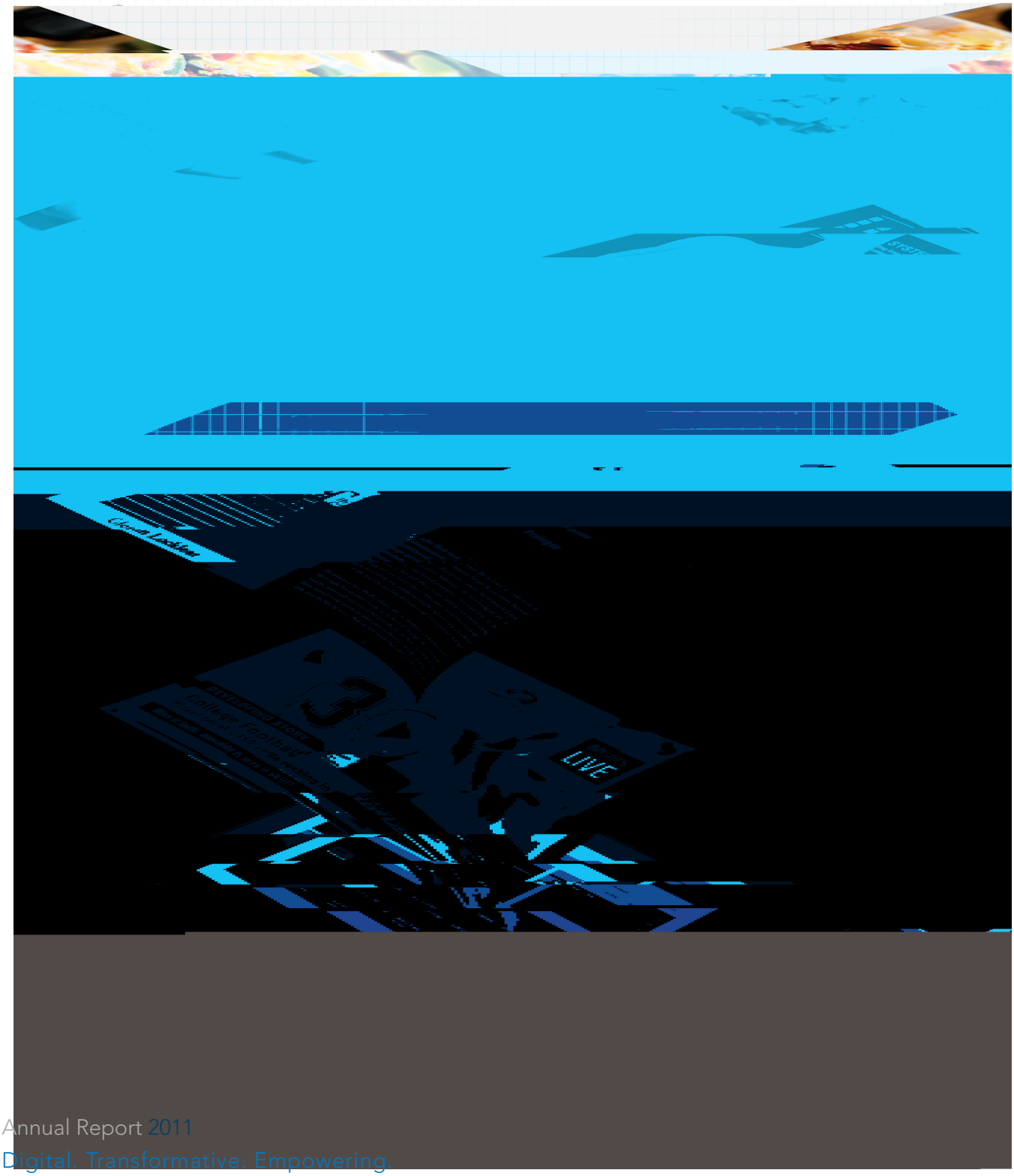
innodata®



Annual Report 2011

Digital. Transformative. Empowering.

Innodata is a leading provider of business process, technology and consulting services, as well as products and solutions that help our clients create, manage, use and distribute digital information. Propelled by a culture that emphasizes quality, service and innovation, we have developed a client base that includes many of the world's preeminent media, publishing and information services companies, as well as leading enterprises in information-intensive industries such as aerospace, defense, financial services, government, healthcare, high technology, insurance, intelligence, manufacturing and law.

OUR COMPETITIVE STRENGTHS

Deep Domain Expertise: Innodata has produced more than 1.2 million eBooks since the beginning of the eBook explosion and is now a trusted partner to each of the major eBook platform providers. Innodata has also provided digital content and data enrichment, consulting or technology services for 7 of the world's top 10 publishing and information services organizations and an array of leading enterprises.

Global Scalability: Our global operations teams operate with an efficiency that allows us to scale to meet the challenges of individual publishers as well as the largest content providers.

Defined Approach: Helping content providers solve their biggest challenges, Innodata employs structured, defined approaches to driving revenue, reducing costs and managing risks. These approaches, which combine our consulting, technology services, data and content enrichment and expert knowledge of publishing, allow Innodata to serve publishing and enterprise content providers at the highest, most strategic levels.

ePublishing Leadership: Innodata has emerged as one of the largest producers of technology and processes for transforming books into eBook formats that are required for distribution and sell-through on tablets and eReaders. To date, Innodata has produced over 1.2 million eBooks and is at present producing and distributing more than 1,500 eBooks per day across more than 25 global platforms and eBookstores.

We have established strong relationships with all the major eBook retailers — Apple, Sony, Amazon and Kobo. Late in 2010, Innodata announced a strategic relationship with Apple in which Innodata became Apple's Digital Publishing Services Partner for North America.

FELLOW SHAREHOLDERS,

As we prepare this Annual Report for release, *Encyclopedia Britannica* is announcing that it is discontinuing its 129-pound, 32-volume, $1,395 print edition. The *Encyclopedia Britannica* was first published in 1768 and last published in 2011. With that announcement, the job of door-to-door encyclopedia sales has presumably been relegated to the long line of ancient trades that have been displaced by new technologies. Not that the brand is dead — hardly. It's just that it has gone digital, is now updated every 20 minutes and is delivered over portable devices such as the iPad.

Today, consumers increasingly expect information to be delivered over touchscreens and tablets (the iPad being the most notable) and for the information to be interactive, open, searchable and linkable.

We're (arguably) 30 years into the Digital Revolution. We've come a long way, but measured by the duration of other comparable revolutions, we have a long way to go (the Industrial Revolution spanned 100 years and the Agricultural Revolution went on for 3,000 years). One can only imagine the devices and functionality of tomorrow.

Innodata's role in the Digital Revolution is that of an enabler. Our largest clients are the very companies most frequently identified as the drivers of the transformation. We're helping them in a variety of ways: transforming print and print-based information to high-impact digital; migrating print-centric operations to digital operations; and building new digital-first products.

2011 SUCCESSES

By any measure, 2011 was a good year for Innodata. We succeeded at growing revenue by 20%, from $61.5 million in 2010 to $73.9 million in 2011, and ended the year with record quarterly revenue. We expanded our gross margins from 23% to 32%, and turned a 2010 pre-tax loss of $1.2 million into a 2011 pre-tax profit of $5.3 million, all the while investing $4.7 million in new service offerings and returning $1.3 million to shareholders in the form of share repurchases.

Our financial results reflect success at driving an aggressive strategic plan. Our plan — announced in early 2011 and designed to progress us toward our then stated goal of $100 million in revenues within the ensuing three years — was comprised of four key financial objectives and two key strategic objectives.

I'll use this opportunity to share with you the results of our efforts, starting with our stated financial objectives:

Increase bookings. Our first financial objective was to increase annual bookings — the estimated amount of business we win in a year — by a targeted amount. I am pleased to report we exceeded our objective significantly. The increase was largely driven by expansion of our eBook services, an area in which we believe we enjoy competitive advantages that enable us to produce eBooks at significant scale and at the uncompromising quality levels demanded by leading consumer brands and publishers. My management team anticipated the eBook phenomenon early on and invested in building technologies and expertise to meet the demand we foresaw on the horizon. We have become a leading provider of eBook-related services, earning the trust of many of the world's leading eBook distributors and publishers. This year, we added Apple to our roster of significant clients. We are continuing to evolve our services in anticipation of continued evolution in platform and tablet technology.

Increase margin on new business. Our second financial objective was to increase our margin on new bookings by a targeted amount over our average 2010 booking margin. Under the combined leadership of several of our senior managers, we established policies and practices necessary to ensure that the sales force followed a more disciplined approach to pricing decisions. At the same time, our chief operating officer and his team of business unit managers stepped up efforts to deploy new technologies to increase operational efficiency. The result was that in each financial quarter in 2011 our new bookings were forecasted to yield a significant percentage higher margin than our 2010 bookings.

Increase margin on existing business. Our third financial objective was to improve margins on our existing portfolio of ongoing engagements through a combination of initiatives. Of these initiatives, we were most successful with process re-engineering. At the start of the year, our engineering vice president and leaders from our delivery groups formulated detailed plans for obtaining operational cost savings through project-specific re-engineering and by developing more efficient workflow platforms that could be deployed across the portfolio.

Reduce overhead spend. Our fourth financial objective was to reduce overhead spending by $1 million per year. While we didn't quite hit the $1 million mark, we did succeed at eliminating about $900,000 of targeted annualized costs.

Our strategic objectives, meanwhile, were designed to drive a mix shift from highly custom-tailored services designed often around single clients to more generically configured offerings designed to suit broad market needs. We reasoned that introducing these kinds of product offerings into our services portfolio would over time translate into more consistent growth. Here's how we did on our 2012 strategic objectives:

Launch IADS Segment. In the second quarter, we launched a new segment, Innodata Advanced Data Solutions ("IADS"), to develop products designed to help companies outside the information and publishing industries adapt to the realities of the Digital Revolution. Within this segment, we have to date started two new subsidiaries, Synodex (focusing on the digital information needs of the healthcare and insurance industries) and docGenix (focusing on helping financial services companies migrate from print and image to digital data as a way to better manage risk). One notable early success — the United States Commodity Futures Trading Commission (CFTC) selected our new docGenix subsidiary to be a member of its recently formed Technology Advisory Subcommittee on Data Standardization. The CTFC wants us to help develop ways to use digital data to help firms manage risk associated with derivatives and other financial instruments.

Cultivate a strong, unified company culture. Our remaining strategic objective has been to build a more unified company culture that promotes innovation and entrepreneurship. In seeking to migrate from bespoke projects for individual clients to products that suit the needs of broad markets, we recognized the need to recruit executives who had product management and entrepreneurial backgrounds. We also enhanced various policies and practices to ensure that we are providing advancement opportunities to our staff. As a focal point for the changes we were making, we began simplifying our branding, preferring to present ourselves in our corporate imagery simply as Innodata (as opposed to Innodata Isogen).

DELIVERING SUSTAINABLE SHAREHOLDER VALUE

In the past, Innodata has had periods of revenue growth, followed by periods of revenue decline, as large projects waxed and waned. We remain susceptible to revenue fluctuations that result from client concentration in a project-based business and operating within rapidly emerging markets.

We believe that our IADS strategy and its expansion is the right strategy to reduce the concentration of our revenues and achieve more consistent growth.

In 2011, we invested heavily in our IADS strategy, formulating our IADS products in a way that we believe will enable us over time to reduce the concentration of our revenues and make them more predictable. We are now approximately 12 months into our strategy, and our prospects in our IADS division are stronger than we initially expected. We anticipate beginning to generate meaningful revenues in our IADS division in the first half of 2012, and we are excited about the business.

2012: THE YEAR AHEAD

In 2012, we will continue to focus on initiatives to align our services around critical business issues that our customers face as they navigate the opportunities and challenges presented by the Digital Revolution.

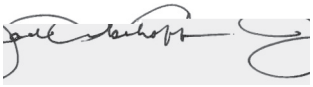
Within the publishing and information markets, we will present new services designed around the challenges high-level executives face as they seek to transform their products and operations around digital data and tablet publishing.

Within the eBook space, we will be broadening our capabilities to assist content owners to participate in new revenue opportunities presented by the iPad and other portable devices. We will also be expanding our capabilities to produce highly interactive, complex eBooks across various publishing markets. The eBook wave has only just begun.

Within our IADS division, we will be presenting our capabilities to clients in healthcare and financial services. In addition, we will broaden our reach to other markets that may benefit from our experience in large-scale engagement management and our expertise in digital data.

I believe our focus on our role as an enabler of the Digital Revolution will position us well for the future. My management team and I are committed to building a company comparable in reputation to the world's leading global services companies. We are aggressively pursuing an ambitious three-year strategy designed to accomplish just that, and are poised for another year of growth in 2012.

Thanks very much,

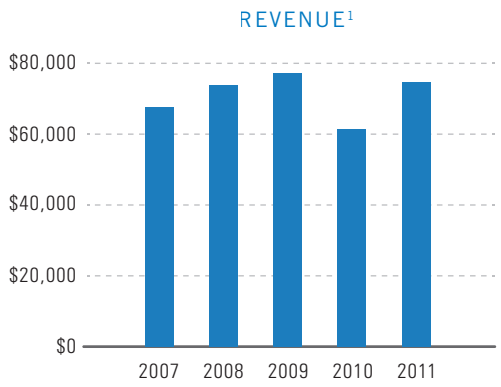


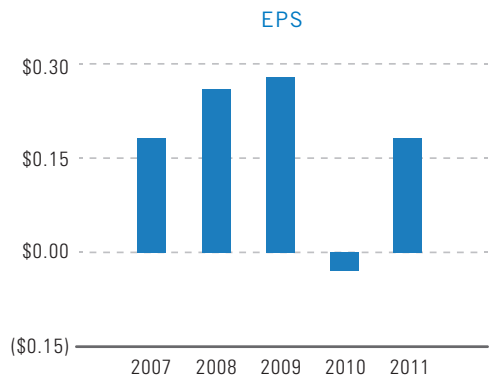
Jack Abuhoff
Chairman and CEO
May 2012

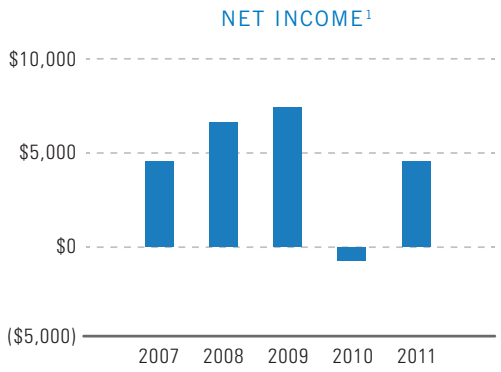
FINANCIAL OVERVIEW

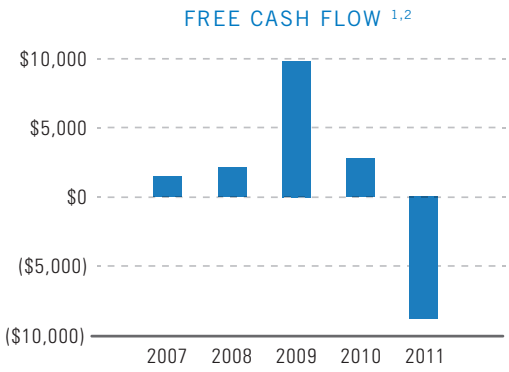
$ in Thousands Except Per Share Data	Year Ended Dec. 31, 2011	Year Ended Dec. 31, 2010
Revenue	$73,942	$61,513
Pre-tax Income (Loss)	5,271	(1,215)
Pre-tax Income (Loss) %	7.1%	(2.0%)
Fully Diluted EPS	$0.18	($0.03)

$ in Thousands	As of Dec. 31, 2011	As of Dec. 31, 2010
Cash + Cash Equivalents + Investments	$17,217	$27,995
Total Assets	59,397	52,247
Long Term Obligations	2,944	1,604
Stockholders' Equity	41,168	39,438









1- $ in Thousands
2- Free Cash Flow is defined as Cash Flow from Operating Activities minus Capital Expenditures

EXECUTIVE LEADERSHIP

Jack S. Abuhoff
President & Chief Executive Officer

Ashok Kumar Mishra
Executive Vice President & Chief Operating Officer

O'Neil Nalavadi
Senior Vice President & Chief Financial Officer

Michael Abell
Senior Vice President, Technology Services

R. Douglas Kemp
Senior Vice President, Product Innovation

Jim Lewis
Senior Vice President, Sales & Marketing

Stephen Ryden-Lloyd
Senior Vice President, Consulting Practice

Amy R. Agress
Vice President & General Counsel

BOARD OF DIRECTORS

Jack S. Abuhoff
Chairman of the Board
President & CEO of Innodata

Haig S. Bagerdjian
Director & Chair of the Acquisition Committee
Chairman, President & CEO of Point.360

Louise C. Forlenza
Director & Chair of the Audit Committee
Former CFO of Intercontinental Exchange Partners

Stewart R. Massey
Director & Chair of the Compensation Committee
Partner & Co-founder of Massey Quick and Co.

Todd H. Solomon
Lead Independent Director &
Chair of the Nominating Committee
Founder of Innodata

Anthea C. Stratigos
Director
Co-founder & CEO of Outsell, Inc.

PUBLIC INFORMATION

Ownership
Public

Listing Market
NASDAQ Global Market

Ticker Symbol
INOD

Founded
1988

IPO
1992

Shares Outstanding
Approximately 25 million

Revenues
$74 million (2011)

OTHER INFORMATION

Clients
Approximately 200+ leading commercial publishers and other information-intensive organizations

People
More than 7,000 people in the United States, Europe and Asia

Locations
Offices and operations in the United States, the Philippines, India, Sri Lanka and Israel

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

FORM 10-K

(Mark One)
☑ ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-22196

INNODATA ISOGEN, INC.

(Exact name of registrant as specified in its charter)

Delaware	**13-3475943**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Three University Plaza **Hackensack, New Jersey**	**07601**
(Address of principal executive offices)	(Zip Code)
(201) 371-8000	
(Registrant's telephone number)	

Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock $.01 par value	The Nasdaq Stock Market, LLC

Securities registered under Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No ☑

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See – z z – z z z z – z z z — z -2 of the Exchange Act.
Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐ Smaller reporting company ☐

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

z – z ‒z ‘ —z z– z – – z z – z z ’z -affiliates of the registrant (based on the closing price reported on the Nasdaq Stock Market on June 30, 2011) was $58,474,000.

z — z z —– z z z– z – – z z – z z z ‘ —z z zJanuary 31, 2012 was 24,691,224.

DOCUMENTS INCORPORATED BY REFERENCE

– z z– z – – z –“ z ’ z – – –z z– z 12 Annual Meeting of Stockholders are incorporated by reference in Items 10,11,12,13 and 14 of Part III of this Form 10-K.

INNODATA ISOGEN, INC
Form 10-K
For the Year Ended December 31, 2011

TABLE OF CONTENTS

Part I

		Page
Item 1.	Business	1
Item 1A.	Risk Factors	8
Item 1B.	Unresolved Staff Comments	17
Item 2.	Properties	17
Item 3.	Legal Proceedings	17
Item 4.	Mine Safety Disclosures	18

Part II

Item 5	® –z z – – z z —’ z – zStockholder Matters and Issuer Purchases of Equity Securities	19
Item 6.	Selected Financial Data	20
Item 7.	® – z — z z ’ z z z – z z —z z Operations	22
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	34
Item 8.	Financial Statements and Supplementary Data	35
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	35
Item 9A.	Controls and Procedures	35
	Report of Management on Internal Control over Financial Reporting	36
	Report of Independent Registered Public Accounting Firm	37
Item 9B.		

PART I

Disclosures in this Form 10-K contain certain forward-looking statements, including without limitation, statements concerning our operations, economic performance, and financial condition. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, *Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. b . . : . : . : . : . . . . . generally identify forward-looking statements, which speak only as of their dates.*

These forward-looking statements are based largely on our current expectations, and are subject to a number of risks and uncertainties, including without limitation, that our IADS segment has not reported any revenues to date and is subject to the risks and uncertainties of early-stage companies; the primarily at-will nature of the contracts between our Content Services segment and its clients and the ability of clients to reduce, delay or cancel projects; continuing Content Services revenue concentration in a limited number of clients; continuing Content Services reliance on project-based work; inability to replace projects that are completed, cancelled or reduced; depressed market conditions; changes in external market factors; the ability and willingness of our clients and prospective clients to execute business plans which give rise to requirements for digital content and professional services in knowledge processing; difficulty in integrating and deriving synergies from acquisitions, joint venture and strategic investments; potential undiscovered liabilities of companies that we acquire; changes in our business or growth strategy; the emergence of new or growing competitors; various other competitive and technological factors; and other risks and uncertainties indicated from time to time in our filings with the Securities and Exchange Commission.

Our actual results could differ materially from the results referred to in the forward-looking statements. In light of these risks and uncertainties, there can be no assurance that the results referred to in the forward-looking statements contained in this Form 10-K will occur.

We undertake no obligation to update or review any guidance or other forward-looking information, whether as a result of new information, future developments or otherwise.

Item 1. Business.

Business Overview

Innodata (NASDAQ: INOD) is a leading provider of business process, technology and consulting services, as well as products and solutions, that help our valued clients create, manage, use and distribute digital information. Propelled by a culture that emphasizes quality, service and innovation, we have developed a client base that includes many of the world z –z z — z z – z services companies, as well as leading enterprises in information-intensive industries such as aerospace, defense, financial services, government, healthcare, high technology, insurance, intelligence, manufacturing and law.

We operate in two reporting segments.

Our Content Services (CS) segment provides services that support the creation, enhancement, and re-purposing of digital content. These services include high-accuracy conversion to digital text; data analysis and enhancement of legal, financial, medical and technical information; information technology services related to digital content management and products; and consulting services to help clients with strategic and tactical aspects of digital content operations.

Our clients include legal and business information providers; scientific, technical and medical publishers; providers of mobile computing devices and digital content distribution platforms; enterprises that

create and manage large volumes of product support content; and governmental agencies that manage large volumes of content in support of mission.

Most of our business information and publishing clients are in the process of transforming from print publishing to online publishing; from online publishing to multiple-channel distribution that includes web as well as mobile, tablet and eReading devices; or from search-based information products to workflow-based information products. These transformations require the adoption of new strategies, technologies and processes. We help our clients set digital content production and product strategies; integrate new technologies and processes; improve the quality and efficiency of content creation, enrichment and transformation; publish through multiple channels (including portable devices); and build new digital products.

Our clients who market mobile computing devices and digital content distribution platforms are seeking to expand the breadth and depth of their digital inventories. We are one of the largest producers of eBooks, serving the leading manufacturers of eBook reading devices as well as trade, education and professional publishers that sell eBooks. We presently distribute eBooks to more than 20 eBook distributors across North America, the United Kingdom, Australia and 24 countries in the European Union. We manufacture standard eBooks in multiple formats, as well as dual and multi-lingual eBooks and enhanced and interactive eBooks.

Many of our enterprise and government clients are embracing new digital information technologies and workflow processes within their operations in order to improve the efficiency of producing product support content, to broaden channels of distribution for such content to web and tablet platforms, and to make such information more easily searched and discovered. Other enterprise and government clients are embarking on this migration in order to improve internal situational decision-support systems (for example, an insurance company seeking to support its distributed field personnel with searchable procedure manuals on the iPad®). We assist our enterprise clients to accomplish these goals by providing technology, process redesign, and content enrichment services.

In the second quarter of 2011, we launched Innodata Advanced Data Solutions (IADS) as a separate segment to perform advanced data analysis. IADS operates through two divisions. The Synodex division of IADS offers a range of document and data analysis services that are tailored to healthcare, medical and insurance companies. The docGenix division of IADS provides financial services institutions with software products and services that facilitate the analysis and management of legal documentation relating primarily to derivatives. We presently own 77% of the Synodex division and 78% of the docGenix division, both limited liability companies. We purchased certain assets of the docGenix division from a third party for $0.4 million. These divisions are at an early stage of development and reported no revenues in 2011.

Each of our segments is organized and managed around three vectors: a vertical industry focus, a horizontal service/process focus, and a supportive operations focus.

The vertically-aligned groups understand our client z — z z – – z – –“ zz ź“ – z group for each particular industry includes experts hired from that industry.

Our service/process-aligned groups include engineering personnel and delivery personnel. Our engineering teams are responsible for creating secure and efficient custom workflows and integrating proprietary and third-party technologies to automate manual processes and improve the consistency and quality of our work product. These tools include categorization engines that utilize pattern recognition algorithms based on comprehensive rule sets and related heuristics, data extraction tools that automatically retrieve specific types of information from large data sources, and workflow systems that enable various tasks and activities to be performed across our multiple facilities.

Our globally distributed delivery personnel are responsible for executing our client engagements in

accordance with service-level agreements. We deliver services from facilities in the United States, India, the Philippines, Sri Lanka and Israel.

Other support groups are responsible for managing diverse enabling functions including human resources, organizational development, network and communications technology infrastructure support and physical infrastructure and facilities management.

Our sales staff, program managers and consultants operate primarily from our North American offices, European locations, as well as from client sites.

Our Opportunity

Rapid changes in digital content technologies have created the need for all sorts of companies to refashion their product offerings and their operations. Media, publishing and information services companies contend with new monetization models, delivery platforms, and channels. They seek to develop new digital products as print product revenue wanes; to broaden their markets by distributing content over the iPad®, iPhone® and other portable devices; and to monetize existing content in new, highly targeted custom products through flexible reuse and repurposing.

Meanwhile, for enterprises that rely on content to support other products or operations, this shift to digital technology enables product support information to be produced with greater operational efficiency across a greater variety of channels and languages. This shift also offers opportunities to improve internal decision support and risk mitigation in complex data operations by harnessing the power of machine-readable, digital data to drive improved decision support.

As a result, media, publishing and information services companies, and content-intensive enterprises, are increasingly relying on service providers, such as Innodata, to provide digital content-related services.

Our Services

We provide an array of services to help companies both define and implement strategies related to digital data. Both our Content Services segment and our IADS segment provide (i) digitization, enhancement and analysis services; (ii) technology services; and (iii) consulting services.

Digitization, Enhancement and Analysis Services We provide high-accuracy, large-scale digitization services to transform content from paper and image formats into digital text, and we provide enhancement and analysis services to configure digital text into high-value information products and knowledge repositories that are enriched, structured, normalized, and referenced. We provide these services using a globally distributed workforce utilizing advanced technologies which automate portions of our process and help ensure that our work product is highly accurate and consistent. For our enhancement and analysis services, we maintain a staff in a wide spectrum of disciplines, including medicine, law, engineering, management, finance, science and the humanities.

For example, a publishing company recently created by a group of publishing industry veterans emphasizing social media connections between authors and readers engaged Innodata to provide digitization services that support multimedia technologies and multiple platforms. Innodata provided the necessary content production services to publish works to a variety of electronic devices, enabling the company to rapidly develop new digital products without direct investment in staff, facilities or technology.

For a leading electronics manufacturer that merchandises eBooks on its proprietary eReader platform, Innodata transforms digital files used for print productions into eBook files.

A leading provider of networking equipment engages Innodata to provide digital enhancement and

related production systems support for its product guides, release notes, configurations guides, installation guides and other documents.

Technology Services We provide systems integration services in respect of many leading content management systems and enterprise database technologies, as well as custom application development and maintenance for information products, editorial and production systems, data feed integration, portals, websites and mobile applications. We help our customers migrate from print-centric processes to media-neutral content delivery.

For example, we helped develop a custom mobile application for a $13 billion global publisher, that enabled the publisher to distribute its web-based content to the iPad® as well as Android and Windows-enabled mobile devices, while providing support for links to external sources, subscriber annotations, and a host of other functions not yet available on leading eReader applications.

For a 3 billion global information company, our technology team developed a web- and tablet-based digital workflow product based on an existing print product.

We have a special focus on XML and related structured information standards, and a number of our engineering staff have played leadership roles in the development of such standards. We use a hybrid onshore/offshore development approach that provides both the benefits of onsite project management, onshore solutions architecture and offshore globally distributed teams of developers. We embrace agile development methodologies that provide the benefits of early solution visualization and an iterative development process.

Consulting Services Our consulting practice works with clients at a strategic business and technology level to address challenges and business processes related to digital content supply chain optimization, content technology architecture and strategy, global sourcing, digital product strategy and development, and the deployment of content technologies that relate to areas of strategic focus like mobility, social platform and semantic search.

For example, for a multinational information services company, our consulting practice plays a leading role in a long term, transformative program of work. Our consultants work in conjunction with the designing new content architectures and implementing new content technologies that enable it to migrate from product-centric to content-centric business processes.

Integrated Services Many of our client engagements draw upon a combination of Digitization, Enhancement and Analysis Services, Technology Services and Consulting Services. For example, a large, international publisher is in the process of a print-to-digital migration for many of its key products. Among these is a long-standing loose-leaf product for securities lawyers which the client sought to reinvent as a digital workflow product. Innodata provided a combination of content enrichment, user interaction design, and custom application development required to meet a six-month launch plan. We now provide ongoing technology and content maintenance services in respect of the product.

Clients

Three clients each generated more than 10% of our revenues in the fiscal year ended 2011. Revenues from Apple Inc. revenues from Reed Elsevier affiliated companie 9.3 million or 13% of total revenues. No other client generated more than 10% of our revenues in 2011. These three clients together generated approximately 44%, 39% and 51% of our total revenues in the fiscal years ended December 31, 2011, 2010 and 2009, respectively. Revenues from clients located in foreign countries (principally in Europe) accounted for 30%, 33% and 21% of our total revenues for each of these respective fiscal years.

We have long-standing relationships with many of our clients, and have provided services to two of the three clients mentioned in the preceding paragraph for over ten years. Many of our clients are recurring clients, meaning that they have continued to provide additional projects to us after their initial engagement. Our track record of delivering high-quality services helps us to solidify client relationships and gain increased business from our existing clients. As a result, our history of client retention enables us to derive a significant proportion of revenue from repeat clients.

Our contractual arrangements with Apple during calendar year 2011 consisted of a master services agreement and separately agreed to statements of work for specific services. The MSA has a term that ends on the later of September 2015 and the expiration date of all SOWs issued under that MSA. Apple may terminate the MSA and SOWs on notice periods ranging from zero to six months, and they may terminate their SOWs on notice periods of up to 180 days. They may also terminate certain of the MSAs and SOWs on notice periods of three months or less, and on changes of control, force majeure and the imposition of certain price increases by the Company that are not acceptable to them. The Company may terminate the MSA and SOWs on notice periods of 180 days, either Apple or the Company for material breach, failure to meet service levels, or insolvency related events that that are not cured during a 30-day notice period, or if the material breach is incapable of cure, immediately on written notice. Apple may also terminate the MSA in the event of a force majeure that materially affects performance and lasts for more than 30 days. The SOW may be terminated for convenience, and contains confidentiality, indemnification and other standard provisions.

Our contractual arrangements with the WK Clients during calendar year 2011 consisted of multiple MSAs and separately agreed to SOWs for specific services. Three MSAs have indefinite terms, two MSAs continue in effect until the later of their expiration date and the completion of all services performed pursuant to such MSA, and three MSAs have terms that expire, respectively, in December 2012, July 2013 and March 2017. WK Clients may terminate certain MSAs on notice periods ranging from three months to 30 days, and they may terminate certain individual SOWs on notice periods ranging from 10 days to three months. WK Clients may terminate certain of the MSAs and SOWs on notice periods of three months or less, and on changes of control, force majeure and the imposition of certain price increases by the Company that are not acceptable to them. The Company may terminate certain of the MSAs on notice periods of 180 days, events affecting the WK Clients, and other defined events. The MSAs contain confidentiality, limitation of liability, indemnification and other standard provisions.

Our contractual arrangements with the RE Clients during 2011 consisted of multiple MSAs and separately agreed to SOWs for specific services. Two of the MSAs have indefinite terms, a third has a term that ends in February 2014, and the fourth has a term that ends on the later of September 2015 and the expiration date of all SOWs issued under that MSA. RE Clients may terminate the MSAs on notice periods ranging from zero to six months, and they may terminate their SOWs on notice periods of up to 180 days. They may also terminate certain of the MSAs and SOWs on notice periods of three months or less, and on changes of control, force majeure and the imposition of certain price increases by the Company that are not acceptable to them. The Company may terminate two of the MSAs on notice periods of 180 days, insolvency related events affecting the RE Clients, and other defined events. The MSAs contain confidentiality, limitation of liability, indemnification and other standard provisions.

Our agreements with our other clients are in many cases terminable on 30 to 90 days' notice. A substantial portion of the services we provide to our clients is subject solely to their requirements.

Competitive Strengths

Our expertise on digital content. We are primarily focused on helping clients across multiple vertical industries use digital data to build new kinds of products, to reduce cost and to improve decision-support.

Our focus on quality. We have achieved a reputation within our clients for consistently delivering high-quality content. We maintain independent quality assurance capabilities in all geographies where we operate.

Our quality teams are compliant and certified to the ISO 9000:2000 quality management system standards.

Our global delivery model. We have operations in seven countries in North America, Europe and Asia. We provide services to our clients through a comprehensive global delivery model that integrates both local and global resources to obtain the best economic results. Our offshore outsourcing centers are ISO 9001:2000 certified and our engineering and IT facility meets ISO/IEC 27001:2005 specifications.

Our proven track record and reputation. By consistently providing high-quality services, we have achieved a track record of project successes. This track record is embodied by our reputation as a leader in the business process services, especially within the media, publishing and information services sector. This reputation or brand provides an assurance of expertise, quality execution and risk mitigation.

Our focus on technology and engineering. Rather than simply relying on labor cost arbitrage to create value for clients, our engineering and IT team optimizes efficiency by integrating proprietary and best-in-class third party tools into our workflows. In addition, our engineering and IT team provides work directly to our clients, helping them achieve improved efficiencies within their own operations.

Our long-term relationships with clients. We have long-term relationships with many of our clients, who frequently retain us for additional projects after a successful initial engagement. We believe there are significant opportunities for additional growth with our existing clients, and we seek to expand these relationships by increasing the depth and breadth of the services we provide. This strategy allows us to use our in-depth client-specific knowledge to provide more fully integrated services and develop closer relationships with those clients.

Our ability to scale. We have demonstrated the ability to expand our teams and facilities to meet the needs of our clients. By virtue of the significant numbers of professional staff working on projects, we are able to build teams for new engagements quickly. We have also demonstrated the ability to hire and train people quickly.

Our internal infrastructure. We utilize established facilities, technology and communications infrastructure to support our business model. We own and operate some of the most advanced content production facilities in the world, which are linked by multi-redundant data connections. Our Wide Area Network along with our Local Area Networks, Storage Area Networks and data centers is configured with full redundancy, often with more than one backup to ensure 24x7 availability. Our infrastructure is built to accommodate advanced tools, processes and technologies that support our content and technical experts.

Sales and Marketing

We market and sell our services directly through our professional staff, senior management and direct sales personnel operating out of our corporate headquarters in Hackensack, New Jersey, just outside New York City and our Dallas, Texas office. We have five executive-level business development and marketing professionals, and during 2011, we maintained approximately 20 full-time sales and marketing personnel. We also deploy solutions architects, technical support experts and consultants who support the development of new clients and new client engagements. These resources work within teams (both permanent and ad hoc) that provide support to clients.

Our sales professionals identify and qualify prospects, securing direct personal access to decision makers at existing and prospective clients. They facilitate interactions between client personnel and our service teams to better define ways in which we can assist clients with their goals. For each prospective client engagement, we assemble a team of our senior employees drawn from various disciplines within our Company. The team members assume assigned roles in a formalized process, using their combined knowledge and

Sales activities include the design and generation of presentations and proposals, account and client relationship management and the organization of account activities.

Personnel from our project analysis group and our engineering services group closely support our direct sales effort. These individuals assist the sales force in understanding the technical needs of clients and providing responses to these needs, including demonstrations, prototypes, pricing quotations and time estimates. In addition, account managers from our client service group support our direct sales effort by providing ongoing project-level support to our clients.

Our marketing organization is responsible for developing and increasing the visibility and awareness of our brand and our service offerings, defining and communicating our value proposition, generating qualified, early-stage leads and furnishing effective sales support tools.

As part of our marketing strategy we partner with media organizations within publishing and non-publishing (enterprise) industries in order to build awareness, establish a reputation as an industry thought leader and generate leads. Media partners include trade associations and publications, trade show producers and consulting organizations. These partnerships are particularly valuable in enterprise industries as we build our presence among digital content leaders and decision makers.

Primary marketing outreach activities include event marketing (including exhibiting at trade shows, conferences and seminars), direct and database marketing; public and media relations (including speaking engagements and active participation in industry and technical standard bodies), and web marketing (including integrated marketing campaigns, search engine optimization, search engine marketing and the maintenance and continued development of external websites).

Research and Development

We did not incur any research and development costs in any of the three years ended December 31, 2011.

Competition

The market for publishing services and related services is highly competitive, fragmented and intense. Our major competitors include Apex CoVantage, Aptara, Cenveo, Infosys, HCL Technologies, Macmillan India, SPI Technologies, JSI S.A.S. Groupe Jouve' and Thomson Digital.

We compete successfully by offering high-quality services and favorable pricing that leverages our technical skills, IT infrastructure, process knowledge, offshore model and economies of scale. Our competitive advantages are especiall’ z — –“ z– z –z z— – z– –z z– ’z – – z — z - z– –z z z z z z z z – — z z– –z — z z ’z -safe environment with technology redundancy.

As a provider of these services, we also compete with in-house personnel at existing or prospective clients who may attempt to duplicate our services in-house.

Locations

We are headquartered in Hackensack, New Jersey, just outside New York City. We have an additional office in Dallas, Texas. We have nine production facilities in the Philippines, India, Sri Lanka and Israel. In the fourth quarter of 2011, we commissioned new state-of-the art delivery centers in Noida, India and Sri Lanka. In the first quarter of 2012, we will be further expanding our facilities to accommodate anticipated growth in our business.

Employees

As of December 31, 2011, we employed approximately 65 persons in the United States and Europe and over 7,000 persons in ten production facilities in the Philippines, India, Sri Lanka and Israel. Most of our employees have graduated from at least a two-year college program. Many of our employees hold advanced degrees in law, business, technology, medicine and social sciences. No employees are currently represented by a labor union, and we believe that our relations with our employees are satisfactory.

Corporate Information

Our principal executive offices are located at Three University Plaza, Hackensack, New Jersey 07601, and our telephone number is (201) 371-8000. Our website is www.innodata-isogen.com, and information contained on our website is not included as a part of, or incorporated by reference into, this Annual Report on Form 10-K. There we make available, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports, as soon as reasonably practicable after we electronically file that material with, or furnish it to, the Securities and Exchange Commission (SEC). Our SEC reports can be obtained through the Investor Relations section of our website or from the Securities and Exchange Commission at www.sec.gov.

Item 1A. Risk Factors.

We have historically relied on a very limited number of clients that have accounted for a significant portion of our revenues, and our results of operations could be adversely affected if we were to lose one or more of these significant clients.

We have historically relied on a very limited number of clients that have accounted for a significant portion of our revenues. Our top three clients generated 44%, 28% and 16% of our revenues in the fiscal years ended December 31, 2011, 2010 and 2009, respectively. Another client accounted for less than 10% of our revenues for the year ended December 31, 2011, but for 11% and 35% of our revenues for the years ended December 31, 2010 and 2009, respectively. We may lose any of these, or our other major clients, as a result of our fa — z– z –z z – ’ z —z – z — –, the completion or termination of a project or engagement, or the – zselection of another service provider.

In addition, the volume of work performed for our major clients may vary from year to year, and services they require from us may change from year to year. If the volume of work performed for our major clients varies or if the services they require from us change, our revenues and results of operations could be adversely affected, and we may incur a loss from operations. Our services are typically subject to client requirements, and in many z z– z— z z–z z ’ z –

A significant portion of our services is provided on a non-recurring basis for specific projects, and our inability to replace large projects when they are completed or otherwise terminated has adversely affected, and could in the future adversely affect, our revenues and results of operations.

We provide a portion of our services for specific projects that generate revenues that terminate on completion of a defined task. While we seek, wherever possible, on completion or termination of large projects, to counterbalance periodic declines in revenues with new arrangements to provide services to the same client or others, our inability to obtain sufficient new projects to counterbalance any decreases in such work may adversely affect our future revenues and results of operations.

The docGenix and Synodex subsidiaries in our IADS segment are early stage companies.

We have invested significant amounts in these subsidiaries and intend to invest additional amounts. These subsidiaries generated no revenues in 2011, and are subject to the risks and uncertainties of early stage companies. There can be no assurance that these subsidiaries will be viable.

A large portion of our accounts receivable is payable by a limited number of clients; the inability of any of these clients to pay its accounts receivable would adversely affect our results of operations.

Several significant clients account for a large percentage of our accounts receivable. If any of these clients were unable, or refused, for any reason, to pay our accounts receivable, our financial condition and results of operations would be adversely affected. As of December 31, 2011, 62% or $13.4 million, of our accounts receivable was due from two clients. There was a significant increase in our accounts receivable as of December 31, 2011 as compared to the prior year primarily on account of one large client from whom we experienced a process delay in payments to us against our invoices. z — ² z z – z —

In addition, we evaluate the financial condition of our clients and usually bill and collect on relatively short cycles. We maintain specific allowances against doubtful receivables. Actual losses on client balances could differ from those that we currently anticipate and, as a result, we might need to adjust our allowances. There is no guarantee that we will accurately assess the creditworthiness of our clients. Macroeconomic conditions, such as the continued credit crisis and related turmoil in the global financial system, could also result in financial difficulties, including limited access to the credit markets, insolvency or bankruptcy, for our clients, and, as a result, could cause clients to delay payments to us, request modifications to their payment arrangements that could increase our receivables balance, or default on their payment obligations to us. If we are unable to collect timely from our clients, our cash flows could be adversely affected.

Quarterly fluctuations in our revenues and results of operations could make financial forecasting difficult and could negatively affect our stock price.

We have experienced, and expect to continue to experience, significant fluctuations in our quarterly revenues and results of operations. During the past eight quarters, our net income (loss) ranged from a loss of approximately $1.4 million in the first quarter of 2010 to a profit of approximately $2.3 million in the fourth quarter of 2011.

We experience fluctuations in our revenue and earnings as we replace and begin new projects, which may have some normal start-up delays, or we may be unable to replace a project entirely. These and other factors may contribute to fluctuations in our results of operations from quarter to quarter.

A high percentage of our operating expenses, particularly personnel and rent, are relatively fixed in advance of any particular quarter. As a result, unanticipated variations in the number and timing of our projects, or in employee wage levels and utilization rates, may cause us to significantly underutilize our production capacity and employees, resulting in significant variations in our operating results in any particular quarter, and have resulted in losses.

The economic environment and pricing pressures could negatively impact our revenues and operating results.

Due to the intense competition involved in outsourcing and information technology services, we generally face pricing pressures from our clients. Our ability to maintain or increase pricing is restricted as clients generally expect to receive volume discounts or special pricing incentives as we do more business with them; moreover, our large clients may exercise pressure for discounts outside of agreed terms.

In addition, a significant portion of our revenues was derived from clients located in the U.S. and Europe. If the U.S. or European economy continues to weaken or slow, pricing for our services may be depressed, which may adversely impact our revenues and profitability.

Our profitability could suffer if we are not able to maintain pricing on our existing projects and win new projects at appropriate margins.

Our profit margin, and therefore our profitability, is dependent on the rates we are able to recover for our services. If we are not able to maintain pricing on our existing services and win new projects at profitable margins, our profitability could suffer. The rates we are able to recover for our services are affected by a number of factors, including competition, the value our client derives from our services and general economic and political conditions.

If our pricing structures do not accurately anticipate the cost and complexity of performing our work, then our contracts could be unprofitable.

We provide services either on a time-and-materials basis or on a fixed-price basis. Our pricing is highly dependent on our internal forecasts and predictions about our projects, which might be based on limited data and could turn out to be inaccurate. If we do not accurately estimate the costs and timing for completing projects, our contracts could prove unprofitable for us or yield lower profit margins than anticipated.

Our inability to obtain price increases and improve our efficiency may impact our results of operations.

In the past few years, we have experienced wage inflation in the Asian countries where we have the majority of our operations. In addition, we are recently experiencing adverse fluctuations in foreign currency exchange rates. These global events have put pressure on our profitability and our margins. Although we have tried to partially offset wage increases and foreign currency fluctuations through price increases and improving our efficiency, we cannot ensure that we may be able to continue to do so in the future, which would negatively impact our results of operations.

If our clients are not satisfied with our services, they may terminate our contracts with them or our services, which could have an adverse impact on our business.

Our business model depends in large part on our ability to attract additional work from our base of existing clients. Our business model also depends on relationships our account teams develop with our clients [illegible] If a client is not satisfied with the quality of work performed by us, or with the type of services or solutions delivered, then we could incur additional costs to address the situation, the profitability of that work might be [illegible] from that client. In particular, clients that are not satisfied might seek to terminate existing contracts, which would mean that we could incur costs for the services performed with no associated revenue upon termination of a contract. This could also direct future business to our competitors. In addition, negative publicity related to our client services or relationships, regardless of its accuracy, may further damage our business by affecting our ability to compete for new contracts with current and prospective clients.

Our new clients may not generate the level of revenues anticipated for reasons beyond our control.

As we get new opportunities and win new business, our new clients may not generate the level of revenues that we initially anticipated at the time of signing an agreement with them. This could be due to various reasons beyond our control. We may invest in people or technology and incur other costs in

anticipation of revenues, and as such any deviation from our expected plan would impact our margins and earnings.

Our business will suffer if we fail to develop new services and enhance our existing services in order to keep pace with the rapidly evolving technological environment or provide new service offerings, which may not succeed.

The outsourcing, information technology and consulting services industries are characterized by rapid technological change, evolving industry standards, changing client preferences and new product and service introductions. Our future success will depend on our ability to develop solutions that keep pace with changes in the markets in which we provide services. We cannot guarantee that we will be successful in developing new services, addressing evolving technologies on a timely or cost-effective basis or, if these services are developed, that we will be successful in the marketplace. In addition, we cannot guarantee that products, services or technologies developed by others will not render our services non-competitive or obsolete. Our failure to address these developments could have a material adverse effect on our business, results of operations and financial condition.

We invest in developing and pursuing new service offerings from time to time. Our profitability could be reduced if these services do not yield the profit margins we expect, or if the new service offerings do not generate the planned revenues.

We have made and continue to make significant investments towards building-out new capabilities to pursue growth. These investments increase our costs and if these services do not yield the revenues or profit margins we expect and we are unable to grow our business and revenues proportionately, our profitability may be reduced.

We depend on third-party technology in the provision of our services.

We rely upon certain software that we license from third parties, including software integrated with our internally developed software used in the provision of our services. These third-party software licenses may not continue to be available to us on commercially reasonable or competitive terms, if at all. The loss of, or inability to maintain or obtain any of these software licenses, could result in delays in the provision of our services until we develop, identify, license and integrate equivalent software. Any delay in the provision of our services could damage our business and adversely affect our results of operations.

We compete in highly competitive markets that have low barriers to entry.

The markets for our services are highly competitive and fragmented. We compete successfully against our competitors; however, some of our competitors have longer operating histories, significantly greater financial, human, technical and other resources and greater name recognition than we do. If we fail to be competitive with these companies in the future, we may lose market share, which could adversely affect our revenues and results of operations.

There are relatively few barriers preventing companies from competing with us. We do not own any patented technology that would preclude or inhibit others from entering our market. As a result, new market entrants also pose a threat to our business. We also compete with in-house personnel at current and prospective clients, who may attempt to duplicate our services using their own personnel. We cannot guarantee that our clients will outsource more of their needs to us in the future, or that they will not choose to provide internally the services that they currently obtain from us. If we are not able to compete effectively, our revenues and results of operations could be adversely affected.

We may fail to attract and retain enough sufficiently trained employees to support our operations, as competition for highly skilled personnel is significant. These factors could have a material adverse effect on our business, results of operations, financial condition and cash flows.

The outsourcing industry relies on large numbers of skilled employees, and our success depends to a significant extent on our ability to attract, hire, train and retain qualified employees. The outsourcing industry, including our Company, experiences high employee attrition. Increased competition for these professionals, in the outsourcing industry or otherwise, could have an adverse effect on us. A significant increase in the attrition rate among employees with specialized skills could decrease our operating efficiency and productivity.

In addition, our ability to maintain and renew existing engagements and obtain new businesses will depend, in large part, on our ability to attract, train and retain personnel with skills that enable us to keep pace with growing demands for outsourcing, evolving industry standards and changing client preferences. Our failure to attract, train and retain personnel with the qualifications necessary to fulfill the needs of our existing and future clients or to assimilate new employees successfully could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Disruptions in telecommunications, system failures, data corruption or virus attacks could harm our ability to execute our global resource model, which could result in client dissatisfaction and a reduction of our revenues.

We use a distributed global resource model. Our onshore workforce provides services from our North American and European offices, as well as from client sites; and our offshore workforce provides services from our ten overseas production facilities in the Philippines, India, Sri Lanka and Israel. All our global facilities are linked with a telecommunications network that uses multiple service providers. We may not be able to maintain active voice and data communications between our various facilities and our clients' sites at all times due to disruptions in these networks, system failures, data corruption or virus attacks. Any significant failure in our ability to communicate could result in a disruption in business, which could hinder our performance or our ability to complete client projects on time. This, in turn, could lead to client dissatisfaction and an adverse effect on our business, results of operations and financial condition.

Governmental and customer focus on data security could increase our costs of operations. In addition, any incidents in which we fail to protect our clients' information against security breaches could result in monetary damages against us, including termination of engagement by our client, and may adversely impact our results of operations.

Certain laws and regulations regarding data privacy and security affecting our clients impose requirements regarding the privacy and security of information maintained by these clients, as well as notification to persons whose personal information is accessed by an unauthorized third party. As a result of any continuing legislative initiatives and client demands, we may have to modify our operations with the goal of further improving data security. Any such modifications may result in increased expenses and operating complexity, and we may be unable to increase the rates we charge for our services sufficiently to offset these increases. In addition, we may be bound by certain client agreements to use and disclose the confidential client information in a manner consistent with the privacy standards under regulations applicable to such client. If client confidential information is inappropriately disclosed due to a breach of our computer systems, ’ – z — z z – z z ’z “ z — – – z – z — z –z z — z – z — z Any breach or alleged breach of our confidentiality agreements with our clients may result in termination of their engagements, resulting in associated loss of revenue and increased costs.

Our international operations subject us to risks inherent in doing business on an international level, any of which could increase our costs and hinder our growth.

The major part of our operations is carried on in the Philippines, India, Sri Lanka and Israel, while our headquarters are in the United States, and our clients are primarily located in North America and Europe. While we do not depend on significant revenues from sources internal to the countries in which we operate, we are

nevertheless subject to certain adverse economic factors relating to overseas economies generally, including inflation, external debt, a negative balance of trade and underemployment. Other risks associated with our international business activities include:

- difficulties in staffing international projects and managing international operations, including overcoming logistical and communications challenges;
- [illegible]
- of public sector controls;
- [illegible]
- [illegible]
- [illegible]
- [illegible]
- [illegible]
- [illegible] earnings; and
- [illegible]

One or more of these factors could adversely affect our business and results of operations.

Our international operations subject us to currency exchange fluctuations, which could adversely affect our results of operations.

To date, most of our revenues have been denominated in U.S. dollars, while a significant portion of our expenses, primarily labor expenses in the Philippines, India, Sri Lanka and Israel, is incurred in the local currencies of the countries in which we operate. For financial reporting purposes, we translate all non-United States denominated transactions into dollars in accordance with accounting principles generally accepted in the United States. As a result, we are exposed to the risk that fluctuations in the value of these currencies relative to the dollar could increase the dollar cost of our operations and therefore adversely affect our results of operations.

The Philippines and India have at times experienced high rates of inflation as well as major fluctuations in the exchange rate between the Philippine peso and the U.S. dollar and the Indian rupee and the U.S. dollar. Continuing inflation without corresponding devaluations of the peso and rupee against the dollar, or any other increase in the value of the peso or rupee relative to the dollar, could adversely affect our results of operations.

There is no guarantee that our financial results will not be adversely affected by currency exchange rate fluctuations or that any efforts by us to engage in foreign currency hedging activities will be effective. Finally, as most of our expenses are incurred in currencies other than those in which we bill for the related services, any increase in the value of certain foreign currencies against the U.S. dollar could increase our operating costs.

In the event that the government of India, the Philippines or the government of another country changes its tax policies, rules and regulations, our tax expense may increase and affect our effective tax rates.

We are subject to income taxes in both the U.S. and numerous foreign jurisdictions. We are subject to the continual examination by tax authorities in India, and the Company assesses the likelihood of outcomes

resulting from these examinations to determine the adequacy of its provision for income taxes. Although we believe our tax estimates are reasonable, the final determination of tax audits could be materially different from what is reflected in h9(de)9(t)6(er)-5(m)17(i)-4tion6

Substantially all of the services provided by our Asian subsidiaries are performed on behalf of clients based in North America and Europe. Tax authorities in any of our jurisdictions could, however, challenge the manner in which we allocate our profits among our subsidiaries, and we may not prevail in this type of challenge. If such a challenge were successful, our worldwide effective tax rate could increase, thereby decreasing our net income.

An expiration or termination of our preferential tax rate incentives could adversely affect our results of operations.

Certain foreign subsidiaries are subject to preferential tax rates. In addition, one of our foreign subsidiaries enjoys a tax holiday. These tax incentives provide that we pay reduced income taxes in those jurisdictions for a fixed period of time that varies depending on the jurisdiction. An expiration or termination of these incentives could substantially increase our worldwide effective tax rate, thereby decreasing our net income and adversely affecting our results of operations.

Our earnings may be adversely affected if we change our intent not to repatriate earnings in Asia or if such earnings become subject to U.S. tax on a current basis.

We had previously intended to remit $5.1 million of our foreign earnings to the U.S. These earnings represent a portion of our foreign profits earned prior to 2002. In 2011, we made a reassessment of our plans to remit such foreign earnings and determined that these earnings will be indefinitely reinvested in our foreign subsidiaries. Thus, we no longer accrue incremental U.S. taxes on foreign earnings as these earnings are considered to be indefinitely reinvested outside of the United States. While we have no plans to do so, events may occur in the future that could effectively force us to change our current intent not to repatriate our foreign earnings. If we change our intent and repatriate such earnings, we will have to accrue the applicable amount of taxes associated with such earnings and pay taxes at a substantially higher rate than our effective income tax rate in 2009. These increased taxes could have a material adverse effect on our business, results of operations and financial condition.

In recent months, P –z z – – z — z z — z z– -related legislative proposals that would, among other things, seek to effectively tax certain profits of U.S. companies earned overseas. Although the President did not include several of these proposals, Congress could consider any of these measures at any time. If enacted into law, and depending on their precise terms, these proposals could increase our tax rate and tax payments, and could have a material adverse effect on our business, results of operations and financial condition.

Anti-outsourcing legislation, if adopted, could adversely affect our business, financial condition and results of operations and impair our ability to service our clients.

The issue of outsourcing of services abroad by U.S. companies is a topic of political discussion in the United States. Measures aimed at limiting or restricting outsourcing by U.S. companies are under discussion in Congress and in numerous state legislatures. While no substantive anti-outsourcing legislation has been introduced to date, given the ongoing debate over this issue, the introduction of such legislation is possible. If introduced, our business, financial condition and results of operations could be adversely affected and our ability to service our clients could be impaired.

Our growth could be hindered by visa restrictions.

Occasionally, we have employees from our other facilities visit or transfer to the United States to meet our clients and work on projects at clients sites. Any visa restrictions or new legislation putting a restriction on issuing visas could affect our business.

Immigration and visa laws and regulations in the United States and other countries are subject to legislative and administrative changes as well as changes in the application of standards. Immigration and visa

laws and regulations can be significantly affected by political forces and levels of economic activity. Our international expansion strategy and our business, results of operations and financial condition may be materially adversely affected if legislative or administrative changes to immigration or visa laws and regulations impair our ability to staff projects with our professionals who are not citizens of the country where the work is to be performed.

Political uncertainty, political unrest, terrorism, and natural calamities in the Philippines, India, Sri Lanka and Israel could adversely affect business conditions in those regions, which in turn could disrupt our business and results of operations.

We conduct the majority of our operations in the Philippines, India, Sri Lanka and Israel. These countries and regions remain vulnerable to disruptions from political uncertainty, political unrest and terrorist acts.

Any damage to our network and/or information systems would damage our ability to provide service, in whole or in part, and/or otherwise damage our operation and could have an adverse effect on our business, financial condition or results of operations. Further political tensions brought about by any of these groups and escalation of hostilities could adversely affect our operations based in these countries and therefore adversely affect our revenues and results of operations.

Terrorist attacks or a war could adversely affect our results of operations.

Terrorist attacks, such as the attacks of September 11, 2001 in the United States and the attacks in Mumbai, India in November 2008, and other acts of violence or war, such as the conflict in Iraq, could affect us or our clients by disrupting normal business practices for extended periods of time and reducing business confidence. In addition, these attacks may make travel more difficult and may effectively curtail our ability to serve our clients' needs, any of which could adversely affect our results of operations.

We are the subject of continuing litigation, including litigation by certain of our former employees.

We are subject to various legal proceedings and claims that arise in the ordinary course of business.

In 2008, the Supreme Court of the Republic of the Philippines refused to review a decision of the Court of Appeals in Manila against a Philippines subsidiary of the Company that is inactive and has no material assets, and purportedly also against Innodata Isogen, Inc. that orders the reinstatement of certain former employees of the subsidiary to their former positions and also orders the payment of back wages and benefits that aggregate approximately $7.5 million. Based on consultation with legal counsel, we believe that recovery against Innodata Isogen, Inc. is nevertheless unlikely.

While we currently believe that the ultimate outcome of these proceedings will not have a material adverse effect on our financial position or overall trends in results of operations, litigation is subject to inherent uncertainties. Substantial recovery against us in the above-referenced Philippines actions could have a material adverse impact on us, and unfavorable rulings or recoveries in the other proceedings could have a material adverse impact on the operating results of the period in which the ruling or recovery occurs. In addition, our estimate of potential impact on our financial position or overall results of operations for the above legal proceedings could change in the futur z z z

Our reputation could be damaged or our profitability could suffer if we do not meet the controls and procedures in respect to the services and solutions we provide to our clients, or if we contribute to our ntrol deficiencies.

Our clients may perform audits or require us to perform audits, provide audit reports or obtain certifications with respect to the controls and procedures that we use in the performance of services for such

clients, especially when we process data or information belonging to them. Our ability to acquire new clients and retain existing clients may be adversely affected and our reputation could be harmed if we receive a qualified opinion, or if we cannot obtain an unqualified opinion, or an appropriate certification with respect to our controls and procedures in connection with any such audit in a timely manner. Additionally, our profitability could suffer if our controls and procedures were to result in internal controls failures or impair

New acquisitions, joint ventures or strategic investments or partnerships could harm our operating results.

We may pursue new acquisitions, joint ventures or do strategic investments or partnerships to grow and enhance our capabilities. We cannot assure that we will successfully consummate any acquisitions or joint ventures, or profit by strategic investments, or achieve desired financial and operating results. Further such attention and proper integration into the current business. Accordingly, we might fail to realize the expected benefits or strategic objectives of any acquisition we undertake. If we are unable to complete the kind of acquisitions for which we plan, we may not be able to achieve our planned rates of growth, profitability or competitive position in specific markets or services.

It is unlikely that we will pay dividends.

We have not paid any cash dividends since our inception and do not anticipate paying any cash dividends in the foreseeable future. We expect that our earnings, if any, will be used to finance our growth.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our services are primarily performed from our Hackensack, New Jersey headquarters, our Dallas, Texas office, and nine overseas production facilities in the Philippines, India, Sri Lanka and Israel, all of which are leased. The square footage of all our leased properties is approximately 400,000.

In the fourth quarter of 2011, we commissioned new state of the art delivery centers in Noida, India and Sri Lanka. In the first quarter of 2012, we will be further expanding our facilities to accommodate anticipated growth in our business.

In addition, we may need to lease additional property in the future. We believe that we will be able to

Item 3. Legal Proceedings.

In 2008, the Supreme Court of the Republic of the Philippines refused to review a decision of the Court of Appeals in Manila against a Philippines subsidiary of the Company that is inactive and has no material assets, and purportedly also against Innodata Isogen, Inc. that orders the reinstatement of certain former employees of the subsidiary to their former positions and also orders the payment of back wages and benefits that aggregate approximately $7.5 million. Based on consultation with legal counsel, we believe that recovery against Innodata Isogen, Inc. is nevertheless unlikely.

The Court of Appeals decision was rendered in Case Nos. CA-G.R. SP No. 93295 Innodata Employees Association (IDEA), Eleanor Tolentino, et al. vs. Innodata Philippines, Inc., et al., and CA-G.R. SP No. 90538 Innodata Philippines, Inc. vs. Honorable Acting Secretary Manuel G. Imson, et al. 28 June 2007). Matters relating to execution of this decision are on file with the Department of Labor and Employment National Labor Relations Commission, Republic of the Philippines (NLRC-NCR-Case No.07-04713-2002, et al., Innodata Employees Association (IDEA) and Eleanor A. Tolentino, et al. vs. Innodata Philippines, Inc., et al), and the Department of Labor and Employment Office of the Secretary of Labor and Employment, Republic of the Philippines (Case No. OS-AJ-0015-2001, In Re: Labor Dispute at Innodata Philippines, Inc.).

We are also subject to various legal proceedings and claims which arise in the ordinary course of business.

While management currently believes that the ultimate outcome of these proceedings will not have a material adverse effect on our financial position or overall trends in results of operations, litigation is subject to inherent uncertainties. Substantial recovery against us in the above referenced Philippines actions could have a material adverse impact on us, and unfavorable rulings or recoveries in the other proceedings could have a material adverse impact on the operating results of the period in which the ruling or recovery occurs.

Item 4. Mine Safety Disclosures.

None.

PART II

Item 5. Market of Equity Securities.

§ –z§ z§ z – z ’ z z – z z —— z z– zNasdaq National Market ’ – z— z– z ’ z § z z —’z1, 2012, there were 91 stockholders of record of the ’ z z – z z z – z “ z ’z– z ’s transfer agent. Virtually all of – z ’ z — ’z z z z z z – –z z z– z ’z “ z– z —z — z z beneficial holders of its Common Stock to be 3,433.

The following table sets forth the high and low sales prices on a quarterly basis for the Company's Common Stock, as reported on Nasdaq, for the two years ended December 31, 2011.

	Common Stock Sale Prices	
2010	**High**	**Low**
First Quarter	$ 6.47	$ 3.85
Second Quarter	4.26	2.48
Third Quarter	3.16	2.54
Fourth Quarter	3.33	2.66
2011	**High**	**Low**
First Quarter	$ 3.06	$ 2.30
Second Quarter	2.85	2.24
Third Quarter	3.30	2.54
Fourth Quarter	4.39	2.72

Dividends

The Company has never paid cash dividends on its Common Stock and does not anticipate that it will do so in the foreseeable future. The future payment of dividends, if any, on the Common Stock is within the discretion of the Board of Directors and will depend on the Company's earnings, its capital requirements and financial condition and other relevant factors.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth the aggregate information for the Company's equity compensation plans in effect as of December 31, 2011:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (c)
Equity compensation plans approved by security holders [1]	3,418,000	$ 2.73	1,000,000
Equity compensation plans not approved by security holders	-	-	-
Total	3,418,000	$ 2.73	1,000,000

[1] 2009 Stock Option Plan, approved by the stockholders, see Note 8 to Consolidated Financial Statements, contained elsewhere herein.

Purchase of Equity Securities

There were no repurchases of equity securities in the fourth quarter.

In June 2010, we announced that our Board of Directors authorized the repurchase of up to $2.1 million of our common stock. As of December 31, 2011, we repurchased 758,000 shares of our common stock representing almost the entire June 2010 authorization. In September 2011, our Board of Directors authorized the repurchase of up to $2.0 million of our common stock in open market or private transactions. There is no expiration date associated with the program. We did not repurchase any shares of our common stock in 2011 under the September 2011 authorization.

We did not have any sales of unregistered equity securities during the three months ended December 31, 2011.

Item 6. Selected Financial Data.

The following table sets forth our selected consolidated historical financial data as of the dates and for the periods indicated. Our selected consolidated financial data set forth below as of December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011 has been derived from the audited financial statements included elsewhere herein. Our selected consolidated financial data set forth below as of December 31, 2009, 2008 and 2007 and for the years ended December 31, 2008 and 2007 are derived from our audited financial statements not included elsewhere herein. Our selected consolidated financial information for 2011, 2010 and 2009 should be read in conjunction with the Consolidated Financial [illegible] Form 10-K.

	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(In thousands, except per share data)				
STATEMENT OF OPERATIONS DATA:					
Revenues	$ 73,942	$ 61,513	$ 76,711	$ 73,175	$ 67,731
Operating costs and expenses					
Direct operating expenses	50,176	47,284	52,143	51,347	48,229
Selling and administrative expenses	19,082	15,659	16,318	16,486	15,633
	69,258	62,943	68,461	67,833	63,862
Income (loss) from operations	4,684	(1,430)	8,250	5,342	3,869
Other (income) expense					
Interest expense	86	9	28	56	33
Interest income	(673)	(224)	(58)	(262)	(678)
Income (loss) before provision for (benefit from) income taxes	5,271	(1,215)	8,280	5,548	4,514
Provision for (benefit from) income taxes	1,361	(468)	967	(1,110)	(52)
Net income (loss)	3,910	(747)	7,313	6,658	4,566
Loss attributable to non-controlling interests	561	-	-	-	-
Net income (loss) attributable to Innodata Isogen, Inc. and Subsidiaries	$ 4,471	$ (747)	$ 7,313	$ 6,658	$ 4,566
Income (loss) per share attributable to Innodata Isogen, Inc. and Subsidiaries					
Basic	$ 0.18	$ (.03)	$ .30	$ .27	$ .19
Diluted	$ 0.18	$ (.03)	$ .28	$ .26	$ .18
Cash dividends per share	$ -	$ -	$ -	$ -	$ -

	December 31,				
	2011	2010	2009	2008	2007
	(In thousands)				
BALANCE SHEET DATA:					
Working capital	$ 28,148	$ 26,088	$ 32,589	$ 21,881	$ 16,329
Total assets	$ 59,397	$ 52,247	$ 53,565	$ 44,459	$ 38,449
Long term obligations	$ 2,944	$ 1,604	$ 1,199	$ 1,671	$ 2,128
– z —’	$ 41,168	$ 39,438	$ 40,985	$ 29,262	$ 23,230

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

ended December 31, 2011, but for 11% and 35% of our revenues for the years ended December 31, 2010 and 2009, respectively. We may lose any of these, or our other major clients, as a result of our failure to meet or sa– ’z —z – z — – zthe completion or termination of a project or engagement, or the – selection of another service provider. We may also experience significant volume fluctuation.

In addition, the revenues we generate from our major clients may decline or grow at a slower rate in future periods than in the past. If we lose any of our significant clients, our revenues and results of operations could be adversely affected, and we may incur a loss from operations. Our services are typically subject to client requirements, and in many z z– z— z z– z z ’ z –

Direct Operating Costs

Direct operating costs consist of direct payroll, occupancy costs, depreciation and amortization, travel, telecommunications, computer services and supplies, realized gains and losses on settlement of foreign currency forward contracts and other direct expenses that are incurred in providing services to our clients.

Selling and Administrative Expenses

Selling and administrative expenses consist of management and administrative salaries and incentives, sales and marketing costs, new services research and related software development, professional fees and consultant costs and other administrative overhead costs.

See z –

Results of Operations

Year Ended December 31, 2011 Compared to the Year Ended December 31, 2010

Revenues

Revenues were $73.9 million for the year ended December 31, 2011 compared to $61.5 million for the year ended December 31, 2010, an increase of $12.4 million or approximately 20%. The $12.4 million increase in revenues is principally attributable to higher revenues from our eBook-related services that we perform for one of our larger clients and revenue from analytics services that we perform for a major accounting firm.

Our top three clients generated $32.6 million or 44% and $17.2 million or 28% of our revenues in the fiscal years ended December 31, 2011 and 2010, respectively. Another client accounted for less than 10% of our revenues for the year ended December 31, 2011, and for $6.6 million or 11% of our revenues for the year ended December 31, 2010. No other client accounted for 10% or more of our total revenues in either period.

Further, for the years ended December 31, 2011 and 2010, revenues from clients located in foreign countries (principally in Europe) amounted to $22.3 million or 30% and $20.5 million or 33%, respectively, of our total revenues.

There were no revenues for the year ended December 31, 2011 from our recently formed IADS segment.

Direct Operating Costs

Direct operating costs were $50.2 million and $47.3 million for the years ended December 31, 2011 and 2010, respectively, an increase of $2.9 million or approximately 6%.

The increase in direct operating costs was attributable to an increase in production headcount and other operating costs in support of increased revenues. In addition, direct operating costs increased on account of foreign exchange rate fluctuations caused by a strengthening of the Philippine peso and Indian rupee against the U.S. dollar. The U.S. dollar depreciated against the Asian currencies in the first three quarters of 2011; however, it surged significantly in the fourth quarter of 2011. This resulted in a net loss on the settlement of foreign currency forward contracts in the fourth quarter of 2011. The realized gain on the settlement of forward contracts in 2011 was $1.2 million as compared to $2.2 million in 2010. The increase in direct operating costs was partially offset by a decrease in direct labor costs achieved primarily from productivity gains. The productivity gains were principally the result of increased efficiency, improvements in our processes and innovation in our technology.

Included in total direct operating costs is approximately $1.1 million in start-up costs that we incurred for the IADS segment during the year ended December 31, 2011.

The changes in revenues and direct operating expenses mentioned above resulted in a decline in direct operating costs as a percentage of revenues to 68% for the year ended December 31, 2011, from 77% for the year ended December 31, 2010. Excluding the start-up costs incurred for the IADS segment from the total direct operating costs, direct operating costs would have increased by approximately 4% in 2011 as compared to 2010 and, as a percentage of revenues, would have been 66% in 2011, compared to 77% in 2010.

Selling and Administrative Expenses

Selling and administrative expenses were $19.1 million and $15.7 million for the years ended December 31, 2011 and 2010, respectively, an increase of $3.4 million or 20%. Selling and administrative expenses as a percentage of revenues was 26% for the year ended December 31, 2011 and 25% for the year ended December 31, 2010.

The increase in selling and administrative expenses for the year ended December 31, 2011 is principally attributable to compensation costs of new personnel hired for sales and marketing, severance costs of $0.4 million, increases in variable employee incentives and $1.6 million on account of our continued investments for the IADS segment, which includes approximately $0.3 million incurred towards professional fees for creating best in class information and a data security environment for the IADS segment.

Excluding the $1.6 million start-up costs incurred for the IADS segment, selling and administrative expenses would have increased by approximately 11% in 2011 as compared to 2010 and, as a percentage of revenues, would have been approximately 23% in 2011, compared to 25% in 2011.

Income Taxes

For the year ended December 31, 2011, we recorded a provision for income taxes primarily for our foreign subsidiaries, which was partially offset by a tax benefit recorded for the U.S. entity. The benefit from income tax recorded by the U.S. entity resulted from losses incurred by the U.S. entity during the year ended December 31, 2011. These losses were incurred primarily on account of start-up costs incurred for the IADS segment, with no associated revenue in 2011. – z z– z ’ z z — z z — –z– z preferential tax rates. In addition, one of the foreign subsidiaries enjoy a tax holiday. Due to the tax holiday and the preferential tax rates, the income tax rate for the Company was substantially reduced. Certain overseas income is not subject to tax in the U.S. unless repatriated.

For the year ended December 31, 2010, we recorded a provision for income taxes primarily for our foreign subsidiaries, which was more than offset by the benefit recorded for the U.S. entity. The benefit from income tax recorded by the U.S. entity resulted primarily from losses incurred by the U.S. entity during the year ended December 31, 2011. One of our foreign subsidiaries enjoyed a tax holiday in 2010. In addition, certain of our foreign subsidiaries enjoy preferential tax rates. Certain overseas income is not subject to tax in

the U.S. unless repatriated.

Beginning in 2002, unremitted earnings of foreign subsidiaries have been included in the consolidated financial statements without giving effect to the United States taxes that may be payable on distribution to the United States, because such earnings are not anticipated to be remitted to the United States. If such earnings were to be distributed, we may be subject to United States income taxes that may not be fully offset by foreign tax credits.

In assessing the realization of deferred tax assets, we consider whether it is more likely than not that all or some portion of the deferred tax assets will not be realizable. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences are deductible and net operating losses are available. We consider many factors when assessing the likelihood of future realization of the deferred tax assets, including our recent cumulative earnings, expectation of future taxable income, the carryforward periods available to us for tax reporting purposes, and other relevant factors. At December 31, 2011 and 2010, we had no valuation allowance on our deferred tax assets.

Pursuant to an income tax audit by the Indian Bureau of Taxation in March 2006, one of our Indian subsidiaries received a tax assessment approximating $339,000, including interest, through December 31, 2011, for the fiscal tax year ended March 31, 2003. We disagreed with the basis of the tax assessment and filed an appeal with the Appeal Officer against the assessment. In October 2010, the matter was resolved with a judgment in our favor. Under the Indian Income Tax Act, however, the income tax assessing officer has a right to appeal against the judgment passed by the Appeal Officer. In December 2010, the income tax assessing officer exercised this right, against which we filed an application to defend the case and we intend to contest [illegible] income tax return for the fiscal tax year ended March 31, 2004. The ultimate outcome was favorable, and there was no tax assessment imposed for the fiscal tax year ended March 31, 2004. As of December 31, 2008 and 2009, the Indian subsidiary received a final tax assessment for the fiscal years ended March 31, 2005 and 2006 from the Indian Bureau of Taxation approximating $340,000 and $345,000, respectively, including interest through December 31, 2011. We disagree with the basis of these tax assessments, have filed an appeal against the assessments and will contest them vigorously. In January 2012, the Indian subsidiary received a final tax assessment approximately $1.1 million, including interest, through December 31, 2011 for the fiscal year ended March 31, 2008 from the Indian Bureau of Taxation. We disagree with the basis of this tax assessment, and have filed an appeal against the assessment. Due to this assessment, we recorded a tax provision amounting to $295,000 including interest through December 31, 2011. Based on recent experience and current development, we believe that the tax provision of $295,000 including interest is adequate. As the Company is continually subject to tax audits by the Indian Bureau of Taxation, the Company assessed the likelihood of an unfavorable assessment for all fiscal years where the Company is not subject to a final tax assessment as of December 31, 2011, and recorded an additional tax provision amounting to approximately $0.9 million including interest through December 31, 2011. The Indian Bureau of Taxation commenced an [illegible] cannot be determined at this time.

We had unrecognized tax benefits of $2.3 million and $1.8 million at December 31, 2011 and 2010, respectively. The portion of unrecognized tax benefits relating to interest and penalties was $0.5 million and $0.4 million at December 31, 2011 and 2010, respectively. The unrecognized tax benefits as of December 31, 2011 and 2010, respectively, if recognized, would have an impact on our effective tax rate.

We are subject to various tax audits and claims which arise in the ordinary course of business. Management currently believes that the ultimate outcome of these audits and claims will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Net Income (Loss)

We generated net income of $4.5 million in 2011 compared with net loss of $0.7 million in 2010. The change was primarily attributable to an increase in gross margins resulting from an increase in revenues, and an increase in productivity due to improvements in processes and technology. This increase was partly offset by unfavorable foreign exchange rates, an increase in selling and administrative expenses primarily due to hiring of new sales and marketing personnel and an increase in variable employee incentives, and start-up costs incurred for the IADS segment amounting to $2.7 million. The change in net income also reflects an increase in interest income and an increase in the tax provision in 2011 compared to a tax benefit recorded in 2010.

Year Ended December 31, 2010 Compared to the Year Ended December 31, 2009

Revenues

Revenues were $61.5 million for the year ended December 31, 2010 compared to $76.7 million for the similar period in 2009, a decline of approximately 20%. The $15.2 million decline in revenues was principally attributable to a $20.5 million decline in revenue from one of our significant clients, which was partially offset by a $5.3 million increase in revenues from our other clients. The $20.5 million decline in revenues from one of our significant clients follows a significant decline in revenues from this client in the second half of 2009 and the first quarter of 2010. In addition, for one of our clients, which accounted for approximately $2 million in revenues for the year ended December 31, 2010, we had forecast that revenues would wind down in 2011.

Three clients generated $23.8 million or 39% and $39.2 million or 51% of our revenues in the fiscal years ended December 31, 2010 and 2009, respectively. No other client accounted for 10% or more of our total revenues for these periods. Further, for the years ended December 31, 2010 and 2009, revenues from clients located in foreign countries (principally in Europe) amounted to $20.5 million or 33% and $16.4 million or 21%, respectively, of our total revenues.

For the year ended December 31, 2010, approximately 72% or $44.5 million of our revenues were recurring and 28% or $17.0 million were non-recurring, compared with 65% or $49.8 million and 35% or $26.9 million, respectively, for the year ended December 31, 2009.

Direct Operating Costs

Direct operating costs were $47.3 million and $52.1 million for the years ended December 31, 2010 and 2009, respectively, a decline of approximately 9.3%.

The decrease in direct operating costs was principally attributable to a decrease in compensation, incentives and benefit costs as the number of production employees was scaled down due to a decline in revenues from one of our significant clients. The decline in direct operating costs was partially offset by an annual increase in compensation costs of existing employees, compensation costs of new hires in our consulting and technology group and other miscellaneous operating costs.

In addition, for the year ended December 31, 2010, foreign exchange rate fluctuations caused by a strengthening Philippine peso and Indian rupee against the U.S. dollar increased direct operating costs by approximately $2.2 million, which was offset by gains from the settlement of foreign currency forward contracts of $2.2 million.

Changes in direct operating expenses and revenues, as mentioned above, resulted in an increase in direct operating costs, as a percentage of revenues, to 77% for the year ended December 31, 2010, from 68% for the year ended December 31, 2009.

Selling and Administrative Expenses

Selling and administrative expenses were $15.7 million and $16.3 million for the years ended December 31, 2010 and 2009, respectively, a decline of 4%. Selling and administrative expenses as a percentage of revenues was 25% and 21% for the years ended December 31, 2010 and 2009, respectively.

In 2009, we recorded a provision for doubtful accounts of approximately $1.2 million for one of our clients. In the fourth quarter of 2010, we entered into a settlement agreement with the client whereby the client agreed to pay $0.9 million of the total outstanding balance. Of the total amount, we received $0.4 million in the fourth quarter of 2010 and received the remaining balance of $0.5 million in the first half of 2011. This resulted in a net decline of approximately $1.6 million in selling and administrative expenses in the fiscal year ended December 31, 2010 compared to the same period in 2009. In addition, we spent $0.4 million less towards consultancy fees during fiscal year ended December 31, 2010. The decrease in selling and administrative expenses was partially offset by compensation costs of new personnel hired for sales and consulting services combined with unfavorable foreign exchange rates.

If no effect were given to the $1.2 million provision for doubtful accounts which was recorded for one of our clients and $0.4 million of collection thereof, selling and administrative expenses would have increased by approximately 6% in 2010 as compared to 2009 and, as a percentage of revenues, would have been 26% in 2010, compared to 20% in 2009.

Income Taxes

For the year ended December 31, 2010, we recorded a provision for income taxes primarily for our foreign subsidiaries, which was more than offset by a tax benefit recorded for the U.S. entity. The benefit from income tax recorded by the U.S. entity resulted primarily from losses incurred by the U.S. entity during the year ended December 31, 2010. One of our foreign subsidiaries enjoyed a tax holiday in 2010. In addition, certain of our foreign subsidiaries enjoy preferential tax rates. Certain overseas income is not subject to tax in the U.S. unless repatriated.

For the year ended December 31, 2009, we recorded a provision for income taxes primarily for our foreign subsidiaries, which was partially offset by the benefit recorded for the U.S. entity. Certain foreign subsidiaries enjoyed a tax holiday in 2009. Whereas the income tax holiday for one of our Philippine subsidiaries expired in May 2009 and the income tax holiday for one of our Indian subsidiaries expired in March 2009, one of our other foreign subsidiaries continued enjoying tax holiday benefits in 2009. In addition, certain of our foreign subsidiaries enjoy preferential tax rates. Certain overseas income is not subject to tax in the U.S. unless repatriated.

We had previously recorded a deferred tax liability on approximately $5.1 million of foreign earnings, which we intended to remit to the U.S. These earnings represent a portion of our foreign profits earned prior to 2002. In 2009, we made a reassessment of our plans to remit such foreign earnings and determined that these earnings would be indefinitely reinvested in our foreign subsidiaries. As a result of the change in our intent, we reduced our deferred tax liabilities related to undistributed foreign earnings by approximately $2.0 million in 2009. This reversal of deferred tax liabilities resulted in a tax benefit, which completely offset the provision for income tax recorded for the U.S. entity.

In assessing the realization of deferred tax assets, we consider whether it is more likely than not that all or some portion of the deferred tax assets will not be realizable. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences are deductible and net operating losses are available. We consider many factors when assessing the likelihood of future realization of the deferred tax assets, including our recent cumulative earnings, expectation of future taxable income, the carryforward periods available to us for tax reporting purposes, and other relevant factors. The valuation allowance at December 31, 2009, represents the allowance we have established on

deferred tax assets of our foreign subsidiaries. At December 31, 2010, we had no valuation allowance on deferred tax assets of our foreign subsidiaries.

Pursuant to an income tax audit by the Indian Bureau of Taxation in March 2006, one of our Indian subsidiaries received a tax assessment approximating $339,000, including interest, through December 31, 2010, for the fiscal tax year ended March 31, 2003. We disagreed with the basis of the tax assessment and filed an appeal with the Appeal Officer against the assessment. In October 2010, the matter was resolved with a judgment in our favor. Under the Indian Income Tax Act, however, the income tax assessing officer has a right to appeal against the judgment passed by the Appeal Officer. In December 2010, the income tax assessing officer exercised this right, against which we filed an application to defend the case and we intend to contest it vigorously. The Ind [illegible] income tax return for the fiscal tax year ended March 31, 2004. The ultimate outcome was favorable, and there was no tax assessment imposed for the fiscal tax year ended March 31, 2004. As of December 31, 2008 and 2009, the Indian subsidiary received a final tax assessment for the fiscal years ended March 31, 2005 and 2006 from the Indian Bureau of Taxation approximating $340,000 and $319,000, respectively, including interest through December 31, 2010. We disagree with the basis of these tax assessments, have filed an appeal against the assessments and will contest them vigorously. As we are continually subject to tax audits by the Indian Bureau of Taxation, we assessed the likelihood of an unfavorable assessment for the fiscal years ended March 31, 2007, and subsequent years for our Indian subsidiary, and recorded an additional tax provision amounting to approximately $829,000 including interest through December 31, 2010. The Indian Bureau of [illegible] and 2009. The ultimate outcome cannot be determined at this time.

We had unrecognized tax benefits of $1.8 million and $1.3 million at December 31, 2010 and 2009, respectively. The portion of unrecognized tax benefits relating to interest and penalties was $0.4 million, each at December 31, 2010 and 2009. The unrecognized tax benefits as of December 31, 2010 and 2009, respectively, if recognized, would have an impact on our effective tax rate.

We are subject to various tax audits and claims which arise in the ordinary course of business. Management currently believes that the ultimate outcome of these audits and claims will not have a material adverse effect on our consolidated financial position or results of operations.

Net Income (Loss)

We generated a net loss of $0.7 million in 2010 compared with net income of $7.3 million in 2009. The change was principally attributable to a decrease in gross margins resulting from a decline in revenues, unfavorable foreign exchange rates, annual increases in compensation costs of existing employees and increased compensation costs due to new hires in our consulting and technology group, partially offset by a favorable impact on the settlement of foreign currency forward contracts. The change was also attributable to an increase in selling and administrative expenses primarily due to hiring of new sales executives, offset by an increase in interest income and a decrease in the provision for income taxes.

Liquidity and Capital Resources

Selected measures of liquidity and capital resources, expressed in thousands, are as follows:

	December 31,		
	2011	**2010**	**2009**
Cash and cash equivalents	$ 11,389	$ 14,120	$ 26,480
Short term and long term investments - other	5,828	13,875	
Working capital	28,148	26,088	32,589

At December 31, 2011 we had cash and cash equivalents of $11.4 million and short term and long term

investments of $5.8 million. We have used, and plan to use, such cash for (i) expansion of existing operations; (ii) general corporate purposes, including working capital; and (iii) possible business acquisitions. As of December 31, 2011, we had no third party debt and had working capital of approximately $28.1 million as compared to working capital of approximately $26.1 million at December 31, 2010. We do not anticipate any near-term liquidity issues. Cash balances are held in bank deposits at leading U.S. and foreign commercial banks.

Net Cash Provided By (used in) Operating Activities

Cash used in our operating activities in 2011 was $3.0 million, resulting from net income of $3.9 million, adjustments for non-cash items of $3.5 million, and $10.4 million used for working capital. Adjustments for non-cash items principally consisted of $3.4 million for depreciation and amortization, stock compensation expense of $0.8 million, $0.8 million for a net change in deferred taxes and $0.5 million for pension costs. Working capital activities primarily consisted of a use of cash of $13.0 million as a result of an increase in

infrastructure upgrades, development of proprietary tools and technologies for the IADS segment and establishment of new delivery centers will approximate $6.0 to $7.0 million, a portion of which we may finance. Also, included in the investing activities during the year ended December 31, 2011 is the sale of short term and long term investments primarily representing proceeds on maturity of $8.0 million of certificate of deposits, and during the year ended December 31, 2010 is the purchase of short term and long term investments consisting of $13.9 million of certificate of deposits.

Net Cash Provided by (Used in) Financing Activities

Payment of long term obligations approximated $0.6 million, $0.7 million and $0.8 million for 2011, 2010 and 2009, respectively. There were no stock option exercises during the years ended December 31, 2011 and 2010. Cash from financing activities in 2009 was principally driven by $3.5 million of employee stock option exercises.

In April 2011, we renewed a vendor agreement, which had expired in February 2011, to acquire certain additional software licenses and to receive support and subsequent software upgrades on these and other currently owned software licenses through February , t[ce TJ)-42

Contractual Obligations

The table below summarizes our contractual obligations (in thousands) at December 31, 2011, and the effect that those obligations are expected to have on our liquidity and cash flows in future periods.

Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Capital lease obligations	$ 15	$ 15	$ -	$ -	$ -
Vendor obligations	940	470	470	-	-
Non-cancelable operating leases	12,616	1,955	3,700	3,572	3,389
Total contractual cash obligations	$ 13,571	$ 2,440	$ 4,170	$ 3,572	$ 3,389

Future expected obligations under our pension benefit plans have not been included in the contractual cash obligations table above.

Inflation, Seasonality and Prevailing Economic Conditions

Our most significant costs are the salaries and related benefits of our employees in Asia. We are exposed to higher inflation in wage rates in the countries in which we operate. We generally perform work for our clients under project-specific contracts, requirements-based contracts or long-term contracts. We must adequately anticipate wage increases, particularly on our fixed-price contracts. There can be no assurance that we will be able to recover cost increases through increases in the prices that we charge for our services to our clients.

Our quarterly operating results are subject to certain fluctuations. We experience fluctuations in our revenue and earnings as we replace and begin new projects, which may have some normal start-up delays, or we may be unable to replace a project entirely. These and other factors may contribute to fluctuations in our operating results from quarter to quarter. In addition, as some of our Asian facilities are closed during holidays in the fourth quarter, we typically incur higher wages, due to overtime, that reduce our margins.

Critical Accounting Policies and Estimates

Basis of Presentation and Use of Estimates

Our discussion and analysis of our results of operations, liquidity and capital resources are based on our consolidated financial statements which have been prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition, allowance for doubtful accounts and billing adjustments, long-lived assets, goodwill, valuation of deferred tax assets, value of securities underlying stock-based compensation, litigation accruals, pension benefits, valuation of derivative instruments and estimated accruals for various tax exposures. We base our estimates on historical and anticipated results and trends and on various other assumptions that we believe are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from our estimates and could have a significant adverse effect on our consolidated results of operations and financial position. We believe the following critical accounting policies affect our more significant estimates and judgments in the preparation

of our consolidated financial statements.

Allowance for Doubtful Accounts

We establish credit terms for new clients based upon management s review of their credit information and project terms, and perform ongoing credit evaluations of our clients, adjusting credit terms when management believes appropriate, based upon payment history and an assessment of their current credit worthiness. We record an allowance for doubtful accounts for estimated losses resulting from the inability of our clients to make required payments. We determine this allowance by considering a number of factors, including the length of time trade accounts receivable are past due, our previous loss history, our estimate of the client s current ability to pay its obligation to us, and the condition of the general economy and the industry as a whole. While credit losses have generally been within expectations and the provisions established, we cannot guarantee that credit loss rates in the future will be consistent with those experienced in the past. In addition, we will have credit exposure if the financial condition of one of our major clients were to deteriorate. In the event that the financial condition of our clients were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be necessary.

Revenue Recognition

Revenue is recognized in the period in which services are performed and delivery has occurred and when all the criteria of Staff Accounting Bulletin 104 have been met.

Revenues for contracts billed on a time-and-materials basis are recognized as services are performed. Revenues under fixed-fee contracts are recognized on a percentage-of-completion method of accounting as services are performed or milestones are achieved. Revenues from fixed-fee projects accounted for less than 10% of our total revenue for each of the three years in the period ended December 31, 2011. Certain reimbursable expenses incurred on behalf of clients are recorded on a net basis in revenues.

Long-lived Assets

We assess the recoverability of our long-lived assets, which consist primarily of fixed assets and intangible assets with finite useful lives, whenever events or changes in circumstance indicate that the carrying value may not be recoverable. The following factors, if present, may trigger an impairment review: (i) significant underperformance relative to expected historical or projected future operating results; (ii) significant negative industry or economic trends; (iii) significant decline in our stock price for a sustained period; and (iv) a change in our market capitalization relative to net book value. If the recoverability of these assets is unlikely because of the existence of one or more of the above-mentioned factors, we perform an impairment analysis using a projected discounted cash flow method. We must make assumptions regarding estimated future cash flows and other factors to determine the fair value of these respective assets. If these estimates or related assumptions change in the future, we may be required to record an impairment charge. Impairment charges would be included in general and administrative expenses in our statements of operations, and would result in reduced carrying amounts of the related assets on our balance sheets. We did not recognize an impairment in any of our long-lived assets during each of the three years in the period ended December 31, 2011.

Income Taxes

We determine our deferred taxes based on the difference between the financial statement and tax basis of assets and liabilities, using enacted tax rates, as well as any net operating loss or tax credit carryforwards expected to reduce taxes payable in future years. We provide a valuation allowance when it is more likely than not that all or some portion of the deferred tax assets will not be realized. While we consider future taxable income in assessing the need for the valuation allowance, in the event we were to determine that we would be able to realize the deferred tax assets in the future in excess of its net recorded amount, an adjustment to the

deferred tax assets would increase income in the period such determination was made. Similarly, in the event we were to determine that we would not be able to realize the deferred tax assets in the future considering the future taxable income, an adjustment to the deferred tax assets would decrease income in the period such determination was made. Change in valuation allowance from period to period is included in our tax provision in the period of change. We had previously recorded a deferred tax liability on approximately $5.1 million of foreign earnings, which represents a portion of foreign profits earned prior to 2002. In 2009, we made a reassessment on the remittances of such foreign earnings and determined that these earnings will be indefinitely reinvested in our foreign subsidiaries. Beginning in 2002, unremitted earnings of foreign subsidiaries have been included in the consolidated financial statements without giving effect to the United States taxes that may be payable on distribution to the United States because such earnings are not anticipated to be remitted to the United States.

In addition we have provided for an accrual for potential tax obligations resulting from income tax audits and other potential tax obligations.

We account for income taxes regarding uncertain tax positions, and recognize interest and penalties related to uncertain tax positions in income tax expense in our consolidated statement of operations.

Goodwill and Other Intangible Assets

We test goodwill annually for impairment using a two-step fair value based test. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the second step of the goodwill impairment test must be performed to measure the amount of the impairment loss, if any. If impairment is determined, we will recognize additional charges to operating expenses in the period in which they are identified, which would result in a reduction of operating results and a reduction in the amount of goodwill. Our most recent test for impairment was conducted as of September 30, 2011, in which the estimated fair values of the reporting unit exceeded its carrying amount, including goodwill. As such, no impairment was identified or recorded.

Accounting for Stock-Based Compensation

We are authorized to grant stock options to officers, directors and employees of the Company under various Stock Option Plans approved by stockholders.

We measure and recognize stock-based compensation expense for all share-based payment awards made to employees and directors based on estimated fair value at the grant date and is recognized over the requisite service period. Determining the fair value of stock-based awards at the grant date requires judgment, including estimating the expected term of stock options and the expected volatility of our stock. The fair value is determined using the Black-Scholes option-pricing model. We recorded stock-based compensation expense of approximately $0.8 million, $0.3 million and $0.2 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Legal Proceedings

We are subject to various legal proceedings and claims which arise in the ordinary course of business. Our legal reserves related to these proceedings and claims are based on a determination of whether or not a loss is probable. We review outstanding claims and proceedings with external counsel to assess probability and estimates of loss. The reserves are adjusted if necessary. If circumstances change, we may be required to record adjustments that could be material to our reported financial condition and results of operations.

Pensions

Most of our non-U.S. subsidiaries provide for government mandated defined pension benefits covering those employees who meet certain eligibility requirements. Pension assumptions are significant inputs to actuarial models that measure pension benefit obligations and related effects on operations. Two critical assumptions discount rate and rate of increase in compensation levels are important elements of plan expense and asset/liability measurements. These critical assumptions are evaluated at least annually on a plan and a country specific basis. Other assumptions involving demographic factors such as retirement age, mortality and turnover are evaluated periodically and are updated to reflect actual experience and expectations for the future. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors, and in accordance with generally accepted accounting principles, the impact of these differences are accumulated and amortized over future periods.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standard Board (FASB) issued a standard regarding the presentation of other comprehensive income (OCI). The new guidance eliminates the option of presenting OCI in the statement of changes in equity, and requires us to report items of OCI in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We will adopt the guidance as required. The adoption of this guidance is not expected to have any impact on our consolidated financial statements.

In September 2011, the FASB issued an update on the testing of goodwill impairment. The revised – z “ z z –z– z – z z z —– –“ assessment to determine whether further impairment testing is necessary. An entity can choose to perform the qualitative assessment on none, some, or all of its reporting units or can bypass the qualitative assessment for any reporting unit in any period and proceed directly to step one of the impairment test. The standard is effective for fiscal years beginning after December 15, 2011, however early adoption is permitted. The adoption of this guidance is not expected to have any impact on our consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Interest rate risk

We are exposed to interest rate change market risk with respect to our credit line with a financial institution which is priced based on the bank s alternate base rate (3.25% at December 31, 2011) plus 0.5% or LIBOR (0.30% at December 31, 2011) plus 2.5%. We have not borrowed under this line in 2011. To the extent we utilize all or a portion of this line of credit, changes in the interest rate will have a positive or negative effect on our interest expense.

Foreign currency risk

We have operations in several international markets that subject us to foreign currency fluctuations. Although the majority of our contracts are denominated in U.S. dollars, a substantial portion of the costs incurred to render services under these contracts is incurred in the local currencies of several international markets where we carry on our operations. Our significant operations are based in the Philippines, India, Sri Lanka and Israel where revenues are generated in U.S. dollars and the corresponding expenses are generated in Philippine peso, Indian rupee, Sri Lanka rupee and Israeli shekel.

To mitigate the exposure of fluctuating future cash flows due to changes in foreign exchange rates, we entered into foreign currency forward contracts. These foreign currency forward contracts were entered into with a maximum term of eighteen months and have an aggregate notional amount of approximately $28.0

million as of December 31, 2011. We may continue to enter into these or other such instruments in the future to reduce foreign currency exposure to appreciation or depreciation in the value of these foreign currencies.

The impact of foreign currency fluctuations will continue to present economic challenges to us and could negatively impact our overall results of operations. A 10% appreciation in the U.S. d z‘ —zrelating – z– z z — z —z z– z z – – z z‘ —z ’ z – ’ z 2.1 million as of December 31, 2011. Similarly, a 10% depreciation in the U.S. d z‘ —z –“ z– z– z z — z would increase the forward – – z z‘ —z ’ z – ’ z 2.6 million as of December 31, 2011. Any increase or decrease in the fair value of our currency exchange rate sensitive forward contracts, if utilized, would be substantially offset by a corresponding decrease or increase in the fair value of the hedged underlying cash flows.

Other than the aforementioned forward contracts, we have not engaged in any hedging activities nor have we entered into off-balance sheet transactions or arrangements.

As of December 31, 2011, our foreign locations held cash and short term investments totaling approximately $15.3 million.

Item 8. Financial Statements and Supplementary Data.

See Financial Statements and Financial Statement Index commencing on page F-1 herein.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures, as defined under Exchange Act Rule 13a-15(e). Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, as of December 31, 2011, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

z “ z z z z z– z ’ z – z – z “ z z – z z— z– z is defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act) during the last fiscal quarter to which this report re – z– –z “ z – ’ z – z z z ’ z ’ z– z – ’ z –z– z ’ z internal control over financial reporting.

Report of Management on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements; providing reasonable assurance that receipts and expenditures of company assets are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded [illegible] 2011.

[illegible] 31, 2011, was audited by J.H. Cohn LLP, our independent registered public accounting firm, as stated in their report [illegible] control over financial reporting as of December 31, 2011.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Innodata Isogen, Inc.:

We have audited Innodata Isogen, Inc. z — z § – z – z – z “ z z reporting as of December 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) z§ – z management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an z z– z –“ z z§ – z – z – z “ z z – z z z —z — –

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating – z –z z– z z– –z z – z z – z– – z z “ —— z– z z and operating effectiveness of internal control based on the assessed risk and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

z ’ z – z – z “ z z – z z z z z– z vide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes z z –z —— z z ’z – z z– z – z – – z z z z ’ z internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the ’ z –z– –z — z ve a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company has maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011 based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2011 and 2010, and the related consolidated statements of op – z – z —’z z z zfor each of the three years in the period ended December 31, 2011 and the related financial statement schedule, of Innodata Isogen, Inc. and Subsidiaries and our report dated February 28, 2012, expressed an unqualified opinion thereon.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

z – z z z ’z§– z z z – z ’z z z– z ’ z –“ z proxy statement for the 2011 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under – z z –z z – z– z z ’ z – z– z z z– z ’ z2011 fiscal year.

The Company has a code of ethics that applies to all of its employees, officers, and directors, including its principal executive officer, principal financial and accounting officer, and controller. The text z– z ’ z z z – z z – z z–z –z –z –-isogen.com. The Company intends to disclose future amendments to, or waivers from, certain provisions of the code of ethics for executive officers and directors in accordance with applicable Nasdaq and SEC requirements.

Item 11. Executive Compensation.

The information called for by Item 11 is incorporated by refere z z– z ’ z –“ z proxy statement for the 2012 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under – z z –z z – z– z z ’ z – z– z z z– z ’ z2011 fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

z – z z z ’z§– z z z – z ’z z z– z ’ z –“ z proxy statement for the 2012 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under – z z –z z – z– z z ’ z – z– z z z– z ’ z2011 fiscal year.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information called for by Item 13 is inco – z ’z z z– z ’ z –“ z proxy statement for the 2012 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under – z z –z z – z– z z ’ z – z– z z z– z ’ z2011 fiscal year.

Item 14. Principal Accounting Fees and Services.

z – z z z ’z§– z z z – z ’z z z– z ’ z –“ z proxy statement for the 2012 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under – z z –z z – z– z z ’ z – z– z z z– z ’ z2011 fiscal year.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) 1. Financial Statements. See Item 8. Index to Financial Statements.
2. Financial Statement Schedules. Schedule II Valuation and Qualifying Accounts.
3. Exhibits See Exhibit Index attached hereto and incorporated by reference herein.

Item 8. Financial Statements.

INNODATA ISOGEN, INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	PAGE
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2011 and 2010	F-3
Consolidated Statements of Operations for the three years ended December 31, 2011	F-4
Consolidated Statements of Stockholders Equity for the three years ended December 31, 2011	F-5
Consolidated Statements of Cash Flows for the three years ended December 31, 2011	F-6
Notes to Consolidated Financial Statements	F-7

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Innodata Isogen, Inc.:

We have audited the accompanying consolidated balance sheets of Innodata Isogen, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operatio z – z —’z and cash flows for each of the three years in the period ended December 31, 2011. Our audits of the consolidated financial statements included the financial statement schedule listed in the index appearing under Item 15. These consolidated financial statements and financial statement schedule are the responsibility of the ’ z –z —z –’z z–z z z z z– z – z z statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Innodata Isogen, Inc. and Subsidiaries as of December 31, 2011 and 2010, and their results of operations and cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board – z –– z§ –z§ z§ z z — z – z – z “ z z – z z z December 31, 2011 based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organization of the Treadway Commission (COSO) and our report dated February 28, 2012, expressed an unqualified opinion thereon.

/s/ J.H. Cohn LLP

Roseland, New Jersey
February 28, 2012

INNODATA ISOGEN, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2011 AND 2010
(in thousands, except share data)

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,389	$ 14,120
Short term investments other	5,828	8,875
Accounts receivable-net of allowance for doubtful accounts of $608 and $1,308 at December 31, 2011 and 2010, respectively	21,706	8,389
Prepaid expenses and other current assets	2,984	3,842
Deferred income taxes	1,934	1,581
Total current assets	43,841	36,807
Property and equipment, net	7,430	4,284
Other assets	3,565	2,684
Long term investments other	-	5,000
Deferred income taxes	3,886	2,797
Goodwill	675	675
Total assets	$ 59,397	$ 52,247
Current liabilities:		
Accounts payable	$ 1,528	$ 855
Accrued expenses	4,345	2,192
Accrued salaries, wages and related benefits	6,596	4,870
Income and other taxes	2,576	1,852
Current portion of long term obligations	639	458
Deferred income taxes	9	492
Total current liabilities	15,693	10,719
Deferred income taxes	153	137
Income and other taxes long term	-	349
Long term obligations	2,944	1,604
Commitments and contingencies		
Non-controlling interests	(561)	-
EQUITY:		
Serial preferred stock; 5,000,000 shares authorized, none outstanding	-	-
Common stock, $.01 par value; 75,000,000 shares authorized; 26,237,000 shares issued and 24,691,000 outstanding at December 31, 2011; and 26,207,000 shares issued and 25,155,000 outstanding at December 31, 2010	262	262
Additional paid-in capital	21,338	20,523
Retained earnings	24,883	20,412
Accumulated other comprehensive income (loss)	(1,027)	1,202
	45,456	42,399
Less: treasury stock, 1,546,000 shares at December 31, 2011 and 1,052,000 shares at December 31, 2010, at cost	(4,288)	(2,961)
– z – z —’	41,168	39,438
Total	$ 59,397	$ 52,247

See notes to consolidated financial statements.

INNODATA ISOGEN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(In thousands, except per share amounts)

	2011	2010	2009
Revenues	$ 73,942	$ 61,513	$ 76,711
Operating costs and expenses			
Direct operating costs	50,176	47,284	52,143
Selling and administrative expenses	19,082	15,659	16,318
	69,258	62,943	68,461
Income (loss) from operations	4,684	(1,430)	8,250
Other (income) expense			
Interest expense	86	9	28
Interest income	(673)	(224)	(58)
Income (loss) before provision for (benefit from) income taxes	5,271	(1,215)	8,280
Provision for (benefit from) income taxes	1,361	(468)	967
Net income (loss)	$ 3,910	$ (747)	$ 7,313
Loss attributable to non-controlling interests	561	-	-
Net income (loss) attributable to Innodata Isogen, Inc. and Subsidiaries	$ 4,471	$ (747)	$ 7,313
Income (loss) per share attributable to Innodata Isogen, Inc. and Subsidiaries:			
Basic	$ 0.18	$ (.03)	$ .30
Diluted	$ 0.18	$ (.03)	$ .28
Weighted average shares outstanding:			
Basic	24,916	25,360	24,613
Diluted	25,103	25,360	25,764

See notes to consolidated financial statements.

INNODATA ISOGEN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
January 1, 2009	24,119	$ 249	$ 16,614	$ 13,846	$ 742	$ (2,189)	$ 29,262
Net income	-	-	-	7,313	-	-	7,313
Issuance of common stock upon exercise of stock options	1,260	13	3,449	-	-	-	3,462
Stock-based compensation	-	-	204	-	-	-	204
Pension liability adjustments, net of taxes	-	-	-	-	(75)	-	(75)
Change in fair value of derivatives, net of taxes	-	-	-	-	819	-	819
December 31, 2009	25,379	262	20,267	21,159	1,486	(2,189)	40,985
Net loss	-	-	-	(747)	-	-	(747)
Stock-based compensation	40	-	256		-	-	256
Pension liability adjustments, net of taxes	-	-	-	-	(288)	-	(288)
Change in fair value of derivatives, net of taxes	-	-	-	-	4	-	4
Purchase of treasury stock	(264)	-	-	-	-	(772)	(772)
December 31, 2010	25,155	262	20,523	20,412	1,202	(2,961)	39,438
Net income	-	-	-	4,471	-	-	4,471
Stock-based compensation	30	-	815	-	-	-	815
Pension liability adjustments, net of taxes	-	-	-	-	(284)	-	(284)
Change in fair value of derivatives, net of taxes	-	-	-	-	(1,945)	-	(1,945)
Purchase of treasury stock	(494)	-	-	-	-	(1,327)	(1,327)
December 31, 2011	24,691	$ 262	$ 21,338	$ 24,883	$ (1,027)	$ (4,288)	$ 41,168

See notes to consolidated financial statements.

INNODATA ISOGEN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(In thousands)

	2011	2010	2009
Cash flow from operating activities:			
Net income (loss)	$ 3,910	$ (747)	$ 7,313
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	3,414	3,703	3,713
Provision for (recovery of) doubtful accounts	(423)	(341)	1,364
Stock-based compensation	815	256	204
Deferred income taxes			

INNODATA ISOGEN, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Summary of Significant Accounting Policies

Description of Business- § –z§ z§ z z — z – z ’ provide services, products and solutions that our clients use to create, manage, use and distribute digital information. Our clients include leading media, publishing and information services companies, as well as enterprises that are prominent in information technology, manufacturing, aerospace, defense, financial services, government, healthcare, insurance, intelligence, manufacturing and law.

The Company operates in two reporting segments.

z ’ z – –z “ z –z “ zservices that support the creation, enhancement and re-purposing of digital content.

In the second quarter of 2011, the Company launched Innodata Advanced Data Solutions (IADS) as a separate segment to perform advanced data analysis. IADS operates through two subsidiaries: Synodex and docGenix. Synodex offers a range of data analysis services in the healthcare, medical and insurance areas. docGenix provides software products and services that facilitate the generation and analysis of standardized and non-standardized documents for swaps, derivatives, repos, securities lending, prime brokerage, investment management and clearing. Synodex is a limited liability company that is 77% owned by the Company. docGenix is a limited liability company that is 78% owned by the Company. The Company purchased certain assets for docGenix from a third party for $0.4 million. The subsidiaries are at an early stage of development and reported no revenues in 2011.

Principles of Consolidation and Basis of Presentation-The consolidated financial statements include the accounts of Innodata Isogen, Inc. and its wholly-owned subsidiaries and the Synodex and docGenix limited liability companies that are majority-owned by the Company. The non-controlling interests in the Synodex and docGenix limited liability companies are accounted in accordance with the non-controlling interest guidance. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates-In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include those related to revenue recognition, allowance for doubtful accounts and billing adjustments, long-lived assets, goodwill, valuation of deferred tax assets, value of securities underlying stock-based compensation, litigation accruals, pension benefits, valuation of derivative instruments and estimated accruals for various tax exposures.

Revenue Recognition-Revenue is recognized in the period in which services are performed and delivery has occurred and when all the criteria of Staff Accounting Bulletin 104 have been met.

Revenues for contracts billed on a time-and-materials basis are recognized as services are performed. Revenues under fixed-fee contracts are recognized on a percentage-of-completion method of accounting as services are performed or milestones are achieved. Revenues from fixed-fee projects accounted for less than 10% of – z ’ total revenue for each of the three years in the period ended December 31, 2011. Certain reimbursable expenses incurred on behalf of clients are recorded on a net basis in revenues.

Foreign Currency Translation-The functional currency for the Company s production operations located in the Philippines, India, Sri Lanka and Israel is U.S. dollars. As such, transactions denominated in Philippine pesos, Indian and Sri Lankan rupees and Israeli shekels were translated to U.S. dollars at rates which approximate those in effect on transaction dates. Monetary assets and liabilities denominated in foreign

currencies at December 31, 2011 and 2010 were translated at the exchange rate in effect as of those dates. Included in direct operating costs are exchange losses (gains) resulting from such transactions of approximately $621,000, $414,000 and $256,000 for the years ended December 31, 2011, 2010 and 2009, respectively.

Derivative Instruments-The Company has designated its derivatives (foreign currency forward contracts) as a cash flow hedge. reported as a component of accumulated other comprehensive income or loss, and is subsequently reclassified to earnings when the hedge exposure affects earnings. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging activities.

Cash Equivalents-For financial statement purposes (including cash flows), the Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments-Short term and long term investments consist of certificates of deposits.

Property and Equipment-Property and equipment are stated at cost and are depreciated on the straight-line method over the estimated useful lives of the related assets, which is generally two to five years. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the lives of the leases. Certain assets under capital leases are amortized over the lives of the respective leases or the estimated useful lives of the assets, whichever is shorter.

Long-lived Assets-Management assesses the recoverability of its long-lived assets, which consist primarily of fixed assets and intangible assets with finite useful lives, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The following factors, if present, may trigger an impairment review: (i) significant underperformance relative to expected historical or projected future operating results; (ii) significant negative industry or economic trends; (iii) significant decline in the Company s stock price for a sustained period; and (iv) a change in the Company s market capitalization relative to net book value. If the recoverability of these assets is unlikely because of the existence of one or more of the above-mentioned factors, an impairment analysis is performed, initially using a projected undiscounted cash flow method. Management must make assumptions regarding estimated future cash flows and other factors to determine the fair value of these respective assets. If these estimates or related assumptions change in the future, the Company may be required to record an impairment charge. Impairment charges, which would be based on discounted cash flows, would be included in general and administrative expenses in the Company s statements of operations, and would result in reduced carrying amounts of the related assets on the Company s balance sheets. No impairment charges were recorded in the three years ended December 31, 2011.

Goodwill and Other Intangible Assets-Goodwill represents the excess purchase price paid over the fair value of net assets acquired. The Company tests its goodwill on an annual basis using a two-step fair value based test. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit, with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the second step of the goodwill impairment test must be performed to measure the amount of the impairment loss, if any. If impairment is determined, the Company will recognize additional charges to operating expenses in the period in which they are identified, which would result in a reduction of operating results and a reduction in the amount of goodwill.

In the annual impairment test conducted by the Company as of September 30, 2011, 2010 and 2009 the estimated fair values of the reporting unit exceeded its carrying amount, including goodwill. As such, no impairment was identified or recorded.

Income Taxes-Deferred taxes are determined based on the difference between the financial statement and tax basis of assets and liabilities, using enacted tax rates, as well as any net operating loss or tax credit carryforwards expected to reduce taxes payable in future years. A valuation allowance is provided when it is more likely than not that all or some portion of the deferred tax assets will not be realized. While the Company considers future taxable income in assessing the need for the valuation allowance, in the event that the Company determined that it would be able to realize the deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax assets would increase income in the period such determination was made. Similarly, in the event that the Company determined that it would not be able to realize the deferred tax assets in the future considering future taxable income, an adjustment to the deferred tax assets would decrease income in the period such determination was made. Changes in valuation allowance from period to period are — z z– z ’ z– z “ sion in the period of change. The Company had previously recorded a deferred tax liability on approximately $5.1 million of foreign earnings, which represents a portion of foreign profits earned prior to 2002. In 2009, the Company made a reassessment on the remittances of such foreign earnings and determined that these earnings will be indefinitely reinvested in its foreign subsidiaries. Beginning in 2002, unremitted earnings of foreign subsidiaries have been included in the consolidated financial statements without giving effect to the United States taxes that may be payable on distribution to the United States, because such earnings are not anticipated to be remitted to the United States.

The Company accounts for income taxes regarding uncertain tax positions, and recognizes interest and penalties related to uncertain tax positions in income tax expense in the consolidated statements of operations.

Accounting for Stock-Based Compensation The Company measures and recognizes stock-based compensation expense for all share-based payment awards made to employees and directors based on estimated fair value at the grant date. The stock-based compensation expense is recognized over the requisite service period. The fair value is determined using the Black-Scholes option-pricing model.

The stock- z – z z – z– z– z ’ z“ —zstock option plans was allocated as follows (in thousands):

	Years Ended December 31,		
	2011	**2010**	**2009**
Direct operating costs	$ 72	$ 13	$ 13
Selling and adminstrative expenses	743	243	191
Total stock-based compensation	$ 815	$ 256	$ 204

Fair Value of Financial Instruments- The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable and accounts payable approximated their fair value as of December 31, 2011 and 2010, because of the relative short maturity of these instruments.

Fair value measurements and disclosures define fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The accounting standard establishes a fair value hierarchy that prioritizes the inputs used to measure fair value into three levels. The three levels are defined as follows:

Level 1: Unadjusted quoted price in active market for identical assets and liabilities.
Level 2: Observable inputs other than those included in Level 1.

Level 3: " z —z – z – z z — – z —z– z —z— z z pricing the asset or liability.

Accounts Receivable-The majority of the Company s accounts receivable are due from publishers and information providers. The Company establishes credit terms for new clients based upon management s review of their credit information and project terms, and performs ongoing credit evaluations of its clients, adjusting credit terms when management believes appropriate based upon payment history and an assessment of their current creditworthiness. The Company records an allowance for doubtful accounts for estimated losses resulting from the inability of its clients to make required payments. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due (accounts outstanding longer than the payment terms are considered past due), the Company s previous loss history, the client s current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. While credit losses have generally been within expectations and the provisions established, the Company cannot guarantee that credit loss rates in the future will be consistent with those experienced in the past. In addition, there is credit exposure if the financial condition of one of the Company s major clients were to deteriorate. In the event that the financial condition of one of the Company s clients were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be necessary.

Concentration of Credit Risk-The Company maintains its cash with highly rated financial institutions, located in the United States and in foreign locations where Company has its operations. To the extent that such cash exceeds the maximum insurance levels, the Company would be uninsured. The Company has not experienced any losses in such accounts.

Income (Loss) per Share- Basic income (loss) per share is computed using the weighted-average number of common shares outstanding during the year. Diluted income (loss) per share is computed by considering the impact of the potential issuance of common shares, using the treasury stock method, on the weighted average number of shares outstanding. For those securities that are not convertible into a class of z– z– z– z z – z z — z z z z z z— z

Pension-The Company records annual pension costs based on calculations, which include various actuarial assumptions including discount rates, compensation increases and other assumptions involving demographic factors. The Company reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends. The Company believes that the assumptions used in recording its pension obligations are reasonable based on its experience, market conditions and inputs from its actuaries.

Deferred revenue-Deferred revenue represents payments received from clients in advance of providing services and amounts deferred if conditions for revenue recognition have not been met. Included in accrued expenses on the accompanying consolidated balance sheets as of December 31, 2011 and 2010 is deferred revenue amounting to $0.8 million.

Recent Accounting Pronouncements-In June 2011, the Financial Accounting Standard Board (FASB) issued a standard regarding the presentation of other comprehensive income (OCI). The new guidance eliminates the option of presenting OCI in the statement of changes in equity, and requires the Company to report items of OCI in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company will adopt the guidance as required. The adoption of this guidance is not expected to have any –z z– z ' z – z z–– – z

In September 2011, the FASB issued an update on the testing of goodwill impairment. The revised – z " z z –z– z – z z z z — ––" z –z– z – z – z further impairment testing is necessary. An entity can choose to perform the qualitative assessment on none,

some, or all of its reporting units, or can bypass the qualitative assessment for any reporting unit in any period and proceed directly to step one of the impairment test. The standard is effective for fiscal years beginning after December 15, 2011, however early adoption is permitted. The adoption of this guidance is not expected – z " z 'z –z z– z ' z – z z– – – z

2. Property and equipment

Property and equipment, which include amounts recorded under capital leases, are stated at costs less accumulated depreciation and amortization (in thousands), and consist of the following:

	December 31, 2011	2010
Equipment	$ 21,833	$ 20,676
Software	6,216	4,333
Furniture and office equipment	2,658	2,161
Leasehold improvements	5,591	4,214
Total	36,298	31,384
Less accumulated depreciation and amortization	(28,868)	(27,100)
	$ 7,430	$ 4,284

Depreciation and amortization expense of property and equipment was approximately $2.8 million, $3.1 million and $3.1 million for the years ended December 31, 2011, 2010 and 2009, respectively.

At December 31, 2011 and 2010, equipment under capital leases had a gross cost of approximately $1.6 million. Accumulated depreciation of equipment under capital leases was $1.5 million and $1.4 million for 2011 and 2010, respectively. Amortization of assets under capital leases is included under depreciation and amortization expense.

3. Income taxes

The significant components of the provision for (benefit from) income taxes for each of the three years in the period ended December 31, 2011 are as follows (in thousands):

	2011	2010	2009
Current income tax expense:			
Foreign	$ 2,129	$ 1,134	$ 1,476
Federal	48	-	55
State and local	12	7	27
	2,189	1,141	1,558
Deferred income tax benefit:			
Foreign	-	(234)	-
Federal	(352)	(1,180)	(496)
State and local	(476)	(195)	(95)
	(828)	(1,609)	(591)
Provision for (benefit from) income taxes	$ 1,361	$ (468)	$ 967

The reconciliation of the U.S. statutory rate with the Company s effective tax rate for each of the three years ended December 31, 2011 is summarized as follows:

	2011	2010	2009
Federal statutory rate	34.0 %	(34.0) %	34.0 %
Effect of:			
State income taxes (net of federal tax benefit)	3.0	(3.0)	3.5
Taxes on foreign income at rates that differ from U.S. statutory rate	(18.3)	(29.0)	(9.2)
Reversal of deferred tax liability relating to unrepatriated foreign earnings	-	-	(23.9)
Change in valuation allowance on deferred tax assets	-	(19.2)	0.8
Increase in unrecognized tax benefits	9.0	45.7	7.5
Other	(1.9)	1.0	(1.0)
Effective tax rate	25.8 %	(38.5) %	

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that all or some portion of the deferred tax assets will not be realizable. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences are deductible and net operating losses are available. At December 31, 2011 and 2010, the Company had no valuation allowance on its deferred tax assets.

The Company had previously recorded a deferred tax liability on approximately $5.1 million of foreign earnings, which it intended to remit to the U.S. These earnings represent a portion of – z ' foreign profits earned prior to 2002. In 2009, the Company made a reassessment on the remittances of such foreign earnings and determined that these earnings will be indefinitely reinvested in its foreign subsidiaries. As a result of the change in assertion, the Company reduced its deferred tax liabilities related to undistributed foreign earnings by approximately $2.0 million. Beginning in 2002, unremitted earnings of foreign subsidiaries have been included in the consolidated financial statements without giving effect to the United States taxes that may be payable on distribution to the United States, because such earnings are not anticipated to be remitted to the United States. Undistributed earnings of foreign subsidiaries amount to $24.0 million at December 31, 2011. These earnings are considered to be indefinitely reinvested, and accordingly, no provision for U.S. federal or state income taxes has been made.

United States and foreign components of income (loss) before income taxes for each of the three years ended December 31, (in thousands) are as follows:

	2011	2010	2009
United States	$ (2,476)	$ (3,852)	$ 3,919
Foreign	7,747	2,637	4,361
Total	$ 5,271	$ (1,215)	$ 8,280

– z z– z ' z z— z z— –z z – z– z – z $ z – z z z– z foreign subsidiaries enjoys tax holiday. Due to the tax holiday and the preferential tax rates, the income tax rate for the Company was substantially reduced, the tax benefit from which was approximately $1.1 million, $0.1 million and $0.2 million for each of the three years in the period ended December 31, 2011, respectively.

At December 31, 2011, the Company has available U.S. federal and New Jersey state net operating loss carryforwards of approximately $10.6 million and $12.2 million, respectively. These net operating loss carryforwards expire at various times through 2031. Stock option exercises resulted in tax deductions in excess z " —' z z –z z z– z – z" —z –z– z– z z –z z z – — z– z benefits were reflected in the net operating losses, the additional tax benefit associated with the windfall is not recognized until the deduction reduces taxes payable. Accordingly, since the tax benefit did not reduce the current taxes payable due to net operating losses, these windfall tax benefits were not reflected in the deferred tax assets for 2011 and 2010. Windfalls included in net operating losses but not reflected in deferred tax assets as of December 31, 2011 were approximately $4.0 million.

The Company had unrecognized tax benefits of $2.3 million and $1.8 million at December 31, 2011 and 2010, respectively. The portion of unrecognized tax benefits relating to interest and penalties was $0.5 million and $0.4 million at December 31, 2011 and 2010, respectively. The unrecognized tax benefits as of December 31, 2011 and 2010 z z z —z " z z –z z– z ' z –" z– z – z

z z– z –z z z z– z ’ z— z– z –z and associated interest during the years then ended (amounts in thousands):

	December 31,	
	2011	**2010**
Balance at beginning of year	$ 1,827	$ 1,303
Increases for tax position in prior years	317	445
Decrease for tax position in prior years		(5)
Interest accrual	134	84
Balance at end of year	$ 2,278	$ 1,827

The Company is subject to U.S. federal income tax as well as income tax in various states and foreign jurisdictions. The Company is no longer subject to examination by federal and New Jersey taxing authorities for years prior to 2006. Various foreign subsidiaries currently have open tax years ranging from 2004 through 2010.

Pursuant to an income tax audit by the Indian Bureau of Taxation in March 2006, one of the ’ z z— z “ z z– z ment approximating $339,000, including interest, through December 31, 2011, for the fiscal tax year ended March 31, 2003. Management disagreed with the basis of the tax assessment and filed an appeal with the Appeal Officer against the assessment. In October 2010, the — z z “ z –z z— –z z– z ’ z “ z z– z z z –however, the income tax assessing officer has a right to appeal against the judgment passed by the Appeal Officer. In December 2010, the income tax assessing officer exercised this right, against which the Company has filed an application to defend the case and the Company intends to contest it vigorously. The Indian Bureau of – z z z – z z— z z– z ’ z— ’ z z– z — z z– z z– z year ended March 31, 2004. The ultimate outcome was favorable, and there was no tax assessment imposed for the fiscal tax year ended March 31, 2004. As of December 31, 2008 and 2009, the Indian subsidiary received a final tax assessment for the fiscal years ended March 31, 2005 and 2006 from the Indian Bureau of Taxation approximating $340,000 and $345,000, respectively, including interest through December 31, 2011. Management disagrees with the basis of these tax assessments, have filed an appeal against the assessments, which it is contesting vigorously. In January 2012, the Indian subsidiary received a final tax assessment approximately $1.1 million, including interest, through December 31, 2011, for the fiscal year ended March 31, 2008 from the Indian Bureau of Taxation. Management disagrees with the basis of this tax assessment, and has filed an appeal against the assessment. Due to this assessment, the Company recorded a tax provision amounting to $295,000 including interest through December 31, 2011. Based on the recent experience and the current development, management believes that the tax provision of $295,000 including interest is adequate. As the Company is continually subject to tax audits by the Indian Bureau of Taxation, the Company assessed the likelihood of an unfavorable assessment for all fiscal years where the Company is not subject to a final tax assessment as of December 31, 2011, and recorded an additional tax provision amounting to approximately $0.9 million including interest through December 31, 2011. The Indian Bureau of Taxation commenced an audit of this subsidi ’ z z– z — z z– z z’ z z® z z z z— –z — z cannot be determined at this time.

4. Long term obligations

Total long term obligations as of December 31, 2011 and 2010 consist of the following (in thousands):

	2011	2010
Vendor obligations		
Capital lease obligations	$ 15	$ 50
Deferred lease payments	418	282
Microsoft licenses [1]	857	-
Pension obligations		
Accrued pension liability	2,293	1,730
	3,583	2,062
Less: Current portion of long term obligations	639	458
Totals	$ 2,944	$ 1,604

[1] In April 2011, the Company renewed a vendor agreement to acquire certain additional software licenses and to receive support and subsequent software upgrades on these and other currently owned software licenses through February 2014. Pursuant to this agreement, the Company is obligated to pay approximately $470,000 annually over the term of the agreement. As of December 31, 2011, the Company paid $470,000. The total cost, net of deferred interest, was allocated to the following asset accounts in 2011(in thousands):

Prepaid expenses and other current assets	$ 433
Other assets	867
Property and equipment	25
	$ 1,325

Amortization expense was approximately $0.6 million, in each of the three years in the period ended December 31, 2011.

5. Commitments and contingencies

Line of Credit-The Company has a $7.0 million line of credit pursuant to which it may borrow up to 80% of eligible accounts receivable. Borrowings under the credit line bear interest at the z – –z z rate plus 0.5% or LIBOR plus 2.5%. The line, which expires in June 2012, is – z ’z– z ’ z accounts receivable. The Company has no outstanding obligations under this credit line as of December 31, 2011.

Leases-The Company is obligated under various operating lease agreements for office and production space. Certain agreements contain escalation clauses and requirements that the Company pay taxes, insurance and maintenance costs. Company leases that include escalated lease payments are expensed on a straight-line basis over the non-cancelable base lease period.

Lease agreements for production space in most overseas facilities, which expire through 2030, contain provisions pursuant to which the Company may cancel the leases with a minimal notice period, generally subject to forfeiture of the security deposit. Rent expense, principally for office and production space totaled approximately $3.2 million, $3.0 million and $2.6 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Future minimum lease payments, by year and in the aggregate, under non-cancelable operating leases with initial or remaining terms of one year or more as of December 31, 2011 (in thousands) are as follows:

Years Ending December 31,	
2012	$ 1,955
2013	1,983
2014	1,717
2015	1,828
2016	1,744
Thereafter	3,389
Total minimum lease payments	$ 12,616

Litigation-In 2008, the Supreme Court of the Republic of the Philippines refused to review a decision of the Court of Appeals in Manila against a Philippines subsidiary of the Company that is inactive and has no material assets, and purportedly also against Innodata Isogen, Inc., that orders the reinstatement of certain former employees of the subsidiary to their former positions and also orders the payment of back wages and benefits that aggregate approximately $7.5 million. Based on consultation with legal counsel, the Company believes that recovery against the Company is unlikely.

The Company is also subject to various legal proceedings and claims which arise in the ordinary course of business.

While management currently believes that the ultimate outcome of these proceedings will not have a – z “ z –z z– z ’ z nancial position or overall trends in results of operations, litigation is subject to inherent uncertainties. Substantial recovery against the Company in the above referenced Philippines actions could have a material adverse impact on the Company, and unfavorable rulings or recoveries in the other proceedings could have a material adverse impact on the operating results of the period z z– z — z z “ ’z — z§ z – z– z ’ z – –z zthe potential impact on the ’ z l position or overall results of operations for the above legal proceedings could change in the future.

Foreign Currency-The Company s production facilities are located in the Philippines, India, Sri Lanka and Israel. To the extent that the currencies of these countries fluctuate, the Company is subject to risks of changing costs of production after pricing is established for certain client projects.

Indemnifications-The Company is obligated under certain circumstances to indemnify directors, certain officers and employees against costs and liabilities incurred in actions or threatened actions brought against such individuals because such individuals acted in the capacity of director and/or officer or fiduciary of the Company. In addition, the Company has contracts with certain clients pursuant to whom the Company has agreed to indemnify the client for certain specified and limited claims. These indemnification obligations occur in the ordinary course of business and, in many cases do not include a limit on potential maximum future payments. As of December 31, 2011, the Company has not recorded a liability for any obligations arising as a result of these indemnifications.

Liens-In connection with the procurement of tax incentives at one of the Company s foreign subsidiaries, the foreign zoning authority was granted a first lien on the subsidiary s property and equipment. As of December 31, 2011, the net book value of the property and equipment was $0.3 million.

6. Pension benefits

U.S. Defined Contribution Pension Plan-The Company has a defined contribution plan qualified under Section 401(k) of the Internal Revenue Code, pursuant to which substantially all of its U.S. employees are eligible to participate after completing six months of service. Participants may elect to contribute a portion of

their compensation to the plan. Under the plan, the Company has the discretion to match a portion of – – contributions. The Company intends to match approximately $0.1 million to the plan for the year ended December 31, 2011. For the years ended December 31, 2010 and 2009 z– z ’ z – z contributions were approximately $0.1 million.

Non-U.S. Pension benefits-The accounting standard for pensions requires an employer to recognize a net liability or asset and an offsetting adjustment to accumulated other comprehensive income to report the funded status of defined benefit pension and other post-retirement benefit plans.

Most of the non-U.S. subsidiaries provide for government mandated defined pension benefits. For certain of these subsidiaries, vested eligible employees are provided a lump sum payment upon retiring from the Company at a defined age. The lump sum amount is based on the salary and tenure as of retirement date. Other non-U.S subsidiaries provide for a lump sum payment to vested employees on retirement, death, incapacitation or termination of employment, based upon the salary and tenure as of the date employment ceases. The liability for such defined benefit obligations is determined and provided on the basis of actuarial valuations. As of December 31, 2011, these plans are unfunded. Pension expense for foreign subsidiaries totaled approximately $0.5 million, $0.4 million and $0.2 million for each of the three years in the period ended December 31, 2011.

The following table summarizes the amounts recognized in accumulated other comprehensive income, net of taxes (in thousands):

		Years Ended December 31,		
		2011	2010	2009
Amortization of transition obligation		$ 89	$ 91	$ 99
Actuarial gain		(373)	(379)	(174)
	Total	$ (284)	$ (288)	$ (75)
Amounts in accumulated other comprehensive income not yet reflected in net periodic pension cost, net of taxes:				
Actuarial gain		$ 401	$ 774	
Transition obligation		(306)	(395)	
	Total	$ 95	$ 379	
Amounts in accumulated other comprehensive income expected to be amortized in 2012 net periodic pension cost:				
Actuarial loss		$ 32		
Transition obligation		83		
	Total	$ 115		

The following table sets out the status of the non-U.S pension benefits and the amounts (in thousands) z z– z ’ z – z z – – – for each of the three years ended December 31:

Benefit Obligations:

Change in the Benefit Obligation:	**2011**	**2010**	**2009**
Projected benefit obligation at beginning of the year	$ 2,074	$ 1,392	$ 1,072
Service cost	332	244	210
Interest cost	186	142	105
Actuarial loss	299	271	24
Foreign currency exchange rate changes	(100)	86	23
Benefits paid	(96)	(61)	(42)
Projected benefit obligation at end of year			

Components of Net Periodic Pension Cost:

	2011	**2010**	**2009**
Service cost	$ 332	$ 244	$ 210
Interest cost	186	142	105
Actuarial (gain) loss recognized	(17)	(4)	(92)
Net periodic pension cost	$ 501	$ 382	$ 223

The accumulated benefit obligation, which represents benefits earned to date, was approximately $1.1 million and $0.9 million at December 31, 2011 and 2010, respectively.

Actuarial assumptions for all non-U.S. plans are described below. The discount rates are used to measure the year end benefit obligations and the earnings effects for the subsequent year. The assumptions for each of the three years ended December 31, 2011 are as follows:

	2011	**2010**	**2009**
Discount rate	7.2%-9.5%	8.5%-9.9%	7.2%-12%
Rate of increase in compensation levels	7%-9%	7%-9%	7%-10%

Estimated Future Benefit Payments:

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

Years Ending December 31,	
2012	$ 152
2013	95
2014	66
2015	164
2016	292
2017 to 2021	802

7. Capital Stock

Common Stock-The Company is authorized to issue 75,000,000 shares of common stock. Each share of common stock has one vote. Subject to preferences that may be applicable to any outstanding shares of preferred stock, the holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by the Board of Directors. No common stock dividends have been declared to date.

Preferred Stock-The Company is authorized to issue 5,000,000 shares of preferred stock. The Board of Directors is authorized to fix the terms, rights, preferences and limitations of the preferred stock and to issue the preferred stock in series which differ as to their relative terms, rights, preferences and limitations.

Stockholder Rights Plan-On December 16, 2002, the Board of Directors adopted a Stockholder Rights Plan (Rights Plan) in which one right (Right) was declared as a dividend for each share of the Company s common stock outstanding. The purpose of the plan is to deter a hostile takeover of the Company. Each Right entitles its holders to purchase, under certain conditions, one one-thousandth of a share of newly authorized Series C Participating Preferred Stock (Preferred Stock), with one one-thousandth of a share of Preferred Stock intended to be the economic and voting equivalent of one share of the Company s common stock. Rights will be exercisable only if a person or group acquires beneficial ownership of 15% (25% in the case of specified executive officers of the Company) or more of the Company s common stock or commences a tender or exchange offer, upon the consummation of which such person or group would beneficially own such percentage of the common stock. Upon such an event, the Rights enable dilution of the acquiring person s or group s interest by providing that other holders of the Company s common stock may purchase, at an exercise price of $4.00, the Company s common stock having a market value of $8.00 based on the then market price of the Company s common stock, or at the discretion of the Board of Directors, Preferred Stock, having double the value of such exercise price. The Company will be entitled to redeem the Rights at $.001 per Right under certain circumstances set forth in the Rights Plan. The Rights themselves have no voting power and will expire on December 26, 2012, unless earlier exercised, redeemed or exchanged.

Common Stock Reserved-As of December 31, 2011, the Company had reserved for issuance approximately 4,418,000 shares of common stock pursuant to the Company s stock option plans.

Treasury Stock-In June 2010, the Company announced that the Board of Directors authorized the repurchase of up to $2.1 million of its common stock. As of December 31, 2011, the Company repurchased 758,000 shares of its common stock representing almost the entire June 2010 authorization. In September 2011, [illegible] $2.0 million of its common stock in open market or private transactions. There is no expiration date associated with the program. The Company did not repurchase any shares of its common stock in 2011 under the September 2011 authorization.

8. Stock Options

The Company adopted, with stockholder approval, the Innodata Isogen, Inc. 2009 Stock Plan, as [illegible] tock that may be delivered under the 2009 Plan is 2,270,118 shares, less one share for every share that becomes subject to an Option or Stock Appreciation Rights (SAR) granted after March 31, 2011 and two shares for every share that becomes subject to an Award other than an Option or SAR granted after March 31, 2011. If after March 31, 2011 (i) any shares subject to an award or portion of any award under the 2001 and 2002 Stock Option Plans [illegible], or is forfeited, or is otherwise terminated, surrendered or canceled as to any shares without the delivery of shares of Stock or (ii) shares subject to any Award or portion of an Award under the Plan that expires or terminates unexercised, becomes unexercisable, or is forfeited, or is otherwise terminated, surrendered or canceled as to any shares without the delivery of shares of Stock, the applicable shares subject to such award under the Prior Plans or the Award shall thereafter be available for further Awards under the Plan. Shares that become available for

Awards shall be added back as (i) one share for each such share subject to an option under the Prior Plans or an Option or SAR under the Plan, and (ii) as two shares for each such share subject to awards other than Options or SAR under the Plan.

All directors, officers and other employees, and other persons who provide services to the Company, are eligible to participate in the 2009 Plan. The 2009 Plan provides for the grants of stock options (which may be incentive stock options within the meaning of the Internal Revenue Code of 1986, as amended, or non-qualified stock options). The stock options granted may have a maximum term of up to ten years.

z ’ z oard of Directors may amend, alter, suspend, discontinue, or terminate the 2009 Plan or any portion thereof at any time; provided that no such amendment, alteration, suspension, discontinuation or termination shall be made without stockholder approval, if such approval is necessary to comply with any tax or regulatory requirement applicable to the 2009 Plan; and provided further that any such amendment, alteration, suspension, discontinuance or termination that would impair the rights of any participant or any holder or beneficiary of any award theretofore granted shall not to that extent be effective without the consent of the affected participant, holder or beneficiary. Notwithstanding the foregoing, the Board of Directors may unilaterally amend the 2009 Plan and outstanding awards without participant consent, as it deems necessary or appropriate, to ensure compliance with applicable securities laws and provisions of the Internal Revenue Code of 1986.

The fair value of stock options is estimated on the date of grant using the Black-Scholes option pricing model. The weighted average fair values of the options granted and weighted average assumptions are as follows:

	For the Years Ended December 31,		
	2011	**2010**	**2009 [1]**
Weighted average fair value of options granted	$ 1.61	$ 3.04	
Risk-free interest rate	0.9%-2.8%	2.5%-3.2%	
Expected life (years)	5-8	8	
Expected volatility factor	68%-74%	90%	
Expected dividends	None	None	

[1] There were no options granted in 2009.

The Company estimates the risk-free interest rate using the U.S. Treasury yield curve for periods equal to the expected term of the options in effect at the time of grant. The expected term of options granted is based on a combination of vesting schedules, term of the options and historical experience. Expected volatility z z z – z“ – ’z z– z ’ z z– z he Company uses an expected dividend yield of zero since it has never declared or paid any dividends on its capital stock.

A summary of option activity under the Plans as of December 31, 2011, and changes during the year then ended is presented below:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at January 1, 2011	2,096,780	$ 2.83		
Granted	1,505,000	$ 2.59		
Exercised				
Forfeited/Expired	(183,451)	$ 2.74		
Outstanding at December 31, 2011	3,418,329	$ 2.73	4.99	$ 2,242,064
Exercisable at December 31, 2011	1,777,053	$ 2.73	2.89	$ 2,242,064
Vested and expected to vest at December 31, 2011	3,418,329	$ 2.73	2.89	$ 2,242,064

The total compensation cost related to non-vested stock options not yet recognized as of December 31, 2011 totaled approximately $2.4 million. The weighted-average period over which these costs will be recognized is thirty one months.

— z z– z ’ z –z – z z ’ z z– z –z —– z z– z exercise of stock options have been recorded, thus there was no effect on cash flows from operating or financing activities.

No options were exercised during the year ended December 31, 2011 and 2010. The total intrinsic value of options exercised during the year ended December 31, 2009 was approximately $4.0 million. The total fair value of stock options vested during the year ended December 31, 2011 was approximately $0.3 million.

A summary of restricted shares under the ’ z – z – z lans as of December 31, 2011, and changes during the period then ended, are presented below:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested at January 1, 2011	40,000	$ 4.39
Granted	30,000	$ 2.59
Vested	(10,000)	$ 4.39
Forfeited/Expired		
Unvested at December 31, 2011	60,000	$ 3.49

9. Comprehensive income (loss)

The components of comprehensive income (loss) are as follows (in thousands):

	Years Ended December 31,		
	2011	2010	2009
Net income (loss)	$ 4,471	$ (747)	$ 7,313
Pension liability adjustment, net of taxes	(284)	(288)	(75)
Unrealized gain (loss) from derivatives, net of taxes	(1,945)	4	819
Comprehensive income (loss)	$ 2,242	$ (1,031)	$ 8,057

Accumulated other comprehensive income (loss) as reflected in the consolidated balance sheets consists of changes in pension liability adjustments, net of taxes, and changes in fair value of derivatives, net of taxes. The components of accumulated other comprehensive income as of December 31, 2011 and 2010, and changes during the years then ended, is presented below (in thousands):

	Pension Liability Adjustment	Fair Value of Derivatives	Accumulated Other Comprehensive Income (loss)
Balance at January 1, 2010	$ 667	$ 819	$ 1,486
Current-period change	(288)	4	(284)
Balance at December 31, 2010	379	823	1,202
Current-period change	(284)	(1,945)	(2,229)
Balance at December 31, 2011	$ 95	$ (1,122)	$ (1,027)

10. Segment reporting and concentrations

For the year ended December 31 z z– z ’ z – are classified into two reportable segments: Content Services and IADS.

The Content Services segment provides business process, technology and consulting services to assist clients in creating, managing, using and distributing digital content.

In the second quarter of 2011, the Company launched its IADS segment to perform advanced data analysis. IADS operates through two subsidiaries: Synodex and docGenix. Synodex offers a range of data analysis services in the healthcare, medical and insurance areas. docGenix provides software products and services that facilitate the generation and analysis of standardized and non-standardized documents for swaps, derivatives, repos, securities lending, prime brokerage, investment management and clearing.

z –z – z z– z ’ z “ —z z – z z–z —— z – z z– z Philippines, India, Sri Lanka and Israel.

Revenues from external clients and segment operating profit, and other reportable segment information are as follows (in thousands):

	Year Ended December 31, 2011
Revenues:	
Content Services	$ 73,942
IADS	-
Total consolidated	$ 73,942
Income (loss) before provision for income taxes:	
Content Services	$ 8,038
IADS [(1)]	(2,767)
Total consolidated	$ 5,271

	December 31, 2011
Total assets:	
Content Services	$ 57,280
IADS	2,117
Total consolidated	$ 59,397

[(1)] Before elimination of any inter-segment profits.

Long-lived assets as of December 31, 2011 and 2010, respectively by geographic region are comprised of:

	2011	2010
	(in thousands)	
United States	$ 2,771	$ 1,066
Foreign countries:		
Philippines	1,878	2,300
India	2,494	895
Sri Lanka	876	495
Israel	86	203
Total foreign	5,334	3,893
	$ 8,105	$ 4,959

Top three clients generated – ’ z z z z z z– z ’ z– – zrevenues in the fiscal years ended December 31, 2011, 2010 and 2009, respectively. Another client accounted for less than 10% of our revenues for the year ended December 31, 2011, but for 11% and 35% of our revenues for the year ended December 31, 2010 and 2009, respectively. No other client accounted for 10% or more of revenues during these periods. Further, in the years ended December 31, 2011, 2010 and 2009, revenues from non-US clients accounted for 30%, 33% and 21%, respectively, of the Company's revenues.

Revenues for each of the three years in the period ended December 31, 2011 by geographic region (determined based upon client z z z z

	2011	2010	2009
		(in thousands)	
United States	$ 51,626	$ 41,015	$ 60,314
United Kingdom	9,721	8,198	6,656
The Netherlands	7,850	8,230	6,150
Other - principally Europe	4,745	4,070	3,591
	$ 73,942	$ 61,513	$ 76,711

As of December 31, 2011, approximately 20% of the Company's accounts receivable was from foreign (principally European) clients and 62% of accounts receivable was due from two clients. As of December 31, 2010, approximately 34% of the Company's accounts receivable was from foreign (principally European) clients and 37% of accounts receivable was due from three clients. No other client accounts for 10% or more of the receivables as of December 31, 2011 and 2010.

11. Income (Loss) per Share

	For the Years Ended December 31,		
	2011	2010	2009
	(in thousands, except per share amounts)		
Net income (loss) attributable to Innodata Isogen, Inc. and Subsidiaries	$ 4,471	$ (747)	$ 7,313
Weighted average common shares outstanding	24,916	25,360	24,613
Dilutive effect of outstanding options	187	-	1,151
Adjusted for dilutive computation	25,103	25,360	25,764

Basic income (loss) per share is computed using the weighted-average number of common shares outstanding during the year. Diluted income (loss) per share is computed by considering the impact of the potential issuance of common shares, using the treasury stock method, on the weighted average number of shares outstanding. For those securities that are not convertible into a class of common stock, t z– z z method of computing income (loss) per share is used.

Options to purchase 1.1 million and 0.4 million shares of common stock in 2011 and 2010, respectively were outstanding but not included in the computation of diluted income (loss) per share because – z – z z z z – z– z– z " z –z z z– z z z z– z– z effect would have been antidilutive. In addition, diluted net loss per share in 2010 does not include 1.8 million potential common shares derived from the exercise of stock options because as a result of the Company incurring losses, their effect would have been antidilutive. All options outstanding were included in the computation of diluted net income (loss) per share in 2009 as the exercise price was lower than the average market price.

12. Quarterly Financial Data (Unaudited)

The quarterly results of operations are summarized below:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands, except per share amounts)			
2011				
Revenues	$ 14,701	$ 16,257	$ 19,245	$ 23,739
Gross profit	$ 4,028	$ 4,887	$ 6,414	$ 8,437
Net income and income per share attributable to Innodata Isogen, Inc. and Subsidiaries:				
Net income	$ 15	$ 807	$ 1,376	$ 2,273
Basic and diluted net income per share	$ -	$ .03	$ .06	$ .09
2010				
Revenues	$ 15,474	$ 15,386	$ 15,763	$ 14,890
Gross profit	$ 3,202	$ 3,279	$ 4,491	$ 3,257
Net income (loss)	$ (1,404)	$ (874)	$ 313	$ 1,218
Basic and diluted net income (loss) per share	$ (.06)	$ (.03)	$ .01	$ .05

13. Derivatives

The Company has a large portion of its operations in international markets that subject it to foreign currency fluctuations. The most significant foreign currency exposures occur when revenue and associated accounts receivable are collected in one currency and expenses incurred in order to generate that revenue are [illegible] payroll costs and operating expenses in the Philippines, India and Sri Lanka.

To manage its exposure to fluctuations in foreign currency exchange rates, the Company entered into foreign currency forward contracts, authorized under Company policies, with counterparties that were highly rated financial institutions. The Company utilized non-deliverable forward contracts expiring within eighteen months to reduce its foreign currency risk.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedge transactions. The Company does not hold or issue derivatives for trading purposes. All derivatives are recognized at their fair value and are [illegible] December 31, 2011 and 2010 was $28.0 million.

The following table presents the fair value of derivative instruments included within the consolidated balance sheets as of December 31, 2011 and 2010 (in thousands):

	Balance Sheet Location	Fair Value	
		2011	2010
Derivatives designated as hedging instruments:			
Foreign currency forward contracts	Prepaid expenses and other current assets	$ -	$ 1,304
Foreign currency forward contracts	Accrued expenses	$ 1,782	

The effect of foreign currency forward contracts designated as cash flow hedges on the consolidated statements of operations for the years ended December 31, 2011 and 2010 were as follows (in thousands):

	2011	2010
Net gain (loss) recognized in OCI [1]	$ (1,883)	$ 2,246
Net gain reclassified from accumulated OCI into income [2]	$ 1,203	$ 2,242
Net gain recognized in income [3]	$	$

[1] Net change in the fair value of the effective portion classified in other comprehensive income ("OCI").

[2] Effective portion classified within direct operating costs.

[3] There were no ineffective portions for the periods presented.

14. Financial Instruments

The following table sets forth the financial instruments as of December 31, 2011, that the Company measured at fair value, on a recurring basis by level, within the fair value hierarchy (in thousands). As required by the standard, assets measured at fair value are classified in their entirety based on the lowest level of input that is significant to their fair value measurement.

December 31, 2011	Level 1	Level 2	Level 3
Liability Derivatives	$	$ 1,782	$

December 31, 2010	Level 1	Level 2	Level 3
Assets Derivatives	$	$ 1,304	$

The Level 2 assets contain foreign currency forward contracts. Fair value is determined based on the observable market transactions of spot and forward rates. The fair value of these contracts as of December 31, 2011 is included in accrued expenses, and as of December 31, 2010 is included in prepaid expenses and other current assets in the accompanying consolidated balance sheets.

15. Strategic Partnerships

In the second quarter of 2011, the Company launched IADS as a separate reportable segment (see Note 10) to perform advanced data analysis. Synodex, one of the subsidiaries of IADS offers a range of data analysis services in the healthcare, medical and insurance areas. docGenix, another subsidiary of IADS provides software products and services that facilitate the generation and analysis of standardized and non-standardized documents for swaps, derivatives, repos, securities lending, prime brokerage, investment management and clearing.

Synodex is a limited liability company that is 77% owned by the Company. docGenix is a limited liability company that is 78% owned by the Company. The non-controlling interests in the Synodex and docGenix limited liabilities companies are accounted for by the cost method. The Company purchased certain assets for docGenix from a third party for $0.4 million.

The Company has entered into an operating agreement with the non-controlling interests in the Synodex subsidiary and into a separate operating agreement with the non-controlling interest in the docGenix

subsidiary. Pursuant to these agreements, the Company has a call option to buy the interest of the non-controlling holders at determinable dates and determinable prices. Pursuant to the agreements, the non-controlling interest holders have a put option to sell their interests to the Company at determinable dates and determinable prices. In accordance with the relevant accounting literature, the non-controlling interests are presented as temporary equity in the accompanying condensed consolidated financial statements. In addition, the economic characteristics of the call and put options are similar to the host contract and thus, the put and call options are not freestanding instruments and do not qualify for separate accounting.

Exhibits which are indicated as being included in previous filings are incorporated herein by reference.

Exhibit	Description	Filed as Exhibit
3.1 (a)	Restated Certificate of Incorporation filed on April 29, 1993	Filed as Exhibit 3.1(a) to our Form 10-K for the year ended December 31, 2003
3.1 (b)	Certificate of Amendment of Certificate of Incorporation of Innodata Corporation filed on March 1, 2001	Filed as Exhibit 3.1(b) to our Form 10-K for the year ended December 31, 2003
3.1 (c)	Certificate of Amendment of Certificate of Incorporation of Innodata Corporation Filed on November 14, 2003	Filed as Exhibit 3.1(c) to our Form 10-K for the year ended December 31, 2003
3.2	Form of Amended and Restated By-Laws	Exhibit 3.1 to Form 8-K dated December 16, 2002
3.3	Form of Certificate of Designation of Series C Participating Preferred Stock	Filed as Exhibit A to Exhibit 4.1 to Form 8-K dated December 16, 2002
4.2	Specimen of Common Stock certificate	Exhibit 4.2 to Form SB-2 Registration Statement No. 33-62012
4.3	Form of Rights Agreement, dated as of December 16, 2002 between Innodata Corporation and American Stock Transfer and Trust Co., as Rights Agent	Exhibit 4.1 to Form 8-K dated December 16, 2002
10.1	1994 Stock Option Plan	Exhibit A to Definitive Proxy dated August 9, 1994
10.2	1993 Stock Option Plan	Exhibit 10.4 to Form SB-2 Registration Statement No. 33-62012
10.3	Form of Indemnification Agreement between us and our directors and one of our Officers	Exhibit 10.3 to Form 10-K for the year ended December 31, 2002
10.4	1994 Disinterested Directors Stock Option Plan	Exhibit B to Definitive Proxy dated August 9, 1994
10.5	1995 Stock Option Plan	Exhibit A to Definitive Proxy dated August 10, 1995
10.6	1996 Stock Option Plan	Exhibit A to Definitive Proxy dated November 7, 1996
10.7	1998 Stock Option Plan	Exhibit A to Definitive Proxy dated November 5, 1998
10.8	2001 Stock Option Plan	Exhibit A to Definitive Proxy dated June 29, 2001
10.9	2002 Stock Option Plan	Exhibit A to Definitive Proxy dated September 3, 2002
10.10	Employment Agreement dated as of January 1, 2004 with George Kondrach	Filed as Exhibit 10.10 to our Form 10-K for the year ended December 31, 2003
10.11	Letter Agreement dated as of August 9, 2004, by and between us and The Bank of New York	Filed as Exhibit 10.2 to Form S-3 Registration statement No. 333-121844
10.12	Employment Agreement dated as of December 22, 2005, by and between us and Steven L. Ford	Exhibit 10.1 to Form 8-K dated December 28, 2005
10.13	Form of 2001 Stock Option Plan Grant Letter, Dated December 22, 2005	Exhibit 10.2 to Form 8-K dated December 28, 2005
10.14	Form of 1995 Stock Option Agreement	Exhibit 10.4 to Form 8-K dated December 15, 2005
10.15	Form of 1998 Stock Option Agreement for Directors	Exhibit 10.5 to Form 8-K dated December 15, 2005
10.16	Form of 1998 Stock Option Agreement for Officers	Exhibit 10.6 to Form 8-K dated December 15, 2005
10.17	Form of 2001 Stock Option Agreement	Exhibit 10.7 to Form 8-K dated December 15, 2005

10.18	Form of new vesting and lock-up agreement for each of Haig Bagerdjian, Louise Forlenza, John Marozsan and Todd Solomon	Exhibit 10.8 to Form 8-K dated December 15, 2005
10.19	Form of new vesting and lock-up agreement for Jack Abuhoff	Exhibit 10.9 to Form 8-K dated December 15, 2005
10.20	Form of new vesting and lock-up agreement for George Kondrach	Exhibit 10.10 to Form 8-K dated December 15, 2005
10.21	Form of new vesting and lock-up agreement for Stephen Agress	Exhibit 10.11 to Form 8-K dated December 15, 2005
10.22	Form of 2001 Stock Option Plan Grant Letter, dated December 31, 2005, for Messrs. Abuhoff, Agress and Kondrach	Exhibit 10.2 to Form 8-K dated January 5, 2006
10.23	Form of 2001 Stock Option Plan Grant Letter, dated December 31, 2005, for Messrs. Bagerdjian and Marozsan and Ms. Forlenza	Exhibit 10.3 to Form 8-K dated January 5, 2006
10.24	Transition Agreement Dated as of September 29, 2006 with Stephen Agress	Exhibit 10.1 to Form 8-K dated October 3, 2006
10.25	Form of Stock Option Modification Agreement With Stephen Agress	Exhibit 10.2 to Form 8-K dated October 3, 2006
10.26	Employment Agreement dated as of February 1, 2006 with Jack Abuhoff	Exhibit 10.2 to Form 8-K dated April 27, 2006
10.27	Employment Agreement dated as of January 1, 2007 with Ashok Mishra	Exhibit 10.1 to Form 10-Q for the quarter ended June 30, 2007
10.28	Innodata Isogen Incentive Compensation Plan	Exhibit 10.1 to Form 8-K dated February 13, 2008
10.29	Form of 2002 Stock Option Plan Grant Letter, dated August 13, 2008, for Messrs. Bagerdjian, Marozsan and Woodward, and Ms. Forlenza	Exhibit 10.1 to Form 10-Q for the quarter ended September 30, 2008
10.30	Amended and Restated Employment Agreement dated as of December 24, 2008 with Jack S. Abuhoff	Exhibit 10.1 to Form 8-K dated December 30, 2008
10.31	Employment Agreement dated as of March 25, 2009 with Jack Abuhoff	Exhibit 10.1 to Form 8-K dated March 25, 2009
10.32	Separation Agreement and General Release dated as of April 27, 2009 with Steven Ford	Exhibit 10.1 to Form 8-K dated April 27, 2009
10.33	2009 Stock Option Plan	Annex A to Definitive Proxy dated April 28, 2009
10.34	Employment Agreement dated as of November z z – z z “	Exhibit 10.1 to Form 8-K dated October 11, 2009
10.35	Form of 2009 Stock Option Plan Grant Letter, dated April 2, 2010 z z “	Exhibit 10.1 to Form 10-Q for the quarter ended March 31, 2010
10.36	Form of 2009 Stock Option Plan Grant Letter, dated March 16, 2010 z z “	Exhibit 10.2 to Form 10-Q for the quarter ended March 31, 2010
10.37	Form of 2009 Stock Option Plan Grant Letter, dated March 16, 2010 z z “	Exhibit 10.3 to Form 10-Q for the quarter ended March 31, 2010

10.38	Amended Employment Agreement dated as of July 11, 2011 with Jack S. Abuhoff	Exhibit 10.1 to Form 8-K dated July 12, 2011
10.39	Amended Employment Agreement dated as of July 11, 2011 with z “	Exhibit 10.2 to Form 8-K dated July 12, 2011
16	Letter of Grant Thornton regarding change in certifying accountant	Exhibit 4.01 to Form 8-K dated September 12, 2008
21	Significant subsidiaries of the registrant	Filed herewith
23	Consent of J.H. Cohn LLP	Filed herewith
31.1	Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certificate of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations (iii) the Consolidated Statements of z —’ z “ the Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements.	Filed herewith

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INNODATA ISOGEN, INC.

By /s/ Jack Abuhoff
Jack Abuhoff
Chairman of the Board,
Chief Executive Officer and President

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Jack Abuhoff Jack Abuhoff	Chairman of the Board, Chief Executive Officer and President	February 28, 2012
z z “ z “	Senior Vice President, Chief Financial Officer and Principal Accounting Officer	February 28, 2012
/s/ Todd Solomon Todd Solomon	Director	February 28, 2012
/s/ Louise C. Forlenza Louise C. Forlenza	Director	February 28, 2012
/s/ Haig S. Bagerdjian Haig S. Bagerdjian	Director	February 28, 2012
/s/ Stewart R. Massey Stewart R. Massey	Director	February 28, 2012
/s/ Anthea C. Stratigos Anthea C. Stratigos	Director	February 28, 2012

Independent Auditors
J.H. Cohn LLP
4 Becker Farm Road
Roseland, NJ 07068

Registrar & Transfer Agent
American Stock Transfer
and Trust Company
59 Maiden Lane
New York, NY 10038

Tel (800) 937-5449
Tel (718) 921-8124

Legal Counsel
Folger & Folger
521 Fifth Avenue
New York, NY 10175

Duplicate Mailings
When a stockholder owns shares in more than one account, or when several stockholders live at the same address, they may receive multiple copies of the annual report or other mailings. For information on how to eliminate multiple mailings, contact American Stock Transfer and Trust Company at (718) 921-8124.

Annual Meeting of Stockholders
The Annual Meeting of Stockholders for Innodata Isogen, Inc. will be held on June 5, 2012 at 11:00 a.m. at the company's corporate headquarters, Three University Plaza, Hackensack, New Jersey 07601.

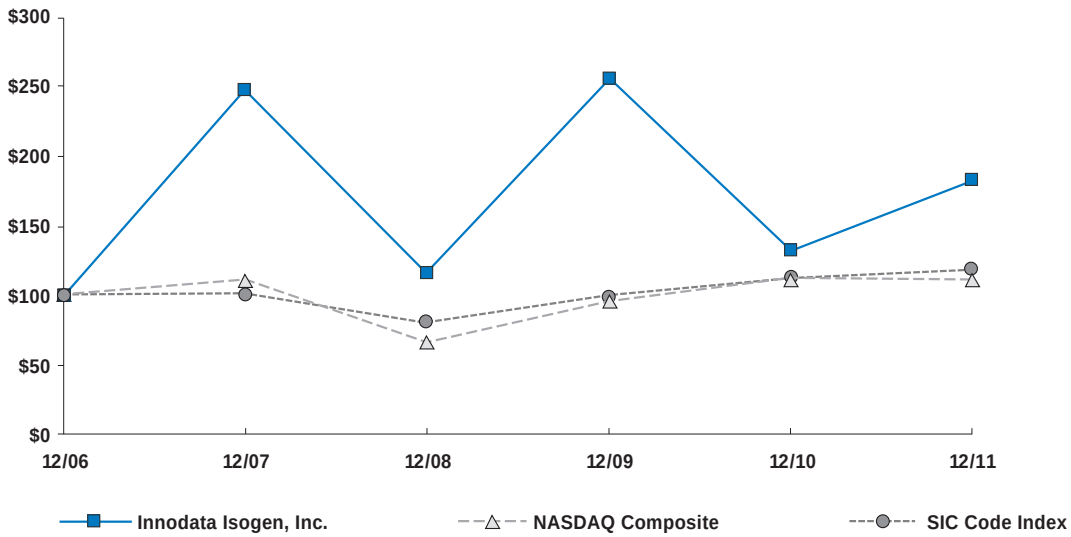
Stock Trading
Innodata Isogen, Inc.'s common stock trades on the NASDAQ Global Market under the symbol INOD. As of February 1, 2012, there were 91 stockholders of record and approximately 3,433 beneficial stockholders. The table below sets forth, for the periods indicated, the high and low prices per share of Innodata Isogen, Inc. common stock for the last two fiscal years.

COMMON STOCK SALE PRICES

	2010		2011	
	High	Low	High	Low
First Quarter	$6.47	$3.85	$3.06	$2.30
Second Quarter	$4.26	$2.48	$2.85	$2.24
Third Quarter	$3.16	$2.54	$3.30	$2.54
Fourth Quarter	$3.33	$2.66	$4.39	$2.72

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Innodata Isogen, Inc., the NASDAQ Composite Index, and SIC Code Index



*$100 invested on 12/31/06 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

Comparative 5-Year Cumulative Total Return Among Innodata Isogen, Inc., NASDAQ Market Index and SIC Code Index

This performance graph compares the cumulative total return (assuming reinvestment of dividends) of an investment of $100 in Innodata Isogen, Inc. on January 1, 2007 through its fiscal year ended December 31, 2011, to the NASDAQ Market Index and the Industry Index for SIC Code 7374, Service-Computer Processing and Data Preparation.

Corporate Headquarters
Three University Plaza
Hackensack, NJ 07601

http://www.innodata.com