

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

FORM 10-Q

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

For the quarterly period ended September 30, 2022

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: 001-35774

INNODATA INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

13-3475943

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

55 Challenger Road

Ridgefield Park, New Jersey

(Address of principal executive offices)

07660

(Zip Code)

(201) 371-8000

(Registrant's telephone number, including area code)

None

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	INOD	The NASDAQ Stock Market LLC

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

The number of outstanding shares of the registrant's common stock, \$0.01 par value per share, as of November 4, 2022 was 27,378,234.

INNODATA INC. AND SUBSIDIARIES
For the Quarter Ended September 30, 2022

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

INNODATA INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except share and per share amounts)

	September 30, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,729	\$ 18,902
Accounts receivable, net of allowance for doubtful accounts of \$910 and \$730 respectively	9,374	11,379
Prepaid expenses and other current assets	3,819	3,681
Total current assets	23,922	33,962
Property and equipment, net	2,718	2,947
Right-of-use-asset, net	4,199	5,621
Other assets	1,514	2,247
Deferred income taxes, net	1,532	1,950
Intangibles, net	11,942	10,347
Goodwill	1,982	2,143
Total assets	\$ 47,809	\$ 59,217
LIABILITIES, NON-CONTROLLING INTERESTS AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,952	\$ 1,823
Accrued expenses and other	6,738	7,564
Accrued salaries, wages and related benefits	6,911	6,391
Income and other taxes	2,991	3,213
Long-term obligations - current portion	596	1,279
Operating lease liability - current portion	742	1,034
Total current liabilities	20,930	21,304
Deferred income taxes, net	23	15
Long-term obligations, net of current portion	5,874	6,217
Operating lease liability, net of current portion	3,930	5,276
Total liabilities	30,757	32,812
Commitments and contingencies		
Non-controlling interests	(729)	(3,522)
STOCKHOLDERS' EQUITY:		
Serial preferred stock; 4,998,000 shares authorized, none outstanding	-	-
Common stock, \$.01 par value; 75,000,000 shares authorized; 30,556,000 shares issued and 27,372,000 outstanding at September 30, 2022 and 30,347,000 shares issued and 27,163,000 outstanding at December 31, 2021	306	303
Additional paid-in capital	34,846	35,121
Retained earnings (deficit)	(6,815)	3,160
Accumulated other comprehensive loss	(4,091)	(2,192)
	24,246	36,392
Less: treasury stock, 3,184,000 shares at September 30, 2022 and December 31, 2021 at cost	(6,465)	(6,465)
Total stockholders' equity	17,781	29,927
Total liabilities, non-controlling interests and stockholders' equity	\$ 47,809	\$ 59,217

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 September 30,	
	2022	2021
Revenues	\$ 18,447	\$ 17,450
Operating costs and expenses:		
Direct operating costs	12,389	10,703
Selling and administrative expenses	9,117	7,262
Interest expense, net	(1)	4
	21,505	17,969
Loss from operations	(3,058)	(519)
Provision for income taxes	268	328
Consolidated net loss	(3,326)	(847)
Income (loss) attributable to non-controlling interests	1	(47)
Net loss attributable to Innodata Inc. and Subsidiaries	\$ (3,327)	\$ (800)
Loss per share attributable to Innodata Inc. and Subsidiaries:		
Basic and Diluted	\$ (0.12)	\$ (0.03)
Weighted average shares outstanding:		
Basic and Diluted	27,331	26,971
Comprehensive Loss:		
Consolidated Net loss	\$ (3,326)	\$ (847)
Pension liability adjustment, net of taxes	35	10
Foreign currency translation adjustment	(644)	(594)
Change in fair value of derivatives, net of taxes	(206)	(265)
Other comprehensive loss	(815)	(849)
Total Comprehensive loss	(4,141)	(1,696)
Less: Comprehensive income (loss) attributable to non-controlling interest	1	(47)
Comprehensive Loss attributable to Innodata Inc. and Subsidiaries	\$ (4,142)	\$ (1,649)

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)

	Nine Months Ended September 30,	
	2022	2021
Revenues	\$ 59,626	\$ 50,466
Operating costs and expenses:		
Direct operating costs	38,795	31,208
Selling and administrative expenses	29,584	19,767
Interest expense, net	1	18
	<u>68,380</u>	<u>50,993</u>
Loss from operations	(8,754)	(527)
Gain from loan forgiveness	-	580
Income (loss) before provision for income taxes	(8,754)	53
Provision for income taxes	1,293	621
Consolidated net loss	(10,047)	(568)
Loss attributable to non-controlling interests	(72)	(63)
Net Loss attributable to Innodata Inc. and Subsidiaries	\$ (9,975)	\$ (505)
Loss per share attributable to Innodata Inc. and Subsidiaries:		
Basic and Diluted	<u>\$ (0.37)</u>	<u>\$ (0.02)</u>
Weighted average shares outstanding:		
Basic and Diluted	<u>27,239</u>	<u>26,459</u>
Comprehensive Loss:		
Consolidated Net loss	\$ (10,047)	\$ (568)
Pension liability adjustment, net of taxes	113	32
Foreign currency translation adjustment	(1,270)	(480)
Change in fair value of derivatives, net of taxes	(742)	(532)
Other comprehensive loss	(1,899)	(980)
Total Comprehensive loss	(11,946)	(1,548)
Less: Comprehensive loss attributable to non-controlling interests	(72)	(63)
Comprehensive Loss attributable to Innodata Inc. and Subsidiaries	\$ (11,874)	\$ (1,485)

See notes to Condensed Consolidated Financial Statements.

INNODATA INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2022	2021
Cash flows from operating activities:		
Consolidated net loss	\$ (10,047)	\$ (568)
Adjustments to reconcile consolidated net loss to net cash provided by operating activities:		
Depreciation and amortization	2,836	2,054
Gain on loan forgiveness	-	(580)
Stock-based compensation	2,370	1,117
Deferred income taxes	242	(16)
Pension cost	577	308
Loss on lease termination	125	-
Changes in operating assets and liabilities:		
Accounts receivable	1,690	431
Prepaid expenses and other current assets	(235)	342
Other assets	734	214
Accounts payable and accrued expenses	(253)	2,895
Accrued salaries, wages and related benefits	498	976
Income and other taxes	(197)	(1,531)
Net cash provided by (used in) operating activities	<u>(1,660)</u>	<u>5,642</u>
Cash flows from investing activities:		
Capital expenditures	(5,253)	(2,919)
Net cash used in investing activities	<u>(5,253)</u>	<u>(2,919)</u>
Cash flows from financing activities:		
Proceeds from stock option exercises	276	2,214
Withholding taxes on net settlement of stock-based compensation	-	(763)
Payment of long-term obligations	(510)	(666)
Net cash provided by (used in) financing activities	<u>(234)</u>	<u>785</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(1,026)</u>	<u>(138)</u>
Net increase (decrease) in cash and cash equivalents	<u>(8,173)</u>	<u>3,370</u>
Cash and cash equivalents, beginning of period	<u>18,902</u>	<u>17,573</u>
Cash and cash equivalents, end of period	<u>\$ 10,729</u>	<u>\$ 20,943</u>
Supplemental disclosures of cash flow information:		
Shares withheld for withholding taxes on net settlement for stock-based compensation	\$ -	\$ 763
Cash paid for income taxes	\$ 979	\$ 201
Cash paid for operating leases	\$ 1,424	\$ 1,312
Cash paid for interest	\$ 1	\$ 18

See notes to Condensed Consolidated Financial Statements.

INNODATA INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021
(Unaudited)
(In thousands)

	Common Stock		Additional	Retained	Accumulated	Treasury Stock		Total
	Shares	Amount	Paid-in	Earnings	Other	Shares	Amount	
			Capital		Comprehensive			
					Loss			
January 1, 2022	30,347	\$ 303	\$ 35,121	\$ 3,160	\$ (2,192)	3,184	\$ (6,465)	\$ 29,927
Net loss attributable to Innodata Inc. and subsidiaries	-	-	-	(2,815)	-	-	-	(2,815)
Stock-based compensation	-	-	537	-	-	-	-	537
Stock option exercises	23	1	26	-	-	-	-	27
Shares withheld for exercise settlement and taxes	(7)	-	(53)	-	-	-	-	(53)
Redemption of non-controlling interest	-	-	(2,864)	-	-	-	-	(2,864)
Pension liability adjustments, net of taxes	-	-	-	-	40	-	-	40
Foreign currency translation adjustment	-	-	-	-	(26)	-	-	(26)
Change in fair value of derivatives, net of taxes	-	-	-	-	5	-	-	5
March 31, 2022	30,363	\$ 304	\$ 32,767	\$ 345	\$ (2,173)	3,184	\$ (6,465)	\$ 24,778
Net loss attributable to Innodata Inc. and subsidiaries	-	-	-	(3,833)	-	-	-	(3,833)
Stock-based compensation	-	-	1,028	-	-	-	-	1,028
Stock option exercises	124	1	152	-	-	-	-	153
Redemption of non-controlling interest	-	-	(1)	-	-	-	-	(1)
Pension liability adjustments, net of taxes	-	-	-	-	38	-	-	38
Foreign currency translation adjustment	-	-	-	-	(600)	-	-	(600)
Change in fair value of derivatives, net of taxes	-	-	-	-	(541)	-	-	(541)
June 30, 2022	30,487	\$ 305	\$ 33,946	\$ (3,488)	\$ (3,276)	3,184	\$ (6,465)	\$ 21,022
Net loss attributable to Innodata Inc. and subsidiaries	-	-	-	(3,327)	-	-	-	(3,327)
Stock-based compensation	-	-	805	-	-	-	-	805
Stock option exercises	69	1	95	-	-	-	-	96
Pension liability adjustments, net of taxes	-	-	-	-	35	-	-	35
Foreign currency translation adjustment	-	-	-	-	(644)	-	-	(644)
Change in fair value of derivatives, net of taxes	-	-	-	-	(206)	-	-	(206)
September 30, 2022	30,556	306	34,846	(6,815)	(4,091)	3,184	(6,465)	17,781
January 1, 2021	28,984	\$ 289	\$ 31,921	\$ 4,833	\$ (938)	3,184	\$ (6,465)	\$ 29,640
Net income attributable to Innodata Inc. and subsidiaries	-	-	-	398	-	-	-	398
Stock-based compensation	-	-	278	-	-	-	-	278
Exercise of stock options	690	4	605	-	-	-	-	609
Shares withheld for exercise settlement and taxes	(193)	1	(764)	-	-	-	-	(763)
Pension liability adjustments, net of taxes	-	-	-	-	11	-	-	11
Foreign currency translation adjustment	-	-	-	-	(21)	-	-	(21)
March 31, 2021	29,481	\$ 294	\$ 32,040	\$ 5,231	\$ (948)	3,184	\$ (6,465)	\$ 30,152
Net loss attributable to Innodata Inc. and subsidiaries	-	-	-	(103)	-	-	-	(103)
Stock-based compensation	-	-	336	-	-	-	-	336
Exercise of stock options	556	5	1,136	-	-	-	-	1,141
Pension liability adjustments, net of taxes	-	-	-	-	11	-	-	11
Foreign currency translation adjustment	-	-	-	-	135	-	-	135
Change in fair value of derivatives, net of taxes	-	-	-	-	(267)	-	-	(267)
June 30, 2021	30,037	\$ 299	\$ 33,512	\$ 5,128	\$ (1,069)	3,184	\$ (6,465)	\$ 31,405
Net loss attributable to Innodata Inc. and subsidiaries	-	-	-	(800)	-	-	-	(800)
Stock-based compensation	-	-	503	-	-	-	-	503
Exercise of stock options	300	4	460	-	-	-	-	464
Pension liability adjustments, net of taxes	-	-	-	-	10	-	-	10
Foreign currency translation adjustment	-	-	-	-	(594)	-	-	(594)
Change in fair value of derivatives, net of taxes	-	-	-	-	(265)	-	-	(265)
September 30, 2021	30,337	303	34,475	4,328	(1,918)	3,184	(6,465)	30,723

See notes to Condensed Consolidated Financial Statements.

INNODATA INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021
(Unaudited)

1. Summary of Significant Accounting Policies and Estimates

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) that, in the opinion of management, are necessary to present fairly the consolidated financial position of Innodata Inc. (including its subsidiaries, the “Company”) as of September 30, 2022 and December 31, 2021, the results of its operations and comprehensive loss for the three and nine months ended September 30, 2022 and 2021, cash flows for the nine months ended September 30, 2022 and 2021, and stockholders’ equity for the three and nine months ended September 30, 2022 and 2021. 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.

Certain information and note disclosures normally included in or with financial statements prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) have been condensed or omitted from these condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) and, accordingly, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021. Unless otherwise noted, the accounting policies used in preparing these condensed consolidated financial statements are the same as those in the notes to the consolidated financial statements for the year ended December 31, 2021.

Principles of Consolidation - The condensed consolidated financial statements include the accounts of Innodata Inc. and its wholly owned subsidiaries, and docGenix limited liability company that is majority-owned by the Company. The non-controlling interest in the docGenix limited liability company has call and put options that can be settled in cash or stock. Accordingly, this is presented in temporary equity in accordance with the Financial Accounting Standards Board’s (the “FASB”) non-controlling interest guidance. All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates - In preparing the condensed consolidated financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the condensed consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Management believes that the estimates and assumptions used in the preparation of the condensed consolidated financial statements are reasonable, including assumptions made by management about the possible effects of the novel coronavirus (“COVID-19”) pandemic on critical and significant accounting estimates. Actual results could differ from those estimates. Significant estimates include those related to the allowance for doubtful accounts and billing adjustments, useful life of long-lived assets, useful life of intangible assets, impairment of goodwill and intangible assets, valuation of deferred tax assets, valuation of stock-based compensation, pension benefit plan assumptions, litigation accruals and estimated accruals for various tax exposures.

Revenue Recognition – The Company’s revenue is recognized when services are rendered or goods are delivered to a customer, in an amount that reflects the consideration that the Company expects to receive in exchange for those services or goods as per the agreement with the customer. In cases where there are agreements with multiple performance obligations, the Company identifies each performance obligation and evaluates whether the performance obligations are distinct within the context of the agreement at the agreement’s inception. Performance obligations that are not distinct at agreement inception are combined. For agreements with distinct performance obligations, the Company allocates the transaction price to each distinct performance obligation proportionately based on the estimated standalone selling price for each performance obligation, if any, and then evaluates how the services are performed for the customer to determine the timing of revenue recognition.

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

INNODATA INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021
(Unaudited)

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

The Agility segment derives its revenue primarily from subscription arrangements and provision of enriched media analysis services. It also derives revenue as a reseller of corporate communication solutions. Revenue from subscriptions is recognized monthly when access to the service is provided to the end user; all parties to the agreement have agreed to the agreement; each party's rights are identifiable; the payment terms are identifiable; the agreement has commercial substance; and collection is probable. Revenue from enriched media analysis services is recognized when the services are performed, and performance conditions are satisfied. Revenue from the reseller agreements is recognized at the gross amount received for the goods in accordance with the Company functioning as a principal due to the Company meeting the following criteria: the Company acts as the primary obligor in the sales transaction; assumes the credit risk; sets the price; can select suppliers; and is involved in the execution of the services, including after sales service.

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

Revenue associated with the services provided in one period and billed in a subsequent period is commonly referred to as unbilled revenues and are included under Accounts receivable.

The Company considers U.S. GAAP criteria for determining whether to report gross revenue as a principal versus net revenue as an agent. The Company evaluates whether it is in control of the services before the same are transferred to the customer to assess whether it is principal or agent in the arrangement. Revenue is recognized on a gross basis if the Company is in the capacity of principal and on a net basis if it falls in the capacity of an agent.

Contract acquisition costs, which are included in prepaid expenses and other current assets, are amortized over the term of a subscription agreement or contract that normally has a duration of 12 months or less. The Company reviews these prepaid acquisition costs on a periodic basis to determine the need to adjust the carrying values for early-terminated contracts.

Foreign Currency Translation - The functional currency of the Company's locations in the Philippines, India, Sri Lanka, Israel, Hong Kong and Canada (other than the Agility subsidiary) is the U.S. dollar. Transactions denominated in Philippine pesos, Indian and Sri Lankan rupees, Israeli shekels and Hong Kong dollars are translated to U.S. dollars at rates which approximate those in effect on the transaction dates. Monetary assets and all liabilities denominated in foreign currencies on September 30, 2022 and December 31, 2021 are translated at the exchange rate in effect as of those dates. Non-monetary assets and stockholders' equity are translated at the appropriate historical rates.

The functional currency for the Company's subsidiaries in Germany, the United Kingdom and for the Company's Agility subsidiary in Canada are the Euro, the Pound Sterling and the Canadian dollar, respectively. The financial statements of these subsidiaries are prepared in these respective currencies. Financial information is translated from the applicable functional currency to the U.S. dollar (the reporting currency) for inclusion in the Company's 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 condensed consolidated statements of operations and comprehensive loss.

Included in direct operating costs were foreign exchange gains resulting from such transactions of approximately \$729,000 and \$348,000 for the three months ended September 30, 2022 and 2021 respectively and \$1,896,000 and \$503,000 for the nine months ended September 30, 2022 and 2021 respectively.

INNODATA INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021
(Unaudited)

Derivative Instruments - The Company accounts for derivative transactions in accordance with the FASB's Accounting Standards Codification ("ASC") Topic 825, "Financial Instruments". For derivative instruments that are designated and qualify as cash flow hedges, the entire change in fair value of the hedging instrument is recorded in Other comprehensive loss. Upon settlement of these contracts, the change in the fair value recorded in Other comprehensive loss is reclassified to earnings and included as part of Direct operating costs.

Capitalized Developed Software - The Company incurs development costs related to software it develops for its internal use. Qualifying costs incurred during the application development stage are capitalized. These costs primarily consist of internal labor and third-party development costs and are amortized using the straight-line method over the estimated useful life of the capitalized developed software, which ranges between three and ten years. All other research and maintenance costs are expensed as incurred.

Income Taxes - Estimated deferred taxes are determined based on the difference between the financial statement and tax basis of assets and liabilities, using enacted tax rates, as well as any net operating loss or tax credit carryforwards expected to reduce taxes payable in future years. A valuation allowance is provided when it is more likely than not that all or some portion of the estimated deferred tax assets will not be realized. While the Company considers future taxable income in assessing the need for the valuation allowance, in the event that the Company anticipates that it will be able to realize the estimated deferred tax assets in the future in excess of its net recorded amount, an adjustment to the provision for deferred tax assets would increase income in the period such determination was made. Similarly, in the event that the Company anticipates that it will not be able to realize the estimated deferred tax assets in the future considering future taxable income, an adjustment to the provision for deferred tax assets would decrease income in the period such determination was made. Changes in the valuation allowance from period to period are included in the Company's tax provision in the period of change. The Company indefinitely reinvests the foreign earnings in its foreign subsidiaries. If such earnings are repatriated in the future, or are no longer deemed to be indefinitely reinvested, the Company would have to accrue as a liability the applicable amount of foreign jurisdiction withholding taxes associated with such remittances.

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

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

Deferred Revenue - Deferred revenue represents payments received from customers in advance of providing services and amounts deferred if conditions for revenue recognition have not been met. Included in accrued expenses and other on the accompanying condensed consolidated balance sheets is deferred revenue amounting to \$2.6 million and \$4.5 million as of September 30, 2022 and December 31, 2021, respectively. The Company expects to recognize substantially all of these performance obligations over the next 12 months.

Recent Accounting Pronouncements - In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Statements" ("ASU 2016-13"). ASU 2016-13 requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation amount that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. In November 2018, the FASB issued ASU No. 2018-19, "Codification Improvements to Topic 326, Financial Instruments-Credit Losses," which clarifies ASC Topic 326, "Financial Instruments - Credit Losses" and corrects unintended application of the guidance, and in November 2019, the FASB issued ASU No. 2019-11, "Codification Improvements to Topic 326, Financial Instruments - Credit Losses," which clarifies or addresses specific issues about certain aspects of ASU 2016-13. In March 2020, the FASB issued ASU No. 2020-03, "Codification Improvements to Financial Instruments," which modifies the measurement of expected credit losses of certain financial instruments. ASU 2016-13 is effective for certain smaller reporting companies for financial statements issued for fiscal years beginning after December 15, 2022 and interim periods within those fiscal years, which will be fiscal 2023 for the Company if it continues to be classified as a smaller reporting company, with early adoption permitted. The Company does not expect that the adoption of the new guidance will have a material impact on the Company's condensed consolidated financial statements.

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2. Goodwill and Intangible Assets

Goodwill

As of September 30, 2022, the Company performed its annual goodwill impairment analysis on one of its reporting units, the Agility segment. The Company also tested for impairment intangible assets for the Agility and Synodex segments. The impairment test involves estimating the fair value based on a combination of income (estimates of future discounted cash flows) and the market approach (market multiples for similar companies) using unobservable inputs (Level 3). The income approach uses a discounted cash flow ("DCF") method that utilizes the present value of cash flows to estimate the segment's fair value. The future cash flows of the segment were projected based on the Company's estimates of future revenue, operating income, and other factors such as working capital and capital expenditures. As part of the DCF analysis, the Company projected revenue and operating profits and assumed long-term revenue growth rates in the terminal year. The market approach utilizes multiples of revenues and earnings before interest expense, taxes, depreciation, and amortization ("EBITDA") to estimate the segment's fair value. The market multiples used for the segment were based on a group of comparable companies' market multiples applied to the Company's revenue. The Company concluded that there is no impairment of goodwill and intangible assets for the Agility and Synodex segments.

The change in the carrying amount of goodwill for the nine months ended September 30, 2022 was as follows (in thousands):

Balance as of January 1, 2022	\$ 2,143
Foreign currency translation adjustment	(161)
Balance as of September 30, 2022	<u>\$ 1,982</u>

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

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Intangibles

Information regarding the Company acquired intangible assets and capitalized developed software was as follows (in thousands):

	Company Acquired Intangible Assets					Capitalized Developed Software		Total
	Developed technology	Customer relationships	Trademarks and tradenames	Patents	Media Contact Database	Capitalized Developed Software	Capitalized Developed Software - in Progress	
Gross carrying amounts:								
Balance as of January 1, 2022	\$ 3,169	\$ 2,228	\$ 880	\$ 45	\$ 3,648	\$ 8,576	\$ 635	\$ 19,181
Additions	-	-	-	-	-	-	4,244	4,244
Transfers	-	-	-	-	-	2,882	(2,882)	-
Foreign currency translation	(235)	(162)	(42)	(3)	(284)	(656)	(12)	(1,394)
Balance as of September 30, 2022	<u>\$ 2,934</u>	<u>\$ 2,066</u>	<u>\$ 838</u>	<u>\$ 42</u>	<u>\$ 3,364</u>	<u>\$ 10,802</u>	<u>\$ 1,985</u>	<u>\$ 22,031</u>
Accumulated amortization:								
Balance as of January 1, 2022	\$ 2,158	\$ 1,377	\$ 685	\$ 34	\$ 2,005	\$ 2,575	\$ -	\$ 8,834
Amortization expense	235	139	42	3	267	1,286	-	1,972
Foreign currency translation	(175)	(110)	(30)	(3)	(170)	(229)	-	(717)
Balance as of September 30, 2022	<u>\$ 2,218</u>	<u>\$ 1,406</u>	<u>\$ 697</u>	<u>\$ 34</u>	<u>\$ 2,102</u>	<u>\$ 3,632</u>	<u>\$ -</u>	<u>\$ 10,089</u>
Net carrying values - September 30, 2022	<u>\$ 716</u>	<u>\$ 660</u>	<u>\$ 141</u>	<u>\$ 8</u>	<u>\$ 1,262</u>	<u>\$ 7,170</u>	<u>\$ 1,985</u>	<u>\$ 11,942</u>

	Company Acquired Intangible Assets					Capitalized Developed Software		Total
	Developed technology	Customer relationships	Trademarks and tradenames	Patents	Media Contact Database	Capitalized Developed Software	Capitalized Developed Software - in Progress	
Gross carrying amounts:								
Balance as of January 1, 2021	\$ 3,175	\$ 2,228	\$ 882	\$ 45	\$ 3,670	\$ 5,507	\$ 1,360	\$ 16,867
Additions	-	-	-	-	-	376	2,005	2,381
Transfers	-	-	-	-	-	2,752	(2,752)	-
Foreign currency translation adjustment	(6)	-	(2)	-	(22)	(59)	22	(67)
Balance as of December 31, 2021	<u>\$ 3,169</u>	<u>\$ 2,228</u>	<u>\$ 880</u>	<u>\$ 45</u>	<u>\$ 3,648</u>	<u>\$ 8,576</u>	<u>\$ 635</u>	<u>\$ 19,181</u>
Accumulated amortization:								
Balance as of January 1, 2021	\$ 1,844	\$ 1,192	\$ 629	\$ 29	\$ 1,650	\$ 1,492	\$ -	\$ 6,836
Amortization expense	315	187	56	5	354	1,089	-	2,006
Foreign currency translation adjustment	(1)	(2)	-	-	1	(6)	-	(8)
Balance as of December 31, 2021	<u>\$ 2,158</u>	<u>\$ 1,377</u>	<u>\$ 685</u>	<u>\$ 34</u>	<u>\$ 2,005</u>	<u>\$ 2,575</u>	<u>\$ -</u>	<u>\$ 8,834</u>
Net carrying amounts - December 31, 2021	<u>\$ 1,011</u>	<u>\$ 851</u>	<u>\$ 195</u>	<u>\$ 11</u>	<u>\$ 1,643</u>	<u>\$ 6,001</u>	<u>\$ 635</u>	<u>\$ 10,347</u>

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Amortization expense relating to acquired intangible assets was \$0.2 million and \$0.7 million for the three and nine months ended September 30, 2022.

Amortization expense relating to capitalized developed software was \$0.5 million and \$1.3 million for the three and nine months ended September 30, 2022.

As of September 30, 2022, estimated future amortization expense for intangible assets was as follows (in thousands):

Year	Amortization
2022	\$ 761
2023	\$ 3,579
2024	\$ 3,124
2025	\$ 2,217
2026	\$ 818
Thereafter	\$ 1,443
	<u>\$ 11,942</u>

3. Income Taxes

Taxes primarily consist of a provision for foreign taxes recorded by the Company's foreign subsidiaries in accordance with local tax regulations. Effective income tax rates are disproportionate due to the losses incurred by the Company's U.S. and Canadian subsidiaries and a valuation allowance recorded on deferred taxes of these entities and tax effects of foreign operations, including foreign exchange gains and losses.

The reconciliations of the U.S. statutory rate with the Company's effective tax rate for the nine-month periods ended September 30, 2022 and 2021 are summarized in the table below:

	For the Nine Months Ended September 30,	
	2022	2021
Federal income tax expense at statutory rate	(21.0)%	21.0 %
Effect of:		
Change in valuation allowance	43.0	2,468.8
Tax effects of foreign operations	1.1	79.8
Increase (decrease) in unrecognized tax benefits (ASC 740)	1.0	(490.0)
Return to provision true up	0.2	31.6
State income tax net of federal benefit	0.2	43.2
Section 162 (m)	-	549.9
Change in tax rates	-	225.0
Effect of stock based compensation	(0.4)	(1,573.2)
Foreign operations permanent difference - foreign exchange gains and losses	(1.5)	271.9
Foreign rate differential	(5.8)	(478.8)
Withholding tax	-	-
Other	(2.0)	22.5
Effective tax rate	<u>14.8 %</u>	<u>1,171.7 %</u>

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The following table presents a roll-forward of the Company's unrecognized tax benefits and associated interest for the nine months ended September 30, 2022 (in thousands):

	Unrecognized tax benefits
Balance - January 1, 2022	\$ 1,753
Increase for current period tax positions	83
Decrease for prior period tax positions	(29)
Interest accrual	46
Foreign currency remeasurement	(177)
Balance - September 30, 2022	<u>\$ 1,676</u>

The Company expects that unrecognized tax benefits as of September 30, 2022, if recognized, would have a material impact on the Company's effective tax rate.

Tax Assessments

In September 2015, the Company's Indian subsidiary was subject to an inquiry by the Service Tax Department in India regarding the classification of services provided by this subsidiary, asserting that the services provided by this subsidiary fall under the category of online information and database access or retrieval services (OID Services), and not under the category of business support services (BS Services) that are exempt from service tax as historically indicated in the subsidiary's service tax filings. The Company disagrees with the Service Tax Department's position. In November 2019, the Commissioner of Central Tax, GST & Central Excise issued an order confirming the Service Tax Department's position. The Company is contesting this order in an appeal to the Customs, Excise and Service Tax Appellate Tribunal. In the event the Service Tax Department is ultimately successful in proving that the services fall under the category of OID Services, the revenues earned by the Company's Indian subsidiary for the period July 2012 through November 2016 would be subject to a service tax of between 12.36% and 15%, and this subsidiary may also be liable for interest and penalties. The revenue of the Company's Indian subsidiary during this period was approximately \$53.0 million. In accordance with new rules promulgated by the Service Tax Department, as of December 1, 2016 service tax is no longer applicable to OID or BS Services. Based on the Company's assessment in consultation with the Company's tax counsel, the Company has not recorded any tax liability for this case.

In a separate action relating to service tax refunds, in October 2016, the Company's Indian subsidiary received notices from the Indian Service Tax Department in India seeking to reverse service tax refunds of approximately \$160,000 previously granted to the Company's Indian subsidiary for three quarters in 2014, asserting that the services provided by this subsidiary fall under the category of OID Services and not BS Services. The appeal was determined in favor of the Service Tax Department. The Company disagrees with the basis of this decision and is contesting it. The Company expects delays in its Indian subsidiary receiving further service tax refunds until this matter is adjudicated with finality, and currently has service tax credits of approximately \$0.9 million recorded as a receivable. Based on the Company's assessment in consultation with the Company's tax counsel, the Company has not recorded any tax liability for this case.

Substantial recovery against the Company in the above referenced 2015 Service Tax Department case could have a material adverse impact on the Company, and unfavorable rulings or recoveries in other tax proceedings could have a material adverse impact on the consolidated operating results of the period (and subsequent periods) in which the rulings or recovery occurs.

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4. Commitments and Contingencies

Litigation – In 2008, a judgment was rendered in the Philippines against a Philippine subsidiary of the Company that is no longer active and purportedly also against Innodata Inc., in favor of certain former employees of the Philippine subsidiary. The potential payment amount aggregates to approximately \$6.8 million, plus legal interest that accrued at 12% per annum from August 13, 2008 to June 30, 2013, and thereafter accrued and continues to accrue at 6% per annum. The potential payment amount as expressed in U.S. dollars varies with the Philippine peso to U.S. dollar exchange rate. In December 2017, a group of 97 of the former employees of the Philippine subsidiary indicated that they proposed to record the judgment as to themselves in New Jersey. In January 2018, in response to an action initiated by Innodata Inc., the United States District Court for the District of New Jersey (“USDC”) entered a preliminary injunction that enjoins these former employees from pursuing or seeking recognition or enforcement of the judgment against Innodata Inc. in the United States during the pendency of the action and until further order of the USDC. In June 2018, the USDC entered a consent order administratively closing the action subject to return of the action to the active docket upon the written request of Innodata Inc. or the former employees, with the USDC retaining jurisdiction over the matter and the preliminary injunction remaining in full force and effect.

The Company is also subject to various other legal proceedings and claims that have arisen 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 Philippine action could have a material adverse impact on the Company, and unfavorable rulings or recoveries in the other proceedings could have a material adverse impact on the consolidated operating results in 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 referenced legal proceedings could change in the future.

The Company’s legal accruals related to legal proceedings and claims are based on the Company’s 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 accruals are adjusted if necessary. While the Company intends to defend these matters vigorously, adverse outcomes that it estimates could reach approximately \$350,000 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.

5. Stock Options and Restricted Stock Units

A summary of option activity under the Innodata Inc. 2013 Stock Plan, as amended and restated effective June 7, 2016 (the “2013 Plan”) and changes during each of the nine-month periods ended September 30, 2022 and 2021 are presented below:

	Number of Options	Weighted - Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at January 1, 2021	5,906,884	\$ 1.61		
Granted	750,000	6.76		
Exercised	(1,546,288)	2.01		
Forfeited/Expired	(20,000)	1.38		
Outstanding at September 30, 2021	<u>5,090,596</u>	\$ 2.05	7.49	\$ 37,037,015
Exercisable at September 30, 2021	<u>3,468,912</u>	\$ 1.73	7.03	\$ 27,069,483
Vested and Expected to Vest at September 30, 2021	<u>5,090,596</u>	\$ 2.05	7.49	\$ 37,037,015

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	Number of Options	Weighted - Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at January 1, 2022	5,536,896	\$ 2.66		
Granted*	1,479,558	5.21		
Exercised	(210,429)	1.28		
Forfeited/Expired	(261,101)	6.50		
Outstanding at September 30, 2022	<u>6,544,924</u>	\$ 3.13	7.33	\$ 6,265,207
Exercisable at September 30, 2022	<u>4,264,408</u>	\$ 2.08	6.40	\$ 5,792,971
Vested and Expected to Vest at September 30, 2022	<u>6,544,924</u>	\$ 3.13	7.33	\$ 6,265,207

*Includes 110,000 stock options granted by the Company to a non-employee director of the Company during the nine months ended September 30, 2022. The stock option fully vests on January 1, 2025.

A summary of option activity under the Innodata Inc. 2021 Equity Compensation Plan, as amended and restated effective as of April 11, 2022 (the “2021 Plan”) and changes during the nine-month period ended September 30, 2022 are presented below:

	Number of Options	Weighted - Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at January 1, 2022	-	\$ -		
Granted*	182,000	3.67		
Exercised	-	-		
Forfeited/Expired	-	-		
Outstanding at September 30, 2022	<u>182,000</u>	\$ 3.67	9.91	\$ -
Exercisable at September 30, 2022	<u>6,250</u>	\$ 6.40		
Vested and Expected to Vest at September 30, 2022	<u>182,000</u>	\$ 3.67	9.91	\$ -

*During the nine months ended September 30, 2022, the Company granted 132,000 stock options to non-employee directors of the Company which vest on the first anniversary of the date of grant. In addition, during the nine months ended September 30, 2022 the Company granted 50,000 stock options to non-employee members of the Company’s advisory board in lieu of cash compensation. The stock options vest in 12 monthly installments from the date of grant.

During the nine months ended September 30, 2022, a total of 210,429 options were exercised at an average price of \$1.28.

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

	For the Nine Months Ended September 30,	
	2022	2021
Weighted average fair value of options granted	\$ 3.00	\$ 3.56
Risk-free interest rate	1.94%-3.54%	0.22%-0.82%
Expected term (years)	3.0-6.42	3-6
Expected volatility factor	62% -79%	58% - 68%
Expected dividends	-	-

A summary of restricted stock units issued under the 2013 Plan and the 2021 Plan (collectively, the “Equity Plans”) is presented below:

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In March 2022, the Company granted restricted stock units (“RSU”) to key executives, pursuant to the Equity Plans. Each RSU has vesting conditions based on both the achievement of performance-based metrics and the continuation of employment over a defined period. The level of performance determines the number of RSUs that performance-vest, and performance vested RSUs must also time-vest in order to be fully vested. Each fully vested RSU represents the right to receive one share of the Company’s common stock or the fair market value of one share of common stock, at the Company’s discretion, and is classified as an equity award. Each RSU vests pursuant to the vesting schedule found in the respective RSU agreement. RSUs are generally subject to graduated vesting schedules and stock-based compensation expense is computed by tranche and recognized on a straight-line basis over the tranches’ applicable vesting period based on the expected achievement level. The fair value of restricted stock units is estimated on the date of grant using the Binomial option pricing model.

Restricted stock unit activity during the nine months ended September 30, 2022 was as follows:

	Number of Restricted Stock Awards	Weighted-Average Grant Date Fair Value
Unvested at January 1, 2022	25,000	\$ 1.38
Granted	-	-
Vested	(25,000)	1.38
Forfeited/Expired	-	-
Unvested at September 30, 2022	-	\$ -

	Number of Restricted Stock Units	Weighted-Average Grant Date Fair Value
Unvested at January 1, 2022	-	\$ -
Granted*	700,000	5.59
Vested	-	-
Forfeited/Expired	-	-
Unvested at September 30, 2022	700,000	\$ 5.59

* 200,000 RSUs were issued under the 2013 Plan and 500,000 RSUs were issued under the 2021 Plan

The compensation cost related to non-vested stock options not yet recognized as of September 30, 2022 totaled approximately \$5.9 million. The weighted-average period over which these costs will be recognized is 24 months.

During the nine months ended September 30, 2022, 700,000 performance-based restricted stock units were granted and remain non-vested at September 30, 2022. Vesting of the performance-based restricted stock units is contingent on the achievement of certain financial performance goals and service vesting conditions. There were no restricted stock units granted during the three months ended September 30, 2022.

The compensation cost related to non-vested restricted stock units not yet recognized as of September 30, 2022 totaled approximately \$2.8 million. The weighted-average period over which these costs will be recognized is 22 months.

The stock-based compensation expense related to the Equity Plans were allocated as follows (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Direct operating costs	\$ 46	\$ 21	\$ 154	\$ 96
Selling and administrative expenses	759	482	2,216	1,021
Total stock-based compensation	\$ 805	\$ 503	\$ 2,370	\$ 1,117

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Subsequent Event

On October 7, 2022, the Company granted 1,143,000 stock options to Company's executive officers and certain employees. 295,000 stock options were granted pursuant to the 2013 Plan and 848,000 stock options were granted pursuant to the 2021 Plan. The stock options have an exercise price of \$3.41, a term of ten years from the date of grant, vest in three equal annual installments from the date of grant and have a grant date fair value of approximately \$2.5 million.

6. Operating Leases

The Company has various lease agreements for its offices and service delivery centers. These lease agreements are for terms ranging from two to eleven years and, in most cases, provide for rental escalations ranging from 1.75% to 10%. The Company has determined that the risks and benefits related to these leased properties are retained by the lessors. Accordingly, these are accounted for as operating leases.

Lease Agreements with a term of less than one year are treated as short-term leases and accounted for separately as shown in table below.

Most of these lease agreements are renewable at the mutual consent of the parties to the agreement.

The table below summarizes the amounts recognized in the condensed consolidated financial statements related to operating leases and short-term leases for the periods presented (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Rent expense for long-term operating leases	\$ 314	\$ 393	\$ 1,027	\$ 1,169
Rent expense for short-term leases	136	59	398	143
Total rent expense	<u>\$ 450</u>	<u>\$ 452</u>	<u>\$ 1,425</u>	<u>\$ 1,312</u>

The following table presents the maturity profile of the Company's operating lease liabilities based on the contractual undiscounted payments with a reconciliation of these amounts to the remaining net present value of the operating lease liability reported in the condensed consolidated balance sheet as of September 30, 2022 (in thousands):

Year	Amount
2022	\$ 283
2023	1,030
2024	825
2025	837
2026	847
2027 and thereafter	2,384
Total lease payments	6,206
Less: Interest	(1,534)
Net present value of lease liabilities	<u>\$ 4,672</u>
Current portion	\$ 742
Long-term portion	3,930
Total	<u>\$ 4,672</u>

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The weighted average remaining lease terms and discount rates for all the Company's operating leases as of September 30, 2022 were as follows:

Weighted-average lease term remaining	55 months
Weighted-average discount rate	8.55 %

7. Long-term obligations

Total long-term obligations as of September 30, 2022 and December 31, 2021 consisted of the following (in thousands):

	September 30, 2022	December 31, 2021
Pension obligations - accrued pension liability	\$ 6,376	\$ 6,839
Settlement agreement	94	272
Microsoft licenses	-	385
	6,470	7,496
Less: Current portion of long-term obligations	596	1,279
Totals	\$ 5,874	\$ 6,217

8. Redemption of non-controlling interest

The Condensed Consolidated Balance Sheets for the nine-month period ending September 30, 2022 includes a \$2.9 million charge against additional paid-in-capital representing the carrying value of the non-controlling interest in Innodata Synodex, LLC which was redeemed by the Company on March 31, 2022. The Company accounted for the transaction in accordance with ASC Topic 810, "Consolidation," which discusses the proper accounting treatment of the carrying value for the non-controlling interest. Under the standard, any change in ownership that does not result in a loss of control must be accounted for as an equity transaction.

9. Comprehensive loss

Accumulated other comprehensive loss, as reflected in the condensed consolidated balance sheets, consists of pension liability adjustments, net of taxes, changes in fair value of derivatives, net of taxes, and foreign currency translation adjustment. The components of accumulated other comprehensive loss as of September 30, 2022 and 2021, and reclassifications from accumulated other comprehensive loss for the three and nine months then ended, are presented below (in thousands):

	Pension Liability Adjustment	Fair Value of Derivatives	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Loss
Balance at July 1, 2022	\$ (780)	\$ (889)	\$ (1,607)	\$ (3,276)
Other comprehensive loss before reclassifications, net of taxes	-	(884)	(644)	(1,528)
Total other comprehensive loss before reclassifications, net of taxes	(780)	(1,773)	(2,251)	(4,804)
Net amount reclassified to earnings	35	678	-	713
Balance at September 30, 2022	\$ (745)	\$ (1,095)	\$ (2,251)	\$ (4,091)

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	Pension Liability Adjustment	Fair Value of Derivatives	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Loss
Balance at January 1, 2022	\$ (858)	\$ (353)	\$ (981)	\$ (2,192)
Other comprehensive loss before reclassifications, net of taxes	-	(1,707)	(1,270)	(2,977)
Total other comprehensive loss before reclassifications, net of taxes	(858)	(2,060)	(2,251)	(5,169)
Net amount reclassified to earnings	113	965	-	1,078
Balance at September 30, 2022	<u>\$ (745)</u>	<u>\$ (1,095)</u>	<u>\$ (2,251)</u>	<u>\$ (4,091)</u>

	Pension Liability Adjustment	Fair Value of Derivatives	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Loss
Balance at July 1, 2021	\$ (422)	\$ (267)	\$ (380)	\$ (1,069)
Other comprehensive income (loss) before reclassifications, net of taxes	-	(302)	(594)	(896)
Total other comprehensive loss before reclassifications, net of taxes	(422)	(569)	(974)	(1,965)
Net amount reclassified to earnings	10	37	-	47
Balance at September 30, 2021	<u>\$ (412)</u>	<u>\$ (532)</u>	<u>\$ (974)</u>	<u>\$ (1,918)</u>

	Pension Liability Adjustment	Fair Value of Derivatives	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Loss
Balance at January 1, 2021	\$ (444)	\$ -	\$ (494)	\$ (938)
Other comprehensive income (loss) before reclassifications, net of taxes	-	(536)	(480)	(1,016)
Total other comprehensive loss before reclassifications, net of taxes	(444)	(536)	(974)	(1,954)
Net amount reclassified to earnings	32	4	-	36
Balance at September 30, 2021	<u>\$ (412)</u>	<u>\$ (532)</u>	<u>\$ (974)</u>	<u>\$ (1,918)</u>

All reclassifications from accumulated other comprehensive 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 in three reporting segments: Digital Data Solutions (DDS), Synodex and Agility.

The DDS segment provides AI-enabled software platforms and managed services to companies that require high-quality data for training AI and machine learning (ML) algorithms, and AI digital transformation solutions to help companies apply AI/ML to real-world problems relating to analyzing and deriving insights from documents. In conjunction with AI digital transformation, the Company often provides a range of data engineering support services, including data transformation, data curation, data hygiene, data consolidation, data compliance, and master data management.

The Synodex segment provides an industry platform that transforms medical records into useable digital data organized in accordance with its proprietary data models or customer data models.

The Agility segment provides an industry platform that provides marketing communications and public relations professionals with the ability to target and distribute content to journalists and social media influencers world-wide and to monitor and analyze global news channels (print, web, radio and TV) and social media channels.

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenues:				
DDS	\$ 12,852	\$ 13,237	\$ 42,944	\$ 37,997
Synodex	1,762	983	5,376	2,888
Agility	3,833	3,230	11,306	9,581
Total Consolidated	<u>\$ 18,447</u>	<u>\$ 17,450</u>	<u>\$ 59,626</u>	<u>\$ 50,466</u>

Income (loss) before provision for income taxes⁽¹⁾:				
DDS	\$ 135	\$ 1,544	\$ 1,516	\$ 3,924
Synodex	(977)	(657)	(2,796)	(878)
Agility	(2,216)	(1,406)	(7,474)	(2,993)
Total Consolidated	<u>\$ (3,058)</u>	<u>\$ (519)</u>	<u>\$ (8,754)</u>	<u>\$ 53</u>

Income (loss) before provision for income taxes⁽²⁾:				
DDS	\$ (59)	\$ 1,445	\$ 987	\$ 3,676
Synodex	(778)	(584)	(2,318)	(711)
Agility	(2,221)	(1,380)	(7,423)	(2,912)
Total Consolidated	<u>\$ (3,058)</u>	<u>\$ (519)</u>	<u>\$ (8,754)</u>	<u>\$ 53</u>

	September 30, 2022	December 31, 2021
Total assets:		
DDS	\$ 26,542	\$ 38,180
Synodex	3,294	1,753
Agility	17,973	19,284
Total Consolidated	<u>\$ 47,809</u>	<u>\$ 59,217</u>

	September 30, 2022	December 31, 2021
Goodwill:		
Agility	\$ 1,982	\$ 2,143
Total	<u>\$ 1,982</u>	<u>\$ 2,143</u>

(1) Before elimination of any inter-segment profits

(2) After elimination of any inter-segment profits

The table below shows intersegment revenues which are eliminated in consolidation (in thousands).

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenues of DDS Segment from:				
Synodex	2,119	1,113	6,167	2,559
Agility	425	411	1,274	1,229
Totals	<u>2,544</u>	<u>1,524</u>	<u>7,441</u>	<u>3,788</u>

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Revenues for the period ended September 30, 2022 and 2021 by geographic region (determined based upon customer's domicile), were as follows (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
United States	\$ 11,904	\$ 9,467	\$ 37,843	\$ 26,761
United Kingdom	2,677	2,912	8,312	8,709
The Netherlands	1,734	1,750	5,105	5,012
Canada	579	1,469	3,234	4,556
Others - principally Europe	1,553	1,852	5,132	5,428
Totals	<u>\$ 18,447</u>	<u>\$ 17,450</u>	<u>\$ 59,626</u>	<u>\$ 50,466</u>

Long-lived assets as of September 30, 2022 and December 31, 2021 by geographic region were comprised of (in thousands):

	September 30, 2022	December 31, 2021
United States	<u>\$ 6,747</u>	<u>\$ 4,578</u>
Foreign countries:		
Canada	7,669	9,280
United Kingdom	1,139	1,538
Philippines	3,784	4,027
India	1,364	1,481
Sri Lanka	136	154
Israel	2	-
Total foreign	<u>14,094</u>	<u>16,480</u>
Totals	<u>\$ 20,841</u>	<u>\$ 21,058</u>

Long-lived assets include the unamortized balance of right-of-use assets amounting to \$4.2 million and \$5.6 million as of September 30, 2022 and December 31, 2021, respectively.

No customer generated 10% or more of the Company's total revenues for the three months ended September 30, 2022. One customer in the DDS segment generated approximately 10% of the Company's total revenues for the three months ended September 30, 2021. Further, revenues from non-U.S. customers accounted for 35% and 46% of the Company's total revenues for the three months ended September 30, 2022 and 2021, respectively.

One customer in the DDS segment generated approximately 13% and 11% of the Company's total revenues for the nine months ended September 30, 2022 and 2021, respectively. No other customer accounted for 10% or more of total revenues during these periods. Further, revenues from non-U.S. customers accounted for 37% and 47% of the Company's total revenues for the nine months ended September 30, 2022 and 2021, respectively.

As of September 30, 2022, approximately 47% of the Company's accounts receivable was from foreign (principally European) customers and 24% of the Company's accounts receivable was due from two customers. As of December 31, 2021, approximately 37% of the Company's accounts receivable was from foreign (principally European) customers and 19% of the Company's accounts receivable was due from one customer. No other customer accounted for 10% or more of the accounts receivable as of September 30, 2022 and December 31, 2021.

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11. Income (Loss) Per Share

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Net Loss attributable to Innodata Inc. and Subsidiaries	\$ (3,327)	\$ (800)	\$ (9,975)	\$ (505)
Weighted average common shares outstanding	27,331	26,971	27,239	26,459
Dilutive effect of outstanding options	-	-	-	-
Adjusted for dilutive computation	27,331	26,971	27,239	26,459

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

Options to purchase 4.2 million and 5.1 million shares of common stock for the three months ended September 30, 2022 and 2021 were outstanding but not included in the computation of diluted loss per share because the effect would have been anti-dilutive.

Options to purchase 5.7 and 5.1 million shares of common stock for the nine months ended September 30, 2022 and 2021 were outstanding but not included in the computation of diluted loss per share because the effect would have been anti-dilutive.

12. Derivatives

The Company conducts a large portion of its operations in international markets, which 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 is also subject to wage inflation and other government mandated increases and operating expenses in Asian countries where the Company has the majority of its operations. The Company’s primary inflation and exchange rate exposure relates to payroll, other payroll costs and operating expenses in the Philippines, India, Sri Lanka and Israel.

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

The Company’s policy is to enter derivative instrument contracts with terms that coincide with the underlying exposure being hedged for a period up to 12 months. As such, the Company’s derivative instruments are expected to be highly effective. For derivative instruments that are designated and qualify as cash flow hedges, the entire change in fair value of the hedging instrument is recorded to Other comprehensive income (loss). Upon settlement of these contracts, the change in the fair value recorded in Other comprehensive income (loss) are reclassified to earnings and included as part of Direct operating costs.

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 designated as hedges was \$14.4 million as of September 30, 2022. The total notional amount for outstanding derivatives designated as hedges was \$19.7 million as of December 31, 2021.

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The following table presents the fair value of derivative instruments included within the condensed consolidated balance sheets as of September 30, 2022 and December 31, 2021 (in thousands):

	<u>Balance Sheet Location</u>	<u>Fair Value</u>	
		<u>2022</u>	<u>2021</u>
Derivatives designated as hedging instruments:			
Foreign currency forward contracts	Accrued expenses	\$ 1,095	\$ 353

The effect of foreign currency forward contracts designated as cash flow hedges on the condensed consolidated statements of operations for the three and nine months ended September 30, 2022 and 2021 were as follows (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Net gain (loss) recognized in OCI ⁽¹⁾	\$ (884)	\$ (302)	\$ (1,707)	\$ (536)
Net (gain) loss reclassified from accumulated OCI into income ⁽²⁾	\$ 678	\$ 37	\$ 965	\$ 4
Net gain recognized in income ⁽³⁾	-	\$ -	-	\$ -

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

(2) Effective portion classified within direct operating costs.

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

Item 2.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS
Cautionary Note Regarding Forward-Looking Statements**

Disclosures in this Quarterly Report on Form 10-Q (this "Report") contain certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. These forward-looking statements include, without limitation, statements concerning our operations, economic performance, and financial condition. Words such as "project," "believe," "expect," "can," "continue," "could," "intend," "may," "should," "will," "anticipate," "indicate," "predict," "likely," "estimate," "plan," "potential," "supports," or the negatives thereof, and other similar expressions generally identify forward-looking statements.

These forward-looking statements are based on management's current expectations, assumptions and estimates and are subject to a number of risks and uncertainties, including, without limitation, the expected or potential effects of the novel coronavirus ("COVID-19") pandemic and the responses of governments, the general global population, our customers, and the Company thereto; impacts resulting from the rapidly evolving conflict between Russia and the Ukraine; that contracts may be terminated by customers; projected or committed volumes of work may not materialize; continuing reliance on project-based work in the DDS segment and the primarily at-will nature of such contracts and the ability of these customers to reduce, delay or cancel projects; the likelihood of continued development of the markets, particularly new and emerging markets, that our services support; continuing DDS segment revenue concentration in a limited number of customers; potential inability to replace projects that are completed, canceled or reduced; our dependency on content providers in our Agility segment; difficulty in integrating and deriving synergies from acquisitions, joint venture and strategic investments; potential undiscovered liabilities of companies and businesses that we may acquire; potential impairment of the carrying value of goodwill and other acquired intangible assets of companies and businesses that we acquire; a continued downturn in or depressed market conditions, whether as a result of the COVID-19 pandemic or otherwise; changes in external market factors; the ability and willingness of our customers and prospective customers to execute business plans that give rise to requirements for our services; changes in our business or growth strategy; the emergence of new, or growth in existing competitors; various other competitive and technological factors; the Company's use of and reliance on information technology systems, including potential security breaches, cyber-attacks, privacy breaches or data breaches that result in the unauthorized disclosure of consumer, customer, employee or Company information, or service interruptions; 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 forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, uncertainty around the COVID-19 pandemic and the effects of the global response thereto and the risks discussed in Part I, Item 1A. "Risk Factors," in "Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations," and other parts of our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 24, 2022, and in other filings that we may make with the Securities and Exchange Commission. In light of these risks and uncertainties, there can be no assurance that the results referred to in the forward-looking statements will occur, and you should not place undue reliance on these forward-looking statements. These forward-looking statements speak only as of the date hereof.

We undertake no obligation to update or review any guidance or other forward-looking statements, whether as a result of new information, future developments or otherwise, except as may be required by the federal securities laws.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand the results of operations and financial condition of Innodata Inc. and its subsidiaries and should be read in conjunction with our unaudited condensed consolidated financial statements and the accompanying notes to condensed consolidated financial statements contained in Part I, Item 1 of this Report.

Business Overview

Innodata Inc. (NASDAQ: INOD) (including its subsidiaries, the "Company", "Innodata", "we", "us" or "our") is a global data engineering company. The Company's mission is to deliver the promise of AI to the world's most prestigious companies.

We provide AI-enabled software platforms and managed service to companies that require high-quality data for training AI and machine learning (ML) algorithms. We also provide AI digital transformation solutions and platform to help companies apply AI/ML to real-world problems relating to analyzing and deriving insights from documents. For industry-specific, document-intensive industry business processes, we provide AI-augmented software-as-a-service (SaaS) platforms and discrete managed services.

Our platforms and services are powered by Goldengate, our proprietary AI/ML platform, as well as other technologies we have developed. In addition, we bring to bear more than 4,500 employees spanning eight countries with expertise in data pertaining to many professional fields. Our hybrid approach of using AI/ML in conjunction with human experts enables us to deliver superior data quality with even the most complex and sensitive data.

We developed our capabilities and honed our customer- and quality-centric culture progressively over the last 30 years creating high-quality data for many of the world's most demanding information companies. Approximately six years ago, we formed Innodata Labs, a research and development center, to research, develop and apply machine learning and emerging AI to our large-scale, human-intensive data operations. In 2019, we began packaging the capabilities that emerged from our R&D efforts in order to align with several fast-growing new markets and help companies use AI/ML to drive performance benefits and business insights. We anticipate this strategy will enable us to accelerate growth.

AI Data Annotation

We train AI algorithms for social media companies, robotics companies, financial services companies, and many others, working with images, text, video and audio. Data sciences teams seek partners that can perform data preparation functions for them at large-scale and at high quality, while using automated tools to minimize cost. Moreover, as AI projects become more specialized and mission-critical, data preparation is becoming increasingly complex, requiring deep domain knowledge and an infrastructure in which data security is assured.

We utilize a variety of leading third-party image and video annotation tools. For text, we use our proprietary text annotation platform that incorporates AI to reduce cost while improving consistency and quality of output. Our proprietary text annotation platform features auto-tagging capabilities that apply to both classical and generative AI tasks. It also encapsulates many of the innovations we conceived of in the course of our 30-year history of creating high-quality data.

AI Digital Transformation

We also provide AI solutions and platforms to companies that intensively process textual data and seek to obtain the benefits of AI/ML technologies without having to develop AI/ML engineering capabilities in-house. For such companies, we often integrate one or more of our pre-trained text processing algorithms as a foundation for an overall solution. Our algorithms are accessible as microservices via application programming interfaces (APIs), enabling easy integration.

In conjunction with AI digital transformation, we often provide a range of data engineering support services, including data transformation, data curation, data hygiene, data consolidation, data compliance, and master data management.

Our customers span a diverse range of industries and a wide range of AI use cases, benefiting from the short time-to-value and high economic returns of our AI digital transformation solutions and platforms.

Industry AI Platforms

Our industry platforms address specific, niche market requirements that we believe we can fulfill in large part with our AI/ML technologies. We deploy these industry platforms as software-as-a-service (SaaS) and as managed services. To date, we have built an industry platform for medical records data extraction and transformation (which we brand as "Synodex®") and an industry platform for public relations (which brands as "Agility PR Solutions").

Our Synodex industry platform transforms medical records into useable digital data organized in accordance with our proprietary data models or customer data models.

Our Agility industry platform provides marketing communications and public relations professionals with the ability to target and distribute content to journalists and social media influencers world-wide and to monitor and analyze global news (print, web, radio and TV) and social media.

Our operations are presently classified and reported in three reporting segments: Digital Data Solutions (DDS), Synodex and Agility.

Prevailing Economic Conditions and Seasonality

Prevailing Economic Conditions

The novel coronavirus disease 2019, which the World Health Organization declared as a pandemic on March 11, 2020, continues to spread throughout the world. COVID-19 has created significant global economic downturn, disrupted global trade and supply chains, adversely impacted many industries, caused federal and regional governments to impose substantial restrictions on the operations of non-essential businesses and contributed to significant declines and volatility in financial markets.

While the pandemic presented, and may in the future present, new risks to our business and there have been logistical and other challenges, there was no material adverse impact on our results of operations for the three and nine months ended September 30, 2022.

The situation surrounding the COVID-19 crisis remains fluid and the extent and duration of its impact to the economy remains unclear. For this reason, we cannot reasonably estimate with any degree of certainty the future impact that it may have on our results of operations and financial condition. The potential for a material impact on our results of operations and financial position increases the longer COVID-19 affects the level of economic activity in the United States and globally.

With the current level of demand for our services, we believe we have existing cash and cash equivalents that provide sufficient sources of liquidity to satisfy our financial needs for at least the next 12 months from the date of the filing of this Report (refer to Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources” for additional information). In the event we experience a significant or prolonged reduction in revenues, the likelihood of which is uncertain, we would seek to manage our liquidity by reducing capital expenditures, deferring investment activities, and reducing operating costs as we would likely have no other sources of liquidity to support ongoing operations in a manner that is not significantly detrimental to the business.

Seasonality

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

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

Trends

We view new customer acquisition as an indicator of our business momentum, sales and marketing efficiency, and competitive market positioning. During the nine months ending September 30, 2022, we added an average of 113 new customers per quarter. This is an 82% increase over the 62 new customers we added on average per quarter in 2020 and a 22% increase over the 93 new customers we added on average per quarter in 2021.

For further information refer to the risk factor titled “Quarterly fluctuations in our revenues and results of operations could make financial forecasting difficult and could unfavorably affect our stock price.” in Part I, Item 1A. “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2021.

Non-GAAP Financial Measures

In addition to the financial information prepared in conformity with U.S. GAAP (“GAAP”), we provide certain non-GAAP financial information. We believe that these non-GAAP financial measures assist investors in making comparisons of period-to-period operating results. In some respects, management believes non-GAAP financial measures are more indicative of our ongoing core operating performance than their GAAP equivalents by making adjustments that management believes are reflective of the ongoing performance of the business.

We believe that the presentation of this non-GAAP financial information provides investors with greater transparency by providing investors a more complete understanding of our financial performance, competitive position, and prospects for the future, particularly by providing the same information that management and our Board of Directors uses to evaluate our performance and manage the business. However, the non-GAAP financial measures presented in this Quarterly Report on Form 10-Q have certain limitations in that they do not reflect all of the costs associated with the operations of our business as determined in accordance with GAAP. Therefore, investors should consider non-GAAP financial measures in addition to, and not as a substitute for, or as superior to,

measures of financial performance prepared in accordance with GAAP. Further, the non-GAAP financial measures that we present may differ from similar non-GAAP financial measures used by other companies.

Adjusted EBITDA

We define Adjusted EBITDA as net income (loss) attributable to Innodata Inc. and its subsidiaries in accordance with U.S. GAAP before interest expense, income taxes, depreciation and amortization of intangible assets (which derives EBITDA), plus additional adjustments for loss on impairment of intangible assets and goodwill, stock-based compensation, income (loss) attributable to non-controlling interests and other one-time costs. We use Adjusted EBITDA to evaluate core results of operations and trends between fiscal periods and believe that these measures are important components of our internal performance measurement process.

The following table contains a reconciliation of GAAP net income (loss) attributable to Innodata Inc. and its subsidiaries to Adjusted EBITDA (loss) for the three and nine months ended September 30, 2022 and 2021 (in thousands).

Consolidated	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net loss attributable to Innodata Inc. and Subsidiaries	\$ (3,327)	\$ (800)	\$ (9,975)	\$ (505)
Provision for income taxes	268	328	1,293	621
Interest expense, net	(1)	4	1	18
Gain on loan forgiveness	-	-	-	(580)
Depreciation and amortization	1,011	684	2,836	2,054
Stock-based compensation	805	503	2,370	1,117
Non-controlling interests	1	(47)	(72)	(63)
Adjusted EBITDA / (loss) - Consolidated	<u>\$ (1,243)</u>	<u>\$ 672</u>	<u>\$ (3,547)</u>	<u>\$ 2,662</u>

DDS Segment	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income (loss) attributable to DDS Segment	\$ (324)	\$ 1,092	\$ (211)	\$ 3,078
Provision for income taxes	265	353	1,196	599
Interest expense, net	(1)	4	1	17
Gain on loan forgiveness	-	-	-	(580)
Depreciation and amortization	201	139	483	459
Stock-based compensation	761	404	1,929	863
Non-controlling interests	1	1	2	(2)
Adjusted EBITDA - DDS Segment	<u>\$ 903</u>	<u>\$ 1,993</u>	<u>\$ 3,400</u>	<u>\$ 4,434</u>

Synodex Segment	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net loss attributable to Synodex Segment	\$ (779)	\$ (537)	\$ (2,244)	\$ (650)
Depreciation and amortization	\$ 171	19	\$ 483	\$ 21
Stock-based compensation	30	24	129	38
Non-controlling interests	-	(48)	(74)	(61)
Adjusted EBITDA (loss) - Synodex Segment	<u>\$ (578)</u>	<u>\$ (542)</u>	<u>\$ (1,706)</u>	<u>\$ (652)</u>

Agility Segment	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net loss attributable to Agility Segment	\$ (2,224)	\$ (1,355)	\$ (7,520)	\$ (2,933)
Provision for income taxes	3	(25)	97	22
Interest expense, net	-	-	-	1
Depreciation and amortization	639	526	1,870	1,574
Stock-based compensation	14	75	312	216
Adjusted EBITDA (loss) - Agility Segment	<u>\$ (1,568)</u>	<u>\$ (779)</u>	<u>\$ (5,241)</u>	<u>\$ (1,120)</u>

Results of Operations

Amounts in the MD&A below are after elimination of any inter-segment profit and have been rounded. All percentages have been calculated using rounded amounts.

Three Months Ended September 30, 2022 and 2021

Revenues

Total revenues were \$18.4 million and \$17.5 million for the three months ended September 30, 2022 and 2021, respectively, an increase of \$0.9 million or approximately 6%.

Revenues from the DDS segment were \$12.8 million and \$13.3 million for the three months ended September 30, 2022 and 2021, respectively, a decrease of \$0.5 million or approximately 4%. The decrease was primarily attributable to lower volume from two existing customers.

Revenues from the Synodex segment were \$1.8 million and \$1.0 million for the three months ended September 30, 2022 and 2021, respectively, an increase of \$0.8 million or approximately 80%. The increase was primarily attributable to higher volume from two existing customers.

Revenues from the Agility segment were \$3.8 million and \$3.2 million for the three months ended September 30, 2022 and 2021, respectively, an increase of \$0.6 million or approximately 19%. The increase was primarily attributable to higher volumes from subscriptions to our Agility AI-enabled industry platform and newswire product.

No customer generated 10% or more of the Company's total revenues for the three months ended September 30, 2022. One customer in the DDS segment generated approximately 10% of the Company's total revenues for the three months ended September 30, 2021. Further, revenues from non-U.S. customers accounted for 35% and 46% of the Company's total revenues for the three months ended September 30, 2022 and 2021, respectively.

Direct Operating Costs

Direct operating costs consist of direct and indirect labor costs, occupancy costs, data center hosting fees, cloud services, 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 customers.

Direct operating costs were \$12.4 million and \$10.7 million for the three months ended September 30, 2022 and 2021, respectively, an increase of \$1.7 million or 16%. The cost increase primarily supported our growth initiatives across all business segments. The increase in Direct operating costs includes an increase in direct and indirect labor related costs primarily on account of higher headcount and salary increases of \$1.0 million, an increase in cloud services, content costs, and depreciation and amortization of capitalized developed software of \$0.5 million and severance costs of \$0.4 million, partially offset by a \$0.2 million decrease in other direct operating costs. Direct operating costs as a percentage of total revenues were 67% and 61% for the three-month periods ended September 30, 2022 and 2021. The increase in direct operating costs as a percentage of total revenues was primarily attributable to higher expenditures in all segments, offset in part by increased revenues in the Synodex and Agility segments.

Direct operating costs for the DDS segment were approximately \$8.0 million and \$7.7 million for the three months ended September 30, 2022 and 2021, respectively, an increase of \$0.3 million or 4%. The cost increase primarily supported our growth initiatives. The increase in Direct operating costs includes an increase in severance costs of \$0.4 million, an increase in cloud services, content costs, and depreciation and amortization of capitalized developed software of \$0.1 million, an increase in direct and indirect labor related of \$0.1 million, offset in part by a \$0.1 million reduction due the impact of foreign exchange rates fluctuations and a decrease in other direct operating costs of \$0.2 million. Direct operating costs for the DDS segment as a percentage of DDS segment revenues were 63% and 58% for the three-month periods ended September 30, 2022 and 2021, respectively. The increase in direct operating costs as a percentage of segment revenues was primarily attributable to an increase in direct operating costs and a decrease in revenues.

Direct operating costs for the Synodex segment were \$2.2 million and \$1.2 million for the three months ended September 30, 2022 and 2021, respectively, an increase of \$1.0 million or 83%. The cost increase primarily supported our growth initiatives combined with the timing of new technology roll-out. The increase in Direct operating costs was primarily due to an increase in direct labor costs

primarily on account of higher headcount and salary increases of \$0.8 million, and an increase in depreciation and amortization of capitalized developed software of \$0.2 million. Direct operating costs for the Synodex segment as a percentage of Synodex segment revenues were 122% and 120% for the three-month periods ended September 30, 2022 and 2021, respectively. The increase in direct operating costs as a percentage of segment revenues was due to an increase in direct operating costs offset in part by an increase in revenues.

Direct operating costs for the Agility segment were \$2.2 million and \$1.8 million for the three months ended September 30, 2022 and 2021, respectively, an increase of \$0.4 million or 22%. The cost increase was primarily due to higher amortization of capitalized developed software and content costs of \$0.2 million, an increase in direct and indirect labor related costs primarily on account of higher headcount and salary increases of \$0.1 million and an unfavorable impact of foreign exchange rate fluctuations of \$0.1 million. Direct operating costs for the Agility segment as a percentage of Agility segment revenues were 58% and 56% for the three-month periods ended September 30, 2022 and 2021, respectively. The increase in direct operating costs as a percentage of segment revenues was primarily due to an increase in direct operating costs offset in part by increased revenues from subscriptions to our Agility AI-enabled platform and newswire products.

Selling and Administrative Expenses

Selling and administrative expenses consist of sales, marketing, product research and development and administrative payroll and related costs including commissions, bonuses, and stock-based compensation, marketing costs, new services research and related software development, third-party software, advertising, trade conferences, professional fees and consultant costs, and other administrative overhead costs.

Selling and administrative expenses were \$9.1 million and \$7.3 million for the three months ended September 30, 2022 and 2021, respectively, an increase of \$1.8 million or 25%. The cost increase primarily supported our growth initiatives across all business segments. The selling and administrative cost increase includes payroll related costs for new hires, stock-based compensation, commissions, incentives, bonuses, and recruitment and professional fees of \$1.0 million, marketing activity related cost of \$0.3 million, severance costs of \$0.3 million and an unfavorable impact of foreign exchange rate fluctuations of \$0.2 million. Selling and administrative expenses as a percentage of total revenues were 49% and 42% for the three-month periods ended September 30, 2022 and 2021, respectively. The increase in selling and administrative expenses as a percentage of total revenues was primarily attributable to higher expenditures in all segments, offset in part by increased revenues in the Agility and Synodex segments.

Selling and administrative expenses for the DDS segment were \$4.8 million and \$4.1 million for the three months ended September 30, 2022 and 2021, respectively, an increase of \$0.7 million or 17%. The cost increase primarily supported our growth initiatives. The selling and administrative cost increase includes payroll related costs for new hires, stock-based compensation, commissions, incentives, bonuses, and recruitment fees of \$0.4 million, an increase in professional fees of \$0.2 million, and marketing activity related costs of \$0.1 million. Selling and administrative expenses for the DDS segment as a percentage of DDS revenues were 38% and 31% for the three-month periods ended September 30, 2022 and 2021, respectively. The increase in selling and administrative expenses as a percentage of total revenues was primarily attributable to higher expenditures and decreased revenues.

Selling and administrative expenses for the Synodex segment were \$0.4 million and \$0.3 million for the three months ended September 30, 2022 and 2021, respectively, an increase of \$0.1 million or 33%. The cost increase was primarily attributable to payroll related costs and recruitment fees for new hires \$0.1 million and marketing activity related costs of \$0.1 million to support our growth initiatives. These costs were offset in part by a decrease in professional fees of \$0.1 million. Selling and administrative expenses for the Synodex segment as a percentage of Synodex segment revenues were 22% and 30% for the three-month periods ended September 30, 2022 and 2021, respectively. The decrease in selling and administrative expenses as a percentage of segment revenues was primarily attributable to higher revenues offset in part by higher expenditures.

Selling and administrative expenses for the Agility segment were \$3.9 million and \$2.9 million for the three months ended September 30, 2022 and 2021, respectively, an increase of \$1.0 million or 34%. The cost increase primarily supported our growth initiatives. The selling and administrative costs increase includes payroll related costs for new hires, stock-based compensation, commissions, incentives of \$0.5 million, severance costs of \$0.3 million, an unfavorable impact of foreign exchange rate fluctuations of \$0.2 million, an increase in marketing activity related costs of \$0.1 million, offset in part by a decrease in professional fees of \$0.1 million. Selling and administrative expenses for the Agility segment as a percentage of Agility segment revenues were 103% and 91% for the three-month periods ended September 30, 2022 and 2021, respectively. The increase in selling and administrative expenses as a percentage of segment revenues was primarily due to higher expenditures, offset in part by an increase in revenues.

Income Taxes

We recorded a provision for income taxes of \$0.3 million for the three months ended September 30, 2022 and 2021.

Taxes primarily consist of a provision for foreign taxes recorded in accordance with the local tax regulations by our foreign subsidiaries. Effective income tax rates are disproportionate due to the losses incurred by our U.S. entity and our Canadian subsidiaries, and a valuation allowance recorded on deferred taxes on these entities and tax effects of foreign operations, including foreign exchange gains and losses.

Net Income (Loss)

We incurred a net loss of \$3.3 million during the three months ended September 30, 2022, compared to a net loss of \$0.8 million during the three months ended September 30, 2021. The \$2.5 million change was a result of higher Direct operating costs and Selling and administrative expenses in all segments in the current quarter, offset in part by higher revenues in the Synodex and Agility segments and a favorable impact of foreign currency exchange rates.

Net loss for the DDS segment was \$0.3 million for the three months ended September 30, 2022, compared to a net income of \$1.2 million for the three months ended September 30, 2021. The \$1.5 million change was primarily attributable to a decrease in revenues and an increase in Direct operating costs and Selling and administrative expenses in the current quarter.

Net loss for the Synodex segment was \$0.8 million for the three months ended September 30, 2022, compared to a net loss of \$0.5 million for the three months ended September 30, 2021. The \$0.3 million change was due to higher Direct operating costs and Selling and administrative expenses, offset in part by higher revenues in the current quarter.

Net loss for the Agility segment was \$2.2 million for the three months ended September 30, 2022, compared to net loss of \$1.5 million for the three months ended September 30, 2021. The \$0.7 million change was due to higher Direct operating costs and Selling and administrative expenses, offset in part by higher revenues in the current quarter and a favorable impact of foreign currency exchange rates.

Adjusted EBITDA

Adjusted EBITDA for the three months ended September 30, 2022 was a loss of \$1.2 million compared to an income of \$0.7 million for the three months ended September 30, 2021. The \$1.9 million change in Adjusted EBITDA was due to a higher net loss reduced in part by higher stock-based compensation and depreciation and amortization.

Adjusted EBITDA for the DDS segment was \$0.9 million and \$2.0 million for the three months ended September 30, 2022 and 2021, respectively. The \$1.1 million change in Adjusted EBITDA was due to lower net income for the DDS segment, offset in part by higher stock-based compensation.

Adjusted EBITDA for the Synodex segment was a loss of \$0.6 million and \$0.5 million for the three months ended September 30, 2022 and 2021, respectively. The \$0.1 million change was due to a higher net loss for the Synodex segment, offset in part by higher depreciation and amortization.

Adjusted EBITDA for the Agility segment was a loss of \$1.6 million and \$0.8 million for the three months ended September 30, 2022 and 2021, respectively. The \$0.8 million change in Adjusted EBITDA was due to a higher net loss for the Agility segment, offset in part by higher depreciation and amortization.

Nine Months Ended September 30, 2022 and 2021

Revenues

Total revenues were \$59.6 million and \$50.5 million for the nine months ended September 30, 2022 and 2021, respectively, an increase of \$9.1 million or approximately 18%.

Revenues from the DDS segment were \$42.9 million and \$38.0 million for the nine months ended September 30, 2022 and 2021, respectively, an increase of \$4.9 million or approximately 13%. The increase was primarily attributable to higher volume from an existing customer.

Revenues from the Synodex segment were \$5.4 million and \$2.9 million for the nine months ended September 30, 2022 and 2021, respectively, an increase of \$2.5 million or approximately 86%. The increase was primarily attributable to higher volume from two existing customers.

Revenues from the Agility segment were \$11.3 million and \$9.6 million for the nine months ended September 30, 2022 and 2021, respectively, an increase of \$1.7 million or approximately 18%. The increase was primarily attributable to higher volumes from subscriptions to our Agility AI-enabled industry platform and newswire product.

One customer in the DDS segment generated approximately 13% and 11% of the Company's total revenues for the nine months ended September 30, 2022 and 2021, respectively. No other customer accounted for 10% or more of total revenues during these periods. Further, revenues from non-U.S. customers accounted for 37% and 47% of the Company's total revenues for the nine months ended September 30, 2022 and 2021, respectively.

Direct Operating Costs

Direct operating costs consist of direct and indirect labor costs, occupancy costs, data center hosting fees, cloud services, 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 customers.

Direct operating costs were \$38.8 million and \$31.2 million for the nine months ended September 30, 2022 and 2021, respectively, an increase of \$7.6 million or 24%. The cost increase primarily supported our growth initiatives across all business segments. The increase in Direct operating costs includes direct and indirect labor related costs primarily on account of higher headcount and salary increases of \$6.2 million; an increase in cloud services, occupancy, content costs, depreciation and amortization of capitalized developed software of \$1.2 million; severance cost of \$0.4 million, and an increase in other direct operating costs of \$0.5 million; offset in part by a \$0.7 million reduction due the impact of foreign exchange rates fluctuations. Direct operating costs as a percentage of total revenues were 65% and 62% for the nine-month periods ended September 30, 2022 and 2021. The increase in direct operating costs as a percentage of total revenues was primarily attributable to higher expenditures in all segments, offset in part by increased revenues in all segments.

Direct operating costs for the DDS segment were approximately \$26.3 million and \$23.1 million for the nine months ended September 30, 2022 and 2021, respectively, an increase of \$3.2 million or 14%. The cost increase primarily supported our growth initiatives. The increase in Direct operating costs includes direct and indirect labor related costs primarily on account of higher headcount and salary increases of \$3.1 million; severance cost of \$0.4 million and an increase in cloud services, occupancy, and depreciation and amortization of capitalized developed software of \$0.2 million, and an increase in other direct operating costs of \$0.4 million; offset in part by \$0.9 million due the impact of foreign exchange rates fluctuations. Direct operating costs for the DDS segment as percentage of DDS segment revenues was 61% for each of the nine-month periods ended September 30, 2022 and 2021, respectively. There was no change in direct operating costs as a percentage of segment revenues as the increase in direct operating costs was offset by an increase in revenues.

Direct operating costs for the Synodex segment was \$6.2 million and \$2.7 million for the nine months ended September 30, 2022 and 2021, respectively, an increase of \$3.5 million or 130%. The cost increase primarily supported our growth initiatives combined with the timing of new technology roll-out. The increase in Direct operating costs was primarily due to an increase in direct labor costs on account of higher headcount and salary increases of \$2.9 million and an increase in depreciation and amortization of capitalized developed software of \$0.6 million. Direct operating costs for the Synodex segment as a percentage of Synodex segment revenues were 115% and 93% for the nine-month periods ended September 30, 2022 and 2021, respectively. The increase in direct operating costs as a percentage of segment revenues was due to an increase in direct operating costs offset in part by an increase in revenues.

Direct operating costs for the Agility segment were \$6.3 million and \$5.4 million for the nine months ended September 30, 2022 and 2021, respectively, an increase of \$0.9 million or 17%. The cost increase was primarily due to higher amortization of capitalized developed software and content costs of \$0.4 million higher labor related costs of \$0.2 million, an unfavorable impact of foreign exchange rate fluctuations of \$0.2 million and an increase in other direct operating costs of \$0.1 million. Direct operating costs for the Agility segment as a percentage of Agility segment revenues was 56% for each of the nine-month periods ended September 30, 2022 and 2021, respectively. There was no change in direct operating costs as percentage of segment revenues as the increase in direct operating costs were offset by an increase in revenues.

Selling and Administrative Expenses

Selling and administrative expenses consist of sales, marketing, product research and development and administrative payroll and related costs including commissions, bonuses, and stock-based compensation, marketing costs, new services research and related software development, third-party software, advertising, trade conferences, professional fees and consultant costs, and other administrative overhead costs.

Selling and administrative expenses were \$29.6 million and \$19.8 million for the nine months ended September 30, 2022 and 2021, respectively, an increase of \$9.8 million or 49%. The cost increase primarily supported our growth initiatives across all business segments. The selling and administrative cost increase includes payroll related costs for new hires, stock-based compensation, commissions, incentives, and bonuses of \$5.7 million, marketing activity related costs of \$2.3 million, recruitment and professional fees of \$1.1 million, severance costs of \$0.3 million, an unfavorable impact of foreign exchange rate fluctuations of \$0.2 million and a \$0.2 million increase in other selling and administrative costs. Selling and administrative expenses as a percentage of total revenues were 50% and 39% for the nine-month periods ended September 30, 2022 and 2021, respectively. The increase in selling and administrative expenses as a percentage of total revenues was primarily attributable to higher expenditures in all segments, offset in part by increased revenues in all segments.

Selling and administrative expenses for the DDS segment were \$15.6 million and \$11.8 million for the nine months ended September 30, 2022 and 2021, respectively, an increase of \$3.8 million or 32%. The cost increase primarily supported our growth initiatives. The selling and administrative cost increase includes payroll related costs for new hires, stock-based compensation, commissions, incentives, and bonuses of \$2.1 million, marketing activity related costs of \$1.0 million, recruitment and professional fees of \$0.7 million. Selling and administrative expenses for the DDS segment as a percentage of DDS revenues were 36% and 31% for the nine-month periods ended September 30, 2022 and 2021, respectively. The increase in selling and administrative expenses as a percentage of total revenues was primarily attributable to higher expenditures offset in part by increased revenues.

Selling and administrative expenses for the Synodex segment were \$1.5 million and \$0.9 million for the nine months ended September 30, 2022 and 2021, respectively, an increase of \$0.6 million or 67%. The cost increase was primarily attributable to payroll related costs and recruitment fees for new hires and other professional fees of \$0.6 million to support our growth initiatives. Selling and administrative expenses for the Synodex segment as a percentage of Synodex segment revenues were 28% and 31% for the nine-month periods ended September 30, 2022 and 2021, respectively. The decrease in selling and administrative expenses as a percentage of segment revenues was primarily attributable to lower expenditures offset in part by higher revenues.

Selling and administrative expenses for the Agility segment were \$12.5 million and \$7.1 million for the nine months ended September 30, 2022 and 2021, respectively, an increase of \$5.4 million or 76%. The cost increase primarily supported our growth initiatives. The selling and administrative costs increase includes payroll related costs for new hires, stock-based compensation, commissions, incentives of \$3.6 million, marketing activity related costs of \$1.3 million, severance costs of \$0.3 million, an unfavorable impact of foreign exchange rate fluctuations of \$0.2 million and a \$0.2 million increase in other selling and administrative costs; partly offset by decreases in recruitment and professional fees of \$0.2 million. Selling and administrative expenses for the Agility segment as a percentage of Agility segment revenues were 111% and 74% for the nine-month periods ended September 30, 2022 and 2021, respectively. The increase in selling and administrative expenses as a percentage of segment revenues was primarily due to higher expenditures, offset in part by an increase in revenues.

Gain on PPP Loan forgiveness

On May 4, 2020, the Company received loan proceeds of \$579,700 under the Paycheck Protection Program (“PPP”) which was established as part of the Coronavirus Aid, Relief and Economic Security Act of 2020, as amended. On May 21, 2021, the Company’s loan forgiveness application was approved for 100% of the amount loaned to the Company by the Small Business Administration (“SBA”).

Income Taxes

We recorded a provision for income taxes of \$1.3 million for the nine months ended September 30, 2022, as compared to \$0.6 million for the nine months ended September 30, 2021.

Taxes primarily consist of a provision for foreign taxes recorded in accordance with the local tax regulations by our foreign subsidiaries. Effective income tax rates are disproportionate due to the losses incurred by our U.S. entity and our Canadian subsidiaries, and a valuation allowance recorded on deferred taxes on these entities and tax effects of foreign operations, including foreign exchange gains and losses.

Net Income (Loss)

We incurred a net loss of \$10.0 million and \$0.5 million during the nine months ended September 30, 2022 and 2021. The \$9.5 million change was a result of higher Direct operating and Selling and administrative costs in all segments in the current nine-month period, offset in part by higher revenues in all segments and a favorable impact of foreign currency exchange rates.

Net loss for the DDS segment was \$0.2 million for the nine months ended September 30, 2022, compared to a net income of \$3.1 million for the nine months ended September 30, 2021. The change of \$3.3 million was primarily attributable to an increase in Direct operating costs and Selling and administrative expenses, offset in part by an increase in revenues in the current nine-month period and a favorable impact of foreign currency exchange rates.

Net loss for the Synodex segment was \$2.2 million for the nine months ended September 30, 2022, compared to a net loss of \$0.7 million for the nine months ended September 30, 2021. The \$1.5 million change was due to higher Direct operating costs and Selling and administrative expenses, offset in part by higher revenues in the current nine-month period.

Net loss for the Agility segment was \$7.6 million for the nine months ended September 30, 2022, compared to net loss of \$2.9 million for the nine months ended September 30, 2021. The \$4.7 million change was due to higher Direct operating costs and Selling and administrative expenses, offset in part by higher revenues in the current nine-month period and a favorable impact of foreign currency exchange rates.

Adjusted EBITDA

Adjusted EBITDA for the nine months ended September 30, 2022 was a loss of \$3.5 million compared to an income of \$2.6 million for the nine months ended September 30, 2021. The \$6.1 million change in Adjusted EBITDA was due to a higher net loss reduced in part by higher provisions for income taxes, stock-based compensation, depreciation and amortization.

Adjusted EBITDA for the DDS segment was \$3.4 million and \$4.4 million for the nine months ended September 30, 2022 and 2021, respectively. The \$1.0 million change in Adjusted EBITDA was due to lower net income in the DDS segment, offset in part by higher stock-based compensation and provision for income taxes.

Adjusted EBITDA for the Synodex segment was a loss \$1.7 million and \$0.7 million for the nine months ended September 30, 2022 and 2021, respectively. The \$1.0 million change in Adjusted EBITDA was due to a higher net loss in the Synodex segment, offset in part by higher depreciation and amortization.

Adjusted EBITDA for the Agility segment was a loss of \$5.2 million and \$1.1 million for the nine months ended September 30, 2022 and 2021, respectively. The \$4.1 million change in Adjusted EBITDA was due to a higher net loss in the Agility segment, offset in part by higher depreciation and amortization.

Adjusted EBITDA is a non-GAAP financial measure. For a reconciliation of Adjusted EBITDA to the most directly comparable GAAP measure, please see the description of “Non-GAAP Financial Measures – Adjusted EBITDA” above.

Liquidity and Capital Resources

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

	September 30, 2022	December 31, 2021
Cash and cash equivalents	\$ 10,729	\$ 18,902
Working capital	2,992	12,658

At September 30, 2022, we had cash and cash equivalents of \$10.7 million, of which \$4.9 million was held by our foreign subsidiaries, and \$5.8 million was held in the United States. Despite our ability under existing tax law to repatriate funds from overseas after paying the toll charge, it is our intent as of September 30, 2022, to indefinitely reinvest the overseas funds in our foreign subsidiaries on account of the withholding tax that we would have to incur on the actual remittances.

We have used, and plan to use, our cash and cash equivalents for (i) capital investments; (ii) the expansion of our operations; (iii) technology innovation; (iv) hiring of sales personnel; (v) product management and strategic marketing; (vi) general corporate purposes, including working capital; and (vii) possible business acquisitions. We had working capital of approximately \$3.0 million and

\$12.7 million as of September 30, 2022 and December 31, 2021, respectively. The decrease in working capital was due to a decrease in cash used to fund our growth initiatives.

We did not have any material commitments for capital expenditures as of September 30, 2022.

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 at least the next 12 months from the date of this Report. However, we have no bank facilities or lines of credit. A decrease in our cash and cash equivalents from operating losses, capital expenditures, adverse legal decisions, acquisitions or otherwise could materially and adversely affect the Company.

Cash Flows

Net Cash Used in Operating Activities

Cash used in our operating activities for the nine months ended September 30, 2022 was \$1.7 million primarily on account of the following factors: our net loss for the period of \$10.0 million; a source of \$6.1 million from non-cash expenses consisting of depreciation and amortization of \$2.8 million, stock-based compensation of \$2.4 million, pension cost of \$0.6 million, deferred tax provisions of \$0.2 million and a loss of \$0.1 million from the termination of one of our operating lease contracts. Net changes from working capital accounts contributed an additional \$2.2 million in working capital, mainly from a decrease in accounts receivable of \$1.7 million, a decrease in other assets of \$0.7 million offset in part by a \$0.2 million net decrease in other working capital accounts. Refer to the condensed consolidated statements of cash flows for further details.

Cash provided by our operating activities for the nine months ended September 30, 2021 was \$5.6 million primarily on account of the following factors: our net loss for the period of \$0.6 million; a source of \$2.9 million from non-cash expenses consisting of depreciation and amortization of \$2.1 million, stock-based compensation of \$1.1 million and pension cost of \$0.3 million, offset in part by a gain on loan forgiveness of \$0.6 million. Net changes from working capital accounts further contributed an additional source of \$3.3 million. Refer to the condensed consolidated statements of cash flows for further details.

Net Cash Used in Investing Activities

For the nine months ended September 30, 2022 and 2021, cash used in our investing activities was \$5.3 million and \$3.0 million, respectively. These capital expenditures were principally for the purchase of technology equipment including servers, network infrastructure and workstations, and expenditures for capitalized developed software

During the next 12 months, it is anticipated that capital expenditures for ongoing technology, equipment and infrastructure upgrades will approximate to \$6.4 million, a portion of which we may finance.

Net Cash Used in Financing Activities

Cash used in financing activities for the nine months ended September 30, 2022 was \$0.2 million primarily for payments of long-term obligations of \$0.5 million, reduced in part by proceeds from stock option exercises of \$0.3 million.

Cash provided by financing activities for the nine months ended September 30, 2021 was \$0.8 million from proceeds from stock option exercises of \$2.2 million. Cash paid for withholding taxes on net settlement exercises of stock options for the nine months ended September 30, 2021 was \$0.8 million. Payments of long-term obligations were \$0.6 million for the nine months ended September 30, 2021.

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 U.S. GAAP. The preparation of the condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition, allowance for doubtful accounts and billing adjustments, long-lived assets, intangible assets, goodwill, valuation of deferred tax assets, value of securities underlying stock-based compensation, litigation accruals, pension benefits, purchase price allocation of Agility, valuation of derivative instruments and estimated accruals for various tax exposures. We base our estimates on historical and anticipated results and trends and on various other assumptions that we believe are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and

liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from our estimates and could have a significant adverse effect on our condensed consolidated results of operations and financial position.

The significant accounting policies used in preparing our condensed consolidated financial statements contained in this Report are the same as those described in the Company's Annual Report on Form 10-K, unless otherwise noted, and we believe those critical accounting policies affect our more significant estimates and judgments in the preparation of our condensed consolidated financial statements.

Off-Balance Sheet Arrangements

None.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable for smaller reporting companies.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act), that are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision, and with the participation of our management, including our principal executive officer and our principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures, as defined under Exchange Act Rule 13a-15(e), as of September 30, 2022. Based on this evaluation, our principal executive officer and our principal financial officer concluded that, as of September 30, 2022, our disclosure controls and procedures were effective.

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act) during the nine months ended September 30, 2022 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

See Note 4, Commitments and Contingencies of the Notes to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, which is incorporated by reference herein.

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, 2021.

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

There were no sales of unregistered equity securities or repurchases of equity securities during the three months ended September 30, 2022.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
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	The following materials from Innodata Inc.'s Quarterly Report on Form 10-Q for the three months ended September 30, 2022, formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets as of September 30, 2022 (unaudited) and December 31, 2021; (ii) Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and nine months ended September 30, 2022 and 2021; (iii) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2022 and 2021; (iv) Condensed Consolidated Statements of Stockholders' Equity for the three and nine months ended September 30, 2022 and 2021; (v) Notes to Condensed Consolidated Financial Statements (unaudited).
104	Cover Page Interactive Data File, formatted in iXBRL and contained in Exhibit 101.

* Filed herewith.

** In accordance with SEC Release 33-8238, Exhibits 32.1 and 32.2 are being furnished and not filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INNODATA INC.

Date: November 10, 2022

/s/ Jack S. Abuhoff
Jack S. Abuhoff
Chief Executive Officer and President

Date: November 10, 2022

/s/ Marissa B. Espineli
Marissa B. Espineli
Interim Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jack S. Abuhoff, certify that:

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

Dated: November 10, 2022

/s/ Jack S. Abuhoff

Jack S. Abuhoff
Chief Executive
Officer and President

**CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Marissa B. Espineli, certify that:

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

Dated: November 10, 2022

/s/ Marissa B. Espineli
Marissa B. Espineli
Interim Chief Financial
Officer

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

In connection with the Quarterly Report of Innodata Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jack S. Abuhoff, Chief Executive Officer and President of the Company, hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

/s/ Jack S. Abuhoff
Jack S. Abuhoff
Chief Executive Officer and
President
November 10, 2022

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

In connection with the Quarterly Report of Innodata Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Marissa B. Espineli, Interim Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

/s/ Marissa B. Espineli
Marissa B. Espineli
Interim Chief Financial
Officer
November 10, 2022
