



Fellow Stockholders:

In 2018, we successfully executed the turnaround plan we laid out in late 2017, delivering \$6.7 million of Adjusted EBITDA¹, a significant improvement from 2017's Adjusted EBITDA loss. In fact, our 2018 Adjusted EBITDA was the highest it has been, as a percentage of revenue, since 2014. We accomplished this, in part, through technology innovation using deep learning, a branch of AI, which enabled us to reduce human processing costs as well as related physical plant and data center costs.

Our business today is, in several important respects, stronger than it was in 2014. I'll start with the obvious improvements. In 2018, just six percent of our revenues came from our largest project compared to 11% in 2014. In 2018, 17% of our revenue came from SaaS subscription business, but in 2014 we had no SaaS revenue. In 2018, we classified 88% of our revenue as recurring versus just 75% in 2014.

There's also a more subtle change for the better, which at this stage may be easy to miss. We emerged from 2018 with expertise that resonates particularly well in today's world: AI-enabled data processing and human/machine hybridization. As we turn our focus from cost rationalization to growth, which is exactly what we're doing in 2019, we think this new expertise will prove invaluable.

The AI technologies which we honed and refined internally in 2018 to drive our turnaround we believe can now be the basis of new market offerings. And thanks to our 2018 turnaround, we now have the capability of making the required investments. This year, we intend to invest approximately \$3 million in product management, product marketing, and technology engineering so that we emerge from 2019 with a fresh product/service architecture that broadens our addressable market and aligns with macro trends in digital data and technology.

Toward this end, we recently hired Rahul Singhal as our Chief Product Officer, a new role for our company. Rahul "gets" data and AI, having led product initiatives for IBM's Watson Platform, where he grew usage of the Watson platform by 100-fold and launched 15 new services.

Growth will also be our focus in 2019 for our two venture businesses, Agility and Synodex. For 2019, we are anticipating accelerating top-line growth in both of these businesses. Our venture

¹ Adjusted EBITDA is a non-GAAP measure. For a discussion on Adjusted EBITDA and a reconciliation of Adjusted EBITDA to U.S. GAAP see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Adjusted EBITDA" included in this Annual Report.

businesses leverage our core capabilities to provide specific industry solutions. Agility delivers a SaaS platform and managed service for PR and communications professionals to target news, information, and content to journalists and social media influencers and to monitor and analyze coverage across traditional and social media sources. Synodex delivers a SaaS platform and managed service for digital transformation of medical data.

In 2018, Agility's annual recurring revenue, or ARR, grew year-over-year from \$9.8 million to \$11 million, or 12%. In 2019, we anticipate accelerating this growth, and we think we're in a good position to do so. Our 2018 product engineering efforts have yielded some impressive results. For example, we were the first in our competitive set to harness AI for monitoring image-based news. In its Winter 2019 report, G2Crowd ranked Agility as an industry leader in Media and Influencer Targeting Software, as #1 in terms of ease-of-use, and as the #1 easiest-to-do-business-with provider.

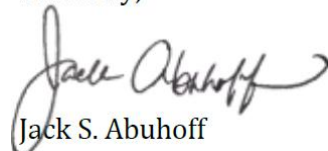
As a result, we're anticipating continued strengthening of customer revenue retention, which is so critical to a SaaS business. We're also anticipating gaining momentum in direct new business development and channel sales. It is worth mentioning that, in line with investor expectations of SaaS businesses, the benefits of scale in the Agility platform business model are significant, with incremental margins north of 80%.

Revenues for our Synodex business grew by 11% in 2018 as compared to 2017, and we think we can accelerate this, as well, in 2019 based on a combination of new business that we have already secured and high-quality, late-stage prospects. In addition to serving the life insurance industry, we are expecting to open at least one new addressable market early this year.

Information about our directors can be found under the heading "Proposal 1. Election of Directors" in the accompanying Proxy Statement and information about our officers can be found under the heading "Officers" in the accompanying Proxy Statement.

We look forward to sharing with you the progress we make through the year at executing our strategy, and we thank you for your commitment to Innodata's future and success.

Sincerely,



Jack S. Abuhoff

Chairman, President & CEO

April 15, 2019

**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, 2018

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

Commission file number **001-35774**

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 every Interactive Data File required to be submitted 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 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, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" 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, 2018) was \$24,699,712.

The number of outstanding shares of the registrant's common stock, \$.01 par value, as of March 21, 2019 was 25,952,454.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for the 2019 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, 2018

TABLE OF CONTENTS

Part I

	Page
Item 1. Business	1
Item 1A. Risk Factors	12
Item 1B. Unresolved Staff Comments	23
Item 2. Properties	24
Item 3. Legal Proceedings	24
Item 4. Mine Safety Disclosures	24

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	25
Item 6. Selected Financial Data	25
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Item 7A. Quantitative and Qualitative Disclosures about Market Risk	41
Item 8. Financial Statements and Supplementary Data	42
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	42
Item 9A. Controls and Procedures	42
Report of Management on Internal Control over Financial Reporting	42
Item 9B. Other Information	43

Part III

Item 10. Directors, Executive Officers and Corporate Governance	44
Item 11. Executive Compensation	44
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	44
Item 13. Certain Relationships and Related Transactions, and Director Independence	45
Item 14. Principal Accounting Fees and Services	45

Part IV

Item 15. Exhibits, Financial Statement Schedules	46
Item 16. Form 10-K Summary	46
Signatures	47

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,” “plan” 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 Agility 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 Inc. (NASDAQ: INOD) is a global services and technology company. We combine human expertise with deep learning technologies to power leading information products and enterprise artificial intelligence (AI)/digital transformation.

The Company, founded in 1988 and headquartered in northern New Jersey, features a 3,500-strong global delivery and technology team spanning ten offices globally and a research and technology incubator, Innodata Labs, which focuses on applied machine learning and emerging artificial intelligence.

Our core services are (i) data acquisition, transformation, and enrichment at scale; (ii) digital operations management and analytics; and (iii) content applications. We report our core business as the Digital Data Solutions (DDS) segment.

We also have venture businesses that leverage our core capabilities to provide specific industry solutions. Our Synodex venture business delivers a SaaS platform and managed services for digital transformation of medical data. Our Agility PR Solutions (Agility) venture business delivers a SaaS platform

and managed service for delivering news, information, and content to targeted journalists and influencers as well as monitoring and analyzing coverage across traditional and social media sources. Each venture business is reported as a separate segment.

Our Core Business (Digital Data Solutions (DDS) Segment)

We specialize in combining *deep neural networks* and *human expertise* in multiple domains (including health, science, and law) to make “unstructured information” (sometimes referred to as “content”) useable. For business information companies, “useable” means that the content can be sold via subscription to a *digital product*. For enterprises, “useable” means that the content can drive *digital process transformation* and *AI*. We work with all classes of data, including sensitive and protected data.

We also develop digital products for business information companies and digital systems which replace legacy systems and processes.

In 2018, we continued to implement a strategy we initiated in 2017 focused on technology differentiation, increasingly taking an innovation-led approach to create value for clients while driving leaner, more cost-effective operations.

Our Approach: Deep Neural Networks and Experts-in-the-loop

Finding the right approach for mixing machines and experts-in-the-loop for each customer requirement is one of our core competencies. On the human side, we have over three thousand staff with deep domain expertise in legal, tax, regulatory, scientific, technical, and health-related content. Many hold advanced degrees. They work from our global operations centers in North and South America, Europe, Israel, India, Sri Lanka and the Philippines. Our operations centers in Asia are ISO 27001 certified. On the technology side, we use deep learning, a sophisticated machine learning technique which is a branch of artificial intelligence that has enjoyed great success in real-world applications.

In our approach, content is fed first into our deep learning machines that automate much of the work, but distinguish between what they can automatically process and what requires human intervention. Work that requires humans is “pushed” to human experts. Once human experts perform tasks, their output is then fed back to the machines, which, as a result, become “smarter” and achieve over time progressively greater levels of automation. (See “*Our Technology and Infrastructure*”, below.)

Our Customers

Our customers include leading digital businesses in banking and financial services, technology, and digital retailing and four of the largest information industry companies in the world, spanning financial, legal, healthcare and scientific vertical markets.¹ Our customers often seek to use digital data in combination with AI to support their businesses or to digitally transform operations. Our information industry customers sell subscriptions to data products that require enhanced digital data.

¹ According to Outsell Inc., business information is a \$1.7 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 health (STH) area (estimated revenues of \$14.6 billion) and the legal and regulatory (L&R) area (estimated revenues of \$24.3 billion). “Information Industry Outlook 2019 – Trust is the New Algorithm.” (October 3, 2018).

Our Services

(i) Data Acquisition, Transformation, and Enrichment at Scale

In order to use content in an information product or in AI, there are often significant obstacles that must be overcome: the content may be contained in multiple websites; it may be in disparate formats; and it may lack the necessary semantics and metadata to make it product- or AI-ready. Innodata overcomes these obstacles by combining advanced technology and human subject matter experts, enabling us to produce highly refined product- and AI-ready content efficiently and at scale.

Acquiring unstructured data often involves monitoring thousands of sources such as websites in real-time for new or changing content and then automatically extracting the changed content. One of the challenges with web data monitoring and extraction is that the HTML code underlying web pages often changes, causing programs and scripts to break. We overcome this by using enterprise-class tools for content change detection and extraction. These tools use both machine learning-based visual data abstraction combined with traditional programmatic approaches. With visual abstraction, the technology knows what the content “looks like” and recognizes when a data element moves from one spot on a Web page to another.

Digital data transformation can refer to a large number of very specific tasks necessary to create well-structured, valid XML, such as text zoning, editing, format tagging, format conversion, extraction, cross-reference capture, and linking.

Digital data enrichment often includes structural tagging as well as semantic enrichment such as entity tagging and normalization. Data enrichment also includes text categorization - classifying content to systems that organize knowledge such as ontologies and knowledge graphs. This kind of enrichment enables powerful information retrieval and discovery and provides hooks for integration and interoperability.

(ii) Digital Operations Management and Analytics

We provide digital operations management and analytics for an increasing diversity of complex functions. At present, these include IP rights management, contract management, customer relations, data processing, regulatory reporting, publishing workflow management, publisher relationship management, and transaction management. Our services draw on a combination of industry and functional expertise from our thousands of global delivery resources, many with advanced degrees, augmented by sophisticated machine learning and robotics process automation (RPA) technology.

Our digital operations management solutions often leverage our core competency in augmenting human expert effort with advanced technology and configuring the technology to continually improve as a result of expert feedback. In this way, we provide high-quality, cost-effective solutions for our customers that become increasingly automated, resulting in further cost and improvements in both productivity and response time.

Many of the operations we manage are mission-critical for our customers (as opposed to back-office), are unique, and have multiple contingencies and potential points of failure. To manage this complexity, we have developed methodologies and best practices around process management and risk mitigation, and we work with clients at a strategic business and technology level.

Examples of recent deployments:

- Digitally transforming and managing a complex operation for rights and royalty management for a leading provider of print and interactive online properties.
- Migrating a large-scale scanning and metadata capture center owned by a nonprofit digital library to one of the Company’s Philippine facilities, assuming responsibility for managing

- complex logistics, technology, and productivity.
- Provisioning the entire back-end production capabilities for an online learning platform providing over 24 million course-specific study resources.
- Providing customer support and AI model training for a Chinese multinational conglomerate specializing in e-commerce.

(iii) *Content Applications*

We develop and maintain applications used in conjunction with product- or AI-ready content we create. Our content applications address knowledge representation, search/discovery, and digital transformation of customer workflows. Our scope of services spans full-stack development, knowledge engineering, and integration support.

Examples of recent engagements:

- As part of a digital transformation initiative for a national standards body, developing a content workflow management solution using MarkLogic and RSuite that automated content ingestion and managed multi-channel delivery.
- Building a content workflow management solution and automated distribution system to manage multi-channel delivery for the principal professional association for scholars of language and literature with 25,000 members in 100 countries.
- Developing a regulatory content management solution that includes business activity monitoring and reporting for one of the “Big Four” accounting and professional services firms.

Our Technology and Infrastructure

Our deep learning technologies are built on frameworks such as TensorFlow and Torch that layer algorithms to create artificial neural networks that continuously learn on the job, constantly improving the quality and accuracy of results.

Our content processing application infrastructure consists of three integrated tiers. The first tier is an orchestration layer featuring a console we use to configure our workflow engines. Each workflow is customized around the content acquisition, transformation, and enrichment tasks required to transform a specific input into a specific output. This is where we oversee and manage AI, setting our accuracy thresholds and quality assurance parameters to decide when cognitive tasks that have been performed by machines are sent for human review.

The second tier of our data processing application infrastructure is a microservices layer of deep learning networks which perform discrete tasks automatically. Microservices are invoked by workflows via RESTful APIs. Our deep neural networks are trained to understand domain-specific terms and meaning and can be deployed to enforce privacy and maintain customer-proprietary learning. We have built domain-specific and task-specific microservices that perform deep sequence labelling, text categorization, and computer vision. The technology works by observing text patterns using algorithms and assigning labels based on these observed values.

For each cognitive decision, the machines provide a result together with a confidence score. A high confidence score means the machine is confident that it has performed accurately and the content is ready to be deployed in an information product or for AI. A low confidence score means expert review is required.

Our third layer is human experts-in-the-loop. When an expert review is required, the human experts use tools we refer to as “workbenches” to apply their expertise to a task. The workbenches are integrated with the microservice endpoints in one of two ways. In one deployment, only low-confidence data is sent to

workbenches for human review. In an alternative deployment, we send both high-confidence and low-confidence data back to the workbench, displaying the confidence level for each decision taken by the machine. In both of these deployments, human-reviewed work is retroactively fed back into the deep neural network, enabling it to get smarter. The result is continuous, predictable improvement and progressively greater levels of automation.

Our data storage and application hosting platform has been built utilizing an innovative enterprise infrastructure platform enabling robust performance scaling, strong security, high availability, and advanced business continuity. We support a range of strategies to suit our customers' needs for data security, compliance, scalability and reliability. We can host data and applications in our own data centers at our production facilities or we can utilize third-party cloud services which provide the benefit of "infinite scalability" of hardware resources. When we are processing sensitive information for banks and insurance companies, we utilize U.S.-based, co-located data centers in combination with advanced data encryption (both at rest and in motion to the AES 256 or similar standard) and desktop virtualization technologies, ensuring that data never leaves secured environments in the U.S. We employ a range of security features including monitored firewalls and intrusion detection devices. We can deploy on-premises, as well, and our machine learning microservices can be consumed via API.

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 2018, as applicable. Innodata Inc. is certified to the EU-U.S. Privacy Shield framework, which certification includes Synodex and Agility as covered entities.

Our DDS segment includes our Innodata docGenix, LLC subsidiary (docGenix). As of December 31, 2018, Innodata Inc. owned 94% of docGenix.

Our Venture Businesses

Our venture businesses provide specific industry solutions. We have chosen to invest in these businesses because they leverage one or more of our core capabilities (typically data acquisition/transformation/enrichment at scale, content applications, and global workforce deployment), have attractive business models such as SaaS (software-as-a-service), and expand our addressable market. Each venture business is reported as its own business segment.

Synodex Segment

Synodex (www.synodex.com) enables clients in the insurance and healthcare sectors to transform medical records into useable digital data and to apply technologies to the digital data to augment decision support.

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, life settlement claims, and clinical trial support services. Synodex has developed and deployed its APS.Extract[®] product for specific use with life insurance underwriting and claims.

Our Synodex segment operates through our Innodata Synodex, LLC subsidiary. As of December 31, 2018, Innodata Inc. owned 92.5% of Innodata Synodex, LLC, an increase of 1.5% from December 31, 2017.

At the end of 2018, Synodex had 11 clients, including RGA Reinsurance Company and John Hancock Insurance. RGA Reinsurance Company is 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. John Hancock Insurance is 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.

Agility Segment

Agility PR Solutions (www.agilitypr.com) provides tools and related professional services that enable public relations (PR) and communications professionals to discover influencers, amplify messages, monitor coverage, and measure the impact of campaigns. Agility has been ranked as the #1 easiest to use media database and as a leader in media and influencer targeting and media monitoring, out-performing significantly larger, more established competitors.² The media intelligence solutions market is estimated to be \$3.2 billion and growing 7% annually.³ The market is highly fragmented, with only a limited number of providers of integrated solutions such as Agility.

Agility's software-as-a-service (SaaS) tools include:

- An influencer targeting solution to help PR professionals identify influencers. The Agility media database includes detailed contact information for over 840,000 unique influencers globally including journalists, outlets, and bloggers. Live social media streams to allow users to research influencers by tracking activity and keywords across multiple social media channels.
- An outreach and content amplification solution enabling PR professionals to distribute news, information, and content to targeted influencers.
- Integrated newswire services.
- A media monitoring solution to help PR professionals track what is being said about their brand, industry or competitors and track engagement. Users can monitor and report on coverage across print, broadcast, online and social media sources, including AI-powered image monitoring. The self-serve monitoring tool enables users to create alerts, compile and share coverage briefings and clipbooks.
- A media analysis solution to help PR professionals analyze coverage, determine PR campaign reach and effectiveness, and create and distribute reports.

Agility's professional services include:

- Media monitoring and PR measurement services delivered by a team of media analysts who use our SaaS monitoring solution to pull coverage and curate daily news briefs. This powerful media monitoring solution is for clients with complex monitoring or reporting requirements.
- Advanced PR reporting and measurement services including custom reports, PR measurement and social media / influencer analysis.

To provision our services, we maintain a big data engine that stores and indexes media content. We index approximately two billion media items each year.

Bulldog Reporter, a publisher of PR-related news and a popular e-newsletter, and the Bulldog Awards, a PR awards program that recognizes outstanding performance among PR and communications professionals and agencies, are properties of Agility.

² G2 Crowd

³ Burton-Taylor

Our Opportunity

Digital data has gained an increasing role across enterprises that seek to use AI to drive analytics and enhance operational excellence. At the same time, information companies are seeking to shift from products that are exclusively discovery-based products to products that provide predictive and prescriptive value. To accomplish these objectives, businesses often seek the ability to aggregate, integrate, transform and enhance data on a massive scale.

At the same time, digital businesses are pushing the boundaries of how technology can improve process and operational efficiencies. To accomplish these objectives, businesses often seek the ability to manage complex operations leveraging the benefits of sophisticated technologies.

We believe that we are well-poised to benefit from these global trends, enabling us to enhance our existing services as our customers' needs evolve and to increase our addressable market opportunity by developing new solution offerings and expanding into adjacent markets.

Clients

Two clients in our DDS segment each generated more than 10% of our total revenues in the 2018 and 2017 fiscal years. In 2018, revenues from Wolters Kluwer affiliated companies (the "WK Clients") were approximately \$10.6 million or 19% of total revenues, and revenues from Reed Elsevier affiliated companies (the "RE Clients") were approximately \$6.4 million, or 11% of total revenues. No other client generated more than 10% of our total revenues in 2018. These two clients together generated approximately 30% of our total revenues in each of the fiscal years ended December 31, 2018 and 2017.

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 2018 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 2018 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, 2020 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 AI.

Our focus on applied machine learning and emerging artificial intelligence (AI). Our Innodata Labs develops machine learning and deep learning-based technologies that we utilize in our operations and with our customers. Our engineering and IT teams create workbench tools that integrate with our machine learning and deep learning microservices to enable human review where necessary.

Our focus on human expertise. We have a large global staff in multiple domains (including health, science, and law). We integrate human experts with our machine learning and deep learning-based technologies to create superior outcomes for our clients that require enriched content that is product- and AI-ready.

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 models. 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 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 Synodex 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 Agility 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. In addition, we are increasingly developing and expanding our use of strategic partnerships and channel relationships for the establishment and development of new and existing customers. Our corporate headquarters is located at Ridgefield Park, New Jersey, just outside New York City. During 2018, we had four executive-level business development and marketing professionals and approximately 55 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.

Competition

Our Digital Data Solutions segment operates in a highly competitive, fragmented and intense market. Major competitors in data services include Apex CoVantage, Aptara, Cenveo, Infosys, HCL Technologies, Macmillan India, SPI Technologies, JSI S.A.S. Groupe Jouve and Thomson Digital. Major competitors in operations management and analytics include Cognizant Technology Solutions, ExlService Holdings, Inc., Genpact Limited, Infosys, and Tata Consultancy Services.

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 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 Agility 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 Agility business is headquartered in Ottawa, Canada and we have an additional location in London, the United Kingdom. We have ten delivery centers in the Philippines, India, Sri Lanka, Canada, Germany, the United Kingdom and Israel.

Employees

As of December 31, 2018, we employed approximately 147 persons in the United States, Canada and the United Kingdom, and over 3,000 persons in ten global delivery centers in the Philippines, India, Sri Lanka, Canada, Germany, the United Kingdom and Israel. As of December 31, 2018, approximately 212 of our employees were dedicated to the Synodex segment, and approximately 261 of our employees were dedicated to the Agility 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; information contained on our website is not included as a part of, or incorporated by reference into, this Annual Report on Form 10-K. There we make available, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports, as soon as reasonably practicable after we electronically file that material with, or furnish it to, the Securities and Exchange Commission (SEC). Our SEC reports can be obtained through the Investor Relations section of our website or from the Securities and Exchange Commission at www.sec.gov.

Item 1A. Risk Factors.

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

We have historically relied on a very limited number of clients that have accounted for a significant portion of our revenues. Two clients in our DDS segment generated approximately 30% of our total revenues in each of the fiscal years ended December 31, 2018 and 2017, respectively. No other client accounted for 10% or more of total revenues during these periods. Further, in the years ended December 31, 2018 and 2017, revenues from non-US clients accounted for 56% and 51%, 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.

We have no bank facilities or line of credit.

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 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 additional information.

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 Agility 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 Agility 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.

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

We may pursue 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, 2018, 48% or \$5.1 million, of our accounts receivable was due from three clients. See "Management Discussion and Analysis – 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 \$693,000 in the third quarter of 2018 to a loss of approximately \$2.1 million in the fourth quarter of 2017.

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, our Company utilizes 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 Agility 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 Agility 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 Agility business is headquartered in Ottawa, Canada and has an additional location in London, the United Kingdom. We have ten delivery centers in the Philippines, India, Sri Lanka, Canada, Germany, the 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, the 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, the 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, the 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. We do not currently undertake hedging activities to offset the risk of adverse foreign currency fluctuations. As a result, fluctuations in the exchange rate between the U.S. dollar and other currencies may affect our financial results.

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, the Company's Indian subsidiary was subject to an inquiry by the Service Tax Department 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 this subsidiary's service tax filings. The Company disagrees with the Service Tax Department's position and is vigorously contesting these assertions. In the event the Service Tax Department is successful in proving that the services fall under the category of OID Services, the revenues earned by the Company's Indian subsidiary for the period July 2012 through November 2016 would be subject to a service tax of between 12.36% and 15%. The revenue of our Indian subsidiary during this period was approximately \$67.0 million. In accordance with new rules promulgated by the Service Tax Department, as of December 1, 2016 service tax is no longer applicable to OID or BS Services.

In 2016, the Company's Indian subsidiary received notices of appeal from the Indian Service Tax Department in India seeking to reverse service tax refunds of approximately \$160,000 previously granted to our Indian subsidiary for three quarters in 2014, asserting that the services provided by this subsidiary fall under the category of OID Services and not BS Services. The appeal was determined in favor of the Service Tax Department. The Indian subsidiary disagrees with the basis of this decision and is contesting it vigorously. The Company expects delays in its Indian subsidiary receiving further service tax refunds until this matter is adjudicated with finality, and currently has service tax credits of approximately \$1.0 million recorded as a receivable.

Substantial recovery against us in the above referenced 2015 Service Tax Department case could have a material adverse impact on us, and unfavorable rulings or recoveries in other tax proceedings could have a material impact on the consolidated operating results of the period in which the rulings or recovery occurs. Based on the assessment of the Company's counsel, the Company has not recorded any tax liability for this

case.

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.

One of our foreign subsidiaries is subject to preferential tax rates. 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 foreign jurisdiction withholding tax that the Company has to incur on the actual remittances. Unremitted earnings of foreign subsidiaries amounted to approximately \$21.0 million at December 31, 2018. 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 foreign jurisdiction 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 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 (the "USDC") 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. In June 2018, the USDC entered a consent order administratively closing the action subject to return of the action to the active docket upon the written request of Innodata Inc. or the former employees, with the USDC retaining jurisdiction over the matter and the preliminary injunction remaining in full force and effect. 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 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, the United Kingdom and Israel, all of which are leased. The square footage of all our leased properties totals approximately 246,000.

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 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 (the “USDC”) 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. In June 2018, the USDC entered a consent order administratively closing the action subject to return of the action to the active docket upon the written request of Innodata Inc. or the former employees, with the USDC retaining jurisdiction over the matter and the preliminary injunction remaining in full force and effect. 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 22, 2019, there were 69 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 2,848.

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 2018.

We did not have any sales of unregistered equity securities during the three months ended December 31, 2018.

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), Synodex and Agility.

The following table sets forth, for the period indicated, certain financial data expressed for the two years ended December 31, 2018:

(Dollars in millions)

Years Ended December 31,

	2018	% of revenue	2017	% of revenue
Revenues	\$ 57.4	100.0%	\$ 60.9	100.0%
Direct operating costs	39.0	68.0%	45.8	75.2%
Selling and administrative expenses	15.8	27.6%	20.2	33.2%
Goodwill impairment	0.7	1.2%	-	0.0%
Income (loss) from operations	1.9	<u>3.2%</u>	(5.1)	<u>-8.4%</u>
Other income	0.0		-	
Income (loss) before provision for income taxes	1.8		(5.1)	
Provision for income taxes	1.8		0.3	
Net income (loss)	0.0		(5.4)	
Income (loss) attributable to non-controlling interest	-		0.3	
Net income (loss) attributable to non-controlling interest	<u>\$ -</u>		<u>(5.1)</u>	

Revenues

Revenue is recognized when control of the promised services is transferred to a customer, in an amount that reflects the consideration that we expect to receive in exchange for those services as per the agreement with the customer. We generate all our revenue from agreements with customers. In case there are agreements with multiple performance obligations, we identify each performance obligation and evaluate whether the performance obligations are distinct within the context of the agreement at the agreement's inception. Performance obligations that are not distinct at agreement inception are combined. We allocate the transaction price to each distinct performance obligation proportionately based on the estimated standalone selling price for each performance obligation, if any, and then evaluates how the services are transferred to the customer to determine the timing of revenue recognition.

For the DDS segment, revenue is recognized primarily based on the quantity delivered or resources utilized in the period in which services are performed and performance conditions are satisfied as per the agreement. Revenues for agreements billed on a time-and-materials basis are recognized as services are performed. Revenues under fixed-fee agreements, which are not significant to the overall revenues, are recognized based on the proportional performance method of accounting, as services are performed, or milestones are achieved.

For the Synodex segment, revenue is recognized primarily based on the quantity delivered in the period in which services are performed and performance conditions are satisfied as per the agreement. A portion of our Synodex segment revenue is derived from licensing our functional software and providing access to our hosted software platform. Revenue from such services is recognized monthly when access to the service is provided to the end user; all parties to the agreement have agreed to the agreement; each party's rights are identifiable; the payment terms are identifiable; the agreement has commercial substance; and collection is probable.

The Agility segment derives its revenue primarily from subscription arrangements and provision of enriched media analysis services. It also derives revenue as a reseller of corporate communication solutions. Revenue from subscriptions is recognized monthly when access to the service is provided to the end user; all parties to the agreement have agreed to the agreement; each party's rights are identifiable; the payment terms are identifiable; the agreement has commercial substance; and collection is probable. Revenue from enriched media analysis services is recognized when the services are performed, and performance conditions are satisfied. Revenues from the reseller agreements, which are not significant to the overall revenues, are recognized at gross with our functioning as a principal due to our meeting the following criteria. We act as the

primary obligor in the sales transaction; assume the credit risk, set the price; can select suppliers; and are involved in the execution of the services, including after sales service.

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

We consider U.S. GAAP 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 condensed consolidated statements of operations and comprehensive loss.

Contract acquisition cost for our Agility segment is amortized over the term of the subscription agreement which normally has a duration of 12 months or less. We review these costs on a periodic basis to determine the need to adjust the carrying values for pre-terminated contracts.

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.

Valuation of Goodwill and Intangible Assets

We perform a valuation of assets acquired and liabilities assumed on each acquisition accounted for as a business combination and allocate the purchase price of each acquired business to its respective net tangible and intangible assets and liabilities. Acquired intangible assets principally consist of technology, customer relationships, backlog and trademarks. Liabilities related to intangibles principally consist of unfavorable vendor contracts. We determine the appropriate useful life by performing an analysis of expected cash flows based on projected financial information of the acquired businesses. Intangible assets are amortized over their estimated useful lives using the straight-line method, which approximates the pattern in which the majority of the economic benefits are expected to be consumed. Intangible liabilities are amortized into direct operating costs ratably over their expected related revenue streams over their useful lives.

Goodwill represents the excess of the cost of an acquired entity over the fair value of the acquired net assets. We do not amortize goodwill but evaluate it for impairment at the reporting unit level annually during the third quarter of each fiscal year (as of September 30th of that quarter) or when an event occurs, or circumstances change, that indicates the carrying value may not be recoverable. In 2018, we adopted ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment. Under the newly adopted guidance, the optional qualitative assessment, referred to as “Step 0”, and the first step of the quantitative assessment (“Step 1”) remained unchanged versus the prior guidance. However, the requirement to complete the second step (“Step 2”), which involved determining the implied fair value of goodwill and comparing it to the carrying value of that goodwill to measure the impairment loss, was eliminated. As a result, Step 1 will be used to determine both the existence and amount of goodwill impairment. An impairment loss will

be recognized for the amount by which the reporting unit's carrying amount exceeds its fair value, not to exceed the carrying value of goodwill in that reporting unit.

We periodically analyze whether any indicators of impairment have occurred. As part of these periodic analyses, we compare the Company's estimated fair value, as determined based on our stock price, to the Company's net book value. During 2018, due to a continuing decline in its stock price and other indicators of impairment that arose during the second quarter of 2018, we deemed it appropriate to assess goodwill impairment as of June 30, 2018, rather than the historical testing date of September 30. Based on its assessment, we concluded that the goodwill of the DDS segment, amounting to \$675,000, was fully impaired.

We conducted our annual goodwill impairment test for the Agility segment as of September 30, 2018. The estimated fair value of the reporting unit exceeded its carrying value, including goodwill, and we concluded that there is no impairment of the goodwill of the Agility segment.

Adjusted EBITDA

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 U.S. 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 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 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 U.S. 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, U.S. GAAP net income.

The results below for the year ended December 31, 2017 are presented on a reclassified basis as if for the full year 2017 docGenix had been included in the DDS segment and the Synodex segment had solely included the results of Synodex. docGenix revenue was \$531,000 and \$1,087,000 for the years ended December 31, 2018 and 2017, respectively.

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

	Years Ended December 31,	
	2018	2017
Adjusted EBITDA:		
Net income (loss) attributable to Innodata Inc. and Subsidiaries \$	4	\$ (5,055)
Depreciation and amortization	3,374	3,674
Goodwill impairment	675	-
Stock-based compensation	796	695
Provision for income taxes	1,808	285
Interest expense (income), net	33	(23)
Non-controlling interests	7	(304)
Adjusted EBITDA (loss)	<u>\$ 6,697</u>	<u>\$ (728)</u>

DDS Segment

	Years Ended December 31,	
	2018	2017
Adjusted EBITDA:		
Net income (loss) attributable to DDS Segment	\$ 1,871	\$ (1,728)
Depreciation and amortization	1,832	2,258
Goodwill impairment	675	-
Stock-based compensation	750	689
Provision for income taxes	1,791	326
Interest expense (income), net	22	(34)
Non-controlling interests	(15)	(32)
Adjusted EBITDA - DDS Segment	<u>\$ 6,926</u>	<u>\$ 1,479</u>

Synodex Segment

	Years Ended December 31,	
	2018	2017
Adjusted EBITDA:		
Net income (loss) attributable to Synodex Segment	\$ 424	\$ (609)
Stock-based compensation	6	\$ 2
Non-controlling interests	22	(272)
Adjusted EBITDA (loss) - Synodex Segment	<u>\$ 452</u>	<u>\$ (879)</u>

Agility Segment

	Years Ended December 31,	
	2018	2017
Adjusted EBITDA:		
Net loss attributable to Agility Segment	\$ (2,291)	\$ (2,718)
Depreciation and amortization	1,542	1,416
Stock-based compensation	40	4
Provision for income taxes	17	(41)
Interest expense, net	11	11
Adjusted EBITDA loss - Agility Segment	<u>\$ (681)</u>	<u>\$ (1,328)</u>

Results of Operations

Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017

The results below for the year ended December 31, 2017 are presented on a reclassified basis as if for the full year 2017 docGenix had been included in the DDS segment and the Synodex segment had solely included the results of Synodex. docGenix revenue was \$531,000 and \$1,087,000 in the years ended December 31, 2018 and 2017, respectively.

Revenues

Total revenues were \$57.4 million for the year ended December 31, 2018, a 6% decrease from \$60.9 million for the year ended December 31, 2017.

Revenues from the DDS segment were \$43.5 million and \$47.8 million for the years ended December 31, 2018 and 2017, respectively, a decline of \$4.3 million or approximately 9%. Approximately \$2.3 million of the decrease is attributable to one large project that ended in 2017 and the balance is attributable to volume fluctuations from other clients.

Revenues from the Synodex segment were \$4.1 million and \$3.7 million for the years ended December 31, 2018 and 2017, respectively, an increase of \$0.4 million or approximately 11%. The increase is primarily due to additional volume from two existing clients partially offset by a reduction in volume from another client whose project ended in the first quarter of 2018.

Revenues from the Agility segment were \$9.8 million and \$9.4 million for the year ended December 31, 2018 and 2017, respectively, an increase of \$0.4 million or approximately 4%.

Two clients in the DDS segment generated approximately 30% of the Company's total revenues in the

fiscal years ended December 31, 2018 and 2017, respectively. No other client accounted for 10% or more of total revenues during these periods. Further, in the years ended December 31, 2018 and 2017, revenues from non-US clients accounted for 56% and 51%, respectively, of the Company's revenues.

Direct Operating Costs

Direct operating costs were approximately \$39.0 million and \$45.8 million for the years ended December 31, 2018 and 2017, respectively, a decrease of \$6.8 million or approximately 15%.

Direct operating costs for the DDS segment were \$29.7 million and \$36.2 million for the years ended December 31, 2018 and 2017, respectively, a decrease of \$6.5 million or approximately 18%. Direct operating costs for the DDS segment as a percentage of DDS segment revenues were 68% and 76% for the years ended December 31, 2018 and 2017, respectively. The decrease in direct operating costs is primarily attributable to labor cost savings arising from headcount reductions in the second half of 2017.

Direct operating costs for the Synodex segment were approximately \$3.0 million and \$3.5 million for the respective periods, net of intersegment profit, a decrease of \$0.5 million or 14%. The decline in direct operating costs reflects efficiencies in the production headcount. Direct operating costs for the Synodex segment as a percentage of Synodex segment revenues were 73% and 95% for the years ended December 31, 2018 and 2017, respectively.

Direct operating costs for the Agility segment were approximately \$6.3 million and \$6.1 million, net of intersegment profit, for the years ended December 31, 2018 and 2017, respectively, an increase of \$0.2 million, or 3%. Direct operating costs for the Agility segment as a percentage of Agility segment revenues were 64% and 65% for the years ended December 31, 2018 and 2017, respectively. The increase is primarily due to higher content related costs.

Correction of Immaterial Error

The 2018 DDS direct operating costs referred to above include an out-of-period adjustment of \$269,000 relating to under-recorded pension liabilities relating to the period from 2008 to 2013. See note 1 to the consolidated financial statements for further information.

Selling and Administrative Expenses

Selling and administrative expenses were \$15.8 million for the year ended December 31, 2018 compared to \$20.2 million for the year ended December 31, 2017, a decrease of \$4.4 million or 22% due to cost rationalization implemented in the later part of 2017. Selling and administrative expenses as a percentage of total revenues were 28% and 33% for the years ended December 31, 2018 and 2017, respectively.

Selling and administrative expenses for the DDS segment were \$9.3 million and \$13.1 million for the years ended December 31, 2018 and 2017, respectively, a decrease of \$3.8 million or 29%. As a percentage of DDS revenues, DDS selling and administrative expenses were 21% and 27% for each of the years ended December 31, 2018 and 2017, respectively. The decline in selling and administrative expenses is attributable to labor cost savings arising from headcount reductions in the second half of 2017.

Selling and administrative expenses for the Synodex segment were \$0.7 million and \$1.1 million for each of the years ended December 31, 2018 and 2017, respectively, a decrease of \$0.4 million or 36%. Selling and administrative expenses for the Synodex segment as a percentage of Synodex segment revenues were 17% and 30% for the years ended December 31, 2018 and 2017, respectively.

Selling and administrative expenses for the Agility segment were \$5.8 million and \$6.0 million for each of the years ended December 31, 2018 and 2017, respectively, a decrease of \$0.2 million or 3%. Selling and

administrative expenses for the Agility segment as a percentage of Agility segment revenues were 59% and 64% for the years ended December 31, 2018 and 2017, respectively.

Goodwill Impairment

During the year ended December 31, 2018, we recorded a full goodwill impairment of \$675,000 for the DDS segment. There was no goodwill impairment recorded during the year ended December 31, 2017.

We periodically analyze whether any indicators of impairment have occurred. As part of these periodic analyses, we compare the Company's estimated fair value, as determined based on our stock price, to our net book value. The continued decline in our stock price was viewed as a triggering event under ASU 2017-04 which required an assessment for possible goodwill impairment as of June 30, 2018. Under the provisions of ASU 2017-04, which we opted to early adopt, 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.

We performed this assessment as of June 30, 2018 and determined that the fair value of the Agility segment exceeded its carrying value, but that the fair value of the DDS segment was below its carrying value. As a result, we recorded a full goodwill impairment of \$675,000 for the DDS segment reporting unit as of June 30, 2018.

We conducted our annual goodwill impairment test for the Agility segment as of September 30, 2018. The estimated fair value of the reporting unit exceeded its carrying value, including goodwill, and we concluded that there is no impairment of the goodwill of the Agility segment.

Taxes

We recorded a provision for income taxes of approximately \$1.8 million and \$0.3 million for the years ended December 31, 2018 and 2017, 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 primarily due to the valuation allowance recorded on the deferred taxes on the U.S. and Canadian entities. See Notes to Consolidated Financial Statements, Footnote 4. "Taxes" for additional information.

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 \$25.8 million. No toll charge liability was recorded due to the available net operating loss carryforwards; and
- A reduction of deferred tax assets and a corresponding reduction of the valuation allowance of \$2.3 million, primarily for the remeasurement of our deferred tax assets at the enacted tax rate of 21%.

Beginning January 1, 2018, we performed a calculation of the GILTI provisions and concluded that it has no impact on account of the net losses of our foreign subsidiaries.

Despite access to overseas earnings and the resulting toll charge, we intend to indefinitely reinvest foreign earnings in our foreign subsidiaries on account of the foreign jurisdiction withholding taxes that we would have to incur on the actual remittances. Unremitted earnings of foreign subsidiaries amounted to approximately \$21.0 million at December 31, 2018. 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 foreign jurisdiction withholding taxes associated with such remittances.

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 the 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.

Tax Assessments

In October 2010, our Indian subsidiary received an assessment from the Indian Income Tax Department 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. We believe that our recorded tax liability of \$329,000 for this matter, which includes interest, is adequate.

In January 2012, our Indian subsidiary received an assessment from the Indian Income Tax Department for the fiscal year ended March 31, 2008. We disagree with the basis of this tax assessment and successfully appealed the assessment. The income tax assessing officer has filed an appeal against the decision entered in favor of the subsidiary. We are contesting the appeal filed by the assessing officer. We believe that our recorded tax liability of \$343,000 for this matter, which includes interest, is adequate.

In September 2015, our Indian subsidiary was subject to an inquiry by the Service Tax Department 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. We disagree with the Service Tax Department's position and are vigorously contesting these assertions. In the event the Service Tax Department is successful in proving that the services fall under the category of OID Services, the revenues earned by our Indian subsidiary for the period July 2012 through November 2016 would be subject to a service tax of between 12.36% and 15%. The revenue of our Indian subsidiary during this period was approximately \$67.0 million. In accordance with new rules promulgated by the Service Tax Department, as of December 1, 2016 service tax is no longer applicable to OID or BS Services. Based on our counsel's assessment, we have not recorded any tax liability for this case.

In October 2016, our Indian subsidiary received notices of appeal from the Indian Service Tax Department in India seeking to reverse service tax refunds of approximately \$160,000 previously granted to

our Indian subsidiary for three quarters in 2014, asserting that the services provided by this subsidiary fall under the category of OID Services and not BS Services. The appeal was determined in favor of the Service Tax Department. We disagree with the basis of this decision and are contesting it vigorously. We expect delays in our Indian subsidiary receiving further service tax refunds until this matter is adjudicated with finality, and currently have service tax credits of approximately \$1.0 million recorded as a receivable. Based on our counsel's assessment, we have not recorded any tax liability for this case.

We have recorded a tax provision amounting to \$181,000, which includes interest, 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 Income (Loss)

We had a net income of \$4,000 during the year ended December 31, 2018 compared to a net loss of \$5.1 million during the year ended December 31, 2017.

Net income for the DDS segment was \$1.9 million for the year ended December 31, 2018, compared to a net loss of \$1.8 million for the year ended December 31, 2017, net of intersegment profits. The change is due to a decline in revenues offset by a decline in direct operating costs and selling and administrative expenses attributable to our cost rationalization initiatives.

Net income for the Synodex segment was \$0.4 million for the year ended December 31, 2018, compared to net loss of \$0.6 million for the year ended December 31, 2017, net of intersegment profits. The change is primarily due to an increase in revenues and a decline in direct operating costs and selling and administrative expense.

Net loss for the Agility segment was \$2.3 million for the year ended December 31, 2018, compared to a net loss of \$2.7 million for the year ended December 31, 2017.

Adjusted EBITDA

Adjusted EBITDA for the year ended December 31, 2018 was \$6.7 million compared to an Adjusted EBITDA loss of \$0.7 million for the year ended December 31, 2017, an increase of \$7.4 million. Adjusted EBITDA for the DDS segment was \$6.9 million and \$1.5 million for the years ended December 31, 2018 and 2017, respectively, an increase of \$5.4 million or approximately 360%. Adjusted EBITDA for the Synodex segment was \$0.5 million and an Adjusted EBITDA loss of \$0.9 million for the years ended December 31, 2018 and 2017, respectively, an increase of \$1.4 million. Adjusted EBITDA loss for the Agility segment was \$0.7 million compared to an Adjusted EBITDA loss of \$1.3 million for the years ended December 31, 2018 and 2017, respectively, an improvement of \$0.6 million or approximately 46%.

Liquidity and Capital Resources

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

	December 31,	
	2018	2017
Cash and cash equivalents	\$ 10,869	\$ 11,407
Working capital	12,981	9,729

At December 31, 2018, we had cash and cash equivalents of \$10.9 million, of which \$5.6 million was held by our foreign subsidiaries, and \$5.3 million was held in the United States. Despite the passage of the new

tax law under which we may repatriate funds from overseas after paying the toll charge, it is our intent as of December 31, 2018, 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 Agility Segment; (ii) the expansion of our other operations; (iii) technology innovation; (iv) product management and strategic marketing; (v) general corporate purposes, including working capital; and (vi) possible business acquisitions. As of December 31, 2018, we had working capital of approximately \$13.0 million, as compared to working capital of approximately \$9.7 million as of December 31, 2017.

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 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 Operating Activities

Cash provided by our operating activities for the year ended December 31, 2018 was \$3.6 million, resulting from a net income of \$11,000 and adjustments for non-cash items of \$5.6 million and uses of working capital of \$2.0 million. Adjustments for non-cash items primarily consisted of \$3.4 million for depreciation and amortization, stock option expense of \$0.8 million, goodwill impairment of \$0.7 million, pension cost of \$0.5 million and deferred tax provisions of \$0.2 million. Working capital activities primarily consisted of a use of cash of \$1.0 million due to a decrease in accrued salaries, wages and related benefits, \$0.8 million due to a decrease in accounts payable and accrued expenses and \$0.2 million due to a decrease in other working capital accounts.

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.

At December 31, 2018, our days' sales outstanding were 66 days as compared to 61 days as of December 31, 2017. 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

Cash used in our investing activities was \$2.0 million and \$3.4 million for the years ended December 31, 2018 and 2017, respectively. These capital expenditures were principally for the purchase of technology equipment including servers, network infrastructure and workstations, and expenditures for internally developed software. Capital expenditures of \$2.0 million consisted of \$0.4 million for the DDS segment and \$1.6 million for the Agility segment.

For the year 2019, 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 Used in Financing Activities

Payment of long-term obligations approximated \$2.0 million and \$1.1 million for 2018 and 2017,

respectively. Cash from financing activities represents the net proceeds from a capital lease transaction we entered into in 2017 amounting to \$0.8 million. There were no stock option exercises during the years ended December 31, 2018 and 2017, respectively.

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.

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

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, 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. Our allowance for doubtful accounts as of December 31, 2018 and 2017 was approximately \$1.0 million and \$1.2 million, respectively.

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, 2018 and 2017 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 (\$201,000) and \$466,000 for the years ended December 31, 2018 and 2017, respectively.

The functional currency for our subsidiaries in Germany, the 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 (\$779,000) and \$706,000 for the years ended December 31, 2018 and 2017, respectively.

Revenue Recognition

Revenue is recognized when control of the promised services is transferred to a customer, in an amount that reflects the consideration that we expect to receive in exchange for those services as per the agreement with the customer. We generate all our revenue from agreements with customers. In case there are agreements with multiple performance obligations, we identify each performance obligation and evaluate whether the performance obligations are distinct within the context of the agreement at the agreement's inception. Performance obligations that are not distinct at agreement inception are combined. We allocate the transaction price to each distinct performance obligation proportionately based on the estimated standalone selling price for each performance obligation, if any, and then evaluate how the services are transferred to the customer to determine the timing of revenue recognition.

On January 1, 2018, we adopted ASC 606, Revenue from Contracts with Customers (“ASC 606”) and all related Accounting Standards Updates by applying the modified retrospective method to all contracts that were not completed on January 1, 2018. The modified retrospective approach required us to recognize the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings on January 1, 2018. Comparative information has not been restated and continues to be reported under the historical accounting standards in effect for those periods. The adoption of the new revenue standard did not result in a cumulative effect adjustment to our retained earnings since there was no significant impact upon adoption of the new standard. There was also no material impact to revenues, or any other financial statement line items for the year ended December 31, 2018 as a result of applying ASC 606. We expect the impact of the adoption of ASC 606 to remain insignificant to the Company’s results of operations on an ongoing basis.

For the DDS segment, revenue is recognized primarily based on the quantity delivered or resources utilized in the period in which services are performed and performance conditions are satisfied as per the agreement. Revenues for agreements billed on a time-and-materials basis are recognized as services are performed. Revenues under fixed-fee agreements, 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 Synodex segment, revenue is recognized primarily based on the quantity delivered in the period in which services are performed and performance conditions are satisfied as per the agreement. A portion of our Synodex segment revenue is derived from licensing our functional software and providing access to our hosted software platform. Revenue from such services is recognized monthly when access to the service is provided to the end user; all parties to the agreement have agreed to the agreement; each party’s rights are identifiable; the payment terms are identifiable; the agreement has commercial substance; and collection is probable.

The Agility segment derives its revenue primarily from subscription arrangements and provision of enriched media analysis services. It also derives revenue as a reseller of corporate communication solutions. Revenue from subscriptions is recognized monthly when access to the service is provided to the end user; all parties to the agreement have agreed to the agreement; each party’s rights are identifiable; the payment terms are identifiable; the agreement has commercial substance; and collection is probable. Revenue from enriched media analysis services is recognized when the services are performed, and performance conditions are satisfied. Revenues from the reseller agreements, which are not significant to the overall revenues, are recognized at gross with our functioning as a principal due to our meeting the following criteria. We act as the primary obligor in the sales transaction; assume the credit risk, set the price; can select suppliers; and are involved in the execution of the services, including after sales service.

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

We consider U.S. GAAP 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 condensed consolidated statements of operations and comprehensive loss.

Contract acquisition cost for our Agility segment is amortized over the term of the subscription agreement which normally has a duration of 12 months or less. We review these costs on a periodic basis to determine the need to adjust the carrying values for pre-terminated contracts.

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, 2018, 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 foreign jurisdiction 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, 2018, we continue to maintain a valuation allowance on all U.S. deferred tax assets.

As of December 31, 2018, 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. As of December 31, 2018, we continue to maintain a valuation allowance on all Canadian deferred tax assets.

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

We perform a valuation of assets acquired and liabilities assumed on each acquisition accounted for as a business combination and allocate the purchase price of each acquired business to its respective net tangible and intangible assets and liabilities. Acquired intangible assets principally consist of technology, customer relationships, backlog and trademarks. Liabilities related to intangibles principally consist of unfavorable vendor contracts. We determine the appropriate useful life by performing an analysis of expected cash flows based on projected financial information of the acquired businesses. Intangible assets are amortized over their estimated useful lives using the straight-line method, which approximates the pattern in which the majority of the economic benefits are expected to be consumed. Intangible liabilities are amortized into direct operating costs

ratably over their expected related revenue streams over their useful lives.

Goodwill represents the excess of the cost of an acquired entity over the fair value of the acquired net assets. We do not amortize goodwill but evaluate it for impairment at the reporting unit level annually during the third quarter of each fiscal year (as of September 30th of that quarter) or when an event occurs, or circumstances change, that indicates the carrying value may not be recoverable. In 2018, we adopted ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment. Under the newly adopted guidance, the optional qualitative assessment, referred to as “Step 0”, and the first step of the quantitative assessment (“Step 1”) remained unchanged versus the prior guidance. However, the requirement to complete the second step (“Step 2”), which involved determining the implied fair value of goodwill and comparing it to the carrying value of that goodwill to measure the impairment loss, was eliminated. As a result, Step 1 will be used to determine both the existence and amount of goodwill impairment. An impairment loss will be recognized for the amount by which the reporting unit’s carrying value exceeds its fair value, not to exceed the carrying value of goodwill in that reporting unit.

We periodically analyze whether any indicators of impairment have occurred. As part of these periodic analyses, we compare the Company’s estimated fair value, as determined based on our stock price, to the Company’s net book value. During 2018, due to a continuing decline in our stock price and other indicators of impairment that arose during the second quarter of 2018, we deemed it appropriate to assess goodwill impairment as of June 30, 2018, rather than the historical testing date of September 30. Based on our assessment, we concluded that the goodwill of the DDS segment, amounting to \$675,000, was fully impaired.

We conducted our annual goodwill impairment test for the Agility segment as of September 30, 2018. The estimated fair value of the reporting unit exceeded its carrying value, including goodwill, and we concluded that there is no impairment of the goodwill of the Agility segment.

Accounting for Stock-Based Compensation

We are authorized to grant stock options and other stock-based awards 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 \$0.8 million and \$0.7 million for the years ended December 31, 2018 and 2017, 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

On January 1, 2018, we adopted ASC 606, Revenue from Contracts with Customers (“ASC 606”) and all related Accounting Standards Updates by applying the modified retrospective method to all contracts that were not completed on January 1, 2018. The modified retrospective approach required us to recognize the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings on January 1, 2018. Comparative information has not been restated and continues to be reported under the historical accounting standards in effect for those periods. The adoption of the new revenue standard did not result in a cumulative effect adjustment to our retained earnings since there was no significant impact upon adoption of the new standard. There was also no material impact to revenues, or any other financial statement line items for the year ended December 31, 2018 as a result of applying ASC 606. We expect the impact of the adoption of ASC 606 to remain insignificant to the Company’s results of operations on an ongoing basis.

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 twelve 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. We adopted this guidance on January 1, 2019 and are electing the package of practical expedients, which, among other things, allows us to carry forward our prior lease classifications under ASC 840. At adoption, the Company expects to recognize right of use assets of approximately \$8 million and related lease liabilities of \$9 million on its consolidated balance sheet for its operating leases. We do not expect ASU 2016-02 to have a material impact on our annual results of operations and/or cash flows.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”), which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The Company will adopt ASU 2016-01 in its first quarter of 2019 utilizing the modified retrospective transition method. Based on the composition of the Company’s investment portfolio, the adoption of ASU 2016-01 is not expected to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, “Compensation-Retirement Benefits-Defined Benefits Plans-General: Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans” (“ASU 2018-14”) that makes minor changes to the disclosure requirements for employers that sponsor defined benefit pension and/or other postretirement benefit plans. The guidance eliminates requirements for certain disclosures that are no longer considered cost beneficial and adds new disclosure requirements that the FASB considers pertinent. ASU 2018-14 is effective for fiscal years ending after December 15, 2020 for public entities, early adoption is permitted. We are currently evaluating the early adoption of ASU-2018-14 but do not expect it to have a material impact.

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

Not applicable to smaller reporting companies.

Item 8. Financial Statements and Supplementary Data.

See Financial Statement Index and Financial Statements 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 Interim 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 interim 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 Interim Principal Financial Officer concluded that, as of December 31, 2018, 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, 2018.

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 2019 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 2018 fiscal year.

The Company has a code of ethics that applies to all of its employees, officers, and directors, including its principal executive officer, interim principal financial officer, and corporate controller. The text of the Company's code of ethics is posted on its website at 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 2019 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 2018 fiscal year.

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

The information called for under Item 403 Security Ownership of Certain Beneficial Owners and Management of Regulation S-K by Item 12 is incorporated by reference from the Company's definitive proxy statement for the 2019 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 2018 fiscal year.

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, 2018:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (c)
Equity compensation plans approved by security holders ⁽¹⁾	4,982,040	\$ 2.14	5,351,733
Equity compensation plans not approved by security holders	—	—	—
Total	<u>4,982,040</u>	<u>\$ 2.14</u>	<u>5,351,733</u>

⁽¹⁾ 2013 Stock Plan, approved by the stockholders, see Note 9 to Consolidated Financial Statements, contained elsewhere herein.

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 2019 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 2018 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 2019 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 2018 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.

Item 16. Form 10K Summary.

None.

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 25, 2019

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, President and Interim Principal Financial Officer	March 25, 2019
<u>/s/ David B. Atkinson</u> David B. Atkinson	Director	March 25, 2019
<u>/s/ Louise C. Forlenza</u> Louise C. Forlenza	Director	March 25, 2019
<u>/s/ Brian E. Kardon</u> Brian E. Kardon	Director	March 25, 2019
<u>/s/ Douglas J. Manoni</u> Douglas J. Manoni	Director	March 25, 2019
<u>/s/ Stewart R. Massey</u> Stewart R. Massey	Director	March 25, 2019
<u>/s/ Michael J. Opat</u> Michael J. Opat	Director	March 25, 2019

Item 8. Financial Statements.

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

	<u>PAGE</u>
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2018 and 2017	F-3
Consolidated Statements of Operations and Comprehensive Loss for the years ended December 31, 2018 and 2017	F-4
Consolidated Statements of Stockholders' Equity for the years ended ended December 31, 2018 and 2017	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2018 and 2017	F-6
Notes to Consolidated Financial Statements	F-7

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
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, 2018 and 2017, 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, 2018 and 2017, 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
Roseland, New Jersey
March 25, 2019

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

INNODATA INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(in thousands, except share and per share data)

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,869	\$ 11,407
Accounts receivable, net	10,626	10,291
Prepaid expenses and other current assets	5,778	3,630
Total current assets	27,273	25,328
Property and equipment, net	6,813	7,189
Other assets	2,436	3,159
Deferred income taxes	1,204	1,757
Intangibles, net	6,275	7,606
Goodwill	2,050	2,832
Total assets	\$ 46,051	\$ 47,871
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,834	\$ 1,870
Accrued expenses	2,903	3,759
Accrued salaries, wages and related benefits	4,494	5,539
Income and other taxes	3,532	1,098
Current portion of long-term obligations	1,529	3,333
Total current liabilities	14,292	15,599
Deferred income taxes	571	614
Long-term obligations, net of current portion	4,062	4,477
Non-controlling interests	(3,440)	(3,938)
Commitments and contingencies	-	-
STOCKHOLDERS' EQUITY:		
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	275	275
Additional paid-in capital	27,579	27,275
Retained earnings	7,349	7,345
Accumulated other comprehensive income (loss)	(15)	846
	35,188	35,741
Less: treasury stock, 1,681,000 shares at cost	(4,622)	(4,622)
Total stockholders' equity	30,566	31,119
Total liabilities and stockholders' equity	\$ 46,051	\$ 47,871

See notes to consolidated financial statements.

INNODATA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands, except per share amounts)

	<u>2018</u>	<u>2017</u>
Revenues	\$ 57,418	\$ 60,929
Operating costs and expenses:		
Direct operating costs	39,045	45,826
Selling and administrative expenses	15,846	20,200
Goodwill impairment	675	-
Interest expense (income), net	33	(23)
	<u>55,599</u>	<u>66,003</u>
Income (loss) before provision for income taxes	1,819	(5,074)
Provision for income taxes	1,808	285
Net income (loss)	11	(5,359)
Income (loss) attributable to non-controlling interests	7	(304)
Net income (loss) attributable to Innodata Inc. and Subsidiaries	<u>\$ 4</u>	<u>\$ (5,055)</u>
Income (loss) per share attributable to Innodata Inc. and Subsidiaries:		
Basic and diluted	<u>\$ 0.00</u>	<u>\$ (0.20)</u>
Weighted average shares outstanding:		
Basic and diluted	<u>25,878</u>	<u>25,816</u>
Comprehensive loss:		
Net income (loss)	\$ 11	\$ (5,359)
Pension liability adjustment, net of taxes	260	(196)
Change in fair value of derivatives, net of taxes	(342)	660
Foreign currency translation adjustment	(779)	706
Other comprehensive income (loss)	(861)	1,170
Total comprehensive loss	(850)	(4,189)
Comprehensive income (loss) attributed to non-controlling interest	7	(304)
Comprehensive loss attributable to Innodata Inc. and Subsidiaries	<u>\$ (857)</u>	<u>\$ (3,885)</u>

See notes to consolidated financial statements.

INNODATA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares	Amount					
January 1, 2017	25,624	\$ 273	\$ 26,057	\$ 12,400	\$ (324)	\$ (4,622)	\$ 33,784
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
December 31, 2017	<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>
Net income	-	-	-	4	-	-	4
Stock-based compensation	-	-	796	-	-	-	796
Acquisition of non-controlling interest	-	-	(492)	-	-	-	(492)
Pension liability adjustments, net of taxes	-	-	-	-	260	-	260
Foreign currency translation adjustment	-	-	-	-	(779)	-	(779)
Change in fair value of derivatives, net of taxes	-	-	-	-	(342)	-	(342)
December 31, 2018	<u>25,878</u>	<u>\$ 275</u>	<u>\$ 27,579</u>	<u>\$ 7,349</u>	<u>\$ (15)</u>	<u>\$ (4,622)</u>	<u>\$ 30,566</u>

See notes to consolidated financial statements.

INNODATA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands)

	2018	2017
Cash flows from operating activities:		
Net income (loss)	\$ 11	\$ (5,359)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,374	3,674
Goodwill impairment	675	-
Provision for doubtful accounts	-	(139)
Stock-based compensation	796	695
Deferred income taxes	175	(354)
Pension cost	477	245
Changes in operating assets and liabilities:		
Accounts receivable	(533)	(40)
Prepaid expenses and other current assets	(327)	284
Other assets	521	(188)
Accounts payable and accrued expenses	(779)	1,595
Accrued salaries, wages and related benefits	(1,020)	484
Income and other taxes	234	(258)
Net cash provided by operating activities	3,604	639
Cash flows from investing activities:		
Capital expenditures	(2,033)	(3,410)
Net cash used in investing activities	(2,033)	(3,410)
Cash flows from financing activities:		
Proceeds from equipment financing	-	793
Redemption of shares from non-controlling interest	(2)	-
Payment of long-term obligations	(2,025)	(1,077)
Net cash used in financing activities	(2,027)	(284)
Effect of exchange rate changes on cash and cash equivalents	(82)	290
Net decrease in cash and cash equivalents	(538)	(2,765)
Cash and cash equivalents, beginning of year	11,407	14,172
Cash and cash equivalents, end of year	\$ 10,869	\$ 11,407
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	\$ 680	\$ 1,090
Vendor financed software licenses acquired	\$ -	\$ 1,213
Common stock issued for MediaMiser acquisition	\$ -	\$ 525
Non cash redemption of non-controlling interest	\$ (490)	\$ -

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 (“we”, the “Company”, or “Innodata”) is a global services and technology company. We combine human expertise with deep learning technologies to power leading information products and enterprise artificial intelligence (AI)/digital transformation.

The Company, founded in 1988 and headquartered in northern New Jersey, features a 3,500-strong global delivery and technology team spanning ten offices globally and a research and technology incubator, Innodata Labs, which focuses on applied machine learning and emerging artificial intelligence.

The Company’s core services are (i) data acquisition, transformation, and enrichment at scale; (ii) digital operations management and analytics; and (iii) content applications. We report our core business as the Digital Data Solutions (DDS) segment.

The Company also has venture businesses that leverage its core capabilities to provide specific industry solutions. The Company’s Synodex venture business delivers a SaaS platform and managed services for digital transformation of medical data. The Company’s Agility PR Solutions (Agility) venture business delivers a SaaS platform and managed service for delivering news, information, and content to targeted journalists and influencers as well as monitoring and analyzing coverage across traditional and social media sources. Each venture business is reported as a separate segment.

Prior to the first quarter of 2018, the Company referred to the Agility segment as Media Intelligence Solutions (MIS) and the Synodex segment as Innodata Advanced Data Solutions (IADS), and reported the results of the Innodata docGenix, LLC subsidiary (docGenix) within the IADS segment. Effective with the first quarter of 2018, the results for docGenix are reported within the DDS segment. As of December 31, 2018, Innodata Inc. owned 94% of docGenix.

The Company’s DDS segment specializes in combining *deep neural networks* and *human expertise* in multiple domains (including health, science, and law) to make “unstructured information” (sometimes referred to as “content”) useable. For business information companies, “useable” means that the content can be sold via subscription to a *digital product*. For enterprises, “useable” means that the content can drive *digital process transformation* and *AI*. The Company works with all classes of data, including sensitive and protected data.

We also develop digital products for business information companies and digital systems which replace legacy systems and processes.

In 2018, we continued to implement a strategy we initiated in 2017 focused on technology differentiation, increasingly taking an innovation-led approach to create value for clients while driving leaner, more cost-effective operations.

The Company’s Synodex segment enables clients in the insurance and healthcare sectors to transform medical records into useable digital data and to apply technologies to the digital data to augment decision support.

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, life settlement claims, and clinical trial support

services.

The Company's Synodex segment operates through the Company's Innodata Synodex, LLC subsidiary. As of December 31, 2018, Innodata Inc. owned 92.5% of Innodata Synodex, LLC, an increase of 1.5% from June 30, 2018. As a result, the Company reduced the carrying value of the non-controlling interest in Innodata Synodex, LLC by approximately \$492,000, which was charged against the Company's additional paid-in capital.

The Company's Agility segment provides tools and related professional services that enable public relations (PR) and communications professionals to discover influencers, amplify messages, monitor coverage, and measure the impact of campaigns.

Agility's software-as-a-service (SaaS) tools include:

- An influencer targeting solution to help PR professionals identify influencers. The Agility media database includes detailed contact information for over 840,000 unique influencers globally including journalists, outlets, and bloggers. Live social media streams to allow users to research influencers by tracking activity and keywords across multiple social media channels.
- An outreach and content amplification solution enabling PR professionals to distribute news, information, and content to targeted influencers.
- Integrated newswire services.
- A media monitoring solution to help PR professionals track what is being said about their brand, industry or competitors and track engagement. Users can monitor and report on coverage across print, broadcast, online and social media sources, including AI-powered image monitoring. The self-serve monitoring tool enables users to create alerts, compile and share coverage briefings and clipbooks.
- A media analysis solution to help PR professionals analyze coverage, determine PR campaign reach and effectiveness, and create and distribute reports.

Agility's professional services include:

- Media monitoring and PR measurement services delivered by a team of media analysts who use the Company's SaaS monitoring solution to pull coverage and curate daily news briefs. This powerful media monitoring solution is for clients with complex monitoring or reporting requirements.
- Advanced PR reporting and measurement services including custom reports, PR measurement and social media / influencer analysis.

Bulldog Reporter, a publisher of PR-related news and a popular e-newsletter, and the Bulldog Awards, a PR awards program that recognizes outstanding performance among PR and communications professionals and agencies, are properties of Agility.

Principles of Consolidation - The consolidated financial statements include the accounts of Innodata Inc. and its wholly-owned subsidiaries, Agility PR Solutions Canada, 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.

Use of Estimates - In preparing financial statements in conformity with accounting principles generally accepted in the United States of America (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

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, valuation of derivative instruments and estimated accruals for various tax exposures.

Revenue Recognition – Revenue is recognized when control of the promised services is transferred to a customer, in an amount that reflects the consideration that we expect to receive in exchange for those services as per the agreement with the customer. We generate all our revenue from agreements with customers. In case there are agreements with multiple performance obligations, we identify each performance obligation and evaluate whether the performance obligations are distinct within the context of the agreement at the agreement’s inception. Performance obligations that are not distinct at agreement inception are combined. We allocate the transaction price to each distinct performance obligation proportionately based on the estimated standalone selling price for each performance obligation, if any, and then evaluates how the services are transferred to the customer to determine the timing of revenue recognition.

On January 1, 2018, the Company adopted ASC 606, *Revenue from Contracts with Customers* (“ASC 606”) and all related Accounting Standards Updates by applying the modified retrospective method to all contracts that were not completed on January 1, 2018. The modified retrospective approach requires us to recognize the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings on January 1, 2018. Comparative information has not been restated and continues to be reported under the historical accounting standards in effect for those periods. The adoption of the new revenue standard did not result in a cumulative effect adjustment to our retained earnings since there was no significant impact upon adoption of the new standard. There was also no material impact to revenues, or any other financial statement line items for the year ended December 31, 2018 as a result of applying ASC 606. We expect the impact of the adoption of ASC 606 to remain significant to the Company’s results of operations on an ongoing basis.

For the DDS segment, revenue is recognized primarily based on the quantity delivered or resources utilized in the period in which services are performed and performance conditions are satisfied as per the agreement. Revenues for agreements billed on a time-and-materials basis are recognized as services are performed. Revenues under fixed-fee agreements, which are not significant to the overall revenues, are recognized based on the proportional performance method of accounting, as services are performed, or milestones are achieved.

For the Synodex segment, revenue is recognized primarily based on the quantity delivered in the period in which services are performed and performance conditions are satisfied as per the agreement. A portion of our Synodex segment revenue is derived from licensing our functional software and providing access to our hosted software platform. Revenue from such services is recognized monthly when access to the service is provided to the end user; all parties to the agreement have agreed to the agreement; each party’s rights are identifiable; the payment terms are identifiable; the agreement has commercial substance; and collection is probable.

The Agility segment derives its revenue primarily from subscription arrangements and provision of enriched media analysis services. It also derives revenue as a reseller of corporate communication solutions. Revenue from subscriptions is recognized monthly when access to the service is provided to the end user; all parties to the agreement have agreed to the agreement; each party’s rights are identifiable; the payment terms are identifiable; the agreement has commercial substance; and collection is probable. Revenue from enriched media analysis services is recognized when the services are performed, and performance conditions are satisfied. Revenues from the reseller agreements, which are not significant to the overall revenues, are recognized at gross with our functioning as a principal due to our meeting the following criteria. We act as the primary obligor in the sales transaction; assume the credit risk, set the price; can select suppliers; and are involved in the execution of the services, including after sales service.

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

We consider U.S. GAAP 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 condensed consolidated statements of operations and comprehensive loss.

Contract acquisition cost for our Agility segment is amortized over the term of the subscription agreement which normally has a duration of 12 months or less. We review these costs on a periodic basis to determine the need to adjust the carrying values for pre-terminated contracts.

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, 2018 and 2017 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 (\$201,000) and \$466,000 for the years ended December 31, 2018 and 2017, respectively.

The functional currency for our subsidiaries in Germany, the 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 (\$779,000) and \$706,000 for the years ended December 31, 2018 and 2017, respectively.

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. There were no outstanding foreign currency forward contracts at December 31, 2018.

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.

Leases - The Company uses its incremental borrowing rate in the assessment of lease classification as capital or operating and defines the initial lease term to include renewal options determined to be reasonably assured. The majority of our leases are operating leases. See "Recent Accounting Pronouncement on Leases."

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 – The Company performs valuations of assets acquired and liabilities assumed on each acquisition accounted for as a business combination and allocates the purchase price of each acquired business to its respective net tangible and intangible assets and liabilities. Acquired intangible assets principally consist of technology, customer relationships, backlog and trademarks. Liabilities related to intangibles principally consist of unfavorable vendor contracts. The Company determines the appropriate useful life by performing an analysis of expected cash flows based on projected financial information of the acquired businesses. Intangible assets are amortized over their estimated useful lives using the straight-line method, which approximates the pattern in which the majority of the economic benefits are expected to be consumed. Intangible liabilities are amortized into direct operating costs ratably over their expected related revenue streams over their useful lives.

Goodwill represents the excess of the cost of an acquired entity over the fair value of the acquired net assets. The Company does not amortize goodwill but evaluates it for impairment at the reporting unit level annually during the third quarter of each fiscal year (as of September 30th of that quarter) or when an event occurs, or circumstance changes, that indicate the carrying value may not be recoverable. In 2018, the Company adopted Accounting Standard Update (ASU) 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment. Under the newly adopted guidance, the optional qualitative assessment, referred to as “Step 0”, and the first step of the quantitative assessment (“Step 1”) remained unchanged compared to the prior guidance. However, the requirement to complete the second step (“Step 2”), which involved determining the implied fair value of goodwill and comparing it to the carrying value of that goodwill to measure the impairment loss, was eliminated. As a result, Step 1 will be used to determine both the existence and amount of goodwill impairment. An impairment loss will be recognized for the amount by which the reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill in that reporting unit.

The Company periodically analyzes whether any indicators of impairment have occurred. As part of these periodic analyses, the Company compares its estimated fair value, as determined based on its stock price, to its net book value. Due to a continuing decline in its stock price and other indicators of impairment that arose during the second quarter of 2018, the Company deemed it appropriate to assess goodwill impairment as of June 30, 2018, rather than the historical testing date of September 30. Based on its assessment the Company concluded that the goodwill of the DDS segment, amounting to \$675,000, was fully impaired. Refer to Note 3, “Goodwill and Intangible Assets”.

The Company conducted its annual goodwill impairment test for the Agility segment as of September 30, 2018. The estimated fair value of the reporting unit exceeded its carrying value, including goodwill, and the Company concluded that there is no impairment of the goodwill of the Agility segment.

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.

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. and Canadian deferred tax assets will not be realizable. As the expectation of future taxable income resulting from Synodex and Agility segments 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 the 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 stock plan was allocated as follows (in thousands):

	Year Ended December 31,	
	2018	2017
Direct operating costs	\$ 264	\$ 260
Selling and administrative expenses	532	435
Total stock-based compensation	<u>\$ 796</u>	<u>\$ 695</u>

Fair Value of Financial Instruments - The carrying amounts of financial instruments approximated their fair value as of December 31, 2018 and 2017, because of the relative short maturity of these instruments. See Note 14.

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. Our allowance for doubtful accounts as of December 31, 2018 and 2017 was approximately \$1.0 million and \$1.2 million, respectively.

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, 2018, the Company had cash and cash equivalents of \$10.9 million, of which \$5.6 million was held by its foreign subsidiaries with local banks located mainly in Asia and \$5.3 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.

Income (loss) per Share – Income (loss) per share is computed using the weighted-average number of common shares outstanding during the year. Diluted income (loss) per share is computed by considering the impact of the potential issuance of common shares, using the treasury stock method, on the weighted average number of shares outstanding. For those securities that are not convertible into a class of common stock, the “two class” method of computing income (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, 2018 and 2017 is deferred revenue amounting to \$1.1 million and \$1.3 million, respectively. Certain amounts in the 2017 consolidated financial statements have been reclassified to conform to the 2018 presentation.

Recent Accounting Pronouncements – On January 1, 2018 the company adopted ASC 606, Revenue from Contracts with Customers (“ASC 606”) and all related Accounting Standards Updates by applying the modified retrospective method to all contracts that were not completed on January 1, 2018. The modified retrospective approach required us to recognize the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings on January 1, 2018. Comparative information has not been restated and continues to be reported under the historical accounting standards in effect for those periods. The adoption of the new revenue standard did not result in a cumulative effect adjustment to our retained earnings since there was no significant impact upon adoption of the new standard. There was also no material impact to revenues, or any other financial statement line items for the year ended

December 31, 2018 as a result of applying ASC 606. We expect the impact of the adoption of ASC 606 to remain insignificant to the Company's results of operations on an ongoing basis.

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 twelve 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. We adopted this guidance on January 1, 2019 and are electing the package of practical expedients, which, among other things, allows us to carry forward our prior lease classifications under ASC 840. At adoption, the Company expects to recognize right of use assets of approximately \$8 million and related lease liabilities of \$9 million on its consolidated balance sheet for its operating leases. We do not expect ASU 2016-02 to have a material impact on our annual results of operations and/or cash flows.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (“Subtopic 825-10”): Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”), which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The Company will adopt ASU 2016-01 in its first quarter of 2019 utilizing the modified retrospective transition method. Based on the composition of the Company's investment portfolio, the adoption of ASU 2016-01 is not expected to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, “Compensation-Retirement Benefits-Defined Benefits Plans-General: Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans” (“ASU 2018-14”) that makes minor changes to the disclosure requirements for employers that sponsor defined benefit pension and/or other postretirement benefit plans. The guidance eliminates requirements for certain disclosures that are no longer considered cost beneficial and adds new disclosure requirements that the FASB considers pertinent. ASU 2018-14 is effective for fiscal years ending after December 15, 2020 for public entities, early adoption is permitted. We are currently evaluating the early adoption of ASU-2018-14 but do not expect it to have a material impact.

Correction of Immaterial Error - During the preparation of the 2018 consolidated financial statements, the Company identified a cumulative error in accounting for pension expense under ASC 715, resulting in an immaterial understatement of pension liabilities and overstatement of retained earnings. The cumulative error resulted from the cumulative effect of under-recorded pension expense from December 31, 2008 through December 31, 2013 with respect to the Company's DDS segment. On a year to year basis, the under-recorded pension expense did not have a significant impact on the consolidated balance sheets and statements of operations and comprehensive loss. The cumulative error resulted in an understatement of pension liabilities and an overstatement of retained earnings, each by an aggregate amount of \$269,000.

In accordance with Staff Accounting Bulletin (SAB) No. 99, *Materiality*, and SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, management evaluated the materiality of the cumulative error on the current year and affected prior year financial statements from both a qualitative and quantitative perspective. Based on this analysis, the Company concluded that correcting the cumulative error would be immaterial to the current year financial statements and that such cumulative error does not have a material impact on the periods in which the pension expenses were under-recorded or the intervening periods. The correction of the cumulative error was recorded in the 2018 consolidated financial statements. The \$700,000 in recorded pension expense for 2018 includes the \$269,000 of prior under-recorded pension expense and the \$2.5 million of pension liability as of December 31, 2018 includes the \$269,000 of prior under-recorded pension liability. The aggregate effect of the out-of-period correction was a reduction of net income of \$269,000.

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:

	December 31,	
	2018	2017
Equipment	\$ 13,165	\$ 13,574
Software	8,868	7,291
Furniture and equipment	2,153	2,276
Leasehold improvements	4,604	5,342
Total	28,790	28,483
Less: accumulated depreciation and amortization	(21,977)	(21,294)
	<u>\$ 6,813</u>	<u>\$ 7,189</u>

Depreciation and amortization expense of property and equipment was approximately \$2.2 million and \$2.5 million for the years ended December 31, 2018 and 2017, respectively.

Total assets financed under capital leases for the years ended December 31, 2018 and 2017 were \$0.2 million and \$0.8 million, respectively.

3. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill as of December 31, 2018 and 2017 were as follows (in thousands):

Balance as of January 1, 2017	\$ 2,734
Foreign currency translation adjustment	98
Balance as of December 31, 2017	<u>2,832</u>
Foreign currency translation adjustment	(107)
Goodwill impairment	<u>(675)</u>
Balance as of December 31, 2018	<u>\$ 2,050</u>

The Company recorded a full goodwill impairment of \$675,000 for its DDS segment as of June 30, 2018.

The Company periodically analyzes whether any indicators of impairment have occurred. As part of these periodic analyses, the Company compares its estimated fair value, as determined based on its stock price, to its net book value. The continued decline in the Company's stock price was viewed by the Company as a triggering event under ASU 2017-04 which required an assessment for possible goodwill impairment as of June 30, 2018. Under the provisions of ASU 2017-04, which the Company opted to early adopt, 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 Company performed this assessment as of June 30, 2018 and determined that the fair value of the Agility segment exceeded its carrying value, but the fair value of the DDS segment was below its carrying value. As a result, the Company recorded a full goodwill impairment of \$675,000 for the DDS segment reporting unit as of June 30, 2018.

The Company performed its annual goodwill assessment for the Agility segment as of September 30, 2018 and reached the conclusion that there is no goodwill impairment because the Agility segment's fair value exceeded its carrying value.

The fair value measurement of goodwill was classified within Level 3 of the fair value hierarchy because the income approach was used, which utilizes significant inputs that are unobservable in the market. The Company believes it made reasonable estimates and assumptions to calculate the fair value of the reporting unit as of the impairment test measurement date.

December 31, 2018	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets			
Goodwill	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,050</u>
December 31, 2017	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets			
Goodwill	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,832</u>

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

	<u>Developed technology</u>	<u>Customer relationships</u>	<u>Trade marks and trade names</u>	<u>Patents</u>	<u>Media Contact Database</u>	<u>Total</u>
Gross carrying amounts:						
Balance as of January 1, 2017	\$ 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
Foreign currency translation	(205)	(183)	(29)	(4)	(101)	(522)
Balance as of December 31, 2018	<u>\$ 2,999</u>	<u>\$ 2,081</u>	<u>\$ 855</u>	<u>\$ 42</u>	<u>\$ 3,546</u>	<u>\$ 9,523</u>
	<u>Developed technology</u>	<u>Customer relationships</u>	<u>Trade marks and trade names</u>	<u>Patents</u>	<u>Media Contact Database</u>	<u>Total</u>
Accumulated amortization:						
Balance as of January 1, 2017	\$ 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	317	185	122	5	367	996
Foreign currency translation	(82)	(64)	(12)	(1)	(28)	(187)
Balance as of December 31, 2018	<u>\$ 1,137</u>	<u>\$ 766</u>	<u>\$ 440</u>	<u>\$ 19</u>	<u>\$ 886</u>	<u>\$ 3,248</u>

Amortization expense relating to acquisition-related intangible assets was approximately \$1.0 million for both years ended December 31, 2018 and 2017.

Estimated annual amortization expense for intangible assets subsequent to December 31, 2018 is as follows (in thousands):

Year	Amortization
2019	\$ 951
2020	886
2021	886
2022	886
2023	886
Thereafter	1,780
	<u>\$ 6,275</u>

4. 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;
- 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 on the Company's post-1986 untaxed foreign E&P amounting to \$25.8 million. No toll tax charge was recorded due to the available net operating loss carryforwards; and
- A reduction of deferred tax assets and a corresponding reduction of the valuation allowance of \$2.3 million, primarily for the remeasurement of our deferred tax assets at the enacted tax rate of 21%.

Beginning January 1, 2018, the Company performed a calculation of the GILTI provisions and concluded that it has no impact on account of the net losses of the Company's foreign subsidiaries.

The significant components of the provision for income taxes for the two years ended December 31, 2018 are as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Current income tax expense:		
Foreign	\$ 1,467	\$ 634
Federal	121	-
State and local	45	5
	<u>1,633</u>	<u>639</u>
Deferred income tax expense (benefit):		
Foreign	312	(137)
Federal	(139)	(217)
State and local	2	-
	<u>175</u>	<u>(354)</u>
Provision for income taxes	<u>\$ 1,808</u>	<u>\$ 285</u>

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, 2018 is summarized as follows:

	<u>2018</u>	<u>2017</u>
Federal income tax expense (benefit) at statutory rate	21.0 %	(34.0) %
Effect of:		
2017 Tax Act	(96.7)	101.5
Foreign tax differential	23.0	5.8
Tax effects of foreign operations	46.6	33.8
Tax effects of foreign operations permanent- FX gains and losses	23.8	(11.6)
Increase in unrecognized tax benefits (FIN48)	19.1	0.7
Withholding tax	6.7	-
State income tax, net of federal	2.0	0.1
Change in valuation allowance	58.6	(90.7)
Permanent items	(4.7)	-
Effective tax rate	<u>99.4 %</u>	<u>5.6 %</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, 2018 and 2017 are as follows (in thousands):

	December 31,	
	2018	2017
Deferred income tax assets:		
Allowances not currently deductible	\$ 232	\$ 226
Depreciation and amortization	338	555
Equity compensation not currently deductible	775	441
Net operating loss carryforwards	5,089	4,597
Expenses not deductible until paid	769	1,142
Other	99	233
Total gross deferred income tax assets before valuation allowance	<u>7,302</u>	<u>7,194</u>
Valuation allowance	(6,098)	(5,437)
Deferred income tax assets, net	<u>1,204</u>	<u>1,757</u>
Deferred income tax liabilities:		
Acquisition of MediaMiser	(356)	(446)
Other	(215)	(168)
Total deferred income tax liabilities	<u>(571)</u>	<u>(614)</u>
Net deferred income tax assets	<u>\$ 633</u>	<u>\$ 1,143</u>
Net deferred income tax asset	1,204	1,757
Net deferred income tax liability	<u>(571)</u>	<u>(614)</u>
Net deferred income tax assets	<u>\$ 633</u>	<u>\$ 1,143</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, 2018, the Company continues to maintain a valuation allowance on all U.S. and Canadian deferred tax assets.

The Company established a valuation allowance of approximately \$6.1 million and \$5.4 million at December 31, 2018 and 2017, 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 an increase of \$0.7 million for the year ended December 31, 2018 compared to a decrease of \$5.1 million in December 31, 2017. The decrease in the valuation allowance in 2017 is primarily the result of the 2017 Tax Act.

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 foreign jurisdiction withholding tax that the Company would have to incur on the actual remittances. Unremitted earnings of foreign subsidiaries amounted to approximately \$20.0 million at December 31, 2018. 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 foreign jurisdiction 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.

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>2018</u>	<u>2017</u>
United States	\$ 3,107	\$ (2,243)
Foreign	<u>(1,288)</u>	<u>(2,831)</u>
Total	<u>\$ 1,819</u>	<u>\$ (5,074)</u>

The Company's Canadian subsidiaries claim 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 for the years ended December 31, 2018 and 2017, respectively. Such amounts have been recorded as a reduction in selling and administrative expenses.

At December 31, 2018, the Company has available U.S. federal net operating loss carryforwards of approximately \$14.8 million. These net operating loss carryforwards expire at various times through the year 2035.

At December 31, 2018, the Company's Canadian subsidiaries have available net operating loss carryforwards of approximately \$9.3 million in Canada which begin to expire in 2028. In addition, these subsidiaries also have research and development expenditures of approximately \$1.5 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 \$2.4 million and \$2.2 million as of December 31, 2018 and 2017, respectively. The portion of unrecognized tax benefits relating to interest and penalties was \$0.1 million and \$0.3 million for the years ended December 31, 2018 and 2017, respectively. The unrecognized tax benefits as of December 31, 2018 and 2017, 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):

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
Balance at January 1	\$ 2,177	\$ 2,063
Increase for tax position	285	389
Decrease for tax position on account of settlement	-	(661)
Interest accrual	63	313
Foreign currency revaluation	<u>(101)</u>	<u>73</u>
Balance at December 31	<u>\$ 2,424</u>	<u>\$ 2,177</u>

The Company is subject to Federal income tax, as well as income tax in various states and foreign jurisdictions. The Company has open periods for US Federal and state taxes from 2014 through 2018. Various foreign subsidiaries currently have open tax years from 2003 through 2018.

Tax Assessments

In October 2010, the Company's Indian subsidiary received an assessment from the Indian Income Tax Department 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. Management believes that its recorded tax liability of \$329,000 for this matter, which includes interest, is adequate.

In January 2012, the Company's Indian subsidiary received an assessment from the Indian Income Tax Department for the fiscal year ended March 31, 2008. Management disagrees with the basis of this tax assessment and successfully appealed the assessment. The income tax assessing officer has filed an appeal against the decision entered in favor of the subsidiary. Management is contesting the appeal filed by the assessing officer. Management believes that its recorded tax liability of \$343,000 for this matter, which includes interest, is adequate.

In September 2015, the Company's Indian subsidiary was subject to an inquiry by the Service Tax Department 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. Management disagrees with the Service Tax Department's position and is vigorously contesting these assertions. In the event the Service Tax Department is successful in proving that the services fall under the category of OID Services, the revenues earned by the Company's Indian subsidiary for the period July 2012 through November 2016 would be subject to a service tax of between 12.36% and 15%. The revenue of our Indian subsidiary during this period was approximately \$67.0 million. In accordance with new rules promulgated by the Service Tax Department, as of December 1, 2016 service tax is no longer applicable to OID or BS Services. Based on the assessment of the Company's counsel, the Company has not recorded any tax liability for this case.

In October 2016, the Company's Indian subsidiary received notices of appeal from the Indian Service Tax Department in India seeking to reverse service tax refunds of approximately \$160,000 previously granted to our Indian subsidiary for three quarters in 2014, asserting that the services provided by this subsidiary fall under the category of OID Services and not BS Services. The appeal was determined in favor of the Service Tax Department. Management disagrees with the basis of this decision and is contesting it vigorously. The Company expects delays in its Indian subsidiary receiving further service tax refunds until this matter is adjudicated with finality, and currently has service tax credits of approximately \$1.0 million recorded as a receivable. Based on the assessment of the Company's counsel, the Company as not recorded any tax liability for this case.

The Company has recorded a tax provision amounting to \$181,000, which includes interest, 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.

Certain amounts in the 2017 income tax disclosures were reclassified to conform to the 2018 presentation. There was no effect on the Company's current income tax expense or net deferred tax assets.

5. Long term obligations

Total long-term obligations as of December 31, 2018 and 2017 consist of the following (in thousands):

	December 31,	
	2018	2017
Capital lease obligations	\$ 574	\$ 829
Deferred lease payments ⁽¹⁾	489	731
Microsoft licenses ⁽²⁾	355	751
Acquisition related liability ⁽³⁾	-	800
Lease incentive liability ⁽⁴⁾	572	664
Pension obligations - accrued pension liability	2,591	2,835
Settlement agreement ⁽⁵⁾	1,010	1,200
	<u>5,591</u>	<u>7,810</u>
Less: Current portion of long-term obligations	<u>1,529</u>	<u>3,333</u>
Totals	<u>\$ 4,062</u>	<u>\$ 4,477</u>

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

⁽²⁾ 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
	<u>\$ 1,213</u>

⁽³⁾ On September 30, 2016, the Company and the other parties to the transaction in which the Company acquired MediaMiser Ltd. amended the terms on which a subsidiary of the Company is required to make a supplemental purchase price payment for MediaMiser Ltd. MediaMiser Ltd. is now known as Agility PR Solutions Canada Ltd. 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 had 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. The Company paid the entire second installment in cash in April 2018.

⁽⁴⁾ In the second quarter of 2017, the Company relocated its U.S. and Canadian headquarters to new premises. As a financial incentive for the Company to lease office space in each of the new locations, the respective lessor for each of the locations offered to partially defray the construction cost for the new office space by offering tenant improvement allowances, subject to the Company refunding any unamortized portion of the allowance under specified circumstances as set forth in each lease. These amounts will be amortized based on the contractual lease term and recognized as a reduction in rent expense for the periods covered.

⁽⁵⁾ Represents payment to be made pursuant to a settlement agreement entered into between a subsidiary of the Company and 19 former employees of such subsidiary in December of 2018. \$168,000 was paid in January 2019 and \$842,000 will be paid in 48 monthly installments commencing April 2019.

6. 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 \$2.3 million and \$2.7 million for the years ended December 31, 2018 and 2017, respectively.

Future minimum lease payments under non-cancelable leases, by year and in the aggregate, as of December 31, 2018 (in thousands) are as follows:

<u>Years Ending December 31</u>	
2019	\$ 334
2020	347
2021	353
2022	202
2023	176
Thereafter	708
Total minimum lease payments	<u><u>\$ 2,120</u></u>

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 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 (the “USDC”) 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. In June 2018, the USDC entered a consent order administratively closing the action subject to return of the action to the active docket upon the written request of Innodata Inc. or the former employees, with the USDC retaining jurisdiction over the matter and the preliminary injunction remaining in full force and effect.

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

While management currently believes that the ultimate outcome of these proceedings will not have a material adverse effect on 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 \$275,000 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 of 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, officer or fiduciary of the Company. In addition, the Company has contracts with certain clients pursuant to which 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, 2018, the Company has not recorded a liability for any obligations arising as a result of these indemnifications.

7. 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, 2019. For the year ended December 31, 2018, 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, 2018, these plans are unfunded. Pension expense for foreign subsidiaries totaled approximately \$0.7 million and \$0.2 for the years ended December 31, 2018 and 2017, respectively. Included in the \$0.7 million pension expense for the year ended 2018 is \$269,000 representing the correction of an understatement of pension liabilities from prior years.

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

	Years Ended December 31,	
	2018	2017
Amortization of transition obligation	\$ 41	\$ 38
Actuarial gain (loss)	416	(226)
Totals	<u>\$ 457</u>	<u>\$ (188)</u>

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

Actuarial gain	\$ 1,747	\$ 1,331
Transition obligation	(91)	(132)
Totals	<u>\$ 1,656</u>	<u>\$ 1,199</u>

Amounts in accumulated other comprehensive loss expected to be amortized in 2019 net periodic pension cost, net of taxes:

Actuarial gain	\$ (195)
Transition obligation	36
Totals	<u>\$ (159)</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, 2018:

Benefit Obligations:

	2018	2017
Projected benefit obligation at beginning of the year	\$ 3,121	\$ 2,896
Service cost	344	333
Interest cost	198	187
Curtailement and other adjustments	14	(69)
Actuarial gain	(622)	(107)
Foreign currency exchange rates changes	(251)	51
Benefits paid	(213)	(170)
Projected benefit obligation at end of the year	<u>\$ 2,591</u>	<u>\$ 3,121</u>

Components of Net Periodic Pension Cost:

	<u>2018</u>	<u>2017</u>
Service cost	\$ 344	\$ 333
Interest cost	198	187
Past service cost	34	-
Curtailement	-	(69)
Actuarial gain recognized	133	(249)
Net periodic pension cost	<u>\$ 709</u>	<u>\$ 202</u>

The accumulated benefit obligation, which represents benefits earned to date, was approximately \$1.7 million and \$2.0 million as of December 31, 2018 and 2017, respectively.

Amounts recognized in the consolidated balance sheets for the years ended December 31 consist of the following:

	<u>2018</u>	<u>2017</u>
Current accrued benefit cost	320	249
Non-current accrued benefit cost	2,271	2,586
Net amount recognized	<u>2,591</u>	<u>2,835</u>

Current accrued benefit cost for pension benefits is included in the current portion of long-term obligations in the consolidated balance sheets. Non-current accrued benefit cost for pension benefits is included in long-term obligations, net of current portion, in the consolidated balance sheets.

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, 2018 are as follows:

	<u>2018</u>	<u>2017</u>
Discount rate	7.25%-12.17%	5.78%-10.6%
Rate of increase in compensation level	5%-7%	5%-7%

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>	
2019	\$ 320
2020	310
2021	168
2022	134
2023	159
2024 to 2028	1,736
	<u>\$ 2,827</u>

8. 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.

Stockholders Rights Agreement - On February 1, 2019, 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 15, 2019. 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 February 1, 2019 (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.

If the Rights Agreement is approved by the Company’s stockholders at the 2019 annual meeting, the Rights will expire on January 31, 2022 unless earlier redeemed or exchanged. If the Company’s stockholders do not approve the Rights Agreement, the Rights will expire immediately following certification of the vote at the 2019 annual meeting.

Common Stock Reserved - As of December 31, 2018, the Company had reserved for issuance approximately 5,352,000 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 the years ended December 31, 2018 and 2017. As of December 31, 2018, the Company repurchased 137,000 shares of its common stock under the September 2011 authorization.

9. 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. 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.

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

	For the Years Ended December 31,	
	2018	2017
Weighted average fair value of options granted	\$ 0.54	\$ 0.73
Risk-free interest rate	2.73%	1.91%
Expected life (years)	5-6	6
Expected volatility factor	44.16%-48.82%	49.62%
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, 2018, and changes during the year then ended, are presented below:

11. Segment reporting and concentrations

The Company's operations are classified in three reporting segments: Digital Data Solutions (DDS), Synodex and Agility PR Solutions (Agility).

Prior to the first quarter of 2018, the Company referred to the Agility segment as Media Intelligence Solutions (MIS) and the Synodex segment as Innodata Advanced Data Solutions (IADS), and reported the results of the Innodata docGenix, LLC subsidiary (docGenix) within the IADS segment. Effective with the first quarter of 2018, the results for docGenix are reported within the DDS segment.

The DDS segment specializes in combining *deep neural networks* and *human expertise* in multiple domains (including health, science, and law) to make "unstructured information" (sometimes referred to as "content") useable. For business information companies, "useable" means that the content can be sold via subscription to a *digital product*. For enterprises, "useable" means that the content can drive *digital process transformation* and *AI*. The Company works with all classes of data, including sensitive and protected data.

The Synodex segment enables clients in the insurance and healthcare sectors to transform medical records into useable digital data and to apply technologies to the digital data to augment decision support.

The Agility segment provides tools and related professional services that enable public relations (PR) and communications professionals to discover influencers, amplify messages, monitor coverage, and measure the impact of campaigns. Bulldog Reporter, a publisher of PR-related news and a popular e-newsletter, and the Bulldog Awards, a PR awards program that recognizes outstanding performance among PR and communications professionals and agencies, are properties of Agility.

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):

The results below for the year ended December 31, 2017 are presented on a reclassified basis as if for the full year 2017 docGenix had been included in the DDS segment and the Synodex segment had solely included the results of Synodex. docGenix revenue was \$531,000 and \$1,087,000 for years ended December 31, 2018 and 2017, respectively.

	For the Years Ended December 31,	
	2018	2017
Revenues:		
DDS	\$ 43,546	\$ 47,840
Synodex	4,063	3,664
Agility	9,809	9,425
Total Consolidated	<u>\$ 57,418</u>	<u>\$ 60,929</u>
Income (loss) before provision for income taxes ⁽¹⁾ :		
DDS	\$ 3,882	\$ (1,177)
Synodex	284	(1,084)
Agility	(2,347)	(2,813)
Total Consolidated	<u>\$ 1,819</u>	<u>\$ (5,074)</u>
Income (loss) before provision for income taxes ⁽²⁾ :		
DDS	\$ 3,648	\$ (1,444)
Synodex	446	(881)
Agility	(2,275)	(2,749)
Total Consolidated	<u>\$ 1,819</u>	<u>\$ (5,074)</u>

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Total assets:		
DDS	\$ 22,334	\$ 26,173
Synodex	787	678
Agility	22,930	21,020
Total Consolidated	<u>\$ 46,051</u>	<u>\$ 47,871</u>
	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Goodwill:		
DDS	\$ -	\$ 675
Agility	2,050	2,157
Total Consolidated	<u>\$ 2,050</u>	<u>\$ 2,832</u>

(1) Before elimination of any inter-segment profits

(2) After elimination of any inter-segment profits

Long-lived assets as of December 31, 2018 and 2017 by geographic region are comprised of:

	<u>2018</u>	<u>2017</u>
	(in thousands)	
United States	<u>\$ 4,383</u>	<u>\$ 5,321</u>
Foreign countries:		
Canada	7,023	6,888
United Kingdom	2,045	2,388
Philippines	900	1,446
India	475	1,042
Sri Lanka	280	504
Israel	30	36
Germany	2	2
Total foreign	<u>10,755</u>	<u>12,306</u>
Total	<u>\$ 15,138</u>	<u>\$ 17,627</u>

Two clients in the DDS segment generated approximately 30% of the Company's total revenues in the fiscal years ended December 31, 2018 and 2017, respectively. No other client accounted for 10% or more of total revenues during these periods. Further, in the years ended December 31, 2018 and 2017, revenues from non-US clients accounted for 56% and 51%, respectively, of the Company's revenues.

Revenues for each of the two years in the period ended December 31, 2018 by geographic region (determined based upon client's domicile), are as follows:

	<u>2018</u>	<u>2017</u>
	(in thousands)	
United States	\$ 25,403	\$ 30,135
United Kingdom	10,874	10,514
The Netherlands	7,488	6,871
Canada	5,985	5,636
Others - principally Europe	7,668	7,773
Total	<u>\$ 57,418</u>	<u>\$ 60,929</u>

As of December 31, 2018, approximately 57% of the Company's accounts receivable was due from foreign (principally European) clients and 48% of accounts receivable was due from three clients. As of December 31, 2017, approximately 61% of the Company's accounts receivable was due 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, 2018.

12. Income (Loss) per Share

	For the Years Ended	
	December 31,	
	2018	2017
	(in thousands)	
Net income (loss) attributable to Innodata Inc. and Subsidiaries	<u>\$ 4</u>	<u>\$ (5,055)</u>
Weighted average common shares outstanding	25,878	25,816
Dilutive effect of outstanding options	<u>-</u>	<u>-</u>
Adjusted for dilutive computation	<u>25,878</u>	<u>25,816</u>

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

Options to purchase 3.0 million shares of common stock in 2018 were outstanding but not included in the computation of diluted income 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.

Options to purchase 4.2 million shares of common stock in 2017 were outstanding but not included in the computation of diluted loss per share due to the net loss incurred for the year, and the effect would have been antidilutive.

13. 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.

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. As of December 31, 2018, we had no outstanding forward contracts. The total notional amount for outstanding derivatives as of December 31, 2017 was \$15.9 million.

The following table presents the fair value of derivative instruments included within the consolidated balance sheets as of December 31, 2018 and 2017 (in thousands):

	<u>Balance Sheet Location</u>	<u>Fair Value</u>	
		<u>2018</u>	<u>2017</u>
Derivatives designated as hedging instruments:			
Foreign currency forward contracts	Prepaid expenses and other current assets	\$ -	\$ 342

The effect of foreign currency forward contracts designated as cash flow hedges on the consolidated statements of operations for the years ended December 31, 2018 and 2017 were as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Net gain (loss) recognized in OCI ⁽¹⁾	\$ (695)	\$ 574
Net gain (loss) reclassified from accumulated OCI into income ⁽²⁾	\$ (353)	\$ (86)
Net gain recognized in income ⁽³⁾	\$ -	\$ -

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

⁽²⁾Effective portion classified within direct operating costs

⁽³⁾There were no ineffective portions for the period presented.

14. 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, 2018 and 2017, 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.

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

<u>Exhibit</u>	<u>Description</u>	<u>Filed as Exhibit</u>
2.1 (a)	Share Purchase Agreement, dated as of July 28, 2014 among Innodata Inc., Media Miser Ltd. and certain other parties	Filed as Exhibit 2.1 to our Form 8-K dated July 28, 2014
2.1 (b)	Amendment No. 1 to Share Purchase Agreement dated as of September 30, 2016	Filed as Exhibit 2.1 to our Form 8-K dated September 30, 2016
2.2 (a)	Asset Purchase Agreement dated as of May 11, 2016 among Innodata Inc., MediaMiser LLC, MediaMiser Ltd. and PWW Acquisition LLC	Filed as Exhibit 2.1 to our Form 8-K dated May 11, 2016
2.2 (b)	Amendment No. 1 to Asset Purchase Agreement dated as of July 14, 2016 among PWW Acquisition LLC, MediaMiser LLC and MediaMiser Ltd	Filed as Exhibit 2.1 to our Form 8-K dated July 14, 2016
3.1 (a)	Restated Certificate of Incorporation filed on April 29, 1993	Filed as Exhibit 3.1(a) to our Form 10-K for the year ended December 31, 2003
3.1 (b)	Certificate of Amendment of Certificate of Incorporation of Innodata Corporation filed on March 1, 2001	Filed as Exhibit 3.1(b) to our Form 10-K for the year ended December 31, 2003
3.1 (c)	Certificate of Amendment of Certificate of Incorporation of Innodata Corporation Filed on November 14, 2003	Filed as Exhibit 3.1(c) to our Form 10-K for the year ended December 31, 2003
3.1 (d)	Certificate of Amendment of Certificate of Incorporation of Innodata Isogen, Inc.	Filed as Exhibit 3.1 to our Form 10Q for the quarter ended June 30, 2012
3.2	Form of Amended and Restated By-Laws	Exhibit 3.1 to Form 8-K dated December 16, 2002
3.3	Form of Certificate of Designation of Series C Participating Preferred Stock	Filed as Exhibit A to Exhibit 4.1 to Form 8-K dated December 16, 2002
4.2	Specimen of Common Stock certificate	Exhibit 4.2 to Form SB-2 Registration Statement No. 33-62012
4.3	Form of Rights Agreement, dated as of December 16, 2002 between Innodata Corporation and American Stock Transfer and Trust Co., as Rights Agent	Exhibit 4.1 to Form 8-K dated December 16, 2002
4.4	Form of Rights Agreement, as of December 27, 2012 between Innodata Inc. and American Stock Transfer and Trust Co., as Rights Agent	Exhibit 4.1 to Form 8-K dated December 27, 2012
4.5	Form of Rights Agreement, as of January 14, 2016 between Innodata Inc. and American Stock Transfer and Trust Co., as Rights agent	Exhibit 4.1 to Form 8-K dated January 14, 2016
4.6	Specimen of Common Stock certificate	Exhibit 4.1 to Form 10-Q dated August 7, 2015
4.7	Form of Rights Agreement, as of February 1, 2019 between Innodata Inc. and American Stock Transfer and Trust Co., as Rights Agent	Exhibit 4.1 to Form 8-K dated February 4, 2019
10.1	1994 Stock Option Plan	Exhibit A to Definitive Proxy dated August 9, 1994

10.2	1993 Stock Option Plan	Exhibit 10.4 to Form SB-2 Registration Statement No. 33-62012
10.3	Form of Indemnification Agreement between us and our directors and one of our Officers	Exhibit 10.3 to Form 10-K for the year ended December 31, 2002
10.4	1994 Disinterested Directors Stock Option Plan	Exhibit B to Definitive Proxy dated August 9, 1994
10.5	1995 Stock Option Plan	Exhibit A to Definitive Proxy dated August 10, 1995
10.6	1996 Stock Option Plan	Exhibit A to Definitive Proxy dated November 7, 1996
10.7	1998 Stock Option Plan	Exhibit A to Definitive Proxy dated November 5, 1998
10.8	2001 Stock Option Plan	Exhibit A to Definitive Proxy dated June 29, 2001
10.9	2002 Stock Option Plan	Exhibit A to Definitive Proxy dated September 3, 2002
10.10	Employment Agreement dated as of January 1, 2004 with George Kondrach	Filed as Exhibit 10.10 to our Form 10-K for the year ended December 31, 2003
10.11	Letter Agreement dated as of August 9, 2004, by and between us and The Bank of New York	Filed as Exhibit 10.2 to Form S-3 Registration statement No. 333-121844
10.12	Employment Agreement dated as of December 22, 2005, by and between us and Steven L. Ford	Exhibit 10.1 to Form 8-K dated December 28, 2005
10.13	Form of 2001 Stock Option Plan Grant Letter, Dated December 22, 2005	Exhibit 10.2 to Form 8-K dated December 28, 2005
10.14	Form of 1995 Stock Option Agreement	Exhibit 10.4 to Form 8-K dated December 15, 2005
10.15	Form of 1998 Stock Option Agreement for Directors	Exhibit 10.5 to Form 8-K dated December 15, 2005
10.16	Form of 1998 Stock Option Agreement for Officers	Exhibit 10.6 to Form 8-K dated December 15, 2005
10.17	Form of 2001 Stock Option Agreement	Exhibit 10.7 to Form 8-K dated December 15, 2005
10.18	Form of new vesting and lock-up agreement for each of Haig Bagerdjian, Louise Forlenza, John Marozsan and Todd Solomon	Exhibit 10.8 to Form 8-K dated December 15, 2005
10.19	Form of new vesting and lock-up agreement for Jack Abuhoff	Exhibit 10.9 to Form 8-K dated December 15, 2005
10.20	Form of new vesting and lock-up agreement for George Kondrach	Exhibit 10.10 to Form 8-K dated December 15, 2005
10.21	Form of new vesting and lock-up agreement for Stephen Agress	Exhibit 10.11 to Form 8-K dated December 15, 2005
10.22	Form of 2001 Stock Option Plan Grant Letter, dated December 31, 2005, for Messrs. Abuhoff, Agress and Kondrach	Exhibit 10.2 to Form 8-K dated January 5, 2006
10.23	Form of 2001 Stock Option Plan Grant Letter, dated December 31, 2005, for Messrs. Bagerdjian and Marozsan and Ms. Forlenza	Exhibit 10.3 to Form 8-K dated January 5, 2006
10.24	Transition Agreement Dated as of September 29, 2006 with Stephen Agress	Exhibit 10.1 to Form 8-K dated October 3, 2006
10.25	Form of Stock Option Modification Agreement With Stephen Agress	Exhibit 10.2 to Form 8-K dated October 3, 2006
10.26	Employment Agreement dated as of February 1,	Exhibit 10.2 to Form 8-K dated April 27, 2006

2006 with Jack Abuhoff

10.27	Employment Agreement dated as of January 1, 2007 with Ashok Mishra	Exhibit 10.1 to Form 10-Q for the quarter ended June 30, 2007
10.28	Innodata Incentive Compensation Plan	Exhibit 10.1 to Form 8-K dated February 13, 2008
10.29	Form of 2002 Stock Option Plan Grant Letter, dated August 13, 2008, for Messrs. Bagerdjian, Marozsan and Woodward, and Ms. Forlenza	Exhibit 10.1 to Form 10-Q for the quarter ended September 30, 2008
10.30	Amended and Restated Employment Agreement dated as of December 24, 2008 with Jack S. Abuhoff	Exhibit 10.1 to Form 8-K dated December 30, 2008
10.31	Employment Agreement dated as of March 25, 2009 with Jack Abuhoff	Exhibit 10.1 to Form 8-K dated March 25, 2009
10.32	Separation Agreement and General Release dated as of April 27, 2009 with Steven Ford	Exhibit 10.1 to Form 8-K dated April 27, 2009
10.33	2009 Stock Plan	Annex A to Definitive Proxy dated April 28, 2009
10.34	Employment Agreement dated as of November 9, 2009 with O'Neil Nalavadi	Exhibit 10.1 to Form 8-K dated October 11, 2009
10.35	Form of 2009 Stock Option Plan Grant Letter, dated April 2, 2010 for O'Neil Nalavadi	Exhibit 10.1 to Form 10-Q for the quarter ended March 31, 2010
10.36	Form of 2009 Stock Option Plan Grant Letter, dated March 16, 2010 for O'Neil Nalavadi	Exhibit 10.2 to Form 10-Q for the quarter ended March 31, 2010
10.37	Form of 2009 Stock Option Plan Grant Letter, dated March 16, 2010 for O'Neil Nalavadi	Exhibit 10.3 to Form 10-Q for the quarter ended March 31, 2010
10.38	Amended and Restated 2009 Stock Plan	Annex A to Definitive Proxy dated April 22, 2011
10.39	Amendment dated as of July 11, 2011 to Employment Agreement with Jack S. Abuhoff	Exhibit 10.1 to Form 8-K dated July 12, 2011
10.40	Amended dated as of July 11, 2011 to Employment Agreement with O'Neil Nalavadi	Exhibit 10.2 to Form 8-K dated July 12, 2011
10.41	Amendment dated as of November 9, 2012 to Employment Agreement with O'Neil Nalavadi	Exhibit 10.3 to Form 8-K dated November 8, 2012
10.42	Form of Director Stock Option Grant Letter dated March 8, 2013	Exhibit 10.42 to Form 10-K dated March 15, 2013
10.43	Form of Stock Option Grant Letter dated March 8, 2013 for Messrs. Abuhoff, Mishra and Nalavadi	Exhibit 10.43 to Form 10-K dated March 15, 2013
10.44	Form of Stock Option Grant Letter dated March 8, 2013 for Jack Abuhoff	Exhibit 10.44 to Form 10-K dated March 15, 2013
10.45	Innodata Inc. 2013 Stock Plan	Annexure B to Definitive Proxy dated April 8, 2013
10.46	Advised Line of Credit Note dated June 25, 2012 in favor of Chase	Exhibit 99.1 to Form 8-K dated February 7, 2014
10.47	Note Modification Agreement dated June 27, 2013	Exhibit 99.2 to Form 8-K dated February 7, 2014

between Innodata and Chase

10.48	Continuing Security Agreement dated May 22, 2008 between Innodata and Chase	Exhibit 99.3 to Form 8-K dated February 7, 2014
10.49	Letter dated June 27, 2013 from Chase to Innodata	Exhibit 99.4 to Form 8-K dated February 7, 2014
10.50	Letter dated February 7, 2014 from Chase to Innodata	Exhibit 99.5 to Form 8-K dated February 7, 2014
10.51	Innodata Inc. 2013 Stock Plan (as Amended and Restated effective June 3, 2014)	Annexure A to Definitive Proxy dated April 23, 2014
10.52	Form of Stock Option Grant Letter for December 31, 2015 Grant, for Directors	Exhibit 10.53 to Form 10-K dated March 14, 2016
10.53	Form of Stock Option Grant Letter for December 31, 2015 Grant, for Messrs. Abuhoff, Mishra and Nalavadi	Exhibit 10.53 to Form 10-K dated March 14, 2016
10.54	Innodata Inc. 2013 Stock Plan (as Amended and Restated effective June 7, 2016)	Annex B to Definitive Proxy dated April 18, 2016
10.55	Form of Stock Option Grant Letter for December 31, 2016 Grant, for Directors	Exhibit 10.56 to Form 10-K dated March 15, 2017
10.56	Form of Stock Option Grant Letter For December 31, 2016 Grant, for Messrs. Abuhoff, Mishra and Nalavadi	Exhibit 10.57 to Form 10-K dated March 15, 2017
10.57	Separation Agreement and General Release between Innodata Inc. and O'Neil Nalavadi	Exhibit 10.1 to Form 8-K dated January 17, 2018
10.58	Amendment Number 1 dated August 24, 2018 to Agreement dated January 1, 2007 between the Company and Mr. Mishra	Exhibit 10.1 to Form 8-K dated August 28, 2018
10.59	Form of Stock Option Grant Letter for July 13, 2018 Grant, for Directors	Filed herewith
10.60	Form of Stock Option Grant Letter for July 13, 2018 Grant, for Messrs. Abuhoff and Mishra	Filed herewith
16	Letter of Grant Thornton regarding change in certifying accountant	Exhibit 4.01 to Form 8-K dated September 12, 2008
21	Significant subsidiaries of the registrant	Filed herewith
23	Consent of CohnReznick LLP	Filed herewith
31.1	Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certificate of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
32.1	Certification Pursuant to 18 U.S.C. Section	Filed herewith

1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith

101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations 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. Filed herewith