

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

**Table of Contents**

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

Registration No. 333-169997

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

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

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

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

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

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

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

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

With copies to:

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

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

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

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

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

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

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

**CALCULATION OF REGISTRATION FEE**

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

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

<sup>(2)</sup>

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

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

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**Table of Contents**

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

SUBJECT TO COMPLETION, DATED FEBRUARY 3, 2011

**PRELIMINARY PROSPECTUS**

**7,826,549 Shares**

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

**Common Stock**

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

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

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

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

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

	<b>PER SHARE</b>	<b>TOTAL</b>
Public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds to MedQuist Holdings Inc. (before expenses)	\$	\$

See Underwriting for a discussion of the underwriting compensation. Delivery of the shares of common stock is expected to be made on or about , 2011. We have granted the underwriters an option for a period of 30 days to

purchase on the same terms and conditions set forth above, up to an additional 1,173,982 shares of our common stock to cover overallocments.

**Lazard Capital Markets**

**Macquarie Capital**

**RBC Capital Markets**

**Loop Capital Markets**

Prospectus dated           , 2011.

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**Table of Contents**

<u>Prospectus Summary</u>	1
<u>Risk Factors</u>	17
<u>Special Note Regarding Forward-Looking Statements</u>	29
<u>Corporate Reorganization</u>	30
<u>Use of Proceeds</u>	31
<u>Dividend Policy</u>	31
<u>Capitalization</u>	32
<u>Unaudited Pro Forma Condensed Combined Financial Information</u>	33
<u>Selected Consolidated Financial and Other Data</u>	53
<u>Market Price Information for Our Shares</u>	57
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	59
<u>Business</u>	81
<u>Management</u>	92
<u>Principal and Selling Stockholders</u>	124
<u>Certain Relationships and Related Party Transactions</u>	126
<u>Description of Indebtedness</u>	130
<u>Description of Capital Stock</u>	133
<u>Shares Eligible for Future Sale</u>	139
<u>Material United States Federal Income and Estate Tax Consequences to Non-U.S. Holders</u>	141
<u>Underwriting</u>	144
<u>Legal Matters</u>	149
<u>Experts</u>	149
<u>Where You Can Find More Information</u>	149
<u>Index to Consolidated Financial Statements</u>	F-1
<u>EX-1.1</u>	
<u>EX-10.29.1</u>	
<u>EX-21.1</u>	
<u>EX-23.2</u>	
<u>EX-23.3</u>	
<u>EX-23.4</u>	
<u>EX-23.5</u>	

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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**Table of Contents**

**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.

## Table of Contents

### **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:

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

- n **Integrated solutions delivered as a complete managed service** We offer fully-integrated end-to-end managed services that capture and convert the physician narrative into a high quality customized electronic record. We integrate technologies and services for voice capture and transmission, ASR,

**Table of Contents**

medical transcription and editing, workflow automation, and document management and distribution. The end result is value-added clinical documentation with high accuracy and quick turn-around times.

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

**Our strategy**

Key elements of our strategy include:

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

## **Table of Contents**

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

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

## **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:

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

## **Our history**

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

### ***Acquisitions***

#### ***MedQuist Inc.***

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

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



**Table of Contents**

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

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

*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.

**Table of Contents**

**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.

**Table of Contents**

***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

**Table of Contents**

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.

**Table of Contents**

**The Offering**

Common stock offered by us                      3,500,000 shares