MedQuist Holdings Inc.
Form 424B4
February 07, 2011

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Filed pursuant to Rule 424(b)(4)
Registration No. 333-169997

**FINAL PROSPECTUS**

**4,500,000 Shares**

**MEDQUIST HOLDINGS INC.**
**(formerly CBaySystems Holdings Limited)**

**Common Stock**

This is the initial public offering of our shares in the United States. We are offering 3,000,000 shares of our common stock, and the selling stockholders named in this prospectus are offering 1,500,000 shares of our common stock. We will not receive any proceeds from the sale of the shares by the selling stockholders.

Our common stock has been approved for listing on The NASDAQ Global Market under the symbol MEDH.

Our shares were formerly listed on the Alternative Investment Market of the London Stock Exchange, or AIM. However, we have delisted from AIM and January 27, 2011 was the last day on which our shares traded on AIM.

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

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

| | PER SHARE | TOTAL |
|---|---|---|
| Public offering price | $ 8.00 | $ 36,000,000 |
| Underwriting discount | $ 0.56 | $ 2,520,000 |
| Proceeds to MedQuist Holdings Inc. (before expenses) | $ 7.44 | $ 22,320,000 |
| Proceeds to selling stockholders (before expenses) | $ 7.44 | $ 11,160,000 |

See Underwriting for a discussion of the underwriting compensation. Delivery of the shares of common stock is expected to be made on or about February 9, 2011. The selling stockholders have granted the underwriters an option for a period of 30 days to purchase on the same terms and conditions set forth above, up to an additional 675,000 shares of our common stock to cover overallotments.

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

**Loop Capital Markets**

Prospectus dated February 4, 2011.

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

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

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

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

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

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## Prospectus Summary

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

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

### Overview

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

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

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

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

Financial Data.

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## Our industry

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

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

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

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

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

## Our competitive strengths

Our competitive strengths include:

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

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

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

### Our strategy

Key elements of our strategy include:

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

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

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

**Risks associated with our business**

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

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

**Our history**

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

***Acquisitions***

*MedQuist Inc.*

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

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

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

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

*Spheris*

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

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

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

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

***Pricing***

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

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## Recent developments

### *Recapitalization transactions*

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

### *Exchange transactions*

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

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

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

### *Sale of A-Life Investment*

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

### *Sale of PFS*

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

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

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

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

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

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

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

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

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

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

***Corporate information***

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

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## The Offering

| | |
|---|---|
| Common stock offered by us | 3,000,000 shares |
| Common stock offered by the selling stockholders | 1,500,000 shares |
| Common stock to be outstanding immediately after this offering [1] | 50,947,467 shares |
| Over-allotment option | The selling stockholders have granted the underwriters a 30-day option to purchase up to 675,000 additional shares. |

**Use of proceeds**

Our net proceeds from this offering, after deducting the underwriting discounts and commissions and offering expenses, are expected to be approximately $15.0 million. We intend to use the net proceeds from this offering for working capital and other general corporate purposes. We may also use a portion of the net proceeds for the acquisition of complementary companies or businesses, although we currently do not have any acquisition or investment planned. We will not receive any proceeds from the sale of shares by the selling stockholders.

**Dividend policy**

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

**The NASDAQ Global Market listing**

Our common stock has been approved for listing on The NASDAQ Global Market under the symbol MEDH.

**Assumptions in this prospectus**

Unless we indicate otherwise, all information in this prospectus:

- n assumes our redomiciliation under the laws of the state of Delaware and gives effect to the conversion;
- n assumes consummation of the Private Exchange based on an exchange ratio of one share of our common stock for each MedQuist Inc. share of common stock;
- n assumes a full exchange in the Registered Exchange Offer; and
- n assumes no exercise by the underwriters of their over-allotment option;

[1] The number of shares of common stock to be outstanding after this offering consists of (i) 3.0 million shares issued by us in this offering; (ii) 35.2 million shares held by our existing stockholders, (iii) 4.8 million shares of common stock to be issued in the Private Exchange, (iv) 6.7 million shares of our common stock to be issued in the Registered

Exchange Offer, assuming a full exchange, and (v) 1.3 million shares of our common stock issuable pursuant to an agreement, or the Consulting Services Agreement, we entered into at the time of the MedQuist Inc. Acquisition, and excludes (i) approximately 3.5 million shares of common stock reserved for issuance under our equity incentive plans, of which options to purchase approximately 2.7 million shares with a weighted average exercise price of $5.66 were outstanding as of September 30, 2010 and (ii) 81,488 shares of our common stock issuable pursuant to a warrant agreement, exercisable at a price of £3.15 per share, between us and Oosterveld International BV, dated March 19, 2009. See Certain Relationships and Related Party Transactions.

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## Summary Historical and Unaudited Pro Forma Consolidated Financial Data

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

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

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

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

- the Spheris Acquisition and the incurrence by MedQuist Inc. of $113.6 million of debt to finance the Spheris Acquisition;
- the incurrence by MedQuist Inc. of $285.0 million of indebtedness under the Senior Secured Credit Facility and Senior Subordinated Notes, the simultaneous repayment of $80.0 million of indebtedness under the Acquisition Credit Facility, the repayment of $13.6 million of indebtedness under the Acquisition Subordinated Promissory Notes, the payment of a $176.5 million special dividend to MedQuist Inc. s stockholders, of which we received $122.6 million and the noncontrolling stockholders of MedQuist Inc. received $53.9 million, and the repayment by us, using the proceeds of such dividend of $104.1 million to extinguish our 6% Convertible Notes including a $7.7 million premium on early prepayment, and $3.7 million under certain other lines of credit;
- the issuance of 4.8 million shares of our common stock in exchange for 4.8 million shares of MedQuist Inc. common stock pursuant to the terms of the Exchange Agreement with certain noncontrolling stockholders of MedQuist Inc., which will increase our ownership in MedQuist Inc. from 69.5% to 82.2%;
- the issuance of 1.3 million shares of our common stock pursuant to the Consulting Services Agreement; and
- the issuance of 6.7 million shares of our common stock to be issued in exchange for 6.7 million shares of MedQuist Inc. common stock in the Registered Exchange Offer, assuming a full exchange. This would increase our ownership in MedQuist Inc. from 82.2% to 100%.

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

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

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

The pro forma as adjusted balance sheet data as of September 30, 2010 also gives effect to the issuance of 3.0 million shares of common stock in this offering at the initial public offering price of $8.00 per share, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us as if such transaction occurred as of September 30, 2010.

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

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

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

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

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

| | Historical | | | | | Pro forma | |
|---|---|---|---|---|---|---|---|
| | Years ended December 31, | | | Nine months ended September 30, | | Year ended December 31, | Nine months ended September 30, |
| | 2007 | 2008 | 2009 | 2009 | 2010 | 2009 | 2010 |
| | | | | (Unaudited) (In thousands) | | (Unaudited) | |
| Weighted average shares outstanding: | | | | | | | |
| Basic | 12,873 | 22,593 | 34,692 | 34,586 | 35,083 | 47,482 | 47,873 |
| Diluted | 12,873 | 22,593 | 34,692 | 34,586 | 35,893 | 47,482 | 48,683 |
| Adjusted EBITDA (1)(2) | $ 641 | $ 16,914 | $ 59,687 | $ 42,991 | $ 57,855 | $ 91,074 | $ 63,480 |

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

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

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

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

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

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

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

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

| | As of September 30, 2010 | | |
|---|---|---|---|
| **Balance Sheet Data** | **Actual** | **Pro forma (Unaudited) (In thousands)** | **Pro forma as adjusted** |
| Cash and cash equivalents [a] | $ 24,025 | $ 35,253 | $ 50,273 |
| Working capital [b] | 11,618 | 26,450 | 26,450 |
| Total assets | 379,304 | 397,882 | 412,902 |
| Long term debt, including current portion of debt | 204,172 | 294,848 | 294,848 |
| Total equity | 83,568 | 16,112 | 31,132 |

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

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

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

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

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

(b)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Risk Factors

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

### Risks related to our business

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- cause our customers to lose confidence in our solutions;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As part of our business strategy, we have in the past acquired, and expect to continue to acquire, other businesses and technologies. We may issue equity securities for future acquisitions, which would dilute existing stockholders, perhaps significantly depending on the terms of the acquisition. We may also incur additional debt in connection with future acquisitions, which may place additional restrictions on the ability to operate the business. Furthermore, prior acquisitions have required substantial integration and management efforts. Acquisitions involve a number of risks, including:

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

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

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

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

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

We and Spheris operated as separate companies prior to the Spheris Acquisition. We have had no prior history as a combined company and our operations have not previously been managed on a combined basis. The pro forma

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financial information included elsewhere in this prospectus, which was prepared in accordance with Article 11 of the SEC s Regulation S-X, is presented for informational purposes only and is not necessarily indicative of the financial position or results of operations that would have actually occurred had the Spheris Acquisition been completed at or as of the dates indicated, nor is it indicative of the future operating results or financial position of the combined company. The unaudited pro forma condensed combined consolidated statement of operations does not reflect future events that may occur after the Spheris Acquisition, including the potential realization of operating cost savings (synergies) or restructuring activities or other costs related to the planned integration of Spheris, and do not consider potential impacts of current market conditions on revenues, expense efficiencies or asset dispositions. The pro forma financial information presented in this prospectus is based in part on certain assumptions regarding the Spheris Acquisition that we believe are reasonable under the circumstances. We cannot assure you that our assumptions will prove to be accurate over time.

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

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

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

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

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

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

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

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

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

### Risks related to our common stock

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

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

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

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

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

After the Corporate Reorganization, affiliates of SAC PCG will beneficially own in the aggregate shares representing approximately 34.5% of our outstanding capital stock (assuming the over allotment option is not exercised). Furthermore, we have entered into a Stockholders Agreement with affiliates of SAC PCG pursuant to which they will have the right to nominate to our board three, two or one directors for so long as they hold at least 20%, 10% or 5% of our voting power, respectively. This concentration of ownership of our shares and the Stockholders Agreement could delay or prevent proxy contests, mergers, tender offers, open-market purchase programs or other purchases of shares of our common stock that might otherwise give you the opportunity to realize a premium over the then-prevailing market price of our common stock. This concentration of ownership may also adversely affect our stock price.

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

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

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

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

Upon the completion of this offering, and, after giving effect to (i) the Private Exchange, (ii) the Registered Exchange Offer, assuming a full exchange and (iii) the issuance of 1.3 million shares of our common stock pursuant to the Consulting Services Agreement, we will have outstanding 50.9 million shares of common stock, assuming no exercise of outstanding options. If our existing stockholders sell, or indicate an intent to sell, substantial amounts of our common stock in the public market after the consummation of this offering, the trading price of our common stock could decline significantly.

Of the 50.9 million shares of our common stock outstanding upon the completion of the Corporate Reorganization, (i) 26.3 million shares will be subject to a 180-day contractual lock-up, (ii) 3.8 million shares will be subject to a 90-day contractual lock-up, (iii) 3.8 million shares will be subject to a 45-day contractual lock-up and (iv) 17.0 million shares, including the 4.5 million shares being sold in this offering and the 6.7 million shares being issued in the Registered Exchange Offer, assuming a full exchange will not be subject to any contractual lock-up. If our existing stockholders sell, or indicate an intent to sell, substantial amounts of our common stock in the public market after the applicable contractual lock-up and other applicable legal restrictions on resale discussed in this prospectus lapse, the trading price of our common stock could decline significantly. Lazard Capital Markets LLC and Macquarie Capital (USA) Inc. may, in their sole discretion, permit our officers, directors, employees and other stockholders to sell shares prior to the expiration of the lock-up agreements. We cannot predict the effect, if any, that public sales of these shares or the availability of these shares for sale will have on the market price of our common stock.

In addition, the shares subject to outstanding options under our equity incentive plans and the shares reserved for future issuance under our equity incentive plans will become eligible for sale in the public market in the future, subject to certain legal and contractual limitations. Moreover, 180 days after the completion of this offering, holders of approximately 22.7 million shares of our common stock will have the right to require us to register these shares under the Securities Act of 1933, as amended, or the Securities Act, pursuant to registration rights (17.5 million under demand registration rights and 5.2 million under piggyback registration rights). If our existing stockholders sell substantial amounts of our common stock in the public market, or if the public perceives that such sales could occur, this could have an adverse impact on the market price of our common stock, even if there is no relationship between such sales and the performance of our business.

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

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

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

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

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

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

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

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

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

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

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

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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:

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

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

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

## Corporate Reorganization

### Recapitalization Transactions

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

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

### Private Exchange

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

### Registered Exchange Offer

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

### Redomiciliation and share conversion

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

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## Use of Proceeds

Our net proceeds from this offering, after deducting the underwriting discounts and commissions and offering expenses, are expected to be approximately $15.0 million. We intend to use the net proceeds from this offering for working capital and other general corporate purposes. We may also use a portion of the net proceeds for the acquisition of complementary companies or businesses, although we currently do not have any acquisition or investment planned. We will not receive any proceeds from the sale of shares of common stock by the selling stockholders.

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

## Dividend Policy

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

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## Capitalization

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

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

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

| | As of September 30, 2010 | | |
|---|---|---|---|
| | Actual | Pro forma (4) | Pro forma as adjusted |
| | | ($ in thousands) | |
| Cash and cash equivalents (1) | $ 24,025 | $ 35,253 | $ 50,273 |
| Short-term debt (2) | 36,224 | 22,949 | 22,949 |
| Long-term debt | | | |
| Term loans | 1,075 | 343 | 343 |
| Senior Secured Credit Facility | 55,000 | 185,000 | 185,000 |
| Senior Subordinated Notes | 13,898 | 85,000 | 85,000 |
| 6% Convertible Notes | 96,419 | | |
| Other debt (3) | 1,556 | 1,556 | 1,556 |
| Total debt | 204,172 | 294,848 | 294,848 |
| Equity | | | |
| Stockholders equity: | | | |
| Preferred stock: 25 million shares authorized, none issued or outstanding | | | |
| Common stock: 300 million shares authorized, 35.2 million shares issued and outstanding (actual); 47.9 million shares issued and outstanding (pro forma); 50.9 million shares issued and outstanding (pro forma as adjusted) | 3,516 | 4,795 | 5,095 |
| Additional paid in capital | 149,100 | 134,451 | 149,171 |
| Accumulated deficit | (109,261) | (123,154) | (123,154) |
| Accumulated other comprehensive loss | (385) | (385) | (385) |
| Total stockholders equity | 42,970 | 15,707 | 30,727 |
| Noncontrolling interests | 40,598 | 405 | 405 |
| Total equity | 83,568 | 16,112 | 31,132 |
| Total capitalization | $ 287,740 | $ 310,960 | $ 325,980 |

(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) Pro forma basis reflects (i) the $200.0 million borrowings under the Term Loan, (ii) the issuance of $85.0 million of Senior Subordinated Notes, (iii) our repayment of the 6% Convertible Notes, (iv) the issuance of 4.8 million shares of our common stock in the Private Exchange, (v) the issuance of 6.7 million shares of our common stock in the Registered Exchange Offer, assuming a full exchange and (vi) the issuance of 1.3 million shares of our common stock pursuant to the Consulting Services Agreement.

## Unaudited Pro Forma Condensed Combined Financial Information

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

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

- the Spheris Acquisition and the incurrence by MedQuist Inc. of $113.6 million of debt to finance the Spheris Acquisition;
- the incurrence by MedQuist Inc. of $285.0 million of indebtedness under the Senior Secured Credit Facility and Senior Subordinated Notes, the simultaneous repayment of $80.0 million of indebtedness under the Acquisition Credit Facility, the repayment of $13.6 million of indebtedness under the Acquisition Subordinated Promissory Notes, the payment of a $176.5 million special dividend to MedQuist Inc. s stockholders, of which we received $122.6 million and the noncontrolling stockholders of MedQuist Inc. received $53.9 million, and the repayment by us, using the proceeds of such dividend, of $104.1 million to extinguish our 6% Convertible Notes including a $7.7 million premium on early prepayment and $3.7 million under certain of our other lines of credit;
- the issuance of 4.8 million shares of our common stock in exchange for 4.8 million shares of MedQuist Inc. common stock pursuant to the terms of the Exchange Agreement with certain noncontrolling stockholders of MedQuist Inc., which will increase our ownership in MedQuist Inc. from 69.5% to 82.2%;
- the issuance of 1.3 million shares of our common stock pursuant to the Consulting Services Agreement; and
- the issuance of 6.7 million shares of our common stock in exchange for 6.7 million shares of MedQuist Inc. common stock, assuming a full exchange. This would increase our ownership in MedQuist Inc. from 82.2% to 100%.

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

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

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

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The pro forma as adjusted balance sheet data as of September 30, 2010 also gives effect to the issuance of 3.0 million shares of common stock in this offering at the initial public offering price of $8.00 per share, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us as if such transaction occurred as of September 30, 2010.

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

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

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

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

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

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| e tax provision it) | | | | | | | | |
| **come (loss) from nuing operations** | 9,171 | (187,383) | 191,956 | 13,744 | (10,370) | 3,374 | | 3 |
| **ntinued operations** | | | | | | | | |
| rom discontinued Financial Services ess | (1,281) | | | (1,281) | | (1,281) | | (1 |
| e tax provision | 70 | | | 70 | | 70 | | |
| **ne (loss) from ntinued operations** | (1,351) | | | (1,351) | | (1,351) | | (1 |
| **come (loss)** | 7,820 | (187,383) | 191,956 | 12,393 | (10,370) | 2,023 | | 2 |
| Net income table to ntrolling interests | (7,085) | | (347) [f] | (7,432) | 6,017 [h] | (1,415) | 1,415 [k] | |
| **come (loss) utable to MedQuist ngs Inc.** | $ 735 | $ (187,383) | $ 191,609 | $ 4,961 | $ (4,353) | $ 608 | $ 1,415 | $ 2 |
| **come (loss) per non share from nuing operations** | | | | | | | | |
| | $ (0.02) | | | $ 0.10 | | $ 0.00 | | $ |
| d | $ (0.02) | | | $ 0.10 | | $ 0.00 | | $ |
| **ss per common from discontinued tions** | | | | | | | | |
| | $ (0.04) | | | $ (0.04) | | $ (0.03) | | $ ( |
| d | $ (0.04) | | | $ (0.04) | | $ (0.03) | | $ ( |
| **come (loss) per non share utable to MedQuist ngs Inc.** | | | | | | | | |
| | $ (0.06) | | | $ 0.06 | | $ (0.03) | | $ |
| d | $ (0.06) | | | $ 0.06 | | $ (0.03) | | $ |
| ted average shares nding: | | | | | | | | |
| | 34,692 | | | 34,692 | 6,096 [h,j] | 40,788 | 6,694 [k] | 47 |
| d | 34,692 | | | 34,692 | 6,096 [h,j] | 40,788 | 6,694 [k] | 47 |

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

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

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

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

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **ome from continuing erations before income es and noncontrolling erests** | | | | | | | | |
| ome tax provision nefit) | (46) | (2,822) | 2,800 [o] | (68) | 37 [t] | (31) | | (3 |
| **t income (loss) from tinuing operations** | 11,210 | (4,354) | 9,734 | 16,590 | (8,985) | 7,605 | | 7,60 |
| **continued operations** | | | | | | | | |
| ome from discontinued ient Financial Services iness | 426 | | | 426 | | 426 | | 42 |
| ome tax (benefit) | (23) | | | (23) | | (23) | | (2 |
| **ome (loss) from continued operations** | 449 | | | 449 | | 449 | | 44 |
| **t income (loss)** | 11,659 | (4,354) | 9,734 | 17,039 | (8,985) | 8,054 | | 8,05 |
| s: Net (income) loss ibutable to controlling interests | (5,234) | | (1,143) [p] | (6,377) | 4,799 [r] | (1,578) | 1,589 [u] | 1 |
| **t income attributable MedQuist Holdings .** | $ 6,425 | $ (4,354) | $ 8,591 | $ 10,662 | $ (4,186) | $ 6,476 | $ 1,589 | $ 8,06 |
| **t income per common re from continuing erations** | | | | | | | | |
| ic | $ 0.11 | | | $ 0.23 | | $ 0.15 | | $ 0.1 |
| uted | $ 0.11 | | | $ 0.23 | | $ 0.14 | | $ 0.1 |
| **t income per common re from discontinued erations** | | | | | | | | |
| ic | $ 0.01 | | | $ 0.02 | | $ 0.01 | | $ 0.0 |
| uted | $ 0.01 | | | $ 0.01 | | $ 0.02 | | $ 0.0 |
| **t income per common re attributable to dQuist Holdings Inc.** | | | | | | | | |
| ic | $ 0.12 | | | $ 0.25 | | $ 0.16 | | $ 0.1 |
| uted | $ 0.12 | | | $ 0.24 | | $ 0.16 | | $ 0.1 |
| ighted average shares standing: | | | | | | | | |
| ic | 35,083 | | | 35,083 | 6,096 [r,s] | 41,179 | 6,694 [u] | 47,87 |
| uted | 35,893 | | | 35,893 | 6,096 [r,s] | 41,989 | 6,694 [u] | 48,68 |

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

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

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

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

| | | | | | |
|---|---|---|---|---|---|
| Other non-current liabilities | 1,802 | | 1,802 | | 1,802 |
| **Total liabilities** | 295,736 | 86,034 | 381,770 | | 381,770 |
| **Equity** | | | | | |
| **MedQuist Holdings Inc. stockholders equity** | | | | | |
| Common stock | 3,516 | 610 (y,z) | 4,126 | 669 (aa) | 4,795 |
| Additional paid-in capital | 149,100 | (5,982) (y,z) | 143,118 | (8,667) (aa) | 134,451 |
| Accumulated deficit | (109,261) | (13,893) (v,w) | (123,154) | | (123,154) |
| Accumulated other comprehensive loss | (385) | | (385) | | (385) |
| **Total MedQuist Holdings Inc. stockholders equity** | 42,970 | (19,265) | 23,705 | (7,998) | 15,707 |
| Noncontrolling interests | 40,598 | (48,191) (x,y) | (7,593) | 7,998 (aa) | 405 |
| **Total equity** | 83,568 | (67,456) | 16,112 | | 16,112 |
| **Total liabilities and equity** | $ 379,304 | $ 18,578 | $ 397,882 | | $ 397,882 |

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

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

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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.

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

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

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

## 2. Description of the Spheris Acquisition

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

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

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

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

| | (In thousands) |
|---|---|
| Cash consideration paid | $ 98,834 |

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

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

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

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

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

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

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

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

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

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

### 3. The Recapitalization Transactions

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

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

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

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

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

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

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

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

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

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

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

### 4. Private Exchange

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

### 5. Registered Exchange Offer

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

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

***Spheris Acquisition pro forma adjustments:***

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

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

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

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

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

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

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

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

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

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

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

f. Adjustment to recognize noncontrolling interest in MedQuist Inc.

***Recapitalization Transactions and the Private Exchange pro forma adjustments:***

g. Adjustment to reflect interest expense as shown below:

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

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

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

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

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

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

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

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

j. Adjustment to satisfy our obligations under the Consulting Services Agreement. Based upon an $8.00 per share price for shares issuable, the number of shares of our common stock issuable would be 1.3 million shares. Basic and diluted weighted average shares outstanding and net income (loss) per share amounts have been adjusted to reflect the issuance of 1.3 million shares of our common stock.

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

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

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

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

***Spheris Acquisition pro forma adjustments:***

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

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

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

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

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

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

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

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

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

***Recapitalization Transactions and Private Exchange pro forma adjustments***

q. Adjustment to reflect interest expense as shown below:

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

| | | |
|---|---|---|
| Adjustment to interest expense | $ | 8,948 |

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

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

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

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

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

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

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

s. Adjustment to satisfy our obligations under the Consulting Services Agreement. Based upon an $8.00 per share price, the number of shares of our common stock issuable would be 1.3 million shares. Basic and diluted weighted average shares outstanding and net income loss per share amounts have been adjusted to reflect the issuance of 1.3 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.

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

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

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

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

***Recapitalization Transactions and Private Exchange pro forma adjustments***

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

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

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

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

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

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

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

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

z. Reflects the issuance of 1.3 million shares of our common stock issuable pursuant to the Consulting Services Agreement, assuming a share issuance at $8.00 per share.

***Registered Exchange Offer pro forma adjustments***

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

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## Unaudited Pro Forma Condensed Consolidated Financial Information    Discontinued Operations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

| | | |
|---|---|---|
| **MedQuist Holdings Inc. stockholders equity** | | |
| Common stock | 3,516 | 3,516 |
| Additional paid-in-capital | 149,100 | 149,100 |
| Accumulated deficit | (109,261) | (109,261) |
| Accumulated other comprehensive loss | (385) | (385) |
| **Total MedQuist Holdings Inc. stockholders equity** | 42,970 | 42,970 |
| Noncontrolling interests | 40,598 | 40,598 |