

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## INNODATA INC

**Form: 10-K**

**Date Filed: 2018-03-22**

Corporate Issuer CIK: 903651

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, 2017

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

Commission file number **0-22196**

**INNODATA INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**13-3475943**

(I.R.S. Employer Identification No.)

**55 Challenger Road**

**Ridgefield Park, New Jersey**

(Address of principal executive offices)

**07660**

(Zip Code)

**(201) 371-8000**

(Registrant's telephone number)

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

Title of Each Class

Common Stock \$.01 par value  
Preferred Stock Purchase Right

Name of Each Exchange on Which Registered

The Nasdaq Stock Market LLC  
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 definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant (based on the closing price reported on The Nasdaq Stock Market on June 30, 2017) was \$43,073,987.

The number of outstanding shares of the registrant's common stock, \$.01 par value, as of March 9, 2018 was 25,877,454.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's definitive proxy statement for the 2018 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 INC**  
**Form 10-K**  
**For the Year Ended December 31, 2017**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>Part I</u></b>	
<a href="#"><u>Item 1. Business</u></a>	<a href="#"><u>1</u></a>
<a href="#"><u>Item 1A. Risk Factors</u></a>	<a href="#"><u>10</u></a>
<a href="#"><u>Item 1B. Unresolved Staff Comments</u></a>	<a href="#"><u>21</u></a>
<a href="#"><u>Item 2. Properties</u></a>	<a href="#"><u>22</u></a>
<a href="#"><u>Item 3. Legal Proceedings</u></a>	<a href="#"><u>22</u></a>
<a href="#"><u>Item 4. Mine Safety Disclosures</u></a>	<a href="#"><u>22</u></a>
<b><u>Part II</u></b>	
<a href="#"><u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u></a>	<a href="#"><u>23</u></a>
<a href="#"><u>Item 6. Selected Financial Data</u></a>	<a href="#"><u>24</u></a>
<a href="#"><u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></a>	<a href="#"><u>24</u></a>
<a href="#"><u>Item 7A. Quantitative and Qualitative Disclosures about Market Risk</u></a>	<a href="#"><u>39</u></a>
<a href="#"><u>Item 8. Financial Statements and Supplementary Data</u></a>	<a href="#"><u>40</u></a>
<a href="#"><u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u></a>	<a href="#"><u>40</u></a>
<a href="#"><u>Item 9A. Controls and Procedures</u></a>	<a href="#"><u>40</u></a>
<a href="#"><u>Report of Management on Internal Control over Financial Reporting</u></a>	<a href="#"><u>40</u></a>
<a href="#"><u>Report of Independent Registered Public Accounting Firm</u></a>	<a href="#"><u>40</u></a>
<a href="#"><u>Item 9B. Other Information</u></a>	<a href="#"><u>41</u></a>
<b><u>Part III</u></b>	
<a href="#"><u>Item 10. Directors, Executive Officers and Corporate Governance</u></a>	<a href="#"><u>42</u></a>
<a href="#"><u>Item 11. Executive Compensation</u></a>	<a href="#"><u>42</u></a>
<a href="#"><u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u></a>	<a href="#"><u>42</u></a>
<a href="#"><u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u></a>	<a href="#"><u>42</u></a>
<a href="#"><u>Item 14. Principal Accounting Fees and Services</u></a>	<a href="#"><u>42</u></a>
<b><u>Part IV</u></b>	
<a href="#"><u>Item 15. Exhibits, Financial Statement Schedules</u></a>	<a href="#"><u>42</u></a>
<a href="#"><u>Signatures</u></a>	<a href="#"><u>43</u></a>

---

## **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. The words "project," "head start," "believe," "expect," "should," "anticipate," "indicate," "point to," "forecast," "likely," "goals," "optimistic," "foster," "estimate" and other similar expressions 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 contracts may be terminated by clients; projected or committed volumes of work may not materialize; the primarily at-will nature of contracts with our Digital Data Solutions clients and the ability of these clients to reduce, delay or cancel projects; continuing Digital Data Solutions segment revenue concentration in a limited number of clients; continuing Digital Data Solutions segment reliance on project-based work; inability to replace projects that are completed, canceled or reduced; our dependency on content providers in our Media Intelligence Solutions segment; difficulty in integrating and deriving synergies from acquisitions, joint venture and strategic investments; potential undiscovered liabilities of companies and businesses that we may acquire; potential impairment of the carrying value of goodwill and other acquired intangible assets of companies and businesses that we acquire; changes in our business or growth strategy; 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 our services; 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 global digital services and solutions company. Our technology and services power leading information products and online retail destinations around the world. Our solutions help prestigious enterprises harness the power of digital data to re-imagine how they operate and drive performance. We serve publishers, media and information companies, digital retailers, banks, insurance companies, government agencies and many other industries. Founded in 1988, we comprise a team of 5,000 diverse people in eight countries who are dedicated to delivering services and solutions that help the world embrace digital data as a means of enhancing our lives and transforming our businesses.

The Company operates in three reporting segments: Digital Data Solutions (DDS), Innodata Advanced Data Solutions (IADS) and Media Intelligence Solutions (MIS).

## Digital Data Solutions (DDS) Segment

Our DDS segment provides solutions to digital retailers, information services companies, publishers and enterprises that have one or more of the following broad business requirements: development of digital content (including e-books); development of new digital information products; and operational support of existing digital information products and systems.

Many of our clients are driving or are responding to rapid and fundamental changes in the way end users discover, consume and create published information. For some of our publishing and information services clients, this means transforming information products from print to digital; for others, it means migrating already-digital products from web-only distribution to multiple-channel distribution that includes mobile and tablet devices and incorporates mobility, social platform and semantic search; and for others still, it means re-tooling pure search-based information products into workflow-embedded analytical tools that combine content with software to enable context-aware decision-making; and for a select number of our information services clients, it means embracing the content-as-a-service model to integrate content with other tools, applications and data. Each of these transformations requires shifts in products, as well as the technology and the operations that support them.

For our enterprise publishing clients, changes in the way end users discover, consume and create published information often necessitates replacing old processes and technologies that generated static, whole documents with new processes and technologies that enable content to reside as modular components which are re-combined dynamically to create up-to-date, product-specific assembly guides, engineering diagrams/schematics, compliance documentation, field operations guides and clinical documentation destined for simultaneous access on the web, from PCs, tablets and smartphones.

By blending consulting, technology and operations sourcing with deep domain expertise, we provide measurable outcomes for publishing companies, information services companies and enterprises through business transformation, accelerating innovation and efficient operations.

### *Information Product Development*

We help our clients develop high-value information products. Our clients include four of the ten largest information industry companies in the world, spanning financial, legal, healthcare and scientific information. Information and publishing is a \$1.6 trillion industry consisting of more than 7,000 publishers, information providers and software service firms worldwide. Many of our clients specialize in the scientific, technical and medical (STM) area (estimated revenues of \$137.4 billion) and the legal and regulatory (L&R) area (estimated revenues of \$22.7 billion)<sup>1</sup>.

---

<sup>1</sup> Outsell Inc. (October 4, 2017). "Information Industry Outlook 2018 – All Data, Nothing But Data."

Both STM and L&R publishers make some or all of their revenues from the sale of information products created from the primary and secondary data produced by professionals and researchers (in the case of STM) or courts, legislatures, administrative bodies and rule-making institutions (in the case of L&R).

We enable our clients to rapidly develop new digital products without direct investments in staff, facilities and technology. We embrace agile development methodologies that provide the benefits of early solution visualization and an iterative development process that spans content, technology and user interface development. We use a combination of onsite project management, onshore solutions architecture and offshore globally distributed teams of developers, analysts and subject-matter experts.

For example, a leading legal publisher sought to develop a new digital product that would provide lawyers and compliance officers a workflow tool for rule checking, rapid research and fact checking. The new digital tool needed to be accessible via laptops, smart phones and tablet devices. Moreover, it needed to be updated daily to maintain pace with rapid regulatory developments (it was destined to replace a printed loose-leaf series that was updated only monthly). Our technology architects, developers and content analysts designed and implemented the new digital tool within budget and on schedule. Using the new digital tool, lawyers and compliance officers can now confidently react faster to their clients' increased regulatory burdens with up-to-date information.

For another leading global publisher, we developed an eReader application designed specifically for complex professional reference material. The publisher saw an opportunity to increase sales by re-publishing its printed reference works as e-books, but was unable to market them as e-books because existing eReader applications were built for simple fiction and trade books. We developed an eReader application for the client that changed this – it enabled advanced search, linking and cross-references to external sources, subscriber annotations, frequent textual updates and a host of other functions the publisher required in order to distribute its complex reference books as e-books over the iPad® as well as Android® and Windows-enabled mobile devices.

#### *Operational Support*

We help our clients significantly lower the cost of maintaining their high-value information products, applications and systems. Clients for which we perform such services include five of the top ten leading legal, tax and regulatory information providers, three of the top ten credit and financial information providers, and four of the top ten scientific, technical and medical information providers. Relative to information products, our focus is on the underlying “content supply chain” activities that are necessary to maintain the product. These activities often include content aggregation; extraction; encoding; indexing and abstracting; fabrication; and distribution. We deliver these activities on an outsourced basis.

For example, for an \$8 billion leading provider of financial and news information, we aggregate public source documentation from a variety of government agencies, which we transform, analyze and extract in order to support a real-time, high-value information product.

For a leading wholesale textbook distributor, we provided support and maintenance for its digital book platform, including its customizable bookshelf and eReader applications and its conversion and fulfillment processes.

#### *Digital Content Supply Chain Strategy*

We work with clients at a strategic business and technology level to address business process and technology challenges related to digital content supply chain optimization and strategy. By aligning operations and technology with business goals, we help businesses accelerate new product development and introduction; control cost; consolidate and leverage technology investment; and obtain benefits of scale.

For a multinational information services company, we worked in conjunction with the client's internal teams to design new content architectures and implement new content technologies that enabled the client to migrate its operations away from process and technologies designed primarily for print output to new processes and technologies that were designed around the nature of the content itself and supported multiple simultaneous delivery channels.

A global information company had acquired two businesses that each collected, processed and managed some of the same public law content. The company recognized the opportunity to reduce cost by consolidating the processing of this overlapping content. To accomplish this cost savings, we implemented a new, consolidated workflow system using Alfresco and jBPM which provided a common framework for content reuse, while enabling content enrichment processes to be performed by external and internal resources in a fully managed environment.

For a publisher of legal treatises and practice guides and provider of on-demand learning, we created a future-state vision of operational workflows required to support an increasing array of technologies and online products. This future-state vision included recommendations regarding process improvements and new technologies.

### **Innodata Advanced Data Solutions (IADS) Segment**

Many enterprises are embracing new digital information technologies and workflow processes within their operations in order to improve internal decision-support systems. We formed our IADS segment in mid-2011 to design and develop new capabilities to enable clients in the financial services, insurance, medical and healthcare sectors to improve decision-support through digital technologies. We believe that by creating and commercializing innovative business strategies and technology solutions we will be able to accelerate our growth and reduce our revenue volatility.

IADS operates through two subsidiaries: Synodex and docGenix. As of December 31, 2017, we owned 91% of Synodex and 94% of docGenix.

The main focus of the Synodex business is the extraction and classification of data from unstructured medical records in an innovative way to provide improved data service capabilities for insurance underwriting, insurance claims, medical records management and clinical trial support services. Synodex has developed and deployed its APS.Extract<sup>®</sup> product for specific use with life insurance underwriting and claims.

At the end of 2017, Synodex had 11 clients, including RGA Reinsurance Company, the principal operating subsidiary of Reinsurance Group of America, Incorporated (NYSE: RGA), one of the top 10 largest providers of life reinsurance in the world according to A.M. Best, and John Hancock Insurance, the insurance operating unit of John Hancock Financial (a division of Manulife) and one of the largest life insurers in the United States. Synodex is engaged in business discussions with other reinsurance companies and insurance carriers that have expressed interest in utilizing its services.

The main focus of the docGenix business is the extraction and classification of data from unstructured legal documents in order to improve an organization's ability to analyze documentation and feed actionable data to downstream applications.

We offer docGenix services to banks and hedge funds. One of our clients, a large New York-based global investments company party to more than 5,000 derivative contracts, utilizes the docGenix service and software platforms to monitor and react to market changes and counterparty and collateral changes and to comply with increasing regulatory requirements. Prior to utilizing docGenix, these were slow and resource-intensive activities because contract creation, storage and retrieval processes were all still paper or image based. Using docGenix's system, complex derivative contracts are transformed into machine readable, computer-addressable data that is down-streamed to risk collateral and other mission-critical systems, and users can perform multi-dimensional, complex queries instantaneously.



## Media Intelligence Solutions (MIS) Segment

Our MIS segment operates through our Agility PR Solutions and Bulldog Reporter subsidiaries. In December 2016, we rebranded the MediaMiser and Agility PR Solutions products under the name Agility PR Solutions.

Agility Illuminate (formerly known as Agility Enterprise) provides media monitoring and analysis solutions and professional services to several Fortune 500 companies and Canadian government institutions, as well as small- and medium-sized businesses. Agility Enterprise enables companies to reduce the time and effort required to extract, analyze and share valuable business intelligence from traditional and online media sources.

Agility Illuminates's proprietary technology platform monitors, aggregates, analyzes and distributes summaries of coverage from more than 200,000 content sources including traditional and digital media. The platform includes a powerful sentiment analysis engine that identifies whether opinions expressed in a particular document are positive, negative or neutral.

Increasingly, organizations seek to quantify the impact of public relations (PR) and communications activities and to understand what is being said about them across traditional and digital media. Social media has also dramatically changed how organizations manage and respond to crisis. Organizations need to respond quickly to negative customer feedback or coverage and track ongoing conversations in order to protect their brand and reputation. Agility Illuminate, with its powerful analytics and human augmented analysis and reporting, is designed to fit these needs.

Agility Connect is a global media contact database and email distribution platform, and Agility Capture provides additional self-service media monitoring and analytics capabilities. We acquired these two Agility products from PR Newswire in July 2016. Together with Agility Illuminate, these products enable Agility to offer self and full-service solutions that address the entire communications life cycle – from identifying influencers, amplifying messages, monitoring coverage, to measuring impact.

Bulldog Reporter is a news aggregation service for the PR and corporate communications professionals. Bulldog Reporter publishes a well-known daily e-newsletter, the Daily Dog. In addition, it offers a paid subscription service focused specifically on the health industry, a daily e-newsletter—Inside Health Media—that provides a health-related media list and media intelligence services by leveraging the data from Agility platform. Bulldog Reporter also manages a PR industry awards program—the Bulldog Awards—which recognizes PR and communications professionals in categories including corporate social responsibility, media relations, digital and social marketing, not-for-profit activity and overall outstanding PR performance.

With considerable consolidation and slowing growth in the overall media intelligence market, Agility PR Solutions is carving out a niche with a focus on influencer targeting, advanced media analytics and editorially enriched full-service options that provide context and clarity that automated solutions alone cannot provide. This focus on technology as well as customer service differentiates Agility PR Solutions from the clippings-origin and self-service monitoring competitors in the market.

## Our Global Operations

We provide our services using a globally distributed workforce utilizing advanced technologies that automate portions of our process and help ensure that our work product is highly accurate and consistent.

Our delivery centers in Asia are ISO 27001 certified. In addition, we comply with the requirements of the United States Health Insurance Portability and Accountability Act of 1996 as amended (HIPAA) (including by the Health Information Technology for Economic and Clinical Health Data (HITECH)) and the United Kingdom's Data Protection Act 1998 (DPA), as applicable. Innodata is certified to the EU-U.S. Privacy Shield framework, which certification includes Synodex, docGenix, Agility PR Solutions and Bulldog Reporter as covered entities. We encrypt all individual protected health information, both at rest and in motion, to the AES 256 or similar standard, and we employ a range of security features including monitored firewalls and intrusion detection devices.

For our data extraction services, we maintain staff in a wide spectrum of disciplines, including medicine, law, engineering, management, finance, science and the humanities.

Our services are 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 clients' businesses and strategic initiatives. The vertical 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, the Philippines, India, Sri Lanka, Israel, United Kingdom, Germany and Canada.

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 and 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®, Android 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 operations, this shift to digital technology 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. For enterprises that rely on content to support products, this shift to digital technology offers opportunities to create and manage content more efficiently, while at the same time distributing content through an increased number of channels.

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. These services increasingly involve using advanced technologies such as machine learning and artificial intelligence (AI) to extract meaningful data from unstructured data in cost efficient ways.

## Clients

Two clients in our DDS segment each generated more than 10% of our total revenues in the 2017 and 2016 fiscal years. In 2017, revenues from Wolters Kluwer affiliated companies (the “WK Clients”) were approximately \$11.5 million or 19% of total revenues, and revenues from Reed Elsevier affiliated companies (the “RE Clients”) were approximately \$6.7 million, or 11% of total revenues. No other client generated more than 10% of our total revenues in 2017. These two clients together generated approximately 31% of our total revenues in each of the fiscal years ended December 31, 2017 and 2016. Revenues from clients located in foreign countries (principally in Europe) accounted for 51% of our total revenues for the year ended December 31, 2017 and 49% of our total revenues for the year ended December 31, 2016.

We have long-standing relationships with many of our clients, and we have provided services to the two clients mentioned in the preceding paragraph for over ten years. Our track record of delivering high-quality services helps us to solidify client relationships. Many of our clients are recurring clients, meaning that they have continued to provide additional projects to us after our initial engagement with them.

Our contractual arrangements with the RE Clients during 2017 consisted of three master services agreements (“MSAs”) and separately agreed to statements of work (“SOWs”) for specific services. Two of the MSAs have indefinite terms and the third MSA has a term that ends on October 31, 2019. RE Clients may terminate the MSAs on notice periods ranging from zero to six months, and they may terminate certain individual SOWs on notice periods of up to 90 days. They may also terminate certain of the MSAs and SOWs on notice periods of three months or less for “cause” and for insolvency related events, and on changes of control, force majeure and the imposition of certain price increases by the Company that are not acceptable to them. We may terminate two of the MSAs on notice periods of 180 days, and we may also terminate certain MSAs and SOWs for “cause”, insolvency related events affecting the RE Clients, and other defined events. The MSAs contain confidentiality, limitation of liability, indemnification and other standard provisions.

Our contractual arrangements with the WK Clients during calendar year 2017 consisted of four MSAs and separately agreed to SOWs for specific services. Two MSAs have indefinite terms, one MSA continues in effect until the completion of all services performed under the MSA, and the fourth MSA has a term that ends on the later of March 2, 2019 or the expiration date of all SOWs issued under the MSA. WK Clients may terminate certain MSAs on notice periods of 30 days, and they may terminate certain individual SOWs on notice periods ranging from 10 days to six months. WK Clients may also terminate certain of the MSAs and SOWs on notice periods of 60 days or less for “cause” and for insolvency related events, and on changes of control, force majeure and the imposition of certain price increases by the Company that are not acceptable to them. We may terminate certain of the MSAs on notice periods of 30 days, and we may also terminate certain MSAs and SOWs for “cause”, insolvency related events affecting the WK 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 to their requirements.

## Competitive Strengths

*Our expertise in digital data.* We are primarily focused on helping clients across multiple vertical industries by supplying enriched digital data at a lower cost which is either incorporated in clients' information products or used for enhancing decision-support systems. We also help clients build new information or data products.

*Our focus on quality.* We have achieved a reputation with our clients for consistent high-quality. We maintain independent quality assurance capabilities in all geographies where we have delivery centers. Our quality assurance teams in Asia are compliant and certified to the ISO 9001:2008 quality management system standards.

*Our global delivery model.* We have operations in eight 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 proven track record and reputation.* By consistently providing high-quality services, we have achieved a track record of client successes. This track record is reflected in our reputation as a leading service provider within the media, publishing and information services sector. Our reputation and brand connote an assurance of expertise, quality execution and risk mitigation.

*Our focus on technology and engineering innovation.* Our engineering and IT teams integrate proprietary and best-in-class third party tools into our workflows to drive as much automation as possible. In addition, our engineering and IT teams provide services 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 staff quickly in order to service diverse and often large-scale needs of our clients.

*Our internal infrastructure.* We own and operate some of the most advanced content delivery centers 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 industry standard redundancy, often with more than one backup to help ensure 24x7 availability. Our infrastructure is built to accommodate advanced tools, processes and technologies that support our content and technical experts. We encrypt all individual protected health information, both at rest and in motion, to the AES 256 or similar standard, and we employ a range of security features including managed firewalls and intrusion services.

## **Sales and Marketing**

For our DDS and IADS segments we market and sell our services directly through our professional staff, senior management and direct sales personnel operating primarily from various locations in the U.S., and for our MIS segment we market and sell our services primarily from our offices in Canada and the United Kingdom and through our personnel in the U.S. Our corporate headquarters is located at Ridgefield Park, New Jersey, just outside New York City. During 2017, we had four executive-level business development and marketing professionals and approximately 45 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 marketing department and sales professionals work together to generate leads. 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 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 experience to understand the client's goals and collaborate with the client on a solution.

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 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 content marketing, event marketing (including exhibiting at trade shows, conferences and seminars), direct and database marketing, public and media relations (including speaking engagements), and web marketing (including integrated marketing campaigns, search engine optimization, search engine marketing and the maintenance and continued development of external websites).

Sales activities include lead generation, nurturing leads, engaging in discussions with prospective customers to understand their needs, demonstrating our products, designing solutions, responding to requests for proposals, and managing account and client relationships and activities.

Personnel from our solutions analysis group, our client services 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 customer service group support our direct sales effort by providing ongoing project-level support to our clients.

### **Research and Development**

We incurred \$0.5 million and \$0.1 million in research and development costs in our DDS segment for the years ended December 31, 2017 and 2016, respectively. We did not incur any research and development costs for our IADS segment in either of the years ended December 31, 2017 and 2016. Our MIS segment incurred research and development costs of \$0.6 million and \$0.9 million for the years ended December 31, 2017 and 2016, respectively.

### **Competition**

Our Digital Data Solutions segment operates in a highly competitive, fragmented and intense market. 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 in this market by offering high-quality services and competitive pricing that leverage our technical skills, IT infrastructure, offshore model and economies of scale. Our competitive advantages are especially attractive to clients for undertakings that are technically challenging, are sizable in scope or scale, are continuing, or that require a highly fail-safe environment with technology redundancy.

The Synodex subsidiary of our IADS segment competes in the insurance data analysis industry with an initial focus on applying innovative technology to speed accurate decision making and to improve productivity in the processing of medical files for the life insurance industry. Major competitors are Risk Righter, EMSI, Parameds, and other BPO companies all of whom are large firms with established client bases. We also compete with in-house personnel at existing or prospective clients who may attempt to duplicate our services in-house or use alternative approaches to fulfill their needs.

For our MIS segment, our primary competitors are companies such as Meltwater, Cision, Kantar, Infomart, Nasdaq, Intelligent I.Q., Trendkite and Custom Scoop, several of which are large firms with established customer bases, as well as PR firms that provide media monitoring and analysis services and journalist and influencer databases. Our competitors also include social media listening companies and start-ups offering platforms to amplify messages by targeting social media influencers.

## **Locations**

We are headquartered in Ridgefield Park, New Jersey, just outside New York City. Our MIS business is headquartered in Ottawa, Canada and we have an additional location in London, United Kingdom. We have ten delivery centers in the Philippines, India, Sri Lanka, Canada, Germany, United Kingdom and Israel.

## **Employees**

As of December 31, 2017, we employed approximately 144 persons in the United States, Canada and United Kingdom, and over 3,800 persons in ten global delivery centers in the Philippines, India, Sri Lanka, Canada, Germany, United Kingdom and Israel. As of December 31, 2017, approximately 234 of our employees were dedicated to the IADS segment, and approximately 236 of our employees were dedicated to the MIS segment. 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 55 Challenger Road, Ridgefield Park, New Jersey 07660, and our telephone number is (201) 371-8000. Our website is [www.innodata.com](http://www.innodata.com); 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](http://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. Two clients in our DDS segment generated approximately 31% of our total revenues in each of the fiscal years ended December 31, 2017 and 2016, respectively. No other client accounted for 10% or more of total revenues during these periods. Further, in the years ended December 31, 2017 and 2016, revenues from non-US clients accounted for 51% and 49%, respectively, of our revenues. We may lose any of these clients, or our other major clients, as a result of our failure to meet or satisfy our client's requirements, the completion or termination of a project or engagement, or the client's selection 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. They may also request that we modify certain key terms of our agreements with them as a condition of continuing to do business with us. If the volume of work performed for our major clients varies, if the services they require from us change, or if they require price concessions, our revenues and results of operations could be adversely affected, and we may incur a loss from operations. If certain key terms of our agreements with our major clients are modified, our revenues and results of operations may be adversely affected. Our services are typically subject to client requirements, and in many cases are terminable upon 30 to 90 days' notice.

**Our liquidity could be affected if our losses continue.**

We believe that our existing cash and cash equivalents and internally generated funds will provide sufficient sources of liquidity to satisfy our financial needs for the next 12 months. However, we have no bank facilities or lines of credit, and continuing material reductions in our cash and cash equivalents from operating losses, capital expenditures, adverse legal decisions, acquisitions or otherwise could materially and adversely affect the Company. See “Management Discussion and Analysis – Liquidity and Capital Resources” for information on (i) our cash and cash equivalents that declined to \$11.4 million at December 31, 2017 from \$14.2 million at December 31, 2016, (ii) the portion of our cash and cash equivalents that at December 31, 2017 was held by our foreign subsidiaries and that can be repatriated to the United States and is subject to applicable withholding taxes in the foreign jurisdictions where we operate, (iii) the cash used in our operating activities as a result of our net loss in 2017, (iv) the cash used in 2017 in our investing activities for the acquisition and integration of Agility and capital expenditures and (v) our current plans for the use of our cash and cash equivalents.

**Our common stock may become subject to delisting from The Nasdaq Stock Market.**

Nasdaq may under Nasdaq Listing Rule 5810 delist the Company’s common stock if the closing bid price for its common stock is less than \$1.00 per share for 30 consecutive business days and the Company does not thereafter cure all listing deficiencies during Nasdaq-designated compliance periods.

**A 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.

**A portion of our revenue is generated from projects which we characterize as recurring in nature. Projects that we characterize as recurring are nevertheless subject to termination.**

Our operating performance is materially dependent on the continuation of these projects. However, we are exposed to risks where these projects could be terminated by our clients and we may not be able to replace these terminated projects with new recurring projects with similar profitability or clients may ask for a price reduction which could adversely affect our revenue and results of operations.

**Our solutions for the MIS segment are sold pursuant to subscription agreements, and if subscription clients elect either not to renew these agreements, or to renew these agreements for less expensive services, our revenues and results of operations will be adversely affected.**

Our MIS segment derives its revenues primarily from subscription arrangements. Our clients may choose not to renew subscription agreements when they expire or may renew them at lower prices or for a significantly narrower scope of work. If large numbers of existing subscription clients do not renew these agreements or renew these agreements on terms less favorable to us, and if we cannot replace or supplement those non-renewals with new subscription agreements generating the same or greater level of revenue, our revenues and results of operations will be adversely affected.

**The Synodex and docGenix subsidiaries in our IADS segment have incurred significant losses since their inception in 2011 .**

We have invested significant amounts in the Synodex and docGenix subsidiaries of our IADS segment. Our cumulative investment net of revenues in these subsidiaries as of December 31, 2017 was \$33.6 million, consisting of \$26.6 million in operating expenses and \$7.0 million in capital expenditures. In the third quarter of 2013 we wrote off all the fixed assets of IADS, and we have expensed all investments in IADS since that date. During 2017, these subsidiaries generated approximately \$4.8 million in revenues and incurred a net loss of \$0.6 million net of inter-segment profits. Our operations and financial condition will be adversely affected if IADS fails to generate meaningful revenues and margins.

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

In July 2016, we acquired the Agility business from PR Newswire, comprised of what we now refer to as the Agility Connect and Agility Capture products, pursuant to an asset purchase agreement. Agility is a global media contact database and email distribution platform and Agility Plus provides additional self-service media monitoring and analytics capabilities. In July 2014, we acquired MediaMiser Ltd., a Canada-based provider of automated, real-time traditional and social media monitoring services, and in December 2014, we acquired intellectual property and related assets of Bulldog Reporter from Sirius Information, Inc.

We may pursue additional acquisitions, joint ventures or engage in 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 activities involve a number of risks and challenges, including proper evaluation, diversion of management's attention and proper integration with our current business. Accordingly, we might fail to realize the expected benefits or strategic objectives of any such venture 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.

**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, 2017, 51% or \$5.2 million, of our accounts receivable was due from three clients. See "Liquidity and Capital Resources."

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 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 ranged from a profit of approximately \$3,000 in the first quarter of 2016 to a loss of approximately \$2.8 million in the third quarter of 2016.



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 or on terms that are as attractive to us as the project that is being replaced. 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.

**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, or if we underestimate the costs or complexities of new projects and incur losses, our profitability could suffer. The rates we are able to recover for our services are affected by a number of factors, including competition, volume fluctuations, productivity of employees and processes, 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.

**We may not be able to obtain price increases that are necessary to offset the effect of wage inflation and other government mandated cost increases.**

We have experienced wage inflation and other government mandated cost increases in the Asian countries where we have the majority of our operations. In addition, we may experience 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, foreign currency fluctuations and other such increases through price increases and improving our efficiency, we cannot ensure that we will 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 so that we can understand our clients' needs and deliver solutions and services that are tailored to those needs. 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 impaired, and the client's dissatisfaction with our services could damage our ability to obtain additional work 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 sunset their products because of lack of sufficient revenues or declining revenues, and this may result in termination of our work for these clients.**

As we obtain new opportunities and win new business, our clients may not generate the level of revenues that we initially anticipated at the time of signing a contract with them, or our clients may experience declining revenues with their existing products. This could be due to various reasons beyond our control, and it could lead to termination of projects or contracts. As we normally invest in people or technology and incur other costs in anticipation of revenues, any such 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 information technology and consulting services industries are characterized by rapid technological change, evolving industry standards, changing client preferences, new product and service introductions and the emergence of new vendors with lean cost and flexible cost models. 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. We also cannot guarantee that we will be able to compete effectively with new vendors offering lean cost and flexible cost models, or 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 revenue proportionately, our profitability may be reduced, or we may incur losses.

**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. In addition, for our Synodex and docGenix subsidiaries of our IADS segment, we utilize third party data centers to serve our clients and generate revenue. Any disruption in provision of services from these data centers could result in loss of revenue, client dissatisfaction and loss of clients.

**Our MIS segment relies on third parties to provide certain content and data for our solutions, and if those third-parties discontinue providing their content, our revenue and results of operations could be adversely affected.**

Our MIS segment relies on third parties to provide or make available certain data for our information databases and our news and social media monitoring service. These third parties may not renew agreements to provide content to us or may increase the price they charge for their content. Additionally, the quality of the content provided to us may not be acceptable to us and we may need to enter into agreements with additional third parties. In the event we are unable to use such third-party content or are unable to enter into agreements with new third parties, current clients may discontinue their relationship with us, and it may be difficult to acquire new clients.

**Our businesses are reliant on key employees, and we may face high attrition in our talent. We may not be able to replace displaced talent with new talent on a timely basis or with equivalent skill sets.**

We are reliant to a considerable degree on the continuing leadership of our Chief Executive Officer and would be materially and adversely affected should he unexpectedly not be employed by us. In addition, our businesses are subject to fierce competition for talent which could result in high attrition of our employees, or we may not be able to find the requisite talent to operate our businesses. A significant increase in the attrition rate among employees with specialized skills could decrease our operating efficiency and productivity. 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. In addition, fluctuations in our business may require that we lay off employees with possible negative effects on employee morale. We try to minimize these risks by actively promoting employee relationships and offering competitive salaries, but if we cannot mitigate these risks, our business and our operating performance could be adversely affected.

**We compete in highly competitive markets.**

The markets for our services are highly competitive. 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. 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. If we are not able to compete effectively, our revenues and results of operations could be adversely affected.

**We operate from multiple locations and our employees are very diverse so we have significant coordination risks.**

We are headquartered in Ridgefield Park, New Jersey, just outside New York City, and our Media Intelligence Solutions business is headquartered in Ottawa, Canada and has an additional location in London, United Kingdom. We have ten delivery centers in the Philippines, India, Sri Lanka, Canada, Germany, United Kingdom and Israel. Our employees are geographically dispersed as well as culturally diverse. Our personnel need to work together to successfully execute our business plans and we invest in various measures to improve coordination and teamwork. Should we fail in these efforts our ability to execute our business plans may be adversely affected.

**Our intellectual property rights are valuable, and if we are unable to protect them or are subject to intellectual property rights claims, our business may be harmed.**

Our intellectual property rights include certain trademarks, trade secrets, domain name registrations, a patent and patent applications. Although we take precautions to protect our intellectual property rights, these efforts may not be sufficient or effective. In addition, various events outside of our control pose a threat to our intellectual property rights as well as to our business. If we are unable to protect our intellectual property, we may experience difficulties in achieving and maintaining brand recognition.

**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 United States and Canada offices, as well as from client sites; and our offshore workforce provides services from our nine offshore delivery centers in the Philippines, India, Sri Lanka, Germany, United Kingdom and Israel. 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, or the availability of our platforms, could result in a disruption in our business, which could hinder our performance, or our ability to complete client projects on time, or provide services to our clients. This, in turn, could lead to client dissatisfaction and an adverse effect on our business, results of operations and financial condition.

**A material breach in security relating to our information systems could adversely affect us.**

Even though we have implemented network security measures, our servers may be vulnerable to computer viruses, cyber-attacks, break-ins and similar disruptions from unauthorized tampering. The occurrence of any of the events described above could result in interruptions, delays, the loss or corruption of data, cessations in the availability of systems or liability under privacy laws or contracts, each of which could have a material adverse effect on our financial position and results of operations.

**Governmental and client focus on data security could increase our costs of operations. In addition, any incident in which we fail to protect our client's information against security breaches may result in monetary damages against us, and termination of our 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. The cost of compliance with these laws and regulations is high and is likely to increase in the future. 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, as part of the service we perform, we have access to confidential client data, including sensitive personal data. As a result, we are subject to numerous laws and regulations designed to protect this information. We may also 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. Any failure on our part to comply with these laws and regulations can result in negative publicity and diversion of management time and effort and may subject us to significant liabilities and other penalties.

If client confidential information is inappropriately disclosed due to a breach of our computer systems, system failures or otherwise, or if any person, including any of our employees, negligently disregards or intentionally breaches controls or procedures with which we are responsible for complying with respect to such data or otherwise mismanages or misappropriates that data, we may have substantial liabilities to our clients. Any incidents with respect to the handling of such information could subject us to litigation or indemnification claims with our clients and other parties. In addition, 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, Israel, United Kingdom, Canada and Germany, 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 Asian 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. In certain of the countries in which we operate tax authorities may exercise significant discretionary and arbitrary powers to make tax demands or decline to refund payments that may be due to us as per tax returns. Other risks associated with our international business activities include:

- difficulties in staffing international projects and managing international operations, including overcoming logistical and communications challenges;
- local competition, particularly in the Philippines, India and Sri Lanka;
- imposition of public sector controls;
- trade and tariff restrictions;
- price or exchange controls;
- currency control regulations;
- foreign tax consequences;
- data privacy laws and regulation;
- labor disputes and related litigation and liability;
- intellectual property laws and enforcement practices;
- limitations on repatriation of earnings; and
- changing laws and regulations, occasionally with retroactive effect.

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

**Our international business is subject to applicable laws and regulations relating to foreign corrupt practices, the violation of which could adversely affect our operations.**

We must comply with all applicable anti-bribery laws and regulations of the U.S. and other jurisdictions where we operate. For example, we are subject to the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act relating to corrupt and illegal payments to government officials and others. Although we have policies and controls in place that are designed to ensure compliance with these laws and regulations, it is possible that an employee or an agent acting on our behalf could fail to comply with applicable laws and regulations, and due to the complex nature of the risks, it may not always be possible for us to ascertain compliance with such laws and regulations. In such event, we could be exposed to civil penalties, criminal penalties and other sanctions, including fines or other unintended punitive actions, and we could incur substantial legal fees and related expenses. In addition, such violations could damage our business and/or our reputation. All of the foregoing could have a material adverse effect on our financial condition and operating results.

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

Although most of our revenues are denominated in U.S. dollars, a significant portion of our revenues is denominated in Canadian dollars, Pound Sterling and Euros. In addition, a significant portion of our expenses, primarily labor expenses in the Philippines, India, Sri Lanka, Germany, Canada, United Kingdom and Israel, is incurred in the local currencies of the countries in which we operate. For financial reporting purposes, we translate all non-U.S. denominated transactions into U.S. dollars in accordance with accounting principles generally accepted in the United States. Thus, we are exposed to the risk that fluctuations in the value of these currencies relative to the U.S. dollar could have a direct impact on our revenues and our results of operations.

Similarly, 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. Although we selectively undertake hedging activities to mitigate certain of these risks, our hedging activities may not be effective and may result in losses.

Fluctuations in exchange rates also affect the value of funds held by our foreign subsidiaries. We do not currently intend to hedge these assets.

**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 in the Philippines, 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 historical income tax and indirect tax provisions and accruals, and could result in a material effect on the Company's income tax provision, indirect tax expenses, net income or cash flows in the period or periods for which that determination is made. If additional taxes are assessed, it could have an adverse impact on our financial results.

In addition, changes in the tax rates, tax laws or the interpretation of tax laws in the jurisdiction where we operate, could affect our future results of operations.

In 2015, our Indian subsidiary was subject to an inquiry by the Service Tax Bureau in India regarding the classification of services provided by this subsidiary, asserting that the services provided by this subsidiary fall under the category of online information and database access or retrieval services (OID Services), and not under the category of business support services (BS Services) that are exempt from service tax as historically indicated in our service tax filings. In the event the Service Tax Bureau is successful in proving that our services fall under the category of OID Services, the revenue earned by our Indian subsidiary would be subject to a service tax of approximately 14.5% and this would increase our operating costs. The revenues of our Indian subsidiary in 2017 were \$15.6 million. We disagree with the Service Tax Bureau's position and contest these assertions vigorously.

In 2016, our Indian subsidiary received notices of appeal from the Commissioner, Service Tax, seeking to reverse service tax refunds previously granted to us for certain quarters in 2014, asserting that the services provided by this subsidiary fall under the category of OID Services and not BS Services. We disagree with the basis of these appeals and are contesting them vigorously. We expect delays in receiving service tax refunds until the appeals are adjudicated with finality.

**Our operating results may be adversely affected by our use of derivative financial instruments.**

We have entered into a series of foreign currency forward contracts that are designated as cash flow hedges. These contracts are intended to partially offset the impact of the movement of the exchange rates on future operating costs of our Asian subsidiaries. The hedging strategies that we have implemented or may implement to mitigate foreign currency exchange rate risks may not reduce or completely offset our exposure to foreign exchange rate fluctuations and may expose our business to unexpected market, operational and counterparty credit risks. Accordingly, we may incur losses from our use of derivative financial instruments that could have a material adverse effect on our business, results of operations and financial condition.

**If tax authorities in any of the jurisdictions in which we operate contest the manner in which we allocate our profits, our net income could decrease.**

A significant portion of the services we provide to our clients are provided by our Asian subsidiaries located in different jurisdictions. Tax authorities in some of these jurisdictions have from time to time challenged 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 of our foreign subsidiaries are subject to preferential tax rates or enjoy tax subsidies from the government. 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, or they may result in lowering our expenses. An expiration or termination of these incentives could substantially increase our worldwide effective tax rate, or increase our tax expense, 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 our foreign earnings or if such earnings become subject to U.S. tax on a current basis.**

In December 2017, the President signed the U.S. Tax Cuts and Jobs Act (2017 Tax Act), which includes a broad range of provisions, many of which significantly differ from those contained in previous U.S. tax law. One such provision relates to a one-time tax on the mandatory deemed repatriation of post-1986 untaxed foreign earnings and profits (E&P), referred to as the toll charge. A significant portion of our operations are conducted outside the United States. Despite the access to the overseas earnings and the resulting toll charge, we intend to indefinitely reinvest the foreign earnings in our foreign subsidiaries on account of the withholding tax that the Company has to incur on the actual remittances. Unremitted earnings of foreign subsidiaries amounted to approximately \$24.8 million at December 31, 2017. If such earnings are repatriated in the future, or are no longer deemed to be indefinitely reinvested, the Company would have to accrue the applicable amount of withholding taxes associated with such remittances.

**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 or work on projects at a client's site. 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 adversely impact our results of operations and financial condition.**

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

Any damage to our network and/or information systems would damage our ability to provide services, in whole or in part, and/or otherwise damage our operations and could have an adverse effect on our business, financial condition or results of operations. Further, political tensions and escalation of hostilities in any of these countries could adversely affect our operations 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 and other acts of violence or war could affect us or our clients by disrupting normal business practices for extended periods of time and reducing business confidence. In addition, acts of violence or war 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 may face various risks associated with shareholder activists or shareholder demands for better performance .**

There is no assurance that we will not be subject to shareholder activism or demands. Such activities could interfere with our ability to execute our strategic plan, be costly and time-consuming, disrupt our operations, and divert the attention of management and our employees.

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

In 2008, a judgment was rendered in the Philippines against a Philippines subsidiary of the Company that is no longer active and purportedly also against Innodata Inc., in favor of certain former employees of the Philippines subsidiary. The payment amount as recalculated in November 2017 by the Philippines Department of Labor and Employment National Labor Relations Commission aggregates approximately \$6.2 million, plus legal interest that accrued at 12% per annum from August 13, 2008 to June 30, 2013, and thereafter accrued and continues to accrue at 6% per annum. The payment amount as expressed in U.S. dollars varies with the Philippine peso to U.S. dollar exchange rate. In December 2017 a group of 97 of the former employees indicated that they proposed to record the judgment as to them in New Jersey. In January 2018, in response to an action initiated by Innodata Inc., the United States District Court for the District of New Jersey entered a preliminary injunction that enjoins these former employees from pursuing or seeking recognition or enforcement of the judgment against Innodata Inc. in the United States during the pendency of the action and until further order of the Court.



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

While we currently believe that the ultimate outcome of these proceedings will not have a material adverse effect on our consolidated financial position or overall trends in our consolidated results of operations, litigation is subject to inherent uncertainties. Substantial recovery against us in the above- referenced Philippines action 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 consolidated operating results of the period in which the ruling or recovery occurs. In addition, our estimate of potential impact on our consolidated financial position or overall consolidated results of operations for the above referenced legal proceedings could change in the future. See "Legal Proceedings."

**Our reputation could be damaged or our profitability could suffer if we do not meet the controls and procedures in respect of the services and solutions we provide to our clients, or if we contribute to our clients' internal control 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 appropriate certification or opinion 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 fail or to impair our client's ability to comply with its own internal control requirements.

**New and changing corporate governance and public disclosure requirements add uncertainty to our compliance policies and increase our costs of compliance.**

Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, other SEC regulations, and the NASDAQ Stock Market rules, are creating uncertainty for companies like ours. These laws, regulations and standards may lack specificity and are subject to varying interpretations. Their application in practice may evolve over time, as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such corporate governance standards.

Although we are committed to maintaining high standards of corporate governance and public disclosure, and complying with evolving laws, regulations and standards, if we fail to comply with new or changed laws, regulations or standards of corporate governance, our business and reputation may be harmed.

**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 Ridgefield, New Jersey headquarters and ten overseas delivery centers in the Philippines, India, Sri Lanka, Canada, Germany, United Kingdom and Israel, all of which are leased. The square footage of all our leased properties totals approximately 293,000.

In addition, we may need to lease additional property in the future. We believe that we will be able to obtain suitable additional facilities on commercially reasonable terms on an "as needed" basis.

**Item 3. Legal Proceedings.**

In 2008, a judgment was rendered in the Philippines against a Philippines subsidiary of the Company that is no longer active and purportedly also against Innodata Inc., in favor of certain former employees of the Philippines subsidiary. The payment amount as recalculated in November 2017 by the Philippines Department of Labor and Employment National Labor Relations Commission aggregates approximately \$6.2 million, plus legal interest that accrued at 12% per annum from August 13, 2008 to June 30, 2013, and thereafter accrued and continues to accrue at 6% per annum. The payment amount as expressed in U.S. dollars varies with the Philippine peso to U.S. dollar exchange rate. In December 2017 a group of 97 of the former employees indicated that they proposed to record the judgment as to them in New Jersey. In January 2018, in response to an action initiated by Innodata Inc., the United States District Court for the District of New Jersey entered a preliminary injunction that enjoins these former employees from pursuing or seeking recognition or enforcement of the judgment against Innodata Inc. in the United States during the pendency of the action and until further order of the Court. The principal relevant cases in the Philippines are Court of Appeals 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), 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.). The U.S. District Court action is Civil Action No.: 2:17-cv-13268-SDW-LDW Innodata Inc. v. Myrna C. Augustin-Simon; et al.

We are also subject to various other legal proceedings and claims which arise in the ordinary course of business. While we believe that we have adequate reserves for those losses we believe are probable and can be reasonably estimated, the ultimate results of legal proceedings and claims cannot be predicted with certainty.

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

**Item 4. Mine Safety Disclosures.**

None.

**PART II**

**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Innodata Inc. (the "Company") Common Stock is quoted on The Nasdaq Stock Market LLC under the symbol "INOD." On February 9, 2018, there were 74 stockholders of record of the Company's Common Stock based on information provided by the Company's transfer agent. Virtually all of the Company's publicly held shares are held in "street name" and the Company believes the actual number of beneficial holders of its Common Stock to be 2,847.

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, 2017.

<b>Common Stock Sale Prices</b>		
<b>2016</b>	<b>High</b>	<b>Low</b>
First Quarter	\$ 2.83	\$ 2.21
Second Quarter	2.50	2.16
Third Quarter	2.80	2.15
Fourth Quarter	2.59	1.90
<b>2017</b>	<b>High</b>	<b>Low</b>
First Quarter	\$ 2.45	\$ 1.90
Second Quarter	2.25	1.35
Third Quarter	1.85	1.30
Fourth Quarter	1.50	0.88

**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, 2017:

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 <sup>(1)</sup>	4,241,799	\$ 2.82	6,143,206
not approved by security holders Equity compensation plans	-	-	-
<b>Total</b>	<b>4,241,799</b>	<b>\$ 2.82</b>	<b>6,143,206</b>

<sup>(1)</sup> 2013 Stock Plan, approved by the stockholders, see Note 10 to Consolidated Financial Statements, contained elsewhere herein.

### Purchase of Equity Securities

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 during 2017. As of December 31, 2017, we had repurchased approximately 137,000 shares of our common stock under this authorization, for a total cost of approximately \$0.3 million.

We did not have any sales of unregistered equity securities during the three months ended December 31, 2017.

### Item 6. Selected Financial Data.

Not applicable.

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

The following discussion should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this report. In addition to historical information, this discussion includes forward-looking information that involves risks and assumptions which could cause actual results to differ materially from management's expectations. See "Forward-Looking Statements" included elsewhere in this report.

### Executive Overview

We are a global digital services and solution company. We operate in three reporting segments: Digital Data Solutions (DDS), Innodata Advanced Data Solutions (IADS) and Media Intelligence Solutions (MIS).

The following table sets forth, for the period indicated, certain financial data expressed for the two years ended December 31, 2017:

(Dollars in millions)

	Years Ended December 31,			
	2017	% of revenue	2016	% of revenue
Revenues	\$ 60.9	100.0%	\$ 63.1	100.0%
Direct operating costs	45.8	75.2%	47.2	74.8%
Selling and administrative expenses	20.2	33.2%	19.5	30.9%
Change in fair value of contingent consideration	-	0.0%	1.1	1.7%
Loss from operations	(5.1)	-8.4%	(4.7)	-7.4%
Other income	-		-	
Loss before provision for income taxes	(5.1)		(4.7)	
Provision for income taxes	0.3		1.2	
Net loss	(5.4)		(5.9)	
Loss attributable to non-controlling interest	0.3		0.4	
Net loss attributable to Innodata Inc. and Subsidiaries	\$ (5.1)		\$ (5.5)	

#### Revenues

In our DDS segment, we recognize revenues based on the quantity delivered or resources utilized and in the period in which the services are performed and delivery has occurred. Revenues for contracts billed on a time-and-materials basis are recognized as services are performed. Revenues under fixed-fee contracts, which are not significant to the overall revenues, are recognized on the percentage of completion method of accounting, as services are performed or milestones are achieved.

In our IADS segment, we recognize revenues primarily based on the quantity delivered, and the period in which services are performed and deliverables are made as per contracts. A portion of our IADS segment revenue is derived from licensing our software and providing access to our hosted software platform. Revenue from such services are recognized monthly when access to the service is provided to the end user and there are no significant remaining obligations, persuasive evidence of an arrangement exists, the fees are fixed or determinable and collection is reasonably assured.

Our MIS segment derives its revenues primarily from subscription arrangements and provision of enriched media analysis services. Revenue from subscriptions are recognized monthly when access to the service is provided to the end user and there are no significant remaining obligations, persuasive evidence of an arrangement exists, the fees are fixed or determinable, and collection is reasonably assured. Revenues from enriched media analysis services are recognized when the services are performed and delivered to the client.

We consider U.S. GAAP standard accounting criteria for determining whether to report revenue gross as a principal versus net as an agent. Factors considered include whether we are the primary obligor, have risks and rewards of ownership, and bear the risk that a client may not pay for the services performed. If there are circumstances where the above criteria are not met and therefore we are not the principal in providing services, amounts received from clients are presented net of payments in the consolidated statements of operations and comprehensive loss.

Revenues include reimbursement of out-of-pocket expenses, with the corresponding out-of-pocket expenses included in direct operating costs.

#### Direct Operating Costs

Direct operating costs consist of direct payroll, occupancy costs, data center hosting fees, content acquisition costs, depreciation and amortization, travel, telecommunications, computer services and supplies, realized gain (loss) on forward contracts, foreign currency revaluation gain (loss), 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, sales and marketing costs including commissions, new services research and related software development, third-party software, advertising and trade conferences, professional fees and consultant costs, and other administrative overhead costs.

### *Adjusted EBITDA Performance Metric*

In addition to measures of financial performance presented in our consolidated financial statements, we monitor “Adjusted EBITDA” to help us evaluate our ongoing operating performance including our ability to operate the business effectively.

We define Adjusted EBITDA as net income (loss) attributable to Innodata Inc. and Subsidiaries in accordance with GAAP before income taxes, depreciation, amortization of intangible assets, impairment charges, changes in fair value of contingent consideration, stock-based compensation, loss attributable to non-controlling interests and interest income (expense).

We believe Adjusted EBITDA is useful to our management and investors in evaluating our operating performance and for financial and operational decision-making purposes. In particular, it facilitates comparisons of the core operating performance of our Company from period to period on a consistent basis and helps us to identify underlying trends in our business. We believe it provides useful information about our operating results, enhances the overall understanding of our past performance and future prospects and allows for greater transparency with respect to key metrics used by the management in our financial and operational decision-making. We use this measure to establish operational goals for managing our business and evaluating our performance.

Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation or as a substitute for results reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect tax payments, and such payments reflect a reduction in cash available to us;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs and for our cash expenditures or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA excludes the potential dilutive impact of stock-based compensation expense related to our workforce, interest income (expense) and net loss attributable to non-controlling interests, and these items may represent a reduction or increase in cash available to us;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements; and
- Other companies, including companies in our own industry, may calculate Adjusted EBITDA differently from our calculation, limiting its usefulness as a comparative measure.

Adjusted EBITDA should be considered as a supplement to, and not as a substitute for or superior to, GAAP net income.

The following table shows reconciliation from net loss to Adjusted EBITDA for the periods presented (in thousands):

	Years Ended December 31,	
	2017	2016
<b>Adjusted EBITDA:</b>		
Net loss attributable to Innodata Inc. and Subsidiaries	\$ (5,055)	\$ (5,524)
Depreciation and amortization	3,674	3,195
Stock-based compensation	695	1,162
Provision for income taxes	285	1,126
Change in fair value of contingent consideration	-	1,038
Interest expense (income), net	(23)	63
Non-controlling interests	(304)	(387)
Adjusted EBITDA	<u>\$ (728)</u>	<u>\$ 673</u>

#### DDS Segment

	Years Ended December 31,	
	2017	2016
<b>Adjusted EBITDA:</b>		
Net loss attributable to DDS Segment	\$ (1,740)	\$ (2,570)
Depreciation and amortization	2,258	2,309
Stock-based compensation	689	1,172
Provision for income taxes	326	1,181
Change in fair value of contingent consideration	-	1,038
Interest expense (income), net	(34)	63
Non-controlling interests	(304)	(387)
Adjusted EBITDA - DDS Segment	<u>\$ 1,195</u>	<u>\$ 2,806</u>

#### IADS Segment

	Years Ended December 31,	
	2017	2016
<b>Adjusted EBITDA:</b>		
Net loss attributable to IADS Segment	\$ (597)	\$ (1,778)
Stock-based compensation	2	(10)
Adjusted EBITDA - IADS Segment	<u>\$ (595)</u>	<u>\$ (1,788)</u>

## MIS Segment

	Years Ended December 31,	
	2017	2016
<b>Adjusted EBITDA:</b>		
Net loss attributable to MIS Segment	\$ (2,718)	\$ (1,176)
Depreciation and amortization	1,416	886
Stock-based compensation	4	-
Benefits from income taxes	(41)	(55)
Interest expense, net	11	-
Adjusted EBITDA - MIS Segment	\$ (1,328)	\$ (345)

## Results of Operations

### Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

#### Revenues

Total revenues were \$60.9 million for the year ended December 31, 2017, a 3% decrease from \$63.1 million for the year ended December 31, 2016.

Revenues from the DDS segment were \$46.7 million and \$50.7 million for the years ended December 31, 2017 and 2016, respectively, a decline of \$4 million or approximately 8%. The decline was primarily on account of reduced volume from a key e-book client amounting to \$3.3 million and lower volume from other clients. The decline was partially offset by an increase in revenue for one new client for whom services began in the fourth quarter of 2016.

Revenues from the IADS segment were \$4.8 million and \$4.3 million for the years ended December 31, 2017 and 2016, respectively, an increase of \$0.5 million or approximately 12%. The increase primarily reflects additional volume from Synodex clients.

Revenues from the MIS segment were \$9.4 million and \$8.1 million for the year ended December 31, 2017 and 2016, respectively, an increase of \$1.3 million or approximately 16%. The increase is attributable to the acquisition of the Agility business in July 2016.

Two clients in our DDS segment generated approximately 30% and 31% of our total revenues in the fiscal years ended December 31, 2017 and 2016, respectively. No other client accounted for 10% or more of total revenues during these periods. Further, in the years ended December 31, 2017 and 2016, revenues from non-US clients accounted for 51% and 49%, respectively, of our revenues.

#### Direct Operating Costs

Direct operating costs were approximately \$45.8 million and \$47.2 million for the years ended December 31, 2017 and 2016, respectively, a decrease of \$1.4 million or approximately 3%.

Direct operating costs for the DDS segment were \$35.4 million and \$37.9 million for the years ended December 31, 2017 and 2016, respectively, a decrease of \$2.5 million or approximately 7%. The decline in direct operating costs is due to a decline in revenues. It also reflects cost rationalization. Direct operating costs for the DDS segment as a percentage of DDS segment revenues were 76% for the year ended December 31, 2017 compared to 75% for the year ended December 31, 2016. The increase primarily reflects a decline in DDS segment direct operating costs relative to the decline in revenues.



Direct operating costs for the IADS segment were approximately \$4.3 million and \$4.9 million for the respective periods, net of intersegment profits, a decrease of \$0.6 million or 12%. The decline in direct operating costs reflects a lower headcount due to production efficiencies. Direct operating costs for the IADS segment as a percentage of IADS segment revenues were 90% and 113% for the years ended December 31, 2017 and 2016, respectively.

Direct operating costs for the MIS segment were approximately \$6.1 million and \$4.4 million, net of intersegment profit, for the years ended December 31, 2017 and 2016, respectively, an increase of \$1.7 million, or 39%. The increase in direct operating costs was primarily on account of the acquisition of the Agility business in July 2016. Direct operating costs for the MIS segment as a percentage of MIS segment revenues were 65% and 55% for the years ended December 31, 2017 and 2016, respectively.

#### *Selling and Administrative Expenses*

Selling and administrative expenses were \$20.2 million for the year ended December 31, 2017 compared to \$19.5 million for the year ended December 31, 2016, an increase of \$0.7 million or approximately 4%. Selling and administrative expenses as a percentage of total revenues were 33% and 31% for the years ended December 31, 2017 and 2016, respectively.

Selling and administrative expenses for the DDS segment were \$13.2 million and \$13.5 million in these respective periods, a decrease of \$0.3 million or 2%. In 2016, the DDS segment incurred \$1.5 million of legal, professional and other costs in connection with an internal investigation. In 2017, selling and administrative expenses included an accrual of \$1.4 million primarily in connection with legal proceedings, offset in part by the recovery of approximately \$0.2 million of accounts receivable from two clients. Selling and administrative expenses for the DDS segment as a percentage of DDS segment revenues increased to 28% for the year ended December 31, 2017 from 26% for the year ended December 31, 2016. This increase primarily reflects the decline in selling and administrative expenses relative to the decline in revenues.

Selling and administrative expenses for the IADS segment for the respective periods were \$1.0 million and \$1.2 million, net of intersegment profits, a decline of \$0.2 million or 17%. The decrease in selling and administrative expenses is on account of cost optimization. Selling and administrative expenses for the IADS segment as a percentage of IADS segment revenues decreased to 21% for the year ended December 31, 2017 compared to 28% for the year ended December 31, 2016. The decrease in selling and administrative expenses as a percentage of IADS segment revenues was principally attributable to the increase in IADS revenues and the decline in selling and administrative expenses.

Selling and administrative costs for the MIS segment were \$6.0 million and \$4.8 million for the years ended December 31, 2017 and 2016, respectively. The increase primarily reflects the acquisition of the Agility business in July 2016. Selling and administrative expenses for the MIS segment as a percentage of MIS segment revenues increased to 64% for the year ended December 31, 2017 from 60% for the year ended December 31, 2016.

#### *Contingent Consideration*

On September 30, 2016, we and the other parties involved in the acquisition of MediaMiser amended the terms on which one of our subsidiaries was required to make a supplemental purchase price payment for MediaMiser. Prior to the amendment, the amount of the supplemental purchase price payment was to be determined by the achievement of certain financial thresholds and was in no event to exceed \$3.8 million (C\$5 million). The amendment fixed the amount of the supplemental purchase price payment at \$1.5 million (C\$2 million) payable in two equal installments. The first installment was paid 30% in cash and 70% in shares of Innodata Inc. common stock on March 31, 2017. The second instalment is payable on March 31, 2018 to designated recipients, except that no payments will be made to designated recipients who fail to satisfy specified conditions. We have the option to pay up to 70% of the supplemental amount in shares of Innodata Inc. common stock. We recorded a \$1.0 million charge in our statement of operations for the third quarter of 2016 to reflect the amendment.

## Taxes

We recorded a provision for income taxes of approximately \$0.3 million and \$1.1 million for the years ended December 31, 2017 and 2016, respectively. Taxes primarily consist of a provision for foreign taxes recorded in accordance with the local tax regulations by our foreign subsidiaries. Effective income tax rates are disproportionate due to the losses incurred by our U.S. entity and our Canadian subsidiaries and a valuation allowance recorded on deferred taxes on these entities. Some of our foreign subsidiaries are subject to tax holidays or preferential tax rates which reduce our overall effective tax rate when compared to the U.S. statutory tax rate.

In December 2017, the President signed the U.S. Tax Cuts and Jobs Act (2017 Tax Act), which includes a broad range of provisions, many of which significantly differ from those contained in previous U.S. tax law. Changes in tax law are accounted for in the period of enactment. As such, the 2017 consolidated financial statements reflect the immediate tax effect of the 2017 Tax Act, which was enacted on December 22, 2017 (Enactment Date). The 2017 Tax Act contains several key provisions including, among other things:

- A one-time tax on the mandatory deemed repatriation of post-1986 untaxed foreign earnings and profits (E&P), referred to as the toll charge;
- A reduction in the maximum Corporate tax rate from 35% to 21% for tax years beginning after December 31, 2017;
- The introduction of a new U.S. tax on certain off-shore earnings referred to as Global Intangible Low-Taxed Income (GILTI) at an effective tax rate of 10.5% for tax years beginning after December 31, 2017 (increasing to 13.125% for tax years beginning after December 31, 2025) with a partial offset by applicable foreign tax credits; and
- The introduction of a quasi-territorial tax system for tax years beginning after December 31, 2017 by providing a dividend received deduction under the participation exemption system.

Pursuant to the 2017 Tax Act, we recorded the following adjustments to income tax expense during the fourth quarter of 2017:

- A one-time deemed repatriation of E&P amounting to \$6.4 million. No toll tax liability was recorded due to the available net operating loss carryforwards. This resulted in a reduction of deferred tax assets and a corresponding reduction in the valuation allowance of \$2.2 million; and
- A reduction of deferred tax assets and a corresponding reduction of the valuation allowance of \$4.8 million, primarily for the remeasurement of our deferred tax assets at the enacted tax rate of 21%. An income tax benefit of \$0.1 million, primarily for the remeasurement of our deferred tax liabilities at the enacted tax rate of 21%.

We continue to evaluate the GILTI provisions of the 2017 Tax Act and its impact, if any, on the consolidated financial statements as of December 31, 2017.

One of the several provisions of the 2017 Tax Act was a one-time tax on the mandatory deemed repatriation of post-1986 untaxed foreign earnings and profits (E&P), referred to as the toll charge. A significant portion of our operations are conducted outside the United States. The toll charge amounted to \$6.4 million. The charge was offset by the available net operating loss carryforwards. Despite the access to the overseas earnings and the resulting toll charge, we intend to indefinitely reinvest the foreign earnings in our foreign subsidiaries on account of the withholding tax that we would have to incur on the actual remittances. Unremitted earnings of foreign subsidiaries amounted to approximately \$24.8 million at December 31, 2017. If such earnings are repatriated in the future, or are no longer deemed to be indefinitely reinvested, we would have to accrue the applicable amount of withholding taxes associated with such remittances.

In 2017, the U.S. entity deferred \$5.2 million in payments due to its Asian operating subsidiaries, which resulted in a deemed dividend that is taxable income for U.S. tax purposes under Section 956 of the Internal Revenue Code. The taxable income was offset against the net operating loss carryforwards of the U.S. entity.

We have a valuation allowance on all of our U.S. deferred tax assets on account of continuing losses incurred by our U.S. entity. In addition, we also have a valuation allowance on deferred tax assets of our Canadian subsidiaries. Our Canadian subsidiaries also have research and development expenditures available to reduce taxable income in future years, which may be carried forward indefinitely. The potential benefits from these balances have not been recognized for financial statement purposes.

Pursuant to an income tax audit by the Indian Bureau of Taxation in 2009, our Indian subsidiary received a tax assessment approximating \$356,000 including interest, through December 31, 2017 for the fiscal year ended March 31, 2006. We disagree with the basis of this tax assessment, have filed an appeal against the assessment and are contesting it vigorously. In January 2012, our Indian subsidiary received a final tax assessment of approximately \$1.0 million, including interest, 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 it. Due to this assessment, we recorded a tax provision amounting to \$371,000 including interest through December 31, 2017. In April 2015, we received a favorable judgment whereby the Appeal Officer reduced the tax assessment to \$0.3 million. Under the Indian Income Tax Act, however, the income tax assessing officer has the right to appeal against the judgment passed by the Appeal Officer. In the third quarter of 2015, the income tax assessing officer exercised this right and filed an appeal. Based on recent experience, we believe that the tax provision of \$371,000 including interest is adequate.

In 2015, our Indian subsidiary was subject to an inquiry by the Service Tax Bureau in India regarding the classification of services provided by this subsidiary, asserting that the services provided by this subsidiary fall under the category of online information and database access or retrieval services (OID Services), and not under the category of business support services (BS Services) that are exempt from service tax as historically indicated in the subsidiary's service tax filings. In the event the Service Tax Bureau is successful in proving that the services fall under the category of OID Services the revenues earned by our Indian subsidiary would be subject to a service tax of approximately 14.5% of the subsidiary's revenues and this would increase our operating costs by an equivalent amount. The revenues of our Indian subsidiary for the year ended December 31, 2017 were \$15.6 million. We disagree with the Service Tax Bureau's position and are vigorously contesting these assertions.

From time to time we are subject to various other tax proceedings and claims for our Philippines subsidiaries. We have recorded a tax provision amounting to \$184,000 including interest through December 31, 2017, for several ongoing tax proceedings in the Philippines. Although the ultimate outcome cannot be determined at this time, we continue to contest these claims vigorously.

#### *Net Loss*

We incurred a net loss of \$5.1 million during the year ended December 31, 2017 compared to a net loss of \$5.5 million during the year ended December 31, 2016.

Net loss for the DDS segment was \$1.7 million for the year ended December 31, 2017, compared to a net loss of \$2.6 million for the year ended December 31, 2016, net of intersegment profits. The decline in net loss is primarily due to the decline in direct operating costs and selling and administrative expenses offset in part by the decline in revenues. In 2016, we had a charge to our operations referred to under "Contingent Consideration."

Net loss for the IADS segment was \$0.6 million for the year ended December 31, 2017 compared to a net loss of \$1.7 million for the year ended December 31, 2016, net of intersegment profits. The decline in net loss is primarily due to the increase in revenues and the decline in direct operating costs and selling and administrative expenses.

Net loss for the MIS segment was \$1.4 million and \$1.2 million for the years ended December 31, 2017 and 2016, respectively. The increased net loss is mainly due to the increase in direct operating costs and selling and administrative expenses partially offset by an increase in revenues.

#### *Adjusted EBITDA*

Adjusted EBITDA for the year ended December 31, 2017 was a loss of \$0.7 million compared to income of \$0.7 million for the year ended December 31, 2016, a decline of \$1.4 million. Adjusted EBITDA for the DDS segment was \$1.2 million and \$2.8 million for the years ended December 31, 2017 and 2016, respectively, a decrease of \$1.6 million or approximately 57%. Adjusted EBITDA for the IADS segment was a loss of \$0.6 million and a loss of \$1.8 million for the years ended December 31, 2017 and 2016, respectively. Adjusted EBITDA for the MIS segment was a loss of \$1.3 million compared to a loss of \$0.3 million for the years ended December 31, 2017 and 2016, respectively.

#### **Liquidity and Capital Resources**

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

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
Cash and cash equivalents	\$ 11,407	\$ 14,172
Working capital	9,729	14,407

At December 31, 2017, we had cash and cash equivalents of \$11.4 million, of which \$5.7 million was held by our foreign subsidiaries, and \$5.7 million was held in the United States. Despite the passage of the new tax law under which the Company may repatriate funds from overseas after paying toll charge, it is our intent as of December 31, 2017, to permanently reinvest the overseas funds in our foreign subsidiaries on account of the withholding tax that we would have to incur on the actual remittances.

We have used, and plan to use, our cash and cash equivalents for (i) investments in the MIS Segment; (ii) the expansion of our other operations; (iii) general corporate purposes, including working capital; and (iv) possible business acquisitions. As of December 31, 2017, we had working capital of approximately \$9.7 million, as compared to working capital of approximately \$14.4 million as of December 31, 2016.

We believe that our existing cash and cash equivalents and internally generated funds will provide sufficient sources of liquidity to satisfy our financial needs for the next 12 months. However, we have no bank facilities or lines of credit, and continuing material reductions in our cash and cash equivalents from operating losses, capital expenditures, adverse legal decisions, acquisitions or otherwise could materially and adversely affect the Company.

#### *Net Cash Provided by (Used in) Operating Activities*

Cash provided by our operating activities for the year ended December 31, 2017 was \$0.7 million, resulting from a net loss of \$5.4 million and adjustments for non-cash items of \$4.2 million and uses of working capital of \$1.9 million. Adjustments for non-cash items primarily consisted of \$3.7 million for depreciation and amortization, and stock-based compensation expense of \$0.7 million.

Cash used in our operating activities for the year ended December 31, 2016 was \$2.7 million, resulting from a net loss of \$5.9 million and adjustments for non-cash items of \$5.5 million and uses of working capital of \$2.3 million. Adjustments for non-cash items primarily consisted of \$3.2 million for depreciation and amortization, a change in fair value of contingent consideration of \$1.0 million and stock-based compensation expense of \$1.2 million.

At December 31, 2017, our days' sales outstanding were 61 days as compared to 55 days as of December 31, 2016. We calculate DSO by first dividing the total revenues for the period by average net accounts receivable, which is the sum of net accounts receivable at the beginning of the period and net accounts receivable at the end of the period, to yield an amount we refer to as the "accounts receivable turnover." Then we divide the total number of days within the period reported by the accounts receivable turnover to yield DSO expressed in number of days.

#### *Net Cash Used in Investing Activities*

For the year ended December 31, 2017, cash used in our investing activities was \$3.4 million. These capital expenditures were principally for the purchase of technology equipment including servers, network infrastructure and workstations, renovations costs in connection with the relocation of our New Jersey and Canada headquarters, and expenditures for internally developed software. Capital expenditures of \$3.4 million consisted of \$1.8 million for the DDS segment and \$1.6 million for the MIS segment.

For the year ended December 31, 2016, cash used in our investing activities was \$7.0 million. These expenditures consisted of \$4.2 million paid to acquire Agility in July 2016 and capital expenditures of \$2.7 million principally for the purchase of technology equipment including servers, network infrastructure and workstations. Capital expenditures of \$2.7 million consisted of \$2.2 million for the DDS segment and \$0.5 million for the MIS segment.

For the year 2018, we anticipate that capital expenditures for ongoing technology, equipment and infrastructure upgrades will approximate \$1.0 to \$2.0 million, a portion of which we may finance.

#### *Net Cash Provided Used in Financing Activities*

Payment of long-term obligations approximated \$1.1 million and \$0.7 million for 2017 and 2016, respectively. Cash from financing activities represents the net proceeds from a capital lease transaction we entered into during 2017 amounting to \$0.8 million. There were no stock option exercises during the years ended December 31, 2017 and 2016, respectively. During the year ended December 31, 2016, we repurchased 57,000 shares of our common stock for approximately \$0.1 million.

Although most of our revenues are denominated in U.S. dollars, a significant portion of our revenues is denominated in Canadian dollars, Pound Sterling and Euros. In addition, a significant portion of our expenses, primarily labor expenses in the Philippines, India, Sri Lanka, Germany, Canada and Israel, is incurred in the local currencies of the countries in which we operate. For financial reporting purposes, we translate all non-U.S. denominated transactions into U.S. dollars in accordance with accounting principles generally accepted in the United States. Thus, we are exposed to the risk that fluctuations in the value of these currencies relative to the U.S. dollar could have a direct impact on our revenues and 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. Although we selectively undertake hedging activities to mitigate certain of these risks, our hedging activities may not be effective and may result in losses.

Fluctuations in exchange rates also affect the value of funds held by our foreign subsidiaries. We do not currently intend to hedge these assets.

### Contractual Obligations

The table below summarizes our contractual obligations (in thousands) at December 31, 2017, and the effect that those obligations are expected to have on our liquidity and cash flows in future periods.

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Capital lease	\$ 829	\$ 436	\$ 393	\$ -	\$ -
Vendor obligations	751	395	356	-	-
Non cancellable operating leases	3,255	687	964	720	884
Total contractual cash obligations	\$ 4,835	\$ 1,518	\$ 1,713	\$ 720	\$ 884

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.

Our Synodex subsidiary experiences seasonal fluctuations in revenues. Typically, revenue is lowest in the third quarter of the calendar year and highest in the fourth quarter of the calendar year. The seasonality is directly linked to the number of life insurance applications received by the insurance companies.

## **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 is 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 disclosure 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, intangible assets, goodwill, valuation of deferred tax assets, value of securities underlying stock-based compensation, litigation accruals, pension benefits, purchase price allocation of Agility, 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 the client's 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. We cannot guarantee that credit loss rates in the future will not be greater than those experienced in the past. In addition, we would 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 was to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be necessary.

### ***Foreign Currency Translation***

The functional currency of our production operations located in the Philippines, India, Sri Lanka and Israel is the U.S. dollar. Transactions denominated in the Philippine pesos, Indian and Sri Lankan rupees or Israeli shekels are translated to U.S. dollars at rates which approximate those in effect on the transaction dates. Monetary assets and liabilities denominated in foreign currencies at December 31, 2017 and 2016 are translated at the exchange rate in effect as of those dates. Nonmonetary assets, liabilities, and stockholders' equity were translated at the appropriate historical rates. Included in direct operating costs are exchange losses (gains) resulting from such transactions of approximately \$466,000 and \$486,000 for the years ended December 31, 2017 and 2016, respectively.

The functional currency for our subsidiaries in Germany, United Kingdom and Canada are the Euro, the Pound Sterling and the Canadian dollar, respectively. The financial statements of these subsidiaries are reported in these respective currencies. Financial information is translated from the applicable functional currency to the U.S. dollar (the reporting currency) for inclusion in our consolidated financial statements. Income, expenses and cash flows are translated at weighted average exchange rates prevailing during the fiscal period, and assets and liabilities are translated at fiscal period-end exchange rates. Resulting translation adjustments are included as a component of accumulated other comprehensive income (loss) in stockholders' equity. Foreign exchange transaction gains or losses are included in direct operating costs in the accompanying consolidated statements of operations and comprehensive loss. The amount of foreign currency translation adjustment was (\$687,000) and \$1,393,000 for the years ended December 31, 2017 and 2016, respectively.

## **Revenue Recognition**

For the DDS segment, revenue is recognized based on the quantity delivered or resources utilized and in the period in which services are performed and delivery has occurred. Revenues for contracts billed on a time-and-materials basis are recognized as services are performed. Revenues under fixed-fee contracts, which are not significant to the overall revenues, are recognized on the percentage of completion method of accounting, as services are performed or milestones are achieved.

For the IADS segment, revenue is recognized primarily based on the quantity delivered and the period in which services are performed and deliverables are made as per contracts. A portion of our IADS segment revenue is derived from licensing our software and providing access to our hosted software platform. Revenue from such services are recognized monthly when access to the service is provided to the end user and there are no significant remaining obligations, persuasive evidence of an arrangement exists, the fees are fixed or determinable and collection is reasonably assured.

The MIS segment derives its revenues primarily from subscription arrangements and provision of enriched media analysis services. Revenue from subscriptions is recognized monthly when access to the service is provided to the end user and there are no significant remaining obligations, persuasive evidence of an arrangement exists, the fees are fixed or determinable and collection is reasonably assured. Revenue from enriched media analysis services is recognized when the services are performed and delivered to the client.

Revenues include reimbursement of out-of-pocket expenses, with the corresponding out-of-pocket expenses included in direct operating costs.

## **Long-lived Assets**

We assess the recoverability of long-lived assets, which consist primarily of fixed assets, 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) a 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, an impairment analysis is performed, initially using a projected undiscounted cash flow method. We make assumptions regarding estimated future cash flows and other factors to determine the fair value of these respective assets. An impairment loss will be recognized only if the carrying value of a long-lived asset is not recoverable and exceeds its fair value and is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

## **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. Changes in the valuation allowance from period to period are included in our tax provision in the period of change. As of December 31, 2017, we intend to indefinitely reinvest the foreign earnings in our foreign subsidiaries. However, if we change our intent and repatriate such earnings, we will have to accrue the applicable amount of withholding taxes associated with such remittances.

In assessing the realization of deferred tax assets, management considered whether it was more likely than not that all or some of the U.S. deferred tax assets would not be realizable. As of December 31, 2017, we continue to maintain a valuation allowance on all U.S. deferred tax assets.



As of December 31, 2017, our Canadian subsidiaries have available net operating loss carryforwards and research and development expenditures available to reduce taxable income of future years. The potential benefits from balances have not been recognized for financial statement purposes.

We account for income taxes regarding uncertain tax positions, and recognize interest and penalties related to uncertain tax positions under "Income Tax Expense" in our consolidated statements of operations and comprehensive loss.

### ***Goodwill and Other Intangible Assets***

Goodwill represents the excess purchase price paid over the fair value of net assets acquired. We test our 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, 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.

In the annual impairment test conducted by us as of September 30, 2017 and 2016, the estimated fair value 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, employees and others who render services to us under the 2013 Stock Plan approved by the 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 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 \$0.7 million and \$1.2 million for the years ended December 31, 2017 and 2016, 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 is accumulated and amortized over future periods.

## ***Recent Accounting Pronouncements***

In May 2014, the FASB issued guidance on revenue from contracts with clients. This update is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. It also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This accounting guidance is effective prospectively for annual reporting periods, and interim periods within those periods, beginning after December 15, 2017 and early adoption is permitted starting from the first quarter of 2017. Companies may use either a full retrospective or a modified retrospective approach to adopt the new standard when it takes effect. We will adopt the new standard and related updates effective January 1, 2018 using the modified retrospective method of adoption. The new standard further requires new disclosures about contracts with customers, including the significant judgments the company has made when applying the guidance. We have finalized our analysis and the adoption of this guidance will not have a material impact on our consolidated financial statements and internal controls over financial reporting.

In February 2016, the FASB issued guidance related to leases. This new guidance requires lessees to recognize on the balance sheet a right-of-use asset, representing its right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing, and uncertainty of cash flows arising from leases. The standard requires the use of a modified retrospective transition approach, which includes a number of optional practical expedients that entities may elect to apply. This new guidance is effective for annual periods beginning after December 15, 2018. Early application is permitted. We are in the process of evaluating the effect the guidance will have on our existing accounting policies and consolidated financial statements but expect there will be an increase in assets and liabilities on the consolidated balance sheets at adoption due to the recording of right-of-use assets and corresponding lease liabilities, which may be material.

In March 2016, the FASB issued guidance relating to share-based compensation. This new guidance is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The new guidance is effective for annual periods beginning after December 15, 2016. We adopted this standard in 2017 and there was no material impact on our consolidated financial statements.

In March 2017, the FASB issued guidance on Compensation - Retirement Benefits relating to improvements in the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. Under existing U.S. GAAP, an entity is required to present all components of net periodic pension cost and net periodic postretirement benefit cost aggregated as a net amount in the income statement, and this net amount may be capitalized as part of an asset where appropriate. The amendments in the guidance require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period, and requires the other components of net periodic pension cost and net periodic postretirement benefit cost to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. Additionally, only the service cost component is eligible for capitalization, when applicable. The amendments in the guidance will be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. The guidance will be effective for the Company for interim and annual periods beginning after December 15, 2017. Early adoption is permitted. We do not anticipate that the adoption of this guidance will have a material impact on our consolidated financial statements.

In January 2017, the FASB issued guidance simplifying the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test. Under current guidance, Step 2 of the goodwill impairment test requires entities to calculate the implied fair value of goodwill in the same manner as the amount of goodwill recognized in a business combination by assigning the fair value of a reporting unit to all of the assets and liabilities of the reporting unit. The carrying value in excess of the implied fair value is recognized as goodwill impairment. Under the new standard, goodwill impairment is recognized based on Step 1 of the current guidance, which calculates the carrying value in excess of the reporting unit's fair value. The new standard is effective beginning in January 2020, with early adoption permitted.

In August 2017, the FASB amended the requirements of the Derivatives and Hedging Topic of the Accounting Standards Codification to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The amendments will be effective for the Company for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. We do not anticipate that the adoption of this guidance will have a material impact on our consolidated financial statements.

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

##### **Interest rate risk**

Our equipment sales leaseback financing and capital lease transactions carry a fixed interest rate. Thus, as of December 31, 2017 we are not exposed to any market risk due to interest rate fluctuations.

##### **Foreign currency risk**

Although most of our revenues are denominated in U.S. dollars, a significant portion of our revenues are denominated in Canadian dollars, Pound Sterling and Euros. In addition, a significant portion of our expenses, primarily labor expenses in the Philippines, India, Sri Lanka, Germany, Canada and Israel, are incurred in the local currencies of the countries in which we operate. For financial reporting purposes, we translate all non-U.S. denominated transactions into U.S. dollars in accordance with accounting principles generally accepted in the United States. Thus, we are exposed to the risk that fluctuations in the value of these currencies relative to the U.S. dollar could have a direct impact on our revenues and our results of operations.

To mitigate the exposure of fluctuating future cash flows due to changes in foreign exchange rates, we entered into foreign currency forward contracts in 2017. These foreign currency forward contracts were entered into with a maximum term of twelve months and have an aggregate notional amount of approximately \$15.9 million as of December 31, 2017. The total unrealized gain on the outstanding hedges were \$0.3 million as of December 31, 2017.

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. dollar's value relating to the hedged currencies would decrease the forward contracts' fair value by approximately \$1.4 million as of December 31, 2017. Similarly, a 10% depreciation in the U.S. dollar's value relative to the hedged currencies would increase the forward contracts' fair value by approximately \$1.8 million as of December 31, 2017. 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.

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.

Other than the forward contracts mentioned above, we have not in 2017 engaged in any hedging activities or entered into off-balance-sheet transactions or arrangements. As of December 31, 2017, our foreign subsidiaries held cash and cash equivalents totaling approximately \$5.7 million. These assets are exposed to foreign exchange risk arising from changes in foreign exchange rates. At present, we do not enter into any hedging instruments to mitigate foreign exchange risk on such assets; however, we may do so in the future.

**Item 8. Financial Statements and Supplementary Data.**

See Financial Statement Index, Financial Statements and Supplementary Data 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 Principal 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 Principal 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 Principal Financial Officer concluded that, as of December 31, 2017, our disclosure controls and procedures were effective.

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal controls over financial reporting (as such term is defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act) during the last fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our 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 our financial reporting. 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 (2013)* - issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2017.

This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only management's report in this Annual Report on Form 10-K.

**Item 9B. Other information.**

None.

### **PART III**

#### **Item 10. Directors, Executive Officers and Corporate Governance.**

The information called for by Item 10 is incorporated by reference from the Company's definitive proxy statement for the 2018 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Exchange Act no later than 120 days after the end of the Company's 2017 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 of the Company's code of ethics is posted on its website at [www.innodata.com](http://www.innodata.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 reference from the Company's definitive proxy statement for the 2018 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Exchange Act no later than 120 days after the end of the Company's 2017 fiscal year.

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

The information called for by Item 12 is incorporated by reference from the Company's definitive proxy statement for the 2018 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Exchange Act no later than 120 days after the end of the Company's 2017 fiscal year.

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

The information called for by Item 13 is incorporated by reference from the Company's definitive proxy statement for the 2018 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Exchange Act no later than 120 days after the end of the Company's 2017 fiscal year.

#### **Item 14. Principal Accounting Fees and Services.**

The information called for by Item 14 is incorporated by reference from the Company's definitive proxy statement for the 2018 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Exchange Act no later than 120 days after the end of the Company's 2017 fiscal year.

### **PART IV**

#### **Item 15. Exhibits, Financial Statement Schedules.**

- (a)
1. Financial Statements. See Item 8. Index to Financial Statements.
  2. Exhibits – See Exhibit Index attached hereto and incorporated by reference herein.

## 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 INC.

By /s/ Jack Abuhoff  
Jack Abuhoff  
Chairman of the Board,  
Chief Executive Officer and President  
March 22, 2018

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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Jack Abuhoff</u> Jack Abuhoff	Chairman of the Board, Chief Executive Officer and President	March 22, 2018
<u>/s/ Raj Jain</u> Raj Jain	Vice President and Principal Accounting Officer	March 22, 2018
<u>/s/ Haig S. Bagerdjian</u> Haig S. Bagerdjian	Director	March 22, 2018
<u>/s/ Louise C. Forlenza</u> Louise C. Forlenza	Director	March 22, 2018
<u>/s/ Stewart R. Massey</u> Stewart R. Massey	Director	March 22, 2018
<u>/s/ Michael J. Opat</u> Michael J. Opat	Director	March 22, 2018
<u>/s/ Anthea C. Stratigos</u> Anthea C. Stratigos	Director	March 22, 2018
<u>/s/ Andargachew S. Zelleke</u> Andargachew S. Zelleke	Director	March 22, 2018

Item 8. Financial Statements.

INNODATA INC. AND SUBSIDIARIES  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>PAGE</u>
<a href="#">Report of Independent Registered Public Accounting Firm</a>	<a href="#">F-2</a>
<a href="#">Consolidated Balance Sheets as of December 31, 2017 and 2016</a>	<a href="#">F-3</a>
<a href="#">Consolidated Statements of Operations and Comprehensive Loss for the years ended December 31, 2017 and 2016</a>	<a href="#">F-4</a>
<a href="#">Consolidated Statements of Stockholders' Equity for the years ended ended December 31, 2017 and 2016</a>	<a href="#">F-5</a>
<a href="#">Consolidated Statements of Cash Flows for the years ended December 31, 2017 and 2016</a>	<a href="#">F-6</a>
<a href="#">Notes to Consolidated Financial Statements</a>	<a href="#">F-7</a>



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Innodata, Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Innodata, Inc. and Subsidiaries (the Company) as of December 31, 2017 and 2016, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and its results of operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ CohnReznick LLP

We have served as the Company's auditor since 2008.

Roseland, New Jersey  
March 22, 2018

**INNODATA INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2017 AND 2016**  
(in thousands, except share and per share data)

	2017	2016
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 11,407	\$ 14,172
Accounts receivable, net	10,291	9,952
Prepaid expenses and other current assets	3,630	3,124
Total current assets	25,328	27,248
Property and equipment, net	7,189	5,397
Other assets	3,159	2,377
Deferred income taxes	1,757	1,641
Intangibles, net	7,606	8,191
Goodwill	2,832	2,734
<b>Total assets</b>	<b>\$ 47,871</b>	<b>\$ 47,588</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 1,258	\$ 1,018
Accrued expenses	5,571	4,333
Accrued salaries, wages and related benefits	5,539	5,040
Income and other taxes	1,098	1,330
Current portion of long-term obligations	2,133	1,120
Total current liabilities	15,599	12,841
Deferred income taxes	614	680
Long-term obligations, net of current portion	4,477	3,917
<b>Non-controlling interests</b>	<b>(3,938)</b>	<b>(3,634)</b>
<b>Commitments and contingencies</b>	<b>-</b>	<b>-</b>
<b>STOCKHOLDERS' EQUITY:</b>		
Serial preferred stock; 5,000,000 shares authorized, none outstanding	-	-
Common stock, \$.01 par value; 75,000,000 shares authorized; 27,559,000 shares issued and 25,878,000 outstanding at December 31, 2017 and 27,305,000 shares issued and 25,624,000 outstanding at December 31, 2016	275	273
Additional paid-in capital	27,275	26,057
Retained earnings	7,345	12,400
Accumulated other comprehensive income (loss)	846	(324)
	35,741	38,406
Less: treasury stock, 1,681,000 shares at December 31, 2017 and December 31, 2016, at cost	(4,622)	(4,622)
Total stockholders' equity	31,119	33,784
<b>Total liabilities and stockholders' equity</b>	<b>\$ 47,871</b>	<b>\$ 47,588</b>

See notes to consolidated financial statements.

**INNODATA INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**  
(In thousands, except per share amounts)

	<u>2017</u>	<u>2016</u>
<b>Revenues</b>	\$ 60,929	\$ 63,074
<b>Operating costs and expenses:</b>		
Direct operating costs	45,826	47,219
Selling and administrative expenses	20,200	19,539
Change in fair value of contingent consideration	-	1,038
	<u>66,026</u>	<u>67,796</u>
<b>Loss from operations</b>	(5,097)	(4,722)
Interest expense (income), net	(23)	63
<b>Loss before provision for income taxes</b>	(5,074)	(4,785)
Provision for income taxes	285	1,126
<b>Net loss</b>	(5,359)	(5,911)
<b>Loss attributable to non-controlling interests</b>	304	387
<b>Net loss attributable to Innodata Inc. and Subsidiaries</b>	<u>\$ (5,055)</u>	<u>\$ (5,524)</u>
<b>Loss per share attributable to Innodata Inc. and Subsidiaries:</b>		
Basic and diluted	<u>\$ (0.20)</u>	<u>\$ (0.22)</u>
<b>Weighted average shares outstanding:</b>		
Basic and diluted	<u>25,816</u>	<u>25,542</u>
<b>Comprehensive income (loss):</b>		
<b>Net loss</b>	\$ (5,359)	\$ (5,911)
Pension liability adjustment, net of taxes	(196)	(136)
Change in fair value of derivatives, net of taxes	660	(153)
Foreign currency translation adjustment	706	49
Other comprehensive income (loss)	<u>1,170</u>	<u>(240)</u>
Total comprehensive loss	(4,189)	(6,151)
Comprehensive loss attributed to non-controlling interest	304	387
<b>Comprehensive loss attributable to Innodata Inc. and Subsidiaries</b>	<u>\$ (3,885)</u>	<u>\$ (5,764)</u>

See notes to consolidated financial statements.

**INNODATA INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**  
(In thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares	Amount					
<b>January 1, 2016</b>	25,445	\$ 270	\$ 24,590	\$ 17,924	\$ (84)	\$ (4,488)	\$ 38,212
Net loss	-	-	-	(5,524)	-	-	(5,524)
Stock-based compensation	-	-	1,162	-	-	-	1,162
Issuance of common stock in connection with MediaMiser acquisition	236	3	566	-	-	-	569
Acquisition of non-controlling interest	-	-	(261)	-	-	-	(261)
Pension liability adjustments, net of taxes	-	-	-	-	(136)	-	(136)
Foreign currency translation adjustment	-	-	-	-	49	-	49
Change in fair value of derivatives, net of taxes	-	-	-	-	(153)	-	(153)
Purchase of treasury stock	(57)	-	-	-	-	(134)	(134)
<b>December 31, 2016</b>	<u>25,624</u>	<u>273</u>	<u>26,057</u>	<u>12,400</u>	<u>(324)</u>	<u>(4,622)</u>	<u>33,784</u>
Net loss	-	-	-	(5,055)	-	-	(5,055)
Stock-based compensation	-	-	695	-	-	-	695
Issuance of common stock in connection with MediaMiser acquisition	254	2	523	-	-	-	525
Pension liability adjustments, net of taxes	-	-	-	-	(196)	-	(196)
Foreign currency translation adjustment	-	-	-	-	706	-	706
Change in fair value of derivatives, net of taxes	-	-	-	-	660	-	660
<b>December 31, 2017</b>	<u>25,878</u>	<u>\$ 275</u>	<u>\$ 27,275</u>	<u>\$ 7,345</u>	<u>\$ 846</u>	<u>\$ (4,622)</u>	<u>\$ 31,119</u>

See notes to consolidated financial statements.

**INNODATA INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**  
(In thousands)

	<u>2017</u>	<u>2016</u>
<b>Cash flow from operating activities:</b>		
Net loss	\$ (5,359)	\$ (5,911)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,674	3,195
Provision for doubtful accounts	(139)	136
Stock-based compensation	695	1,162
Deferred income taxes	(255)	(159)
Pension cost	245	103
Change in fair value of contingent consideration	-	1,038
Changes in operating assets and liabilities:		
Accounts receivable	(40)	17
Prepaid expenses and other current assets	284	(133)
Other assets	(188)	(395)
Accounts payable and accrued expenses	1,595	(1,749)
Accrued salaries, wages and related benefits	484	84
Income and other taxes	(258)	(123)
Net cash provided by (used in) operating activities	<u>738</u>	<u>(2,735)</u>
<b>Cash flow from investing activities:</b>		
Capital expenditures	(3,410)	(2,740)
Acquisition of business	-	(4,228)
Net cash used in investing activities	<u>(3,410)</u>	<u>(6,968)</u>
<b>Cash flow from financing activities:</b>		
Proceeds from equipment financing	793	-
Payment of long-term obligations	(1,077)	(703)
Purchase of treasury stock	-	(134)
Net cash used in financing activities	<u>(284)</u>	<u>(837)</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<u>191</u>	<u>(196)</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(2,765)</u>	<u>(10,736)</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>14,172</u>	<u>24,908</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 11,407</u>	<u>\$ 14,172</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for income taxes	\$ 1,090	\$ 1,306
Vendor financed software licenses acquired	\$ 1,213	\$ -
Common stock issued for MediaMiser acquisition	\$ 525	\$ 569

See notes to consolidated financial statements.

**INNODATA INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Description of Business and Summary of Significant Accounting Policies**

**Description of Business** - Innodata Inc. and Subsidiaries (the “Company”) is a global digital services and solutions company. Our technology and services power leading information products and online retail destinations around the world. Our solutions help prestigious enterprises harness the power of digital data to re-imagine how they operate and drive performance. We serve publishers, media and information companies, digital retailers, banks, insurance companies, government agencies and many other industries. Founded in 1988, we comprise a team of 4,000 diverse people in eight countries who are dedicated to delivering services and solutions that help the world embrace digital data as a means of enhancing our lives and transforming our businesses.

The Company operates in three reporting segments: Digital Data Solutions (DDS), Innodata Advanced Data Solutions (IADS) and Media Intelligence Solutions (MIS).

The Company’s DDS segment provides solutions to digital retailers, information services companies, publishers and enterprises that have one or more of the following broad business requirements: development of digital content (including e-books); development of new digital information products; and operational support of existing digital information products and systems.

The Company’s IADS segment designs and develops new capabilities to enable clients in the financial services, insurance and healthcare sectors to improve decision-support through digital technologies. IADS operates through two subsidiaries. Synodex offers a range of services for healthcare and insurance companies, and docGenix provides services to financial services institutions. As of December 31, 2017, Innodata owned 91% of Synodex and 94% of docGenix, both limited liability companies.

The Company’s MIS segment operates through our Agility PR Solutions and Bulldog Reporter subsidiaries.

Agility PR Solutions offers full and self-service solutions, consisting of Agility Illuminate, Agility Connect and Agility Capture, that address the entire communications life cycle – from identifying influencers, amplifying messages, monitoring coverage, to measuring impact. Agility PR Solutions, through its Agility Illuminate product, provides media monitoring and analysis solutions and professional services to several Fortune 500 companies and Canadian government institutions, as well as small- and medium-sized businesses. Agility Illuminate enables companies to reduce the time and effort required to extract, analyze and share valuable business intelligence from traditional and online media sources. Agility Connect is a global media contact database and email distribution platform and Agility Capture provides additional self-service media monitoring and analytics capabilities. The solution is offered as software-as-a-service (SaaS).

Bulldog Reporter is a news aggregation service for public relations and corporate communications professionals. Bulldog Reporter publishes a well-known daily e-newsletter, the Daily Dog. Bulldog Reporter also manages a PR industry awards program—the Bulldog Awards—which recognizes PR and communications professionals in categories including corporate social responsibility, media relations, digital and social marketing, not-for-profit activity and overall outstanding PR performance.

**Principles of Consolidation** - The consolidated financial statements include the accounts of Innodata Inc. and its wholly-owned subsidiaries, Agility PR Solutions, a corporation in which the Company owns substantially all of the economic interest, 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 for in accordance with Financial Accounting Standards Board (FASB) non-controlling interest guidance. All significant intercompany transactions and balances have been eliminated in consolidation.

**INNODATA INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Use of Estimates** - In preparing financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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, intangible assets, goodwill, valuation of deferred tax assets, valuation of securities underlying stock-based compensation, litigation accruals, pension benefits, purchase price allocation of the net assets acquired in the acquisition of Agility, valuation of derivative instruments and estimated accruals for various tax exposures.

**Revenue Recognition** - For the DDS segment, revenue is recognized based on the quantity delivered or resources utilized and in the period in which services are performed and delivery has occurred. Revenues for contracts billed on a time-and-materials basis are recognized as services are performed. Revenues under fixed-fee contracts, which are not significant to the overall revenues, are recognized on the percentage of completion method of accounting, as services are performed or milestones are achieved.

For the IADS segment, revenue is recognized primarily based on the quantity delivered and the period in which services are performed and deliverables are made as per contracts. A portion of our IADS segment revenue is derived from licensing our software and providing access to our hosted software platform. Revenue from such services are recognized monthly when access to the service is provided to the end user and there are no significant remaining obligations, persuasive evidence of an arrangement exists, the fees are fixed or determinable and collection is reasonably assured.

The MIS segment derives its revenues primarily from subscription arrangements and provision of enriched media analysis services. Revenue from subscriptions is recognized monthly when access to the service is provided to the end user and there are no significant remaining obligations, persuasive evidence of an arrangement exists, the fees are fixed or determinable and collection is reasonably assured. Revenue from enriched media analysis services is recognized when the services are performed and delivered to the client.

Revenues include reimbursement of out-of-pocket expenses, with the corresponding out-of-pocket expenses included in direct operating costs.

**Foreign Currency Translation** - The functional currency of our production operations located in the Philippines, India, Sri Lanka and Israel is the U.S. dollar. Transactions denominated in the Philippine pesos, Indian and Sri Lankan rupees or Israeli shekels are translated to U.S. dollars at rates which approximate those in effect on the transaction dates. Monetary assets and liabilities denominated in foreign currencies at December 31, 2017 and 2016 were translated at the exchange rate in effect as of those dates. Nonmonetary assets, liabilities, and stockholders' equity were translated at the appropriate historical rates. Included in direct operating costs are exchange losses (gains) resulting from such transactions of approximately \$466,000 and \$486,000 for the years ended December 31, 2017 and 2016, respectively.

The functional currency for our subsidiaries in Germany, United Kingdom and Canada are the Euro, the Pound Sterling and the Canadian dollar, respectively. The financial statements of these subsidiaries are reported in these respective currencies. Financial information is translated from the applicable functional currency to the U.S. dollar (the reporting currency) for inclusion in our consolidated financial statements. Income, expenses and cash flows are translated at weighted average exchange rates prevailing during the fiscal period, and assets and liabilities are translated at fiscal period-end exchange rates. Resulting translation adjustments are included as a component of accumulated other comprehensive income (loss) in stockholders' equity. Foreign exchange transaction gains or losses are included in direct operating costs in the accompanying consolidated statements of operations and comprehensive loss. The amount of foreign currency translation adjustment was (\$687,000) and \$1,393,000 as of December 31, 2017 and 2016, respectively.

**INNODATA INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Derivative Instruments** - The Company has designated its derivatives (foreign currency forward contracts) as a cash flow hedge. Accordingly, the effective portion of the derivative's gain or loss is initially 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.

**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, 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 makes assumptions regarding estimated future cash flows and other factors to determine the fair value of these respective assets. An impairment loss will be recognized only if the carrying value of a long-lived asset is not recoverable, exceeds its fair value, and is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

**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, 2017 and 2016, the estimated fair value 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 determines 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 determines 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 the valuation allowance from period to period are included in the Company's tax provision in the period of change. The Company indefinitely reinvests the foreign earnings in its foreign subsidiaries. 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.



**INNODATA INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

In assessing the realization of deferred tax assets, management considered whether it is more likely than not that all or some portion of the U.S. deferred tax assets will not be realizable. As the expectation of future taxable income resulting from Synodex cannot be predicted with certainty, the Company maintains a valuation allowance against all the U.S. and Canadian deferred tax assets.

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 and comprehensive loss.

**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-based compensation expense related to the Company's various stock option plans was allocated as follows (in thousands):

	<b>Year Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Direct operating costs	\$ 260	\$ 330
Selling and administrative expenses	435	832
Total stock-based compensation	\$ 695	\$ 1,162

**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, 2017 and 2016, 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*: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability.

**Accounts Receivable** - 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 the client's 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. This cannot guarantee that credit loss rates in the future will not be greater than 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.

**INNODATA INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Concentration of Credit Risk** - The Company maintains its cash with highly rated financial institutions, located in the United States and in foreign locations where the Company has its operations. At December 31, 2017, the Company had cash and cash equivalents of \$11.4 million, of which \$5.7 million was held by its foreign subsidiaries with local banks located mainly in Asia and \$5.7 million was held in the United States. 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.

**Loss per Share** - Loss per share is computed using the weighted-average number of common shares outstanding during the year. Diluted 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, the "two class" method of computing loss per share is used.

**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, 2017 and 2016 is deferred revenue amounting to \$1.9 million and \$2.0 million, respectively.

**Recent Accounting Pronouncements** - In May 2014, the FASB issued guidance on revenue from contracts with clients. This update is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. It also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This accounting guidance is effective prospectively for annual reporting periods, and interim periods within those periods, beginning after December 15, 2017 and early adoption is permitted starting from the first quarter of 2017. Companies may use either a full retrospective or a modified retrospective approach to adopt the new standard when it takes effect. The Company will adopt the new standard and related updates effective January 1, 2018 using the modified retrospective method of adoption. The new standard further requires new disclosures about contracts with customers, including the significant judgments the Company has made when applying the guidance. The Company has finalized its analysis and the adoption of this guidance will not have a material impact on its consolidated financial statements and internal controls over financial reporting.

In February 2016, the FASB issued guidance related to leases. This new guidance requires lessees to recognize on the balance sheet a right-of-use asset, representing its right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing, and uncertainty of cash flows arising from leases. The standard requires the use of a modified retrospective transition approach, which includes a number of optional practical expedients that entities may elect to apply. This new guidance is effective for annual periods beginning after December 15, 2018. Early application is permitted. The Company is in the process of evaluating the effect the guidance will have on its existing accounting policies and consolidated financial statements but expects there will be an increase in assets and liabilities on the consolidated balance sheets at adoption due to the recording of right-of-use assets and corresponding lease liabilities, which may be material.

**INNODATA INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

In March 2016, the FASB issued guidance relating to share-based compensation. This new guidance is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The new guidance is effective for annual periods beginning after December 15, 2016. The Company adopted this standard in 2017 and there was no material impact on its consolidated financial statements.

In March 2017, the FASB issued guidance on Compensation - Retirement Benefits relating to improvements in the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. Under existing U.S. GAAP, an entity is required to present all components of net periodic pension cost and net periodic postretirement benefit cost aggregated as a net amount in the income statement, and this net amount may be capitalized as part of an asset where appropriate. The amendments in the guidance require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period, and requires the other components of net periodic pension cost and net periodic postretirement benefit cost to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. Additionally, only the service cost component is eligible for capitalization, when applicable. The amendments in the guidance will be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. The guidance will be effective for the Company for interim and annual periods beginning after December 15, 2017. Early adoption is permitted. The Company does not anticipate that the adoption of this guidance will have a material impact on its consolidated financial statements.

In January 2017, the FASB issued guidance simplifying the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test. Under current guidance, Step 2 of the goodwill impairment test requires entities to calculate the implied fair value of goodwill in the same manner as the amount of goodwill recognized in a business combination by assigning the fair value of a reporting unit to all of the assets and liabilities of the reporting unit. The carrying value in excess of the implied fair value is recognized as goodwill impairment. Under the new standard, goodwill impairment is recognized based on Step 1 of the current guidance, which calculates the carrying value in excess of the reporting unit's fair value. The new standard is effective beginning in January 2020, with early adoption permitted.

In August 2017, the FASB amended the requirements of the Derivatives and Hedging Topic of the Accounting Standards Codification to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The amendments will be effective for the Company for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The Company does not anticipate that the adoption of this guidance will have a material impact on its consolidated financial statements.

**2. Property and equipment**

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

**INNODATA INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

	December 31,	
	2017	2016
Equipment	\$ 13,574	\$ 14,558
Software	7,291	5,685
Furniture and equipment	2,276	2,119
Leasehold improvements	5,342	4,929
Total	28,483	27,291
Less: accumulated depreciation and amortization	(21,294)	(21,894)
	<u>\$ 7,189</u>	<u>\$ 5,397</u>

Depreciation and amortization expense of property and equipment was approximately \$2.5 million and \$2.1 million for the years ended December 31, 2017 and 2016, respectively.

Total assets financed under capital leases for 2017 were \$0.8 million. There were no acquisitions financed under capital leases in 2016.

**3. Acquisitions**

On July 14, 2016, Innodata's MediaMiser subsidiary completed the acquisition of the Agility business from PR Newswire under an asset purchase agreement for cash consideration of \$4.2 million.

The Agility business that was acquired consists of two products – Agility Connect, a global media contact database and email distribution platform and Agility Capture that provides additional self-service media monitoring and analytics capabilities. The acquisition helped the Company's MIS segment foster growth in North America and Europe by bolstering its media intelligence solutions and media databases, improving its media outreach capabilities, and delivering stronger, more data-powered media intelligence to clients. With this acquisition, Agility PR Solutions can now offer self and full-service solutions that address the entire communications life cycle – from identifying influencers, amplifying messages, monitoring coverage, to measuring impact.

The transaction has been accounted for using the acquisition method of accounting. This method requires that assets acquired, and liabilities assumed in a business combination be recognized at their fair values as of the acquisition date. The excess of the purchase price over the net assets acquired was recorded as goodwill.

The Company has obtained third party valuations of certain intangible assets. The following table summarizes (in thousands) the final purchase price allocation for the acquisition:

**INNODATA INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

	<b>Amount</b>
Accounts receivable	\$ 771
Media contact database	3,610
Developed technology	994
Tradenames and trademarks	310
Total identifiable assets acquired	5,685
Accrued salaries, wages and related benefits	63
Deferred revenues	2,560
Income and other taxes	97
Total liabilities assumed	2,720
Net identifiable assets acquired	2,965
Goodwill	1,263
Net assets acquired	\$ 4,228

The estimated fair value of the media contacts database and tradenames and trademarks intangible assets was determined using the “relief from royalty method” under the income approach, which is a valuation technique that provides an estimate of the fair value of an asset based on the cost savings that are available through ownership of the asset by the avoidance of paying royalties to license the use of the asset from another owner. The estimated fair value of the developed technology was determined based on the cost approach, which measures the value by the cost to reconstruct or replace the platform with another of like utility. Some of the more significant assumptions inherent in the development of these asset valuations include the projected revenue associated with the asset, the appropriate discount rate to select in order to measure the risk inherent in each future cash flow stream, the assessment of each asset’s life cycle, as well as other factors. The discount rate used to arrive at the present value of the media contact database and tradenames and trademarks at the acquisition date, was 13.5%. The remaining useful lives of the media contact database, developed technology, and tradenames and trademarks were based on historical product development cycles, the projected rate of technology migration, a market participant’s use of these intangible assets and the pattern of projected economic benefit of these intangible assets.

The amounts assigned to the media contact database, developed technology, tradenames and trademarks are amortized over the estimated useful life of 10 years.

The following unaudited pro forma summary presents consolidated information of the Company as if the business combination had occurred on January 1, 2016 (amounts in thousands, except per share amounts). The pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved had the acquisition been consummated as of that time or that may result in the future.

**INNODATA INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

	<b>December 31,</b>
	<b>2016</b>
<b>Revenues:</b>	
As reported	\$ 63,074
Proforma	\$ 66,574
<b>Net loss attributable to Innodata Inc. and Subsidiaries:</b>	
As reported	\$ (5,524)
Proforma	\$ (5,188)
<b>Basic and diluted net loss per share:</b>	
As reported	\$ (0.22)
Proforma	\$ (0.20)

**4. Goodwill and Intangible Assets**

The changes in the carrying amount of goodwill as of December 31, 2017 and 2016 were as follows (in thousands):

Balance as of January 1, 2016	\$ 1,476
Goodwill recorded in connection with an acquisition	1,263
Foreign currency translation adjustment	(5)
Balance as of December 31, 2016	2,734
Foreign currency translation adjustment	98
Balance as of December 31, 2017	\$ 2,832

The goodwill recorded in connection with the acquisition is not deductible for tax purposes.

Information regarding our acquisition-related intangible assets is as follows (in thousands):

	<b>Developed technology</b>	<b>Customer relationships</b>	<b>Trademarks and tradenames</b>	<b>Patents</b>	<b>Media Contact Database</b>	<b>Total</b>
<b>Gross carrying amounts:</b>						
Balance as of January 1, 2016	\$ 1,978	\$ 2,036	\$ 555	\$ 41	\$ -	\$ 4,610
Additions	994	-	310	-	3,610	4,914
Foreign currency translation	47	76	-	2	(100)	25
Balance as of December 31, 2016	3,019	2,112	865	43	3,510	9,549
Foreign currency translation	185	152	19	3	137	496
Balance as of December 31, 2017	\$ 3,204	\$ 2,264	\$ 884	\$ 46	\$ 3,647	\$ 10,045

**INNODATA INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

	Developed technology	Customer relationships	Trademarks and tradenames	Patents	Media Contact Database	Total
Accumulated amortization:						
Balance as of January 1, 2016	\$ 280	\$ 240	\$ 98	\$ 5	\$ -	\$ 623
Amortization expense	257	178	105	4	181	725
Foreign currency translation	8	7	-	1	(6)	10
Balance as of December 31, 2016	545	425	203	10	175	1,358
Amortization expense	312	182	121	4	361	980
Foreign currency translation	45	38	6	1	11	101
Balance as of December 31, 2017	\$ 902	\$ 645	\$ 330	\$ 15	\$ 547	\$ 2,439

Amortization expense relating to acquisition-related intangible assets was \$1.0 million and \$0.7 million for the years ended December 31, 2017 and 2016, respectively.

Estimated annual amortization expense for intangible assets subsequent to December 31, 2017 is as follows (in thousands):

Year	Amortization
2018	\$ 1,000
2019	1,000
2020	935
2021	935
2022	935
Thereafter	2,801
	\$ 7,606

**5. Taxes**

In December 2017, the President signed the U.S. Tax Cuts and Jobs Act (2017 Tax Act), which includes a broad range of provisions, many of which significantly differ from those contained in previous U.S. tax law. Changes in tax law are accounted for in the period of enactment. As such, the 2017 consolidated financial statements reflect the immediate tax effect of the 2017 Tax Act, which was enacted on December 22, 2017 (Enactment Date). The 2017 Tax Act contains several key provisions including, among other things:

- A one-time tax on the mandatory deemed repatriation of post-1986 untaxed foreign earnings and profits (E&P), referred to as the toll charge;
- A reduction in the maximum Corporate tax rate from 35% to 21% for tax years beginning after December 31, 2017;
- An introduction of a new U.S. tax on certain off-shore earnings referred to as Global Intangible Low-Taxed Income (GILTI) at an effective tax rate of 10.5% for tax years beginning after December 31, 2017 (increasing to 13.125% for tax years beginning after December 31, 2025) with a partial offset by applicable foreign tax credits; and

**INNODATA INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

- A introduction of a quasi-territorial tax system for tax years beginning after December 31, 2017 by providing dividends received deduction under the participation exemption system.

The Company continues to evaluate the impacts of the 2017 Tax Act. The Company is evaluating the GILTI provisions of the 2017 Tax Act and its impact, if any, on the consolidated financial statements as of December 31, 2017. The FASB allows companies to adopt an accounting policy to either recognize deferred taxes for GILTI or treat such as a tax cost in the year incurred. The Company has not yet determined the accounting policy and as such did not record a deferred income tax expense or benefit related to the GILTI provisions in the consolidated statement of operations for the year ended December 31, 2017 and will finalize this during the measurement period.

Pursuant to the 2017 Tax Act, the Company recorded the following adjustments to income tax expense during the fourth quarter of 2017:

- A one-time deemed repatriation of E&P amounting to \$6.4 million. No toll tax liability was recorded due to the available net operating loss carryforwards. This resulted in a reduction of deferred tax assets and a corresponding reduction in the valuation allowance of \$2.2 million; and
- A reduction of deferred tax assets and a corresponding reduction of the valuation allowance of \$4.8 million, primarily for the remeasurement of our deferred tax assets at the enacted tax rate of 21%. An income tax benefit of \$0.1 million, primarily for the remeasurement of our deferred tax liabilities at the enacted tax rate of 21%.

Due to the complexities involved in accounting for the enactment of the 2017 Tax Act, SEC Staff Accounting Bulletin 118 (SAB 118) allows companies to record provisional estimates of the impacts of the 2017 Tax Act during a measurement period which is similar to the measurement period of up to one year from the enactment which is similar to the measurement period used when accounting for business combinations. The Company will continue to assess the impact of the recently enacted tax law on its consolidated financial statements.

The significant components of the provision for income taxes for each of the two years in the period ended December 31, 2017 are as follows (in thousands):

	2017	2016
Current income tax expense:		
Foreign	\$ 594	\$ 1,301
Federal	176	-
State and local	5	1
	<u>775</u>	<u>1,302</u>
Deferred income tax expense (benefit):		
Foreign	(97)	(176)
Federal	(393)	-
	<u>(490)</u>	<u>(176)</u>
Provision for income taxes	<u>\$ 285</u>	<u>\$ 1,126</u>



**INNODATA INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The reconciliation of the U.S. statutory rate with the Company's effective tax rate for each of the two years in the period ended December 31, 2017 is summarized as follows:

	<u>2017</u>	<u>2016</u>
Federal statutory rate	(34.0)%	(34.0)%
Effect of:		
State income taxes (net of federal tax benefit)	(0.5)	(2.7)
Taxes on foreign income at rates that differ from U.S. statutory rate	28.0	17.3
Change in valuation allowance on deferred tax assets	(90.1)	(34.5)
2017 Tax Act	136.9	-
Deemed dividend under Section 956 of the Internal Revenue Code	(35.4)	75.9
Increase (decrease) in unrecognized tax benefits	0.7	1.6
Other	-	0.1
Effective tax rate	<u>5.6%</u>	<u>23.7%</u>

Deferred tax assets and liabilities are classified as non-current. Significant components of the Company's deferred tax assets and liabilities as of December 31, 2017 and 2016 are as follows (in thousands):

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
<b>Deferred income tax assets:</b>		
Allowances not currently deductible	\$ 226	\$ 546
Depreciation and amortization	1,222	1,654
Equity compensation not currently deductible	853	1,836
Net operating loss carryforwards	4,542	6,718
Expenses not deductible until paid	1,142	1,079
Tax credit carryforwards	-	176
Other	297	188
Total gross deferred income tax assets before valuation allowance	<u>8,282</u>	<u>12,197</u>
Valuation allowance	(6,525)	(10,556)
Deferred income tax assets, net	<u>1,757</u>	<u>1,641</u>
<b>Deferred income tax liabilities:</b>		
Acquisition of MediaMiser	(446)	(471)
Other	(168)	(209)
Total deferred income tax liabilities	<u>(614)</u>	<u>(680)</u>
Net deferred income tax assets	<u>\$ 1,143</u>	<u>\$ 961</u>

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. As of December 31, 2017, the Company continues to maintain a valuation allowance on all U.S. and Canadian deferred tax assets.

**INNODATA INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

A significant portion of the Company's operations are conducted outside the United States. As a result of the 2017 Tax Act, the toll charge amounted to \$6.4 million. The charge was offset by the available net operating loss carryforwards. Despite the access to the overseas earnings and the resulting toll charge, the Company intends to indefinitely reinvest the foreign earnings in its foreign subsidiaries on account of the withholding tax that the Company would have to incur on the actual remittances. Unremitted earnings of foreign subsidiaries amounted to approximately \$24.8 million at December 31, 2017. If such earnings are repatriated in the future, or are no longer deemed to be indefinitely reinvested, the Company would have to accrue the applicable amount of withholding taxes associated with such remittances.

The 2017 Tax Act imposes a mandatory transition tax on accumulated foreign earnings and eliminates U.S. taxes on foreign subsidiary distribution. Due to the one-time transition tax on the deemed repatriation of post-1986 undistributed foreign subsidiary earnings and profits, all previously unremitted earnings for which no U.S. deferred tax liability had been accrued have now been subjected to U.S. federal income tax. As a result, earnings in foreign jurisdictions are available for distribution to the U.S. without incremental U.S. taxes. To the extent the Company repatriates these earnings to the United States, it estimates that it will not incur significant additional taxes related to such amounts, however the estimates are provisional and subject to further analysis.

In 2017 the U.S. entity deferred \$5.2 million in payments due to its Asian operating subsidiaries, which resulted in a deemed dividend that is taxable income for U.S. tax purposes under Section 956 of the Internal Revenue Code. The taxable income was offset against the net operating loss carryforwards of the U.S. entity.

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

	<u>2017</u>	<u>2016</u>
United States	\$ (2,243)	\$ (5,401)
Foreign	(2,831)	616
<b>Total</b>	<b>\$ (5,074)</b>	<b>\$ (4,785)</b>

Certain of the Company's foreign subsidiaries are subject to preferential tax rates. In addition, one of the foreign subsidiaries enjoys a 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 \$0.2 million for both 2017 and 2016.

The Company's Canadian subsidiaries claims deductions of eligible research and development expenses within the Scientific Research and Experimental Development (SR&ED) Program, a federal tax incentive program, administered by the Canada Revenue Agency. Amounts recorded for the federal and provincial research and development tax credits aggregated \$0.1 million and \$0.2 million for the years ended December 31, 2017 and 2016, respectively. Such amounts have been recorded as a reduction in selling and administrative expenses.

At December 31, 2017, the Company has available U.S. federal and New Jersey state net operating loss carryforwards of approximately \$15.5 million and \$16.9 million, respectively. These net operating loss carryforwards expire at various times through the year 2035. Stock option exercises resulted in tax deductions in excess of previously recorded benefits based on the option value at the time of grant (a "windfall"). The Company adopted the provisions of ASU 2016-9 whereby these benefits were reflected in the net operating losses and resulting deferred tax assets in 2016. Windfalls included in net operating losses were approximately \$5.2 million.

**INNODATA INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

At December 31, 2017, the Company's Canadian subsidiaries have available net operating loss carryforwards of approximately \$8.2 million in Canada which begin to expire in 2028. In addition, these subsidiaries also have research and development expenditures of approximately \$1.8 million available to reduce taxable income in future years which may be carried forward indefinitely. The potential benefits from these balances have not been recognized for financial statement purposes.

The Company had unrecognized tax benefits of \$0.9 million and \$1.2 million as of December 31, 2017 and 2016. The portion of unrecognized tax benefits relating to interest and penalties was \$0.4 million and \$0.5 million as of December 31, 2017 and 2016, respectively. The unrecognized tax benefits as of December 31, 2017 and 2016, if recognized, would have an impact on the Company's effective tax rate.

The following table represents a roll forward of the Company's unrecognized tax benefits and associated interest for the years ended (amounts in thousands):

	December 31,	
	2017	2016
Balance at January 1	\$ 1,184	\$ 1,207
Increase for tax position	-	40
Decrease for tax position on account of settlement	(402)	(108)
Interest accrual	44	51
Foreign currency revaluation	85	(6)
Balance at December 31	<u>\$ 911</u>	<u>\$ 1,184</u>

The Company is subject to Federal income tax, as well as income tax in various states and foreign jurisdictions. The Company is no longer subject to examination by Federal tax authorities for years prior to 2006 and by New Jersey tax authorities for years prior to 2012. Various foreign subsidiaries currently have open tax years from 2003 through 2017.

Pursuant to an income tax audit by the Indian Bureau of Taxation in 2009, the Company's Indian subsidiary received a tax assessment approximating \$356,000 including interest, through December 31, 2017 for the fiscal year ended March 31, 2006. Management disagrees with the basis of this tax assessment, has filed an appeal against the assessment and is contesting it vigorously. In January 2012, the Indian subsidiary received a final tax assessment of approximately \$1.0 million, including interest, 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 it. Due to this assessment, the Company recorded a tax provision amounting to \$371,000 including interest through December 31, 2017. In April 2015, the Company received a favorable judgment whereby the Appeal Officer reduced the tax assessment to \$0.3 million. Under the Indian Income Tax Act, however, the income tax assessing officer has the right to appeal against the judgment passed by the Appeal Officer. In the third quarter of 2015, the income tax assessing officer exercised this right and filed an appeal. Based on recent experience, management believes that the tax provision of \$371,000 including interest is adequate.

In 2015, the Company's Indian subsidiary was subject to an inquiry by the Service Tax Bureau in India regarding the classification of services provided by this subsidiary, asserting that the services provided by this subsidiary fall under the category of online information and database access or retrieval services (OID Services), and not under the category of business support services (BS Services) that are exempt from service tax as historically indicated in the subsidiary's service tax filings. In the event the Service Tax Bureau is successful in proving that the services fall under the category of OID Services the revenues earned by the Company's Indian subsidiary would be subject to a service tax of approximately 14.5% of the subsidiary's revenues and this would increase the operating costs of the Company by an equivalent amount. The revenues of the Company's Indian subsidiary for the year ended December 31, 2017 were \$15.6 million. The Company disagrees with the Service Tax Bureau's position and is vigorously contesting these assertions.

**INNODATA INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The Company established a valuation allowance of approximately \$6.5 million and \$10.6 million at December 31, 2017 and 2016, respectively. The valuation allowance relates to U.S. deferred tax assets and the Company's Canadian subsidiaries. The net change in the total valuation allowance was a decrease of \$4.1 million for the years ended December 31, 2017 compared to an increase of \$0.7 million in December 31, 2016. The decrease in the valuation allowance in 2017 is primarily the result of the 2017 Tax Act. The adoption of the provisions of ASU 2016-9 resulted in a \$1.8 million increase in the valuation allowance in 2016.

The Company from time to time is also subject to various other tax proceedings and claims for its Philippines subsidiaries. The Company has recorded a tax provision amounting to \$184,000 including interest through December 31, 2017, for several ongoing tax proceedings in the Philippines. Although the ultimate outcome cannot be determined at this time, the Company continues to contest these claims vigorously.

**6. Long-term obligations**

Total long-term obligations as of December 31, 2017 and 2016 consist of the following (in thousands):

	December 31,	
	2017	2016
Capital lease obligations	\$ 829	\$ 224
Deferred lease payments <sup>(1)</sup>	731	705
Microsoft licenses <sup>(2)</sup>	751	-
Acquisition related liability <sup>(3)</sup>	800	1,492
Lease incentive liability <sup>(4)</sup>	664	-
Pension obligations - accrued pension liability	2,835	2,616
	6,610	5,037
Less: Current portion of long-term obligations	2,133	1,120
<b>Totals</b>	<b>\$ 4,477</b>	<b>\$ 3,917</b>

<sup>(1)</sup> Deferred lease payments represent the effect of straight-lining operating lease payments over the respective lease terms.

<sup>(2)</sup> In March 2017, 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 2020. Pursuant to this agreement, the Company is obligated to pay approximately \$0.4 million annually over the term of the agreement. The total cost, net of deferred interest (in thousands), was allocated to the following asset accounts in 2017:

Prepaid expenses and other current assets	\$ 404
Other assets	809
	<b>\$ 1,213</b>

<sup>(3)</sup> On September 30, 2016 the Company and the other parties to the transaction in which the Company acquired MediaMiser amended the terms on which a subsidiary of the Company is required to make a supplemental purchase price payment for MediaMiser. Prior to the amendment, the amount of the supplemental purchase price payment was to be determined by the achievement of certain financial thresholds and was in no event to exceed \$3.8 million (C\$5 million). The amendment fixed the amount of the supplemental purchase price payment at \$1.5 million (C\$2 million) payable in two equal installments on March 31, 2017 and 2018 to designated recipients, except that no payments will be made to designated recipients who fail to satisfy specified conditions. The Company has the option to pay up to 70% of the supplemental amount in shares of Innodata Inc. stock. In March 2017, the Company paid 70% of the first installment by issuing 253,622 shares of Innodata Inc.'s common stock and paid 30% of the first installment in cash in April 2017.

**INNODATA INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(4) In the second quarter of 2017, the Company moved both its U.S. and Canadian headquarters to new premises. As an incentive for the Company to lease in their respective office spaces, the lessors for each of the properties offered to partially defray the construction cost by offering a tenant improvement allowance. Under the terms of the lease contracts the Company is liable to refund any unamortized portion of this allowance should it decide to terminate the lease before the expiry of the specified lock-in period. This amount will be amortized based on the contractual liability and recognized as a reduction in rent expense for the period covered.

**7. Commitments and contingencies**

**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 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 subject to a notice period, and generally subject to forfeiture of the security deposit. Rent expense, principally for office and production space totaled approximately \$2.7 million for each of the years ended December 31, 2017 and 2016.

Future minimum lease payments under non-cancelable leases, by year and in the aggregate, as of December 31, 2017 (in thousands) are as follows:

<b>Years Ending December 31,</b>	
2018	\$ 687
2019	500
2020	464
2021	478
2022	242
Thereafter	884
<b>Total minimum lease payments</b>	<b>\$ 3,255</b>

**Litigation** – In 2008, a judgment was rendered in the Philippines against a Philippines subsidiary of the Company that is no longer active and purportedly also against Innodata Inc., in favor of certain former employees of the Philippines subsidiary. The payment amount as recalculated in November 2017 by the Philippines Department of Labor and Employment National Labor Relations Commission aggregates approximately \$6.2 million, plus legal interest that accrued at 12% per annum from August 13, 2008 to June 30, 2013, and thereafter accrued and continues to accrue at 6% per annum. The payment amount as expressed in U.S. dollars varies with the Philippine peso to U.S. dollar exchange rate. In December 2017 a group of 97 of the former employees indicated that they proposed to record the judgment as to them in New Jersey. In January 2018, in response to an action initiated by Innodata Inc., the United States District Court for the District of New Jersey entered a preliminary injunction that enjoins these former employees from pursuing or seeking recognition or enforcement of the judgment against Innodata Inc. in the United States during the pendency of the action and until further order of the Court.

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

**INNODATA INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

While management currently believes that the ultimate outcome of these proceedings will not have a material adverse effect on the Company's consolidated financial position or overall trends in consolidated results of operations, litigation is subject to inherent uncertainties. Substantial recovery against the Company in the above-referenced Philippines action 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 consolidated operating results of the period in which the ruling or recovery occurs. In addition, the Company's estimate of potential impact on the Company's consolidated financial position or overall consolidated results of operations for the above referenced legal proceedings could change in the future.

The Company's legal reserves related to legal proceedings and claims are based on a determination of whether or not a loss is probable. The Company reviews outstanding proceedings and claims with external counsel to assess probability and estimates of loss. The reserves are adjusted if necessary. While the Company intends to defend these matters vigorously, adverse outcomes that it estimates could reach approximately \$100,000 in the aggregate beyond recorded amounts are reasonably possible. If circumstances change, the Company may be required to record adjustments that could be material to its reported consolidated financial condition and results of operations.

**Foreign Currency** - To the extent that the currencies of the Company's production facilities located in the Philippines, India, Sri Lanka and Israel fluctuate, the Company is subject to risks of changing costs of production after pricing is established for certain client projects. In addition, the Company is exposed to the risk on foreign currency fluctuation on the non-U.S. dollar denominated revenues, and on the monetary assets and liabilities held by its foreign subsidiaries that are denominated in local currency.

**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, 2017, the Company has not recorded a liability for any obligations arising as a result of these indemnifications.

**8. 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 participants' contributions. The Company intends to match approximately \$0.1 million to the plan for the year ended December 31, 2017. For the year ended December 31, 2017, the Company did not make any matching contributions.

**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 loss 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, 2017, these plans are unfunded. Pension expense for foreign subsidiaries totaled approximately \$0.2 million and \$0.3 for the years ended December 31, 2017 and 2016, respectively.

**INNODATA INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

	<b>Years Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Amortization of transition obligation	\$ 38	\$ 43
Actuarial loss	(226)	(179)
Totals	<u>\$ (188)</u>	<u>\$ (136)</u>

**Amounts in accumulated other comprehensive loss not yet reflected in net periodic pension cost, net of taxes:**

Actuarial gain	\$ 1,331	\$ 1,557
Transition obligation	(132)	(170)
Totals	<u>\$ 1,199</u>	<u>\$ 1,387</u>

**Amounts in accumulated other comprehensive loss expected to be amortized in 2018 net periodic pension cost, net of taxes:**

Actuarial gain	\$ (157)
Transition obligation	38
Totals	<u>\$ (119)</u>

The following table sets out the status of the non-U.S. pension benefits and the amounts (in thousands) recognized in the Company's consolidated financial statements as of and for each of the two years in the period ended December 31, 2017:

**Benefit Obligations:**

	<b>2017</b>	<b>2016</b>
Projected benefit obligation at beginning of the year	\$ 2,896	\$ 2,840
Service cost	333	368
Interest cost	187	170
Curtailement	(69)	-
Actuarial gain	(107)	(197)
Foreign currency exchange rates changes	51	(142)
Benefits paid	(170)	(143)
Projected benefit obligation at end of the year	<u>\$ 3,121</u>	<u>\$ 2,896</u>

**INNODATA INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Components of Net Periodic Pension Cost:**

	<u>2017</u>	<u>2016</u>
Service cost	\$ 333	\$ 368
Interest cost	187	170
Curtailement	(69)	-
Actuarial gain recognized	(249)	(315)
Net periodic pension cost	<u>\$ 202</u>	<u>\$ 223</u>

The accumulated benefit obligation, which represents benefits earned to date, was approximately \$2.0 million and \$1.5 million as of December 31, 2017 and 2016, 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 two years in the period ended December 31, 2017 are as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	5.78%-10.6%	5.4%-12.5%
Rate of increase in compensation level	5%-7%	5%-8.5%

**Estimated Future Benefit Payments:**

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

<u>Years Ending December 31,</u>	
2018	\$ 360
2019	221
2020	577
2021	142
2022	151
2023 to 2027	1,749
	<u>\$ 3,200</u>

**9. 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.



**INNODATA INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Stockholders Rights Agreement** - On January 14, 2016, the Board of Directors declared a dividend of one preferred share purchase right (each, a "Right," and collectively, the "Rights") for each outstanding share of the Company's common stock on February 1, 2016. The description and terms of the Rights are set forth in a Rights Agreement between the Company and American Stock Transfer & Trust Co., as rights agent, dated as of January 14, 2016 (the "Rights Agreement"). Each Right entitles its holder to purchase, under certain conditions, one one-thousandth of a share of Series C Participating Preferred Stock ("Preferred Stock"). Each one one-thousandth of a share of Preferred Stock has substantially the same rights as one share of the Company's common stock. Subject to the terms and conditions of the Rights Agreement, Rights become exercisable ten days after the public announcement that a "Person" has become an "Acquiring Person" (as each such term is defined in the Rights Agreement) by obtaining beneficial ownership of 20% or more of the Company's outstanding common stock, or, if earlier, ten business days (or a later date determined by the Board of Directors before any Person becomes an Acquiring Person) after a Person begins a tender or exchange offer which, if completed, would result in that Person becoming an Acquiring Person. Any Rights held by an Acquiring Person are void and may not be exercised.

If a Person becomes an Acquiring Person, all holders of Rights, except the Acquiring Person, may purchase at the Right's then-current exercise price, the Company's common stock having a market value equal to twice the exercise price. Moreover, at any time after a Person becomes an Acquiring Person (unless such Person acquires 50 percent or more of the common stock of the Company then outstanding, as more fully described in the Rights Agreement), the Board of Directors may exchange one share of the Company's common stock for each outstanding Right (other than rights owned by such Person, which would have become void). In addition, if the Company is acquired in a merger or other business combination transaction after a Person becomes an Acquiring Person, all holders of Rights, except the Acquiring Person, may purchase at the Right's then-current exercise price, a number of the acquiring Company's common stock having a market value of twice the exercise price. If the Company receives a "qualifying offer" (which includes certain all-cash fully financed tender offers or exchange offers for all of the Company's outstanding common stock), under certain circumstances, holders of 10 percent of the Company's outstanding common stock (excluding stock held by the offeror and its affiliates and associates) may direct the Board of Directors to call a special meeting of stockholders to consider a resolution exempting such "qualifying offer" from the Rights Agreement. The Rights themselves have no voting power. The Board of Directors may redeem the Rights at an initial redemption price of \$0.001 per Right under certain circumstances set forth in the Rights Agreement.

The Rights Agreement was approved by the Company's stockholders at the 2016 annual meeting. The Rights will expire on January 13, 2019 unless earlier redeemed or exchanged.

**Common Stock Reserved** - As of December 31, 2017, the Company had reserved for issuance approximately 6,143,000 shares of common stock pursuant to the Company's stock option plans.

**Treasury Stock** - In September 2011, the Company's Board of Directors authorized the repurchase of up to \$2.0 million of its common stock in open market or private transactions. There is no expiration date associated with the program. There were no share repurchases in 2017. As of December 31, 2017, the Company repurchased 137,000 shares of its common stock under the September 2011 authorization.

## **10. Stock Options**

On June 7, 2016 stockholders of the Company approved amendments to the Innodata Inc. 2013 Stock Plan. The Innodata Inc. 2013 Stock Plan as amended and restated effective June 7, 2016 is referred to herein as the "Plan." The number of shares of common stock of Innodata Inc. ("Stock") that may be delivered, purchased or used for reference purposes (with respect to stock appreciation rights or stock units) for awards granted under the Plan after June 7, 2016 is 5,858,892 (the "Share Reserve"). Shares subject to an option or stock appreciation right granted under the Plan after June 7, 2016 shall count against the Share Reserve as one share for every share granted, and shares subject to any other type of award granted under the Plan after June 7, 2016 shall count against the Share Reserve as two shares for every share granted. Any award, or portion of an award, under the Plan or under the 2009 Stock Plan (as amended and restated (the "Prior Plan")) that expires or terminates unexercised, becomes unexercisable or is forfeited or otherwise terminated, surrendered or canceled as to any shares without delivery of shares or other consideration shall be added back to the Share Reserve as one share for each such share that was subject to an option or stock appreciation right granted under the Plan or the Prior Plan, and two shares for each such share that was subject to an award other than an option or stock appreciation right granted under the Plan or the Prior Plan. If any shares are withheld, tendered or exchanged by a participant in the Plan as full or partial payment to Innodata of the exercise price under an option under the Plan or the Prior Plan or in satisfaction of a participant's tax withholding obligations with respect to any award under the Plan or the Prior Plan, there shall be added back to the Share Reserve one share for each such share that was withheld, tendered or exchanged in respect of an option or stock appreciation right granted under the Plan or the Prior Plan, and two shares for each such share that was withheld, tendered or exchanged in respect of an award other than an option or stock appreciation right granted under the Plan or the Prior Plan.

**INNODATA INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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:

	<b>For the Years Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Weighted average fair value of options granted	\$ 0.73	\$ 1.11
Risk-free interest rate	1.91%	1.26%-1.93%
Expected life (years)	6	5-6
Expected volatility factor	49.62%	47%-49%
Expected dividends	None	None

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 is based on historical volatility of the Company's common stock. The 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, 2017, and changes during the year then ended, is presented below:

	<b>Number of Options</b>	<b>Weighted - Average Exercise Price</b>	<b>Weighted-Average Remaining Contractual Term (years)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at January 1, 2017	5,169,169	\$ 2.88		
Granted	40,000	1.50		
Exercised	-	-		
Forfeited/Expired	(967,370)	3.08		
Outstanding at December 31, 2017	<u>4,241,799</u>	<u>\$ 2.82</u>	<u>4.80</u>	<u>\$ -</u>
Exercisable at December 31, 2017	<u>3,567,136</u>	<u>\$ 2.89</u>	<u>4.08</u>	<u>\$ -</u>
Vested and Expected to Vest at December 31, 2017	<u>4,241,799</u>	<u>\$ 2.82</u>	<u>4.80</u>	<u>\$ -</u>

The total compensation cost related to non-vested stock options not yet recognized as of December 31, 2017 totaled approximately \$0.8 million. The weighted-average period over which these costs will be recognized is eighteen months.

**INNODATA INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

There were no option exercises during the years ended December 31, 2017 and 2016.

**11. Comprehensive income (loss)**

Accumulated other comprehensive income (loss), as reflected in the consolidated balance sheets, consists of pension liability adjustments, net of taxes, foreign currency translation adjustment and changes in fair value of derivatives, net of taxes. The components of accumulated other comprehensive income (loss) as of December 31, 2017 and 2016, and reclassifications out of other comprehensive income (loss) for the years then ended, are presented below (in thousands):

	Pension Liability Adjustment	Fair Value of Derivatives	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2017	\$ 1,387	\$ (318)	\$ (1,393)	\$ (324)
Other comprehensive income before reclassifications, net of taxes	-	574	706	1,280
Total other comprehensive income (loss) before reclassifications, net of taxes	1,387	256	(687)	956
Net amount reclassified to earnings	(196)	86	-	(110)
Balance at December 31, 2017	<u>\$ 1,191</u>	<u>\$ 342</u>	<u>\$ (687)</u>	<u>\$ 846</u>

	Pension Liability Adjustment	Fair Value of Derivatives	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2016	\$ 1,523	\$ (165)	\$ (1,442)	\$ (84)
Other comprehensive income (loss) before reclassifications, net of taxes	-	(90)	49	(41)
Total other comprehensive income (loss) before reclassifications, net of taxes	1,523	(255)	(1,393)	(125)
Net amount reclassified to earnings	(136)	(63)	-	(199)
Balance at December 31, 2016	<u>\$ 1,387</u>	<u>\$ (318)</u>	<u>\$ (1,393)</u>	<u>\$ (324)</u>

All reclassifications out of accumulated other comprehensive income (loss) had an impact on direct operating costs in the consolidated statements of operations and comprehensive loss.

**12. Segment reporting and concentrations**

The Company's operations are classified into three reportable segments: Digital Data Solutions (DDS), Innodata Advanced Data Solutions (IADS) and Media Intelligence Solutions (MIS).

The DDS segment provides solutions to digital retailers, information services companies, publishers and enterprises that have one or more of the following broad business requirements: development of digital content (including e-books); development of new digital information products; and operational support of existing digital information products and systems.

The IADS segment performs 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 services to financial services institutions.

The Company's MIS segment operates through its Agility PR Solutions and Bulldog Reporter subsidiaries. Agility PR Solutions offers self and full-service solutions that address the entire communications life cycle – from identifying influencers, amplifying messages, monitoring coverage, to measuring impact.

**INNODATA INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

A significant portion of the Company's revenues is generated from its production facilities in the Philippines, India, Sri Lanka, Canada, Germany, the United Kingdom and Israel.

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

	<b>For the Years Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Revenues:</b>		
DDS	\$ 46,753	\$ 50,639
IADS	4,751	4,347
MIS	9,425	8,088
Total Consolidated	<u>\$ 60,929</u>	<u>\$ 63,074</u>
<b>Income (loss) before provision for income taxes <sup>(1)</sup>:</b>		
DDS	\$ 1,327	\$ 1,137
IADS	(3,588)	(4,664)
MIS	(2,813)	(1,258)
Total Consolidated	<u>\$ (5,074)</u>	<u>\$ (4,785)</u>
<b>Loss before provision for income taxes <sup>(2)</sup>:</b>		
DDS	\$ (1,729)	\$ (1,776)
IADS	(596)	(1,778)
MIS	(2,749)	(1,231)
Total Consolidated	<u>\$ (5,074)</u>	<u>\$ (4,785)</u>
	<b>December 31, 2017</b>	<b>December 31, 2016</b>
<b>Total assets:</b>		
DDS	\$ 25,520	\$ 24,432
IADS	1,331	1,282
MIS	21,020	21,874
Total Consolidated	<u>\$ 47,871</u>	<u>\$ 47,588</u>
	<b>December 31, 2017</b>	<b>December 31, 2016</b>
<b>Goodwill:</b>		
DDS	\$ 675	\$ 675
MIS	2,157	2,059
Total Consolidated	<u>\$ 2,832</u>	<u>\$ 2,734</u>

<sup>(1)</sup> Before elimination of any inter-segment profits

<sup>(2)</sup> After elimination of any inter-segment profits

**INNODATA INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Long-lived assets as of December 31, 2017 and 2016 by geographic region are comprised of:

	<u>2017</u>	<u>2016</u>
	(in thousands)	
United States	\$ 5,321	\$ 4,669
Foreign countries:		
Canada	6,888	5,085
United Kingdom	2,388	2,376
Philippines	1,446	1,940
India	1,042	1,520
Sri Lanka	504	683
Israel	36	47
Germany	2	2
Total foreign	<u>12,306</u>	<u>11,653</u>
Total	<u>\$ 17,627</u>	<u>\$ 16,322</u>

Two clients in the DDS segment generated approximately 30% and 31% of the Company's total revenues in the fiscal years ended December 31, 2017 and 2016, respectively. No other client accounted for 10% or more of total revenues during these periods. Further, in the years ended December 31, 2017 and 2016, revenues from non-US clients accounted for 51% and 49%, respectively, of the Company's revenues.

Revenues for each of the two years in the period ended December 31, 2017 by geographic region (determined based upon client's domicile), are as follows:

	<u>2017</u>	<u>2016</u>
	(in thousands)	
United States	\$ 30,135	\$ 32,070
United Kingdom	10,514	8,271
Others - principally Europe	7,773	7,555
The Netherlands	6,871	9,216
Canada	5,636	5,962
Total	<u>\$ 60,929</u>	<u>\$ 63,074</u>

As of December 31, 2017, approximately 61% of the Company's accounts receivable was from foreign (principally European) clients and 51% of accounts receivable was due from three clients. As of December 31, 2016, approximately 73% of the Company's accounts receivable was from foreign (principally European) clients and 52% of accounts receivable was due from three clients. No other client accounts for 10% or more of the receivables as of December 31, 2017.

**INNODATA INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**13. Loss per Share**

	<b>For the Years Ended</b>	
	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(in thousands)</b>	
Net loss attributable to Innodata Inc. and Subsidiaries	\$ (5,055)	\$ (5,524)
Weighted average common shares outstanding	25,816	25,542
Dilutive effect of outstanding options	-	-
Adjusted for dilutive computation	<u>25,816</u>	<u>25,542</u>

Basic loss per share is computed using the weighted-average number of common shares outstanding during the year. Diluted 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, the two-class method of computing income (loss) per share is used.

Options to purchase 4.2 million and 5.2 million shares of common stock in 2017 and 2016, respectively, were outstanding but not included in the computation of diluted loss per share because the options' exercise price was greater than the average market price of the common shares and therefore, the effect would have been antidilutive.

**14. Derivatives**

The Company conducts 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 to generate that revenue are incurred in another currency. The Company's primary exchange rate exposure relates to payroll, other payroll costs and operating expenses in the Philippines, India, Sri Lanka and Israel.

In addition, although most of the Company's revenues are denominated in U.S. dollars, a significant portion of the total revenues is denominated in Canadian dollars, Pound Sterling and Euros.

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 twelve 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 classified based on the instrument's maturity date. The total notional amount for outstanding derivatives as of December 31, 2017 and 2016 was \$15.9 million and \$19.3 million, respectively, which is comprised of cash flow hedges denominated in U.S. dollars.

The following table presents the fair value of derivative instruments included within the consolidated balance sheets as of December 31, 2017 and 2016 (in thousands):

**INNODATA INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

	Balance Sheet Location	Fair Value	
		2017	2016
Derivatives designated as hedging instruments:			
Foreign currency forward contracts	Prepaid expenses and other current assets	\$ 342	\$ -
Foreign currency forward contracts	Accrued expenses	\$ -	\$ 318

The effect of foreign currency forward contracts designated as cash flow hedges on the consolidated statements of operations for the years ended December 31, 2017 and 2016 were as follows (in thousands):

	2017	2016
Net gain (loss) recognized in OCI <sup>(1)</sup>	\$ 574	\$ (90)
Net gain (loss) reclassified from accumulated OCI into income <sup>(2)</sup>	\$ (86)	\$ 63
Net gain recognized in income <sup>(3)</sup>		\$ -

<sup>(1)</sup>Net change in fair value of the effective portion classified into other comprehensive income ("OCI")

<sup>(2)</sup>Effective portion classified within direct operating costs

<sup>(3)</sup>There were no ineffective portions for the period presented.

**15. 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, 2017 and 2016, because of the relative short maturity of these instruments.

"Fair Value Measurements and Disclosures" defines 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: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability.

The following table sets forth the assets and liabilities as of December 31, 2017 and 2016 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 and liabilities 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, 2017	Level 1	Level 2	Level 3
<b>Assets</b>			
Derivatives	\$ -	\$ 342	\$ -
<b>December 31, 2016</b>			
<b>Liabilities</b>			
Derivatives	\$ -	\$ 318	\$ -

The Level 2 liabilities 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, 2017 and 2016 are included in accrued expenses in the accompanying consolidated balance sheets.

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

<b>Exhibit</b>	<b>Description</b>	<b>Filed as Exhibit</b>
<a href="#"><u>2.1 (a)</u></a>	<a href="#"><u>Share Purchase Agreement, dated as of July 28, 2014 among Innodata Inc., Media Miser Ltd. and certain other parties</u></a>	<a href="#"><u>Filed as Exhibit 2.1 to our Form 8-K dated July 28, 2014</u></a>
<a href="#"><u>2.1 (b)</u></a>	<a href="#"><u>Amendment No. 1 to Share Purchase Agreement dated as of September 30, 2016</u></a>	<a href="#"><u>Filed as Exhibit 2.1 to our Form 8-K dated September 30, 2016</u></a>
<a href="#"><u>2.2 (a)</u></a>	<a href="#"><u>Asset Purchase Agreement dated as of May 11, 2016 among Innodata Inc., MediaMiser LLC, MediaMiser Ltd. and PWW Acquisition LLC</u></a>	<a href="#"><u>Filed as Exhibit 2.1 to our Form 8-K dated May 11, 2016</u></a>
<a href="#"><u>2.2 (b)</u></a>	<a href="#"><u>Amendment No. 1 to Asset Purchase Agreement dated as of July 14, 2016 among PWW Acquisition LLC, MediaMiser LLC and MediaMiser Ltd</u></a>	<a href="#"><u>Filed as Exhibit 2.1 to our Form 8-K dated July 14, 2016</u></a>
<a href="#"><u>3.1 (a)</u></a>	<a href="#"><u>Restated Certificate of Incorporation filed on April 29, 1993</u></a>	<a href="#"><u>Filed as Exhibit 3.1(a) to our Form 10-K for the year ended December 31, 2003</u></a>
<a href="#"><u>3.1 (b)</u></a>	<a href="#"><u>Certificate of Amendment of Certificate of Incorporation of Innodata Corporation filed on March 1, 2001</u></a>	<a href="#"><u>Filed as Exhibit 3.1(b) to our Form 10-K for the year ended December 31, 2003</u></a>
<a href="#"><u>3.1 (c)</u></a>	<a href="#"><u>Certificate of Amendment of Certificate of Incorporation of Innodata Corporation Filed on November 14, 2003</u></a>	<a href="#"><u>Filed as Exhibit 3.1(c) to our Form 10-K for the year ended December 31, 2003</u></a>
<a href="#"><u>3.1 (d)</u></a>	<a href="#"><u>Certificate of Amendment of Certificate of Incorporation of Innodata IsoGen, Inc.</u></a>	<a href="#"><u>Filed as Exhibit 3.1 to our Form 10-Q for the quarter ended June 30, 2012</u></a>
<a href="#"><u>3.2</u></a>	<a href="#"><u>Form of Amended and Restated By-Laws</u></a>	<a href="#"><u>Exhibit 3.1 to Form 8-K dated December 16, 2002</u></a>
<a href="#"><u>3.3</u></a>	<a href="#"><u>Form of Certificate of Designation of Series C Participating Preferred Stock</u></a>	<a href="#"><u>Filed as Exhibit A to Exhibit 4.1 to Form 8-K dated December 16, 2002</u></a>
<a href="#"><u>4.2</u></a>	<a href="#"><u>Specimen of Common Stock certificate</u></a>	<a href="#"><u>Exhibit 4.2 to Form SB-2 Registration Statement No. 33-62012</u></a>
<a href="#"><u>4.3</u></a>	<a href="#"><u>Form of Rights Agreement, dated as of December 16, 2002 between Innodata Corporation and American Stock Transfer and Trust Co., as Rights Agent</u></a>	<a href="#"><u>Exhibit 4.1 to Form 8-K dated December 16, 2002</u></a>
<a href="#"><u>4.4</u></a>	<a href="#"><u>Form of Rights Agreement, as of December 27, 2012 between Innodata Inc. and American Stock Transfer and Trust Co., as Rights Agent</u></a>	<a href="#"><u>Exhibit 4.1 to Form 8-K dated December 27, 2012</u></a>
<a href="#"><u>4.5</u></a>	<a href="#"><u>Form of Rights Agreement, as of January 14, 2016 between Innodata Inc. and American Stock Transfer and Trust Co., as Rights agent</u></a>	<a href="#"><u>Exhibit 4.1 to Form 8-K dated January 14, 2016</u></a>
<a href="#"><u>4.6</u></a>	<a href="#"><u>Specimen of Common Stock certificate</u></a>	<a href="#"><u>Exhibit 4.1 to Form 10-Q dated August 7, 2015</u></a>
<a href="#"><u>10.1</u></a>	<a href="#"><u>1994 Stock Option Plan</u></a>	<a href="#"><u>Exhibit A to Definitive Proxy dated August 9, 1994</u></a>
<a href="#"><u>10.2</u></a>	<a href="#"><u>1993 Stock Option Plan</u></a>	<a href="#"><u>Exhibit 10.4 to Form SB-2 Registration Statement No. 33-62012</u></a>
<a href="#"><u>10.3</u></a>	<a href="#"><u>Form of Indemnification Agreement between us and our directors and one of our Officers</u></a>	<a href="#"><u>Exhibit 10.3 to Form 10-K for the year ended December 31, 2002</u></a>



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
<a href="#">10.6</a>	<a href="#">1996 Stock Option Plan</a>	<a href="#">Exhibit A to Definitive Proxy dated November 7, 1996</a>
<a href="#">10.7</a>	<a href="#">1998 Stock Option Plan</a>	<a href="#">Exhibit A to Definitive Proxy dated November 5, 1998</a>
<a href="#">10.8</a>	<a href="#">2001 Stock Option Plan</a>	<a href="#">Exhibit A to Definitive Proxy dated June 29, 2001</a>
<a href="#">10.9</a>	<a href="#">2002 Stock Option Plan</a>	<a href="#">Exhibit A to Definitive Proxy dated September 3, 2002</a>
<a href="#">10.10</a>	<a href="#">Employment Agreement dated as of January 1, 2004 with George Kondrach</a>	<a href="#">Filed as Exhibit 10.10 to our Form 10-K for the year ended December 31, 2003</a>
<a href="#">10.11</a>	<a href="#">Letter Agreement dated as of August 9, 2004, by and between us and The Bank of New York</a>	<a href="#">Filed as Exhibit 10.2 to Form S-3 Registration statement No. 333-121844</a>
<a href="#">10.12</a>	<a href="#">Employment Agreement dated as of December 22, 2005, by and between us and Steven L. Ford</a>	<a href="#">Exhibit 10.1 to Form 8-K dated December 28, 2005</a>
<a href="#">10.13</a>	<a href="#">Form of 2001 Stock Option Plan Grant Letter, dated December 22, 2005</a>	<a href="#">Exhibit 10.2 to Form 8-K dated December 28, 2005</a>
<a href="#">10.14</a>	<a href="#">Form of 1995 Stock Option Agreement</a>	<a href="#">Exhibit 10.4 to Form 8-K dated December 15, 2005</a>
<a href="#">10.15</a>	<a href="#">Form of 1998 Stock Option Agreement for Directors</a>	<a href="#">Exhibit 10.5 to Form 8-K dated December 15, 2005</a>
<a href="#">10.16</a>	<a href="#">Form of 1998 Stock Option Agreement for Officers</a>	<a href="#">Exhibit 10.6 to Form 8-K dated December 15, 2005</a>
<a href="#">10.17</a>	<a href="#">Form of 2001 Stock Option Agreement</a>	<a href="#">Exhibit 10.7 to Form 8-K dated December 15, 2005</a>
<a href="#">10.18</a>	<a href="#">Form of new vesting and lock-up agreement for each of Haig Bagerdjian, Louise Forlenza, John Marozsan and Todd Solomon</a>	<a href="#">Exhibit 10.8 to Form 8-K dated December 15, 2005</a>
<a href="#">10.19</a>	<a href="#">Form of new vesting and lock-up agreement for Jack Abuhoff</a>	<a href="#">Exhibit 10.9 to Form 8-K dated December 15, 2005</a>
<a href="#">10.20</a>	<a href="#">Form of new vesting and lock-up agreement for George Kondrach</a>	<a href="#">Exhibit 10.10 to Form 8-K dated December 15, 2005</a>
<a href="#">10.21</a>	<a href="#">Form of new vesting and lock-up agreement for Stephen Agress</a>	<a href="#">Exhibit 10.11 to Form 8-K dated December 15, 2005</a>
<a href="#">10.22</a>	<a href="#">Form of 2001 Stock Option Plan Grant Letter, dated December 31, 2005, for Messrs. Abuhoff, Agress and Kondrach</a>	<a href="#">Exhibit 10.2 to Form 8-K dated January 5, 2006</a>
<a href="#">10.23</a>	<a href="#">Form of 2001 Stock Option Plan Grant Letter, dated December 31, 2005, for Messrs. Bagerdjian and Marozsan and Ms. Forlenza</a>	<a href="#">Exhibit 10.3 to Form 8-K dated January 5, 2006</a>
<a href="#">10.24</a>	<a href="#">Transition Agreement Dated as of September 29, 2006 with Stephen Agress</a>	<a href="#">Exhibit 10.1 to Form 8-K dated October 3, 2006</a>
<a href="#">10.25</a>	<a href="#">Form of Stock Option Modification Agreement with Stephen Agress</a>	<a href="#">Exhibit 10.2 to Form 8-K dated October 3, 2006</a>
<a href="#">10.26</a>	<a href="#">Employment Agreement dated as of February 1, 2006 with Jack Abuhoff</a>	<a href="#">Exhibit 10.1 to Form 8-K dated April 27, 2006</a>
<a href="#">10.27</a>	<a href="#">Employment Agreement dated as of January 1, 2007 with Ashok Mishra</a>	<a href="#">Exhibit 10.1 to Form 10-Q for the quarter ended June 30, 2007</a>

---

<a href="#"><u>10.28</u></a>	<a href="#"><u>Innodata Incentive Compensation Plan</u></a>	<a href="#"><u>Exhibit 10.1 to Form 8-K dated February 13, 2008</u></a>
<a href="#"><u>10.29</u></a>	<a href="#"><u>Form of 2002 Stock Option Plan Grant Letter, dated August 13, 2008, for Messrs. Bagerdijan, Marozsan and Woodward, and Ms. Forlenza</u></a>	<a href="#"><u>Exhibit 10.1 to Form 10-Q for the quarter ended September 30, 2008</u></a>
<a href="#"><u>10.30</u></a>	<a href="#"><u>Amended and Restated Employment Agreement dated as of December 24, 2008 with Jack S. Abuhoff</u></a>	<a href="#"><u>Exhibit 10.1 to Form 8-K dated December 30, 2008</u></a>
<a href="#"><u>10.31</u></a>	<a href="#"><u>Employment Agreement dated as of March 25, 2009 with Jack Abuhoff</u></a>	<a href="#"><u>Exhibit 10.1 to Form 8-K dated March 25, 2009</u></a>
<a href="#"><u>10.32</u></a>	<a href="#"><u>Separation Agreement and General Release dated as of April 27, 2009 with Steven Ford</u></a>	<a href="#"><u>Exhibit 10.1 to Form 8-K dated April 27, 2009</u></a>
<a href="#"><u>10.33</u></a>	<a href="#"><u>2009 Stock Plan</u></a>	<a href="#"><u>Annex A to Definitive Proxy dated April 28, 2009</u></a>
<a href="#"><u>10.34</u></a>	<a href="#"><u>Employment Agreement dated as of November 9, 2009 with O'Neil Nalavadi</u></a>	<a href="#"><u>Exhibit 10.1 to Form 8-K dated October 11, 2009</u></a>
<a href="#"><u>10.35</u></a>	<a href="#"><u>Form of 2009 Stock Option Plan Grant Letter, dated April 2, 2010 for O'Neil Nalavadi</u></a>	<a href="#"><u>Exhibit 10.1 to Form 10-Q for the quarter ended March 31, 2010</u></a>
<a href="#"><u>10.36</u></a>	<a href="#"><u>Form of 2009 Stock Option Plan Grant Letter, dated March 16, 2010 for O'Neil Nalavadi</u></a>	<a href="#"><u>Exhibit 10.2 to Form 10-Q for the quarter ended March 31, 2010</u></a>
<a href="#"><u>10.37</u></a>	<a href="#"><u>Form of 2009 Stock Option Plan Grant Letter, dated March 16, 2010 for O'Neil Nalavadi</u></a>	<a href="#"><u>Exhibit 10.3 to Form 10-Q for the quarter ended March 31, 2010</u></a>
<a href="#"><u>10.38</u></a>	<a href="#"><u>Amended and Restated 2009 Stock Plan</u></a>	<a href="#"><u>Annex A to Definitive Proxy dated April 22, 2011</u></a>
<a href="#"><u>10.39</u></a>	<a href="#"><u>Amendment dated as of July 11, 2011 to Employment Agreement with Jack S. Abuhoff</u></a>	<a href="#"><u>Exhibit 10.1 to Form 8-K dated July 12, 2011</u></a>
<a href="#"><u>10.40</u></a>	<a href="#"><u>Amended dated as of July 11, 2011 to Employment Agreement with O'Neil Nalavadi</u></a>	<a href="#"><u>Exhibit 10.2 to Form 8-K dated July 12, 2011</u></a>
<a href="#"><u>10.41</u></a>	<a href="#"><u>Amendment dated as of November 9, 2012 to Employment Agreement with O'Neil Nalavadi</u></a>	<a href="#"><u>Exhibit 10.3 to Form 8-K dated November 8, 2012</u></a>
<a href="#"><u>10.42</u></a>	<a href="#"><u>Form of Director Stock Option Grant Letter dated March 8, 2013</u></a>	<a href="#"><u>Exhibit 10.42 to Form 10-K dated March 15, 2013</u></a>
<a href="#"><u>10.43</u></a>	<a href="#"><u>Form of Stock Option Grant Letter dated March 8, 2013 for Messrs. Abuhoff, Mishra and Nalavadi</u></a>	<a href="#"><u>Exhibit 10.43 to Form 10-K dated March 15, 2013</u></a>
<a href="#"><u>10.44</u></a>	<a href="#"><u>Form of Stock Option Grant Letter dated March 8, 2013 for Jack Abuhoff</u></a>	<a href="#"><u>Exhibit 10.44 to Form 10-K dated March 15, 2013</u></a>
<a href="#"><u>10.45</u></a>	<a href="#"><u>Form of Rights Agreement as of December 27, 2012 between Innodata Inc. and American Stock Transfer Agent and Trust Co., as Rights Agent</u></a>	<a href="#"><u>Annexure A to Definitive Proxy dated April 8, 2013</u></a>
<a href="#"><u>10.46</u></a>	<a href="#"><u>Innodata Inc. 2013 Stock Plan</u></a>	<a href="#"><u>Annexure B to Definitive Proxy dated April 8, 2013</u></a>
<a href="#"><u>10.47</u></a>	<a href="#"><u>Advised Line of Credit Note dated June 25, 2012 in favor of Chase</u></a>	<a href="#"><u>Exhibit 99.1 to Form 8-K dated February 7, 2014</u></a>
<a href="#"><u>10.48</u></a>	<a href="#"><u>Note Modification Agreement dated June 27, 2013 between Innodata and Chase</u></a>	<a href="#"><u>Exhibit 99.2 to Form 8-K dated February 7, 2014</u></a>

---

<a href="#"><u>10.49</u></a>	<a href="#"><u>Continuing Security Agreement dated May 22, 2008 between Innodata and Chase</u></a>	<a href="#"><u>Exhibit 99.3 to Form 8-K dated February 7, 2014</u></a>
<a href="#"><u>10.50</u></a>	<a href="#"><u>Letter dated June 27, 2013 from Chase to Innodata</u></a>	<a href="#"><u>Exhibit 99.4 to Form 8-K dated February 7, 2014</u></a>
<a href="#"><u>10.51</u></a>	<a href="#"><u>Letter dated February 7, 2014 from Chase to Innodata</u></a>	<a href="#"><u>Exhibit 99.5 to Form 8-K dated February 7, 2014</u></a>
<a href="#"><u>10.52</u></a>	<a href="#"><u>Innodata Inc. 2013 Stock Plan (as Amended and Restated effective June 3, 2014)</u></a>	<a href="#"><u>Annexure A to Definitive Proxy dated April 23, 2014</u></a>
<a href="#"><u>10.53</u></a>	<a href="#"><u>Form of Stock Option Grant Letter for December 31, 2015 Grant, for Directors</u></a>	<a href="#"><u>Exhibit 10.53 to Form 10-K dated March 14, 2016</u></a>
<a href="#"><u>10.54</u></a>	<a href="#"><u>Form of Stock Option Grant Letter for December 31, 2015 Grant, for Messrs. Abuhoff, Mishra and Nalavadi</u></a>	<a href="#"><u>Exhibit 10.54 to Form 10-K dated March 14, 2016</u></a>
<a href="#"><u>10.55</u></a>	<a href="#"><u>Innodata Inc. 2013 Stock Plan (as Amended and Restated effective June 7, 2016)</u></a>	<a href="#"><u>Annex B to Definitive Proxy dated April 18, 2016</u></a>
<a href="#"><u>10.56</u></a>	<a href="#"><u>Form of Stock Option Grant Letter for December 31, 2016 Grant, for Directors</u></a>	<a href="#"><u>Exhibit 10.56 to Form 10-K dated March 15, 2017</u></a>
<a href="#"><u>10.57</u></a>	<a href="#"><u>Form of Stock Option Grant Letter for December 31, 2016 Grant, for Messrs. Abuhoff, Mishra and Nalavadi</u></a>	<a href="#"><u>Exhibit 10.57 to Form 10-K dated March 15, 2017</u></a>
<a href="#"><u>16</u></a>	<a href="#"><u>Letter of Grant Thornton regarding change in certifying accountant</u></a>	<a href="#"><u>Exhibit 4.01 to Form 8-K dated September 12, 2008</u></a>
<a href="#"><u>21</u></a>	<a href="#"><u>Significant subsidiaries of the registrant</u></a>	<a href="#"><u>Filed herewith</u></a>
<a href="#"><u>23</u></a>	<a href="#"><u>Consent of CohnReznick LLP</u></a>	<a href="#"><u>Filed herewith</u></a>
<a href="#"><u>31.1</u></a>	<a href="#"><u>Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u></a>	<a href="#"><u>Filed herewith</u></a>
<a href="#"><u>31.2</u></a>	<a href="#"><u>Certificate of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>	<a href="#"><u>Filed herewith</u></a>
<a href="#"><u>32.1</u></a>	<a href="#"><u>Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>	<a href="#"><u>Filed herewith</u></a>
<a href="#"><u>32.2</u></a>	<a href="#"><u>Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>	<a href="#"><u>Filed herewith</u></a>
<a href="#"><u>101</u></a>	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations and Comprehensive Loss (iii) the Consolidated Statements of Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements.	<a href="#"><u>Filed herewith</u></a>

---

## Significant Subsidiaries

Name of Subsidiary	State or other jurisdiction of incorporation	Name under which subsidiary conducts business
Innodata India Private Limited	India	Same
Innodata Knowledge Services, Inc.	Philippines	Same
ESS Manufacturing Company, Inc.	Philippines	Same
EBAR Abstracting Company, Inc.	Philippines	Same
Innodata Book Distribution Services Ltd.	Hong Kong	Same
Innodata Asia Holdings, Limited	Bermuda	Same
Agility PR Solutions Canada Ltd.	Canada	Same

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 33-85530, dated October 21, 1994, Registration No. 333-3464, dated April 18, 1996, Registration No. 333-63085, dated September 9, 1998, Registration No. 333-82185, dated July 2, 1999, Registration No. 333-118506, dated August 24, 2004, Registration No. 333-172831, dated March 15, 2011, Registration No. 333-176402, dated August 19, 2011, Registration No. 333-193051, dated December 23, 2013, Registration No. 333-201659, dated January 23, 2015 and Registration No. 333-215130 dated December 16, 2016 on Form S-8 and Registration No. 33-62012, dated April 11, 1996, Registration No. 333-91649, dated November 24, 1999, Registration No. 333-51400, dated December 7, 2000, Registration No. 333-121844, dated January 5, 2005, Registration No. 333-182114, dated June 14, 2012 and Registration No. 333-207524 dated October 20, 2015 on Form S-3, Registration No. 333-121844, dated January 21, 2005 and Registration No. 333-207524, dated December 21, 2015 on Form S-3/A of our report dated March 22, 2018, relating to our audits of the consolidated financial statements of Innodata Inc. and Subsidiaries as of December 31, 2017 and 2016, and for the years then ended, included in this Annual Report on Form 10-K of Innodata Inc. for the year ended December 31, 2017.

/s/ CohnReznick LLP

---

Roseland, New Jersey  
March 22, 2018

---

## CERTIFICATIONS

I, Jack Abuhoff, certify that:

1. I have reviewed this annual report on Form 10-K of Innodata Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 22, 2018

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

---

I, Raj Jain, certify that:

1. I have reviewed this annual report on Form 10-K of Innodata Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 22, 2018

/s/ Raj Jain

Raj Jain

Vice President, Principal Financial Officer and Principal Accounting Officer

---

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Innodata Inc. (the "Company") on Form 10-K for the year ended December 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jack Abuhoff, Chairman of the Board, Chief Executive Officer and President of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jack Abuhoff

---

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

March 22, 2018

---



CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Innodata Inc. (the "Company") on Form 10-K for the year ended December 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Raj Jain, Vice President and Principal Accounting Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Raj Jain

---

Raj Jain

Vice President, Principal Financial Officer and Principal Accounting Officer

March 22, 2018

---