders' ability to bring matters before a meeting of stockholders or make nominations for directors at a meeting of stockholders.

### ***Business combinations***

We are governed by Section 203 of the DGCL which provides that we may not engage in certain business combinations with any interested stockholder for a three-year period following the time that the stockholder became an interested stockholder, unless:

- n prior to such time, our board approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;

- n upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of our voting stock outstanding at the time the transaction commenced, excluding certain shares; or

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- n at or subsequent to that time, the business combination is approved by our board and by the affirmative vote of holders of at least 66<sup>2</sup>/<sub>3</sub>% of the outstanding voting stock which is not owned by the interested stockholder.

Generally, a business combination includes a merger, asset or stock sale or other transaction resulting in a financial benefit to the interested stockholder. Subject to certain exceptions, an interested stockholder is a person who, together with that person's affiliates and associates, owns, or within the previous three years owned, 15% or more of our voting stock.

Under certain circumstances, this provision will make it more difficult for a person who would be an interested stockholder to effect various business combinations with a company for a three-year period. This provision may encourage companies interested in acquiring our company to negotiate in advance with our board because the stockholder approval requirement would be avoided if our board approves either the business combination or the transaction which results in the stockholder becoming an interested stockholder. These provisions also may have the effect of preventing changes in our board and may make it more difficult to accomplish transactions which stockholders may otherwise deem to be in their best interests.

### ***Corporate opportunity***

Our certificate of incorporation provides that we renounce any interest or expectancy in, or in being offered an opportunity to participate in, any business opportunity which may be a corporate opportunity for members of our board who are not our employees (including any directors who also serve as officers) and their respective employers, and affiliates of the foregoing. We do not renounce our interest in any corporate opportunity offered to any such director if such opportunity is expressly offered to such person solely in his or her capacity as our director.

### ***Dissenters' rights of appraisal and payment***

Under the DGCL, with certain exceptions, our stockholders will have appraisal rights in connection with a merger or consolidation of the company pursuant to which they will have the right to receive payment of the fair value of their shares as determined by the Delaware Court of Chancery.

### ***Stockholders' derivative actions***

Under the DGCL, under certain circumstances, our stockholders may bring an action in our name to procure a judgment in our favor, also known as a derivative action, provided that the stockholder bringing the action is a holder of shares of our common stock at the time of the transaction to which the action relates or such stockholder's stock thereafter devolved by operation of law.

### ***Forum***

Our certificate of incorporation provides that unless we consent to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for any (i) derivative action or proceeding brought on behalf of our company, (ii) action asserting a claim of breach of a fiduciary duty owed by any director, officer, employee or agent of our company to the company or the company's stockholders, (iii) action asserting a claim arising pursuant to any provision of the DGCL, or (iv) action asserting a claim governed by the internal affairs doctrine, in each such case subject to said Court of Chancery having personal jurisdiction over the indispensable parties named as defendants therein. Any person or entity purchasing or otherwise acquiring any interest in shares of capital stock of our company shall be deemed to have notice of and consented to the forum provisions in our certificate of incorporation.

*Supermajority provisions*

The DGCL provides generally that the affirmative vote of a majority of the outstanding shares of stock entitled to vote is required to amend a corporation's certificate of incorporation, unless the certificate of incorporation

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requires a greater percentage. Our certificate of incorporation provides that certain provisions in our certificate of incorporation and any provisions of our by-laws may be amended only by the affirmative vote of holders of at least 75% of the voting power entitled to vote generally in the election of directors, voting as a single class. Such provisions include the following:

- n the provisions regarding classified board (the election and term of our directors);
- n the provisions regarding competition and corporate opportunities;
- n the provisions regarding stockholder action by written consent;
- n the provisions regarding calling meetings of stockholders;
- n the provisions regarding filling vacancies on our board and newly created directorships;
- n the advance notice requirements for stockholder proposals and director nominations;
- n the indemnification provisions; and
- n the amendment provision requiring that the above provisions be amended only with a 75% supermajority vote.

In addition, our certificate of incorporation grants our board the authority to amend and repeal our by-laws without a stockholder vote in any manner not inconsistent with the laws of the State of Delaware or our certificate of incorporation.

### **Limitations on liability and indemnification of officers and directors**

The DGCL authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breaches of directors' fiduciary duties. Our certificate of incorporation will include a provision that eliminates the personal liability of directors for monetary damages for breach of fiduciary duty as a director to the fullest extent permitted by Delaware law.

Section 102(b)(7) of the DGCL provides that a corporation may eliminate or limit the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that such provision shall not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL (regarding, among other things, the payment of unlawful dividends) or (iv) for any transaction from which the director derived an improper personal benefit.

In addition, Section 145 of the DGCL provides that a Delaware corporation has the power to indemnify its officers and directors in certain circumstances. Our by-laws also provide that we must indemnify our directors and officers to the fullest extent authorized by law. We are also expressly required to advance certain expenses to our directors and officers and carry directors' and officers' insurance providing indemnification for our directors and officers for some liabilities. We believe that these indemnification provisions and the directors' and officers' insurance are useful to attract and retain qualified directors and executive officers.

Section 145(a) of the DGCL empowers a corporation to indemnify any director, officer, employee or agent, or former director, officer, employee or agent, who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of his service as a director, officer, employee or agent of the corporation, or his service, at the corporation's request, as a director, officer, employee or agent of another corporation or enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding provided that such director or officer acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, provided that such director or officer had no

reasonable cause to believe his conduct was unlawful.

Section 145(b) of the DGCL empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person is or was a director, officer,



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employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another enterprise, against expenses (including attorneys' fees) actually and reasonably incurred in connection with the defense or settlement of such action or suit provided that such director or officer acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification may be made in respect of any claim, issue or matter as to which such director or officer shall have been adjudged to be liable to the corporation unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such director or officer is fairly and reasonably entitled to indemnity for such expenses which the court shall deem proper.

The limitation of liability and indemnification provisions in our certificate of incorporation and by-laws may discourage stockholders from bringing a lawsuit against its directors for breach of their fiduciary duty. These provisions may also have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit our company and our stockholders. In addition, an investment in our common stock may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions.

There is currently no pending material litigation or proceeding involving any of our directors, officers or employees for which indemnification is sought.

**Transfer agent and registrar**

The transfer agent and registrar for our shares in the United States is American Stock Transfer & Trust Company, LLC.

**Listing**

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

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**Material United States Federal Income Tax Consequences**

The following discussion sets forth the material United States federal income tax consequences of the exchange of MedQuist Inc. common stock for our common stock, or the Exchange, to U.S. holders and non-U.S. holders (each, as defined below). This discussion does not address all aspects of United States federal income taxes and does not deal with foreign, state, local, alternative minimum or other tax considerations that may be relevant to U.S. holders and non-U.S. holders in light of their personal circumstances. This discussion is based upon the Internal Revenue Code of 1986, as amended, or the Code, the regulations of the U.S. Treasury Department and court and administrative rulings and decisions in effect on the date of this document. These laws may change, possibly retroactively, and any change could affect the continuing validity of this discussion.

For purposes of this discussion, we use the term "U.S. holder" to mean:

- n a citizen or resident of the United States;
- n a corporation created or organized under the laws of the United States or any of its political subdivisions;
- n a trust that (i) is subject to the supervision of a court within the United States and the control of one or more United States persons or (ii) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person; or
- n an estate that is subject to United States federal income tax on its income regardless of its source.

For purposes of this discussion, a non-U.S. holder is a person that is neither a U.S. holder nor a partnership (or any other entity taxed as a partnership for United States federal income tax purposes).

If a partnership holds MedQuist Inc. common stock, the tax treatment of a partner will generally depend on the status of the partners and the activities of the partnership. If you are a partner of a partnership holding MedQuist Inc. common stock, you should consult your tax advisors.

This discussion assumes that you hold your shares of MedQuist Inc. common stock as a capital asset within the meaning of section 1221 of the Code. Further, this discussion does not address all aspects of United States federal income taxation that may be relevant to you in light of your particular circumstances or that may be applicable to you if you are subject to special treatment under the United States federal income tax laws, including if you are:

- n a financial institution;
- n a tax-exempt organization;
- n an S corporation or other pass-through entity;
- n an insurance company;
- n a mutual fund;
- n a dealer in securities or foreign currencies;
- n a broker;
- n a trader in securities who elects the mark-to-market method of accounting for your securities;
- n a MedQuist Inc. stockholder subject to the alternative minimum tax provisions of the Code;
- n a controlled foreign corporation;
- n a passive foreign investment company;
- n an expatriate or former long-term resident of the United States;
- n a MedQuist Inc. stockholder who received your MedQuist Inc. common stock through the exercise of employee stock options or through a tax-qualified retirement plan;
- n a person that has a functional currency other than the U.S. dollar;

- n a holder of options granted under any MedQuist Inc. benefit plan; or
- n a MedQuist Inc. stockholder who holds MedQuist Inc. common stock as part of a hedge against currency risk, straddle or a constructive sale or conversion transaction.

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### **Tax consequences of the exchange**

We intend to take the position for U.S. federal income tax purposes that the exchange of shares of MedQuist Inc. common stock for our common stock in the Exchange, assuming that it is consummated as described herein, is a transaction described in Section 351(a) of the Code, or a 351 Exchange. There is no direct tax authority for treatment of the Exchange as a 351 Exchange and 351 Exchange treatment depends on numerous factors, including factors beyond our control. As a result, no assurances can be given that the exchange of shares will qualify as a 351 Exchange. Neither we nor MedQuist Inc. has or will seek any ruling from the Internal Revenue Service regarding any matters relating to the Exchange, and as a result, there can be no assurance that the Internal Revenue Service will not disagree with or challenge any of the conclusions described herein. Assuming that the Exchange qualifies as a 351 Exchange, then, in general:

- n you will not recognize gain or loss when you exchange your MedQuist Inc. common stock solely for our common stock;
- n your aggregate tax basis in our common stock that you receive in the Exchange will equal your aggregate tax basis in the MedQuist Inc. common stock you surrender; and
- n your holding period for our common stock that you receive in the Exchange will include your holding period for the shares of MedQuist Inc. common stock that you surrender in the Exchange.

If you acquired different blocks of MedQuist Inc. common stock at different times and at different prices, your tax basis and holding period in our common stock may be determined with reference to each block of MedQuist Inc. common stock.

### **Tax consequences of holding our common stock**

#### ***U.S. holders***

##### *Dividends and other distributions on our common stock*

The gross amount of any distribution by us of cash or property, other than certain distributions, if any, of common stock distributed pro rata to all of our shareholders, with respect to common stock will constitute dividends to the extent such distributions are paid out of our current or accumulated earnings and profits as determined under United States federal income tax principles. To the extent, if any, that the amount of any distribution exceeds our current and accumulated earnings and profits, it generally will be treated first as a tax free return of capital, on a share-by-share basis, to the extent of the U.S. holder's adjusted tax basis in our common stock, and thereafter as capital gain.

Dividends received by a corporate U.S. holder generally will qualify for the dividends received deduction if the requisite holding period is satisfied. With certain exceptions, and provided certain holding period requirements are met, dividends received by a non-corporate U.S. holder generally will constitute qualified dividends that will be subject to tax at the maximum tax rate accorded to capital gains for tax years beginning on or before December 31, 2012, after which the rate applicable to dividends is currently scheduled to return to the tax rate generally applicable to ordinary income.

##### *Gain on Disposition of Common Stock*

Upon the sale, exchange or other disposition of our common stock, a U.S. holder will recognize gain or loss in an amount equal to the difference between the amount realized on the sale, exchange or other disposition of our common stock and the U.S. holder's adjusted basis in such common stock. Generally, such gain or loss will be capital gain or

loss and will be long term capital gain or loss if the U.S. holder's holding period for the shares exceeds one year. Long term capital gains of non-corporate U.S. holders are subject to reduced rates of taxation. The deductibility of capital losses is subject to limitations.

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### ***Non-U.S. holders***

#### ***Dividends and other distributions on our common stock***

The gross amount of any distribution by us of cash or property, other than certain distributions, if any, of common stock distributed pro rata to all of our shareholders, with respect to common stock will constitute dividends to the extent such distributions are paid out of our current or accumulated earnings and profits as determined under United States federal income tax principles. To the extent, if any, that the amount of any distribution exceeds our current and accumulated earnings and profits, it generally will be treated first as a tax free return of capital, on a share-by-share basis, to the extent of the non-U.S. holder's adjusted tax basis in our common stock, and thereafter as capital gain.

Dividends paid to a non-U.S. holder of our common stock generally will be subject to withholding of United States federal income tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. However, dividends that are effectively connected with the conduct of a trade or business by the non-U.S. holder within the United States (and, if required by an applicable income tax treaty, are attributable to a United States permanent establishment) are not subject to the withholding tax, provided certain certification and disclosure requirements are satisfied. Instead, such dividends are subject to United States federal income tax on a net income basis in the same manner as if the non-U.S. holder were a United States person as defined under the Code. Any such effectively connected dividends received by a foreign corporation may be subject to an additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

A non-U.S. holder of our common stock who wishes to claim the benefit of an applicable treaty rate and avoid backup withholding, as discussed below, for dividends will be required (a) to complete Internal Revenue Service Form W-8BEN (or other applicable form) and certify under penalty of perjury that such holder is not a United States person as defined under the Code and is eligible for treaty benefits or (b) if our common stock is held through certain foreign intermediaries, to satisfy the relevant certification requirements of applicable United States Treasury regulations. Special certification and other requirements apply to certain non-U.S. holders that are passthrough entities rather than corporations or individuals.

A non-U.S. holder of our common stock eligible for a reduced rate of United States withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the Internal Revenue Service.

#### ***Gain on disposition of common stock***

Any gain realized on the disposition of our common stock generally will not be subject to United States federal income tax unless:

- n the gain is effectively connected with a trade or business of the non-U.S. holder in the United States (and, if required by an applicable income tax treaty, is attributable to a United States permanent establishment of the non-U.S. holder);
- n the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of that disposition, and certain other conditions are met; or
- n we are or have been a United States real property holding corporation for United States federal income tax purposes.

An individual non-U.S. holder described in the first bullet point immediately above will be subject to tax on the net gain derived from the sale under regular graduated United States federal income tax rates. An individual non-U.S. holder described in the second bullet point immediately above will be subject to a flat 30% tax on the gain

derived from the sale, which may be offset by United States source capital losses, even though the individual is not considered a resident of the United States. If a non-U.S. holder that is a foreign corporation falls under the first bullet point immediately above, it will be subject to tax on its net gain in the same manner as if it were a United States person as defined under the Code and, in addition, may be subject to the branch profits tax equal to 30% of its effectively connected earnings and profits or at such lower rate as may be specified by an applicable income tax treaty.

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We believe we are not and do not anticipate becoming a United States real property holding corporation for United States federal income tax purposes.

### **Information reporting and back-up withholding**

If you receive our common stock as a result of the Exchange, you will be required to retain records pertaining to the Exchange and you will be required to file with your United States federal income tax return for the year in which the Exchange takes place a statement setting forth certain facts relating to the Exchange. In addition, a holder may be subject to information reporting requirements with respect to dividends paid on our common stock, and on the proceeds from the sale, exchange or disposition of our common stock.

In addition, a holder may be subject to back-up withholding (currently at 28%) on any dividends paid on our common stock, and on the proceeds from the sale, exchange or other disposition of our common stock, unless the holder provides certain identifying information, such as a duly executed IRS Form W-9 or appropriate W-8, or otherwise establishes an exemption.

Back-up withholding is not an additional tax and the amount of any back-up withholding will be allowable as a credit against a holder's United States federal income tax liability and may entitle such holder to a refund, provided that certain required information is timely furnished to the IRS. Holders are urged to consult their own tax advisors regarding the application of the information reporting and back-up withholding rules to them.

### **Additional withholding requirements applicable to non-U.S. holders**

Under recently enacted legislation, the relevant withholding agent may be required to withhold 30% of any dividends and the proceeds of a sale of our common stock paid after December 31, 2012 to (i) a foreign financial institution unless such foreign financial institution agrees to verify, report and disclose its U.S. accountholders and meets certain other specified requirements or (ii) a non-financial foreign entity that is the beneficial owner of the payment unless such entity certifies that it does not have any substantial United States owners or provides the name, address and taxpayer identification number of each substantial United States owner and such entity meets certain other specified requirements. Non-U.S. holders are urged to consult their tax advisors regarding the effect, if any, of the recent United States federal income tax legislation on their investment in our common stock.

**This discussion does not address tax consequences that may vary with, or are contingent on, individual circumstances. Moreover, it does not address any non-income tax or any foreign, state or local tax consequences of the Exchange. Tax matters are very complicated, and the tax consequences of the Exchange to you will depend upon the facts of your particular situation. Accordingly, we strongly urge you to consult with a tax advisor to determine the particular federal, state, local or foreign income or other tax consequences to you of the Exchange.**



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**Legal Matters**

The validity of our common stock to be issued in the exchange offer will be passed upon for us by Simpson Thacher & Bartlett LLP, New York, New York. White & Case LLP, New York, New York has represented the dealer manager in connection with the exchange offer.

**Experts**

The audited consolidated financial statements of MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and its subsidiaries as of December 31, 2008 and 2009 and for each of the years then ended have been included herein and in this prospectus in reliance upon the report of KPMG LLP, independent registered public accounting firm, appearing elsewhere in this prospectus, and upon the authority of said firm as experts in accounting and auditing.

The audited consolidated financial statements of MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and its subsidiaries as of December 31, 2007 and for the year ended December 31, 2007 appearing in this registration statement and prospectus have been audited by Grant Thornton, India, independent registered public accounting firm, as stated in their report appearing elsewhere in this prospectus, and are included, and made part of, this registration statement in reliance upon the report of such firm given upon the authority of such firm as experts in auditing and accounting.

The audited consolidated financial statements and schedule of MedQuist Inc. and its subsidiaries as of December 2008 and 2009 and for each of the years in the three-year period ended December 31, 2009, and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2009 have been incorporated by reference herein and in this prospectus in reliance upon the reports of KPMG LLP, independent registered public accounting firm, incorporated by reference herein and in this prospectus, and upon the authority of said firm as experts in accounting and auditing.

The audited consolidated financial statements of MedQuist Inc. and its subsidiaries as of December 2006 and 2007 and for each of the years in the three-year period ended December 31, 2007 have been included herein and in this prospectus in reliance upon the report of KPMG LLP, independent registered public accounting firm, appearing elsewhere in this prospectus, and upon the authority of said firm as experts in accounting and auditing. KPMG LLP's report on the consolidated financial statements contains explanatory paragraphs that state MedQuist Inc. and subsidiaries adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, effective January 1, 2006 and adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of SFAS No. 109*, effective January 1, 2007.

The consolidated financial statements of Spheris Inc. at December 2008 and 2009 and for each of the three years in the period ended December 31, 2009, appearing in this prospectus and registration statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon (which contains an explanatory paragraph describing conditions that raise substantial doubt about Spheris Inc.'s ability to continue as a going concern as described in Notes 2 and 22 to the consolidated financial statements) appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

**Where You Can Find More Information**

**MedQuist Holdings Inc.**

We have filed with the SEC a registration statement on Form S-4 under the Securities Act to register the shares of MedQuist Holdings Inc. The term registration statement means the initial registration statement and any and all amendments thereto, including the exhibits and schedules to the initial registration statement and any amendments. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement or the exhibits and schedules filed therewith. For further information with respect to us, reference is made to the registration statement and the exhibits and schedules

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filed therewith. Statements contained in this prospectus regarding the contents of any contract or any other document that is filed as an exhibit to the registration statement are not necessarily complete, and each such statement is qualified in all respects by reference to the full text of such contract or other document filed as an exhibit to the registration statement. A copy of the registration statement, along with the exhibits and schedules filed therewith, may be inspected without charge at the Public Reference Room maintained by the SEC, located at 100 F Street, N.E., Washington, DC 20549, and copies of all or any part of the registration statement may be obtained from such offices upon the payment of the fees prescribed by the SEC. Please call the SEC at 1-800-SEC-0330 for further information about the Public Reference Room. The SEC also maintains an Internet website that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of the website is [www.sec.gov](http://www.sec.gov).

As a result of our proposed U.S. initial public offering and this exchange offer, we will become subject to the information and periodic reporting requirements of the Exchange Act, and, in accordance therewith, we will file periodic reports, proxy statements and other information with the SEC. Such periodic reports, proxy statements and other information will be available for inspection and copying at the Public Reference Room and website of the SEC referred to above. You may access our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act with the SEC free of charge at our website as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC.

We intend to furnish our stockholders with annual reports containing combined financial statements audited by our independent auditors and to make available to our stockholders quarterly reports for the first three quarters of each fiscal year containing unaudited interim condensed consolidated financial statements.

You may request a copy of these filings, at no cost, by writing or telephoning us at the following address:

MedQuist Holdings Inc.  
9009 Carothers Parkway  
Franklin, Tennessee 37067  
Telephone Number: (615) 261-1740

## **MedQuist Inc.**

The rules and regulations of the SEC allow us to omit certain information about MedQuist Inc. from this document. MedQuist Inc. files annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy this information at the Public Reference Room of the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. You may also obtain copies of this information by mail from the Public Reference Section of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549, at prescribed rates, or from commercial document retrieval services. The SEC also maintains an internet website that contains reports, proxy statements and other information about issuers, like MedQuist Inc., who file electronically with the SEC. The address of the site is [www.sec.gov](http://www.sec.gov). The reports and other information filed by MedQuist Inc. with the SEC are also available at MedQuist Inc.'s website at [www.medquist.com](http://www.medquist.com). The web addresses of the SEC and MedQuist Inc. have been included as inactive textual references only. Except as specifically incorporated by reference into this prospectus with regards to MedQuist Inc., information on those web sites is not part of this prospectus.

The SEC allows us to incorporate by reference information about MedQuist Inc. into this prospectus. This means that we can disclose important information to you by referring you about MedQuist Inc. to another document filed separately with the SEC. The information incorporated by reference is considered to be a part of this prospectus,

except for any information that is superseded by information that is included directly in this prospectus.

This prospectus incorporates by reference the documents listed below that MedQuist Inc. previously filed with the SEC. They contain important information about MedQuist Inc. and its financial condition.

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<b>MedQuist Inc. SEC Filings</b> (SEC File No. 001-3619; CIK No. 0000884497)	<b>Period or date filed</b>
Annual Report on Form 10-K and Form 10-K/A	Filed March 12, 2010, April 30, 2010 and July 6, 2010
Quarterly Report on Form 10-Q	Filed May 10, 2010, August 9, 2010 and November 9, 2010
Current Reports on Form 8-K	Filed February 4, 2010, March 19, 2010, April 21, 2010, April 28, 2010, May 6, 2010, June 30, 2010, July 6, 2010, August 3, 2010, August 18, 2010, October 6, 2010, October 12, 2010, October 19, 2010, November 17, 2010, November 29, 2010, December 1, 2010 December 27, 2010 and January 6, 2011

In addition, we also incorporate by reference additional documents that MedQuist Inc. files with the SEC under Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act, between the date of this prospectus and the date that the shares of common stock of MedQuist Inc. are accepted for exchange pursuant to the exchange offer (or the date that the exchange offer is terminated). These documents include periodic reports, such as Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and any amendments to those reports, as well as proxy statements. To the extent that any information contained in any Current Report on Form 8-K cited above or such subsequently issued Current Report on Form 8-K, or any exhibit thereto, was furnished, rather than filed, with the SEC, such information or exhibit is specifically not incorporated by reference into this prospectus.

Documents incorporated by reference are available from MedQuist Inc. without charge, excluding any exhibits to those documents unless the exhibit is specifically incorporated by reference as an exhibit in this prospectus. You can obtain documents incorporated by reference into this document by requesting them in writing or by telephone from MedQuist Inc. at the following address:

MedQuist Inc.  
1000 Bishops Gate Blvd.  
Suite 300  
Mount Laurel, NJ 08054-4632  
Attention: Investor Relations  
Telephone: (856) 206-4000

You will not be charged for any of these documents that you request. If you request any document incorporated by reference into this prospectus from MedQuist Inc., MedQuist Inc. will mail them to you by first class mail, or another equally prompt means, within one business day after it receives your request. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

Neither we nor MedQuist Inc. has authorized anyone to give any information or make any representation about the exchange offer or each of our companies that is different from, or in addition to, that contained in this prospectus or in any of the materials that have been incorporated by reference into this prospectus with regards to MedQuist Inc.. Therefore, if anyone does give you information of this sort, you should not rely on it. If you are in a jurisdiction where offers to exchange or sell, or solicitations of offers to exchange or purchase, the securities offered by this prospectus or the solicitation of proxies is unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this prospectus does not extend to you. The information contained in this prospectus speaks only as of the date of this prospectus unless the information specifically indicates that another date

applies.

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors  
MedQuist Holdings Inc. and subsidiaries:

We have audited the accompanying consolidated balance sheets of MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and subsidiaries (the Company) as of December 31, 2008 and 2009, and the related consolidated statements of operations, equity and other comprehensive income (loss), and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and subsidiaries as of December 31, 2008 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Philadelphia, Pennsylvania  
April 13, 2010, except as Note 22,  
which is as of January 27, 2011



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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders  
MedQuist Holdings Inc.

We have audited the accompanying consolidated statements of operations, stockholders' equity and comprehensive loss, and cash flows of MedQuist Holdings Inc., a Delaware Corporation (formerly CBaySystems Holdings Limited, a British Virgin Islands Company) and subsidiaries for the year ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited, a British Virgin Islands Company) and subsidiaries for the year ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON, INDIA

Mumbai  
October 15, 2010 except as to Note 22,  
which is as of January 27, 2011

**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Consolidated Statements of Operations**  
(In thousands, except per share amounts)

	<b>Year end December 31,</b>			<b>Nine months ended</b>	
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>September 30,</b>	<b>2010</b>
				<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Net revenues</b>	\$ 57,694	\$ 193,673	\$ 371,768	\$ 281,828	\$ 316,977
Cost of revenues	30,209	125,074	239,549	182,924	200,234
<b>Gross profit</b>	27,485	68,599	132,219	98,904	116,743
<b>Operating expenses</b>					
Selling, general and administrative	25,137	51,243	60,632	46,594	49,374
Research and development		6,099	9,604	7,235	8,945
Depreciation and amortization	2,915	14,906	26,977	20,329	24,377
Cost of legal proceedings and settlements		5,311	14,943	13,540	2,785
Acquisition related charges			1,246		6,895
Goodwill impairment charge		98,972			
Restructuring charges		2,106	2,727	481	1,951
<b>Total operating expenses</b>	28,052	178,637	116,129	88,179	94,327
<b>Operating income (loss)</b>	(567)	(110,038)	16,090	10,725	22,416
Equity in income (loss) of affiliated companies	(105)	66	1,933	2,534	616
Other income	14	9	11		589
Interest expense, net	(2,108)	(3,954)	(9,132)	(6,945)	(12,031)
<b>Income (loss) before income taxes and noncontrolling interests</b>	(2,766)	(113,917)	8,902	6,314	11,590
Income tax provision (benefit)	(113)	(5,398)	1,082	1,253	(69)
<b>Net income (loss)</b>	(2,653)	(108,519)	7,820	5,061	11,659
Less: Net (income) loss attributable to noncontrolling interests	57	(5,154)	(7,085)	(5,291)	(5,234)
<b>Net income (loss) attributable to MedQuist Holdings Inc.</b>	\$ (2,596)	\$ (113,673)	\$ 735	\$ (230)	\$ 6,425
Net income (loss) per common share attributable to MedQuist Holdings Inc.:					
Basic	\$ (0.20)	\$ (5.08)	\$ (0.06)	\$ (0.07)	\$ 0.12
Diluted	\$ (0.20)	\$ (5.08)	\$ (0.06)	\$ (0.07)	\$ 0.12

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Weighted average shares outstanding:

Basic	12,873	22,593	34,692	34,586	35,083
Diluted	12,873	22,593	34,692	34,586	35,893

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

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**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Consolidated Balance Sheets**  
(In thousands, except par value)

	<b>December 31,</b>	<b>2009</b>	<b>September 30,</b>
	<b>2008</b>		<b>2010</b>
			<b>(Unaudited)</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 42,868	\$ 29,633	\$ 24,025
Accounts receivable, net	59,111	53,099	74,612
Other current assets	10,566	8,739	19,798
<b>Total current assets</b>	<b>112,545</b>	<b>91,471</b>	<b>118,435</b>
Property and equipment, net	21,306	19,511	23,826
Goodwill	49,943	53,187	99,030
Other intangible assets, net	84,174	72,838	114,195
Deferred income taxes	1,756	2,495	3,873
Other assets	9,453	13,566	19,945
<b>Total assets</b>	<b>\$ 279,177</b>	<b>\$ 253,068</b>	<b>\$ 379,304</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Current portion of debt	\$ 33,497	\$ 6,207	\$ 36,224
Accounts payable	10,199	11,191	12,033
Accrued expenses and other current liabilities	31,702	29,803	36,437
Accrued compensation	13,585	16,034	24,035
Deferred revenue	11,889	9,924	10,287
Due to related parties	1,174		
<b>Total current liabilities</b>	<b>102,046</b>	<b>73,159</b>	<b>119,016</b>
Due to related parties		2,185	2,850
Long term debt	92,511	101,133	167,948
Deferred income taxes	550	2,166	4,120
Other non-current liabilities	4,720	2,124	1,802
<b>Total liabilities</b>	<b>199,827</b>	<b>180,767</b>	<b>295,736</b>
Commitments and contingencies (Note 14)			
<b>Equity</b>			
<b>MedQuist Holdings Inc. stockholders equity:</b>			

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Preferred stock- \$0.10 par value; authorized 25,000 shares; none issued or outstanding			
Common stock- \$0.10 par value; authorized 300,000 shares; 34,442, 35,013 and 35,158 shares issued and outstanding, respectively	3,444	3,501	3,516
Additional paid in capital	150,475	149,339	149,100
Accumulated deficit	(116,421)	(115,686)	(109,261)
Accumulated other comprehensive loss	(1,191)	(174)	(385)
<b>Total MedQuist Holdings Inc. stockholders equity</b>	<b>36,307</b>	<b>36,980</b>	<b>42,970</b>
Noncontrolling interests	43,043	35,321	40,598
<b>Total equity</b>	<b>79,350</b>	<b>72,301</b>	<b>83,568</b>
<b>Total liabilities and equity</b>	<b>\$ 279,177</b>	<b>\$ 253,068</b>	<b>\$ 379,304</b>

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

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**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Consolidated Statements of Cash Flows**  
(In thousands)

	Year ended December 31,			Nine months ended	
	2007	2008	2009	September 30, 2009	September 30, 2010
				(Unaudited)	(Unaudited)
<b>Operating activities</b>					
Net income (loss)	\$ (2,653)	\$ (108,519)	\$ 7,820	\$ 5,061	\$ 11,659
<b>Adjustment to reconcile net income (loss) to net cash provided by (used in) operating activities</b>					
Depreciation and amortization	2,915	14,906	26,977	20,329	24,377
Deferred income taxes	(304)	(6,431)	679	(14)	1,170
Share based compensation	1,308	124	856	678	486
Provision for doubtful accounts		2,424	2,306	230	1,571
Non-cash interest expense		2,580	3,272	3,272	2,463
Equity in income of affiliated companies	105	(66)	(1,933)	(2,534)	(616)
Goodwill impairment charge		98,972			
Other	48	1,230	200	88	(242)
<b>Changes in operating assets and liabilities</b>					
Accounts receivable	(5,024)	(483)	3,816	5,783	(1,267)
Other current assets	6,209	(96)	2,185	2,849	(4,532)
Other assets	546	819	(615)	(595)	(1,391)
Accounts payable	445	2,011	871	394	2,113
Deferred revenue		3,398	(2,128)	(1,661)	286
Accrued expenses and other current liabilities	(1,005)	(10,850)	(3,634)	(6,700)	(9,058)
Accrued compensation	690	2,150	1,904	4,648	2,535
Other non-current liabilities	38	(4,811)	94	288	(898)
<b>Net cash provided by (used in) operating activities</b>	<b>3,318</b>	<b>(2,642)</b>	<b>42,670</b>	<b>32,116</b>	<b>28,656</b>
<b>Investing activities</b>					
Purchase of property and equipment	(2,849)	(4,420)	(6,475)	(4,992)	(4,345)
Purchases of and capitalized intangible assets	(265)	(2,738)	(2,995)	(2,147)	(5,275)
Payment to related parties	(5,162)				
Payments for acquisitions and interests in affiliates, net of cash acquired	(10,202)	(69,319)	(2,690)	(1,025)	(97,710)
<b>Net cash used in investing activities</b>	<b>(18,478)</b>	<b>(76,477)</b>	<b>(12,160)</b>	<b>(8,164)</b>	<b>(107,330)</b>
<b>Financing activities</b>					
Proceeds from issuance of stock	28,210	124,000			

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Dividends paid to noncontrolling interests			(15,256)	(15,256)	
Debt issuance cost			(1,201)	(1,171)	(7,031)
Borrowings from term loans, credit facilities, notes payable and capital leases	1,959	866	659	534	110,095
Repayments for term loans, credit facilities, notes payable and capital leases	(10,649)	(3,439)	(28,613)	(28,012)	(29,866)
Share issue expenses	(4,136)				
Proceeds from issue of shares to noncontrolling interest	1,057				
Other receivables	(367)				
<b>Net cash provided by (used in) financing activities</b>	16,074	121,427	(44,411)	(43,905)	73,198
Effect of exchange rate on cash	1,238	(2,107)	666	290	(132)
Net increase (decrease) in cash and cash equivalents	2,152	40,201	(13,235)	(19,663)	(5,608)
Cash and cash equivalents beginning of period	515	2,667	42,868	42,868	29,633
Cash and cash equivalents end of period	\$ 2,667	\$ 42,868	\$ 29,633	\$ 23,205	\$ 24,025

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

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

**Consolidated Statements of Equity and Comprehensive Income (Loss)  
(In thousands)**

	Common stock		Equity component of			Accumulated		Accumulated		Total
	Number of shares	Amount	Additional paid in capital	financial instrument	Capital redemption reserve	Comprehensive income (deficit)	Comprehensive income (loss)	other Comprehensive income (loss)	Noncontrolling interests	equity
Balance as of January 1,	2,736	\$ 610	\$ 3,922	\$	\$ 155	\$ 790		\$ (147)	\$ (3)	\$ 5,000
Issuance of common shares	4	1	4							
Conversion of convertible preferred stock					55					
Acquisition of Infotech shares in Infotech shares									1,037	1,037
Acquisition of shares of CBay Group	10,957	1,096	4,751							5,844
Issuance of shares of CBay Group	(2,739)	(611)	(4,345)	(55)	(155)	(942)		261		(5,536)
Issuance of shares of CBay Group	304	30	2,970							3,304
Issuance of shares of CBay Group	3,182	318	24,832							25,332



ng									
issue									
ses			(4,136)						(4,136)
based									
ensation			1,308						1,308
ponents of									
prehensive									
ross					(2,596)	(2,596)		(57)	(2,653)
gn									
ncy									
ation									
ment gain						734	734	26	
prehensive									
						(1,862)			
<b>Balance as of</b>									
<b>December 31,</b>	<b>14,444</b>	<b>1,444</b>	<b>29,934</b>		<b>(2,748)</b>		<b>848</b>	<b>375</b>	<b>29,934</b>
Balance of									
non stock	19,998	2,000	122,000						124,000
based									
ensation			104					20	
of									
controlling									
interest in									
MedQuist Inc.								63,740	63,740
of									
controlling									
interest in									
MedQuist Inc.								(25,081)	(25,081)
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Investment loss								
Comprehensive					(115,712)			
<b>Balance as of December 31,</b>	<b>34,442</b>	<b>3,444</b>	<b>150,475</b>		<b>(116,421)</b>		<b>(1,191)</b>	<b>43,043</b>
Balance of non stock principal holder	571	57	1,621					1,621
Balance of non stock principal holders based on compensation			(2,750)					(2,750)
Balance of non stock warrants			797					59
Balance of non stock warrants paid			61					61
Balance of non stock controlling interest								(15,256)
Balance of non stock controlling interest in subsidiary			(690)					(690)
Balance of non stock controlling interest in subsidiary			(175)					(77)
Balance of non stock comprehensive income					735	735		7,085
Balance of non stock comprehensive income								7,085
Balance of non stock comprehensive income								467
Balance of non stock comprehensive income								1,017
Balance of non stock comprehensive income								1,017
Balance of non stock comprehensive income								1,752
<b>Balance as of December 31,</b>	<b>35,013</b>	<b>3,501</b>	<b>149,339</b>		<b>(115,686)</b>		<b>(174)</b>	<b>35,321</b>
	145	15	1,382					1,382



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

**Notes to Consolidated Financial Statements**

**(In thousands, except per share amounts)**

**(Information as of September 30, 2010 and for the nine months ended September 30, 2009 and 2010 is unaudited)**

**1. Description of business**

MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and subsidiaries (the Company or MedQuist Holdings Inc. ) provides technology-enabled clinical documentation services and related revenue cycle solutions for the healthcare industry with operations in the United States of America and India. The Company provides transcription and information management services to integrated healthcare facility networks, hospitals, academic institutions, clinics and physician practices. The Company's solutions leverage internet technologies and trained transcriptionists to provide medical transcription services under a global service model. The Company also provides patient financial services including billing and coding services to hospitals and healthcare providers in the United States of America. The Company's service and enterprise technology solutions (including mobile voice capture devices, speech recognition technologies, web-based workflow platforms), and a global network of medical transcriptionists (MTs) and editors (MEs) enable healthcare facilities to improve the quality and timeliness of clinical data and information, reduce operational costs, increase physician satisfaction, enhance revenue cycle performance and facilitate the adoption and utilization of Electronic Health Record (EHR) systems.

On August 6, 2008, an affiliate of S.A.C. Private Capital Group, LLC invested \$124,000 in the Company in exchange for 19,998 common shares in the Company at a price of approximately \$6.21 per share which was equivalent to approximately 58.1% of the Company. The proceeds from the issuance and certain borrowings were used by the Company to finance the purchase of an approximately 69.5% shareholding in MedQuist Inc. from Royal Philips Electronics N.V. (Philips), see Note 10 Acquisitions. No purchase accounting adjustments related to the investment have been pushed down to the Company. The Company is listed on the Alternative Investment Market (AIM).

In August 2009, the board of MedQuist Inc., a consolidated subsidiary of the Company, authorized a special cash dividend of \$1.33 per share or \$49,949. The dividend was paid on September 15, 2009 of which \$15,256 was paid to the noncontrolling interest which has reduced the carrying amount of the noncontrolling interest in these consolidated financial statements.

***Recent developments***

On April 22, 2010, the Company through its subsidiaries, MedQuist Inc. and CBay Inc. ( Purchasers ), completed the acquisition (the Acquisition ) of substantially all of the assets of Spheris, Inc. (Spheris) and certain of its affiliates, including the acquisition of the stock of Spheris India Private Limited, ( SIPL ) (collectively with Spheris and SIPL, the Sellers ), pursuant to the terms of the Stock and Asset Purchase Agreement (the Purchase Agreement ) entered into between the Purchasers and Sellers on April 15, 2010. See Note 10 for a description of the Acquisition. Costs incurred for the Acquisition and direct integration costs are included in the line item Acquisition related charges on the accompanying statements of operations. See Note 21 for subsequent events.

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

**Notes to Consolidated Financial Statements (Continued)**

**2. Significant accounting policies**

***Principles of consolidation***

The Company's consolidated financial statements include the accounts of MedQuist Holdings Inc. and its subsidiary companies. All intercompany balances and transactions have been eliminated in consolidation.

***Unaudited interim financial information***

The accompanying interim consolidated financial statements of the Company as of September 30, 2010 and for the nine months ended September 30, 2009 and 2010 have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations relating to interim financial statements. In the opinion of the Company's management, the accompanying unaudited interim consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the financial position of the Company as of September 30, 2010, and the results of their operations and their cash flows for the nine months ended September 30, 2009 and 2010. The accompanying unaudited interim consolidated financial statements are not necessarily indicative of full year results.

***Use of estimates and assumptions in the preparation of consolidated financial statements***

The preparation of the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the Company's consolidated financial statements. Significant items subject to such estimates and assumptions include the carrying amount of property and equipment, valuation of long-lived and intangible assets and goodwill, valuation allowances for receivables and deferred income taxes, revenue recognition, stock-based compensation and commitments and contingencies. Actual results could differ from those estimates.

***Revenue recognition***

Revenues for medical transcription services are recognized when the services are rendered. These services are based on contracted rates. The Company also derives revenues from the sale of voice-capture and document management products including software, hardware and implementation, training and maintenance service related to these products.

The Company recognizes software-related revenues using the residual method when vendor-specific objective evidence (VSOE) of fair value exists for all of the undelivered elements in the arrangement, but does not exist for one or more delivered elements. The Company allocates revenues to each undelivered element based on its respective fair value determined by the price charged when that element is sold separately or, for elements not yet sold separately, the price established by management if it is probable that the price will not change before the element is sold separately. The Company defers revenues for the undelivered elements.

Provided that the arrangement does not involve significant production, modification, or customization of the software, revenues are recognized when all of the following four criteria have been met: persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is probable.

If at the outset of an arrangement, the Company had determined that the arrangement fee is not fixed or determinable, revenues are deferred until the arrangement fee becomes due and payable by the customer. If at the outset of an arrangement the Company had determined that collectability is not probable, revenues are

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

**Notes to Consolidated Financial Statements (Continued)**

deferred until payment is received. The Company's license agreements typically do not provide for a right of return other than during the standard warranty period. If an arrangement allows for customer acceptance of the software or services, the Company defers revenues until the earlier of customer acceptance or when the acceptance rights lapse.

The Company separately markets and sells hardware and software post contract customer support (PCS). PCS covers phone support, hardware parts and labor, software bug fixes and limited upgrades, if and when available. The Company does not commit to specific future software upgrades or releases. The contract period for PCS is generally one year. The Company recognizes both hardware and software PCS on a straight line basis over the life of the underlying PCS contract. In some of the Company's PCS contracts, the Company bills the customer prior to performing the services. As of December 31, 2008 and 2009, deferred PCS revenues of \$11,052 and \$7,643, respectively, are included in deferred revenues and \$340 and \$177, respectively, are included in other non-current liabilities in the accompanying consolidated balance sheets.

Certain arrangements include multiple elements involving software, hardware and implementation, training, or other services that are not essential to the functionality of the software. VSOE for services does not exist. Since the undelivered elements are typically services, the Company recognizes the entire arrangement fee ratably over the period during which the services are expected to be performed or the PCS period, whichever is longer, beginning with delivery of the software, provided that all other revenue recognition criteria are met. The services are typically completed before the PCS term expires. As such, upon completion of the services, the difference between the VSOE of fair value for the remaining PCS period and the remaining unrecognized portion of the arrangement fee is recognized as revenue (i.e. the residual method), and the remaining deferred revenue is recognized ratably over the remaining PCS period.

Fees for patient financial services related to accounts receivable management services are generally contracted as a percentage of amounts collected out of the allocated accounts. Revenue from such arrangements is recognized based on actual collections by the hospitals.

Fees for patient financial services related to reimbursement analytics are contracted either on a fixed fee or a contingent fee basis. Under the fixed fee, a fee is contractually fixed for each reimbursement package delivered. Revenue from such arrangements is recognized on the delivery of the reimbursement package. Under the contingent fee, the fee is contracted as a percentage of the amounts that would ultimately be reimbursed to the hospitals by the relevant authorities and is contingent upon receipt of the reimbursement by the hospital. Revenue from such arrangements is recognized when the contingency is resolved on receipt of the approval of the reimbursement package by the financial intermediaries. As of December 31, 2008 and 2009, \$231 and \$224, respectively, of revenue recognized in excess of billings is recorded as unbilled revenues and are included in accounts receivable in the consolidated balance sheets.

***Sales taxes***

The Company presents taxes assessed by a governmental authority including sales, use, value added and excise taxes on a net basis and therefore the presentation of these taxes is excluded from the Company's revenues and is included in accrued expenses in the accompanying consolidated balance sheets until such amounts are remitted to the taxing authorities.

***Litigation and settlement costs***

From time to time, the Company is involved in litigation, claims, contingencies and other legal matters. The Company records a charge equal to at least the minimum estimated liability for a loss contingency when both of the following conditions are met: (i) information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements and (ii) the range of the loss can be reasonably estimated. The Company expenses legal costs as incurred.

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**Table of Contents**

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

**Notes to Consolidated Financial Statements (Continued)**

***Restructuring costs***

A liability for restructuring costs associated with an exit or disposal activity is recognized and measured initially at fair value when the liability is incurred. The Company records a liability for severance costs when the obligation is attributable to employee service already rendered, the employees' rights to those benefits accumulate or vest, payment of the compensation is probable and the amount can be reasonably estimated. The Company records a liability for future, non-cancellable operating lease costs when the Company vacates a facility.

The Company's estimates of future liabilities may change, requiring it to record additional restructuring charges or reduce the amount of liabilities recorded. At the end of each reporting period, the Company evaluates the remaining accrued restructuring charges to ensure their adequacy, that no excess accruals are retained and the utilization of the provisions are for their intended purposes in accordance with developed exit plans.

***Research and development costs***

Research and development costs are expensed as incurred.

***Income taxes***

Deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements, using statutory tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the Company's statement of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized. Management considers various sources of future taxable income including projected book earnings, the reversal of temporary differences, and prudent and feasible tax planning strategies in determining the need for a valuation allowance.

***Share-Based compensation***

The Company estimates the fair value of stock options on the date of grant using an option pricing model. The Company uses the Black-Scholes option pricing model to determine the fair value of its options. The determination of the fair value of stock based awards using an option pricing model is affected by a number of assumptions including expected volatility of the common stock over the expected term, the expected term, the risk free interest rate during the expected term and the expected dividends to be paid. The value of the portion of the award that is ultimately expected to vest is recognized as compensation expense over the requisite service periods.

Share-based compensation expense related to employee stock options for 2007, 2008 and 2009 was \$1,308, \$124 and \$856 which was charged to selling, general and administrative expenses. As of December 31, 2009 total unamortized stock-based compensation cost related to non-vested stock options, net of expected forfeitures, was \$673 which is expected to be recognized over a weighted-average period of 1.69 years.

***Net income (loss) per share***

Basic net loss per share is computed by dividing net income (loss) by the weighted average number of shares outstanding during each period. Diluted net income (loss) per share is computed by dividing net income (loss) by the weighted average shares outstanding, as adjusted for the dilutive effect of common stock equivalents, which consist of stock options, convertible notes and certain obligations which may be settled by the Company through issue of shares using the treasury stock method.

**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

The table below reflects basic and diluted net loss per share for the periods ended:

	Year ended December 31,			Nine months ended	
	2007	2008	2009	September 30, 2009	September 30, 2010
Net income (loss) attributable to MedQuist Holdings Inc.	\$ (2,596)	\$ (113,673)	\$ 735	\$ (230)	\$ 6,425
Less: amount payable to principal shareholders		(1,113)	(2,750)	(2,063)	(2,063)
Net income (loss) available for common shareholders	\$ (2,596)	\$ (114,786)	\$ (2,015)	\$ (2,293)	\$ 4,362
Weighted average shares outstanding:					
Basic	12,873	22,593	34,692	34,586	35,083
Effect of dilutive stock					810
Diluted	12,873	22,593	34,692	34,586	35,893
Net income (loss) per common share attributable to MedQuist Holdings Inc.:					
Basic	\$ (0.20)	\$ (5.08)	\$ (0.06)	\$ (0.07)	\$ 0.12
Diluted	\$ (0.20)	\$ (5.08)	\$ (0.06)	\$ (0.07)	\$ 0.12

The computation of diluted net income (loss) per share does not assume conversion, exercise or issuance of shares that would have an anti-dilutive effect on diluted net income (loss) per share. Potentially dilutive shares having an anti-dilutive effect on net income (loss) per share and, therefore, excluded from the calculation of diluted net income (loss) per share, totaled 56, 5,345 and 13,127 shares for the years ended December 31, 2007, 2008 and 2009, respectively and 12,879 and 13,318 shares for the nine months ended September 30, 2009 and 2010, respectively. The net income (loss) for the purpose of the basic income (loss) per share is adjusted for the amounts payable to the Company's principal shareholders amounting to \$1,113 and \$2,750 for the years ended December 31, 2008 and 2009, respectively and \$2,063 for each of the nine months ended September 30, 2009 and 2010, under the management services agreement, see Note 9, other commitments - related party.

***Advertising costs***

Advertising costs are expensed as incurred and for the years ended December 31, 2007, 2008 and 2009 were \$828, \$1,169 and \$1,734, respectively and for the nine months ended September 30, 2009 and 2010 were \$709 and \$1,610, respectively.

***Cash and cash equivalents***

The Company considers all highly liquid instruments with original maturities of three months or less to be cash equivalents. The Company's cash management and investment policies dictate that cash equivalents be limited to investment grade, highly liquid securities. The Company places its temporary cash investments with high-credit rated, quality financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. Consequently, the Company's cash equivalents are subject to potential credit risk. As of December 31, 2008, 2009 and September 30, 2010, cash equivalents consisted of money market investments. The carrying value of cash and cash equivalents approximates fair value.

Restricted cash of \$133, \$93 and \$1,041, as of December 31, 2008, 2009 and September 30, 2010, respectively, represents deposits that are maintained with banks as security for guarantees issued by them. Such amounts are included in other current assets in the consolidated balance sheets.

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

**Notes to Consolidated Financial Statements (Continued)**

***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 the Company's best estimate for losses inherent in its accounts receivable portfolio. The sales return and allowance reserve is the Company's best estimate of sales credits that will be issued related to its accounts receivable portfolio. These allowances are used to state trade receivables at estimated net realizable value.

The Company estimates uncollectible amounts based upon its historical write-off experience, current customer receivable balances, age of customer receivable balances, the customer's financial condition and current economic conditions. Historically, these estimates have been adequate to cover its accounts receivable exposure.

The Company enters into medical transcription service arrangements which contain provisions for performance penalties in the event certain service levels, primarily related to turnaround time on transcribed reports, are not achieved. The Company reduces revenues for any performance penalties incurred and have included an estimate of such credits in its allowance for uncollectible accounts.

Product revenues for sales to end-user customers and resellers are recognized upon passage of title if all other revenue recognition criteria have been met. End-user customers generally do not have a right of return. The Company provides certain of its resellers and distributors with limited rights of return of its products. The Company reduces revenues for rights to return its product based upon our historical experience and have included an estimate of such credits in its allowance for doubtful accounts.

***Deferred equity offering costs***

Costs have been incurred in connection with the planned initial public offering of the Company's common stock. As of December 31, 2009 and September 30, 2010, legal, consulting and accounting costs aggregating approximately \$270 and \$2,809, respectively, have been deferred and are included in other current assets in the accompanying consolidated balance sheets. Upon the consummation of the offering, these costs will be treated as a reduction of the proceeds from the offering and will be included as a component of additional paid-in-capital. If the offering is terminated, the costs will be charged to expense in the period that it becomes probable that the costs are no longer realizable.

***Property and equipment***

Property and equipment are stated at cost less accumulated depreciation. 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. Repairs and maintenance costs are charged to expense as incurred while additions and betterments are capitalized. Gains or losses on disposals are charged to operations. Upon retirement, sale or other disposition, the related cost and accumulated depreciation are eliminated from the accounts and any gain or loss is included in operations.

***Valuation of long-lived and other intangible assets and goodwill***

In connection with acquisitions, the Company 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. The Company prepared the purchase price allocations and in doing so considered the report of an independent valuation firm. The Company 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. The Company has determined that the Company's three reporting units are MedQuist Inc., CBay Transcription Business and Patient Financial Services (PFS). See Note 8 for goodwill impairment charge recorded in 2008.

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

**Notes to Consolidated Financial Statements (Continued)**

***Software development***

Costs incurred in creating a computer software product are charged to expense when incurred as research and development until technical feasibility has been established. Technical feasibility is established upon completion of a detail program design or, in its absence, completion of a working model. Thereafter, all software production costs are capitalized until the product is available for release to customers.

Software costs for internal use incurred in the preliminary project stage are expensed as incurred. Capitalization of costs begins when the preliminary project stage is completed and management, with the relevant authority, authorizes and commits funding of the project and it is probable that the project will be completed and the software will be used to perform the function intended. Capitalization ceases no later than the point at which the project is substantially complete and ready for its intended use.

Capitalized software is reported at the lower of unamortized cost or net realizable value and is amortized over the product's estimated economic life which is generally three years. As of December 31, 2008 and 2009, \$942 and \$1,321, respectively, of unamortized software development costs are included in other intangible assets in the accompanying consolidated balance sheets. For the years ended December 31, 2007, 2008 and 2009, software amortization expense was \$0, \$40 and \$220, respectively.

***Long-Lived and other intangible assets***

Long-lived assets, including property and equipment and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. To determine the recoverability of long-lived assets, the estimated future undiscounted cash flows expected to be generated by an asset is compared to the carrying value of the asset. If the carrying value of the long-lived asset exceeds its estimated future undiscounted cash flows, an impairment charge is recognized in the amount by which the carrying value of the asset exceeds its fair value. Annually, the Company evaluates the reasonableness of the useful lives of these assets.

Intangible assets include certain assets (primarily customer relationships and trade names) obtained from business acquisitions and are being amortized using the straight-line method over their estimated useful lives which range from three to 10 years.

***Foreign currency translation***

The Company's operating subsidiaries in the United Kingdom, Canada and India use the local currency as their functional currency. The Company translates the assets and liabilities of those entities into U.S. dollars using the month-end exchange rate. The Company translates revenues and expenses using the average exchange rates prevailing during the reporting period. The resulting translation adjustments are recorded in accumulated other comprehensive income (loss) within equity. Gains and losses from foreign currency transactions are included in net gain and were \$1,314, \$203 and \$325 for the years ended December 31, 2007, 2008 and 2009, respectively.

**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Consolidated Financial Statements (Continued)*****Business enterprise segments***

The Company operates in one reportable operating segment, which is providing integrated clinical documentation solutions for the healthcare industry.

***Concentration of risk, geographic data and enterprise-wide disclosures***

No single customer accounted for more than 10% of the Company's net revenues in any period. There is no single geographic area of significant concentration other than the United States.

The following table summarizes the net revenues by the categories of the Company's services and products as a percentage of its total net revenues.

	<b>Year ended December 31,</b>			<b>Nine months ended</b>	
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>September 30,</b>	<b>2010</b>
Medical transcription	73.0 %	80.0 %	84.2 %	84.5 %	88.6 %
Products and related services		1.9 %	2.7 %	2.3 %	1.4 %
PCS		3.7 %	4.9 %	4.9 %	3.9 %
PFS	27.0 %	11.5 %	4.8 %	4.8 %	3.2 %
Other		2.9 %	3.4 %	3.5 %	2.9 %
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

Other includes medical coding, application service provider and other miscellaneous revenues.

The following summarizes the Company's revenues and long-lived assets by geography.

	<b>Year ended December 31,</b>			<b>Nine months ended</b>	
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>September 30,</b>	<b>2010</b>
Revenue					
United States	\$ 55,249	\$ 190,176	\$ 360,619	\$ 273,761	\$ 312,420
Others	2,445	3,497	11,149	8,067	4,557
	\$ 57,694	\$ 193,673	\$ 371,768	\$ 281,828	\$ 316,977



*Long-lived assets*

	<b>December 31, 2008</b>	<b>December 31, 2009</b>	<b>September 30, 2010</b>
United States	\$ 18,556	\$ 13,765	\$ 16,964
Others	2,750	5,746	6,862
Total	\$ 21,306	\$ 19,511	\$ 23,826

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**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Consolidated Financial Statements (Continued)*****Fair value of financial instruments***

Cash and cash equivalents, accounts receivable, accounts payable and accrued expenses are reflected in the accompanying consolidated balance sheets at carrying values which approximate fair value due to the short-term nature of these instruments.

***Comprehensive income (loss)***

Comprehensive income (loss) is comprised of net income (loss) and Other comprehensive income (loss). Other comprehensive income (loss) consists of foreign currency translation adjustments. Other comprehensive income (loss) and comprehensive income (loss) are displayed separately in the Consolidated Statements of Equity and Other Comprehensive Income (loss).

***Acquisition related costs***

Effective January 1, 2009, the Company expenses costs incurred in reviewing potential acquisitions in the period incurred. This includes legal, investment banking, accounting, tax and other consulting, as well as any internal costs. Prior to this date direct and incremental external costs of acquisitions were included in the purchase price.

***Operating leases***

Lease rent expenses on operating leases are charged to expense over the lease term. Certain operating lease agreements provide for scheduled rent increases over the lease term. Rent expense for such leases is recognized on a straight-line basis over the lease term.

***Supplemental cash flow information***

	Year ended December 31,			Nine months ended	
	2007	2008	2009	September 30, 2009	2010
Capital lease obligations incurred to acquire equipment	\$ 308	\$ 247	\$ 3,523	\$	\$
Cash paid for interest	1,739	862	3,000	2,574	10,525
Cash paid for income taxes	84	160	796	667	30
Issuance of notes payable for acquisition of MedQuist Inc.		117,179			
Assets acquired for settlement of receivables		1,280			
Redemption of preferred stock for settlement of receivables		1,565			
Accommodation payments paid with credits			103	103	
Fees to principal shareholders by issuing common stock			1,678		
Conversion of interest on convertible notes to additional notes			5,484		

Non cash debt incurred in connection with acquisition of  
Spheris

13,570

***Recent accounting pronouncements***

In September 2009, the 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

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**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

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 non-software components that function together to deliver a product's 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 Company is evaluating the potential impact of these requirements on its financial statements.

**3. Comprehensive (loss) income**

Comprehensive (loss) income was as follows:

	<b>Years ended December 31,</b>			<b>Nine months ended</b>	
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>September 30,</b>	<b>2010</b>
Net income (loss) attributable to MedQuist Holdings Inc.	\$ (2,596)	\$ (113,673)	\$ 735	\$ (230)	\$ 6,425
Foreign currency translation adjustment gain (loss)	734	(2,039)	1,017	413	(211)
Comprehensive (loss) income	\$ (1,862)	\$ (115,712)	\$ 1,752	\$ 183	\$ 6,214

**4. Cost of legal proceedings and settlements**

For the years ended December 31, 2007, 2008 and 2009 and for the nine months ended September 30, 2009 and 2010, the Company recorded charges of \$0, \$5,311, \$14,943, \$13,540 and \$2,785 respectively, for costs associated with legal proceedings and settlements. The following is a summary of the amounts recorded in the accompanying consolidated statements of operations:

	<b>Year ended December 31,</b>		<b>Nine months ended September 30,</b>	
	<b>2008</b>	<b>2009</b>	<b>2009</b>	<b>2010</b>
Legal fees and professional fees	\$ 5,311	\$ 8,593	\$ 7,690	\$ 1,875
Other, including settlements		6,350	5,850	910
Total	\$ 5,311	\$ 14,943	\$ 13,540	\$ 2,785

The amount included in Other, including settlements for 2009, is primarily for the settlement amount of \$5,850 related to the Anthurium patent claim which was settled and paid in June 2009 and \$500 for the reseller

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**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

arbitration. The amount included in Other, including settlements for 2010, represents an additional charge of \$900 required to bring the total Kaiser litigation settlement amount to \$2,000 as a result of the settlement agreement with Kaiser more fully discussed in Note 14.

**5. Restructuring charges*****2008 restructure plan***

During the fourth quarter of 2008, the Company implemented a restructuring plan related to a reduction in workforce in order to better align costs with revenues. The Company recorded \$2,135 in severance charges related to the 2008 restructuring plan. The remaining restructuring costs are included in accrued expenses in the accompanying consolidated balance sheet as of December 31, 2008. The table below reflects the financial statement activity related to the 2008 restructuring plan:

	<b>Year ended December 31,</b>	
	<b>2008</b>	<b>2009</b>
Beginning balance	\$	\$ 1,323
Charge (reversal)	2,135	(83)
Cash paid	(812)	(1,240)
Ending balance	\$ 1,323	\$

***2009 restructure plan***

During the third and fourth quarters of 2009, as a result of management's continued planned process improvement and technology development investments MedQuist committed to an exit and disposal plan which includes projected employee severance for planned reduction in headcount. Because of planned development in late 2009 and execution of the plan over multiple quarters in 2009 and 2010, not all personnel affected by the plan know of the plan or its impact. The plan includes costs of \$2,500 for employee severance and \$300 for vacating operating leases. The table below reflects the financial statement activity related to the 2009 restructuring plan:

	<b>Year ended December 31, 2009</b>	<b>Nine month ended September 30, 2010</b>
Beginning balance	\$	\$ 2,064
Charge (reversal)	2,810	(616)
Cash paid	(746)	(1,113)

Ending balance	\$	2,064	\$	335
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The Company expects this to be paid in 2010.

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**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Consolidated Financial Statements (Continued)*****2010 restructuring plan***

During the second and third quarters of 2010, management's ongoing cost reduction initiatives, including process improvement, combined with the acquisition of Spheris resulted in a restructuring plan involving staff reductions and other actions designed to maximize operating efficiencies. The affected employees are entitled to receive severance benefits under existing established severance policies. The employees were primarily in the operations and administrative functions. This initial action under the plan was approved during the second quarter of 2010. The table below reflects the financial statement activity related to the 2010 restructuring plan:

		<b>Nine months ended September 30, 2010</b>
Beginning balance	\$	
Charge		2,567
Cash paid		(951)
Ending balance	\$	1,616

The Company expects that restructuring activities may continue in 2010 as management identifies opportunities for synergies resulting from the acquisition of Spheris including the elimination of redundant functions.

**6. Accounts receivable**

Accounts receivable consisted of the following as of December 31 and September 30:

	<b>December 31, 2008</b>	<b>December 31, 2009</b>	<b>September 30, 2010</b>
Trade accounts receivable	\$ 60,824	\$ 54,852	\$ 76,934
Less: Allowance for doubtful accounts	(1,713)	(1,753)	(2,322)
Accounts receivable, net	\$ 59,111	\$ 53,099	\$ 74,612

The activity in the allowance for doubtful accounts for the years ended December 31, 2007, 2008 and 2009 and for the nine months ended September 30, 2010 is as follows:

**September 30,**



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	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Beginning balance	\$	\$ 43	\$ 1,713	\$ 1,753
Allowance for doubtful accounts recognized during the year	43	2,424	2,306	1,626
Doubtful accounts written-off		(754)	(2,266)	(1,057)
Ending balance	\$ 43	\$ 1,713	\$ 1,753	\$ 2,322

Includes amounts written off to costs and expenses for bad debts of \$43, \$1,584, \$197 and \$431 for the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively, and amounts charged to revenues for customer credits of \$0, \$840, \$2,109 and \$1,195 for the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively.

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**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****7. Property and equipment**

Property and equipment consisted of the following as of December 31:

	<b>2008</b>	<b>2009</b>
Computer equipment	\$ 18,301	\$ 26,567
Software	4,346	1,961
Furniture and office equipment	1,577	1,495
Leasehold improvements	2,509	4,869
Land	1,326	1,379
Others	1,730	1,452
Total property and equipment	29,789	37,723
Less: accumulated depreciation	(8,483)	(18,212)
Property and equipment, net	\$ 21,306	\$ 19,511

Depreciation expense for the year ended December 31, 2007, 2008 and 2009 is \$1,478, \$6,756 and \$12,014, respectively.

**8. Goodwill and other intangible assets**

In connection with acquisitions, the Company 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. The Company prepared the purchase price allocations and in doing so considered the report of an independent valuation firm. The Company 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. The Company has determined that the impairment testing is to be conducted at our three reporting unit levels which are: MedQuist, CBay Transcription Business and PFS.

***Goodwill***

The changes in the carrying amount of goodwill for the years ended December 31, 2008 and 2009 and for the nine months ended September 30, 2010 are as follows:

	<b>December 31, 2008</b>	<b>December 31, 2009</b>	<b>September 30, 2010</b>
Balance as of January 1,	\$ 18,361	\$ 148,915	\$ 152,159

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Accumulated impairment loss		(98,972)		(98,972)
	18,361	49,943		53,187
Goodwill from acquisitions	118,274			45,747
Noncontrolling interests in goodwill of MedQuist	12,366			
Contingent consideration		3,100		
Goodwill impairment charge	(98,972)			
Foreign currency adjustments and other	(86)	144		96
Balance at period end				
Goodwill	148,915	152,159		198,002
Accumulated impairment losses	(98,972)	(98,972)		(98,972)
Goodwill at period end	\$ 49,943	\$ 53,187	\$	99,030

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**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

In the fourth quarter of 2008 which included the Company's annual impairment testing, the Company 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 and a discounted cash flow analysis. Determining fair value requires the exercise of significant judgment, including judgment about appropriate discount rates, perpetual growth rates, the amount and timing of expected future cash flows, as well as relevant comparable company earnings multiples for the market-based approach. The cash flows employed in the discounted cash flow analyses are based on the Company's internal business model for 2009 and, for years beyond 2009, the growth rates the Company used were an estimate of the future growth in the industry in which the Company participates. The discount rates used in the discounted cash flow analyses are intended to reflect the risks inherent in the future cash flows of the reporting unit and are based on an estimated cost of capital, which the Company determined based on estimated cost of capital relative to its capital structure. In addition, the market-based approach utilizes comparable company public trading values, research analyst estimates and, where available, values observed in private market transactions. In 2008, the analysis indicated that the reporting units' fair value was below the book value for the MedQuist and PFS reporting units, and accordingly an impairment charge was recorded to reduce the carrying value of goodwill to its fair value. The test of impairment of goodwill is a two-step process:

- n First, the Company compares the carrying amount of the reporting units, which is the book value to the fair value of its reporting unit. If the carrying amount of its reporting unit exceeds its fair value, the Company has to perform the second step of the process. If not, no further testing is needed. In the fourth quarter of 2008, the Company determined that the carrying amount of two of its reporting units: MedQuist and PFS exceeded the fair value and accordingly performed the second step in the analysis.
- n If the second part of the analysis is required, the Company allocates the fair value of its reporting unit to all assets and liabilities as if the reporting unit had been acquired in a business combination at the date of the impairment test. The Company then compares the implied fair value of its reporting unit's goodwill to its carrying amount. If the carrying amount of the Company's goodwill exceeds its implied fair value, the Company recognizes an impairment loss in an amount equal to that excess.

In the second step, the Company allocated the fair value of the respective reporting unit to all assets and liabilities as if the respective reporting unit had been acquired in a business combination at the date of the impairment test. The Company then compared the implied fair value of goodwill of the respective reporting unit to its respective carrying amount. As the respective carrying amount of goodwill exceeded its respective implied fair value, a pre-tax impairment charge for the MedQuist and PFS reporting units of \$89,633 and \$9,339, respectively, was recorded for the year ended December 31, 2008.

The Company carried out its goodwill impairment test during the fourth quarter of 2009 and determined that the fair value of its reporting units exceeded its carrying value. In 2009 the fair value of the MedQuist reporting unit substantially exceeded its carrying value and the fair value of the PFS reporting unit exceeded its carrying value by 7%, and accordingly, no second step of the goodwill impairment test was performed and no impairment charge was recorded.

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



**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Consolidated Financial Statements (Continued)*****Other intangible assets***

The Company reviews its long-lived assets, including amortizable intangibles, for impairment when events indicate that their carrying amount may not be recoverable. When the Company 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, it compares the fair value to the book value of the asset. If the fair value is less than the book value, the Company 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 the Company considers as impairment indicators for our long-lived assets, including goodwill, are:

- n 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 the Company uses an asset or changes in the manner that it uses it;
- n significant changes to the asset since acquired; and
- n other changes in circumstances that potentially indicate all or a portion of the company will be sold.

During 2008 and 2009, the Company reviewed the carrying value of its long-lived assets other than goodwill and determined that the carrying amounts of such assets was less than the undiscounted cash flows and accordingly no impairment charge was recorded.

As of December 31, 2008, 2009 and September 30, 2010 other intangible asset balances were:

	<b>Cost</b>	<b>2008 Accumulated amortization</b>	<b>Net book value</b>
Customer relationships	\$ 55,891	\$ 4,552	\$ 51,339
Technological knowhow	5,575	662	4,913
Software licenses	1,676	1,051	625
Trade names	21,892	1,358	20,534
Marketing related intangibles	561	265	296
Internally developed software	2,056	1,115	941
Covenants not to compete	2,363	318	2,045
Other	3,818	337	3,481
Total	\$ 93,832	\$ 9,658	\$ 84,174



**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

	<b>Cost</b>	<b>2009 Accumulated amortization</b>	<b>Net book value</b>
Customer relationships	\$ 55,891	\$ 12,064	\$ 43,827
Technological knowhow	5,575	1,874	3,701
Software licenses	2,953	2,457	496
Trade names	21,893	4,725	17,168
Marketing related intangibles	561	452	109
Internally developed software	4,024	420	3,604
Covenants not to compete	2,363	1,105	1,258
Other	4,907	2,232	2,675
<b>Total</b>	<b>\$ 98,167</b>	<b>\$ 25,329</b>	<b>\$ 72,838</b>

	<b>Cost</b>	<b>September 30, 2010 Accumulated amortization</b>	<b>Net book value</b>
Customer relationships	\$ 90,596	\$ 16,091	\$ 74,505
Technological knowhow	18,892	3,208	15,684
Software licenses	3,905	3,382	523
Trade names	23,532	7,435	16,097
Marketing related intangibles	561	561	
Internally developed software	5,264	693	4,571
Covenants not to compete	2,363	1,696	667
Other	4,909	2,761	2,148
<b>Total</b>	<b>\$ 150,022</b>	<b>\$ 35,827</b>	<b>\$ 114,195</b>

The estimated useful life and the weighted average remaining lives of the intangible assets as of December 31, 2009 were as follows:

<b>Estimated useful life</b>	<b>Weighted average Remaining lives</b>
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Customer relationships	7-10 years	7 years
Technological knowhow	3-5 years	3 years
Software licenses	2-3 years	3 years
Trade names	6-7 years	5 years
Marketing related intangibles	3 years	3 years
Internally developed software	3 years	3 years
Others	3 years	3 years

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**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

Estimated annual amortization expense for intangible assets is as follows:

2010 (represents amortization for period October 1, 2010 – December 31, 2010)	5,998
2011	23,307
2012	22,223
2013	19,632
2014	15,614
Thereafter	27,421
<b>Total</b>	<b>114,195</b>

The Company recorded amortization expense of \$1,437, \$8,150 and \$14,963 for the years ended December 31, 2007, 2008 and 2009, respectively.

**9. Contractual obligations*****Leases***

The Company has acquired certain computers, office equipment and other assets under capital leases. The gross amount recorded in property and equipment for such capital leases and the related accumulated amortization amounted to \$1,062 and \$623 as of December 31, 2008 and \$4,585 and \$1,611 as of December 31, 2009, respectively. Amortization expense is \$234, \$400 and \$988 for the years ended December 31, 2007, 2008 and 2009, respectively. See Note 13 for classification of capital lease obligations.

Minimum rental payments under operating leases are recognized on a straight-line basis over the term of the lease, including any periods of free rent and landlord incentives. Rental expense for operating leases for the years ended December 31, 2007, 2008 and 2009 was \$1,318, \$3,622 and \$5,320, respectively. Future minimum lease payments under non-cancelable leases (with initial or remaining lease terms in excess of one year) are as follows as of December 31, 2009:

	<b>Capital leases</b>	<b>Operating leases</b>
2010	\$ 1,130	\$ 5,561
2011	1,655	4,747
2012	463	4,435
2013	358	3,970
2014 and thereafter	273	2,057
<b>Total minimum lease payments</b>	<b>\$ 3,879</b>	<b>\$ 20,770</b>

Less: amount representing interest	(745)
Present value of net minimum lease payments	3,134
Less: Current portion of obligations under capital leases	(817)
Obligations, under capital leases, excluding current portion	\$ 2,317

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**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Consolidated Financial Statements (Continued)*****Other commitments related party***

Pursuant to an agreement entered into on August 19, 2008 the Company is obligated to pay S.A.C. PEI CB Investment II, LLC ( SAC CBI II ) and Lehman Brothers Commercial Corporation Asia ( LBCCA ), an annual amount of \$1,863 and \$887, respectively, which the Company can elect to pay in cash or shares. The payment provision of the agreement has a five year term that expires in August 2013. The agreement provides that SAC CBI II and LBCCA may provide financial, managerial and operational advice, the annual amount is payable regardless of whether any management services are rendered and the annual amount is fixed. Under the agreement, the Company is committed to pay for the remaining unexpired term on termination of the agreement or upon a change in control, determined as the sum of the present value (using the discount rate equal to the yield on U.S. Treasury securities of like maturity) of the annual amounts that would have been payable with respect to the period from the date of such change of control or termination, as applicable through August 18, 2013. Such amounts are being recorded as a capital transaction. For the years ended December 31, 2008 and 2009, \$1,113 and \$2,750, respectively, have been recorded in the consolidated statements of equity and comprehensive income. During 2009 and 2010, 2,566 shares and 652 shares, respectively, of the Company's common stock were issued to satisfy a portion of the annual amounts. As of December 31, 2008 and 2009 and September 30, 2010, \$1,113, \$2,185 and \$2,850, respectively, of the amounts payable was accrued and recorded in due to related parties in the consolidated balance sheets.

***Other contractual obligations***

The following summarizes our other contractual obligations as of December 31, 2009:

	<b>Total</b>	<b>Purchase</b>	<b>Severance and other guaranteed payments</b>
2010	\$ 12,759	\$ 8,666	\$ 4,093
2011	2,203	2,203	
<b>Total</b>	<b>\$ 14,962</b>	<b>\$ 10,869</b>	<b>\$ 4,093</b>

Purchase obligations represent telecommunication contracts (\$9,619), software development (\$1,000) and other recurring purchase obligations (\$250).

As of December 31, 2009, the Company has agreements with certain of its senior management and board of directors that provided for severance payments in the event these individuals were terminated without cause. The maximum exposure related to these agreements was \$4,093 as of December 31, 2009.

**10. Acquisitions*****Acquisition of MedQuist Inc.***

On August 6, 2008, CBay Inc acquired approximately 69.5 percent of the outstanding common shares of MedQuist from Philips. The results of MedQuist operations have been included in the consolidated financial statements from that date. MedQuist is engaged in the business of medical transcription technology and services, which are integral to the clinical documentation workflow. It services health systems, hospitals and large medical practices throughout the U.S.; in the clinical documentation workflow, it provides, in addition to medical transcription technology and services, digital dictation, speech recognition, electronic signature and medical coding technology and services. MedQuist is listed on The NASDAQ Global Market.

The acquisition is considered to be beneficial to the Company based upon the size and projected growth of the U.S. Medical Transcription industry, the leading market position of MedQuist and the complementary and

**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

potentially synergistic nature of MedQuist and the Company's businesses in terms of products and services, operations and technology.

The acquisition of a majority share in MedQuist will provide the Company with the scope, scale and resources to invest in new technology, to expand its suite of products and services and to pursue revenue and market share growth.

The total purchase price was as follows:

Cash	\$ 98,079
Issue of 6% Convertible note	90,935
Issue of Promissory Note (Bridge note)	26,244
Acquisition expenses	24,446
 Total	 \$ 239,704

The Company accounted for the acquisition as a purchase in accordance with FASB guidance on Business Combinations. In accordance with the guidance, the purchase price was allocated to the assets acquired and liabilities assumed based on their fair values as at the date of acquisition. The Company prepared the purchase price allocations and in doing so considered the report of an independent valuation firm. The fair value of experienced management and delivery team (assembled workforce), which was one of the key drivers for this acquisition, was not separately recognized and has been included in the value of goodwill.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

	<b>Date of acquisition August 6, 2008</b>
Tangible assets	\$ 12,757
Intangible assets	71,599
Current assets	74,720
Other assets	6,756
Current liabilities	(44,337)
Other liabilities	(65)
 Net assets	 121,430
Consideration paid	239,704
 Goodwill	 \$ 118,274

Goodwill recognized from the transaction is a result of the growth opportunity the investors anticipate in the Company's core business, medical transcription.

No part of the goodwill is expected to be deductible for tax purposes.

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**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

Intangible assets recognized on acquisition of MedQuist on the date of acquisition are set out in the table below:

	<b>Date of acquisition August 6, 2008</b>
Customer Relationships	\$ 40,380
Trade Names	21,892
Developed Technology	5,101
Others	4,226
Total	\$ 71,599

***AMS plus Inc. (AMS plus)***

On August 13, 2007, the Company acquired 100% of the equity shares of AMS Plus, through its U.S. subsidiary Mirrus for total consideration of \$12,500 comprising an upfront payment of \$9,400 and a performance-related earn-out payment of \$3,100 after two years.

AMS Plus manages billing and collections for physician practices and hospitals.

The Company accounted for the acquisition as a purchase in accordance with FASB guidance on Business Combinations. Accordingly, the results of operations have been included in the accompanying consolidated financial statements from the date of acquisition. In accordance with this guidance the purchase price was allocated to the assets acquired and liabilities assumed based on their fair values as at the date of acquisition based on fair values determined by an independent appraiser.

In May 2009, the performance-related earn-out amount of \$3,100 became payable and has been accounted for as additional purchase price with a corresponding increase in goodwill.

***Acquisition of spheris***

On April 22, 2010, the Company, through its subsidiaries MedQuist Inc. (MedQuist) and CBay Inc. (the Purchasers), completed the acquisition of substantially all of the assets of Spheris Inc. (Spheris) and certain of its affiliates including Spheris India Private Limited (SIPL). This acquisition provided a substantial customer base and also provided opportunities for operating efficiencies and operating margin expansion. See Note 5, Restructuring charges for further discussion of the Company's 2010 restructuring plan approved by management to realize some of these savings. Costs incurred for the acquisition and direct integration costs are included in the line item Acquisition related charges on the accompanying consolidated statements of operations. The acquisition was funded from the proceeds of the Company's credit facilities entered into in connection with the acquisition. See Note 13 for a description of the acquisition financing.



The following unaudited pro forma summary presents the consolidated information of the Company as if the business combination had occurred at the beginning of each period.

	<b>Pro forma nine months ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
Net revenues	\$ 360,348	\$ 402,215
Net income attributable to MedQuist Holdings Inc.	10,672	1,722
Net income per share attributable to MedQuist Holdings Inc. (Basic)	0.23	0.00
Net income per share attributable to MedQuist Holdings Inc. (Diluted)	\$ 0.23	\$ 0.00

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**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

These amounts have been calculated after applying the Company's accounting policies and adjusting the results of Spheris and SIPL to reflect the additional amortization of intangibles that would have been charged assuming the fair value adjustments to tangible and intangible assets had been applied from the beginning of the period being reported on, and the additional interest expense assuming the acquisition related debt had been incurred at the beginning of the period being reported on, excluding the acquisition costs and including the related tax effects. The acquired business contributed net revenues of \$58,200 for the period April 22, 2010 to September 30, 2010.

The net income for the purpose of the basic net income per share is adjusted for the amounts payable to the Company's majority shareholder.

The following table summarizes the consideration transferred by the Company to acquire the assets of Spheris and stock of SIPL, and the amounts of identified assets acquired and liabilities assumed at the acquisition date.

Cash consideration paid	\$ 98,834
Fair value of unsecured Subordinated Promissory Note	13,570
Total consideration transferred	\$ 112,404

Recognized amounts of identifiable assets acquired and liabilities assumed:

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

The related amortization period is shown below:

	<b>Amortization period</b>
Developed technology	9 years
Customer relationships	7-9 years
Trademarks and trade names	4 years
Goodwill	Indefinite

The amounts and lives of the identified intangibles other than goodwill were valued at fair value by the Company. In preparing fair value, the Company considered the report of an independent valuation firm. The goodwill is attributable to the workforce of the acquired business and the significant synergies expected to arise after the Company's acquisition of Spheris. The goodwill and intangible assets are deductible for tax purposes.

**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

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. There is 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 the Company are expensed in the periods in which the costs are incurred. 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. External costs incurred to acquire the business, and incremental direct integration costs, have been included in the line item Acquisition related charges on the Company's consolidated statement of operations.

**11. Investments in affiliated companies*****A-Life Medical Inc. (A-Life)***

As of December 31, 2008 and December 31, 2009, the Company had an investment of \$7,381 and \$9,996, respectively, in A-Life, a privately held entity which provides advanced natural language processing technology for the medical industry, representing 32% of the outstanding ownership. For the year ended December 31, 2009, the investment increased by \$2,015 related to the Company's share of A-Life's net income, primarily related to a gain resulting from an acquisition, additional cash investments in A-Life of \$852 offset by \$252 for a dilution which was recorded in equity in the consolidated balance sheet.

The table below represents the carrying value of the investment and the share in net assets in A-Life and other equity investments as of December 31, 2009, which is recorded in Other assets in the accompanying consolidated balance sheets:

	<b>A-Life</b>	<b>Others</b>	<b>Total</b>
Beginning balance	\$ 7,263	\$ 432	\$ 7,695
Share in income	118	(37)	81
Balance as of December 31, 2008	7,381	395	7,776
Additional cash investments	852		852
Share in income	2,015	(82)	1,933
Dilution	(252)		(252)
Balance as of December 31, 2009	\$ 9,996	\$ 313	\$ 10,309

See Note 21 for subsequent events.

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**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****12. Accrued expenses and other current liabilities**

Accrued expenses and other current liabilities consisted of the following:

	<b>As of December 31,</b>		<b>As of</b>
	<b>2008</b>	<b>2009</b>	<b>September 30,</b>
			<b>2010</b>
Customer accommodations	\$ 12,055	\$ 11,635	\$ 10,387
Other accrued expenses	19,647	18,168	26,050
Total accrued expenses	\$ 31,702	\$ 29,803	\$ 36,437

In November 2003, one of the employees of MedQuist raised allegations that it had engaged in improper billing practices. In response, the board of directors of MedQuist undertook an independent review of these allegations (Review). In response to MedQuist's customers concern over its public disclosure of the certain findings from the Review, it took action in the fourth quarter of 2005 to avoid unnecessary litigation, which preserved and solidified its customer business relationships by offering a financial accommodation to certain of its customers.

In connection with MedQuist's decision to offer financial accommodations to certain of its customers (Accommodation Customers), MedQuist analyzed its historical billing information and the available report level data (Management Billing Assessment) to develop individualized accommodation offers to be made to accommodate customers (Accommodation Analysis). Based on the Accommodation Analysis, MedQuist board of directors authorized management to make cash or credit accommodation offers to Accommodation Customers in the aggregate amount of \$75,818. By accepting MedQuist's accommodation offer, the customer agreed, among other things, to release MedQuist from any and all claims and liability regarding the billing related issues. MedQuist is unable to predict how many customers, if any, may accept the outstanding accommodation offers on the terms proposed by it, nor it is able to predict the timing of the acceptance (or rejection) of any outstanding accommodation offers. Until any offers are accepted, it may withdraw or modify the terms of the accommodation program or any outstanding offers at any time. In addition, MedQuist is unable to predict how many future offers, if made, will be accepted on the terms proposed by it. MedQuist regularly evaluates whether to proceed with, modify or withdraw the accommodation program or any outstanding offers.

The following is a summary of the financial statement activity related to the customer accommodation.

	<b>December 31,</b>		<b>September 30,</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>
Beginning balance	\$ 12,206	\$ 12,055	\$ 11,635
Payments and other adjustments	(151)	(317)	(1,248)

Credits			(103)	
Ending balance	\$ 12,055	\$ 11,635	\$	10,387

For each period presented, \$1,100 of the balance is related to the Kaiser litigation as discussed in Note 14.

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**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****13. Debt**

Current portion of debt consisted of the following as of:

	<b>December 31, 2008</b>	<b>2009</b>	<b>September 30, 2010</b>
Short term credit facilities	\$ 4,396	\$ 4,769	\$ 6,522
Current portion of long term borrowings	2,465	621	26,724
Bridge note	26,348		
Current portion of capital lease obligations	288	817	2,978
Current portion of debt	\$ 33,497	\$ 6,207	\$ 36,224

Debt consisted of the following as of:

	<b>December 31, 2008</b>	<b>2009</b>	<b>September 30, 2010</b>
Capital lease obligations	\$ 657	\$ 3,134	\$ 4,534
Bridge note	26,348		
Term loans from banks	3,672	3,018	2,799
6% Convertible note	90,935	96,419	96,419
Term loan due from 2010 to 2012, with interest at Prime plus 3.25% (Spheris Acquisition debt)			45,000
Revolving loan with interest at Prime plus 3% with a scheduled termination date of April 22, 2014 (Spheris acquisition debt)			35,000
Subordinated promissory note, due in 2015 with varying interest rates (Spheris Acquisition debt)			13,898
Short-term credit facilities	4,396	4,769	6,522
<b>Total debt</b>	126,008	107,340	204,172
Less: current portion	33,497	6,207	36,224
<b>Long-term debt, net of current portion</b>	<b>\$ 92,511</b>	<b>\$ 101,133</b>	<b>\$ 167,948</b>

The entire amount of the Spheris Acquisition debt and the 6% Convertible Note were refinanced in October 2010; see Note 21, Subsequent Events.



**Credit facilities**

*Line of credit K bank*

The Company has a revolving line of credit ( LOC ) from K Bank. Subject to certain terms and conditions of the agreement with K Bank, the agreement provides a revolving line of credit of a maximum of \$5,750. The amount available for borrowing is based on eligible accounts receivable. The rate of interest on this note is Prime + 1% with a floor of 6%. The note is payable on demand and is renewed annually. Under the agreement, certain subsidiaries of the Company assigned all their accounts receivable to K Bank with full recourse. The agreement contains certain covenants, which require the borrowers to notify the Bank of the important developments, including raising additional equity, borrowings, acquisition etc. The agreement does not contain any financial covenants. For the years ended December 31, 2007, 2008 and 2009 and for the nine months ended September 30, 2009 and 2010 interest expense of \$438, \$273, \$266, \$198 and \$217 respectively, was recorded in the consolidated statements of operations. The amount outstanding as of December 31, 2008, 2009 and September 30, 2010 was \$2,688, \$3,343,

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

**Notes to Consolidated Financial Statements (Continued)**

and \$2,998 respectively. The remaining available amount under the line of credit was \$3,062, \$2,407, and \$2,752 as of December 31, 2008, 2009, and as of September 30, 2010, respectively.

*Credit agreement ICICI Bank*

The Company has a Credit Arrangement with ICICI Bank, Mumbai, India of \$2,772, at interest rates ranging from LIBOR + 2.5% and 15.5%, respectively, which is secured by CBay India's current assets and fixed assets. The amount outstanding as of December 31, 2008, 2009, and September 30, 2010 was \$1,712, \$1,426, and \$341, respectively. For the years ended December 31, 2007, 2008 and 2009 and for the nine months ended September 30, 2009 and 2010 interest expense of \$36, \$98, \$205, \$121 and \$81, respectively, was recorded in interest expense in the consolidated statements of operations.

*Credit Agreement IndusInd Bank*

The Company has a Credit Arrangement with IndusInd Bank, Mumbai, India of \$3,227, at an interest rate of LIBOR + 3%, respectively, which is secured by current assets and fixed assets of CBay Systems (India) Private Limited ( CBay India ) a 100% subsidiary of the Company. The amount outstanding as of December 31, 2009 and September 30, 2010 was \$0 and \$3,160, respectively. For the nine months ended September 30, 2009 and 2010 interest expense of \$0 and \$38, respectively, was recorded in interest expense in the consolidated statements of operations.

*Line of credit Wells Fargo*

In August 2009, MedQuist entered into a five-year \$25 million revolving credit agreement (the Credit Agreement) with Wells Fargo Foothill, LLC. Subject to certain terms and conditions, the Credit Agreement provides committed revolving funding through August 2014 and includes an option whereby MedQuist can increase its maximum credit to \$40 million. The amount available for borrowings is based upon a percentage of eligible accounts receivable. Under the agreement, there are reserves established which limit the amounts that can be available. At December 31, 2009, \$21.0 million was available under the Credit Agreement. The Credit Agreement is a working capital facility that may be used for general corporate purposes. The Credit Agreement enables MedQuist to borrow funds in U.S. dollars, at variable interest rates. The Credit Agreement provides the lender a security interest in and against significantly all of our assets. Under the Credit Agreement, MedQuist agreed to certain covenants customarily found in such agreements including, but not limited to, financial covenants requiring us to maintain certain minimum levels of EBITDA and a minimum fixed charge coverage ratio. At December 31, 2009, MedQuist was in compliance with the financial covenants of the agreement. At December 31, 2009 there were no borrowings outstanding under the Credit Agreement.

***Bridge note***

The Bridge Note carried an interest rate of 1.67% per annum from August 6, 2008 to November 4, 2008. This note was renewed at an interest rate of 6% per annum until February 4, 2009 and at a rate of 10% per annum thereafter. The note was due on May 4, 2009, but was further extended to September 30, 2009 on the same terms. During September 2009, the Company repaid the Bridge Note along with accrued interest amounting to \$28,352. The Company has no future obligations under the Bridge Note.



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

**Notes to Consolidated Financial Statements (Continued)**

***6% convertible note***

The Company issued a 6% Convertible Note in connection with the acquisition of MedQuist which is due August 5, 2015. Any portion of the note can be converted at the option of Philips (the holder) into common stock of the Company, anytime after November 4, 2008. The conversion rate for this purpose shall be \$1 of the principal amount equals 0.1344 shares of common stock of the Company. If this option is exercised by the holder, 12,959 shares of common stock will become issuable. The Company has the option to redeem this note or any portion thereof after August 6, 2011 at a premium of 8%, after August 6, 2012 at a premium of 3%, and, after August 6, 2013, at par.

Further, after August 6, 2012, the holders representing at least 50% of the aggregate principal amount of the notes outstanding have a collective one time right to require the Company to repurchase for cash a portion of the notes which has not been previously purchased or redeemed by the Company. Also, if a change of control event occurs at any time prior to the maturity and if the note has not been purchased or redeemed by the Company, it shall be repurchased by the Company, at the option of the holder. The Company will evaluate the classification of the note at each reporting date considering the early redemption option available to the Company or the one time repurchase right available to the holder.

In March and August 2009, the Company exercised its interest on this convertible note from August 6, 2008 to August 5, 2009 into additional convertible notes aggregating to \$5,484 with the same terms and conditions as the original note.

For the years ended December 31, 2008 and 2009 and for the nine months ended September 30, 2010, interest expense accrued on the note was \$2,212, \$5,447 and \$4,339, respectively.

***Term and equipment loans***

The Company has term loans payable to four banks which carry interest rates ranging from 6.5% to 16% per annum and are repayable monthly through August 2013. One loan contains certain non-financial covenants and limits borrowings for one of the Company's subsidiaries and the Company is in compliance with these covenants. The Company has a working capital term loan which is a Rupee denominated loan from EXIM Bank. This loan is repayable in full in June 2011 and carries an interest rate of 12%. This loan is secured by certain assets of one of the Company's subsidiaries.

The Company has various equipment and vehicle loans that carry interest rates ranging from 10% to 15% per annum and are repayable monthly through 2013. These loans are secured by the related equipment and vehicles.

***Acquisition debt***

In connection with the Acquisition, MedQuist Transcriptions, Ltd. a subsidiary of MedQuist, ( MedQuist Transcriptions ), and certain other subsidiaries of MedQuist (collectively, the Loan Parties ) entered into a Credit Agreement (the GE Credit Agreement ) with General Electric Capital Corporation, CapitalSource Bank, and Fifth Third Bank. The GE Credit Agreement provides 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 are secured by a first priority lien on substantially all of the property of the Loan Parties. The term loan is repayable in equal quarterly installments of \$5.0 million beginning October 1, 2010, with the balance payable 2.5 years from the date of

closing. The Term Loan maturity date is the earlier of October 22, 2012 or the date on which the Company's 6% Convertible note is repaid or otherwise becomes due and payable. Borrowings under the revolving credit facility may be made from time to time, subject to availability under such facility, until the fourth anniversary of the closing date. Amounts borrowed under the GE Credit Agreement bear interest at a rate selected by MedQuist Transcriptions equal to the Base Rate or the Eurodollar Rate (each as defined in the GE Credit Agreement) plus a margin, all as more fully set forth in the GE Credit Agreement. At September 30, 2010, the revolving credit facility and the term loan had interest rates of 6.25% and 6.75%, respectively.

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

**Notes to Consolidated Financial Statements (Continued)**

The GE Credit Agreement contains customary covenants, including covenants relating to reporting and notification, payment of indebtedness, taxes and other obligations, and compliance with applicable laws. There are also financial covenants, which include a Minimum Consolidated Fixed Charge Coverage Ratio, and a Maximum Consolidated Senior Leverage Ratio and a Maximum Consolidated Total Leverage Ratio and a Minimum Liquidity, each as defined in the GE Credit Agreement. The GE Credit Agreement also imposes certain customary limitations and requirements with respect to the incurrence of indebtedness and liens, investments, mergers, acquisitions and dispositions of assets. Amounts due under the GE Credit Agreement may be accelerated upon an Event of Default (as defined in the GE Credit Agreement), including failure to comply with obligations under the credit agreement, bankruptcy or insolvency, and termination of certain material agreements. The Company will continue to evaluate the classification of the term loan at each reporting date.

The Company incurred \$6.1 million in costs with the GE Credit Agreement which are included in Other current assets and Other assets. These costs associated with debt incurred in connection with the Acquisition will be amortized as additional interest expense over the life of the underlying debt instruments.

Borrowings under the revolving credit facility are limited to the lesser of 85% of Eligible Receivables or the aggregate Revolving Credit Commitments, as defined in the credit facility.

The GE Credit Agreement also contains subjective acceleration clauses and a springing lock box arrangement under which MedQuist retains control and dominion over cash receipts unless there is an Event of Default or Excess Availability is less than 20% of the aggregate Revolving Credit Commitments, as defined in the GE Credit Agreement. Pursuant to these provisions, MedQuist elected to make a payment of \$5 million in July 2010 to maintain cash dominion and prevent enactment of the springing lock box provisions. The Company believes this payment will be sufficient to avoid enactment of the springing lock box in future periods. The Company also believes the probability of default under the agreement within the next 12 months to be remote.

The GE Credit Agreement also contains excess cash flow repayments provisions that require 25% of Excess Cash Flows, as defined in the agreement, to be remitted to the lenders within 95 days after year-end. The Company currently estimates that the amount of repayments that would be due during April 2011 at approximately \$10 million. Such amount is currently classified as current. Actual payments, if any, may differ from this estimate.

Total Current maturities under the GE Credit Agreement consists of (a) \$10 million estimated for excess cash flow sweeps in April 2011, and (b) \$15 million of contractual maturities of the term loan obligations.

As of September 30, 2010, the Company believes that it is in compliance with the covenants of the GE Credit Agreement.

As discussed in Note 21 the Company paid off all amounts outstanding plus accrued interest under the GE Credit Agreement, thus terminating the GE Credit Agreement.

When the Company entered into the GE Credit Agreement, the five-year \$25.0 million revolving credit agreement with Wells Fargo Foothill, LLC (the Wells Credit Agreement ) that it entered into on August 31, 2009 was terminated. No borrowings were ever made under the Wells Credit Agreement. In the nine month period ended September 30, 2010 the Company wrote off deferred financing fees of \$1.1 million and incurred termination fees of \$0.6 million in connection with the termination of this facility. Such costs are included in Interest Expense on the accompanying

consolidated statements of operations.

In connection with the Acquisition, the Company entered into a subordinated promissory note with Spheris, Inc. (the Subordinated Promissory Note ). The loan matures in five years from the date of the Acquisition. The face amount of the Subordinated Promissory Note totals \$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% by year two, 101.0% by year three and 100.0% thereafter. For purposes of the purchase price allocation, the note is discounted at 77.5% of the principal (\$13.6 million). This note was a

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**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

non-cash transaction. The fair value of the note was determined through the use of a Monte Carlo model which is Level 3 in the Fair Value hierarchy based upon significant unobservable inputs.

The Subordinated Promissory Note bears interest at 8.0% for the first six months, 9.0% from six to nine months, and 12.5% thereafter of which 2.5% may be paid by increasing the principal amount. Payments of interest are made semi-annually on each six month anniversary of the Acquisition. For financial statement purposes the interest has been calculated using the average interest rates over the term of the Subordinated Promissory Note.

Future minimum principal payments on long term debt as of September 30, 2010 are as follows:

Year ending December 31:	
2010 (represent payments for period October 1, 2010 – December 31, 2010)	\$ 13,090
2011	23,467
2012	117,292
2013	1,087
2014	35,278
2015	13,958
Total	\$ 204,172

The Company recorded interest expense of \$1,513, \$3,416, \$8,387, \$6,885 and \$8,985 during the years ended December 31, 2007, 2008, 2009 and the nine months ended September 30, 2009 and 2010, respectively, on these borrowings.

See Note 21 for subsequent events.

**14. Commitments and contingencies*****Customer litigation******Kaiser litigation***

On June 6, 2008, plaintiffs Kaiser Foundation Health Plan, Inc. and affiliates (collectively, Kaiser) filed suit against MedQuist in the Superior Court of the State of California related to its billing practices.

In July 2010, the parties reached a settlement of the litigation whereby the Company made a payment of \$2,000 to resolve all of Kaiser's claims. Neither MedQuist, nor Kaiser, admitted to any liability or wrongdoing in connection with the settlement. Of this amount, \$1,100 was included in Accrued expenses and other current liabilities at December 31, 2009 and the Company expensed an additional \$900 in the nine months ended September 30, 2010.

***Kahn putative class action***



This action was initiated on January 22, 2008, when one of MedQuist's shareholders filed a shareholder putative class action lawsuit against MedQuist, Philips, MedQuist's former majority shareholder, and four of its former directors. The action was venued in the Superior court of New Jersey, Chancery Division, Burlington County. Thereafter on June 12, 2008, plaintiff filed an amended class action complaint against MedQuist, eight of its former directors, and Philips. In the amended complaint, plaintiff alleged that its then current and former directors breached their fiduciary duties of good faith, fair dealing, loyalty, and due care by not providing its public shareholders with the opportunity to decide whether they wanted to participate in a share purchase offer with non-party MedQuist Holdings Inc. The share purchase offer would have allowed the public shareholders to sell their shares of MedQuist's common stock for an amount above market price. Plaintiff further alleged that MedQuist Holdings Inc. made the share purchase offer to Philips and that Philips breached its fiduciary duties by

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

**Notes to Consolidated Financial Statements (Continued)**

accepting MedQuist Holdings Inc.'s offer. Based on these allegations, plaintiff sought declaratory, injunctive, and monetary relief from all defendants. Plaintiff claimed that MedQuist was only named as a party to the litigation for purposes of injunctive relief.

On November 21, 2008, the Court dismissed plaintiff's amended class action complaint with prejudice. Thereafter, on July 1, 2010, the New Jersey Appellate Division entered an Order and Opinion that affirmed the dismissal of the claims against MedQuist and two of the MedQuist director defendants. The Appellate Division reversed the dismissal of the claims against the remaining defendants, Philips and certain of its former directors, and remanded those claims back to the Chancery Division. MedQuist is no longer a defendant in this matter, but it is monitoring the matter since it involves claims against its former directors.

*Reseller arbitration demand*

On October 1, 2007, MedQuist received from counsel to nine current and former resellers of MedQuist's products (Claimants), a copy of an arbitration demand filed by the Claimants, initiating an arbitration proceeding.

On March 31, 2010, the parties entered into a Settlement Agreement and Release pursuant to which MedQuist paid the Claimants \$500 on April 1, 2010 to resolve all claims. Under the Settlement Agreement and Release, (i) the parties exchanged mutual releases, (ii) the arbitration and related state court litigation were dismissed with prejudice and (iii) MedQuist did not admit to any liability or wrongdoing. The Company accrued the entire amount of this settlement as of December 31, 2009.

*SEC investigation of former MedQuist officer*

With respect to MedQuist's historical billing practices, the SEC is pursuing civil litigation against its former chief financial officer, whose employment with MedQuist ended in July 2004. Pursuant to its bylaws, MedQuist has been providing indemnification for the legal fees for its former chief financial officer.

*Exchange transactions*

On September 30, 2010, the Company entered into a definitive agreement with certain noncontrolling stockholders of approximately 12.7% of MedQuist's common stock whereby the Company agreed to exchange shares of its common stock for shares of MedQuist common stock, subject to a defined exchange ratio (the "private exchange"). The consummation of this agreement is subject to various conditions.

On October 18, 2010, the Company filed a registration statement with the SEC on Form S-4 (the "exchange offer") offering those noncontrolling MedQuist stockholders who did not participate in the private exchange shares of our common stock in exchange for their MedQuist shares. Assuming the private exchange is consummated, a full exchange in the exchange offer would increase our ownership in MedQuist from 82.2% to 100.0%. We can give no assurance as to the level of participation in the exchange offer.

**15. Stock option plans**

*2007 equity incentive plan (the EI plan)*

The EI Plan was adopted by the Board of Directors (the Board ) of the Company on June 12, 2007. The EI Plan is administered and operated by the Board in consultation with the Remuneration Committee of the Board.

The EI Plan provides a framework for the grant of equity and other equity related incentives to directors, officers, consultants and other employees of the Company in different jurisdictions. Awards may be in the form of share options, including incentive stock options (which comply with U.S. tax requirements), share appreciation rights, restricted shares, restricted stock units and other share, share based or cash awards.

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

**Notes to Consolidated Financial Statements (Continued)**

In accordance with the EI Plan, share options for 211 ordinary shares were granted by the Board on June 12, 2007, at a price of \$7.88. The options were granted to members of the senior management and key employees of the Company.

In cases where the options granted to any option holder were less than 4, such options vested in full on the date the shares of the Company were admitted on AIM. The shares of the Company were admitted to trading on AIM on June 18, 2007.

Where options granted to any option holder were equal to or more than 4, such options vested as follows 50% on the date of grant, 25% on the first anniversary of the date of grant and the balance on the second anniversary of the date of grant.

The options are exercisable no later than 10 years from the date of grant subject to vesting as stated above. However, the options are subject to early exercise upon a change in control of the Company, as defined. The options shall lapse at the end of the option period. Additionally, the options of any option holder, would lapse on the expiry of three months from the date of cessation of employment or services to the Company for cause (unless otherwise determined by the Board). However, if such option holder leaves otherwise than for cause (as defined in the option agreement), the option holder would be entitled to exercise their options within a period of six months from the date of cessation of employment or service. All share based employee compensation is settled in equity. The Company has no legal or constructive obligation to repurchase or cash settle the options.

Additionally, on June 12, 2007, the board of directors of the Company approved the grant of 674 options to certain directors and senior management personnel of the Company. The options were granted in 3 Tranches in the amounts of 337 options, 225 options and 112 options for Tranche 1, Tranche 2 and Tranche 3, respectively. The exercise price for the options in Tranche 1 was \$5.85 per share and for the options in Tranche 2 it was \$7.88. Options in Tranche 1 and 2 were exercisable until December 31, 2008 and all such options expired unexercised on December 31, 2008. As of December 31, 2008 and 2009, there are 112 and 90, respectively, of outstanding options in Tranche 3, of which all are exercisable and 23 were forfeited in 2009.

Due to change in control on August 6, 2008, all unvested options vested immediately on that date, which resulted in a share based compensation expense of \$18.

In April 2009, the board of directors of the Company approved the key terms of an option award to certain management employees for the completion of acquisition of MedQuist and 2,208 options were granted at an exercise price of £3.15 per share (or \$4.64 per share based on the exchange rate on the grant date). The options vest in a graded manner over a period ending on August 6, 2011, with one third of the options vesting on August 6, 2009 and one sixth of the options vesting every six months thereafter. These options expire on August 6, 2018.

**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

Share options and weighted average exercise price are as follows for the reporting periods presented:

	<b>Number of options</b>	<b>Weighted average exercise price <sup>(1)</sup></b>
Outstanding at January 1, 2007		\$
Granted	886	\$ 7.11
Forfeited		
Exercised		
Expired		
Outstanding at January 1, 2008	886	\$ 7.11
Granted		
Forfeited		
Exercised		
Expired	(604)	\$ 6.75
Outstanding at January 1, 2009	282	\$ 7.88
Granted	2,241	\$ 5.00
Forfeited		
Exercised		
Expired	(51)	\$ 7.88
Outstanding at December 31, 2009	2,472	\$ 5.27
Exercisable at December 31, 2009	1,000	\$ 5.27

<sup>(1)</sup> Weighted average exercise prices are converted to U.S. dollars based on the exchange rate at the end of the reporting period.

Options outstanding that have vested and are expected to vest as of December 31, 2009 are as follows:

	<b>Outstanding options</b>	<b>Weighted average exercise price in \$</b>	<b>Weighted average remaining contract term (in years)</b>	<b>Intrinsic value</b>	<b>Aggregate intrinsic value as of December 31, 2009</b>
Vested and exercisable at year end	1,000	\$ 5.27	8.04	\$ 138	\$ 138

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Expected to vest	1,451	\$ 5.18	8.29	\$ 402	\$ 402
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The Company recognized \$664 as compensation cost during the period in respect of these options. The fair values of these options have been calculated using a Black Scholes model using the following assumptions:

Dividend yield					0%
Expected life			4.8	5.8	years
Risk free interest rate					4.42%
Volatility					34%-35%

The unamortized cost of the options as of December 31, 2009 was \$333. The total fair value of the shares vested during December 31, 2009 was \$664. The weighted average grant date fair values of options granted during the year ended December 31, 2009 was \$0.10. As of December 31, 2009, there were 1,119 additional options available for grant under the EI Plan.

**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Consolidated Financial Statements (Continued)*****MedQuist stock option plan***

MedQuist stock option plans provide for the granting of options to purchase shares of common stock to eligible employees (including officers) as well as to our non-employee directors. Options may be issued with the exercise prices equal to the fair market value of the common stock on the date of grant or at a price determined by a committee of our board of directors. Stock options vest and are exercisable over periods determined by the committee, generally five years, and expire no more than 10 years after the grant.

In July 2004, the board of directors of MedQuist affirmed its June 2004 decision to indefinitely suspend the exercise and future grant of options under our stock option plans. Ten former executives separated from MedQuist in 2005 and 2004. Notwithstanding the suspension, to the extent such executives held options that were vested as of their resignation date, such options remained exercisable for the post-termination period, generally 90 days, commencing on the date that the suspension was lifted for the exercise of options. There were 704 shares that qualified for this post-termination exercise period. The suspension was lifted on October 4, 2007 and all but 154 of these options terminated on February 1, 2008. In July 2008, 12 of the 154 options were exercised for an aggregate exercise amount of \$68. As of December 31, 2009 there are no options outstanding related to the 10 former executives.

Information with respect to MedQuist's common stock options is as follows:

	Share subject to options	Weighted average exercise price	Weighted average remaining contractual life in years	Aggregate intrinsic value
Outstanding, January 1, 2007	2,312	\$ 32.57		
Granted	200	\$ 11.20		
Exercised	(4)	\$ 2.71		
Forfeited	(137)	\$ 29.10		
Cancelled	(12)	\$ 17.45		
Outstanding, December 31, 2007	2,359	\$ 31.08		
Granted	296	\$ 11.20		
Exercised	(12)	\$ 2.71		
Forfeited	(827)	\$ 29.10		
Outstanding, December 31, 2008	1,816	\$ 23.34		
Granted		\$		
Exercised		\$		
Forfeited	(553)	\$ 22.57		

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Outstanding, December 31, 2009	1,263	\$	24.47	3.3	\$
Exercisable, December 31, 2009	1,065	\$	27.47	2.3	\$
Options vested and expected to vest as of December 31, 2009	1,263	\$	24.47	3.3	\$

The aggregate intrinsic value is calculated using the difference between the closing stock price on the last trading day of 2009 and the option exercise price, multiplied by the number of in-the-money options. As of December 31, 2009, no options were in the money.

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**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

There were no options granted or exercised in 2009. There were 296 options granted and 12 options exercised in 2008. MedQuist estimated fair value for the option grant by applying the Black- Scholes option pricing valuation model. The application of this model involves assumptions that are judgmental and sensitive in the determination of compensation expense. The key assumptions used in determining the fair value of the options were:

Expected term (years)	5.92
Expected volatility	54.5%
Dividend Yield	0%
Expected risk free interest rate	3.25%

Significant assumptions required to estimate the fair value of stock options include the following:

- n Expected term: The SEC Staff Accounting Bulletin No 107 Simplified method has been used to determine a weighted average expected term of options granted.
- n Expected volatility: We have estimated expected volatility based on the historical stock price volatility of a company of similar publicly traded companies. We believe that our historical volatility is not indicative of future volatility.

The weighted average grant date fair value of options modified in the first quarter of 2009 was \$1.97 per share.

A summary of outstanding and exercisable options as of December 31, 2009 is as follows:

Range of exercise price	Options outstanding			Options exercisable	
	Number of shares	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number of shares	Weighted average exercise price
\$2.71-\$10.00	296	8.8	\$ 8.25	98	\$ 8.25
\$10.01-\$20.00	260	2.4	\$ 17.13	260	\$ 17.13
\$20.01-\$30.00	514	1.6	\$ 26.41	514	\$ 26.41
\$30.01-\$40.00	36	0.9	\$ 32.29	36	\$ 32.29
\$40.01-\$70.00	157	0.4	\$ 59.13	157	\$ 59.13
	1,263	3.3	\$ 24.47	1,065	\$ 27.47

There were 296 and 0 options granted during 2008 and 2009. There were 0 options exercised in 2008 and 2009.

The total fair value of shares vested during 2009 was \$193.

As of December 31, 2009, there were 969 additional options available for grant under MedQuist's stock option plans.

On August 27, 2009, MedQuist board of directors, upon the recommendation of its compensation committee, approved the MedQuist Inc, Long-Term Incentive Plan. The Incentive Plan is designed to encourage and reward the creation of long-term equity value by certain members of its senior management team. The executive and key employees will be selected by the compensation committee and will be eligible to participate in the Incentive Plan.

During the third quarter of 2010, the compensation committee of MedQuist issued awards under the Long Term Incentive Plan, the terms and conditions of which will be determined in the future under the terms of the plan.

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**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Consolidated Financial Statements (Continued)*****Other plan***

A subsidiary of the Company has granted stock options under non-qualified stock option agreements to certain of the subsidiary employees, officers and directors. As of December 31, 2008 and 2009, there are 72 and 42, respectively, of outstanding options, of which 36 and 34, respectively, are exercisable. The weighted average exercise price is \$0.40 as of December 31, 2008 and 2009 and the weighted average remaining contract term as of December 31, 2009 is 3.50 years and there is no unamortized compensation expense.

***Warrant***

In March 2009, we issued a warrant to a consultant to purchase 82 ordinary shares of CBay. The warrant is exercisable for a term of three years from the date of issuance at an exercise price of £3.15 per share. The warrant is equity classified. We calculated the fair value of the warrant to be approximately \$100 using the Black-Scholes option pricing model with the following inputs: exercise price of £3.15 per share, contractual life of 3 years, expected volatility of 41.7%, dividend yield of 0% and expected risk free interest rate of 3.0%.

**16. Income taxes**

Domestic refers to income taxes recorded on our operations in the British Virgin Islands and foreign refers to income taxes recorded on operations in the United States and India. The sources of income (loss) before income taxes and the income tax provision (benefit) for the years ended December 31, 2007, 2008 and 2009 are as follows:

	<b>2007</b>	<b>2008</b>	<b>2009</b>
Income (loss) before income taxes and noncontrolling interest:			
Domestic	\$ (1,345)	\$ (775)	\$ (2,510)
Foreign	(1,421)	(113,142)	11,412
Income (loss) before income taxes and noncontrolling interest	(2,766)	(113,917)	8,902
Current income tax provision (benefit):			
Domestic			
Foreign	191	1,034	403
Current income tax provision	191	1,034	403
Deferred income tax provision (benefit):			
Domestic			
Foreign	(304)	(6,432)	679
Deferred income tax provisions (benefit)	(304)	(6,432)	679
Income tax provision (benefit)	\$ (113)	\$ (5,398)	\$ 1,082



**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

The reconciliation of the income tax provision (benefit) at statutory federal income tax rate to the Company's income tax provision (benefit):

	<b>2007</b>	<b>2008</b>	<b>2009</b>
Provision (benefit) at statutory tax rate	\$	\$ (39,871)	\$ 3,116
Valuation allowance		21,593	(2,300)
Goodwill impairment		13,119	
Foreign rate differential			801
Adjustments to tax reserves	(968)	342	(62)
Permanent differences		168	(189)
Intercompany dividend			389
State taxes		(2,049)	(302)
Other, net	855	1,300	(371)
Income tax provision (benefit)	\$ (113)	\$ (5,398)	\$ 1,082

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31, 2008 and 2009 were as follows:

	<b>2008</b>	<b>2009</b>
<b>Deferred tax assets</b>		
Foreign net operating loss carry forwards	\$ 52,665	\$ 54,734
Accounts receivable	2,028	1,321
Property and equipment	1,790	2,526
Intangibles	8,884	6,499
Employee compensation and benefit plans	1,295	1,770
Deferred compensation	164	
Customer accommodation	4,668	4,515
Accruals and reserves	4,810	3,520
Other	1,291	1,673
Total gross deferred tax assets	77,595	76,558
Less: Valuation allowance	(70,711)	(71,183)
Total deferred tax assets	6,884	5,375
<b>Deferred tax liabilities</b>		
Property and equipment	(41)	(12)
Intangibles	(5,109)	(4,085)

Total deferred tax liabilities	(5,150)	(4,097)
Net deferred tax asset	\$ 1,734	\$ 1,278

Under the Indian Income Tax Act, a substantial portion of the profits of the Company's Indian operations is exempt from Indian income tax. The Indian tax year ends on March 31. This tax holiday is available for a period of ten consecutive years beginning in the year in which the respective Indian undertaking commenced operations. The tax holiday expires with respect to the Company's Indian operations through the year ended March 31, 2011. The aggregate effect on net income (loss) attributable to MedQuist Holdings Inc. of the tax holiday were \$575, \$695 and \$838 for the years ended 2007, 2008 and 2009, respectively. Further, the per common share effect of this exemption on net income (loss) attributable to MedQuist Holdings Inc. was \$0.05, for the years ended 2007, 2008 and 2009, respectively.

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

**Notes to Consolidated Financial Statements (Continued)**

As of December 31, 2009, the Company had federal net operating loss carry forwards of approximately \$130,000 which will begin to expire in 2026. The Company had state net operating losses of approximately \$250,000 which will expire from 2010 to 2029.

Utilization of the net operating loss carry forwards will be subject to an annual limitation in future years as a result of the change in ownership as defined by Section 382 of the Internal Revenue Code and similar state provisions. The Group performed an analysis on the annual limitation as a result of the ownership change that occurred in 2008.

In assessing the future realization of deferred taxes, the Company considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized based on projections of our future taxable earnings. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

After consideration of all evidence, both positive and negative, management concluded that it was more likely than not that a majority of the deferred tax assets would not be realized. As of December 31, 2009, this valuation allowance has increased from \$70,711 as of December 31, 2008 to \$71,183.

Deferred tax assets were recognized to the extent that objective positive evidence existed with respect to their future utilization. The objective positive evidence included income expected to be recognized due to the reversal of deferred tax liabilities as of December 31, 2009. In analyzing deferred tax liabilities as a source for potential income for purposes of recognizing deferred tax assets, the deferred tax liabilities related to excess book basis in goodwill over tax basis in goodwill were considered a source of future income for benefiting deferred tax assets with indefinite lives only due to the indefinite life and uncertainty of reversal of these liabilities during the same period as the non-indefinite life deferred tax assets.

The total amount of unrecognized tax benefits as of December 31, 2009 was \$5,497 which includes \$484 of accrued interest related to unrecognized income tax benefits which we recognize as a component of the provision for income taxes. Of the \$5,497 unrecognized tax benefits, \$4,613 relates to tax positions which if recognized would impact the effective tax rate, not considering the impact of any valuation allowance. Of the \$4,613, \$3,576 is attributable to uncertain tax positions with respect to certain deferred tax assets which if recognized would currently be offset by a full valuation allowance due to the fact that at the current time it is more likely than not that these assets would not be recognized due to a lack of sufficient projected income in the future.

**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

The following is a roll-forward of the changes in the Company unrecognized tax benefits:

Total unrecognized tax benefits as of January 1, 2009	\$ 5,090
Gross amount of increases in unrecognized tax benefits as a result of tax positions taken during the prior period	(9)
Gross amount of increases in unrecognized tax benefits as a result of tax positions taken during the current period	62
Amount of decreases in the unrecognized tax benefits relating to settlements with taxing authorities	
Reduction to unrecognized tax benefits as a result of a lapse of applicable statute of limitations	(130)
Total unrecognized tax benefits as of December 31, 2009	\$ 5,013
Total unrecognized tax benefits that would impact the effective tax rate if recognized	\$ 4,613
Total amount of interest and penalties recognized in the accompanying consolidated statement of operations for the year ended December 31, 2009	\$ (126)
Total amount of interest and penalties recognized in the accompanying consolidated balance sheet as of December 31, 2009	\$ 484
Total unrecognized tax benefits as of January 1, 2010	\$ 5,013
Gross amount of increases in unrecognized tax benefits as a result of tax positions taken during the prior period	5,146
Amount of decreases in the unrecognized tax benefits relating to settlements with taxing authorities	(650)
Total unrecognized tax benefits as of September 30, 2010	\$ 9,509
Total unrecognized tax benefits that would impact the effective tax rate if recognized	\$ 9,162
Total amount of interest and penalties recognized in the accompanying consolidated statement of operations for the nine months ended September 30, 2010	\$
Total amount of interest and penalties recognized in the accompanying consolidated balance sheet as of September 30, 2010	\$ 1,017

A majority of the \$5,146 increase to the reserve for uncertain tax positions recorded during the period ended September 30, 2010 relates to certain tax exposure items acquired as a result of the Spheris Acquisition. As such, the liability related to these amounts was accounted for as part of the purchase price allocations and was not charged to income tax expense.



The Company files income tax returns in the U.S. federal jurisdiction, all U.S. states which require income tax returns and foreign jurisdictions. Due to the nature of the Company's operations, no state or foreign jurisdiction is individually significant. With limited exceptions the Company is no longer subject to examination by the U.S. federal or states jurisdiction for years prior to 2007. The Internal Revenue Service concluded a federal tax audit for MedQuist Inc and its subsidiaries for the tax years 2003 through 2006 with no material adjustments. However those years have not been audited for the other members of the Company. The Company is no longer subject to examination by the UK federal jurisdiction for years prior to 2007. The Company does have various state tax audits and appeals in process at any given time. As of December 31, 2009, the Indian tax authorities have concluded their tax audits for the tax years through March 31, 2008 with no significant tax adjustments.

The Company anticipates decreases in unrecognized tax benefits of approximately \$126 related to state statutes of limitations expiring during 2010. The Company's unrecognized tax benefits are expected to change in 2010. The Company is currently in the process of negotiating with certain jurisdictions to resolve specific issues related to tax positions taken in prior periods.

**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****17. Employee benefit plans*****401(k) Plans of U.S. subsidiaries******MedQuist 401(k) plan***

MedQuist maintains a tax-qualified retirement plan named the MedQuist 401(k) Plan (401(k) Plan) that provides eligible employees with an opportunity to save for retirement on a tax advantaged basis. MedQuist 401(k) Plan allows eligible employees to contribute up to 25% of their annual eligible compensation on a pre-tax basis, subject to applicable Internal Revenue Code limits. Elective deferral contributions are allocated to each participant's individual account and are then invested in selected investment alternatives according to the participant's directives. Employee elective deferrals are 100% vested at all times. MedQuist 401(k) Plan provides that it may make a discretionary matching contribution to the participants in the 401(k) Plan. MedQuist discretionary matching contribution, if any, shall be in an amount not to exceed 100% of the first 25% of a plan participant's compensation contributed as pre-tax contributions to the 401(k) Plan. In its sole discretion, it may make discretionary matching contributions on a quarterly or annual basis. Historically MedQuist has matched 50% of each participant's contribution, up to a maximum of 5% of each participant's total annual compensation. Matching contributions are 33% vested after one year of service, 67% vested after two years of service and 100% vested after three years of service. MedQuist did not match the employee contributions for the years ended December 31, 2008 and 2009.

***401(k) plan of other U.S. subsidiaries***

The Company maintains tax qualified retirement plans for its U.S. employees that provide eligible employees the opportunity to save for retirement on a tax advantage basis. The plans allow for eligible employees to contribute a portion of their annual eligible compensation on a pretax basis subject to applicable internal revenue code limits. The Company may make discretionary matching contributions to the participant's accounts in its sole discretion. The Company did not match employee contributions for the years ended December 31, 2007, 2008 and 2009.

***Executive deferred compensation plan***

MedQuist had established the MedQuist Inc. Executive Deferred Compensation Plan (EDCP) in 2001. The EDCP, which was administered by the compensation committee of MedQuist board of directors, allowed certain members of management and highly compensated employees to defer a certain percentage of their income. Participants were permitted to defer compensation into an account in which proceeds were available either during or after termination of employment.

In the third quarter of 2009 MedQuist terminated the plan and distributed plan assets to participants, and liquidated the remaining plan assets prior to December 31, 2009. As of December 31, 2008 the value of the assets held, primarily insurance contracts, managed and invested pursuant to the EDCP was \$787 and was included in other current assets in the accompanying consolidated balance sheets. As of December 31, 2008 the deferred compensation liability reflecting amounts due to employees was \$237 and was included in accrued expenses in the accompanying consolidated balance sheets.

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

**Notes to Consolidated Financial Statements (Continued)**

***CBay India and its Indian subsidiaries***

***Gratuity***

In accordance with applicable Indian laws, CBay India and its Indian subsidiaries provide for a defined benefit retirement plan ( the Gratuity Plan ) covering eligible employees. The Gratuity Plan provides for a lump sum payment to vested employees on retirement, death, incapacitation or termination of employment at an amount that is based on salary and tenure of employment. Liabilities with regard to the Gratuity Plan are determined by actuarial valuation. The measurement date used to measure fair value of plan assets and benefit obligations is December 31, 2009; however, the Gratuity Plan is unfunded as of December 31, 2009.

As of December 31, 2008 and 2009 the projected benefit obligation was \$267 and \$330, respectively. These amounts have been included in other noncurrent liabilities in the consolidated balance sheets. The accumulated benefit obligation was \$143 and \$211 as of December 31, 2008 and 2009, respectively. Net periodic benefit cost under the Gratuity Plan amounted to \$44, \$187 and \$65 for 2007, 2008 and 2009, respectively.

***Other benefit plans***

CBay India and its Indian subsidiaries also have a defined contribution plans that are largely governed by local statutory laws and covers the eligible employees. These plans are funded both by the employees and by the Company with an equal contribution, primarily based on a specified percentage of the employee s basic salary. The total contribution to these plans by the Company during the years ended December 31, 2007, 2008 and 2009 was \$350, \$413, and \$565, respectively, and the Company has no obligation beyond the amounts contributed.

**18. Related party transactions**

***Transactions with affiliates of the company s majority shareholder***

During the year ended December 31, 2008, an aggregate of \$8,000 was paid to two affiliates of the Company s majority shareholder and to LBCCA for services in connection with the equity subscription in the Company and the acquisition of MedQuist. The Company also entered into an agreement with LBCCA and SAC CBI II, an affiliate of its majority shareholder, in August 2008. Pursuant to this agreement, the combined amounts payable to SAC CBI II and LBCCA of \$1,113 and \$2,750 were recorded for the years ended December 31, 2008 and 2009, respectively. As of December 31, 2008 and 2009 and as of September 30, 2010, \$1,113 \$2,185 and \$2,850, respectively, is accrued as a result of this agreement and is recorded in due to related parties in the consolidated balance sheets.

On May 4, 2010, the audit committee of MedQuist s board of directors approved the payment of and the Company expensed a \$1,500 success-based fee to SAC PCG, an affiliate of its majority shareholder, in connection with the Spheris Acquisition.

On October 17, 2010, members of the Board unaffiliated with SAC CBI, having evaluated the services provided and fees charged for similar transactions, approved a payment of \$5,000 to SAC PCG, an affiliate of SAC CBI, for services rendered in connection with the recapitalization transactions described in Note 21. The payment is due upon the closing of the Company s U.S. public offering of its common stock.

***Transactions with an entity under common control***

During the years ended December 31, 2007 and 2008 the Company provided transcription services, software development, customer relationship and other services to an entity in which the Company's director exercised significant influence. Such entity was an entity under common control until the August 6, 2008 investment by the Company's current majority shareholder. The amounts charged by the Company for such services aggregated \$9,156 and \$633 respectively for 2007 and 2008. Additionally, the Company at various times prior to August 6, 2008 made and received short-term advances to and from the related party. During the year ended December 31,

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

**Notes to Consolidated Financial Statements (Continued)**

2008, the Company redeemed mandatory redeemable preferred stock previously issued to the related party. Also during the year ended December 31, 2008, the Company accepted transfers of certain assets as repayment for amounts owed it by this party. The balance receivable from this entity of \$760 as of December 31, 2008 was not considered to be recoverable and accordingly it was written off. There were no transactions with this party during the year ended December 31, 2009.

***Mirrus Systems Inc.***

Effective February 10, 2009 the former CEO and President of Mirrus Systems Inc. (Mirrus) and former executive director on the Board of the Company resigned from services with the company. Under the terms of his settlement among other matters, he transferred his holdings of approximately 13% in Mirrus to the Company. As a result of the settlement, Mirrus is a 100% subsidiary of the Company. The difference between the consideration paid and the carrying value of the non-controlling interest in Mirrus acquired of \$690 has been recorded as additional paid in capital.

***Transactions with entities in which directors exercise significant influence***

The Company occupied property owned by a significant shareholder and paid rent and service charges totaling \$557, \$429 and \$0 for the years ended December 31, 2007, 2008 and 2009, respectively. Effective August 6, 2008, this shareholder ceased to be a significant shareholder. The Company also occupies a property owned by a trust in which the President, CEO and a director of one of its subsidiary, has an interest as a sole trustee and owner of the trust. An amount of \$59, \$179 and \$181, was paid as rent for the years ended December 31, 2007, 2008 and 2009, respectively.

During the year ended December 31, 2008 and 2009, the Company paid \$240 and \$113 to a Director to purchase the noncontrolling interest in one of its subsidiaries. The Company sold software solution services to a company in which a Director exercises significant influence aggregating \$923 and \$471 for the years ended December 31, 2007 and 2008, respectively.

***Transactions with affiliated companies***

The Company purchased transcription services from an affiliated Company during the years ended December 31, 2007, 2008 and 2009 aggregating \$479, \$601 and \$819, respectively. As of December 31, 2008 and 2009, \$38 and \$222 is receivable from this company. During 2008, the Company made an additional equity investment in this company amounting to \$116.

During the year ended December 31, 2008 and 2009, the Company purchased certain services of \$162 and \$365, respectively, from an affiliated company.

**19. Financial instruments**

Effective January 1, 2008, the Company adopted the provisions for fair value accounting for financial assets and financial liabilities. This did not have a material impact on the Company's financial position, results of operations and cash flows. The statement establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad categories.

Level 1: Quoted market prices in active markets for identical assets or liabilities that the company has the ability to access. Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data such as quoted prices, interest rates and yield curves. Level 3: Inputs are unobservable data points that are not corroborated by market data. At December 31, 2008, the Company held one financial asset, Executive Deferred Compensation Plan, Note 17, assets (EDCP) included in other current assets. The Company measured the fair value of our EDCP on a recurring basis using Level 2 (significant other observable) inputs. In the third quarter of

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**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

2009 the Company terminated the plan and distributed plan assets to participants and liquidated the remaining plan assets. Accordingly there were no financial instruments as defined as of December 31, 2009.

**20. Quarterly financial information (unaudited)**

The following table sets forth selected quarterly consolidated financial information for the years ended December 31, 2008 and 2009. The operating results for any given quarter are not necessarily indicative of results for any future period.

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
<b>2008</b>				
Net revenues	\$ 17,224	\$ 17,896	\$ 64,338	\$ 94,215
Gross profit	\$ 8,046	\$ 9,157	\$ 19,557	\$ 31,839
Net income (loss) attributable to MedQuist Holdings Inc.	\$ 493	\$ 978	\$ (10,087) <sup>(a)</sup>	\$ (105,057) <sup>(b)</sup>
Net income (loss) per share attributable to MedQuist Holdings Inc. <sup>(c)</sup>				
Basic	\$ 0.05	\$ 0.09	\$ (0.41)	\$ (3.06)
Diluted	\$ 0.05	\$ 0.09	\$ (0.41)	\$ (3.06)
Weighted average shares outstanding:				
Basic	14,444	14,444	26,666	34,442
Diluted	14,444	14,482	26,666	34,442
<b>2009</b>				
Net revenues	\$ 94,669	\$ 93,871	\$ 93,289	\$ 89,939
Gross profit	\$ 32,566	\$ 34,220	\$ 32,119	\$ 33,314
Net income (loss) attributable to MedQuist Holdings Inc.	\$ (3,195) <sup>(c)</sup>	\$ 425	\$ 2,539	\$ 966 <sup>(d)</sup>
Net income (loss) per share attributable to MedQuist Holdings Inc. <sup>(c)</sup>				
Basic	\$ (0.14)	\$ (0.00)	\$ 0.05	\$ 0.00
Diluted	\$ (0.14)	\$ (0.00)	\$ 0.05	\$ 0.00
Weighted average shares outstanding:				
Basic	34,442	34,442	34,873	35,013
Diluted	34,442	34,442	34,873	35,013

<sup>(a)</sup> Includes expenses of \$5,622 for management bonus and other legal expenses related to acquisition of MedQuist recorded in selling, general and administrative expense, and include \$3,482 recorded in cost of legal proceedings and settlements related to settlement of all claims related to the DOJ investigation.

<sup>(b)</sup> Includes \$98,972 for goodwill impairment charge.

<sup>(c)</sup> Includes \$5,950 recorded in cost of legal proceedings and settlements related to the settlement of all claims related to the Anthurium patent litigation settlement.

- (d) Includes \$500 recorded in cost of legal proceedings and settlements related to the settlement of all claims related to the reseller arbitration settlement.
- (e) The sum of quarterly net income (loss) per share may differ from the full year amount due to the change in the number of shares outstanding during the year.



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

**Notes to Consolidated Financial Statements (Continued)**

**21. Subsequent events (unaudited)**

***Recapitalization transactions sale of A-Life and sale of PFS***

*Recapitalization transactions*

On October 1, 2010, the Company entered into a senior secured credit facility, or the Senior Secured Credit Facility, with certain lenders and General Electric Capital Corporation, as Administrative Agent. The Senior Secured Credit Facility contains a number of significant covenants and consists of \$225,000 in senior secured credit facilities comprised of:

- i) a \$200,000 term loan, advanced in one draw on October 14, 2010 (the Closing Date), with a term of five years, repayable in equal quarterly installments of \$5,000, commencing on the first day of the first fiscal quarter beginning after the Closing Date, with the balance payable at maturity; and
- ii) a \$25,000 revolving credit facility under which borrowings may be made from time to time during the period from the Closing Date until the fifth anniversary of the Closing Date. The revolving facility includes a \$5,000 letter-of-credit sub-facility and a \$5,000 swing line loan sub-facility.

The borrowings under the Senior Secured Credit Facility bear interest at a rate equal to an applicable margin plus, at the co-borrowers' option, either (a) a base rate determined by reference to the highest of (1) the rate last quoted by the Wall Street Journal as the Prime Rate in the United States, (2) the federal funds rate plus 1/2 of 1% and (3) the LIBOR rate for a one-month interest period plus 1.00% or (b) the higher of (1) a LIBOR rate determined by reference to the costs of funds for deposits in the currency of such borrowing for the interest period relevant to such borrowing adjusted for certain additional costs and (2) 1.75%. The applicable margin is 4.50% with respect to base rate borrowings and 5.50% with respect to LIBOR borrowings.

The loans are secured by substantially all of the Company's assets and are guaranteed by the Company. The agreements contain customary covenants, including reporting and notification. The financial covenants include a Senior Leverage Ratio, Total Leverage Ratio, and an Interest Coverage Ratio. As of September 30, 2010 the Company believes that it was in compliance with its covenants.

In addition to the Senior Secured Credit Facility, the Company issued \$85,000 aggregate principal amount of 13% senior subordinated notes due 2016, or the Senior Subordinated Notes, pursuant to a purchase agreement. Interest on the notes is payable in quarterly installments at the issuer's option at either (i) 13% in cash or (ii) 12% in cash payment plus 2% in the form of additional senior subordinated notes. The Senior Subordinated Notes are non-callable for two years after the closing date after which they are redeemable at 105.0% declining ratably by 1.0% until four years after the closing date. The Senior Subordinated Notes contain a number of significant covenants that, among other things, restrict the Company's ability to dispose of assets, repay other indebtedness, incur additional indebtedness, pay dividends, prepay subordinated indebtedness, incur liens, make capital expenditures, investments or acquisitions, engage in mergers of consolidations, engage in certain types of transactions with affiliates and otherwise restrict the Company's activities.

Proceeds from the Senior Secured Credit Facility and the Senior Subordinated Notes were used to repay \$80,000 of the Company's indebtedness under the GE Credit Agreement plus interest, to repay \$13,900 indebtedness under the

Subordinated Promissory Note plus interest, to repay \$104,100 of indebtedness under the Convertible Note including an early redemption premium of \$7,700 plus accrued interest, and to pay a \$53,900 special cash dividend to the noncontrolling stockholders of MedQuist Inc. The Company expensed \$6,200 of debt issuance costs related to the Senior Secured Credit Facility upon the closing of the Company's new credit facilities in October 2010.

The Company, on October 14, 2010 repaid the 6% convertible note to Philips with accrued interest at a redemption price of 108%, see Note 13.

**Table of Contents****MedQuist Holdings Inc. (formerly CBaySystems Holdings Limited) and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

The effects on the Company's capital structure are estimated to impact the Company's financial position as follows:

	<b>Historical</b>	<b>Effect of</b>	<b>Pro Forma as</b>
	<b>September 30,</b>	<b>refinancing</b>	<b>of September</b>
	<b>2010</b>	<b>and</b>	<b>30,</b>
		<b>dividend</b>	<b>2010</b>
		<b>(unaudited)</b>	
<b>Current portion of long term debt and long term debt</b>	\$ 204,172	\$ 90,949	\$ 295,121
<b>Equity:</b>			
<b>MedQuist Holdings Inc. stockholders' equity</b>			
Common stock \$0.10 par value; authorized 1,000,000 shares; 158,209 shares issued and outstanding	\$ 3,516		\$ 3,516
Additional paid in capital	149,100		149,100
Accumulated deficit	(109,261)	(13,900)	(123,161)
Accumulated other comprehensive loss	(385)		(385)
<b>Total MedQuist Holdings Inc. stockholders' equity</b>	42,970	(13,900)	29,070
Noncontrolling interests	40,598	(53,913)	(13,315)
<b>Total equity</b>	\$ 83,568	\$ (67,813)	\$ 15,755

***Sale of A-Life***

In September 2010, an Agreement and Plan of Merger was executed by A-Life to merge A-Life with Ingenix. The sale was completed on October 27, 2010. Under this transaction, the Company's shares in A-Life were sold to Ingenix for cash consideration of \$23,600, of which \$4,100 will be held in escrow until March 2012. The Company received \$19,500 of cash in November 2010 in connection with the A-Life sale, and upon receipt, the Company had over \$40,000 in cash on-hand and approximately \$295,100 in debt.

***Sale of PFS***

On December 31, 2010, the Company closed on the sale of the assets and liabilities of its Patient Financial Services (PFS) business, a non-strategic asset. The selling price was \$14.8 million, of which \$13.5 million was received in cash and \$1.3 million is in the form of a note payable to us. The note payable has a one-year term and bears interest at 5.25%. The gain on the sale of the discontinued operations is expected to be approximately \$0.7 million.

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

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

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

**Notes to Consolidated Financial Statements (Continued)**

**22. Reverse Stock Split Ratio**

On December 17, 2010, the board of directors of the Company, subject to stockholder approval, approved a reverse stock split of the Company's common stock at a ratio of one share for every 4.5 shares previously held. All shares of common stock and per-share data included in the consolidated financial statements reflect the reverse stock split.

On January 27, 2011, the Company changed its name from CBaySystems Holdings Limited to MedQuist Holdings Inc., redomiciled to a Delaware Corporation and authorized 300,000 shares of common stock, par value \$0.10 per share and 25,000 shares of preferred stock, par value \$0.10 per share. The stockholders approved the reverse stock split on January 10, 2011, and it was effected on January 27, 2011.

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of MedQuist Inc.:

We have audited the accompanying consolidated balance sheets of MedQuist Inc. and subsidiaries as of December 31, 2006 and 2007, and the related consolidated statements of operations, shareholders' equity and other comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MedQuist Inc. and subsidiaries as of December 31, 2006 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 3 and 14 to the consolidated financial statements, effective January 1, 2006, MedQuist Inc. and subsidiaries adopted the fair value method of accounting for stock-based compensation as required by Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*.

As discussed in Note 15 to the consolidated financial statements, effective January 1, 2007, MedQuist Inc. and subsidiaries adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of SFAS No. 109*.

/s/ KPMG LLP

Philadelphia, Pennsylvania  
March 17, 2008

**Table of Contents****MedQuist Inc. and Subsidiaries****Consolidated Statements of Operations**  
(In thousands, except per share amounts)

	<b>Years ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>Net revenues</b>	\$ 353,005	\$ 358,091	\$ 340,342
<b>Operating costs and expenses</b>			
Cost of revenues	315,399	280,273	260,879
Selling, general and administrative	54,558	53,675	62,288
Research and development	9,784	13,219	13,695
Depreciation	17,099	11,802	10,988
Amortization of intangible assets	8,193	5,829	5,511
Cost of investigation and legal proceedings, net	34,127	13,001	6,083
Shareholder securities litigation settlement	7,750		
Impairment charges	148		
Restructuring charges	3,257	3,442	2,756
<b>Total operating costs and expenses</b>	450,315	381,241	362,200
<b>Operating loss</b>	(97,310)	(23,150)	(21,858)
Equity in income of affiliated company	500	874	625
Interest income, net	5,940	7,628	8,366
<b>Loss before income taxes</b>	(90,870)	(14,648)	(12,867)
Income tax provision	20,762	2,294	2,339
<b>Net loss</b>	\$ (111,632)	\$ (16,942)	\$ (15,206)
Loss per share			
Basic	\$ (2.98)	\$ (0.45)	\$ (0.41)
Diluted	\$ (2.98)	\$ (0.45)	\$ (0.41)
Weighted average shares outstanding			
Basic	37,484	37,484	37,488
Diluted	37,484	37,484	37,488

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

**Table of Contents****MedQuist Inc. and Subsidiaries****Consolidated Balance Sheets**  
(In thousands)

	<b>As of December 31,</b>	
	<b>2006</b>	<b>2007</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 175,412	\$ 161,582
Accounts receivable, net	54,778	48,725
Income tax receivable	1,772	815
Deferred income taxes	298	
Other current assets	8,352	7,920
<b>Total current assets</b>	<b>240,612</b>	<b>219,042</b>
Property and equipment, net	20,969	21,366
Goodwill	124,826	125,505
Other intangible assets, net	45,448	42,262
Deferred income taxes	2,378	2,712
Other assets	6,906	6,885
<b>Total assets</b>	<b>\$ 441,139</b>	<b>\$ 417,772</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 10,779	\$ 12,754
Accrued expenses	28,812	18,989
Accrued compensation	15,558	14,826
Customer accommodation and quantification	24,777	18,459
Deferred income tax liability - current		4,783
Deferred revenue	15,202	16,023
<b>Total current liabilities</b>	<b>95,128</b>	<b>85,834</b>
Deferred income taxes	18,034	15,151
Other non-current liabilities	458	2,143
Commitments and contingencies (Note 13)		
<b>Shareholders equity</b>		
Common stock - no par value; authorized 60,000 shares; 37,484 and 37,544 shares issued and outstanding, respectively	235,080	236,412
Retained earnings	87,693	72,876
Deferred compensation	332	
Accumulated other comprehensive income	4,414	5,356



<b>Total shareholders equity</b>	327,519	314,644
<b>Total liabilities and shareholders equity</b>	\$ 441,139	\$ 417,772

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

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**Table of Contents****MedQuist Inc. and subsidiaries****Consolidated Statements of Cash Flows**  
(In thousands)

	<b>Years ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>Operating activities</b>			
Net loss	\$ (111,632)	\$ (16,942)	\$ (15,206)
<b>Adjustments to reconcile net loss to cash (used in) provided by operating activities</b>			
Depreciation and amortization	25,292	17,631	16,499
Equity in income of affiliated company	(500)	(874)	(625)
Write-off and impairment of intangible assets	148		
Deferred income tax provision (benefit)	36,655	5,225	1,878
Stock option expense	37	2,117	565
Stock based compensation Board Members			150
Provision for doubtful accounts	8,111	4,955	4,967
Asset writeoff charges	4,096	767	168
Changes in operating assets and liabilities excluding effects of acquisitions:			
Accounts receivable	(2,749)	11,066	(1,359)
Income tax receivable	(15,981)	19,889	957
Other current assets	1,132	1,666	431
Other non-current assets	600	1,216	646
Accounts payable	(2,583)	92	1,981
Accrued expenses	16,799	(9,366)	(9,378)
Accrued compensation	527	(5,537)	(727)
Customer accommodation and quantification	37,176	(21,121)	(3,723)
Deferred revenue	(3,737)	(3,343)	592
Other non-current liabilities	(1,142)	(2,090)	1,910
Net cash (used in) provided by operating activities	(7,751)	5,351	(274)
<b>Investing activities</b>			
Purchase of property and equipment	(9,535)	(8,191)	(11,639)
Capitalized software	(638)	(58)	(2,035)
Net cash used in investing activities	(10,173)	(8,249)	(13,674)
<b>Financing activities</b>			
Repayment of debt	(25)		
Proceeds from exercise of stock options			10
Net cash provided by (used in) financing activities	(25)		10

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Effect of exchange rate changes on cash	1	39	108
Net decrease in cash and cash equivalents	(17,948)	(2,859)	(13,830)
Cash and cash equivalents beginning of year	196,219	178,271	175,412
Cash and cash equivalents end of year	\$ 178,271	\$ 175,412	\$ 161,582
<b>Supplemental cash flow information</b>			
Cash (recovered) paid for income taxes	\$ 162	\$ (22,381)	\$ (451)
Accommodation payments paid with credits	\$	\$ 980	\$ 2,595

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

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Table of Contents**MedQuist Inc. and Subsidiaries****Consolidated Statements of Shareholders Equity and Other Comprehensive Income (Loss)  
Years Ended December 31, 2005, 2006 and 2007**

(In thousands)

	Common stock		Retained earnings	Deferred compensation	Accumulated	Total
	Shares	Amount			other comprehensive income (loss)	
<b>Balance, January 1, 2005</b>	37,484	\$ 232,926	\$ 216,267	\$ 332	\$ 4,425	\$ 453,950
Comprehensive loss:						
Net loss			(111,632)			(111,632)
Foreign currency translation adjustments					(1,135)	(1,135)
Total comprehensive loss						(112,767)
Employee stock compensation		37				37
<b>Balance, December 31, 2005</b>	37,484	232,963	104,635	332	3,290	341,220
Comprehensive loss:						
Net loss			(16,942)			(16,942)
Foreign currency translation adjustments					1,124	1,124
Total comprehensive loss						(15,818)
Stock-based compensation expense		2,117				2,117
<b>Balance, December 31, 2006</b>	37,484	235,080	87,693	332	4,414	327,519
Comprehensive loss:						
Net loss			(15,206)			(15,206)
Foreign currency translation adjustments					942	942
Total comprehensive loss						(14,264)
Stock-based compensation expense		565				565
Exercise of stock options	4	10				10

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Adoption of FIN 48				389				389
Deferred compensation-stock grants	56	757		(332)				425
<b>Balance, December 31, 2007</b>	37,544	\$ 236,412	\$ 72,876	\$	\$	5,356	\$	314,644

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

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**MedQuist Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**(In thousands, except per share amounts)**

**1. Description of business**

We are a provider of medical transcription technology and services which are integral to the clinical documentation workflow. We service health systems, hospitals and large group medical practices throughout the U.S. In the clinical documentation workflow, we provide, in addition to medical transcription technology and services, digital dictation, speech recognition and electronic signature services. We are a member of the Philips Group of Companies and collaborate with Philips Medical Systems in product development. On November 2, 2007, our majority shareholder, Koninklijke Philips Electronics N.V. (Philips), announced that it was going to proceed with the sale of its ownership interest in us if a satisfactory price and other acceptable terms can be realized. In addition, on November 2, 2007 we announced, in light of Philips' announcement, that our board of directors, in connection with its previously disclosed review of our strategic alternatives, is evaluating whether a sale of us is in our best interests and the best interests of our shareholders.

**2. Introductory note**

In November 2003, one of our employees raised allegations that we had engaged in improper billing practices. In response, our board of directors undertook an independent review of these allegations and engaged the law firm of Debevoise and Plimpton LLP, who in turn retained PricewaterhouseCoopers LLP, to assist in the review (Review). On March 16, 2004, we announced that we had delayed the filing of our 2003 annual report on Form 10-K pending completion of the Review. Subsequently, on March 25, 2004, we filed a Form 8-K detailing our determination that the Review would not be completed by the March 30, 2004 filing deadline for our 2003 Form 10-K. As a result of our noncompliance with the U.S. Securities and Exchange Commission's (SEC) periodic disclosure requirements, our common stock was delisted from the NASDAQ National Market on June 16, 2004.

On July 30, 2004, we issued a press release entitled "MedQuist Announces Key Findings Of Independent Review Of Client Billing," which announced certain findings in the Review regarding our billing practices (July 2004 Press Release). The Review found, among other things, that with respect to our medical transcription services contracts that called for billing based on the AAMT line billing unit of measure, we used ratios and formulae to help calculate the number of AAMT transcription lines for which our customers (AAMT Customers) were billed rather than counting each of the relevant characters to determine a billable line as provided for in the contracts. With respect to these contracts, our use of ratios and formulae to arrive at AAMT line counts was generally not disclosed to our AAMT Customers.

The AAMT line unit of measure was developed in 1993 by three medical transcription industry groups, including the American Association for Medical Transcription (AAMT), in an attempt to standardize industry billing practices for medical transcription services. Following the development of the AAMT line unit of measure, customers increasingly began to request AAMT line billing. Accordingly, we, along with other vendors in the medical transcription industry, began to incorporate the AAMT line unit of measure into certain customer contracts. The AAMT line definition provides that a line consists of 65 characters and defined the term character to include such things as macros and function keys as well as other information necessary for the final appearance and content of a document. However, these definitions turned out to be inherently ambiguous and difficult to apply in practice. As a result, the AAMT line was applied inconsistently throughout the medical transcription industry. In fact, no single set of AAMT characters was ever defined or agreed upon for this unit of measure, and it was eventually renounced by the groups responsible for its development.

The Review concluded that our rationale for using ratios and formulae to determine the number of AAMT transcription lines for billing was premised on a good faith attempt to adopt a consistent and commercially reasonable billing method given the lack of common standards in the industry and ambiguities inherent in the AAMT line definition. The Review concluded that the use of ratios and formulae within the medical transcription platform setups may have resulted in over billing and under billing of some customers. In addition, in some instances, customers' ratios and formulae were adjusted without disclosure to the AAMT Customers. However, the Review found no evidence that the amounts we billed AAMT Customers were, in general, commercially unfair or

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**MedQuist Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

inconsistent with what competitors would have charged. Moreover, it was noted in the Review that we have been able to attract and retain customers in a competitive market.

Following the issuance of the July 2004 Press Release, we began an extensive review of our historical AAMT line billing (Management's Billing Assessment) and in August 2004 informed our current and former customers that we would be contacting them to discuss how they might have been impacted. In response, several former and current customers, including some of our largest customers, contacted us requesting, among other things, (i) an explanation of the billing methods employed by us for the customer's account; (ii) an individualized review of the customer's past billings, and/or (iii) a meeting with a member of our management team to discuss the July 2004 Press Release as it pertained to the customer's particular account. Some customers demanded an immediate refund or credit to their account; others threatened to withhold payment on invoices and/or take their business elsewhere unless we timely responded to their information and/or audit requests.

In response to our customers' concern over the July 2004 Press Release, we made the decision to take action to try to avoid litigation and preserve and solidify our customer business relationships by offering a financial accommodation to our AAMT Customers. See Note 4.

Disclosure of the findings of the Review, along with the delisting of our common stock, precipitated a number of governmental investigations and civil lawsuits. See Note 13.

**3. Significant accounting policies**

***Principles of consolidation***

Our consolidated financial statements include the accounts of MedQuist Inc. and its subsidiary companies. All intercompany balances and transactions have been eliminated in consolidation.

***Use of estimates and assumptions in the preparation of consolidated financial statements***

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in our consolidated financial statements. Significant items subject to such estimates and assumptions include the carrying amount of property and equipment, valuation of long-lived and intangible assets and goodwill, valuation allowances for receivables, inventories and deferred income taxes, revenue recognition, stock-based compensation and commitments and contingencies. Actual results could differ from those estimates.

***Revenue recognition***

We follow revenue recognition criteria outlined in Staff Accounting Bulletin (SAB) 101, *Revenue Recognition in Financial Statements*, as amended by SAB 104. The majority of our revenues are derived from providing medical transcription services. Revenues for medical transcription services are recognized when the services are rendered. These services are based on contracted rates. The remainder of our revenues are derived from the sale of voice-capture and document management products including software, hardware and implementation, training and maintenance service related to these products.



We recognize software and software-related revenues pursuant to the requirements of American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 97-2 *Software Revenue Recognition* (SOP 97-2), as amended by SOP 98-9, *Software Revenue Recognition, With Respect to Certain Transactions*, SOP 81-1, *Accounting for Performance of Construction-type and Certain Production-type Contracts*, Emerging Issues Task Force (EITF) 00-03 *Application of AICPA Statement of Position 97-2 to Arrangements That Include the Right to Use Software Stored on Another Entity's Hardware*, EITF 03-05 *Applicability of AICPA Statement of Position 97-2 to Non-Software Deliverables in an Arrangement Containing More-Than-Incidental Software* and other authoritative accounting guidance.

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**MedQuist Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

We recognize software-related revenues using the residual method when vendor-specific objective evidence (VSOE) of fair value exists for all of the undelivered elements in the arrangement, but does not exist for one or more delivered elements. We allocate revenues to each undelivered element based on its respective fair value determined by the price charged when that element is sold separately or, for elements not yet sold separately, the price established by management if it is probable that the price will not change before the element is sold separately. We defer revenues for the undelivered elements and recognize the residual amount of the arrangement fee, if any, when the basic criteria in SOP 97-2 have been met.

Under SOP 97-2, provided that the arrangement does not involve significant production, modification, or customization of the software, revenues are recognized when all of the following four criteria have been met; persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is probable.

If at the outset of an arrangement, we determine that the arrangement fee is not fixed or determinable, revenues are deferred until the arrangement fee becomes due and payable by the customer. If at the outset of an arrangement we determine that collectability is not probable, revenues are deferred until payment is received. Our license agreements typically do not provide for a right of return other than during the standard warranty period. If an arrangement allows for customer acceptance of the software or services, we defer revenues until the earlier of customer acceptance or when the acceptance rights lapse.

We separately market and sell hardware and software post contract customer support (PCS). PCS covers phone support, hardware parts and labor, software bug fixes and limited upgrades, if and when available. We do not commit to specific future software upgrades or releases. The contract period for PCS is generally one year. We recognize both hardware and software PCS on a straight line basis over the life of the underlying PCS contract. In some of our PCS contracts, we bill the customer prior to performing the services. As of December 31, 2006 and 2007, deferred PCS revenues of \$12,235 and \$11,494, respectively, are included in deferred revenues and \$450 and \$221, respectively, are included in non-current liabilities in the accompanying consolidated balance sheets.

Certain arrangements include multiple elements involving software, hardware and implementation, training, or other services that are not essential to the functionality of the software. VSOE for services does not exist. Since the undelivered elements are typically services, we recognize the entire arrangement fee ratably over the period during which the services are expected to be performed or the PCS period, whichever is longer, beginning with delivery of the software, provided that all other revenue recognition criteria in SOP 97-2 are met. The services are typically completed before the PCS term expires. As such, upon completion of the services, the difference between the VSOE of fair value for the remaining PCS period and the remaining unrecognized portion of the arrangement fee is recognized as revenue (i.e. the residual method), and the remaining deferred revenue is recognized ratably over the remaining PCS period, provided that all other revenue recognition criteria in SOP 97-2 are met.

***Sales taxes***

We present taxes assessed by a governmental authority including sales, use, value added and excise taxes on a net basis and therefore the presentation of these taxes is excluded from our revenues and is included in accrued expenses in the accompanying consolidated balance sheets until such amounts are remitted to the taxing authorities.

***Accounting for consideration given to a customer***

As a result of the Accommodation Analysis (which is described in Note 4), we offered financial accommodations to our customers. Pursuant to EITF Issue 01-9, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)* (EITF 01-9), consideration given by a vendor to a customer is presumed to be a reduction of the selling price of the vendor's services and, therefore, should be characterized as

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**MedQuist Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

a reduction of revenues when recognized in the vendor's income statement. For the years ended December 31, 2005, 2006 and 2007, \$57,678, \$10,402 and \$0, respectively, was recorded as a reduction of revenues related to the Accommodation Analysis.

***Litigation and settlement costs***

From time to time, we are involved in litigation, claims, contingencies and other legal matters. We record a charge equal to at least the minimum estimated liability for a loss contingency when both of the following conditions are met: (i) information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements and (ii) the range of the loss can be reasonably estimated. We expense legal costs, including those legal costs expected to be incurred in connection with a loss contingency, as incurred.

***Services provided by independent registered public accountant***

Services provided by our independent registered public accounting firm are expensed as the services are provided and were \$1,254, \$6,429, and \$6,840 for the years ended December 31, 2005, 2006 and 2007, respectively.

***Restructuring costs***

A liability for restructuring costs associated with an exit or disposal activity is recognized and measured initially at fair value when the liability is incurred. We record a liability for severance costs when employees are notified that they are to be terminated and for future, non-cancellable operating lease costs when we vacate a facility.

Our estimates of future liabilities may change, requiring us to record additional restructuring charges or reduce the amount of liabilities recorded. At the end of each reporting period, we evaluate the remaining accrued restructuring charges to ensure their adequacy, that no excess accruals are retained and the utilization of the provisions are for their intended purposes in accordance with developed exit plans.

We periodically evaluate currently available information and adjust our accrued restructuring charges as necessary. Changes in estimates are accounted for as restructuring costs or credits in the period identified.

***Research and development costs***

Research and development costs are expensed as incurred.

***Income taxes***

Deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements, using statutory tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in our statements of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized. Management considers various sources of future taxable income including projected book earnings, the reversal of deferred tax liabilities, and prudent and feasible tax planning strategies in determining the need for a

valuation allowance.

***Stock-Based compensation***

On January 1, 2006, we adopted the fair value recognition provisions of Financial Accounting Standards Board (FASB) Statement 123 (revised 2004), *Share-Based Payment*, (Statement 123(R)), using the modified prospective transition method which requires application of Statement 123(R) on the date of adoption and, therefore, we

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**Table of Contents****MedQuist Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

have not retroactively adjusted results from periods prior to 2006. Under the modified prospective transition method, compensation costs associated with share-based awards recognized in 2006 include compensation costs for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant-date fair value previously estimated in accordance with the provisions of FASB Statement 123, *Accounting for Stock-Based Compensation* (Statement 123). Had we granted options in 2006, the compensation costs for those options would have been based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R). In March 2005, the SEC issued SAB 107 (SAB 107) which provided supplemental guidance related to Statement 123(R). We have applied the provisions of SAB 107 in our adoption of Statement 123(R).

Statement 123(R) requires companies to estimate the fair value of stock options on the date of grant using an option pricing model. We use the Black-Scholes option pricing model to determine the fair value of our options. The determination of the fair value of stock based awards using an option pricing model is affected by a number of assumptions including expected volatility of the common stock over the expected term, the expected term, the risk free interest rate during the expected term and the expected dividends to be paid. The value of the portion of the award that is ultimately expected to vest is recognized as compensation expense over the requisite service periods.

Stock-based compensation expense related to employee stock options recognized under Statement 123(R) for 2006 and 2007 was \$2,117 and \$565 which was charged to selling, general and administrative expenses (\$562 and \$255), research and development expenses (\$240 and \$91) and cost of revenues (\$1,315 and \$219). Included in the \$2,117 and \$565 is \$194 and \$120, respectively, of expense related to options that were issued to certain executive officers when we became current in our periodic reporting obligations with the SEC in October 2007. As of December 31, 2007, total unamortized stock-based compensation cost related to non-vested stock options, net of expected forfeitures, was \$1,371 which is expected to be recognized over a weighted-average period of 4.7 years.

Prior to the adoption of Statement 123(R), we accounted for stock-based awards to employees and directors using the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion 25, *Accounting for Stock Issued to Employees* (APB 25), as allowed under Statement 123. Under the intrinsic value method, no compensation expense for employee stock options was recognized in our consolidated statements of operations because the exercise price of the stock options granted to employees was greater than or equal to the fair market value of the underlying stock at the date of grant.

The following table illustrates the pro forma effect on net loss and loss per share amounts for the year ended December 31, 2005 as if we had applied the fair-value recognition provisions of Statement 123 to stock-based employee compensation.

Net loss	\$ (111,632)
Add: Stock-based employee compensation expense included in reported net loss	37
Deduct: Total stock-based employee compensation expense determined under fair-value based method for all awards	(3,487)
Pro forma net loss	\$ (115,082)

Basic net loss per share:	
As reported	\$ (2.98)
Pro forma	\$ (3.07)
Diluted net loss per share:	
As reported	\$ (2.98)
Pro forma	\$ (3.07)

We did not grant any options for the years ended December 31, 2005 and 2006.

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**Table of Contents****MedQuist Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)*****Net loss per share***

Basic net loss per share is computed by dividing net loss by the weighted average number of shares outstanding during each period. Diluted net loss per share is computed by dividing net loss by the weighted average shares outstanding, as adjusted for the dilutive effect of common stock equivalents, which consist only of stock options, using the treasury stock method.

The table below reflects basic and diluted net loss per share for the years ended December 31:

	<b>2005</b>	<b>2006</b>	<b>2007</b>
Net loss	\$ (111,632)	\$ (16,942)	\$ (15,206)
Weighted average shares outstanding:			
Basic	37,484	37,484	37,488
Effect of dilutive stock			
Diluted	37,484	37,484	37,488
Net loss per share:			
Basic and diluted	\$ (2.98)	\$ (0.45)	\$ (0.41)

The computation of diluted net loss per share does not assume conversion, exercise or issuance of shares that would have an anti-dilutive effect on diluted net loss per share. During 2005, 2006 and 2007, we had a net loss. As a result, any assumed conversions would result in reducing the net loss per share and, therefore, are not included in the calculation. Shares having an anti-dilutive effect on net loss per share and, therefore, excluded from the calculation of diluted net loss per share, totaled 3,432 shares, 2,150 shares and 2,298 shares for the years ended December 31, 2005, 2006 and 2007, respectively.

***Advertising costs***

Advertising costs are expensed as incurred and for the years ended December 31, 2005, 2006 and 2007 were \$2,098, \$1,903 and \$1,674, respectively.

***Cash and cash equivalents***

We consider all highly liquid instruments with original maturities of three months or less to be cash equivalents. Our cash management and investment policies dictate that cash equivalents be limited to investment grade, highly liquid securities. We place our temporary cash investments with high-credit rated, quality financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. Consequently, our cash equivalents are subject to potential credit risk. As of December 31, 2006 and 2007, cash equivalents consisted of money market investments. The carrying value of cash and cash equivalents approximates fair value.



*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 for losses inherent in our accounts receivable portfolio. The sales return and allowance reserve is our best estimate of sales credits that will be issued related to our accounts receivable portfolio. These allowances are used to state trade receivables at estimated net realizable value.

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**MedQuist Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

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

We enter into medical transcription service arrangements which contain provisions for performance penalties in the event certain service levels, primarily related to turn-around time on transcribed reports, are not achieved. We reduce revenues for any performance penalties incurred and have included an estimate of such credits in our allowance for uncollectible accounts.

Product revenues for sales to end-user customers and resellers is recognized upon passage of title if all other revenue recognition criteria have been met. End-user customers generally do not have a right of return. We provide certain of our resellers and distributors with limited rights of return of our products. We reduce revenues for rights to return our product based upon our historical experience and have included an estimate of such credits in our allowance for doubtful accounts.

***Inventories***

Inventories, which are primarily comprised of finished goods, are stated at the lower of cost or market, with cost determined on a weighted-average basis. Inventories in excess of anticipated future demand or for obsolete products are reserved. As of December 31, 2006 and 2007, the net inventory balances were \$2,608 and \$2,011, respectively, and are included in other current assets in the accompanying consolidated balance sheets.

***Property and equipment***

Property and equipment are stated at cost less accumulated depreciation. 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. Repairs and maintenance costs are charged to expense as incurred while additions and betterments are capitalized. Gains or losses on disposals are charged to operations. Upon retirement, sale or other disposition, the related cost and accumulated depreciation are eliminated from the accounts and any gain or loss is included in operations.

***Goodwill***

Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired in a purchase business combination. Goodwill is reviewed for impairment on December 1 of each year.

The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). We consider three methods when determining fair value; the discounted cash flow method, the quoted price method and the public company method. Of these three methods, we assign the most significant weighting to the discounted cash flow method. If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test. Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with FASB Statement 141, *Business Combinations*. The residual fair value after this allocation is the

implied fair value of the reporting unit's goodwill.

***Software development***

We capitalize software development costs pursuant to the requirements of FASB Statement 86, *Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed* (Statement 86), for our software developed

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**MedQuist Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

for sale and AICPA SOP 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for internal Use* (SOP 98-1), for our software developed for internal use.

Statement 86 specifies that costs incurred in creating a computer software product shall be charged to expense when incurred as research and development until technical feasibility has been established. Technical feasibility is established upon completion of a detail program design or, in its absence, completion of a working model. Thereafter, all software production costs shall be capitalized until the product is available for release to customers.

SOP 98-1 specifies that software costs incurred in the preliminary project stage should be expensed as incurred. Capitalization of costs should begin when the preliminary project stage is completed and management, with the relevant authority, authorizes and commits funding of the project and it is probable that the project will be completed and the software will be used to perform the function intended. Capitalization should cease no later than the point at which the project is substantially complete and ready for its intended use.

Capitalized software is reported at the lower of unamortized cost or net realizable value and is amortized over the product's estimated economic life which is generally three years. As of December 31, 2006 and 2007, \$485 and \$2,343, respectively, of unamortized software development costs are included in other intangible assets in the accompanying consolidated balance sheets. For the years ended December 31, 2005, 2006 and 2007, software amortization expense was \$336, \$262 and \$360, respectively.

***Long-Lived and other intangible assets***

Long-lived assets, including property and equipment and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. To determine the recoverability of long-lived assets, the estimated future undiscounted cash flows expected to be generated by an asset is compared to the carrying value of the asset. If the carrying value of the long-lived asset exceeds its estimated future undiscounted cash flows, an impairment charge is recognized in the amount by which the carrying value of the asset exceeds its fair value. Annually we evaluate the reasonableness of the useful lives of these assets.

Intangible assets include certain assets (primarily customer lists) obtained from business acquisitions and are being amortized using the straight-line method over their estimated useful lives which range from three to 20 years.

***Foreign currency translation***

Our operating subsidiaries in the United Kingdom and Canada use the local currency as their functional currency. We translate the assets and liabilities of those entities into U.S. dollars using the month-end exchange rate. We translate revenues and expenses using the average exchange rates prevailing during the reporting period. The resulting translation adjustments are recorded in accumulated other comprehensive income within shareholders' equity. Gains and losses from foreign currency transactions are included in net loss and were not material for the years ended December 31, 2005, 2006 and 2007, respectively.

***Business enterprise segments***

We operate in one reportable operating segment which is medical transcription technology and services.

***Concentration of risk, geographic data and enterprise-wide disclosures***

No single customer accounted for more than 10% of our net revenues in any period. There is no single geographic area of significant concentration other than the United States.

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**Table of Contents****MedQuist Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

The following table summarizes the net revenues by the categories of our products and services as a percentage of our total net revenues.

	2005	2006	2007
Medical transcription	79.5%	83.8%	83.3%
Products and related services	8.1%	4.6%	4.7%
PCS	9.3%	8.5%	8.2%
Other	3.1%	3.1%	3.8%
Total	100.0%	100.0%	100.0%

Other includes medical coding, application service provider and other miscellaneous revenues.

***Fair value of financial instruments***

Cash and cash equivalents, accounts receivable, accounts payable and accrued expenses are reflected in the accompanying consolidated balance sheets at carrying values which approximate fair value due to the short-term nature of these instruments and the variability of the respective interest rates where applicable.

***Comprehensive income/loss***

Comprehensive income is comprised of Net income and Other comprehensive income/loss.

Other comprehensive income/loss consists of foreign currency translation adjustments. Other comprehensive income/loss and comprehensive income are displayed separately in the Consolidated Statements of Shareholders Equity and Other Comprehensive Income.

***Recent accounting pronouncements***

In September 2006, the FASB issued Statement 157, *Fair Value Measurements*, (Statement 157) which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. Statement 157 does not require any new fair value measurements. The provisions of this statement are effective for fiscal years beginning after November 15, 2007. On February 12, 2008, the FASB delayed the effective date of Statement 157 for non-financial assets and liabilities until fiscal years beginning after November 15, 2008. We do not expect the adoption of Statement 157 to have a material impact on our consolidated financial statements.

In February 2007, the FASB issued Statement 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement 115* (Statement 159) which permits entities to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings at each subsequent reporting date. The following balance sheet items are within the scope of Statement 159:

- n Recognized financial assets and financial liabilities unless a special exception applies;
- n Firm commitments that would otherwise not be recognized at inception and that involve only financial instruments;
- n Non-financial insurance contracts; and
- n Host financial instruments resulting from separation of an embedded non-financial derivative instrument from a non-financial hybrid instrument

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**MedQuist Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

Statement 159 will be effective for fiscal years beginning after November 2007 with early adoption possible but subject to certain requirements. We do not expect the adoption of Statement 159 to have a material impact on our consolidated financial statements.

In December 2007, the FASB issued Statement 141(R), *Business Combinations* (Statement 141R). Statement 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. Statement 141R also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Statement 141R will become effective as of the beginning of our fiscal year beginning after December 15, 2008.

In December 2007, the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51* (Statement 160). Statement 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Statement 160 will become effective as of the beginning of our fiscal year beginning after December 15, 2008. We do not believe that Statement 160 will have a material effect on our consolidated financial statements.

**4. Customer accommodation and quantification**

As discussed in Note 2, in connection with our decision to offer financial accommodations to our AAMT Customers, we analyzed our historical billing information and the available report-level data to develop individualized accommodation offers to be made to our AAMT Customers (Accommodation Analysis). This analysis took approximately one year to complete. The methodology utilized to develop the individual accommodation offers was designed to generate positive accommodation outcomes for our AAMT Customers. As such, the methodology was not a calculation of potential over billing nor was it intended as a measure of damages or a reflection of any admission of liability due and owed to our AAMT Customers. Instead, the Accommodation Analysis was a methodology that was developed to arrive at commercially reasonable and fair accommodation offers that would be acceptable to our AAMT Customers without negotiation.

In the fourth quarter of 2005, based on the Accommodation Analysis, our board of directors authorized management to make cash accommodation offers to AAMT customers in the aggregate amount of \$65,413. In 2006, this amount was adjusted by a net additional amount of \$1,157 based on a refinement of the Accommodation Analysis resulting in an aggregate amount of \$66,570. By accepting our accommodation offer, an AAMT Customer must agree, among other things, to release us from any and all claims and liability regarding AAMT line and other billing related issues.

As part of this process, we also conducted an analysis in an attempt to quantify the economic consequences of potentially unauthorized adjustments to AAMT Customers' ratios and formulae within the transcription platform setups (Quantification). This Quantification was calculated to be \$9,835.

Of the authorized cash accommodation amount of \$66,570, \$57,678 and \$1,157 were treated as consideration given by a vendor to a customer and accordingly recorded as a reduction in revenues in 2005 and 2006, respectively. The balance of \$7,735 plus an additional \$2,100 has been accounted for as a billing error associated with the Quantification resulting in a reduction of revenues in various reporting periods from 1999 to 2005.



The goal of our customer accommodation was to reach a settlement with our AAMT Customers. However, the Accommodation Analysis for certain AAMT Customers did not result in positive accommodation outcomes. For certain other customers, the Accommodation Analysis resulted in calculated cash accommodation offers that we believed were insufficient as a percentage of their historical AAMT line billing to motivate such customers to resolve their billing disputes with us. Therefore, in 2006 we modified our customer accommodation to enable us to offer this group of AAMT Customers credits for the purchase of future products and/or services from us over a defined period of time. On July 21, 2006, our board of directors authorized management to make credit

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**Table of Contents****MedQuist Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

accommodation offers up to an additional \$8,676 beyond amounts previously authorized. During 2006, this amount was adjusted by a net additional amount of \$569 based on a refinement of the Accommodation Analysis, resulting in an aggregate amount of \$9,245. In connection with the credit accommodation offers we recorded a reduction in revenues and corresponding increase in accrued expenses of \$9,245 in 2006.

The following is a summary of the financial statement activity related to the customer accommodation and the Quantification which is included as a separate line item in the accompanying consolidated balance sheets as of December 31, 2006 and 2007:

	<b>2006</b>	<b>2007</b>
Beginning balance	\$ 46,878	\$ 24,777
Customer accommodation	10,402	
Payments and other adjustments	(31,523)	(3,723)
Credits	(980)	(2,595)
Ending balance	\$ 24,777	\$ 18,459

**5. Cost of investigation and legal proceedings, net**

For the years ended December 31, 2005, 2006 and 2007, we recorded a charge of \$34,127, \$13,001 and \$6,083, respectively, for costs associated with the Review, Management's Billing Assessment as well as defense and other costs associated with the SEC and U.S. Department of Justice (DOJ) investigations and civil litigation that we deemed to be unusual in nature. These costs are net of insurance claim reimbursements. We record insurance claims when the realization of the claim is probable. The following is a summary of the amounts recorded in the accompanying consolidated statements of operations:

	<b>2005</b>	<b>2006</b>	<b>2007</b>
Legal fees	\$ 20,858	\$ 14,427	\$ 18,678
Other professional fees	9,789	4,787	2,592
Nightingale and Associates, LLC (Nightingale) services	3,207	3,005	197
Insurance recoveries and claims		(9,409)	(15,386)
Other	273	191	2
Total	\$ 34,127	\$ 13,001	\$ 6,083

Other professional fees represent accounting and dispute analysis costs and document search and retrieval costs. In 2006, insurance recoveries and claims represent insurance recoveries (\$8,702) and insurance claims (\$707). The

insurance claims were recorded in other current assets in the accompanying consolidated balance sheet as of December 31, 2006 and payment related to these claims was received in the first quarter of 2007. During 2007 we recorded (\$15,386) in additional insurance recoveries and received payment of this entire amount in 2007.

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**Table of Contents****MedQuist Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****6. Restructuring charges*****2005 restructuring plan***

During 2005, we implemented a restructuring plan (2005 Plan) based on the implementation of a centralized national service delivery model. The 2005 Plan involved the consolidation of operating facilities and a related reduction in workforce. The table below reflects the financial statement activity related to the 2005 Plan which is included in accrued expenses in the accompanying consolidated balance sheets as of December 31, 2006 and 2007:

	<b>Total</b>	<b>Non-cancelable leases</b>	<b>Severance</b>	<b>Equipment</b>
Balance as of January 1, 2006	\$ 2,050	\$ 1,693	\$ 357	\$
Additional charge	3,442	1,653	1,447	342
Usage	(4,780)	(2,698)	(1,740)	(342)
Balance as of December 31, 2006	712	648	64	
Additional Charge	493	322	146	25
Usage	(1,079)	(844)	(210)	(25)
Balance as of December 31, 2007	\$ 126	\$ 126	\$	\$

Payments related to the 2005 Plan were made in 2007 for severance and non-cancelable leases. The remainder of payments related to the 2005 Plan will be made by 2009 for non-cancelable leases.

***2007 restructuring plans***

During the third quarter of 2007, we implemented a restructuring plan related to a reduction in workforce of 104 employees as a result of the refinement of our centralized national services delivery model. In addition, during the fourth quarter of 2007 we implemented a restructuring plan related to an additional reduction in workforce of 183 employees attributable to our efforts to reduce costs. We recorded \$2,263 in severance charges related to the 2007 restructuring plans. The remaining restructuring costs are included in accrued expenses in the accompanying consolidated balance sheet as of December 31, 2007. The table below reflects the financial statement activity related to the 2007 restructuring plans for the year ended December 31, 2007:

Initial charge	\$ 2,263
Usage	(770)

Balance as of December 31, 2007

\$ 1,493

The remainder of payments related to the 2007 restructuring plans will be made in 2008.

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**Table of Contents****MedQuist Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****7. Accounts receivable**

Accounts receivable consisted of the following as of December 31:

	<b>2006</b>	<b>2007</b>
Trade accounts receivable	\$ 59,272	\$ 53,084
Less: Allowance for doubtful accounts	(4,494)	(4,359)
Accounts receivable, net	\$ 54,778	\$ 48,725

**8. Property and equipment**

Property and equipment consisted of the following as of December 31:

	<b>2006</b>	<b>2007</b>
Computer equipment	\$ 28,541	\$ 27,610
Communication equipment	6,602	6,932
Software	18,002	20,889
Furniture and office equipment	1,586	1,650
Leasehold improvements	4,076	3,057
Total property and equipment	58,807	60,138
Less: accumulated depreciation	(37,838)	(38,772)
Property and equipment, net	\$ 20,969	\$ 21,366

During 2006, we recorded a write-off of \$767 which was allocated between cost of revenues (\$425) and restructuring charges related to the 2005 Plan (\$342). In the fourth quarter of 2005, based upon an inventory of fixed assets, we recorded a write-off of \$4,070 (original cost \$29,116 less accumulated depreciation \$25,046). This expense was allocated between cost of revenues (\$3,851) and restructuring charges related to the 2005 Plan (\$219). In addition, during 2005 approximately \$50,832 in fully depreciated assets no longer in use were written off which had no impact on net loss.

**9. Goodwill and other intangible assets*****Goodwill***

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The following table reflects the financial statement activity related to the carrying amount of goodwill as of December 31, 2006 and 2007:

Balance as of January 1, 2006	\$ 123,849
Foreign currency adjustments	977
Balance as of December 31, 2006	124,826
Foreign currency adjustments	679
Balance as of December 31, 2007	\$ 125,505

The foreign currency adjustments reflect changes in the period-end currency rates of our foreign subsidiaries.

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**Table of Contents****MedQuist Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)*****Other intangible assets***

As of December 31, other intangible asset balances were:

	<b>Cost</b>	<b>2006 Accumulated amortization</b>	<b>Net book value</b>
Customer lists	\$ 77,185	\$ (32,654)	\$ 44,531
Noncompete agreements	4,559	(4,559)	
Tradenames	5,325	(4,893)	432
Capitalized software	2,597	(2,112)	485
Total	\$ 89,666	\$ (44,218)	\$ 45,448

	<b>Cost</b>	<b>2007 Accumulated amortization</b>	<b>Net book value</b>
Customer lists	\$ 77,331	\$ (37,412)	\$ 39,919
Tradenames	5,325	(5,325)	
Capitalized software	4,815	(2,472)	2,343
Total	\$ 87,471	\$ (45,209)	\$ 42,262

The estimated useful life and the weighted average remaining lives of the intangible assets as of December 31, 2007 were as follows:

	<b>Estimated useful life</b>	<b>Weighted average Remaining lives</b>
Customer lists	10 - 20 years	10.7 years
Capitalized software	3 years	2.7 years

Estimated annual amortization expense for intangible assets is as follows:



2008	\$ 5,693
2009	5,479
2010	5,328
2011	4,584
2012	3,634
Thereafter	17,544
Total	\$ 42,262

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**Table of Contents****MedQuist Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****10. Contractual obligations*****Leases***

Minimum rental payments under operating leases are recognized on a straight-line basis over the term of the lease, including any periods of free rent and landlord incentives. Rental expense for operating leases for the years ended December 31, 2005, 2006 and 2007 was \$5,710, \$4,089 and \$2,489, respectively. Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2007 were:

	<b>Total</b>	<b>Continuing</b>	<b>Restructuring</b>
2008	\$ 4,650	\$ 4,571	\$ 79
2009	3,809	3,768	41
2010	3,419	3,419	
2011	2,212	2,212	
2012 and thereafter	1,642	1,642	
Total minimum lease payments	\$ 15,732	\$ 15,612	\$ 120

***Other Contractual Obligations***

The following summarizes our other contractual obligations as of December 31, 2007:

	<b>Total</b>	<b>Purchase</b>	<b>Severance and other guaranteed payments</b>
2008	\$ 8,328	\$ 5,650	\$ 2,678
2009	5,400	5,400	
2010	5,400	5,400	
2011	4,027	4,027	
2012 and thereafter	947	947	
Total	\$ 24,102	\$ 21,424	\$ 2,678

Purchase obligations represent telecommunication contracts (\$21,174), and other recurring purchase obligations (\$250). Severance and other guaranteed payments are comprised of severance payments (\$1,493), employee retention

payments (\$785) and amounts owed to Nightingale (\$400).

As of December 31, 2007, we had agreements with certain of our senior management that provided for severance payments in the event these individuals were terminated without cause. The maximum cost exposure related to these agreements was \$1,207 as of December 31, 2007.

As of December 31, 2007, we had agreements with certain of our senior management other than our President and Chief Executive Officer that provided for payments to such individuals in the event we are able to successfully complete a strategic transaction and such individuals remained employed by us (or the successor company as the case may be) for the 90-day period immediately following the closing of the strategic transaction or such individuals experience an involuntary termination at any time during such 90-day period. The maximum cost exposure related to these agreements was \$504 as of December 31, 2007.

As of December 31, 2007, we had an agreement with Nightingale that provided for a payment to Nightingale in the event we are able to successfully complete a strategic transaction and Mr. Hoffmann continues to serve as our

**Table of Contents****MedQuist Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

President and Chief Executive Officer for the 90-day period immediately following the closing of a strategic transaction or Nightingale's engagement with us (or any successor to our business), including the retention of Mr. Hoffmann as our President and Chief Executive Officer (or any successor to our business), is terminated upon the closing of a strategic transaction or during such 90-day period. The maximum cost exposure related to this agreement was \$133 as of December 31, 2007.

**11. Investment in A-Life Medical, Inc. (A-Life)**

We have an investment in A-Life, a privately held entity which provides advanced natural language processing technology for the medical industry. Our investment is recorded under the equity method of accounting since we owned 33.6% of A-Life's outstanding voting shares as of December 31, 2006 and 2007. The table below reflects the financial statement activity related to A-Life as of December 31, 2006 and 2007 that is recorded in other assets in the accompanying consolidated balance sheets.

Balance as of January 1, 2006	\$ 5,015
Share in income	874
Balance as of December 31, 2006	5,889
Share in income	625
Reclassification	(498)
Balance as of December 31, 2007	\$ 6,016

Our investment in A-Life included a note receivable plus accrued interest due from A-Life which matured on December 31, 2003. Prior to 2007, this note receivable and accrued interest had been recorded in other assets. In January 2008, A-Life paid us \$1,250 to satisfy this note receivable and accrued interest in full, as well as all other disputes and claims between A-Life and us. Accordingly, we reclassified the note receivable and accrued interest balances to other current assets in the accompanying December 31, 2007 consolidated balance sheet.

**12. Accrued expenses**

Accrued expenses consisted of the following as of December 31:

	<b>2006</b>	<b>2007</b>
Professional services	\$ 4,938	\$ 4,959
Shareholder litigation settlement	7,750	
Other	16,124	14,030
Total accrued expenses	\$ 28,812	\$ 18,989

No other individual accrued expense is in excess of 5% of total current liabilities.

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**MedQuist Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**13. Commitments and contingencies**

***Governmental investigations***

The SEC is currently conducting a formal investigation of us relating to our billing practices. We have been fully cooperating with the SEC since it opened its investigation in 2004. We have complied, and are continuing to comply, with information and document requests by the SEC.

We also received an administrative HIPAA subpoena for documents from the DOJ on December 17, 2004. The subpoena sought information primarily about our provision of medical transcription services to governmental and non-governmental customers. The information was requested in connection with a government investigation into whether we and others violated federal laws in connection with the provision of medical transcription services. We have complied, and are continuing to comply, with information and document requests by the DOJ.

The DOL is currently conducting a formal investigation into the administration of our 401(k) plan. We have been fully cooperating with the DOL since it opened its investigation in 2004. We have complied, and are continuing to comply, with information and document requests by the DOL.

Developments relating to the SEC, DOJ and/or DOL investigations will continue to create various risks and uncertainties that could materially and adversely affect our business and our historical and future financial condition, results of operations and cash flows.

***Shareholder securities litigation***

A shareholder putative class action lawsuit was filed against us in the United States District Court District of New Jersey on November 8, 2004. The action, entitled *William Steiner v. MedQuist, Inc., et al.*, Case No. 1:04-cv-05487-FLW (Shareholder Putative Action), was filed against us and certain of our former officers, purportedly on behalf of an alleged class of all persons who purchased our common stock during the period from April 23, 2002 through November 2, 2004, inclusive (Securities Class Period). The complaint specifically alleged that defendants violated federal securities laws by purportedly issuing a series of false and misleading statements to the market throughout the Securities Class Period, which statements allegedly had the effect of artificially inflating the market price of our securities. The complaint asserted claims under Section 10(b) and 20(a) of the Exchange Act and Rule 10b-5, thereunder. Named as defendants, in addition to us, were our former President and Chief Executive Officer and our former Executive Vice President and Chief Financial Officer.

On August 16, 2005, a First Amended Complaint in the Shareholder Putative Class Action was filed against us in the United States District Court District of New Jersey. The First Amended Complaint named additional defendants, including certain current and former directors, certain of our former officers, our former and current external auditors and Philips. Like the original complaint, the First Amended Complaint asserted claims under Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 thereunder. The Securities Class Period of the original complaint was expanded 20 months to include the period from March 29, 2000 through June 14, 2004. Pursuant to an October 17, 2005 consent order approved by the Court, lead plaintiff Greater Pennsylvania Pension Fund filed a Second Amended Complaint on November 15, 2005. The Second Amended Complaint dropped Philips as a defendant, but alleged the same claims and the same purported class period as the First Amended Complaint. Plaintiffs sought unspecified damages. Pursuant to the provisions of the Private Securities Litigation Reform Act, discovery in the action was stayed pending the filing

and resolution of the defendants' motions to dismiss, which were filed on January 17, 2006, and which were fully briefed as of June 16, 2006. On September 29, 2006, the Court denied our motions to dismiss and the motion to dismiss of the individual defendants. In the same order, the Court granted the motion to dismiss filed by our former and current external auditors. On November 3, 2006, we filed our Answer denying the material allegations contained in the Second Amended Complaint. On March 23, 2007, we entered into a memorandum of understanding and a stipulation of settlement with the lead plaintiff in which we agreed to pay \$7,750 to settle all claims, throughout the class period, against all defendants in the action. We accrued the aforementioned \$7,750 as of December 31, 2005.

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**MedQuist Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

In April 2007, we paid the entire \$7,750 into an escrow account for the eventual distribution to the plaintiffs. On May 16, 2007, the Court issued an Order Preliminarily Approving Settlement and Providing for Notice. The Court conducted a final approval hearing and approved the settlement on August 15, 2007. Neither we nor any of the individuals named in the action has admitted to liability or any wrongdoing in connection with the settlement. On August, 17, 2007, the Court entered final judgment and dismissed the case with prejudice.

***Customer litigation***

A putative class action was filed in the United States District Court for the Central District of California. The action, entitled South Broward Hospital District, d/b/a Memorial Regional Hospital, et al. v. MedQuist, Inc. et al., Case No. CV-04-7520-TJH-VBKx, was filed on September 9, 2004 against us and certain of our present and former officials, purportedly on behalf of an alleged class of non-federal governmental hospitals and medical centers that the complaint claims were wrongfully and fraudulently overcharged for transcription services by defendants based primarily on our use of the AAMT line billing unit of measure. The complaint charged fraud, violation of the California Business and Professions Code, unjust enrichment, conversion, negligent supervision and violation of RICO. Plaintiffs seek damages in an unspecified amount, plus costs and interest, an injunction against alleged continuing illegal activities, an accounting, punitive damages and attorneys' fees. Named as defendants, in addition to us, were one of our senior vice presidents, our former executive vice president of marketing and new business development, our former executive vice president and chief legal officer, and our former executive vice president and chief financial officer.

On December 20, 2004, we and the individual defendants filed motions to dismiss for lack of personal jurisdiction and improper venue, or in the alternative, to transfer the putative action to the United States District Court for the District of New Jersey. On February 2, 2005, plaintiffs filed a Second Amended Complaint both adding and deleting named plaintiffs in an attempt to keep the putative action in the United States District Court for the Central District of California. On March 30, 2005, the United States District Court for the Central District of California issued an order transferring the putative action to the United States District Court District of New Jersey and assigning Case No. 05-CV-2206-JBS-AMD.

On August 1, 2005, we and the individual defendants filed their respective Answers denying the material allegations contained in the Second Amended Complaint. On August 31, 2005, we and the individual defendants filed motions to dismiss the Second Amended Complaint for failure to state a claim and a motion to dismiss in favor of arbitration, or in the alternative, to stay pending arbitration. On December 12, 2005, the plaintiffs filed an Amendment to the Second Amended Complaint. On December 13, 2005, the Court issued an order requiring plaintiffs to file a Third Amended Complaint.

Plaintiffs filed the Third Amended Complaint on January 4, 2006. The Third Amended Complaint expands the claims made beyond issues arising from contracts based on AAMT line billing and beyond customers billed based on an AAMT line, alleging that we engaged in a scheme to inflate customers' invoices without regard to the terms of individual contracts and even in the absence of any written contract. The Third Amended Complaint also limits plaintiffs' claim for fraud in the inducement of the agreement to arbitrate to the three named plaintiffs whose contracts contain an arbitration provision and a subclass of similarly situated customers. On January 20, 2006 we and the individual defendants filed motions to dismiss the Third Amended Complaint for failure to state a claim and a motion to compel arbitration of all claims by the arbitration subclass and to stay the case in its entirety pending arbitration. On March 8, 2006 the Court held a hearing on these motions, and took the matter under submission. On March 30, 2007,



the Court issued an order holding that plaintiffs could not make out a claim that we had violated the federal RICO statute, thus eliminating any claim against us for treble damages. The Court also found that plaintiffs could not make out a claim that we had engaged in any unfair or deceptive acts or practices in violation of state law, or that we had made any negligent misrepresentations to plaintiffs. In its ruling, the Court, without reaching a decision of whether any wrongdoing had occurred, allowed plaintiffs to proceed with their claims against us for fraud, unjust enrichment and an accounting. In its order, the Court denied our motion to compel arbitration regarding those customers whose contracts contained an agreement to arbitrate. We have appealed that decision to the Third Circuit Court of Appeals, and we moved the District Court to stay the matter

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**MedQuist Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

pending that appeal. The District Court heard oral argument on our motion to stay on May 30, 2007 and took the motion under submission.

On December 18, 2007, the Third Circuit entered judgment denying our appeal and affirming the order of the District Court. That same day, the District Court entered an order denying our motion to stay pending appeal as moot and ordering all Initial Disclosures, all class-certification related discovery, and all briefing upon class-certification motion practice completed within three months unless enlarged for good cause. On February 21, 2008, the District Court entered a scheduling order pursuant to which all fact discovery related to class certification must be completed by April 15, 2008 and plaintiffs' motion for class certification must be filed by April 30, 2008. All other fact discovery must be completed by July 31, 2008, and all expert discovery must be completed by October 31, 2008. Dispositive motions must be filed by November 24, 2008. The parties exchanged Initial Disclosures and commenced discovery.

The parties participated in court-ordered mediation in late 2007, but no settlement was reached. The parties continued to explore the possibility of resolving the litigation before trial, and have now reached agreement on settlement terms resolving all claims by the named plaintiffs. Under the parties' agreement, we will make a lump sum payment of \$7,537 to resolve all claims by the individual named plaintiffs and certain other additional putative class members represented by plaintiffs' counsel but not named in the action. We have accrued the entire amount of this lump sum payment, \$5,205 of which was accrued during 2005, in the accompanying consolidated balance sheet as of December 31, 2007. Neither we, nor any of the individual defendants, will admit to any liability or any wrongdoing in connection with the settlement. The District Court has entered a consent order staying the action through April 18, 2008 to allow the parties to finalize the settlement. We anticipate that the parties will execute a final settlement agreement and the case will be dismissed with prejudice in its entirety within the next four to eight weeks. Because the settlement will not be on a class-wide basis, no class will be certified and thus there is no requirement to give notice.

***Medical transcriptionist litigation***

***Hoffmann putative class action***

A putative class action lawsuit was filed against us in the United States District Court for the Northern District of Georgia. The action, entitled Brigitte Hoffmann, et al. v. MedQuist, Inc., et al., Case No. 1:04-CV-3452, was filed with the Court on November 29, 2004 against us and certain current and former officials, purportedly on behalf of an alleged class of current and former employees and statutory workers, who are or were compensated on a per line basis for medical transcription services (Class Members) from January 1, 1998 to the time of the filing of the complaint (Class Period). The complaint specifically alleged that defendants systematically and wrongfully underpaid the Class Members during the Class Period. The complaint asserted the following causes of action: fraud, breach of contract, demand for accounting, quantum meruit, unjust enrichment, conversion, negligence, negligent supervision, and RICO violations. Plaintiffs sought unspecified compensatory damages, punitive damages, disgorgement and restitution. On December 1, 2005, the Hoffmann matter was transferred to the United States District Court for the District of New Jersey. On January 12, 2006, the Court ordered this case consolidated with the Myers Putative Class Action discussed below. As set forth below, we believe that the claims asserted in the consolidated Myers Putative Class Action have no merit and intend to vigorously defend that action.

***Force putative class action***

A putative class action entitled Force v. MedQuist Inc. and MedQuist Transcriptions, Ltd., Case No. 05-cv-2608-WSD, was filed against us on October 11, 2005, in the United States District Court for the Northern District of Georgia. The action was brought on behalf of a putative class of current and former employees who claim they are or were compensated on a per line basis for medical transcription services but were allegedly underpaid due to the actions of defendants. The named plaintiff asserted claims for breach of contract, quantum meruit, unjust enrichment, and for an accounting. Upon stipulation and consent of the parties, on February 17, 2006, the Force matter was ordered

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**MedQuist Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

transferred to the United States District Court for the District of New Jersey. Subsequently, on April 4, 2006, the parties entered into a stipulation and consent order whereby the Force matter was consolidated with the Myers Putative Class Action discussed below, and the consolidated amended complaint filed in the Myers action on January 31, 2006 was deemed to supersede the original complaint filed in the Force matter. As set forth below, we believe that the claims asserted in the consolidated Myers Putative Class Action have no merit and intend to vigorously defend that action.

*Myers putative class action*

A putative class action entitled Myers, et al. v. MedQuist Inc. and MedQuist Transcriptions, Ltd., Case No. 05-cv-4608 (JBS), was filed against us on September 22, 2005 in the United States District Court for the District of New Jersey. The action was brought on behalf of a putative class of our employee and independent contractor transcriptionists who claim that they contracted with us to be paid on a 65 character line, but were allegedly underpaid due to intentional miscounting of the number of characters and lines transcribed. The named plaintiffs asserted claims for breach of contract, unjust enrichment, and request an accounting.

The allegations contained in the Myers case are substantially similar to those contained in the Hoffmann and Force putative class actions and, as detailed above, the three actions have now been consolidated. A consolidated amended complaint was filed on January 31, 2006. In the consolidated amended complaint, the named plaintiffs assert claims for breach of contract, breach of the covenant of good faith and fair dealing, unjust enrichment and demand an accounting. On March 7, 2006 we filed a motion to dismiss all claims in the consolidated amended complaint. The motion was fully briefed and argued on August 7, 2006. The Court denied the motion on December 21, 2006. On January 19, 2007, we filed our answer denying the material allegations pleaded in the consolidated amended complaint.

On May 17, 2007, the Court issued a Scheduling Order, ordering all pretrial fact discovery completed by October 30, 2007. The Court subsequently ordered plaintiffs to file their motion for class certification by December 14, 2007 and continued the date to complete fact discovery to January 14, 2007. On October 18, 2007, the Court heard oral argument on plaintiffs' motion to compel further responses to written discovery regarding our billing practices. At the conclusion of the hearing, the Court denied plaintiffs' motion, finding plaintiffs had not established that the billing discovery sought was relevant to the claims or defenses regarding transcriptionist pay alleged in their case. On December 14, 2007, plaintiffs filed their motion for class certification, identifying a proposed class of all our transcriptionists who were compensated on a per line basis for work completed on MedRite, MTS or DEP transcription platforms from November 29, 1998 to the present and alleging that the proposed class was underpaid by more than \$80 million, not including interest.

On January 4, 2008, the Court entered a Consent Order, ordering our opposition to the motion for class certification to be filed by March 14, 2008, plaintiffs' reply brief to be filed by May 14, 2008 and setting oral argument for June 2, 2008. No date has been set for trial. On January 9, 2008, the Court entered a Consent Order extending the deadline for the parties to complete depositions of identified witnesses through February 15, 2008. We have now deposed each of the named plaintiffs and all witnesses who offered declarations in support of plaintiffs' motion for class certification, and plaintiffs have deposed numerous MedQuist present and former employees. On February 8, 2008, plaintiffs indicated that they will seek leave to file an amended class certification brief to narrow their claims. On February 19, 2008, the parties exchanged their Initial Disclosures. Plaintiffs' disclosures limit their damages estimate to \$41 million related to alleged underpayment on the MedRite transcription platform; however, plaintiffs state that they are

continuing to analyze potential undercounting and will supplement their damages claim. On March 10, 2008, plaintiffs moved for leave to file an amended motion for class certification dropping all allegations involving our DEP transcription platform and narrowing the claims asserted regarding the legacy MTS transcription platform. We did not oppose plaintiffs' motion for leave. On March 11, 2008, the Court granted plaintiffs' motion, ordering us to file our opposition to plaintiffs' amended motion for class certification by April 4, 2008 and ordering plaintiffs to file their reply by May 23, 2008. The hearing date was not changed and oral argument remains set for June 2, 2008. We believe that the claims asserted in the consolidated actions have no merit and intend to vigorously defend the suit.

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**MedQuist Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

***Shareholder derivative litigation***

On October 4, 2005, we announced the dismissal with prejudice of a shareholder derivative action filed in United States District Court for the District of New Jersey. The suit, Rhoda Kanter (Plaintiff) v. Hans M. Barella et al. (Defendants), was filed on November 12, 2004 against Philips and 10 current and former members of our board of directors. We were named as a nominal defendant.

In a ruling dated September 21, 2005, the Court found plaintiff's allegations that our board of directors breached their fiduciary duties to us to be insufficient. The plaintiff had alleged that for a period from 2001 through 2004, the Defendants violated their fiduciary duties by permitting artificial inflation of billing figures; failing to adequately ensure accurate and lawful billing practices; and failing to accurately report our true financial condition in our published financial statements. On October 3, 2005, plaintiff filed a motion for reconsideration of the Court's order dismissing the action with prejudice. On November 16, 2005, the Court denied plaintiff's motion for reconsideration. On December 13, 2005, plaintiff filed a Notice of Appeal with the United States Court of Appeals for the Third Circuit. Plaintiff's appeal was fully briefed as of May 2006, and the Court of Appeals heard oral argument on the appeal on March 1, 2007. Plaintiff's appeal was denied by the Court of Appeals on May 25, 2007.

***Shareholder litigation***

***Costa Brava partnership III, L.P. Shareholder Litigation***

On October 9, 2007, a single count Complaint and an Order to Show Cause were filed against us in the Superior Court of New Jersey, Chancery Division, Burlington County by one of our shareholders. The action, entitled Costa Brava Partnership III, L.P. v. MedQuist Inc. (Bur-C-0149-07), sought to compel us to hold an annual meeting of shareholders (Annual Meeting Claim).

On October 30, 2007, plaintiff requested access under New Jersey law to certain of our books and records. In response to plaintiff's request, we voluntarily provided plaintiff with those books and records that we believed we were required to produce under New Jersey law. Thereafter, on November 9, 2007, plaintiff filed an Amended Complaint to assert a second claim to compel us to provide it with access to certain other books and records (Books and Records Claim). The Annual Meeting Claim and the Books and Records Claim sought equitable relief only.

In December 2007, we agreed to hold our annual meeting of shareholders on December 31, 2007. This resolved the Annual Meeting Claim. Prior to the annual meeting, we voluntarily produced to plaintiff certain additional books and records that plaintiff requested in the Books and Records Claim. Thereafter, on January 24, 2008, we filed an opposition to plaintiff's Order to Show Cause to compel access to the remaining books and records. On February 4, 2008, plaintiff filed a reply brief. The Books and Records Claim has been briefed and the parties are waiting for the Court to schedule a hearing date to resolve the matter. We believe that the books and records requests at issue in the Books and Records Claim are burdensome and overbroad and intend to vigorously defend the action.

***Kahn putative class action***

A shareholder putative class action lawsuit was filed against us in the Superior Court of New Jersey, Chancery Division, Burlington County. The action, entitled Alan R. Kahn v. Stephen H. Rusckowski, et al., Docket No. BUR-C-000007-08, was filed with the Court on January 22, 2008 against us, Philips and our four

non-independent directors, Clement Revetti, Jr., Stephen H. Rusckowski, Gregory M. Sebasky and Scott Weisenhoff. Plaintiff purports to bring the action on his own behalf and on behalf of all current holders of our common stock. The complaint alleges that defendants breached their fiduciary duties of good faith, fair dealing, loyalty, and due care by purportedly agreeing to and initiating a process for our sale or a change of control transaction which will allegedly cause harm to plaintiff and the putative class. Plaintiff seeks damages in an unspecified amount, plus costs and interest, a judgment declaring that defendants breached their fiduciary duties and that any proposed transactions regarding our sale or change of control are void, an injunction preventing our sale or

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**MedQuist Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

any change of control transaction that is not entirely fair to the class, an order directing us to appoint three independent directors to our board of directors, and attorneys' fees and expenses. We have not yet been required to file a responsive pleading. We believe that the claims asserted have no merit and intend to defend the case vigorously.

***Reseller arbitration demand***

On October 1, 2007, we received from counsel to nine current and former resellers of our products (Claimants), a copy of an arbitration demand filed by the Claimants, initiating an arbitration proceeding styled *Diskriter, Inc., Electronic Office Systems, Inc., Milner Voice & Data, Inc., Nelson Systems, Inc., NEO Voice and Communications, Inc., Office Business Systems, Inc., Roach-Reid Office Systems, Inc., Stiles Office Systems, Inc., and Travis Voice and Data, Inc. v. MedQuist Inc. and MedQuist Transcriptions, Ltd.* (filed on September 27, 2007, AAA, Case Number Not Yet Assigned). The arbitration demand purports to set forth claims for breach of contract; breach of covenant of good faith and fair dealing; promissory estoppel; misrepresentation; and tortious interference with contractual relations. The Claimants allege that we breached our written agreements with the Claimants by: (i) failing to provide reasonable training, technical support, and other services; (ii) using the Claimants' confidential information to compete against the Claimants; (iii) directly competing with the Claimants' territories; and (iv) failing to make new products available to the Claimants. In addition, the Claimants allege that we made false oral representations that we: (i) would provide new product, opportunities and support to the Claimants; (ii) were committed to continuing to use Claimants; (iii) did not intend to create our own sales force with respect to the Claimants' territory; and (iv) would stay out of Claimants' territories and would not attempt to take over the Claimants' business and relationships with the Claimants' customers and end-users. The Claimants assert that they are seeking damages in excess of \$24.3 million. The arbitrator has not yet set a date for us to formally respond to the arbitration demand. We deny all wrongdoing and intend to defend ourselves vigorously including asserting counterclaims against the Claimants as appropriate.

***Anthurium patent litigation***

On November 6, 2007, Anthurium Solutions, Inc. filed an action entitled *Anthurium Solutions, Inc. v. MedQuist Inc., et al.*, Civil Action No. 2-07CV-484, in the United States District Court for the Eastern District of Texas, alleging that we infringed and continue to infringe United States Patent No. 7,031,998 through our DEP transcription platform. The complaint also alleges patent infringement claims against Spheris, Inc. and Arrendale Associates, Inc. The complaint seeks injunctive relief and unspecified damages, including enhanced damages and attorneys' fees. We filed our answer on January 15, 2008 and counterclaimed seeking a declaratory judgment of non-infringement and invalidity. No scheduling order has been issued, and no pretrial dates have been set. Our investigation of the claims is ongoing, and we are awaiting plaintiffs' preliminary infringement contentions. We believe that the claims asserted have no merit and intend to vigorously defend the suit.

***Other matters***

From time to time, we have been involved in various claims and legal actions arising in the ordinary course of business. In our opinion, the outcome of such actions will not have a material adverse effect on our consolidated financial position, results of operations, liquidity or cash flows.

We provide certain indemnification provisions within our standard agreement for the sale of software and hardware (collectively, Products) to protect our customers from any liabilities or damages resulting from a claim of U.S. patent, copyright or trademark infringement by third parties relating to our Products. We believe that the likelihood of any



future payout relating to these provisions is remote. Accordingly, we have not recorded any liability in our consolidated financial statements as of December 31, 2006 or 2007 related to these indemnification provisions.

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We had insurance policies which provided coverage for certain of the matters related to the legal actions described herein. We received total insurance recoveries of \$24,795 related to these policies (See Note 5). We do not expect to receive any additional insurance recoveries related to the legal actions described above.

**14. Stock option plans**

Our stock option plans provide for the granting of options to purchase shares of common stock to eligible employees (including officers) as well as to our non-employee directors. Options may be issued with the exercise prices equal to the fair market value of the common stock on the date of grant or at a price determined by a committee of our board of directors. Stock options vest and are exercisable over periods determined by the committee, generally five years, and expire no more than 10 years after the grant.

In July 2004, our board of directors affirmed our June 2004 decision to indefinitely suspend the exercise and future grant of options under our stock option plans. Ten former executives separated from us in 2004 and 2005. Notwithstanding the suspension, to the extent such executives held options that were vested as of their resignation date, such options remain exercisable for the post-termination period, generally 90 days, commencing on the date that the suspension is lifted for the exercise of options. This suspension was lifted on October 4, 2007. There were 704 shares that qualified for this post-termination exercise period. A summary of these remaining post-termination options as of December 31, 2007 is as follows:

Range of exercise prices	Options exercisable		
	Number of shares	Intrinsic value	Average exercise price
\$ 2.71-\$10.00	31	\$ 161	\$ 5.71
\$10.01-\$20.00	142		\$ 15.04
\$20.01-\$70.00	512		\$ 47.31
	685	\$ 161	

The extension of the life of the awards was recorded as a modification of the grants. Under APB 25, the modification created intrinsic value for vested stock if the market value of the stock on the date of termination exceeded the exercise price. Therefore, these grants required an immediate recognition of the compensation expense with an offsetting credit to common stock. We recorded a charge of \$37, \$0 and \$0 for the years ended December 31, 2005, 2006 and 2007, respectively.

**Table of Contents****MedQuist Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

Information with respect to our common stock options is as follows:

	<b>Shares subject to options</b>	<b>Weighted average exercise price</b>	<b>Weighted average remaining contractual life in years</b>	<b>Aggregate intrinsic value</b>
Outstanding, January 1, 2005	4,211	\$ 29.27		
Forfeited	(216)	\$ 34.25		
Canceled	(401)	\$ 27.77		
Outstanding, December 31, 2005	3,594	\$ 28.80		
Forfeited	(75)	\$ 22.11		
Canceled	(1,207)	\$ 22.00		
Outstanding, December 31, 2006	2,312	\$ 32.57		
Granted	200	\$ 11.20		
Exercised	(4)	\$ 2.71		
Forfeited	(137)	\$ 29.10		
Canceled	(12)	\$ 17.45		
Outstanding, December 31, 2007	2,359	\$ 31.08	3.0	\$ 162
Exercisable, December 31, 2007	2,108	\$ 33.30	2.3	\$ 162
Options vested and expected to vest as of December 31, 2007	2,273	\$ 31.64	2.8	\$ 162

The aggregate intrinsic value is calculated using the difference between the closing stock price on the last trading day of 2007 and the option exercise price, multiplied by the number of in-the-money options.

Under the Black-Scholes option pricing model, input assumptions are determined at the time of option grant and are not adjusted during the life of that grant. The following are assumptions used in the 2007 option fair value calculations.

Expected term (years)	6.50
Expected volatility	61.6%
Dividend Yield	0%

Expected risk free interest rate 4.40%

Significant assumptions required to estimate the fair value of stock options include the following:

- n Expected term: The SEC Staff Accounting Bulletin No 107 Simplified method has been used to determine a weighted average expected term of options granted.
- n Expected volatility: We have estimated expected volatility based on the historical stock price volatility of a group of similar publicly traded companies. We believe that our historical volatility is not indicative of future volatility.

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The weighted average grant date fair value of options issued in 2007 was \$7.03 per share.

A summary of outstanding and exercisable options as of December 31, 2007 is as follows:

Range of exercise prices	Options outstanding			Options exercisable	
	Number of shares	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number of shares	Weighted average exercise price
\$2.71-\$10.00	31	1.8	\$ 5.71	31	\$ 5.71
\$10.01-\$20.00	728	5.0	\$ 15.03	477	\$ 16.37
\$20.01-\$30.00	830	3.0	\$ 26.61	830	\$ 26.61
\$30.01-\$40.00	218	1.2	\$ 32.23	218	\$ 32.23
\$40.01-\$70.00	552	1.1	\$ 59.84	552	\$ 59.84
	2,359	3.0	\$ 31.08	2,108	\$ 33.30

There were 0 and 200 options granted during 2006 and 2007. There were 0, 0 and 4 shares exercised in 2005, 2006 and 2007. The total fair value of shares vested during 2007 was \$396.

As of December 31, 2007, there were 962 additional options available for grant under our stock option plans. When we became up to date in our reporting to the SEC in October 2007, certain executive officers, in accordance with their employment agreements, received an aggregate of 200 options with an exercise price equal to the then market value of our common stock on the date of grant. In 2005, \$78 is included in the pro forma stock-based compensation amount depicted in Note 3 related to these options. In 2006 and 2007, \$136 and \$84, respectively, is included as selling, general and administrative expenses and \$58 and \$36 is included in research and development expenses in the accompanying consolidated statement of operations related to these options with the total of \$194 and \$120 included in common stock in the accompanying consolidated balance sheet as of December 31, 2006.

**15. Income taxes**

The sources of loss before income taxes and the income tax provision for the years ended December 31, 2005, 2006 and 2007 are as follows:

**2005                      2006                      2007**

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Loss before income taxes:			
Domestic	\$ (93,021)	\$ (15,302)	\$ (13,557)
Foreign	2,151	654	690
Loss before income taxes	\$ (90,870)	\$ (14,648)	\$ (12,867)
Current income tax provision:			
Federal	\$ (16,171)	\$ (3,615)	\$ 34
State and local	(151)	291	194
Foreign	429	393	233
Current income tax provision	\$ (15,893)	\$ (2,931)	\$ 461

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**Table of Contents****MedQuist Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

	<b>2005</b>	<b>2006</b>	<b>2007</b>
Deferred income tax provision:			
Federal	\$ 28,702	\$ 4,825	\$ 2,735
State and local	7,830	(259)	(499)
Foreign	123	659	(358)
Deferred income tax provision	36,655	5,225	1,878
Income tax provision	\$ 20,762	\$ 2,294	\$ 2,339

The reconciliation of the statutory federal income tax rate to our effective income tax rate is as follows:

	<b>2005</b>	<b>2006</b>	<b>2007</b>
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax effect	5.0	(2.5)	3.6
Valuation allowance	(62.5)	(40.4)	(53.0)
Impact of foreign operations	(0.5)	(1.1)	(0.4)
Adjustments to tax reserves	0.5	1.7	(0.6)
Permanent differences	(0.7)	(7.1)	(3.4)
Tax law changes			1.8
Other	0.4	(1.3)	(1.2)
Effective income tax rate	(22.8)%	(15.7)%	(18.2)%

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities as of December 31, 2005, 2006 and 2007 were as follows:

	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>Deferred tax assets</b>			
Foreign net operating loss carryforwards	\$ 3,022	\$ 3,349	\$ 2,733
Domestic net operating loss carryforwards	2,687	18,492	36,295

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Accounts receivable	1,964	1,846	1,673
Property and equipment	1,285	1,975	1,917
Intangibles	24,192	22,285	21,746
Employee compensation and benefit plans	2,136	1,250	953
Deferred compensation	954	446	617
Customer accommodation and quantification	18,485	6,374	7,087
Accruals and reserves	8,078	10,556	4,855
Other	1,761	2,113	1,714
Total gross deferred tax assets	64,564	68,686	79,590
Less: Valuation allowance	(58,039)	(64,601)	(74,500)
Total deferred tax assets	6,525	4,085	5,090
<b>Deferred tax liabilities</b>			
Intangibles	(15,947)	(18,704)	(21,377)
Other	(919)	(739)	(935)
Total deferred tax liabilities	(16,866)	(19,443)	(22,312)
Net deferred tax liability	\$ (10,341)	\$ (15,358)	\$ (17,222)

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**MedQuist Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

As of December 31, 2007, we had federal net operating loss carry forwards of approximately \$80,520 which will partially expire in 2027 and 2028.

As of December 31, 2006 and 2007, we had state net operating loss carry forwards of approximately \$115,632 and \$167,750, respectively, which will expire between 2008 and 2027. In addition, we have foreign net operating loss carry forwards of approximately \$15,492, which do not expire. Utilization of the net operating loss carry forwards may be subject to an annual limitation in the event of a change in ownership in future years as defined by Section 382 of the Internal Revenue Code and similar state provisions.

In assessing the future realization of deferred taxes, we consider whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized based on projections of our future taxable earnings. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

During 2007, we decreased our valuation allowance against our deferred tax assets generated in foreign tax jurisdictions from \$1,803 to \$1,217 based on management's assessment of future earnings available to utilize these deferred tax assets.

In the fourth quarter of 2005, a valuation allowance of \$56,808 was established against various domestic deferred tax assets. After consideration of all evidence, both positive and negative, management concluded that it was more likely than not that a majority of the domestic deferred tax assets would not be realized. In 2006 and 2007, we increased this valuation allowance to \$62,798 and \$73,313, respectively.

Domestic deferred tax assets were recognized to the extent that objective positive evidence existed with respect to their future utilization. The objective positive evidence included the potential to carry back any losses generated by the deferred tax assets in the future as well as income expected to be recognized due to the reversal of deferred tax liabilities as of December 31, 2007. In analyzing deferred tax liabilities as a source for potential income for purposes of recognizing deferred tax assets, the deferred tax liabilities related to excess book basis in goodwill over tax basis in goodwill were considered a source of future income for benefiting deferred tax assets with indefinite lives only due to the indefinite life and uncertainty of reversal of these liabilities during the same period as the non-indefinite life deferred tax assets.

Our consolidated income tax expense for the years ended December 31, 2005, 2006 and 2007 consists principally of an increase in deferred tax liabilities related to goodwill amortization deductions for income tax purposes during the applicable year as well as state and foreign income taxes.

Effective January 1, 2007, we adopted FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement 109 (FIN 48). FIN 48 prescribes, among other things, a recognition threshold and measurement attributes for the financial statement recognition and measurement of uncertain tax positions taken or expected to be taken in a company's income tax return. FIN 48 utilizes a two-step approach for evaluating uncertain tax positions accounted for in accordance with FASB Statement 109, *Accounting for Income Taxes*. Step one, *Recognition*, requires a company to determine if the weight of available evidence indicates that a tax position is more likely than not to be sustained upon audit, including resolution of related appeals or litigation processes, if any. Step two, *Measurement*, is based on the largest amount of benefit, which is more likely than not to be realized on settlement with the taxing authority. We recorded a cumulative effect increase to retained earnings of \$389 upon

adoption.

In accordance with FIN 48, the total amount of unrecognized tax benefits as of December 31, 2007 was \$5,614, which includes \$581 of accrued interest related to unrecognized income tax benefits which we recognize as a component of the provision for income taxes. Of the \$5,614 unrecognized tax benefits, \$4,773 relates to tax positions which if recognized would impact the effective tax rate, not considering the impact of any valuation allowance. Of the \$4,773, \$2,859 is attributable to uncertain tax positions with respect to certain deferred tax assets

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which if recognized would currently be offset by a full valuation allowance due to the fact that at the current time it is more likely than not that these assets would not be recognized due to a lack of sufficient projected income in the future.

The following is a roll-forward of the changes in our unrecognized tax benefits:

Total unrecognized tax benefits as of January 1, 2007	\$ 5,002
Gross amount of decreases in unrecognized tax benefits as a result of tax positions taken during the prior period	(64)
Gross amount of increases in unrecognized tax benefits as a result of tax positions taken during the prior period	10
Gross amount of increases in unrecognized tax benefits as a result of tax positions taken during the current period	252
Amount of decreases in the unrecognized tax benefits relating to settlements with taxing authorities	(10)
Reduction to unrecognized tax benefits as a result of a lapse of applicable statute of limitations	(157)
Total unrecognized tax benefits as of December 31, 2007	\$ 5,033
Total unrecognized tax benefits that would impact the effective tax rate if recognized	\$ 4,773
Total amount of interest and penalties recognized in the accompanying consolidated statement of operations for the year ended December 31, 2007	\$ 141
Total amount of interest and penalties recognized in the accompanying consolidated balance sheet as of December 31, 2007	\$ 581

We file income tax returns in the U.S. federal jurisdiction, all U.S. states which require income tax returns and foreign jurisdictions. Due to the nature of our operations, no state or foreign jurisdiction is individually significant. With limited exceptions we are no longer subject to examination by the U.S. federal or states jurisdiction for years beginning prior to 2003. We are currently under federal tax audit for the tax years 2003 through 2006. We are no longer subject to examination by the UK federal jurisdiction for years beginning prior to 2005. We do have various state tax audits and appeals in process at any given time.

We anticipate decreases in unrecognized tax benefits of approximately \$304 related to state statutes of limitations expiring during 2008. Our unrecognized tax benefits are expected to change in 2008. However, we do not anticipate any significant increases or decreases within the next twelve months.

**16. Employee benefit plans*****401(k) plan***

We maintain a tax-qualified retirement plan named the MedQuist 401(k) Plan (401(k) Plan) that provides eligible employees with an opportunity to save for retirement on a tax advantaged basis. Our 401(k) Plan allows eligible employees to contribute up to 25% of their annual eligible compensation on a pre-tax basis, subject to applicable Internal Revenue Code limits. Elective deferral contributions are allocated to each participant's individual account and are then invested in selected investment alternatives according to the participant's directives. Employee elective deferrals are 100% vested at all times. Our 401(k) Plan provides that we may make a discretionary matching contribution to the participants in the 401(k) Plan. Our discretionary matching contribution, if any, shall be in an amount not to exceed 100% of the first 25% of a plan participant's compensation contributed as pre-tax contributions to the 401(k) Plan. In our sole discretion, we may make discretionary matching contributions on a quarterly or annual basis. Historically we have matched 50% of each participant's contribution, up to a maximum of 5% of each participant's total annual compensation. Matching contributions are 33% vested after one year of service, 67% vested after two years of service and 100% vested after three years of service. The charge to

**Table of Contents****MedQuist Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

operations for our matching contributions for the years ended December 31, 2005, 2006 and 2007 was \$1,380, \$1,432 and \$1,547 respectively.

***Executive deferred compensation plan***

We established the MedQuist Inc. Executive Deferred Compensation Plan (EDCP) in 2001. The EDCP, which is administered by the compensation committee of our board of directors, allowed certain members of management and highly compensated employees to defer a certain percentage of their income. Participants were permitted to defer compensation into an account in which proceeds were available either during or after termination of employment. The compensation committee authorized that certain contributions made to a retirement distribution account be matched with either shares of our common stock or cash. Participants were not entitled to receive matching contributions if they elected to make deferrals to an account into which proceeds are available during employment. Participants were able to defer up to 15% of their base salary (or such other maximum percentage as may be approved by the compensation committee) and 90% of their bonus (or such other maximum percentage as may be approved by the compensation committee). Distributions to a participant made pursuant to a retirement distribution account may be made to the participant upon the participant's termination or attainment of age 65, as elected by the participant in their enrollment agreement. Distributions to a participant made pursuant to an in-service distribution account may be made at the election of the participant in their enrollment agreement, subject to certain exceptions. The balances in the EDCP are not funded, but are segregated, and participants in the EDCP are our general creditors. All amounts deferred in the EDCP increase or decrease based on hypothetical investment results of the participant's selected investment alternatives. However, EDCP distributions are paid out of our funds rather than from a dedicated investment portfolio. As of December 31, 2006 and 2007, the value of the assets held, managed and invested pursuant to the EDCP was \$1,120 and \$1,118, respectively, and is included in other current assets in the accompanying consolidated balance sheets. As of December 31, 2006 and 2007, the corresponding deferred compensation liability reflecting amounts due to employees was \$827 and \$637, respectively, and is included in accrued expenses in the accompanying consolidated balance sheets.

Effective January 1, 2005, the EDCP was suspended and no further contributions have been made.

***Board of directors deferred compensation plan***

Commencing on January 1, 2005, a portion of the compensation paid to our independent directors was deferred compensation in the form of common stock having a fair market value of \$50 on the date of grant. Our board of directors postponed the granting of the deferred compensation awards for 2006 and 2007 until October 2007 which is when we became up to date with our periodic reporting obligations with the SEC. As of December 31, 2006 and 2007, \$332 and \$0, respectively, related to deferred compensation is included in the accompanying consolidated statements of shareholders' equity and other comprehensive income. This plan was terminated in February 2008.

**17. Related-Party transactions**

From time to time, we enter into transactions in the normal course of business with related parties. The audit committee of our board of directors has been charged with the responsibility of approving or satisfying all related party transactions other than those between us and Philips. In any situation where the audit committee sees fit to do so, any related party transaction, other than those between us and Philips, may be presented to disinterested members of our board of directors for approval or ratification.

In connection with Philips' investment in us, we have entered into various agreements with Philips. All material transactions between Philips and us are reviewed and approved by the supervisory committee of our board of directors. The supervisory committee is comprised of directors independent from Philips. Listed below is a summary of our material agreements with Philips.

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**MedQuist Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

***Licensing agreement***

In connection with Philips' tender offer, we entered into a Licensing Agreement with Philips Speech Processing GmbH, an affiliate of Philips which is now known as Philips Speech Recognition Systems GmbH (PSRS), on May 22, 2000 (Licensing Agreement). The Licensing Agreement was subsequently amended by the parties as of January 1, 2002, February 23, 2003, August 10, 2003, September 1, 2004, December 30, 2005 and February 13, 2007.

Under the Licensing Agreement, we license from PSRS its SpeechMagic speech recognition and processing software, including any updated versions of the software developed by PSRS during the term of the License Agreement (Licensed Product), for use by us anywhere in the world. We pay a fee for use of this license based upon a per line fee for each transcribed line of text processed through the Licensed Product.

Upon the expiration of its initial term on June 28, 2005, the Licensing Agreement was renewed for an additional five year term.

In connection with the Licensing Agreement, we have a consulting arrangement with PSRS whereby PSRS assists us with the integration of its speech and transcription technologies.

***OEM supply agreement***

On September 21, 2007, we entered into an Amended and Restated OEM Supply Agreement (Amended OEM Agreement) with PSRS. The Amended OEM Agreement amends and restates a previous OEM Supply Agreement with PSRS dated September 23, 2004. In connection with the Amended OEM Agreement certain amounts paid to PSRS were capitalized in fixed assets and are being amortized over a three-year period.

Pursuant to the Amended OEM Agreement, we purchased a co-ownership interest in all rights and interests in and to SpeechQ for Radiology together with its components, including object and source code for the SpeechQ for Radiology application and the SpeechQ for Radiology integration SDK (collectively, the Product), but excluding the SpeechMagic speech recognition and processing software, which we separately license from PSRS for a fee under the Licensing Agreement. Additionally, the Amended OEM Agreement provides that we shall receive, in exchange for a fee, the exclusive right in the United States, Canada and certain islands of the Caribbean (collectively the Exclusive Territory) to sell, service and deliver the Product. In addition, PSRS has agreed that for the term of the Amended OEM Agreement it will not release a front-end multi-user reporting solution (including one similar to the Product) in the medical market in the Exclusive Territory nor will it directly authorize or assist any of its affiliates to do so either; provided that the restriction does not prevent PSRS's affiliates from integrating SpeechMagic within their general medical application products. The Amended OEM Agreement further provides that we shall make payments to PSRS for PSRS' development of an interim version of the software included in the Product (Interim Version). Except for the Interim Version which we and PSRS will co-own, the Amended OEM Agreement provides that any improvements, developments or other enhancements either we or PSRS makes to the Product (collectively, Improvements) shall be owned exclusively by the party that developed such Improvement. Each party has the right to seek patent or other protection of the Improvements it owns independent of the other party.

The term of the Amended OEM Agreement extends through June 30, 2010 and will automatically renew for an additional three year term provided that we are in material compliance with the Amended OEM Agreement as of such date. If PSRS decides to discontinue all business relating to the Product in the Exclusive Territory on or after June 30,

2010, PSRS can effect such discontinuation by terminating the Amended OEM Agreement by providing us with six months prior written notice of such discontinuation, provided the earliest such notice can be delivered is June 30, 2010. Either party may terminate the Amended OEM Agreement for cause immediately in the event that a material breach by the other party remains uncured for more than 30 days following delivery of written notice or in the event that the other party becomes insolvent or files for bankruptcy.

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**Table of Contents****MedQuist Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)*****Equipment sales***

We purchase dictation related equipment from Philips.

***Insurance coverage through Philips***

We obtain all of our business insurance coverage (other than workers compensation) through Philips.

***Purchasing agreements***

For the three years ended December 31, 2007 we entered into annual letter agreements with Philips Electronics North America Corporation (PENAC), an affiliate of Philips, to purchase products and services from certain suppliers under the terms of the prevailing agreements between such suppliers and PENAC. As of January 1, 2008, we are no longer a party to an agreement with PENAC to purchase the aforementioned products and services.

From time to time, we enter into other miscellaneous transactions with Philips including Philips purchasing certain products and implementation services from us. We recorded net revenues from sales to Philips of \$754, \$26 and \$0 for the years ended December 31, 2005, 2006 and 2007, respectively.

Our consolidated balance sheets as of December 31, 2006 and 2007 reflect other assets related to Philips of \$0 and \$1,002, respectively, and accrued expenses related to Philips of \$2,030 and \$1,534, respectively.

Listed below is a summary of the expenses incurred by us in connection with the various Philips agreements noted above for the years ended December 31, 2005, 2006 and 2007. Charges related to these agreements are included in cost of revenues and selling, general and administrative expenses in the accompanying consolidated statements of operations.

	<b>Years ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
PSRS licensing	\$ 1,216	\$ 2,390	\$ 2,479
PSRS consulting	162	3	
OEM agreement	1,521	1,429	2,252
Dictation equipment	1,238	878	854
Insurance	957	1,601	1,794
PENAC	54	30	40
Other	248	42	
Total	\$ 5,396	\$ 6,373	\$ 7,419

On July 29, 2004, we entered into an agreement with Nightingale under which Nightingale agreed to provide interim chief executive services to us. On July 30, 2004, our board of directors appointed Howard S. Hoffmann to serve as our

non-employee Chief Executive Officer (CEO). Mr. Hoffmann serves as the Managing Partner of Nightingale. With the departure of our former President in May 2007, our board of directors appointed Mr. Hoffmann to the additional position of President in June 2007. Mr. Hoffmann serves as our President and Chief Executive Officer pursuant to the terms of the agreement between us and Nightingale which was amended on March 14, 2008 (Amendment). The Amendment, among other things, extends the term of Mr. Hoffmann's role as our President and Chief Executive Officer through August 1, 2008. Our board of directors is responsible for monitoring and reviewing the performance of Mr. Hoffmann on an ongoing basis. Our agreement with Nightingale also permits us to engage additional personnel employed by Nightingale to provide consulting services to us from time to time.

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**Table of Contents****MedQuist Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

For the years ended December 31, 2005, 2006 and 2007, we incurred charges of \$3,207, \$3,005 and \$2,914, respectively, for Nightingale services. From February 1, 2007 through December 31, 2007, the Nightingale charges were recorded in selling, general and administrative expenses in the accompanying consolidated statements of operations due to Nightingale's focus on operational matters instead of the Review and Management's Billing Assessment. Prior to February 1, 2007, charges related to Nightingale were recorded in cost of investigation and legal proceedings, net (see Note 5). As of December 31, 2006 and 2007, accrued expenses included \$548 and \$400, respectively, for amounts due to Nightingale for services performed.

See Note 11 for a discussion of our agreements with A-Life.

**18. Quarterly data (unaudited)**

	<b>1st Quarter</b>	<b>2nd Quarter</b>	<b>3rd Quarter</b>	<b>4th Quarter</b>
<b>2006</b>				
Net revenues	\$ 96,014	\$ 93,359	\$ 82,096	\$ 86,622
Net loss	\$ (8,471)	\$ (2,416)	\$ (2,104)	\$ (3,951)
Net loss per share:				
Basic	\$ (0.23)	\$ (0.06)	\$ (0.06)	\$ (0.11)
Diluted	\$ (0.23)	\$ (0.06)	\$ (0.06)	\$ (0.11)
Weighted average shares outstanding:				
Basic	37,484	37,484	37,484	37,484
Diluted	37,484	37,484	37,484	37,484
<b>2007</b>				
Net revenues	\$ 89,066	\$ 88,692	\$ 82,518	\$ 80,066
Net income (loss)	\$ (1,886)	\$ 5,886	\$ (8,935)	\$ (10,271)
Net income (loss) per share:				
Basic	\$ (0.05)	\$ 0.16	\$ (0.24)	\$ (0.27)
Diluted	\$ (0.05)	\$ 0.16	\$ (0.24)	\$ (0.27)
Weighted average shares outstanding:				
Basic	37,484	37,484	37,484	37,500
Diluted	37,484	37,497	37,484	37,500

**Table of Contents****MedQuist Inc. and Subsidiaries****Consolidated Statements of Operations**

(In thousands, except per share amounts)

(Unaudited)

	<b>Six months ended June 30,</b>	
	<b>2007</b>	<b>2008</b>
<b>Net revenues</b>	\$ 177,758	\$ 166,179
<b>Operating costs and expenses</b>		
Cost of revenues	134,628	119,273
Selling, general and administrative	32,610	25,899
Research and development	6,265	7,854
Depreciation	5,179	5,924
Amortization of intangible assets	2,704	2,734
Cost of investigation and legal proceedings, net	(4,897)	8,126
Restructuring charges	381	(45)
<b>Total operating costs and expenses</b>	<b>176,870</b>	<b>169,765</b>
<b>Operating income (loss)</b>	<b>888</b>	<b>(3,586)</b>
Equity in income of affiliated company	323	41
Other income		438
Interest income, net	4,175	2,183
<b>Income (loss) before income taxes</b>	<b>5,386</b>	<b>(924)</b>
Income tax provision	1,386	1,658
<b>Net income (loss)</b>	<b>\$ 4,000</b>	<b>\$ (2,582)</b>
Net income (loss) per share:		
Basic	\$ 0.11	\$ (0.07)
Diluted	\$ 0.11	\$ (0.07)
Weighted average shares outstanding:		
Basic	37,484	37,544
Diluted	37,499	37,544

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

**Table of Contents****MedQuist Inc. and Subsidiaries****Consolidated Balance Sheets**

(In thousands)

(Unaudited)

	<b>December 31, 2007</b>	<b>June 30, 2008</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 161,582	\$ 151,095
Accounts receivable, net of allowance of \$4,359 and \$4,417, respectively	48,725	48,215
Income tax receivable	815	716
Other current assets	7,920	8,757
<b>Total current assets</b>	<b>219,042</b>	<b>208,783</b>
Property and equipment, net of accumulated depreciation of \$38,772 and \$38,825, respectively	21,366	18,920
Goodwill	125,505	125,418
Other intangible assets, net of accumulated amortization of \$45,209 and \$44,610, respectively	42,262	41,363
Deferred income taxes	2,712	2,722
Other assets	6,885	6,117
<b>Total assets</b>	<b>\$ 417,772</b>	<b>\$ 403,323</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 12,754	\$ 11,137
Accrued expenses	18,989	13,501
Accrued compensation	14,826	14,495
Customer accommodation and quantification	18,459	12,242
Deferred income tax liability - current	4,783	4,783
Deferred revenue	16,023	16,280
<b>Total current liabilities</b>	<b>85,834</b>	<b>72,438</b>
Deferred income taxes	15,151	16,635
Other non-current liabilities	2,143	2,065
Commitments and contingencies (Note 11)		
<b>Shareholders equity</b>		
Common stock - no par value; authorized 60,000 shares; 37,544 and 37,544 shares issued and outstanding, respectively	236,412	236,574
Retained earnings	72,876	70,294

Accumulated other comprehensive income	5,356	5,317
<b>Total shareholders equity</b>	314,644	312,185
<b>Total liabilities and shareholders equity</b>	\$ 417,772	\$ 403,323

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

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**Table of Contents****MedQuist Inc. and Subsidiaries****Consolidated Statements of Cash Flows**

(In thousands)

(Unaudited)

	<b>Six months ended June 30,</b>	
	<b>2007</b>	<b>2008</b>
<b>Operating activities</b>		
<b>Net income (loss)</b>	\$ 4,000	\$ (2,582)
<b>Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities</b>		
Depreciation and amortization	7,883	8,658
Equity in income of affiliated company	(323)	(41)
Deferred income tax provision	974	1,491
Stock option expense	207	162
Provision for doubtful accounts	2,431	1,205
Loss on disposal of property and equipment	61	38
<b>Changes in operating assets and liabilities excluding effects of acquisitions</b>		
Accounts receivable	(4,088)	(1,334)
Income tax receivable	(267)	99
Insurance receivable	(11,143)	
Other current assets	(511)	(837)
Other non-current assets	(52)	116
Accounts payable	1,613	(2,065)
Accrued expenses	(8,060)	(5,405)
Accrued compensation	297	(309)
Customer accommodation and quantification	(2,976)	(5,593)
Deferred revenue	(1,210)	172
Other non-current liabilities	1,962	8
<b>Net cash used in operating activities</b>	\$ (9,202)	\$ (6,217)
<b>Investing activities</b>		
Purchase of property and equipment	(4,137)	(3,078)
Capitalized software	(824)	(1,862)
Proceeds from sale of investments		692
<b>Net cash used in investing activities</b>	(4,961)	(4,248)
<b>Financing activities</b>		
<b>Net cash provided by financing activities</b>		
Effect of exchange rate changes	32	(22)
<b>Net decrease in cash and cash equivalents</b>	(14,131)	(10,487)

Cash and cash equivalents	beginning of period	175,412	161,582
Cash and cash equivalents	end of period	\$ 161,281	\$ 151,095
<b>Supplemental cash flow information</b>			
Cash paid for income taxes		\$ 276	\$ 263
Accommodation payments paid with credits		\$ 1,288	\$ 611

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

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**MedQuist Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
(In thousands, except for per share amounts)  
(Unaudited)**

**1. Description of business**

MedQuist is the largest Medical Transcription Service Organization (MTSO) in the world, and a leader in technology enabled clinical documentation workflow. We service health systems, hospitals and large group medical practices throughout the U.S., and we employ approximately 5,600 skilled medical transcriptionists (MTs), making us the largest employer of MTs in the U.S. We believe our services and enterprise technology solutions including mobile voice capture devices, speech recognition technologies, Web-based workflow platforms, and global network of MTs and editors enable healthcare facilities to improve patient care, increase physician satisfaction, and lower operational costs.

***Change in majority owner***

On August 6, 2008, CBaySystems Holdings Limited (CBaySystems Holdings), a company that is publicly traded on the AIM market of the London Stock Exchange with a portfolio of investments in medical transcription, which includes a company that competes in the medical transcription market, healthcare technology, and healthcare financial services, acquired a 69.5% ownership interest in MedQuist from Koninklijke Philips Electronics N.V. (Philips) for \$11.00 per share (CBaySystems Holdings Purchase). Immediately prior to the closing of the CBaySystems Holdings Purchase, four of our directors affiliated with Philips resigned from our board of directors and four individuals affiliated with CBaySystems Holdings were appointed to our board of directors.

**2. Introductory note**

In November 2003, one of our employees raised allegations that we had engaged in improper billing practices. In response, our board of directors undertook an independent review of these allegations (Review). On March 16, 2004, we announced that we had delayed the filing of our Form 10-K for the year ended December 31, 2003 pending the completion of the Review. As a result of our noncompliance with the U.S. Securities and Exchange Commission's (SEC) periodic disclosure requirements, our common stock was delisted from the NASDAQ National Market on June 16, 2004.

In response to our customers' concern over the public disclosure of certain findings from the Review, we made the decision in the fourth quarter of 2005 to take action to try to avoid litigation and preserve and solidify our customer business relationships by offering a financial accommodation to certain of our customers. See Note 7.

Disclosure of the findings of the Review, along with the delisting of our common stock, precipitated a number of governmental investigations and civil lawsuits. See Note 11.

On July 5, 2007, we filed our Form 10-K for the year ended December 31, 2005 (2005 Form 10-K). The 2005 Form 10-K was our first periodic report covering the period after September 30, 2003. On August 31, 2007, we filed our Forms 10-Q for the quarters ended March 31, 2006, June 30, 2006 and September 30, 2006 as well as our Form 10-K for the year ended December 31, 2006. On October 4, 2007, we filed our Forms 10-Q for the quarters ended March 31, 2007 and June 30, 2007. On November 9, 2007, we timely filed our Form 10-Q for the quarter ended September 30, 2007 and we have timely filed all periodic reports since that date.

Our common stock was relisted on the Global Market of The NASDAQ Stock Market LLC on July 17, 2008.

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**MedQuist Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**3. Basis of presentation**

The consolidated financial statements included herein are unaudited and have been prepared by us pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been omitted pursuant to such rules and regulations although we believe that the disclosures are adequate to make the information presented not misleading. The consolidated financial statements include our accounts and the accounts of all of our wholly-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

These statements reflect all normal recurring adjustments that, in the opinion of management, are necessary for the fair presentation of the information contained herein. These consolidated financial statements should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations. As permitted under GAAP, interim accounting for certain expenses is based upon full year assumptions. Such amounts are expensed in full in the year incurred. For interim financial reporting purposes, income taxes are recorded based upon actual year to date income tax rates as permitted by Financial Accounting Standards Board (FASB) Interpretation 18, Accounting for Income Taxes in Interim Periods.

Our accounting policies are set forth in detail in Note 3 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2007 filed with the SEC on March 17, 2008.

In September 2006, FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, creates a framework within GAAP for measuring fair value, and expands disclosures about fair value measurements. In defining fair value, SFAS 157 emphasizes a market-based measurement approach that is based on the assumptions that market participants would use in pricing an asset or liability. SFAS 157 does not require any new fair value measurements, but does generally apply to other accounting pronouncements that require or permit fair value measurements. In February 2008, the FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157*, which delays for one year the effective date of SFAS 157 for most nonfinancial assets and nonfinancial liabilities. Nonfinancial instruments affected by this deferral include assets and liabilities such as reporting units measured at fair value in a goodwill impairment test and nonfinancial assets acquired and liabilities assumed in a business combination. Effective January 1, 2008, we adopted SFAS 157 for financial assets and financial liabilities recognized at fair value on a recurring basis. The partial adoption of SFAS 157 for these items did not have a material impact on our financial position, results of operations and cash flows. The statement establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad categories. Level 1: Quoted market prices in active markets for identical assets or liabilities that the company has the ability to access. Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data such as quoted prices, interest rates and yield curves. Level 3: Inputs are unobservable data points that are not corroborated by market data. At June 30, 2008, we held two financial assets, cash and cash equivalents (Level 1) and our Executive Deferred Compensation Plan (EDCP) included in other current assets with a fair value of \$975. We measure the fair value of our EDCP on a recurring basis using Level 2 (significant other observable) inputs as defined by SFAS 157. The adoption of SFAS 157 did not have a material impact on the basis for measuring the fair value of these items.

In February 2007, FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115*. This statement permits entities to choose to

measure many financial instruments and certain other items at fair value. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, including interim periods within that fiscal year. We did not elect the fair value option for any of our existing financial instruments as of June 30, 2008 and we have not determined whether or not we will elect this option for financial instruments we may acquire in the future.

In December 2007, FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141R). SFAS 141R defines a business combination as a transaction or other event in which an acquirer obtains control of one or more businesses. Under SFAS 141R, all business combinations are accounted for by applying the

**Table of Contents****MedQuist Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

acquisition method (previously referred to as the purchase method), under which the acquirer measures all identified assets acquired, liabilities assumed, and noncontrolling interests in the acquiree at their acquisition date fair values. Certain forms of contingent consideration and certain acquired contingencies are also recorded at their acquisition date fair values. SFAS 141R also requires that most acquisition related costs be expensed in the period incurred. SFAS 141R is effective for us in January 2009. SFAS 141R will change our accounting for business combinations on a prospective basis.

In December 2007, FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51* (SFAS 160). SFAS 160 requires a company to recognize noncontrolling interests (previously referred to as minority interests) as a separate component in the equity section of the consolidated statement of financial position. It also requires the amount of consolidated net income specifically attributable to the noncontrolling interest be identified in the consolidated statement of income. SFAS 160 also requires changes in ownership interest to be accounted for similarly, as equity transactions; and when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary and the gain or loss on the deconsolidation of the subsidiary be measured at fair value. SFAS 160 is effective for us in January 2009. We are currently evaluating the impact, if any, SFAS 160 will have on our financial position, results of operations and cash flows.

In March 2008, FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). SFAS 161 requires a company with derivative instruments to disclose information that should enable financial statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and how derivative instruments and related hedged items affect a company's financial position, financial performance, and cash flows. SFAS 161 is effective for us in January 2009.

The FASB recently issued a Staff Position (FSP) No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*, which amends the factors a company should consider when developing renewal assumptions used to determine the useful life of an intangible asset under SFAS 142. Paragraph 11 of SFAS 142 requires companies to consider whether renewal can be completed without substantial cost or material modification of the existing terms and conditions associated with the asset. FSP 142-3 replaces the previous useful life criteria with a new requirement that an entity consider its own historical experience in renewing similar arrangements. If historical experience does not exist then the company would consider market participant assumptions regarding renewal including 1) highest and best use of the asset by a market participant, and 2) adjustments for other entity-specific factors included in paragraph 11 of SFAS 142. We are currently evaluating the impact, if any, SFAS 142-3 will have on our financial position, results of operations or cash flows.

**4. Stock-based compensation**

The following table summarizes our stock-based compensation expense related to employee stock options recognized under SFAS No. 123R, *Share Based Payment*, (SFAS 123R).

<b>Six months ended</b>	
<b>June 30,</b>	
<b>2007</b>	<b>2008</b>

Selling, general and administrative	\$ 58	\$ 105
Research and development	23	45
Cost of revenues	126	12
Total	\$ 207	\$ 162

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**Table of Contents****MedQuist Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

As of June 30, 2008, total unamortized stock-based compensation cost related to non-vested stock options, net of expected forfeitures, was \$1,199 which is expected to be recognized over a weighted-average period of 4.3 years.

Our stock option plans provide for the granting of options to purchase shares of common stock to eligible employees (including officers) as well as to our non-employee directors. Options may be issued with the exercise prices equal to the fair market value of the common stock on the date of grant or at a price determined by a committee of our board of directors. Stock options vest and are exercisable over periods determined by the committee, generally five years, and generally expire no more than 10 years after the grant.

In July 2004, our board of directors affirmed our June 2004 decision to indefinitely suspend the exercise and future grant of options under our stock option plans. For 10 of our former executives (who separated from us in 2004 and 2005) who held options that were vested as of their resignation date, our board of directors allowed their options to remain exercisable for the post-termination period commencing on the date that the suspension was lifted for the exercise of options. There were 704 options that qualified for this post-termination exercise period. The suspension was lifted on October 4, 2007 and all but 154 of these options terminated on February 1, 2008. A summary of these remaining options as of June 30, 2008 is as follows:

Range of exercise prices	Options exercisable <sup>(1)</sup>		
	Number of shares	Intrinsic value	Average exercise price
\$ 2.71 - \$ 10.00	31	\$ 65	\$ 5.71
\$ 10.01 - \$ 20.00	47		\$ 14.38
\$ 20.01 - \$ 70.00	76		\$ 33.28
	154	\$ 65	

<sup>(1)</sup> Of the remaining 154 options, 12 were exercised in July 2008 and the remaining 142 expire on October 3, 2009.

The extension of the life of the awards was recorded as a modification of the grants in 2004 and 2005. Under Accounting Principles Board Opinion No 25, *Accounting for Stock Issued to Employees*, (APB 25), the modification created intrinsic value for vested stock if the market value of the stock on the date of termination exceeded the exercise price. Therefore, these grants required an immediate recognition of the compensation expense with an offsetting credit to common stock. No charges were incurred for the six month periods ended June 30, 2007 and 2008.

Information with respect to our common stock options is as follows:

	<b>Shares subject to options</b>	<b>Weighted average exercise price</b>	<b>Weighted average remaining contractual life in years</b>	<b>Aggregate intrinsic value</b>
Outstanding, December 31, 2007	2,359	\$ 31.08		
Forfeited	(2)	\$ 17.45		
Canceled	(762)	\$ 40.09		
Outstanding, June 30, 2008	1,595	\$ 26.80	3.7	\$ 65
Exercisable, June 30, 2008	1,396	\$ 29.03	2.9	\$ 65
Options vested and expected to vest as of June 30, 2008	1,566	\$ 27.09	3.6	\$ 65

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**Table of Contents****MedQuist Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

The aggregate intrinsic value is calculated using the difference between the closing stock price on the last trading day of the quarter and the option exercise price, multiplied by the number of in-the-money options.

There were no options granted or exercised during the six months ended June 30, 2007 and 2008.

A summary of outstanding and exercisable common stock options as of June 30, 2008 is as follows:

Range of exercise prices	Options outstanding			Options exercisable	
	Number of shares	Weighted Average remaining contractual life (in years)	Weighted average exercise price	Number of shares	Weighted average exercise price
\$ 2.71 - \$ 10.00	30	1.3	\$ 5.71	30	\$ 5.71
\$ 10.01 - \$ 20.00	569	5.6	\$ 14.80	369	\$ 16.75
\$ 20.01 - \$ 30.00	658	3.1	\$ 26.41	658	\$ 26.41
\$ 30.01 - \$ 40.00	121	1.5	\$ 32.89	121	\$ 32.89
\$ 40.01 - \$ 70.00	217	2.0	\$ 58.88	217	\$ 58.88
	1,595	3.7	\$ 26.80	1,395	\$ 29.03

As of June 30, 2008, there were 1,019 additional options available for grant under our stock option plans. When we became current in our reporting obligations with the SEC on October 4, 2007, certain executive officers, in accordance with their employment agreements, received a grant of an aggregate of 200 options with an exercise price equal to the grant date market value of our common stock on October 4, 2007.

**5. Other comprehensive income (loss)**

Other comprehensive income (loss) was as follows:

	Six months ended June 30,	
	2007	2008
Net income (loss)	\$ 4,000	\$ (2,582)
Foreign currency translation adjustment	402	(39)
Comprehensive income (loss)	\$ 4,402	\$ (2,621)



**Table of Contents****MedQuist Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****6. Net income (loss) per share**

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares outstanding during each period. Diluted net income (loss) per share is computed by dividing net income (loss) by the weighted average shares outstanding, as adjusted for the dilutive effect of common stock equivalents, which consist only of stock options, using the treasury stock method.

The following table reflects the weighted average shares outstanding used to compute basic and diluted net income (loss) per share:

	<b>Six months ended June 30,</b>	
	<b>2007</b>	<b>2008</b>
Net income (loss)	\$ 4,000	\$ (2,582)
Weighted average shares outstanding:		
Basic	37,484	37,544
Effect of dilutive shares	15	
Diluted	37,499	37,544
Net income (loss) per share:		
Basic	\$ 0.11	\$ (0.07)
Diluted	\$ 0.11	\$ (0.07)

The computation of diluted net income (loss) per share does not assume conversion, exercise or issuance of shares that would have an anti-dilutive effect on diluted net loss per share. For the six months ended June 30, 2008 we had a net loss. As a result, any assumed conversions would result in reducing the net loss per share and, therefore, are not included in the calculation. Shares having an anti-dilutive effect on net loss per share and, therefore, excluded from the calculation of diluted net loss per share, totaled 1,565 shares for the six months ended June 30, 2008.

**7. Customer accommodation and quantification**

As noted in Note 2, in connection with our decision to offer financial accommodations to certain of our customers (Accommodation Customers), we analyzed our historical billing information and the available report-level data (Management's Billing Assessment) to develop individualized accommodation offers to be made to Accommodation Customers (Accommodation Analysis). The Accommodation Analysis took approximately one year to complete. The methodology utilized to develop the individual accommodation offers was designed to generate positive accommodation outcomes for Accommodation Customers. As such, the methodology was not a calculation of potential over billing nor was it intended as a measure of damages or a reflection of any admission of liability due and owed to Accommodation Customers. Instead, the Accommodation Analysis was a methodology that was developed to arrive at commercially reasonable and fair accommodation offers that would be acceptable to Accommodation Customers without negotiation.

In the fourth quarter of 2005, based on the Accommodation Analysis, our board of directors authorized management to make cash accommodation offers to Accommodation Customers in the aggregate amount of \$65,413. In 2006, this amount was adjusted by a net additional amount of \$1,157 based on a refinement of the Accommodation Analysis resulting in an aggregate amount of \$66,570. By accepting our accommodation offer, an Accommodation Customer must agree, among other things, to release us from any and all claims and liability regarding certain billing related issues.

As part of this process, we also conducted an analysis in an attempt to quantify the economic consequences of potentially unauthorized adjustments to Accommodation Customers ratios and formulae within the transcription platform setups (Quantification). This Quantification was calculated to be \$9,835.

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Of the authorized cash accommodation amount of \$66,570, \$57,678 and \$1,157 were treated as consideration given by a vendor to a customer and accordingly recorded as a reduction in revenues in 2005 and 2006, respectively. The balance of \$7,735 plus an additional \$2,100 has been accounted for as a billing error associated with the Quantification resulting in a reduction of revenues in various reporting periods from 1999 to 2005.

The goal of our customer accommodation was to reach a settlement with certain of our customers. However, the Accommodation Analysis for certain customers did not result in positive accommodation outcomes. For certain other Accommodation Customers, the Accommodation Analysis resulted in calculated cash accommodation offers that we believed were insufficient as a percentage of their historical line billing to motivate such customers to resolve their billing disputes with us. Therefore, in 2006 we modified our customer accommodation to enable us to offer this group of Accommodation Customers credits for the purchase of future products and/or services from us over a defined period of time. On July 21, 2006, our board of directors authorized management to make credit accommodation offers up to an additional \$8,676 beyond amounts previously authorized. During 2006, this amount was adjusted by a net additional amount of \$569 based on a refinement of the Accommodation Analysis, resulting in an aggregate amount of \$9,245. In connection with the credit accommodation offers we recorded a reduction in revenues and corresponding increase in accrued expenses of \$9,245 in 2006.

The following is a summary of the financial statement activity for the periods indicated related to the customer accommodation and the Quantification which is included as a separate line item in the accompanying consolidated balance sheets as of December 31, 2007 and June 30, 2008:

	<b>Year ended December 31, 2007</b>	<b>Six months ended June 30, 2008</b>
Beginning balance	\$ 24,777	\$ 18,459
Payments and other adjustments	(3,723)	(5,606)
Credits	(2,595)	(611)
Ending balance	\$ 18,459	\$ 12,242

**8. Cost of investigation and legal proceedings, net**

For the six months ended June 30, 2007 and 2008, we recorded a credit of (\$4,897) and a charge of \$8,126, respectively for costs associated with the Review and Management's Billing Assessment, as well as defense and other costs associated with governmental investigations and civil litigation, including, in 2007, \$197 of consulting services provided by Nightingale and Associates, LLC (Nightingale), a management consulting company specializing in turn-arounds and crisis management, that we deemed to be unusual in nature. Howard Hoffmann, our former President and Chief Executive Officer, provided services to us pursuant to the terms of an agreement between us and Nightingale. Nightingale also provided certain consulting services to us related to the Review and Management's

Billing Assessment. The agreement with Nightingale was terminated consensually on June 10, 2008, which was also the date that Mr. Hoffmann ceased being our President and Chief Executive Officer. These costs are net of insurance claim reimbursements. We record insurance claims when the realization of the claim is

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probable. The following is a summary of the amounts recorded as Cost of investigation and legal proceedings, net, in the accompanying consolidated statements of operations:

	<b>Six months ended June 30,</b>	
	<b>2007</b>	<b>2008</b>
Legal fees	\$ 8,846	\$ 6,267
Other professional fees	1,444	359
Nightingale services	197	
Insurance recoveries and claims	(15,386)	
Other	2	1,500
Total	\$ (4,897)	\$ 8,126

Other professional fees represent accounting and dispute analysis costs and document search and retrieval costs. In 2007, insurance recoveries and claims represent insurance recoveries (\$4,243) and insurance claims (\$11,143). The insurance claims were recorded in other current assets and payment related to these claims was received in the third quarter of 2007. We do not expect to receive any additional insurance recoveries in the future. The 2008 Other amount of \$1,500 is for the proposed settlement of all claims related to the consolidated medical transcriptionists putative class action.

**9. Restructuring plans*****2005 restructuring plan***

During 2005, we implemented a restructuring plan (2005 Plan) based on the implementation of a centralized national service delivery model. The 2005 Plan involved the consolidation of operating facilities and a related reduction in workforce. The table below reflects the financial statement activity related to the 2005 Plan which is included in accrued expenses in the accompanying consolidated balance sheets:

	<b>Year ended December 31, 2007 Total non-cancelable leases</b>	<b>Six months ended June 30, 2008 Total non-cancelable leases</b>
Beginning balance	\$ 648	\$ 126
Additional charge	322	
Cash paid	(844)	(70)

Ending balance	\$	126	\$	56
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The remainder of payments related to the 2005 Plan will be made by 2009 for non-cancelable leases.

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During the third quarter of 2007, we implemented a restructuring plan related to a reduction in workforce of 104 employees as a result of the refinement of our centralized national services delivery model. In addition, during the fourth quarter of 2007, we implemented a restructuring plan related to an additional reduction in workforce of 183 employees attributable to our efforts to reduce costs. All of the restructuring costs incurred are severance related. The table below reflects the financial statement activity related to the 2007 Plan which is included in accrued expenses in the accompanying consolidated balance sheets:

	<b>Year ended December 31, 2007 Total severance</b>	<b>Six months ended June 30, 2008 Total severance</b>
Beginning balance	\$ 2,263	\$ 1,493
Reversal		(45)
Cash paid	(770)	(1,417)
Ending balance	\$ 1,493	\$ 31

In the second quarter of 2008, we reversed \$45 related to the 2007 restructuring plan because certain employee severance expenses will not be incurred. The remainder of payments related to the 2007 restructuring plans will be made by the end of 2008.

**10. Income taxes**

Our consolidated income tax expense consists principally of an increase in deferred tax liabilities related to goodwill amortization deductions for income tax purposes during the applicable period as well as state and foreign income taxes offset by the reversal of certain state tax reserves due to the expiration of the statutes of limitations. We have recorded a valuation allowance to reduce our net deferred tax assets to an amount that is more likely than not to be realized in future years.

Under FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement 109 (FIN 48), we classify penalties and interest related to uncertain tax positions as part of income tax expense. There were no material changes to our uncertain tax positions, including penalties and interest for the three and six months ended June 30, 2008.

**11. Commitments and contingencies*****Governmental investigations***

The SEC is currently conducting a formal investigation of us relating to our billing practices. We have been fully cooperating with the SEC since it opened its investigation in 2004 and we have complied with information and document requests by the SEC.

We also received an administrative subpoena under Health Insurance Portability and Accountability Act of 1996 (HIPAA) for documents from the U.S. Department of Justice (DOJ) on December 17, 2004. The subpoena sought information primarily about our provision of medical transcription services to governmental and non-governmental customers. The information was requested in connection with a government investigation into whether we and others violated federal laws in connection with the provision of medical transcription services. We have complied, and are continuing to comply, with information and document requests by the DOJ.

The U.S. Department of Labor (DOL) conducted a formal investigation into the administration of our 401(k) plan. We fully cooperated with the DOL from the inception of its investigation in 2004 and we complied with

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**MedQuist Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

information and document requests by the DOL. In April 2008, we made an additional contribution of approximately \$41 to our 401(k) plan and certain current or former plan participants in an attempt to resolve the DOL investigation. In July 2008, we received written confirmation from the DOL that it has concluded its investigation.

Developments relating to the SEC and/or DOJ investigations may continue to represent various risks and uncertainties that could materially and adversely affect our business and our historical and future financial condition, results of operations and cash flows.

***Customer litigation***

***South broward putative class action***

A putative class action was filed in the United States District Court for the Central District of California. The action, entitled South Broward Hospital District, d/b/a Memorial Regional Hospital, et al. v. MedQuist Inc. et al., Case No. CV-04-7520-TJH-VBKx, was filed on September 9, 2004 against us and certain of our present and former officers, purportedly on behalf of an alleged class of non-federal governmental hospitals and medical centers that the complaint claims were wrongfully and fraudulently overcharged for transcription services by defendants based primarily on our use of the AAMT line billing unit of measure. The complaint charged fraud, violation of the California Business and Professions Code, unjust enrichment, conversion, negligent supervision and violation of RICO. Named as defendants, in addition to us, were one of our senior vice presidents, our former executive vice president of marketing and new business development, our former executive vice president and chief legal officer, and our former executive vice president and chief financial officer.

On March 10, 2008, the parties reached agreement on settlement terms resolving all claims by the named plaintiffs. The parties entered into a final settlement agreement on or about May 21, 2008. Under the parties' agreement, we made a lump sum payment of \$7,520 to resolve all claims by the individual named plaintiffs and certain other additional putative class members represented by plaintiffs' counsel but not named in the action. We have accrued the entire amount of this lump sum payment, \$5,205 of which was accrued during 2005, in the accompanying consolidated balance sheet as of December 31, 2007. Neither we, nor any of the individual defendants, admitted to any liability or any wrongdoing in connection with the settlement. On June 16, 2008, the District Court dismissed the case with prejudice in its entirety and without costs. Because the settlement is not to be on a class-wide basis, no class will be certified and thus there is no requirement to give notice.

***Kaiser litigation***

On June 6, 2008, plaintiffs Kaiser Foundation Health Plan, Inc., Kaiser Foundation Hospitals, The Permanente Medical Group, Inc., Kaiser Foundation Health Plan of the Mid-Atlantic States, Inc., and Kaiser Foundation Health Plan of Colorado (collectively, Kaiser) filed suit against MedQuist Inc. and MedQuist Transcriptions, Ltd. (collectively, MedQuist) in the Superior Court of the State of California in and for the County of Alameda. The action is entitled Foundation Health Plan Inc., et al v. MedQuist Inc. et al., Case No. CV-078-03425 PJH. The complaint asserts five causes of action, for common law fraud, breach of contract, violation of California Business and Professions Code section 17200, unjust enrichment, and a demand for an accounting. More specifically, Kaiser alleges that MedQuist fraudulently inflated the payable units of measure in medical transcription reports generated by MedQuist for Kaiser pursuant to the contracts between the parties. The damages alleged in the complaint include an estimated \$7 million in compensatory damages, as well as punitive damages, attorneys' fees and costs, and injunctive

relief. MedQuist contends that it did not breach the contracts with Kaiser, or commit the fraud alleged, and it intends to defend the suit vigorously. MedQuist removed the case to the United States District Court for the Northern District of California, and has filed motions to dismiss Kaiser's complaint and to transfer venue of the case to the United States District Court for the District of New Jersey. The parties participated in mediation on July 24, 2008, but the case was not settled. An initial case management conference has been set for October 23, 2008.

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**Notes to Consolidated Financial Statements (Continued)**

***Medical transcriptionist litigation***

*Hoffmann putative class action*

A putative class action lawsuit was filed against us in the United States District Court for the Northern District of Georgia. The action, entitled Brigitte Hoffmann, et al. v. MedQuist Inc., et al., Case No. 1:04-CV-3452, was filed with the Court on November 29, 2004 against us and certain current and former officials, purportedly on behalf of an alleged class of current and former employees and statutory workers, who are or were compensated on a per line basis for medical transcription services (Class Members) from January 1, 1998 to the time of the filing of the complaint (Class Period). The complaint specifically alleged that defendants systematically and wrongfully underpaid the Class Members during the Class Period. The complaint asserted the following causes of action: fraud, breach of contract, demand for accounting, quantum meruit, unjust enrichment, conversion, negligence, negligent supervision, and RICO violations. Plaintiffs sought unspecified compensatory damages, punitive damages, disgorgement and restitution. On December 1, 2005, the Hoffmann matter was transferred to the United States District Court for the District of New Jersey. On January 12, 2006, the Court ordered this case consolidated with the Myers Putative Class Action discussed below. As set forth below, the parties have reached an agreement in principle to settle all claims.

*Force putative class action*

A putative class action entitled Force v. MedQuist Inc. and MedQuist Transcriptions, Ltd., Case No. 05-cv-2608-WSD, was filed against us on October 11, 2005 in the United States District Court for the Northern District of Georgia. The action was brought on behalf of a putative class of current and former employees who claim they are or were compensated on a per line basis for medical transcription services but were allegedly underpaid due to the actions of defendants. The named plaintiff asserted claims for breach of contract, quantum meruit, unjust enrichment, and for an accounting. Upon stipulation and consent of the parties, on February 17, 2006, the Force matter was ordered transferred to the United States District Court for the District of New Jersey. Subsequently, on April 4, 2006, the parties entered into a stipulation and consent order whereby the Force matter was consolidated with the Myers Putative Class Action discussed below, and the consolidated amended complaint filed in the Myers action on January 31, 2006 was deemed to supersede the original complaint filed in the Force matter. As set forth below, the parties have reached an agreement in principle to settle all claims.

*Myers putative class action*

A putative class action entitled Myers, et al. v. MedQuist Inc. and MedQuist Transcriptions, Ltd., Case No. 05-cv-4608 (JBS), was filed against us on September 22, 2005 in the United States District Court for the District of New Jersey. The action was brought on behalf of a putative class of our employee and independent contractor transcriptionists who claim that they contracted with us to be paid on a 65 character line, but were allegedly underpaid due to intentional miscounting of the number of characters and lines transcribed. The named plaintiffs asserted claims for breach of contract, unjust enrichment, and requested an accounting.

The allegations contained in the Myers case are substantially similar to those contained in the Hoffmann and Force putative class actions and, as detailed above, the three actions have now been consolidated. A consolidated amended complaint was filed on January 31, 2006. In the consolidated amended complaint, the named plaintiffs assert claims

for breach of contract, breach of the covenant of good faith and fair dealing, unjust enrichment and demand an accounting. On March 7, 2006 we filed a motion to dismiss all claims in the consolidated amended complaint. The motion was fully briefed and argued on August 7, 2006. The Court denied the motion on December 21, 2006. On January 19, 2007, we filed our answer denying the material allegations pleaded in the consolidated amended complaint.

On May 17, 2007, the Court issued a Scheduling Order, ordering all pretrial fact discovery completed by October 30, 2007. The Court subsequently ordered plaintiffs to file their motion for class certification by December 14, 2007 and continued the date to complete fact discovery to January 14, 2008. On October 18,

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2007, the Court heard oral argument on plaintiffs' motion to compel further responses to written discovery regarding our billing practices. At the conclusion of the hearing, the Court denied plaintiffs' motion, finding plaintiffs had not established that the billing discovery sought was relevant to the claims or defenses regarding transcriptionist pay alleged in their case. On December 14, 2007, plaintiffs filed their motion for class certification, identifying a proposed class of all of our transcriptionists who were compensated on a per line basis for work completed on MedRite, MTS or DEP transcription platforms from November 29, 1998 to the present and alleging that the proposed class was underpaid by more than \$80 million, not including interest.

On January 4, 2008, the Court entered a Consent Order ordering our opposition to the motion for class certification to be filed by March 14, 2008, plaintiffs' reply brief to be filed by May 14, 2008 and setting oral argument for June 2, 2008. No date has been set for trial. On January 9, 2008, the Court entered a Consent Order extending the deadline for the parties to complete depositions of identified witnesses through February 15, 2008. We have now deposed each of the named plaintiffs and all witnesses who offered declarations in support of plaintiffs' motion for class certification, and plaintiffs have deposed numerous MedQuist present and former employees. On February 8, 2008, plaintiffs indicated that they would seek leave to file an amended class certification brief to narrow their claims. On February 19, 2008, the parties exchanged their Initial Disclosures. Plaintiffs' disclosures limited their damages estimate to \$41.0 million related to alleged underpayment on the MedRite transcription platform; however, plaintiffs stated that they were continuing to analyze potential undercounting and would supplement their damages claim. On March 10, 2008, plaintiffs moved for leave to file an amended motion for class certification dropping all allegations involving our DEP transcription platform and narrowing the claims asserted regarding the legacy MTS transcription platform. We did not oppose plaintiffs' motion for leave. On March 11, 2008, the Court granted plaintiffs' motion, ordering us to file our opposition to plaintiffs' amended motion for class certification by April 4, 2008 and ordering plaintiffs to file their reply by May 23, 2008. On April 4, 2008, we filed our opposition to plaintiffs' amended motion for class certification.

On or about April 21, 2008, the parties reached a tentative settlement of all claims in exchange for payment by MedQuist of \$1.5 million plus certain injunctive relief. The parties are in the process of documenting their agreement. The court has been notified of the tentative settlement and the lawsuit has been stayed while the parties continue to negotiate the settlement documentation. The tentative settlement contemplates notice to a settlement class consisting of all medical transcriptionists paid by the line for the period from November 29, 1998 through execution of the stipulation of settlement and is conditioned on final approval by the court. Neither MedQuist, nor any other party, has admitted or will admit liability or any wrongdoing in connection with the proposed settlement.

**Shareholder litigation*****Costa brava partnership III, L.P. shareholder litigation******Annual meeting and books and records claims***

On October 9, 2007, a single count Complaint and an Order to Show Cause were filed against us in the Superior Court of New Jersey, Chancery Division, Burlington County by one of our shareholders. The action, entitled *Costa Brava Partnership III, L.P. v. MedQuist Inc.* (Bur-C-0149-07), sought to compel us to hold an annual meeting of shareholders (Annual Meeting Claim).

On October 30, 2007, plaintiff requested access under New Jersey law to certain of our books and records. In response to plaintiff's request, we voluntarily provided plaintiff with those books and records that we believed we were required to produce under New Jersey law. Thereafter, on November 9, 2007, plaintiff filed an Amended Complaint to assert a second claim to compel us to provide it with access to certain other books and records (Books and Records Claim). The Annual Meeting Claim and the Books and Records Claim sought equitable relief only.

In December 2007, we agreed to hold our annual meeting of shareholders on December 31, 2007. This resolved the Annual Meeting Claim. Prior to the annual meeting, we produced to plaintiff certain additional books and



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records that plaintiff requested in the Books and Records Claim. Thereafter, on January 24, 2008, we filed an opposition to plaintiff's Order to Show Cause to compel access to the remaining books and records. On February 4, 2008, plaintiff filed a reply brief. In June 2008, we and the plaintiff settled the Books and Records Claim on terms acceptable for all parties. No monetary payments were made by either party and each party was responsible for its own attorneys' fees and costs incurred in the litigation.

*Claim for preliminary and injunctive relief*

On July 30, 2008, Costa Brava Partnership III, L.P. filed a verified complaint and jury demand in the United States District Court District of New Jersey against MedQuist Inc., Philips, CBay Inc., CBaySystems Holdings, S.A.C. Capital Management, LLC, S.A.C. Private Capital Group, LLC, S.A.C. PEI CB Investment, L.P., and four of our former, non-independent directors, Clement Revetti, Jr., Gregory M. Sebasky and Scott M. Weisenhoff and Edward H. Siegel. It subsequently filed a first amended complaint on August 1, 2008. The amended complaint alleges that the defendants violated the Clayton Act, the New Jersey Shareholder Protection Act, and federal securities laws, by engaging in certain actions that were anti-competitive, harmful to us and in furtherance of the CBaySystems Holdings purchase of Philips' stock in MedQuist. Certain of the claims are purportedly asserted derivatively on our behalf. On August 1, 2008, the plaintiff also sought an ex parte temporary restraining order and entry of an order to show cause requiring the defendants to appear and show cause why a preliminary injunction should not be issued enjoining the complained of actions. A hearing was held on the preliminary injunction motion on August 5, 2008. At the conclusion of the hearing, the Court denied the request for a temporary restraining order and denied the request to enter an order to show cause. The Court ruled that the plaintiff had not met the standards for injunctive relief, including a showing of likelihood of success on the merits or irreparable harm. The Court allowed the plaintiff two weeks to file a further amended complaint, and directed the parties to engage in discovery on an expedited schedule. We deny any liability and intend to defend this action vigorously.

*Kahn putative class action*

A shareholder putative class action lawsuit was filed against us in the Superior Court of New Jersey, Chancery Division, Burlington County. The action, entitled Alan R. Kahn v. Stephen H. Rusckowski, et al., Docket No. BUR-C-000007-08, was filed with the Court on January 22, 2008 against us, Philips and four of our former non-independent directors, Clement Revetti, Jr., Stephen H. Rusckowski, Gregory M. Sebasky and Scott Weisenhoff. Plaintiff purports to bring the action on his own behalf and on behalf of all current holders of our common stock. The complaint alleged that defendants breached their fiduciary duties of good faith, fair dealing, loyalty, and due care by purportedly agreeing to and initiating a process for our sale or a change of control transaction which will allegedly cause harm to plaintiff and the putative class. Plaintiff sought damages in an unspecified amount, plus costs and interest, a judgment declaring that defendants breached their fiduciary duties and that any proposed transactions regarding our sale or change of control are void, an injunction preventing our sale or any change of control transaction that is not entirely fair to the class, an order directing us to appoint three independent directors to our board of directors, and attorneys' fees and expenses.

On June 12, 2008, plaintiff filed an amended class action complaint against us, eight of our current and former directors, and Philips in the Superior Court of New Jersey, Chancery Division. In the amended complaint, plaintiff alleges that our current and former directors breached their fiduciary duties of good faith, fair dealing, loyalty, and due care by not permitting our public shareholders the opportunity to decide whether they wanted to participate in a share purchase offer with non-party CBaySystems Holdings that would have allowed the public shareholders to sell their

shares of our common stock for an amount above market price. Plaintiff further alleges that CBaySystems Holdings also made the share purchase offer to our majority shareholder, Philips, and that Philips breached its fiduciary duties by accepting CBaySystems Holdings offer. Based on these allegations, plaintiff seeks declaratory, injunctive, and monetary relief from all defendants.

On July 14, 2008, we moved to dismiss plaintiff's amended class action complaint, arguing (1) that plaintiff's amended class action complaint did not allege that we engaged in any wrongdoing which supported a breach of

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**Notes to Consolidated Financial Statements (Continued)**

fiduciary duty claim and (2) that a breach of fiduciary duty claim is not legally cognizable against a corporation. Plaintiff filed an opposition to our motion to dismiss on July 21, 2008. The Court will hold oral argument on our motion some time in October 2008.

We deny any liability and intend to defend this action vigorously.

***Newcastle shareholder litigation***

On June 30, 2008, Newcastle Partners, L.P. (Newcastle), a shareholder affiliated with one of our directors, derivatively on our behalf, filed an action against Philips, CBaySystems Holdings, CBay Inc., Stephen H. Rusckowski, Clement Revetti, Jr., Greg Sebasky, Jr., Scott M. Weisenhoff and Edward H. Siegel, each of whom is one of our former non-independent directors, in the Superior Court of New Jersey, Chancery Division, Burlington County. The complaint also named us as a Nominal Defendant, meaning that no monetary relief is being sought against us.

On July 9, 2008, Newcastle amended the complaint to add Arklow Master Fund, Ltd. (Arklow), one of our shareholders and affiliated with one of our directors, as an additional plaintiff. Plaintiffs allege that defendants have taken steps to sell Philips' entire interest in MedQuist (i.e., 69.5% of our outstanding shares) to CBaySystems Holdings and CBay Inc. (collectively, CBay). Plaintiffs assert four counts in the complaint. First, plaintiffs contend that Rusckowski, Revetti, Sebasky, Weisenhoff and Siegel (collectively, the Philips Directors), who are also senior officers of Philips, breached their fiduciary duties, to the Company by taking steps to consummate the proposed sale of Philips' shares in MedQuist to CBay Inc. that will adversely affect the Company. Second, plaintiffs aver that all of the defendants, individually and together, aided and abetted the Philips Directors' breach of their fiduciary duties. In light of the first two counts, plaintiffs sought injunctive relief (including an order enjoining the proposed sale of Philips' shares in MedQuist to CBay Inc.), declaratory relief and attorneys' fees and costs. Third, as an alternative form of relief, plaintiffs plead that in the event that Philips sells its stake in MedQuist, plaintiffs demand a declaration that a certain agreement related to the governance of the Company remain in full force and effect. Fourth, plaintiffs assert that CBay breached the standstill provision contained in an April 2008 confidentiality agreement between us and CBay and demand an injunction to prevent CBay from violating that agreement.

On July 8, 2008, Newcastle filed an Application for an Order to Show Cause (OSC) to (i) preliminarily enjoin Philips and CBay from consummating the sale of Philips' MedQuist stock to CBay; (ii) preliminarily enjoin the Philips Directors from taking any action to consummate the proposed sale; and (iii) preliminarily enjoin CBay from violating the Confidentiality Agreement. As part of the relief requested in the OSC, plaintiffs sought a Temporary Restraining Order (TRO) that would restrain all defendants from taking any action in violation of the proposed OSC until a preliminary injunction hearing could be held.

On July 9, 2008, counsel for MedQuist, Philips, the Philips Directors, CBay, Newcastle and Arklow appeared before Judge Michael Hogan of the Superior Court of New Jersey, for a hearing on the TRO application. After entertaining argument from the parties, Judge Hogan denied the TRO application. Judge Hogan scheduled a preliminary injunction hearing for July 31, 2008 and ordered expedited discovery. The parties subsequently agreed to an expedited discovery schedule, as well as a briefing schedule on OSC for a preliminary injunction. The hearing was held on July 31, 2008, and on August 1, 2008, the Court issued an order denying plaintiffs' motion seeking preliminary injunctive relief. The Court found, among other things, that the plaintiffs failed to establish by clear and convincing evidence a reasonable probability of success on their underlying claims, or that absent injunctive relief they would suffer immediate

irreparable harm.

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**Notes to Consolidated Financial Statements (Continued)**

***Reseller arbitration demand***

On October 1, 2007, we received from counsel to nine current and former resellers of our products (Claimants), a copy of an arbitration demand filed by the Claimants, initiating an arbitration proceeding styled Diskriter, Inc., Electronic Office Systems, Inc., Milner Voice & Data, Inc., Nelson Systems, Inc., NEO Voice and Communications, Inc., Office Business Systems, Inc., Roach-Reid Office Systems, Inc., Stiles Office Systems, Inc., and Travis Voice and Data, Inc. v. MedQuist Inc. and MedQuist Transcriptions, Ltd. (collectively MedQuist) (filed on September 27, 2007, AAA, 30-118-Y-00839-07). The arbitration demand purports to set forth claims for breach of contract; breach of covenant of good faith and fair dealing; promissory estoppel; misrepresentation; and tortious interference with contractual relations. The Claimants allege that we breached our written agreements with the Claimants by: (i) failing to provide reasonable training, technical support, and other services; (ii) using the Claimants' confidential information to compete against the Claimants; (iii) directly competing with the Claimants' territories; and (iv) failing to make new products available to the Claimants. In addition, the Claimants allege that we made false oral representations that we: (i) would provide new product, opportunities and support to the Claimants; (ii) were committed to continuing to use Claimants; (iii) did not intend to create our own sales force with respect to the Claimants' territory; and (iv) would stay out of Claimants' territories and would not attempt to take over the Claimants' business and relationships with the Claimants' customers and end-users. The Claimants assert that they are seeking damages in excess of \$24.3 million. We also moved to dismiss MedQuist Inc. as a party to the arbitration since MedQuist Inc. is not a party to the Claimants' agreements, and accordingly, has never agreed to arbitration. The AAA initially agreed to rule on these matters, but then decided to defer a ruling to the panel of arbitrators selected pursuant to the parties' agreements (Panel). In response, we informed the Panel that a court, not the Panel, should rule on these issues. When it appeared that the Panel would rule on these issues, we initiated a lawsuit in the Superior Court of DeKalb County (the Court) and requested an injunction enjoining the Panel from deciding these issues. The Court denied the request, and indicated that a new motion could be filed if the Panel's ruling was adverse to MedQuist Inc. or MedQuist Transcriptions, Ltd. On May 6, 2008, the Panel dismissed MedQuist Inc. as a party, but ruled against our opposition to a consolidated arbitration. We asked the Court to stay the arbitration in order to review that decision. The Court initially granted the stay, but later lifted the stay. The Court did not make any substantive rulings regarding consolidation, and in fact, left that decision and others to the assigned judge, who was unable to hear those motions. Accordingly, until further order of the Court, the arbitration will proceed forward.

We filed an answer and counterclaim in the arbitration, which generally denied liability. In the lawsuit, the defendants filed a motion to dismiss alleging that our complaint failed to state an actionable claim for relief. On July 25, 2008, we filed our response which opposed the motion to dismiss in all respects. Discovery has now commenced in both the arbitration and the lawsuit. We deny all wrongdoing and intend to defend ourselves vigorously including asserting counterclaims against the Claimants as appropriate.

***Anthurium patent litigation***

On November 6, 2007, Anthurium Solutions, Inc. filed an action entitled Anthurium Solutions, Inc. v. MedQuist Inc., et al., Civil Action No. 2-07CV-484, in the United States District Court for the Eastern District of Texas, alleging that we infringed and continue to infringe United States Patent No. 7,031,998 through our DEP transcription platform. The complaint also alleges patent infringement claims against Spheris, Inc. and Arrendale Associates, Inc. The complaint seeks injunctive relief and unspecified damages, including enhanced damages and attorneys' fees. We filed our answer on January 15, 2008 and counterclaimed seeking a declaratory judgment of non-infringement and invalidity. Plaintiff

filed its preliminary infringement contentions on May 2, 2008. Our investigation of the claims is ongoing. We believe that the claims asserted have no merit and intend to vigorously defend the suit.

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**MedQuist Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

***Other matters***

From time to time, we have been involved in various claims and legal actions arising in the ordinary course of business. In our opinion, the outcome of such actions will not have a material adverse effect on our consolidated financial position, results of operations, liquidity or cash flows.

We provide certain indemnification provisions within our standard agreement for the sale of software and hardware (collectively, Products) to protect our customers from any liabilities or damages resulting from a claim of U.S. patent, copyright or trademark infringement by third parties relating to our Products. We believe that the likelihood of any future payout relating to these provisions is remote. Accordingly, we have not recorded any liability in our consolidated financial statements as of December 31, 2007 or June 30, 2008 related to these indemnification provisions.

We had insurance policies which provided coverage for certain of the matters related to the legal actions described herein and certain other legal actions that were previously settled or dismissed. To date, we have received total insurance recoveries of \$24,795 related to these policies (See Note 8). We do not expect to receive any additional insurance recoveries related to these legal actions.

**12. Related party transactions**

From time to time, we enter into transactions in the normal course of business with related parties. The audit committee of our board of directors has been charged with the responsibility of approving or ratifying all related party transactions other than those between us and Philips. In any situation where the audit committee sees fit to do so, any related party transaction, other than those between us and Philips, may be presented to disinterested members of our board of directors for approval or ratification.

We are a party to various agreements with Philips, our former majority shareholder. All material transactions between Philips and us have been reviewed and approved by the supervisory committee of our board of directors. The supervisory committee is comprised of directors independent from Philips. Listed below is a summary of our material agreements with Philips.

On August 6, 2008, the supervisory committee of our board of directors was eliminated by our board of directors after the consummation of the CBaySystems Holdings Purchase. We are not a party to any material agreements with CBaySystems Holdings.

***Licensing agreement***

We are a party to a Licensing Agreement with Philips Speech Processing GmbH, an affiliate of Philips which is now known as Philips Speech Recognition Systems GmbH (PSRS), on May 22, 2000 (Licensing Agreement). The Licensing Agreement was subsequently amended by the parties as of January 1, 2002, February 23, 2003, August 10, 2003, September 1, 2004, December 30, 2005 and February 13, 2007.

Under the Licensing Agreement, we license from PSRS its SpeechMagic speech recognition and processing software, including any updated versions of the software developed by PSRS during the term of the License Agreement

(Licensed Product), for use by us anywhere in the world. We pay a fee for use of this license based upon a per line fee for each transcribed line of text processed through the Licensed Product.

Upon the expiration of its initial term on June 28, 2005, the Licensing Agreement was renewed for an additional five year term. As part of the CBaySystems Holdings Purchase, Philips waived its ability to terminate the Licensing Agreement until the expiration of the current renewal term, conditioned upon a similar waiver from us.

In connection with the Licensing Agreement, we have a consulting arrangement with PSRS whereby PSRS assists us with the integration of its speech and transcription technologies.

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**MedQuist Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

***OEM supply agreement***

On September 21, 2007, we entered into an Amended and Restated OEM Supply Agreement (Amended OEM Agreement) with PSRS. The Amended OEM Agreement amends and restates a previous OEM Supply Agreement with PSRS dated September 23, 2004. In connection with the Amended OEM Agreement certain amounts paid to PSRS were capitalized in fixed assets and are being amortized over a three-year period.

Pursuant to the Amended OEM Agreement, we purchased a co-ownership interest in all rights and interests in and to SpeechQ for Radiology together with its components, including object and source code for the SpeechQ for Radiology application and the SpeechQ for Radiology integration SDK (collectively, the Product), but excluding the SpeechMagic speech recognition and processing software, which we separately license from PSRS for a fee under the Licensing Agreement. Additionally, the Amended OEM Agreement provides that we shall receive, in exchange for a fee, the exclusive right in the United States, Canada and certain islands of the Caribbean (collectively the Exclusive Territory) to sell, service and deliver the Product. In addition, PSRS has agreed that for the term of the Amended OEM Agreement it will not release a front-end multi-user reporting solution (including one similar to the Product) in the medical market in the Exclusive Territory nor will it directly authorize or assist any of its affiliates to do so either; provided that the restriction does not prevent PSRS's affiliates from integrating SpeechMagic within their general medical application products. The Amended OEM Agreement further provides that we shall make payments to PSRS for PSRS's development of an interim version of the software included in the Product (Interim Version). Except for the Interim Version which we and PSRS will co-own, the Amended OEM Agreement provides that any improvements, developments or other enhancements either we or PSRS makes to the Product (collectively, Improvements) shall be owned exclusively by the party that developed such Improvement. Each party has the right to seek patent or other protection of the Improvements it owns independent of the other party.

The term of the Amended OEM Agreement extends through June 30, 2010 and will automatically renew for an additional three year term provided that we are in material compliance with the Amended OEM Agreement as of such date. If PSRS decides to discontinue all business relating to the Product in the Exclusive Territory on or after June 30, 2010, PSRS can effect such discontinuation by terminating the Amended OEM Agreement by providing us with six months prior written notice of such discontinuation, provided the earliest such notice can be delivered is June 30, 2010. Either party may terminate the Amended OEM Agreement for cause immediately in the event that a material breach by the other party remains uncured for more than 30 days following delivery of written notice or in the event that the other party becomes insolvent or files for bankruptcy.

***Equipment purchases***

We purchase certain dictation related equipment from Philips.

***Insurance coverage***

Prior to the closing of the CBaySystems Holdings Purchase on August 6, 2008, we obtained all of our business insurance coverage (other than workers' compensation) through Philips. As of August 7, 2008, we have insurance policies through CBaySystems Holdings.

***Purchasing agreements***

For each of the three years ended December 31, 2007 we entered into annual letter agreements with Philips Electronics North America Corporation (PENAC), an affiliate of Philips, to purchase products and services from certain suppliers under the terms of the prevailing agreements between such suppliers and PENAC. As of January 1, 2008, we are no longer a party to an agreement with PENAC to purchase the aforementioned products and services.

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**Notes to Consolidated Financial Statements (Continued)**