INNODATA INC
Form 10-K
March 13, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

þ Annual report under section 13 or 15(d) of the securities exchange act of 1934

For the fiscal year ended December 31, 2014

o Transition report under section 13 or 15(d) of the securities exchange act of 1934

Commission file number 0-22196

INNODATA INC.

(Exact name of registrant as specified in its charter)

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

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

(201) 371-8000
(Registrant's telephone number)

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No **þ**

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

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

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 **þ** No ¨

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

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

Large accelerated filer o Accelerated filer **þ** Non-accelerated filer o Smaller reporting company o

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

Yes o No **þ**

The aggregate market value of the registrant’s common stock held by non-affiliates of the registrant (based on the closing price reported on The Nasdaq Stock Market on June 30, 2014) was $71,556,952.

The number of outstanding shares of the registrant’s common stock, $.01 par value, as of February 10, 2015 was 25,337,267.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s definitive proxy statement for the 2015 Annual Meeting of Stockholders are incorporated by reference in Items 10,11,12,13 and 14 of Part III of this Form 10-K.

INNODATA INC

Form 10-K

For the Year Ended December 31, 2014

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PART I

Disclosures in this Form 10-K contain certain forward-looking statements, including without limitation, statements concerning our operations, economic performance, and financial condition. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words "project," "head start," "believe," "expect," "should," "anticipate," "indicate," "point to," "forecast," "likely" 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; continuing Content Services segment reliance on project-based work; 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-K will occur.

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

Item 1. Business.

Business Overview

Innodata (NASDAQ: INOD) is a global digital services and solutions company. Our technology and services power leading information products and online retail destinations around the world. Our solutions help prestigious enterprises harness the power of digital data to re-imagine how they operate and drive performance. We serve publishers, media and information companies, digital retailers, banks, insurance companies, government agencies and many other industries. 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.

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

Content Services (CS) Segment

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.

E-Book Production and Distribution

We are one of the largest producers of e-books, serving four of the five leading digital retailers of e-books 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 the fall of 2011, we have produced over 1,000,000 e-book titles.

Information Product Development

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. Information and publishing is a $753 billion industry consisting of more than 7,000 publishers, information providers and software service firms worldwide. Many of our clients specialize in the scientific, technical and medical (STM) segment (estimated revenues of $32.3 billion) and the legal, tax and regulatory (LTR) segment (estimated revenues of $19.7 billion)[1].

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[1] Outsell Inc. (January 24, 2014). "Information Industry Market Size & Share Rankings Report: Preliminary 2013 Results."

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

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

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

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

Operational Support

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

For example, for a leading provider of networking equipment, we provide digital enhancement and related production systems support for its product guides, release notes, configurations guides, installation guides and other documents.

For an $8 billion leading provider of financial and news information, we aggregate public source documentation from a variety of government agencies, which it transforms, analyzes and extracts in order to support a real-time, high-value information product.

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

Digital Content Supply Chain Strategy

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

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

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

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

Innodata Advanced Data Solutions (IADS) Segment

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

IADS operates through two subsidiaries: Synodex and docGenix. As of December 31, 2014 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.

Early in 2014, RGA Reinsurance Company, the principal operating subsidiary of Reinsurance Group of America, Incorporated (NYSE: RGA), one of the top 10 largest providers of life reinsurance in the world according to A.M. Best, announced a strategic relationship with Synodex pursuant to which it intended to use Synodex's APS.Extract® data and incorporate other Synodex data into its product offerings. Late in 2014, Synodex began producing data with its APS.Extract® 3.0 release for a large insurance carrier. Synodex is engaged in business discussions with other reinsurance companies and insurance carriers which have expressed interest in utilizing its services.

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

In 2012, we began providing docGenix services for a large New York-based global investments company as a charter customer. The company is party to more than 5,000 derivative contracts where the impact of market changes, counterparty and collateral changes and increasing regulatory requirements required daily verification and analysis. These activities were slow and resource-intensive because contract creation, storage and retrieval processes were all still paper or image based. Using docGenix’s system, these complex documents are transformed into machine readable, computer-addressable data that is down-streamed to risk collateral and other mission-critical systems, and users can perform multi-dimensional, complex queries instantaneously. We are planning a general commercial release of our second generation docGenix system in mid-2015.

The IADS subsidiaries have incurred losses and have reported minimal revenues from inception in 2011 through 2014. In 2014, our investment net of revenues in these subsidiaries was approximately $5.6 million (consisting of $5.4 million in operating expenses and $0.2 million in capital expenses). The Company wrote off all of the fixed assets of IADS in the third quarter of 2013 and has expensed all investments in IADS since that time. In the immediate future we intend to continue to invest in these subsidiaries at the combined rate of $1.1 to $1.3 million per quarter.

Media Intelligence Services (MIS) Segment

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 300,000 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 list 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 and overall outstanding professional performance.

Our Global Operations

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

Our production facilities in Asia are ISO 27001 certified. In addition, we comply with the requirements of the United States Health Insurance Portability and Accountability Act of 1996 as amended (HIPAA) (including by the Health Information Technology for Economic and Clinical Health Data (HITECH)) and the United Kingdom’s Data Protection Act 1998 (DPA), as applicable. Both Innodata and Synodex are U.S. Safe Harbor registered entities that adhere to both the European Union and the Switzerland Safe Harbor Frameworks on the protection of personal data. We encrypt all individual protected health information, both at rest and in motion, to the AES 256 or similar standard, and we employ a range of security features including monitored firewalls and intrusion detection devices.

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

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

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

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

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

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

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

Our Opportunity

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

Meanwhile, for enterprises that rely on content to support operations, this shift to digital technology offers opportunities to improve internal decision support and risk mitigation in complex data operations by harnessing the power of machine-readable, digital data to drive improved decision support. For enterprises that rely on content to support products, this shift to digital technology offers opportunities to create and manage content more efficiently, while at the same time distributing content through an increased number of channels.

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

Clients

Three clients each generated more than 10% of our revenues in the fiscal year ended 2014. Revenues from Apple Inc. (“Apple”) were approximately $6.0 million, or 10% of total revenues, revenues from Reed Elsevier affiliated companies (the “RE Clients”) were approximately $10.1 million or 17% of total revenues, and revenues from Wolters Kluwer affiliated companies (the “WK Clients”) were approximately $8.1 million, or 14% of total revenues. No other client generated more than 10% of our revenues in 2014. These three clients together generated approximately 41%, 37% and 49% of our total revenues in the fiscal years ended December 31, 2014, 2013 and 2012, respectively. Revenues from clients located in foreign countries (principally in Europe) accounted for 47%, 35% and 24% of our total revenues for these respective fiscal years.

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

Our contractual arrangements with Apple during calendar year 2014 consisted of a master services agreement (“MSA”) and two statements of work (“SOWs”). The MSA and SOWs automatically renew on a monthly basis unless terminated by either party for convenience on 60 days’ prior notice with respect to the MSA and one SOW, and on 30 days’ prior notice with respect to the second SOW. The MSA may be terminated by either Apple or the Company for material breach, failure to meet service levels, or insolvency related events that that are not cured during a 30-day notice period, or, if the material breach is incapable of cure, immediately on written notice. Apple may also terminate the MSA in the event of a force majeure that materially affects performance and lasts for more than 30 days. The SOWs may be terminated by either party for “cause” on 30 days’ notice (0 days’ notice if the “cause” is incurable), and without “cause” on 60 days’ notice with respect to one SOW and 30 days’ notice with respect to the second SOW. The MSA also contains confidentiality, indemnification and other standard provisions.

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

Our contractual arrangements with the WK Clients during calendar year 2014 consisted of multiple MSAs and separately agreed to SOWs for specific services. Two MSAs have indefinite terms, two MSAs continue in effect until the later of their expiration date and the completion of all services performed pursuant to such MSA, and one MSA has a term that ends in March 2017. WK Clients may terminate certain MSAs on notice periods ranging from 30 days to three months, and they may terminate certain individual SOWs on notice periods ranging from 10 days to six months. WK Clients may also terminate certain of the MSAs and SOWs on notice periods of 60 days or less for “cause” and for insolvency related events, and on changes of control, force majeure and the imposition of certain price increases by the Company that are not acceptable to them. The Company may terminate certain of the MSAs on notice periods ranging from 30 days to three months, and it may also terminate certain MSAs and SOWs for “cause”, insolvency related events affecting the WK Clients, and other defined events. The MSAs contain confidentiality, limitation of liability, indemnification and other standard provisions.

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

Competitive Strengths

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

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

Our global delivery model. We have operations in seven countries in North America, Europe and Asia. We provide services to our clients through a comprehensive global delivery model that integrates both local and global resources to obtain the best economic results.

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

Our focus on technology and engineering innovation. Our engineering and IT teams integrate proprietary and best-in-class third party tools into our workflows to drive as much automation as possible. In addition, our engineering and IT teams provide services directly to our clients, helping them achieve improved efficiencies within their own operations.

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

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

Our internal infrastructure. We utilize established facilities, technology and communications infrastructure to support our business model. We own and operate some of the most advanced content production facilities in the world, which are linked by multi-redundant data connections. Our Wide Area Network – along with our Local Area Networks, Storage Area Networks and data centers – is configured with industry standard redundancy, often with more than one backup to help ensure 24x7 availability. Our infrastructure is built to accommodate advanced tools, processes and technologies that support our content and technical experts. We encrypt all individual protected health information, both at rest and in motion, to the AES 256 or similar standard, and we employ a range of security features including managed firewalls and intrusion services.

Sales and Marketing

For our CS and IADS segments, we market and sell our services directly through our professional staff, senior management and direct sales personnel operating primarily out of our corporate headquarters in Hackensack, New Jersey, just outside New York City, and for our MIS segment we market and sell our services primarily from our offices in Canada and Oakland, California. During 2014, we had six executive-level business development and marketing professionals and approximately 15 sales personnel. We also deploy solutions architects, technical support experts and consultants who support the development of new clients and new client engagements. These resources work within teams (both permanent and ad hoc) that provide support to clients.

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

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

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

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

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

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

Research and Development

We did not incur any research and development costs in any of the three years ended December 31, 2014, 2013 or 2012 in our CS and IADS segments. Our MIS segment incurred research and development costs of $0.6 million from the date of acquisition (July 28, 2014) to December 31, 2014.

Competition

Our Content Services segment operates in a highly competitive, fragmented and intense market. Major competitors include Apex CoVantage, Aptara, Cenveo, Infosys, HCL Technologies, Macmillan India, SPI Technologies, JSI S.A.S. Groupe Jouve and Thomson Digital.

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

The Synodex subsidiary of our IADS segment seeks to compete in the insurance data analysis industry by applying innovative technology to speed accurate decision making and to improve productivity. It is at an early stage of development. Its major competitors are Risk Righter, EMSI, Parameds, and Hooper Holmes, all of whom are large firms with established client bases.

We also compete with in-house personnel at existing or prospective clients who may attempt to duplicate our services in-house.

For our MIS segment, our primary competitors are Meltwater and a number of other small and medium-sized technology companies, including PR firms that provide media monitoring and analysis services.

Locations

We are headquartered in Hackensack, New Jersey, just outside New York City. We have ten production facilities in the Philippines, India, Sri Lanka, Canada, Germany and Israel. In addition, we have an office in Oakland, California.

Employees

As of December 31, 2014, we employed approximately 90 persons in the United States, Canada and Europe, and over 5,000 persons in eight global delivery centers in the Philippines, India, Sri Lanka and Israel. Most of our employees have graduated from at least a two-year college program. Many of our employees hold advanced degrees in law, business, technology, medicine and social sciences. No employees are currently represented by a labor union, and we believe that our relations with our employees are satisfactory.

Corporate Information

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

Relations section of our website or from the Securities and Exchange Commission at www.sec.gov.

Item 1A. Risk Factors.

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

We have historically relied on a very limited number of clients that have accounted for a significant portion of our revenues. Two clients generated approximately 27%, 26% and 41% of the Company’s total revenues in the fiscal years ended December 31, 2014, 2013 and 2012, respectively. Another client accounted for 14% and 15% of the Company’s total revenues for the year ended December 31, 2014 and 2013, respectively, but accounted for less than 10% for the years ended December 31, 2012. One other client accounted for less than 10% of the Company’s total revenues for the year ended December 31, 2014 and 2012 but accounted for 15% of the Company’s total revenues for the year ended December 31, 2013. No other client accounted for 10% or more of total revenues during these periods. Further, in the years ended December 31, 2014, 2013 and 2012, revenues from non-U.S. clients accounted for 47%, 35% and 24%, respectively, of the Company's revenues. We may lose any of these, or our other major clients, as a result of our failure to meet or satisfy our client’s requirements, the completion or termination of a project or engagement, or the client’s selection of another service provider.

In addition, the volume of work performed for our major clients may vary from year to year, and services they require from us may change from year to year. They may also request that we modify certain key terms of our agreements with them as a condition of continuing to do business with us. If the volume of work performed for our major clients varies, or if the services they require from us change, our revenues and results of operations could be adversely affected, and we may incur a loss from operations. If certain key terms of our agreements with our major clients are modified, our revenues and results of operations may be adversely affected. Our services are typically subject to client requirements, and in many cases are terminable upon 30 to 90 days' notice.

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

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

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

Our MIS segment derives its revenues primarily from subscription arrangements. Although subscription agreements renew automatically at the end of the subscription period, our clients have no obligation to renew these agreements. As a result, we may not be able to consistently and accurately predict future renewal rates. Our subscription clients' renewal rates may decline or fluctuate or our subscription clients may renew for less expensive services as a result of a number of factors, including their level of satisfaction with our solutions, budgetary or other concerns, and the availability and pricing of competing products. If large numbers of existing subscription clients do not renew these agreements, or renew these agreements on terms less favorable to us, and if we cannot replace or supplement those non-renewals with new subscription agreements generating the same or greater level of revenue, our revenues and results of operations will be adversely affected.

The Synodex and docGenix subsidiaries in our IADS segment are early-stage companies and have incurred losses to date.

We have invested significant amounts in the Synodex and docGenix subsidiaries of our IADS segment. Our total 2014 investment in Synodex and docGenix was $6.2 million in operating expenses. Our cumulative investment, net of revenues in these subsidiaries as of December 31, 2014 was $27.0 million, consisting of $20.0 million in operating expenses and $7.0 million in capital expenditures. During 2014, these subsidiaries generated approximately $0.6 million in revenues and incurred a net loss of $5.6 million, net of inter-segment profits. In the third quarter of 2013 we wrote off all of the fixed assets of IADS, and we have expensed all investments in IADS since that date.

We intend to continue to invest in Synodex and docGenix in the immediate future at the combined rate of $1.1-$1.3 million per quarter. However, we may curtail our continuing investments if our internal resources are insufficient and outside financing is not available on terms we find attractive.

These subsidiaries are still subject to the risks and uncertainties of early-stage companies, and there can be no assurance that these subsidiaries will be viable. We have no prior experience in selling these IADS services and we are dependent on a small group of skilled personnel. Failure to generate meaningful revenues and margins could have an adverse effect on our results of operations and financial condition.

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

We may pursue acquisitions, joint ventures or engage in strategic investments or partnerships to grow and enhance our capabilities. In July 2014, we acquired MediaMiser Ltd., a Canada-based provider of automated, real-time traditional and social media monitoring services, and in December 2014, we acquired intellectual property and related assets of Bulldog Reporter from Sirius Information, Inc. We cannot assure that we will successfully consummate any acquisitions or joint ventures, or profit by strategic investments, or achieve desired financial and operating results. Further, such activities involve a number of risks and challenges, including proper evaluation, diversion of management's attention and proper integration with our current business. Accordingly, we might fail to realize the expected benefits or strategic objectives of any such venture we undertake. If we are unable to complete the kind of acquisitions for which we plan, we may not be able to achieve our planned rates of growth, profitability or competitive position in specific markets or services.

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

Several significant clients account for a large percentage of our accounts receivable. If any of these clients were unable, or refused, for any reason, to pay our accounts receivable, our financial condition and results of operations would be adversely affected. As of December 31, 2014, 58% or $6.0 million, of our accounts receivable was due from four clients. See "Liquidity and Capital Resources."

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

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

We have experienced, and expect to continue to experience, significant fluctuations in our quarterly revenues and results of operations. During the past eight quarters, our net income ranged from a profit of approximately $0.9 million in the fourth quarter of 2013 to a loss of approximately $11.7 million in the third quarter of 2013.

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

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

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

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

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

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

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

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

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

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

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

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

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

As we get new opportunities and win new business, our new clients may not generate the level of revenues that we initially anticipated at the time of signing a contract with them. This could be due to various reasons beyond our control. We may invest in people or technology and incur other costs in anticipation of revenues, and as such any deviation from our expected plan would impact our margins and earnings.

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

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

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

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

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

We rely upon certain software that we license from third parties, including software integrated with our internally developed software used in the provision of our services. These third-party software licenses may not continue to be available to us on commercially reasonable or competitive terms, if at all. The loss of, or inability to maintain or obtain any of these software licenses, could result in delays in the provision of our services until we develop, identify, license and integrate equivalent software. Any delay in the provision of our services could damage our business and adversely affect our results of operations. In addition, for our Synodex and docGenix subsidiaries of our IADS segment, we utilize third party data centers to serve our clients and generate revenues. Any disruption in provision of services from these data centers could result in loss of revenues, client dissatisfaction and loss of clients.

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

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