

INNODATA INC
Form 10-Q
August 07, 2015

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

FORM 10-Q

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2015

OR

**.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number: **0-22196**

INNODATA INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	13-3475943 (I.R.S. Employer Identification No.)
--	--

Three University Plaza Hackensack, New Jersey (Address of principal executive offices)	07601 (Zip Code)
--	----------------------------

(201) 371-8000

(Registrant's telephone number, including area code)

[None]

(Former name, former address and former fiscal year, if changed since last report)

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 preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

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

Yes No

The number of outstanding shares of the registrant's common stock, \$.01 par value, as of July 24, 2015 was 25,337,267.

INNODATA INC. AND SUBSIDIARIES

For the Quarter Ended June 30, 2015

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INNODATA INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands, except share and per share amounts)

	June 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 23,696	\$ 24,216
Accounts receivable, net	9,810	10,445
Prepaid expenses and other current assets	3,105	3,020
Deferred income taxes	254	254
Total current assets	36,865	37,935
Property and equipment, net	5,256	5,915
Other assets	2,646	2,718
Deferred income taxes	1,448	1,397
Intangibles, net	4,692	5,261
Goodwill	1,573	1,635
Total assets	\$ 52,480	\$ 54,861
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,102	\$ 1,271
Accrued expenses	3,477	3,427
Accrued salaries, wages and related benefits	5,009	4,464
Income and other taxes	1,329	1,325
Current portion of long term obligations	1,363	1,606
Deferred income taxes	13	75
Total current liabilities	12,293	12,168
Deferred income taxes	807	879
Long term obligations	5,383	5,540
Commitments and contingencies		
Non-controlling interests	(3,229)	(2,949)

STOCKHOLDERS'

EQUITY:

Serial preferred stock;

5,000,000 shares

authorized, none

outstanding

-

-

Common stock, \$.01 par

value; 75,000,000 shares

authorized; 26,881,000

shares issued and

268

268

25,337,000 outstanding at

June 30, 2015 and

December 31, 2014

Additional paid-in capital

23,339

22,780

Retained earnings

18,111

20,750

Accumulated other

comprehensive loss

(204

)

(287

)

41,514

43,511

Less: treasury stock,

1,544,000 shares at cost

(4,288

)

(4,288

)

Total stockholders' equity

37,226

39,223

Total liabilities and

stockholders' equity

\$

52,480

\$

54,861

See notes to condensed consolidated financial statements.

INNODATA INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE LOSS

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended June 30,	
	2015	2014
Revenues	\$ 14,063	\$ 14,314
Operating costs and expenses:		
Direct operating costs	10,991	11,319
Selling and administrative expenses	4,278	3,862
Interest income, net	(19)	(22)
Totals	15,250	15,159
Loss before income taxes	(1,187)	(845)
Provision for (benefit from) income taxes	(254)	106
Net loss	(933)	(951)
Loss attributable to non-controlling interests	134	288
Net loss attributable to Innodata Inc. and Subsidiaries	\$ (799)	\$ (663)
Loss per share attributable to Innodata Inc. and Subsidiaries:		
Basic and Diluted	\$ (0.03)	\$ (0.03)
Weighted average shares outstanding:		
Basic and Diluted	25,337	25,239
Comprehensive loss:		
Net loss	\$ (933)	\$ (951)
Pension liability adjustment, net of taxes	10	25
Change in fair value of derivatives, net of taxes	(23)	255
Foreign currency translation adjustment, net of taxes	119	-
Other Comprehensive income	106	280
Total Comprehensive loss	(827)	(671)
Comprehensive loss attributed to non-controlling interest	134	288
Comprehensive loss attributable to Innodata Inc. and Subsidiaries	\$ (693)	\$ (383)

See notes to condensed consolidated financial statements.

INNODATA INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(In thousands, except per share amounts)

	Six Months Ended June 30,	
	2015	2014
Revenues	\$27,865	\$28,380
Operating costs and expenses:		
Direct operating costs	22,115	21,610
Selling and administrative expenses	8,413	7,651
Interest income, net	(45)	(31)
Totals	30,483	29,230
Loss before income taxes	(2,618)	(850)
Provision for income taxes	301	207
Net loss	(2,919)	(1,057)
Loss attributable to non-controlling interests	280	583
Net loss attributable to Innodata Inc. and Subsidiaries	\$(2,639)	\$(474)
Loss per share attributable to Innodata Inc. and Subsidiaries:		
Basic and Diluted	\$(0.10)	\$(0.02)
Weighted average shares outstanding:		
Basic and Diluted	25,337	25,146
Comprehensive income (loss):		
Net loss	\$(2,919)	\$(1,057)
Pension liability adjustment, net of taxes	20	20
Change in fair value of derivatives, net of taxes	483	910
Foreign currency translation adjustment, net of taxes	(420)	-
Other Comprehensive income	83	930
Total Comprehensive loss	(2,836)	(127)
Comprehensive loss attributed to non-controlling interest	280	583
Comprehensive income (loss) attributable to Innodata Inc. and Subsidiaries	\$(2,556)	\$456

See notes to condensed consolidated financial statements.

INNODATA INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(In thousands)

	Six Months Ended June 30,	
	2015	2014
Cash flow from operating activities:		
Net loss	\$(2,919)	\$(1,057)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,436	1,391
Stock-based compensation	559	544
Deferred income taxes	(211)	(226)
Pension cost	316	440
Changes in operating assets and liabilities:		
Accounts receivable	615	2,504
Prepaid expenses and other current assets	74	449
Other assets	(111)	218
Accounts payable and accrued expenses	196	276
Accrued salaries, wages and related benefits	544	(61)
Restricted shares withheld for taxes	-	(14)
Payment of minimum withholding taxes on net settlement of stock options	-	(23)
Income and other taxes	(7)	(44)
Net cash provided by operating activities	492	4,397
Cash flow from investing activities:		
Capital expenditures	(298)	(1,492)
Net cash used in investing activities	(298)	(1,492)
Cash flow from financing activities:		
Proceeds from equipment financing	-	859
Proceeds from exercise of stock options	-	120
Payment of long term obligations	(583)	(533)
Net cash provided by (used in) financing activities	(583)	446
Effect of exchange rate changes on cash and cash equivalents	(131)	-
Net increase (decrease) in cash and cash equivalents	(520)	3,351
Cash and cash equivalents, beginning of period	24,216	24,752

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Cash and cash equivalents, end of period	\$23,696	\$28,103
Supplemental disclosures of noncash investing and financing activities:		
Cash paid for income taxes	\$412	\$412
Vendor financed software licenses acquired	\$-	\$1,205

See notes to condensed consolidated financial statements.

INNODATA INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

SIX MONTHS ENDED JUNE 30, 2015 AND 2014

(Unaudited)

(In thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares	Amount					
January 1, 2015	25,337	\$ 268	\$ 22,780	\$ 20,750	\$ (287)	\$(4,288)	\$ 39,223
Net loss	-	-	-	(2,639)	-	-	(2,639)
Stock-based compensation	-	-	559	-	-	-	559
Pension liability adjustments, net of taxes	-	-	-	-	20	-	20
Foreign currency translation adjustment, net of taxes	-	-	-	-	483	-	483
Change in fair value of derivatives, net of taxes	-	-	-	-	(420)	-	(420)
June 30, 2015	25,337	\$ 268	\$ 23,339	\$ 18,111	\$ (204)	\$(4,288)	\$ 37,226
January 1, 2014	25,053	\$ 266	\$ 22,963	\$ 21,724	\$ (692)	\$(4,288)	\$ 39,973
Net loss	-	-	-	(474)	-	-	(474)
Stock-based compensation	-	-	544	-	-	-	544
Issuance of common stock upon exercise of stock options	200	1	96	-	-	-	97
Restricted shares withheld for taxes	(5)	-	(14)	-	-	-	(14)
Acquisition of non-controlling interest	-	-	(93)	-	-	-	(93)
Pension liability adjustments, net of taxes	-	-	-	-	20	-	20
Change in fair value of derivatives, net of taxes	-	-	-	-	910	-	910
June 30, 2014	25,248	\$ 267	\$ 23,496	\$ 21,250	\$ 238	\$(4,288)	\$ 40,963

See notes to condensed consolidated financial statements

INNODATA INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2015 AND 2014
(Unaudited)

1. Description of Business and Summary of Significant Accounting Policies

Description of Business- Innodata Inc. and Subsidiaries (the “Company”) is a global digital services and solutions company. The Company’s technology and services power leading information products and online retail destinations around the world. The Company’s solutions help prestigious enterprises harness the power of digital data to re-imagine how they operate and drive performance. The Company serves publishers, media and information companies, digital retailers, banks, insurance companies, government agencies and many other industries.

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

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

The Company’s IADS segment designs and develops new capabilities to enable clients in the financial services, insurance, medical and healthcare sectors to improve decision-support through digital technologies. IADS operates through two subsidiaries. Synodex offers a range of services for healthcare, medical and insurance companies, and docGenix provides services to financial services institutions. As of June 30, 2015, Innodata owned 90% of Synodex and 94% of docGenix, both limited liability companies.

In July 2014, the Company acquired MediaMiser, a leading provider of media monitoring and analysis software and professional services for organizations of all sizes. Through its innovative web-based and mobile solutions, MediaMiser reduces the time and effort it takes to gather, analyze and distribute valuable business intelligence extracted from traditional and social media sources. For organizations that prefer to outsource, MediaMiser also provides detailed analysis reports and daily media briefings through an expert client services team. In December 2014, the Company acquired intellectual property and related assets of Bulldog Reporter. Bulldog Reporter has provided PR industry newsletters, a journalist database, media intelligence and professional development programs for over 30 years. The Company’s MIS segment operates through its MediaMiser and Bulldog Reporter subsidiaries.

Basis of Presentation-The condensed consolidated financial statements for the interim periods included herein are unaudited; however, they contain all adjustments (consisting of only normal recurring adjustments) which, in the opinion of management, are necessary to present fairly the consolidated financial position of the Company as of June 30, 2015, the results of its operations and comprehensive income (loss) for the three and six months ended June 30, 2015 and 2014, cash flows and stockholders' equity for the six months ended June 30, 2015 and 2014. The results of operations for the interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2014, included in the Company's Annual Report on Form 10-K. Unless otherwise noted, the accounting policies used in preparing these condensed consolidated financial statements are the same as those described in the December 31, 2014 consolidated financial statements.

INNODATA INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2015 AND 2014
(Unaudited)

Principles of Consolidation-The consolidated financial statements include the accounts of Innodata Inc. and its wholly-owned subsidiaries, MediaMiser, 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, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include those related to revenue recognition, allowance for doubtful accounts and billing adjustments, long-lived assets, intangible assets, goodwill, valuation of deferred tax assets, valuation of securities underlying stock-based compensation, litigation accruals, pension benefits, purchase price allocation of the assets acquired in the acquisition of MediaMiser and Bulldog Reporter, valuation of derivative instruments and estimated accruals for various tax exposures.

Foreign Currency Translation-The functional currency for the Company's production operations located in the Philippines, India, Sri Lanka and Israel is the U.S. dollar. Transactions denominated in Philippine pesos, Indian and Sri Lankan rupees and Israeli shekels are translated to U.S. dollars at rates which approximate those in effect on transaction dates.

The functional currency of the foreign subsidiaries located in Germany and Canada are the Euro 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 condensed 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 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 income (loss).

Revenue Recognition-For the CS segment, revenue is recognized based on the quantity delivered or resources utilized, the period in which services are performed and delivered and when all the criteria of Staff Accounting Bulletin 104 have been met. Revenues for contracts billed on a time-and-materials basis are recognized as services are

performed. Revenues under fixed-fee contracts, which are not significant to overall revenues, are recognized on the percentage of completion method of accounting, as services are performed or milestones are achieved.

For the IADS segment, revenue is recognized primarily based on the quantity delivered, and the period in which services are performed and deliverables are made as per contracts.

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

INNODATA INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2015 AND 2014
(Unaudited)

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

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

In June 2014, the FASB issued guidance on accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. This new guidance requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. This accounting guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, with early adoption permitted. The Company adopted the standard in the first quarter of 2015, and the adoption did not have a material impact on its condensed consolidated financial statements.

2. Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization (in thousands) and consist of the following:

	June 30, 2015	December 31, 2014
Equipment	\$13,709	\$ 13,719

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Software	4,987	4,863
Furniture and equipment	2,359	2,348
Leasehold improvements	4,941	4,919
Total	25,996	25,849
Less: accumulated depreciation and amortization	(20,740)	(19,934)
	\$5,256	\$ 5,915

Depreciation and amortization expense of property and equipment was approximately \$0.5 million and \$0.6 million for the three months ended June 30, 2015 and 2014, respectively. Depreciation and amortization expense of property and equipment was approximately \$1.0 million and \$1.4 million for the six months ended June 30, 2015 and 2014, respectively.

INNODATA INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2015 AND 2014
(Unaudited)

3. Acquisition

On July 28, 2014, the Company acquired 100% of the common shares and 100% of the preferred shares of MediaMiser. These shares represent substantially all of the economic ownership interest of MediaMiser. A MediaMiser Employee Trust will retain special voting shares equivalent to 50% of the voting rights in MediaMiser for the term specified in the articles of amalgamation of MediaMiser. The Trustees of the MediaMiser Employee Trust are the former and continuing management of MediaMiser. MediaMiser is an Ottawa, Canada-based provider of automated, real-time traditional and social media monitoring services. The Company believes its global infrastructure will provide a base from which MediaMiser will expand into newer geographical markets as well as penetrate further into its existing market. The Company also believes that MediaMiser will enable the Company to expand in areas of Big Data and user generated content.

The purchase price for the acquisition, on a constant currency basis, aggregated \$5.4 million of non-contingent consideration, plus up to a maximum of \$4.6 million of contingent consideration. The acquisition was made on a debt-free basis. Of the non-contingent portion of the purchase price, \$4.1 million was paid by the Company in cash at closing; \$0.6 million was paid by the Company on July 28, 2015 in shares of Innodata Inc.'s common stock; and \$0.7 million is payable by the Company on July 28, 2016 in shares of Innodata Inc.'s common stock, or at the Company's option, in cash. The contingent portion of the purchase price is a potential earn-out of up to \$4.6 million based on MediaMiser's revenues and Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") during the period from April 1, 2016 until March 31, 2017. The contingent consideration, if earned, is payable in May 2017 in cash, or at the Company's option, in up to 70% in Innodata Inc.'s common stock, with the balance in cash. Shares of Innodata Inc.'s common stock will be valued for any payment at the weighted average closing price for the ten consecutive trading days immediately preceding the date on which the payment is due.

The estimated fair value of the contingent consideration was determined based on the Company's estimates using the probability-weighted discounted cash flow approach. The fair value of the contingent consideration as of June 30, 2015 was \$0.5 million, and the Company has recorded this amount in accrued expenses on the condensed consolidated financial statements.

The amounts assigned to developed technology, customer relationships, trademarks and tradenames are amortized over the estimated useful life of 10 years, 12 years and 10 years, respectively. The weighted average life over which these acquired intangibles will be amortized is approximately 11 years.

As this acquisition was effective on July 28, 2014, the results of operations of MediaMiser are included in the condensed consolidated financial statements for the period beginning July 29, 2014.

On December 23, 2014 the Company acquired intellectual property and related assets of Bulldog Reporter from Sirius Information, Inc. Bulldog Reporter has provided PR industry newsletters, a journalist database, media intelligence and professional development programs for over 30 years. Both MediaMiser and Bulldog Reporter clients will benefit from the combined product offerings. The Company expects that Bulldog Reporter business will accelerate the product development cycle for certain products and further penetration into the U.S. market for the MIS service offering. The assets acquired included the Daily Dog, the Bulldog Awards, Inside Health Media, Media Pro, and certain leading industry books and publications. The estimated fair value of trademarks and tradenames amounted to \$320,000 and deferred revenues of \$160,000. The amount assigned to trademarks and tradenames is amortized over the estimated useful life of 5 years.

INNODATA INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2015 AND 2014
(Unaudited)

The unaudited pro forma information for the periods set forth below gives effect to the acquisition of MediaMiser as if it had occurred at the beginning of fiscal year 2014, and after including the impact of adjustments such as amortization of intangible assets, stock-based compensation expense and interest expense. The pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisition been consummated as of that time, or that may result in the future.

The following unaudited pro forma summary presents condensed consolidated information of the Company as if the business combination had occurred on January 1, 2014 (amount in thousands, except per share amounts):

	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
Revenues:		
As reported	\$ 14,314	\$ 28,380
Proforma	\$ 15,279	\$ 30,363
Net loss attributable to Innodata Inc. and Subsidiaries:		
As reported	\$ (663	) \$ (476
Proforma	\$ (641	) \$ (650
Basic and diluted net loss per share:		
As reported	\$ (0.03	) \$ (0.02
Proforma	\$ (0.03	) \$ (0.03

4. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the six months ended June 30, 2015 were as follows (in thousands):

Balance as of January 1, 2015	\$1,635
Foreign currency translation adjustment	(62)
Balance as of June 30, 2015	\$1,573

Information regarding the Company's acquisition-related intangible assets is as follows (in thousands):

	Developed technology	Customer relationships	Trademarks and tradenames	Patents	Total
Gross carrying amounts:					
Balance as of December 31, 2014	2,369	2,439	596	50	5,454
Foreign currency translation	(151)	(157)	(13)	(4)	(325)
Balance as of June 30, 2015	\$ 2,218	\$ 2,282	\$ 583	\$ 46	\$5,129

INNODATA INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2015 AND 2014
(Unaudited)

	Developed technology	Customer relationships	Trademarks and tradenames	Patents	Total
Accumulated amortization:					
Balance as of December 31, 2014	98	84	11	-	193
Amortization expense	113	97	46	4	260
Foreign currency translation	(8)	(7)	(1)	-	(16)
Balance as of June 30, 2015	\$ 203	\$ 174	\$ 56	\$ 4	\$437

Amortization expense relating to acquisition-related intangible assets for the three months ended June 30, 2015 was \$0.2 million. There was no amortization expense during the three months ended June 30, 2014 as the acquisition was consummated on July 28, 2014.

Amortization expense relating to acquisition-related intangible assets for the six months ended June 30, 2015 was \$0.3 million. There was no amortization expense during the six months ended June 30, 2014 as the acquisition was consummated on July 28, 2014.

Estimated annual amortization expense for intangible assets subsequent to June 30, 2015 is as follows (in thousands):

Year	Amortization
2015	\$ 507
2016	\$ 507
2017	\$ 507
2018	\$ 507
2019	\$ 475
Thereafter	\$ 2,189
	\$ 4,692

5. Income Taxes

The Company had unrecognized tax benefits of approximately \$1.2 million as of June 30, 2015 and approximately \$1.8 million as of December 31, 2014. The portion of unrecognized tax benefits relating to interest and penalties was approximately \$0.4 million as of June 30, 2015 and approximately \$0.6 million at December 31, 2014. The

unrecognized tax benefits as of June 30, 2015 and December 31, 2014, if recognized, would have an impact on the Company's effective tax rate.

INNODATA INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2015 AND 2014
(Unaudited)

The following presents a roll-forward of the Company's unrecognized tax benefits and associated interest for the six months ended June 30, 2015 (amounts in thousands):

	Unrecognized tax benefits
Balance - January 1, 2015	\$ 1,760
Decrease for tax position settled for prior years	(544)
Increase for tax position in prior years	27
Foreign currency revaluation	17
Balance - June 30, 2015	\$ 1,260

The Company is subject to Federal income tax, as well as income tax in various states and foreign jurisdictions. The Company is no longer subject to examination by Federal tax authorities for years prior to 2006 and by New Jersey tax authorities for years prior to 2012. Various foreign subsidiaries currently have open tax years from 2003 through 2014.

Pursuant to an income tax audit by the Indian Bureau of Taxation in March 2006, one of the Company's Indian subsidiaries received a tax assessment approximating \$260,000, including interest, through June 30, 2015, for the fiscal tax year ended June 30, 2003. Management disagreed with the basis of the tax assessment and filed an appeal with the Appeal Officer against the assessment. In October 2010, the matter was resolved with a judgment in the Company's favor. Under the Indian Income Tax Act, however, the income tax assessing officer has the right to appeal against the judgment passed by the Appeal Officer. In December 2010, the income tax assessing officer exercised this right. In June 2015, the Indian Bureau of Taxation completed the audit and the ultimate outcome was favorable. There was no tax assessment imposed for the fiscal tax year ended March 31, 2003. The Company had previously recorded a tax provision amounting to \$260,000 including interest through June 30, 2015. As the ultimate outcome was favorable, the Company reversed this amount in the second quarter of 2015. In 2008 and 2009, the Indian subsidiary received a final tax assessment for the fiscal years ended March 31, 2005 and 2006 from the Indian Bureau of Taxation. The tax assessment amounted to \$284,000 and \$309,000, including interest, through June 30, 2015, for the fiscal years ended March 31, 2005 and 2006, respectively. Management disagrees with the basis of these tax assessments, has filed an appeal against the assessments and is contesting them vigorously. In June 2015, the Indian Bureau of Taxation completed the audit for the fiscal tax year ended March 31, 2005 and the ultimate outcome was favorable. There was no tax assessment imposed for the fiscal tax year ended March 31, 2005. The Company had previously recorded a tax provision amounting to \$284,000 including interest through June 30, 2015. As the ultimate outcome was favorable, the Company reversed this amount in the second quarter of 2015. In January 2012, the Indian subsidiary received a final tax assessment of approximately \$1.0 million, including interest, for the fiscal year ended March 31, 2008, from the Indian Bureau of Taxation. Management disagrees with the basis of this tax assessment, and

has filed an appeal against it. Due to this assessment, the Company recorded a tax provision amounting to \$488,000 including interest through June 30, 2015. In April 2015, the Company received a favorable judgment whereby the Appeal Officer reduced the tax assessment to \$0.3 million. Under the Indian Income Tax Act, however, the income tax assessing officer has the right to appeal against the judgment passed by the Appeal Officer within 60 days of the receipt of the appeal order. Based on recent experience, management believes that the tax provision of \$488,000 including interest is adequate. The Indian Bureau of Taxation commenced an audit of this subsidiary's income tax return for the fiscal year ended March 31, 2012. The ultimate outcome for the fiscal year ended March 31, 2012 cannot be determined at this time. As the Company is continually subject to tax audits by the Indian Bureau of Taxation, the Company continuously assesses the likelihood of an unfavorable assessment for all fiscal years for which the Company has not been audited and, as of June 30, 2015, the Company recorded a tax provision amounting to \$153,000 including interest for such year.

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The Company from time to time is also subject to various other tax proceedings and claims for its Philippines subsidiaries. The Company has recorded a tax provision amounting to \$310,000 including interest through June 30, 2015, for several ongoing tax proceedings in the Philippines. Although the ultimate outcome cannot be determined at this time, the Company continues to contest these claims vigorously.

6. Commitments and Contingencies

Litigation - In 2008, the Supreme Court of the Republic of the Philippines refused to review a decision of the Court of Appeals in Manila against a Philippines subsidiary of the Company that is inactive and has no material assets, and purportedly also against Innodata Inc., that orders the reinstatement of certain former employees of the subsidiary to their former positions and also orders the payment of back wages and benefits that aggregate approximately \$8.0 million. Based on consultation with legal counsel, the Company believes that recovery against the Company is unlikely.

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

While management currently believes that the ultimate outcome of these proceedings will not have a 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 operating results of the period in which the ruling or recovery occurs. In addition, the Company's estimate of the potential impact on the Company's consolidated financial position or overall consolidated results of operations for the above legal proceedings could change in the future.

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

Foreign Currency- To the extent that the currencies of the Company's production facilities located in the Philippines, India, Sri Lanka and Israel fluctuate, the Company is subject to risks of changing costs of production after pricing is established for certain client projects. In addition, the Company is exposed to the risk 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 and/or officer or fiduciary of the Company. In addition, the Company has contracts with certain clients pursuant to whom the Company has agreed to indemnify the client for certain specified and limited claims. These indemnification obligations occur in the ordinary course of business and, in many cases, do not include a limit on potential maximum future payments. As of June 30, 2015, the Company has not recorded a liability for any obligations arising as a result of these indemnifications.

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Liens-In connection with the procurement of tax incentives at one of the Company's foreign subsidiaries, the foreign zoning authority was granted a first lien on the subsidiary's property and equipment. As of June 30, 2015, the net book value of the property and equipment was \$0.5 million.

7. Stock Options

The Company adopted, with stockholder approval, amendments to the Innodata Inc. 2013 Stock Plan. The maximum number of shares of common stock that may be delivered, purchased or used for reference purposes (with respect to stock appreciation rights or stock units) with respect to awards granted under the Innodata Inc. 2013 Stock Plan, as amended and restated (the "2013 Plan") is 2,138,655 shares of common stock of Innodata ("Stock"), plus (i) 41,096 shares of Stock that were available for issuance under the Innodata Isogen, Inc. 2009 Stock Plan, as amended and restated (the "Prior Plan") as of June 4, 2013, plus (ii) any shares subject to an award or portion of any award under the Prior Plan that were outstanding as of June 4, 2013 that expire or terminate unexercised, become unexercisable or are forfeited or otherwise terminated, surrendered or canceled as to any shares without the delivery of shares of stock or other consideration. Shares of stock subject to options or stock appreciation rights granted under the 2013 Plan count against the share reserve as one share for every one share subject to such option or stock appreciation right and shares subject to any other type of award granted under the 2013 Plan count against the share reserve as two shares for every one share subject to such award. If any award, or portion of an award, under the 2013 Plan or Prior Plan expires or terminates unexercised, becomes unexercisable or is forfeited or otherwise terminated, surrendered or canceled as to any shares without the delivery of shares of Stock or other consideration, the shares subject to such award will thereafter be available for further awards under the 2013 Plan as provided in the next sentence. Shares of Stock that again become available for awards pursuant to the expiration, termination, forfeiture or cancellation of any award (other than an option or stock appreciation right) granted under the 2013 Plan, or of any award (other than an option or stock appreciation right) granted after March 31, 2011 under the Prior Plan, will be added back as two shares for every one share subject to such award or Prior Plan award. All other awards under the 2013 Plan and all other awards under the Prior Plan will be added back as one share for every one share subject to such award or Prior Plan award. The number of shares used for reference purposes in connection with these awards will be considered "delivered" for purposes of computing the maximum number of shares that may be delivered under the 2013 Plan.

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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:

	Number of Options	Weighted - Average Exercise Price	Weighted- Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at January 1, 2015	3,641,857	\$ 3.05		
Granted	-	-		
Exercised	-	-		
Forfeited/Expired	(64,767)	2.87		
Outstanding at June 30, 2015	3,577,090	\$ 3.05	4.40	\$ 50,275
Exercisable at June 30, 2015	1,346,482	\$ 3.06	3.12	\$ 40,900
Vested and Expected to Vest at June 30, 2015	3,577,090	\$ 3.06	4.40	\$ 50,275

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:

	Six Months Ended June 30, 2015	2014
Weighted average fair value of options granted	\$-	\$1.35
Risk-free interest rate	-	1.53% to 1.68 %
Expected life (years)	-	5
Expected volatility factor	-	54.96 %
Expected dividends	-	-

A summary of restricted shares under the Company's stock plans as of June 30, 2015, and changes during the period then ended, are presented below:

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	Number of Shares	Weighted- Average Grant Date Fair Value
Unvested at January 1, 2015	7,500	\$ 2.59
Granted	-	-
Vested	(7,500)	2.59
Forfeited/Expired	-	-
Unvested at June 30, 2015	-	\$ -

The total compensation cost related to non-vested stock awards not yet recognized as of June 30, 2015 totaled approximately \$1.4 million. The weighted-average period over which these costs will be recognized is seventeen months.

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Direct operating costs	\$ 104	\$ 106	\$ 195	\$ 175
Selling and administrative expenses	170	240	364	369
Total stock-based compensation	\$ 274	\$ 346	\$ 559	\$ 544

There were no options exercised in the six months ended June 30, 2015.

8. Long term obligations

Total long-term obligations as of June 30, 2015 and December 31, 2014 consist of the following (in thousands):

	June 30, 2015	December 31, 2014
Vendor obligations		
Capital lease obligations ⁽¹⁾	\$ 518	\$ 656
Deferred lease payments ⁽²⁾	717	792
Microsoft licenses ⁽³⁾	401	759
Acquisition related liability ⁽⁴⁾	1,622	1,735
Pension obligations		
Accrued pension liability	3,488	3,204
	6,746	7,146
Less: Current portion of long term obligations	1,363	1,606
Totals	\$ 5,383	\$ 5,540

⁽¹⁾ In March 2014, the Company entered into an equipment sale leaseback agreement with a financing company. The cash proceeds from the transaction were \$0.9 million. The Company leased the equipment for a period of 36 months at an effective interest rate of approximately 6% and has the option to purchase the equipment for a nominal amount at the end of the lease term. The Company has accounted for this transaction as a financing arrangement, wherein the equipment remains on the Company's books and will continue to be depreciated. As of June 30, 2015, the Company had made \$0.4 million in lease payments under the sale leaseback agreement.

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(2) Deferred lease payments represent the effect of straight-lining non-financing type lease payments over the respective lease terms.

(3) In March 2014, 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 2017. 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 2014:

Prepaid expenses and other current assets	\$356
Other assets	713
Property and equipment	136
	\$1,205

(4) Amount represents a portion of the purchase price consideration for the acquisition of MediaMiser as follows: \$0.5 million paid by the Company on July 28, 2015 in shares of Innodata Inc.'s common stock, and \$0.6 million to be paid by the Company on July 28, 2016 in shares of Innodata Inc.'s common stock, or at the Company's option, in cash. In addition, the Company agreed to pay up to a maximum of \$4.6 million of contingent consideration based on MediaMiser's achieving certain revenue and EBITDA levels during the period from April 1, 2016 to March 31, 2017. The fair value of the contingent consideration as of June 30, 2015 was \$0.5 million.

9. Comprehensive Income (Loss)

Accumulated other comprehensive loss, as reflected in the condensed consolidated balance sheets, consists of pension liability adjustments, net of taxes, foreign currency translation adjustment, net of taxes and changes in fair value of derivatives, net of taxes. The components of accumulated other comprehensive loss as of June 30, 2015, and reclassifications out of accumulated other comprehensive income (loss) for the six months ended June 30, 2015 and 2014, were as follows (net of tax):

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	Pension Liability Adjustment	Fair Value of Derivatives	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Income (Loss)
Balance at April 1, 2015	\$ 507	\$ 169	\$ (986)	\$ (310)
Other comprehensive income (loss) before reclassifications, net of taxes	-	(69)	119	50
Total other comprehensive income (loss) before reclassifications, net of taxes	507	100	(867)	(260)
Net amount reclassified to earnings	10	46		56
Balance at June 30, 2015	\$ 517	\$ 146	\$ (867)	\$ (204)

	Pension Liability Adjustment	Fair Value of Derivatives	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Income (Loss)
Balance at April 1, 2014	\$ (121)	\$ 79	\$ -	\$ (42)
Other comprehensive income before reclassifications, net of taxes	15	259	-	274
Total other comprehensive income (loss) before reclassifications, net of taxes	(106)	338	-	232
Net amount reclassified to earnings	10	(4)	-	6
Balance at June 30, 2014	\$ (96)	\$ 334	\$ -	\$ 238

	Pension Liability Adjustment	Fair Value of Derivatives	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2015	\$ 497	\$ (337)	\$ (447)	\$ (287)
Other comprehensive income (loss) before reclassifications, net of taxes	-	405	(420)	(15)

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Total other comprehensive income (loss) before reclassifications, net of taxes	497	68	(867)	(302)
Net amount reclassified to earnings	20	78	-		98	
Balance at June 30, 2015	\$ 517	\$ 146	\$ (867	)	\$ (204)

	Pension Liability Adjustment	Fair Value of Derivatives	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Income (Loss)	
Balance at January 1, 2014	\$ (116	) \$ (576	) \$ -	\$ (692)
Other comprehensive income before reclassifications, net of taxes	-	529	-	529	
Total other comprehensive loss before reclassifications, net of taxes	(116	) (47	)	(163)
Net amount reclassified to earnings	20	381	-	401	
Balance at June 30, 2014	\$ (96	) \$ 334	\$ -	\$ 238	

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

10. Segment Reporting and Concentrations

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

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

The IADS segment performs advanced data analysis and operates through two subsidiaries: Synodex and docGenix. Synodex offers a range of data analysis services in the healthcare, medical and insurance areas. docGenix provides services to certain financial services institutions.

In July 2014, the Company acquired MediaMiser, an Ottawa, Canada-based provider of automated, real-time traditional and social media monitoring services. In December 2014, the Company acquired intellectual property and related assets of Bulldog Reporter. Both these businesses constitute Company's MIS Segment.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues:				
Content Services	\$ 12,370	\$ 14,136	\$ 24,561	\$ 28,130
IADS	545	178	950	250
MediaMiser	1,148	-	2,354	-
Total Consolidated	\$ 14,063	\$ 14,314	\$ 27,865	\$ 28,380
Loss before provision for income taxes ⁽¹⁾ :				
Content Services	\$ 701	\$ 981	\$ 1,064	\$ 2,871
IADS	(1,500)	(1,826)	(3,095)	(3,721)
MediaMiser	(388)	-	(587)	-
Total Consolidated	\$ (1,187)	\$ (845)	\$ (2,618)	\$ (850)

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Loss before provision for income taxes⁽²⁾:

Content Services	\$ 98		\$ 511		\$ (120)	\$ 1,932	
IADS	(898	)	(1,356	)	(1,912	)	(2,782)
MediaMiser	(387	)	-		(586)	-	
Total Consolidated	\$ (1,187	)	\$ (845	)	\$ (2,618	)	\$ (850)

June 30, 2015 December 31, 2014

Total assets:

Content Services	\$ 42,092	\$ 46,681
IADS	965	540
MediaMiser	9,423	7,640
Total Consolidated	\$ 52,480	\$ 54,861

⁽¹⁾ Before elimination of any inter-segment profits

⁽²⁾ After elimination of any inter-segment profits

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The following table summarizes revenues by geographic region (determined based upon customer's domicile) (in thousands):

	Three months ended		Six months ended	
	June 30, 2015	2014	June 30, 2015	2014
United States	\$ 6,615	\$ 7,756	\$ 13,203	\$ 15,745
United Kingdom	2,050	2,645	4,251	4,124
The Netherlands	2,648	2,231	4,760	5,276
Canada	1,456	351	2,827	710
Other - principally Europe	1,294	1,331	2,824	2,525
	\$ 14,063	\$ 14,314	\$ 27,865	\$ 28,380

Long-lived assets as of June 30, 2015 and December 31, 2014, respectively, by geographic region, are comprised of (in thousands):

	June 30, 2015	December 31, 2014
United States	\$ 1,209	\$ 1,600
Foreign countries:		
Philippines	1,802	2,081
India	1,874	2,136
Sri Lanka	763	890
Canada	5,848	6,061
Israel	23	29
Germany	2	14
Total foreign	10,312	11,211
	\$ 11,521	\$ 12,811

Two clients generated approximately 36% of the Company's total revenues for the three months ended June 30, 2015 and 32% of the Company's total revenues for the three months ended June 30, 2014. No other client accounted for 10% or more of total revenues during these periods. Further, for the three months ended June 30, 2015 and 2014, revenues from non-U.S. clients accounted for 53% and 46%, respectively, of the Company's total revenues.

Two clients generated approximately 35% of the Company's total revenues for the six months ended June 30, 2015 and 32% of the Company's total revenues for the six months ended June 30, 2014. No other client accounted for 10% or more of total revenues during these periods. Further, for the six months ended June 30, 2015 and 2014, revenues from non-U.S. clients accounted for 53% and 45%, respectively, of the Company's total revenues.

As of June 30, 2015, approximately 56% of the Company's accounts receivable was from foreign (principally European) clients and 55% of accounts receivable was due from three clients. As of December 31, 2014, approximately 49% of the Company's accounts receivable was from foreign (principally European) clients and 58% of accounts receivable was due from four clients.

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11. Net Loss Per Share

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(in thousands)		(in thousands)	
Net loss attributable to Innodata Inc. and Subsidiaries	\$ (799	) \$ (663	) \$ (2,639	) \$ (474
Weighted average common shares outstanding	25,337	25,239	25,337	25,146
Dilutive effect of outstanding options	-	-	-	-
Adjusted for dilutive computation	25,337	25,239	25,337	25,146

Basic net loss per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net 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 per share is used.

Options to purchase 2.6 million shares and 1.6 million shares of common stock for the three months ended June 30, 2015 and 2014, respectively, were outstanding but not included in the computation of diluted net loss per share, because the options exercise price was greater than the average market price of the common shares and, therefore, the effect would have been anti-dilutive. In addition, diluted net loss per share for the three months ended June 30, 2015 and 2014 does not include 1.0 million and 2.3 million potential common shares, respectively, derived from the exercise of stock options, because as a result of the Company’s incurring losses, their effect would have been anti-dilutive.

Options to purchase 2.6 million shares and 1.6 million shares of common stock for the six months ended June 30, 2015 and 2014, respectively, were outstanding but not included in the computation of diluted net loss per share, because the options exercise price was greater than the average market price of the common shares and, therefore, the effect would have been anti-dilutive. In addition, diluted net loss per share for the six months ended June 30, 2015 and 2014 does not include 1.0 million and 2.3 million potential common shares, respectively, derived from the exercise of stock options, because as a result of the Company’s incurring losses, their effect would have been anti-dilutive.

12. 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 the majority of the Company's revenues is denominated in U.S. dollars, a significant portion of the total revenues is denominated in Canadian dollars and Euros.

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

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedge transactions. The Company does not hold or issue derivatives for trading purposes. All derivatives are recognized at their fair value and classified based on the instrument's maturity date. The total notional amount for outstanding derivatives as of June 30, 2015 and December 31, 2014 was \$18.1 million and \$19.4 million, respectively, which is comprised of cash flow hedges denominated in U.S. dollars.

The following table presents the fair value of derivative instruments included within the consolidated balance sheets as of June 30, 2015 and December 31, 2014 (in thousands):

	Balance Sheet Location	Fair Value	
		2015	2014
Derivatives designated as hedging instruments:			
Foreign currency forward contracts	Prepaid expenses and other current assets	\$ 146	\$-
Foreign currency forward contracts	Accrued expenses	\$-	\$ 337

The effects of foreign currency forward contracts designated as cash flow hedges on the Company's condensed consolidated statements of operations and comprehensive income (loss) for the three and six months ended June 30, 2015 and 2014, respectively, were as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
Net gain (loss) recognized in OCI ⁽¹⁾	\$ (69)	\$ 259	\$ 405	\$ 529
Net gain (loss) reclassified from accumulated OCI into income ⁽²⁾	\$ (46)	\$ 4	\$ (78)	\$ (381)

Net gain recognized in income ⁽³⁾	\$ -	\$ -	\$ -	\$ -
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⁽¹⁾Net change in fair value of the effective portion classified into other comprehensive income ("OCI").

⁽²⁾Effective portion classified within direct operating cost.

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

13. Financial Instruments

The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable and accounts payable approximated their fair value as of June 30, 2015 and December 31, 2014, 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.

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

- *Level 1:* Unadjusted quoted price in active market for identical assets and liabilities.
- *Level 2:* Observable inputs other than those included in Level 1.
- *Level 3:* Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability.

The following table sets forth the assets and liabilities as of June 30, 2015 and December 31, 2014 that the Company measured at fair value, on a recurring basis by level, within the fair value hierarchy (in thousands). As required by the standard, assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to their fair value measurement.

June 30, 2015	Level 1	Level 2	Level 3
Assets			
Derivatives	\$ -	\$ 146	\$ -
Liabilities			
Contingent Considerations	\$ -	\$ -	\$ 508
December 31, 2014	Level 1	Level 2	Level 3
Liabilities			
Derivatives	\$ -	\$ 337	\$ -
Contingent Considerations	\$ -	\$ -	\$ 553

The following table summarizes the change in fair value of the Level 3 liability for the three months ended June 30, 2015:

Balance at December 31, 2014	553
Effect of foreign currency translation adjustment	(45)
Balance at June 30, 2015	508

The Level 2 assets and liabilities contain foreign currency forward contracts. Fair value is determined based on the observable market transactions of spot and forward rates. The fair value of these contracts as of June 30, 2015 is included in prepaid expenses and other current assets, and as of December 31, 2014, is included in accrued expenses in the accompanying condensed consolidated balance sheets.

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The acquisition of MediaMiser includes contingent consideration that requires additional amounts to be paid by the Company based on MediaMiser's revenues and EBITDA during the period from April 1, 2016 to June 30, 2017. The fair value measurement of the contingent consideration obligation is determined using Level 3 unobservable inputs supported by little or no market activity by applying the probability-weighted discounted cash flow approach. The fair value of the contingent consideration as of June 30, 2015 and December 31, 2014 was \$0.5 million and the Company has recorded this amount in long term obligations in the condensed consolidated financial statements.

For the three months ended June 30, 2015, the Company had no transfers between Level 1, Level 2 and Level 3. The change in fair value of the Level 3 liability is on account of foreign currency fluctuation.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

Disclosures in this Form 10-Q 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” 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; our Innodata Advanced Data Solutions (“IADS”) segment is a venture formed in 2011 with minimal revenue to date, that has incurred losses since inception and has recorded impairment charges for all of its fixed assets; we currently intend to continue to invest in IADS; the primarily at-will nature of contracts with our Content Services clients and the ability of these clients to reduce, delay or cancel projects; continuing Content Services segment revenue concentration in a limited number of clients; inability to replace projects that are completed, canceled or reduced; difficulty in integrating and deriving synergies from acquisitions, joint venture and strategic investments; potential undiscovered liabilities of companies that we may acquire; 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-Q 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.

Business Overview

Innodata (NASDAQ: INOD) is a global digital services and solutions company. Our technology and services power leading information products and online retail destinations around the world. Our solutions help prestigious

enterprises harness the power of digital data to re-imagine how they operate and drive performance. We serve publishers, media and information companies, digital retailers, banks, insurance companies, government agencies and many other industries. We take a “technology-first” approach, applying advanced technologies in innovative ways. Founded in 1988, we comprise a team of 5,000 diverse people in eight countries who are dedicated to delivering services and solutions that help the world make better decisions.

We operate in three reporting segments: Content Services (CS), Innodata Advanced Data Solutions (IADS) and Media Intelligence Solutions (MIS). Our CS segment provides solutions to digital retailers, information services companies, publishers and enterprises that have one or more of the following broad business requirements: development of digital content (including e-books); development of new digital information products; and operational support of existing digital information products and systems.

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

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

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

We are one of the largest producers of e-books, serving four of the five leading digital e-book retailers as well as 80 leading trade, education and professional publishers that sell e-books. We manufacture both standard e-books and interactive e-books in a variety of formats (including EPUB, Mobi and Kindle) and in 12 major languages (including Japanese and Chinese). In addition, we distribute e-books on behalf of publishers and authors to more than 25 e-book retailers across North America, the United Kingdom, Australia and 24 countries in the European Union. Since 2011, we have produced over 1,000,000 e-book titles.

We help our clients develop high-value information products and knowledge repositories. Our clients include four of the ten largest information industry companies in the world, spanning financial, legal, healthcare and scientific information.

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

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

Our IADS segment operates through our Synodex and docGenix subsidiaries. As of June 30, 2015 we owned 90% of Synodex and 94% of docGenix.

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

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

The IADS subsidiaries have incurred losses and have reported minimal revenues since their inception in 2011. Our investment net of revenues in these subsidiaries in the second quarter of 2015 was approximately \$0.9 million (consisting mainly of operating expenses). Our cumulative investment, net of revenues in these subsidiaries as of June 30, 2015 was \$29.0 million, consisting of \$22.0 million in operating expenses and \$7.0 million in capital expenditures. We wrote off all of the fixed assets of IADS in the third quarter of 2013 and have expensed all investments in IADS since that time. In the immediate future we intend to continue to invest in these subsidiaries net of revenues at the combined rate of \$0.8 to \$1.2 million per quarter.

Our MIS segment operates through our MediaMiser and Bulldog Reporter subsidiaries.

MediaMiser provides media monitoring and analysis software and professional services to several Fortune 500 companies and Canadian government institutions as well as small- and medium-sized businesses. Through web-based and mobile solutions, MediaMiser enables companies to reduce the time and effort required to extract, analyze and share valuable business intelligence from traditional and social media sources. For organizations that prefer to outsource, MediaMiser provides detailed analysis reports and daily media briefings through an expert client services team.

MediaMiser's proprietary technology platform monitors, aggregates, analyzes and shares content from more than 200,000 sources across social, traditional and digital media. The platform includes a unique and patented sentiment analysis engine that identifies whether opinions expressed in a particular document or online text are positive, negative or neutral.

Increasingly, companies looking to market their products, identify market opportunities and manage their reputations, are seeking technology and technology-enabled services to help them keep pace with the proliferation of traditional and social media news sources. We believe that MediaMiser's technology platform is well suited to this need and will provide MediaMiser with a competitive advantage as it seeks to expand into new geographical markets and penetrate further into its existing market.

Bulldog Reporter supplies media intelligence news and analysis to public relations and corporate communications professionals with the mission of helping these practitioners achieve competitive performance. Bulldog Reporter publishes the industry's well-known trade journal, Bulldog Reporter's Daily Dog. In addition, it publishes a daily online newsletter—Inside Health Media—that focuses on media relations and provides media lists and media intelligence services through its Media Pro online directory. Bulldog Reporter presents industry awards competitions—the Bulldog Awards—which recognize excellence in multiple categories including corporate social responsibility, media relations, digital and social marketing, not-for-profit activity and overall outstanding professional performance.

Our services are organized and managed around three vectors: a vertical industry focus, a horizontal service/process focus, and a supportive operations focus.

The vertically-aligned groups understand our clients' businesses and strategic initiatives. The vertical group for each particular industry includes experts hired from that industry.

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

Our globally distributed delivery personnel are responsible for executing our client engagements in accordance with service-level agreements. We deliver services from facilities in the United States, India, the Philippines, Sri Lanka, Israel, Germany and Canada.

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

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

Revenues

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

In our IADS segment we recognize revenues primarily based on the quantity delivered, and the period in which services are performed and deliverables are made as per contracts.

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

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

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

Direct Operating Costs

Direct operating costs consist of direct payroll, occupancy costs, data center hosting fees, content acquisition costs, depreciation and amortization, travel, telecommunications, computer services and supplies, realized gain (loss) on forward contracts, foreign currency revaluation gain (loss), and other direct expenses that are incurred in providing services to our clients.

Selling and Administrative Expenses

Selling and administrative expenses consist of management and administrative salaries, sales and marketing costs including commissions, new services research and related software development, third-party software, advertising and trade conferences, professional fees and consultant costs, and other administrative overhead costs.

Adjusted EBITDA Performance Metric

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

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

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

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

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

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

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

	Three Months Ended		Six Months Ended	
	June 30,	2014	June 30,	2014
	2015		2015	
Adjusted EBITDA:				
Net loss attributable to Innodata Inc. and Subsidiaries	\$ (799)	\$ (663)	\$ (2,639)	\$ (474)
Depreciation and amortization	709	679	1,436	1,391
Stock-based compensation	274	346	559	544
Provision for (benefit from) income taxes	(254)	106	301	207
Interest income, net	(19)	(22)	(45)	(31)
Non-controlling interests	(134)	(288)	(280)	(583)
Adjusted EBITDA	\$ (223)	\$ 158	\$ (668)	\$ 1,054

Results of Operations

We acquired MediaMiser on July 28, 2014. The Results of Operations reflect the operations of MediaMiser from July 29, 2014. We acquired Bulldog Reporter on December 23, 2014. The Results of Operations reflect the operations of Bulldog Reporter from December 24, 2014.

Three Months Ended June 30, 2015 and 2014

Revenues

Total revenues were \$14.1 million for the three months ended June 30, 2015 compared to \$14.3 million for the three months ended June 30, 2014, a decline of \$0.2 million or approximately 2%.

Revenues from the CS segment were \$12.4 million and \$14.1 million for the three months ended June 30, 2015 and 2014, respectively, a decline of \$1.8 million or approximately 12%. This decline is primarily attributable to a decline in e-book related services from one client, and lower volumes in a few projects, including project completions. The

decline was partially offset by an increase in revenues from other clients. Revenues from the IADS segment were \$0.5 million for the three months ended June 30, 2015 and \$0.2 million for the three months ended June 30, 2014. The increase is on account of the launch of the Synodex 3.0 solution with four insurance carriers and a reinsurance client. Revenues from the MIS segment were \$1.2 million for the three months ended June 30, 2015.

Two clients generated approximately 36% of our total revenues for the three months ended June 30, 2015 and 32% of our total revenues for the three months ended June 30, 2014. No other client accounted for 10% or more of total revenues during these periods. Further, for the three months ended June 30, 2015 and 2014, revenues from non-U.S. clients accounted for 53% and 46%, respectively, of our total revenues.

Direct Operating Costs

Direct operating costs were \$11.0 million and \$11.3 million for the three months ended June 30, 2015 and 2014, respectively, a decrease of \$0.3 million or 3%.

Direct operating costs for the CS segment were approximately \$9.3 million and \$10.2 million for the three months ended June 30, 2015 and 2014, respectively, a decrease of \$0.9 million or 8%. The decline in direct operating costs for the CS segment during the three months ended June 30, 2015 compared to the three months ended June 30, 2014 reflects a decline in CS revenues for existing projects during the 2015 period offset in part by approximately \$250,000 in ramp-up costs on a new project for a European publisher. Direct operating costs for the IADS segment were \$1.0 million for the three months ended June 30, 2015 and \$1.1 million for the three months ended June 30, 2014, net of intersegment profits. Direct operating costs for the MIS segment were \$0.7 million for the three months ended June 30, 2015.

Direct operating costs as a percentage of total revenues declined to 78% for the three months ended June 30, 2015 compared to 79% for the three months ended June 30, 2014. Direct operating costs for the CS segment as a percentage of CS segment revenues were 75% for the three months ended June 30, 2015 compared to 72% for the three months ended June 30, 2014. The increase in direct operating costs for the CS segment as a percentage of CS segment revenues was principally attributable to the approximately \$250,000 ramp up costs of the European project mentioned in the preceding paragraph.

Selling and Administrative Expenses

Selling and administrative expenses were \$4.3 million for the three months ended June 30, 2015 compared to \$3.9 million for the three months ended June 30, 2014, an increase of \$0.4 million or approximately 8%. Selling and administrative expenses as a percentage of total revenues increased to 30% for the three months ended June 30, 2015 compared to 27% for the three months ended June 30, 2014.

Selling and administrative expenses for the CS segment were \$2.9 million and \$3.5 million in these respective periods. Selling and administrative expenses for the IADS segment for the respective periods were \$0.5 million and \$0.4 million, net of intersegment profits. Selling and administrative expenses for the MIS segment were \$0.9 million for the three months ended June 30, 2015.

We restructured our operations in the second and the third quarters of 2014 which resulted in cost savings. This led to a decline in selling and administrative expenses for the CS segment in the three months ended June 30, 2015 compared to the three months ended June 30, 2014. Selling and administrative expenses for the CS segment as a percentage of CS segment revenues were approximately 24% for each of the three months ended June 30, 2015 and 2014.

Income Taxes

For the three months ended June 30, 2015, we recorded a net benefit from income taxes. We recorded a provision for income taxes in accordance with local tax regulations for our foreign subsidiaries. Some of our foreign subsidiaries are subject to tax holidays or preferential tax rates which reduces our overall effective tax rate when compared to the U.S. statutory tax rate. In addition, the earnings of our foreign subsidiaries are not subject to tax in the U.S. unless the earnings are repatriated. The provision for income taxes recorded by our foreign subsidiaries was completely offset by a reversal of a tax provision on account of a favorable outcome in two of the tax proceedings of our Indian subsidiary resulting in a benefit from income taxes.

For the three months ended June 30, 2014, the provision for income taxes recorded by our foreign subsidiaries was partially offset by a reversal of a tax provision on account of a favorable outcome in one of the tax proceedings of our Indian subsidiary.

We have a valuation allowance on all our U.S. deferred tax assets on account of continuing losses incurred by our U.S. entity. In addition, we also have a valuation allowance on deferred tax assets of the MIS segment.

Net Loss

We generated a net loss of \$0.8 million during the three months ended June 30, 2015 compared to net loss of \$0.7 million during the three months ended June 30, 2014.

Net income for the CS segment was \$0.5 million for the three months ended June 30, 2015, compared to net income of \$0.7 million for the three months ended June 30, 2014, net of intersegment profits. This change is primarily on account of a decline in revenues partially offset by a decrease in direct operating costs and selling and administrative expenses.

Net loss for the IADS segment was \$0.9 million for the three months ended June 30, 2015 compared to \$1.4 million for the three months ended June 30, 2014, net of intersegment profits. The decline in net loss is primarily due to an increase in revenues.

Net loss for the MIS segment was \$0.4 million for the three months ended June 30, 2015.

Adjusted EBITDA

Adjusted EBITDA for the three months ended June 30, 2015 was a loss of \$0.2 million compared to income of \$0.2 million for the three months ended June 30, 2014, a decline of \$0.4 million. Adjusted EBITDA for the CS segment was \$0.9 million and \$1.5 million for the three months ended June 30, 2015 and 2014, respectively, a decline of \$0.6 million or approximately 40%. Adjusted EBITDA was a loss of \$0.9 million and a loss of \$1.3 million for the IADS segment for the three months ended June 30, 2015 and 2014, respectively. Adjusted EBITDA was a loss of \$0.2 million for the three months ended June 30, 2015 for the MIS segment.

Six Months Ended June 30, 2015 and 2014

Revenues

Total revenues were \$27.9 million for the six months ended June 30, 2015 compared to \$28.4 million for the six months ended June 30, 2014, a decline of \$0.5 million or approximately 2%.

Revenues from the CS segment were \$24.6 million and \$28.1 million for the six months ended June 30, 2015 and 2014, respectively, a decline of \$3.5 million or approximately 12%. This decline is primarily attributable to a decline in e-book related services from one client, and lower volumes in a few projects including project completions. The decline was partially offset by an increase in revenues from other clients. Revenues from the IADS segment were \$1.0 million and \$0.3 million for the six months ended June 30, 2015 and 2014, respectively. The increase is on account of the launch of the Synodex 3.0 solution with four insurance carriers and a reinsurance client. Revenues from the MIS segment were \$2.3 million for the six months ended June 30, 2015.

Two clients generated approximately 35% of our total revenues for the six months ended June 30, 2015 and 32% of our total revenues for the six months ended June 30, 2014. No other client accounted for 10% or more of total revenues during these periods. Further, for the six months ended June 30, 2015 and 2014, revenues from non-U.S. clients accounted for 53% and 45%, respectively, of our total revenues.

Direct Operating Costs

Direct operating costs were \$22.1 million and \$21.6 million for the six months ended June 30, 2015 and 2014, respectively, an increase of \$0.5 million or approximately 2%.

Direct operating costs for the CS segment were \$18.7 million and \$19.4 million for the six months ended June 30, 2015 and 2014, respectively, a decrease of \$0.7 million or 4%. The decline in direct operating costs for the CS segment during the six months ended June 30, 2015 compared to the six months ended June 30, 2014 reflects a decline in CS revenues for existing projects during the 2015 period offset in part by approximately \$500,000 in ramp-up costs on a new project for a European publisher. Direct operating costs for the IADS segment were \$2.1 million for the six months ended June 30, 2015 and \$2.2 million for the six months ended June 30, 2014, net of intersegment profits. Direct operating costs for the MIS segment were \$1.3 million for the six months ended June 30, 2015.

Direct operating costs as a percentage of total revenues decreased to 79% for the six months ended June 30, 2015 compared to 76% for the six months ended June 30, 2014. Direct operating costs for the CS segment as a percentage of CS segment revenues were 76% for the six months ended June 30, 2015 compared to 69% for the six months ended June 30, 2014. The increase in direct operating costs for the CS segment as a percentage of CS segment revenues was principally attributable to the approximately \$500,000 ramp up costs of the European project mentioned in the preceding paragraph.

Selling and Administrative Expenses

Selling and administrative expenses were \$8.4 million for the six months ended June 30, 2015 compared to \$7.7 million for the six months ended June 30, 2014, an increase of \$0.7 million or approximately 10%. Selling and administrative expenses as a percentage of total revenues increased to 30% for the six months ended June 30, 2015 compared to 27% for the six months ended June 30, 2014.

Selling and administrative expenses for the CS segment were \$6.0 million and \$6.9 million in these respective periods. Selling and administrative expenses for the IADS segment for both periods were \$0.8 million, net of intersegment profits. Selling and administrative expenses for the MIS segment were \$1.6 million for the six months ended June 30, 2015.

We restructured our operations in the second and the third quarters of 2014 which resulted in cost savings. In addition, there was a reversal of an accrual for incentive compensation payments to executive officers. This led to a decline in selling and administrative expenses for the CS segment in the six months ended June 30, 2015 compared to the six months ended June 30, 2014. Selling and administrative expenses for the CS segment as a percentage of CS segment revenues were approximately 24% for each of the six months ended June 30, 2015 and 2014.

Income Taxes

For the six months ended June 30, 2015 and 2014, we recorded a provision for income taxes in accordance with local tax regulations for our foreign subsidiaries. Some of our foreign subsidiaries are subject to tax holidays or preferential tax rates which reduces our overall effective tax rate when compared to the U.S. statutory tax rate. In addition, the earnings of our foreign subsidiaries are not subject to tax in the U.S. unless the earnings are repatriated.

For the six months ended June 30, 2015, the provision for income taxes recorded by our foreign subsidiaries was partially offset by a reversal of a tax provision on account of a favorable outcome in two of the tax proceedings of our Indian subsidiary.

For the six months ended June 30, 2014, the provision for income taxes recorded by our foreign subsidiaries was partially offset by a reversal of a tax provision on account of a favorable outcome in one of the tax proceedings of our Indian subsidiary.

We have a valuation allowance on all our U.S. deferred tax assets on account of continuing losses incurred by our U.S. entity. In addition, we also have a valuation allowance on deferred tax assets of the MIS segment.

Net Loss

We generated a net loss of \$2.6 million during the six months ended June 30, 2015 compared to net loss of \$0.5 million during the six months ended June 30, 2014.

Net loss for the CS segment was \$0.1 million for the six months ended June 30, 2015, compared to net income of \$1.9 million for the six months ended June 30, 2014, net of intersegment profits. This change is primarily on account of a decline in revenues partially offset by a decrease in direct operating costs and selling and administrative expenses.

Net loss for the IADS segment was \$1.9 million for the six months ended June 30, 2015 compared to \$2.8 million for the six months ended June 30, 2014, net of intersegment profits. The decline in net loss is primarily due to an increase in revenues.

Net loss for the MIS segment was \$0.6 million for the six months ended June 30, 2015.

Adjusted EBITDA

Adjusted EBITDA for the six months ended June 30, 2015 was a loss of \$0.7 million compared to income of \$1.1 million for the six months ended June 30, 2014, a decline of \$1.8 million. Adjusted EBITDA for the CS segment was

\$1.5 million and \$3.8 million for the six months ended June 30, 2015 and 2014, respectively, a decline of \$2.3 million or approximately 60%. Adjusted EBITDA was a loss of \$1.9 million and a loss of \$2.7 million for the IADS segment for the six months ended June 30, 2015 and 2014, respectively. Adjusted EBITDA was a loss of \$0.3 million for the six months ended June 30, 2015 for the MIS segment.

Liquidity and Capital Resources

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

	June 30, 2015	December 31, 2014
Cash and cash equivalents	\$ 23,696	\$ 24,216
Working Capital	24,572	25,767

At June 30, 2015 we had cash and cash equivalents of \$23.7 million, of which \$21.3 million was held by our foreign subsidiaries located in Asia and \$2.4 million was held in the United States. If needed, amounts held by foreign subsidiaries can be repatriated to the United States to satisfy working capital needs of the U.S. entity, but under current law, such amounts would be subject to United States federal income taxes. As of June 30, 2015 our intent is to permanently reinvest these funds outside the United States.

We have used, and plan to use, our cash and cash equivalents for (i) investments in IADS, which are expected to be at the rate of \$0.8 million to \$1.2 million per quarter in the immediate future, (ii) the expansion of our other operations; (iii) general corporate purposes, including working capital; and (iv) possible business acquisitions. As of June 30, 2015, we had working capital of \$24.6 million, as compared to working capital of approximately \$25.7 million as of December 31, 2014.

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.

Net Cash Provided By Operating Activities

Cash provided by our operating activities for the six months ended June 30, 2015 was \$0.5 million, resulting from a net loss of \$2.9 million, adjustments for non-cash items of \$2.1 million, and \$1.3 million provided by working capital changes. Adjustments for non-cash items primarily consisted of \$1.4 million for depreciation and amortization and stock option expense of \$0.6 million. Working capital activities primarily consisted of a source of cash of \$0.6 million as a result of net collections of accounts receivable and a source of cash of \$0.5 million for a decrease in accrued salaries, wages and related benefits.

Cash provided by our operating activities for the six months ended June 30, 2014 was \$4.4 million, resulting from a net loss of \$1.1 million, adjustments for non-cash items of \$2.1 million, and \$3.4 million provided by working capital changes. Adjustments for non-cash items primarily consisted of \$1.4 million for depreciation and amortization and stock option expense of \$0.5 million. Working capital activities primarily consisted of a source of cash of \$2.5 million as a result of net collections of accounts receivable and a source of cash of \$0.4 million for an increase in prepaid expenses and other current assets.

Our days' sales outstanding (DSO) for the six months ended June 30, 2015 was approximately 66 days as compared to 69 days for the year ended December 31, 2014. We calculate DSO for a reported period by first dividing the total revenues for the period by the average net accounts receivable for the period (which is the sum of the net accounts receivable at the beginning of the period and the net accounts receivable at the end of the period, divided by two), to yield an amount we refer to as the "accounts receivable turnover." Then we divide the total number of days within the reported period by the accounts receivable turnover to yield DSO expressed in number of days.

Net Cash Used In Investing Activities

For the six months ended June 30, 2015 and 2014, cash used in our investing activities for capital expenditures was \$0.3 million and \$1.5 million respectively. During the next twelve months, we anticipate that capital expenditures for ongoing technology, equipment, infrastructure upgrades and development of our proprietary software platform, tools and technologies will approximate \$2.5 to \$3.5 million, a portion of which we may finance.

Net Cash Provided By (Used In) Financing Activities

Cash used in financing activities for the six months ended June 30, 2015 represents payments of long term obligations of \$0.6 million. Cash provided by financing activities for the six months ended June 30, 2014 represents the net proceeds from a capital lease transaction we entered into during the first quarter of 2014 amounting to \$0.9 million and payments of long term obligations of \$0.5 million.

Contractual Obligations

The table below summarizes our contractual obligations (in thousands) at June 30, 2015 and the effects that those obligations are expected to have on our liquidity and cash flows in future periods.

Contractual Obligations	Payments Due by Period				After 5 years
	Total	Less than 1 year	1 - 3 years	4 - 5 years	
Capital lease	\$676	\$ 315	\$ 361		
Vendor obligations	401	231	170		
Non cancelable operating leases	112	75	37		
Acquisition related liability ⁽¹⁾	1,622	510	1,112		
Total contractual cash obligations	\$2,811	\$ 1,131	\$ 1,680	\$ -	\$ -

⁽¹⁾ Amount represents a portion of the purchase price consideration for acquisition of MediaMiser as follows: \$0.5 million paid by us on July 28, 2015 in shares of Innodata Inc.'s common stock, and \$0.6 million to be paid by us on July 28, 2016 in shares of Innodata Inc.'s common stock, or at our option, in cash. In addition, we agreed to pay up to a maximum of \$4.6 million of contingent consideration based on MediaMiser's achieving certain revenue and EBITDA levels during the period from April 1, 2016 to June 30, 2017. The fair value of the contingent consideration as of June 30, 2015 was \$0.5 million.

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

Inflation, Seasonality and Prevailing Economic Conditions

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

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

Critical Accounting Policies and Estimates

Our discussion and analysis of our results of operations, liquidity and capital resources is based on our condensed consolidated financial statements which have been prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition, allowance for doubtful accounts and billing adjustments, long-lived assets, intangible assets, goodwill, valuation of deferred tax assets, value of securities underlying stock-based compensation, litigation accruals, pension benefits, purchase price allocation of MediaMiser and Bulldog Reporter, 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 results of operations and financial position. For a discussion of our critical accounting policies see Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2014. There have been no material changes to our critical accounting policies during the three months ended June 30, 2015.

Recent Accounting Pronouncements

In May 2014, the FASB issued guidance on revenue from contracts with customers. This update is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. It also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This accounting guidance is effective prospectively for annual reporting periods, and interim periods within that period, beginning after December 15, 2017, and early adoption is permitted in the first quarter of 2017. Companies may use either a full retrospective or a modified retrospective approach to adopt the new standard when it takes effect. We have not yet determined the potential effects of the adoption of this standard on our condensed consolidated financial statements.

In June 2014, the FASB issued guidance on accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. This new guidance requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. This accounting guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, with early adoption permitted. We adopted the standard in the first quarter of 2015 and the adoption did not have a material impact on our condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest rate risk

Our equipment sales leaseback financing and capital lease transaction carries a fixed interest rate. Thus as of June 30, 2015 we are not exposed to any market risk due to interest rate fluctuations.

Foreign currency risk

Although the majority of our revenues is denominated in U.S. dollars, a significant portion of our revenues is denominated in Canadian dollars 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. As a result, we are exposed to the risk that fluctuations in the value of these currencies relative to the U.S. dollar could have a direct impact on our revenues and our results of operations.

To mitigate the exposure of fluctuating future cash flows due to changes in foreign exchange rates, we entered into foreign currency forward contracts. These foreign currency forward contracts were entered into with a maximum term of twelve months and have an aggregate notional amount of approximately \$18.1 million as of June 30, 2015. The total unrealized gain on the outstanding hedges was \$0.1 million as of June 30, 2015.

The impact of foreign currency fluctuations will continue to present economic challenges to us and could negatively impact our overall results of operations. A 10% appreciation in the U.S. dollar's value relating to hedged currencies would decrease the forward contracts' fair value by approximately \$1.7 million as of June 30, 2015. Similarly, a 10% depreciation in the U.S. dollar's value relative to hedged currencies would increase the forward contracts' fair value by approximately \$2.0 million. Any increase or decrease in the fair value of our currency exchange-rate-sensitive forward contracts, if utilized, would be substantially offset by a corresponding decrease or increase in the fair value of the hedged underlying cash flows.

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

Other than the aforementioned forward contracts, we have not engaged in any hedging activities nor have we entered into off-balance-sheet transactions or arrangements. In addition, as of June 30, 2015, our foreign locations held cash and cash equivalents totaling approximately \$21.3 million. These assets are exposed to foreign exchange risk arising from changes in foreign exchange rates. At present, we do not enter into any hedging instruments to mitigate foreign exchange risk on such assets; however, we may do so in the future.

Item 4. Controls and Procedures

As of the end of the period covered by this report, we performed an evaluation under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934 (the Exchange Act)). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures were effective.

Our evaluation excluded MediaMiser which was acquired on July 28, 2014. At June 30, 2015, MediaMiser had \$8.8 million of total assets. For the quarter ended June 30, 2015, the Company's condensed consolidated statement of operations included total revenue associated with MediaMiser of \$1.1 million. In accordance with guidance issued by the SEC, companies are allowed to exclude acquisitions from their assessment of internal controls over financial reporting during the first year subsequent to the acquisition while integrating the acquired operations.

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There were no material changes from the legal proceedings previously disclosed in Part I, Item 3. “Legal Proceedings” in our Annual Report on Form 10-K for the year ended December 31, 2014.

Item 1A. Risk Factors

There were no material changes from the risk factors previously disclosed in Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2014.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

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Item 6. Exhibits

4.1 Specimen Stock Certificate

31.1 Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certificate of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification Pursuant to 18 U.S.C. Section 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.

101. INS XBRL Instance Document

101. SCH XBRL Taxonomy Extension Schema Document

101. CAL XBRL Taxonomy Extension Calculation Link base Document

101. DEF XBRL Taxonomy Extension Definition Link base Document

101. LAB XBRL Taxonomy Extension Label Link base Document

101. PRE XBRL Taxonomy Extension Presentation Link base Document

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INNODATA INC.

Date: August 7, 2015 /s/ Jack Abuhoff
Jack Abuhoff
Chairman of the Board,
Chief Executive Officer and President

Date: August 7, 2015 /s/ O'Neil Nalavadi
O'Neil Nalavadi
Senior Vice President
Chief Financial Officer
and Principal Accounting Officer