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, 2026

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	**13-3475943**
(State or other jurisdiction of incorporation or organization)	(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 October 30, 2026 was 34,412,692.

INNODATA INC. AND SUBSIDIARIES
For the Quarter Ended September 30, 2026

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

INNODATA INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands)

	September 30, 2026	December 31, 2025
ASSETS		
Current assets:		
Cash and cash equivalents	$ 163,967	$ 82,230
Accounts receivable, net of allowance for credit losses	44,399	46,510
Prepaid expenses and other current assets	24,730	6,654
Total current assets	233,096	135,394
Property and equipment, net	8,367	7,966
Right-of-use-asset, net	3,281	4,094
Other assets	3,002	1,648
Deferred income taxes, net	5,404	3,429
Intangibles, net	14,356	13,983
Goodwill	2,043	2,079
Total assets	$ 269,549	$ 168,593
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 6,156	$ 9,615
Advances from customers	8,607	1,812
Accrued expenses and other liabilities	32,999	7,800
Accrued salaries, wages and related benefits	17,567	16,480
Deferred revenue	7,887	7,493
Income and other taxes	5,045	4,471
Long-term obligations - current portion	2,370	1,659
Operating lease liability - current portion	1,333	1,202
Total current liabilities	81,964	50,532
Deferred income taxes, net	50	146
Long-term obligations, net of current portion	8,890	7,625
Operating lease liability, net of current portion	2,195	3,228
Total liabilities	93,099	61,531
Commitments and contingencies	-	-
STOCKHOLDERS' EQUITY:		
Serial preferred stock; 4,998 shares authorized, none issued and outstanding	-	-
Common stock, $0.01 par value; 75,000 shares authorized; 37,594 shares issued and 34,410 shares outstanding at September 30, 2026 and 35,521 shares issued and 32,337 shares outstanding at December 31, 2025	376	355
Additional paid-in capital	94,743	64,213
Retained earnings	90,797	51,158
Accumulated other comprehensive loss	(2,918)	(2,116)
	182,998	113,610
Less: treasury stock, 3,184 shares at September 30, 2026 and December 31, 2025 , at cost	(6,465)	(6,465)
Stockholders' equity Innodata Inc. and subsidiaries	176,533	107,145
Non-controlling interests	(83)	(83)
Total Stockholders' equity	176,450	107,062
Total liabilities and stockholders' equity	$ 269,549	$ 168,593

See notes to Condensed Consolidated Financial Statements.

INNODATA INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended September 30,	
	2026	**2025**
Revenues	$ 95,618	$ 62,550
Direct operating costs	60,081	37,046
Selling and administrative expenses	26,882	13,745
Interest income, net	(1,334)	(420)
	85,629	50,371
Income before provision for income taxes	9,989	12,179
Provision for income taxes	(340)	3,837
Consolidated net income	10,329	8,342
Income attributable to non-controlling interests	-	-
Net Income attributable to Innodata Inc. and Subsidiaries	$ 10,329	$ 8,342
Income per share attributable to Innodata Inc. and Subsidiaries:		
Basic	$ 0.30	$ 0.26
Diluted	$ 0.29	$ 0.24
Weighted average shares outstanding:		
Basic	34,389	31,848
Diluted	35,622	35,266
Comprehensive Income:		
Consolidated net income	$ 10,329	$ 8,342
Pension liability adjustment, net of taxes	3	(1)
Foreign currency translation adjustment	203	(178)
Change in fair value of derivatives, net of taxes	(224)	(315)
Other comprehensive income (loss)	(18)	(494)
Total comprehensive income	10,311	7,848
Comprehensive income attributed to non-controlling interest	-	-
Comprehensive income attributable to Innodata Inc. and Subsidiaries	$ 10,311	$ 7,848

See notes to Condensed Consolidated Financial Statements.

INNODATA INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)
(In thousands, except per share amounts)

	Nine Months Ended September 30,	
	2026	**2025**
Revenues	$ 277,856	$ 179,287
Direct operating costs	160,067	107,508
Selling and administrative expenses	76,374	42,837
Interest income, net	(3,471)	(1,124)
	232,970	149,221
Income before provision for income taxes	44,886	30,066
Provision for income taxes	5,247	6,718
Consolidated net income	39,639	23,348
Income attributable to non-controlling interests	-	-
Net Income attributable to Innodata Inc. and Subsidiaries	$ 39,639	$ 23,348
Income per share attributable to Innodata Inc. and Subsidiaries:		
Basic	$ 1.18	$ 0.74
Diluted	$ 1.13	$ 0.67
Weighted average shares outstanding:		
Basic	33,497	31,690
Diluted	35,119	34,996
Comprehensive Income:		
Consolidated net income	$ 39,639	$ 23,348
Pension liability adjustment, net of taxes	9	(37)
Foreign currency translation adjustment	(249)	513
Change in fair value of derivatives, net of taxes	(562)	207
Other comprehensive income (loss)	(802)	683
Total comprehensive income	38,837	24,031
Comprehensive income attributed to non-controlling interest	-	-
Comprehensive income attributable to Innodata Inc. and Subsidiaries	$ 38,837	$ 24,031

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,	
	2026	**2025**
Cash flows from operating activities:		
Consolidated net income	$ 39,639	$ 23,348
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Stock-based compensation	19,918	8,309
Depreciation and amortization	6,730	4,913
Deferred income taxes	(2,029)	3,201
Pension cost	1,181	984
Changes in operating assets and liabilities:		
Accounts receivable	1,945	(11,167)
Prepaid expenses and other current assets	(17,284)	(299)
Other assets	421	(248)
Accounts payable, accrued expenses and other liabilities	21,357	1,272
Advances from customers	6,795	5,676
Deferred revenue	394	(985)
Accrued salaries, wages and related benefits	1,103	1,397
Income and other taxes	603	(2,530)
Pension benefit payments	(289)	(139)
Net cash provided by operating activities	80,484	33,732
Cash flows from investing activities:		
Capital expenditures	(7,714)	(8,286)
Net cash used in investing activities	(7,714)	(8,286)
Cash flows from financing activities:		
Proceeds from exercise of stock options	10,952	1,548
Withholding taxes on net settlement of restricted stock units	(319)	(37)
Payment of long-term obligations	(849)	(230)
Net cash provided by financing activities	9,784	1,281
Effect of exchange rate changes on cash and cash equivalents	(817)	235
Net increase in cash and cash equivalents	81,737	26,962
Cash and cash equivalents, beginning of period	82,230	46,897
Cash and cash equivalents, end of period	$ 163,967	$ 73,859
Supplemental disclosures of cash flow information:		
Deferred liability of software licenses acquired	$ 2,527	$ -
Shares withheld for withholding taxes on net settlement for restricted stock	$ 319	$ 37
Cash paid for income taxes	$ 14,989	$ 3,614

See notes to Condensed Consolidated Financial Statements.

INNODATA INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2026 AND 2025
(Unaudited)
(In thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Non-Controlling Interest	Total
	Shares	Amount				Shares	Amount		
January 1, 2026	35,521	$ 355	$ 64,213	$ 51,158	$ (2,116)	(3,184)	$ (6,465)	$ (83)	$ 107,062
Net income attributable to Innodata Inc. and subsidiaries	-	-	-	14,898	-	-	-	-	14,898
Stock-based compensation	-	-	5,908	-	-	-	-	-	5,908
Stock option exercises	296	3	954	-	-	-	-	-	957
Issuance of restricted stock units	22	-	-	-	-	-	-	-	-
Shares withheld for restricted stock unit net settlement	-	-	(50)	-	-	-	-	-	(50)
Pension liability adjustments, net of taxes	-	-	-	-	3	-	-	-	3
Foreign currency translation adjustment	-	-	-	-	(188)	-	-	-	(188)
Change in fair value of derivatives, net of taxes	-	-	-	-	(415)	-	-	-	(415)
March 31, 2026	35,839	$ 358	$ 71,025	$ 66,056	$ (2,716)	(3,184)	$ (6,465)	$ (83)	$ 128,175
Net income attributable to Innodata Inc. and subsidiaries	-	-	-	14,412	-	-	-	-	14,412
Stock-based compensation	-	-	7,196	-	-	-	-	-	7,196
Stock option exercises	1,713	18	9,929	-	-	-	-	-	9,947
Issuance of restricted stock units	8	-	-	-	-	-	-	-	-
Shares withheld for restricted stock unit net settlement	-	-	(12)	-	-	-	-	-	(12)
Pension liability adjustments, net of taxes	-	-	-	-	3	-	-	-	3
Foreign currency translation adjustment	-	-	-	-	(264)	-	-	-	(264)
Change in fair value of derivatives, net of taxes	-	-	-	-	77	-	-	-	77
June 30 , 2026	37,560	$ 376	$ 88,138	$ 80,468	$ (2,900)	(3,184)	$ (6,465)	$ (83)	$ 159,534
Net income attributable to Innodata Inc. and subsidiaries	-	-	-	10,329	-	-	-	-	10,329
Stock-based compensation	-	-	6,814	-	-	-	-	-	6,814
Stock option exercises	26	-	48	-	-	-	-	-	48
Issuance of restricted stock units	8	-	-	-	-	-	-	-	-
Shares withheld for restricted stock unit net settlement	-	-	(257)	-	-	-	-	-	(257)
Pension liability adjustments, net of taxes	-	-	-	-	3	-	-	-	3
Foreign currency translation adjustment	-	-	-	-	203	-	-	-	203
Change in fair value of derivatives, net of taxes	-	-	-	-	(224)	-	-	-	(224)
September 30, 2026	37,594	$ 376	$ 94,743	$ 90,797	$ (2,918)	(3,184)	$ (6,465)	$ (83)	$ 176,450
January 1, 2025	34,484	$ 345	$ 53,085	$ 18,977	$ (2,470)	(3,184)	$ (6,465)	$ (83)	$ 63,389
Net income attributable to Innodata Inc. and subsidiaries	-	-	-	7,787	-	-	-	-	7,787
Stock-based compensation	-	-	2,881	-	-	-	-	-	2,881
Stock option exercises	261	2	961	-	-	-	-	-	963
Issuance of restricted stock units	184	2	(2)	-	-	-	-	-	-
Pension liability adjustments, net of taxes	-	-	-	-	(1)	-	-	-	(1)
Foreign currency translation adjustment	-	-	-	-	109	-	-	-	109
Change in fair value of derivatives, net of taxes	-	-	-	-	274	-	-	-	274
March 31, 2025	34,929	$ 349	$ 56,925	$ 26,764	$ (2,088)	(3,184)	$ (6,465)	$ (83)	$ 75,402
Net income attributable to Innodata Inc. and subsidiaries	-	-	-	7,219	-	-	-	-	7,219
Stock-based compensation	-	-	2,721	-	-	-	-	-	2,721
Stock option exercises	92	1	504	-	-	-	-	-	505
Issuance of restricted stock units	8	-	-	-	-	-	-	-	-
Pension liability adjustments, net of taxes	-	-	-	-	(35)	-	-	-	(35)
Foreign currency translation adjustment	-	-	-	-	582	-	-	-	582
Change in fair value of derivatives, net of taxes	-	-	-	-	248	-	-	-	248
June 30 , 2025	35,029	$ 350	$ 60,150	$ 33,983	$ (1,293)	(3,184)	$ (6,465)	$ (83)	$ 86,642
Net income attributable to Innodata Inc. and subsidiaries	-	-	-	8,342	-	-	-	-	8,342
Stock-based compensation	-	-	2,707	-	-	-	-	-	2,707
Stock option exercises	13	1	79	-	-	-	-	-	80
Issuance of restricted stock units	1	-	-	-	-	-	-	-	-
Shares withheld for restricted stock unit net settlement	-	-	(37)	-	-	-	-	-	(37)
Pension liability adjustments, net of taxes	-	-	-	-	(1)	-	-	-	(1)
Foreign currency translation adjustment	-	-	-	-	(178)	-	-	-	(178)
Change in fair value of derivatives, net of taxes	-	-	-	-	(315)	-	-	-	(315)
September 30, 2025	35,043	$ 351	$ 62,899	$ 42,325	$ (1,787)	(3,184)	$ (6,465)	$ (83)	$ 97,240

See notes to Condensed Consolidated Financial Statements.

INNODATA INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(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, 2026 and December 31, 2025, the results of its operations and comprehensive income for the three and nine months ended September 30, 2026 and 2025, cash flows for the nine months ended September 30, 2026 and 2025, and stockholders' equity for the three and nine months ended September 30, 2026 and 2025. 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, 2025. Unless otherwise noted, the accounting policies used in preparing these condensed consolidated financial statements are the same as those described in the notes to the consolidated financial statements for the year ended December 31, 2025.

Principles of Consolidation - The condensed consolidated financial statements include the accounts of Innodata Inc. and its wholly owned subsidiaries. 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. Actual results could differ from those estimates. Significant estimates include those related to the allowance for credit losses and billing adjustments, useful life of property and equipment, right-of-use-assets, intangible assets, impairment of goodwill and intangible assets, valuation of deferred tax assets and income tax provision, valuation of stock-based compensation, pension benefit plan assumptions, litigation accruals and estimated accruals for various tax exposures.

Cash Equivalents - For financial statement purposes, the Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents include investments in U.S. Treasury money market instruments, U.S. Treasury bills and certificates of deposit that are highly liquid, readily convertible to cash, and not subject to significant risk of change in value. These funds are redeemable on demand and are used by the Company for short-term liquidity and cash management needs.

Concentration of Credit Risk - The Company maintains its cash with highly rated financial institutions, located in the United States and in foreign locations where the Company has its operations. At September 30, 2026, the Company had cash and cash equivalents of $164.0 million, of which $36.3 million was held by its foreign subsidiaries and $127.7 million was held in the United States. To the extent that such cash exceeds the maximum insurance levels, the Company is uninsured. The Company has not experienced any losses in such accounts.

Accounts Receivable - Accounts receivable is generally recorded at the invoiced amounts, net of an allowance for expected credit losses, allowance for billing adjustments and volume discounts. The Company records billing adjustments relating to quality issues on delivered services, service penalties and price adjustments that may arise in the ordinary course of business. The adjustments for the allowance for billing adjustments and volume discounts are recorded as a reduction in revenues.

INNODATA INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The Company establishes credit terms for new customers based upon management's review of their credit information and project terms, and performs ongoing credit evaluations of its customers, adjusting credit terms when management believes appropriate based upon payment history and an assessment of the customer's current creditworthiness.

The Company records an allowance for credit losses for estimated losses resulting from the failure of its customers to make the required payments. The allowance for credit losses is based on a review of specifically identified accounts and an overall aging analysis applied to accounts pooled based on similar risk characteristics. Judgments are made with respect to the collectability of accounts receivable within each pool based on historical experience, current payment practices, and current economic trends based on the Company's expectations over the expected life of the receivables, generally ninety days or less. Actual credit losses could differ from those estimates.

Revenue Recognition - The Company recognizes revenue in accordance with Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, when control of promised services or goods is transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services or goods.

The Company's contracts with customers may include multiple performance obligations. At contract inception, the Company evaluates the promised goods and services to identify each performance obligation and determines whether each is distinct. If a promised good or service is not distinct, it is combined with other promised goods or services until a distinct performance obligation is identified. For contracts with multiple distinct performance obligations, the Company allocates the transaction price to each performance obligation based on its relative standalone selling price, which is determined using observable prices when available or estimated using appropriate valuation techniques.

The Company generates revenue from AI-enabled data services, digital transformation solutions, platform-based offerings, and related services. Revenue is recognized either over time or at a point in time, depending on the nature of the performance obligation and the manner in which control is transferred to the customer.

Revenue is primarily recognized over time as the Company's performance creates or enhances an asset that the customer controls, or as the customer simultaneously receives and consumes the benefits of the Company's performance. For time-and-materials arrangements, revenue is recognized based on labor hours incurred at contractually agreed rates. For output- or volume-based arrangements, revenue is recognized based on units delivered or transactions processed in the period in which the services are performed. For fixed-fee arrangements, revenue is recognized over time using an appropriate measure of progress, such as costs incurred, labor hours, or achievement of contractual milestones, depending on which method best depicts the transfer of control of the services to the customer.

Revenue from subscription-based and platform services is recognized ratably over the contractual service period as the customer receives continuous access to the Company's platform or services and simultaneously consumes the benefits provided.

For certain transactional or project-based arrangements, revenue may be recognized at a point in time when control of the promised service is transferred to the customer, which may occur upon completion of the service or upon customer acceptance, if applicable.

The Company may also enter into arrangements to resell third-party goods or services. In such arrangements, the Company evaluates whether it acts as a principal or an agent. The Company recognizes revenue on a gross basis when it controls the specified good or service before it is transferred to the customer, including when the Company is primarily responsible for fulfillment, has discretion in establishing pricing, and bears credit risk. If the Company does not control the specified good or service before transfer, it acts as an agent and recognizes revenue on a net basis in the amount of any fee or commission.

INNODATA INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

A contract with a customer exists when the parties have approved the arrangement, each party's rights and payment terms are identifiable, the arrangement has commercial substance, and collection of substantially all consideration is probable. The Company evaluates variable consideration, including performance-based fees, usage-based fees, and penalties, at contract inception and includes such amounts in the transaction price only to the extent that it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

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. Included in prepaid expenses and other current assets on the accompanying condensed consolidated balance sheets are contract acquisition costs amounting to $1.1 million and $0.8 million as of September 30, 2026 and December 31, 2025, respectively.

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 is included under Accounts receivable.

Foreign Currency Translation - The Company determines the functional currency of each subsidiary based on the currency of the primary economic environment in which the subsidiary operates, and as such, the functional currency of the Company's subsidiaries in the Philippines, India, Sri Lanka, Israel, Hong Kong, and one of the Company's subsidiaries in each of the United Kingdom and Canada is the U.S. dollar. Transactions denominated in Philippine pesos, Indian and Sri Lankan rupees, Israeli shekels, United Kingdom Pound Sterling and Canadian 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, 2026 and December 31, 2025 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. Included in direct operating costs were foreign exchange (gains) losses resulting from such transactions of approximately $(0.2) million and $(0.3) million for the three months ended September 30, 2026 and 2025, respectively and $(0.8) million and $0.1 million for the nine months ended September 30, 2026 and 2025, respectively.

For certain foreign subsidiaries, the local currency is the functional currency because their operations are relatively self-contained and integrated within their local economic environments and they primarily generate and expend local-currency cash flows. The functional currency for the Company's subsidiary in Germany is the Euro. The functional currencies for one of the Company's subsidiaries in each of the United Kingdom and Canada are the Pound Sterling and the Canadian dollar, respectively. The financial statements of these subsidiaries are prepared in their 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 income or 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 income (loss).

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 income (loss). When the amounts recorded in other comprehensive income (loss) are reclassified to earnings, they are included as part of direct operating costs. For derivative instruments that are not designated as hedges, any change in fair value is recorded directly in earnings as part of direct operating costs.

INNODATA INC. AND SUBSIDIARIES
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(Unaudited)

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 generally ranges from two to ten years. All other research and maintenance costs are expensed as incurred. Capitalized developed software in progress were $3.7 million and $4.2 million as of September 30, 2026 and December 31, 2025, respectively. The cumulative completed capitalized developed software was $28.8 million and $23.1 million as of September 30, 2026 and December 31, 2025, respectively.

Advances from Customers – Represent cash received from customers in advance of the delivery of goods or services or the incurrence of project-related costs. These amounts are recorded as liabilities until the related obligations are fulfilled or otherwise settled in accordance with the applicable customer agreement. As of September 30, 2026 and December 31, 2025, advances from customers for unfulfilled obligations were $8.6 million and $1.8 million, respectively. In addition, as of September 30, 2026, $3.8 million of advance from customers remained unpaid and is included in accrued expenses.

Income Taxes – The Company uses the annual effective tax rate method to compute interim tax provisions for financial reporting purposes. In accordance with ASC 740-270, this method involves estimating the annual effective tax rate based on forecasted annual pre-tax book income and expected income tax expense and applying this rate to year-to-date pre-tax income to determine the interim tax provision. The Company accounts for discrete items in the quarter in which they occur.

The annual effective tax rate is calculated by dividing the estimated total tax expense for the year by the estimated total pre-tax income for the year. This calculation includes all expected permanent differences, tax credits, and other relevant tax rate reconciling items in accordance with ASC 740.

The Company updates the annual effective tax rate each interim period based on revised forecasts of annual income and tax expense. Adjustments to the interim tax provision will be made as necessary to reflect changes in the estimated annual effective tax rate.

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 deferred tax assets of a subsidiary in Canada will be realizable or not. As the expectation of future taxable income of this Canadian subsidiary cannot be predicted with reasonable accuracy, the Company continues to maintain a valuation allowance against the deferred tax assets of this subsidiary.

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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 income.

Accounting for Stock-Based Compensation - The Company accounts for stock-based compensation in accordance with ASC 718 and measures all awards, including stock options and restricted stock units ("RSUs"), at their grant-date fair value. The fair value of stock options is estimated using the Black-Scholes model for standard awards or a binomial (lattice) model for awards with more complex features. The fair value of time-based RSUs and performance-based RSUs with non-market conditions is based on the closing market price of the Company's common stock at the grant date, with compensation expense recognized only when achievement of service and performance conditions is probable. For awards with market conditions, such as total shareholder return, fair value is determined using a Monte Carlo simulation or, where appropriate, a binomial model, and compensation expense is recognized over the requisite service period regardless of whether the market condition is ultimately achieved. Stock-based compensation expense for the awards that vest based solely on service conditions and for awards with market conditions is generally recognized on a straight-line basis over the requisite service period. Compensation expense for awards with non-market financial performance conditions is recognized only when achievement of the applicable performance condition is probable and is recognized over the requisite service period using an attribution method appropriate to the award's vesting terms. Forfeitures are accounted for as they occur.

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. The Company expects to recognize substantially all of these performance obligations over the next 12 months. The table below summarizes the deferred revenue balances as of September 30, 2026 and December 31, 2025 (in thousands):

	September 30, 2026	December 31, 2025
Deferred revenue	$ 7,887	$ 7,493

The table below provides information about contract liabilities (deferred revenue) and the significant changes in the balances for the three and nine months ended September 30, 2026 and 2025 were as follows (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2026	2025	2026	2025
Balance at the beginning of period	$ 6,246	$ 6,485	$ 7,493	$ 8,010
Net deferred revenue in the period	9,838	8,481	25,604	21,056
Revenue recognized	(8,548)	(7,439)	(25,683)	(22,047)
Foreign currency translations and other adjustments	351	(502)	473	6
Balance at the end of period	$ 7,887	$ 7,025	$ 7,887	$ 7,025

Recently Issued Accounting Pronouncements Not Yet Adopted - In November 2024, the FASB issued ASU No. 2024-03, "Income Statement - Reporting Comprehensive Income - Expense Disaggregation Disclosures (Subtopic 220-40), fourth amendment via ASU No. 2025-01: Disaggregation of Income Statement Expenses". ASU No. 2024-03 does not change or remove existing expense disclosure requirements but requires disaggregated disclosures about certain expense categories and captions, including but not limited to, purchases of inventory, employee compensation, depreciation, amortization and selling expenses. ASU No. 2024-03 will be effective for the Company beginning in fiscal year 2027, and for interim financial reporting beginning in the first quarter of fiscal year 2028. Early adoption is permitted. The Company is currently evaluating the impact this ASU will have on the Company's disclosures within the condensed consolidated financial statements.

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In September 2025, the FASB issued ASU No. 2025-06, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Targeted Improvements to the Accounting for Internal-Use Software. ASU No. 2025-06 modernizes the accounting for internal-use software costs by increasing the operability of the recognition guidance considering different methods of software development. ASU No. 2025-06, which can be applied prospectively, retrospectively, or with a modified transition approach, is effective for the Company for annual reporting as well as interim period reporting beginning in fiscal year 2028. Early adoption is permitted. The Company is currently evaluating the impact this ASU will have on the Company's financial statements and disclosures within the condensed consolidated financial statements.

2. Accounts Receivable

Accounts receivable consists of the following (in thousands):

	September 30, 2026	December 31, 2025
Gross Accounts receivable	$ 46,717	$ 48,606
Allowance for credit losses	(418)	(1,181)
Allowance for billing adjustments	(1,881)	(915)
Allowance for volume discounts	(19)	-
Accounts receivable, net	$ 44,399	$ 46,510

Effective January 1, 2026, the Company adopted ASU 2025-05, Measurement of Credit Losses for Accounts Receivable and Contract Assets. The Company elected to apply the practical expedient permitted under the standard, which assumes that current conditions at the balance sheet date remain unchanged over the remaining life of the asset when estimating expected credit losses. The Company applied the standard prospectively to current accounts receivable and current contract assets arising from revenue contracts. Prior period amounts were not adjusted.

Activity in the allowance for credit losses for the three and nine months ended September 30, 2026 and 2025 was as follows (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2026	2025	2026	2025
Balance at beginning of period	$ 487	$ 1,274	$ 1,181	$ 1,256
Provision for expected credit losses	(3)	31	86	110
Recoveries collected	-	-	(845)	-
Write-offs against allowance	(69)	(118)	(101)	(189)
Foreign currency translation adjustment/reclassification	3	(5)	97	5
Balance at end of period	$ 418	$ 1,182	$ 418	$ 1,182

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3. Prepaid and Other Current Assets

Prepaid and other current assets consist of the following (in thousands):

	September 30, 2026	December 31, 2025
Advance Income Taxes (net of liabilities)	$ 9,645	$ 1,194
Advance to Supplier	7,878	409
Prepayments and others	7,207	5,051
Total	$ 24,730	$ 6,654

4. Goodwill and Intangible Assets

Goodwill

The Company evaluates goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. Following the Company's determination that it operates as a single reporting segment, goodwill is assigned to a reporting unit. Accordingly, the Company performs its goodwill impairment assessment at the reporting unit level.

As of September 30, 2026, the Company performed its annual goodwill impairment analysis on its reporting unit. It involved a quantitative goodwill impairment test and estimated the fair value based on a combination of the income approach (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 reporting unit's fair value. The future cash flows of the reporting unit were projected based on the Company's estimates of future revenues, 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 reporting unit's fair value. The market multiples used for the reporting unit 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.

As of September 30, 2026, the Company concluded that the fair value of the reporting unit exceeded its carrying value and no impairment was recognized. The carrying amount of goodwill was $2.0 million and $2.1 million as of September 30, 2026 and December 31, 2025, respectively.

The change in the carrying amount of goodwill for the nine months ended September 30, 2026 was as follows (in thousands):

Balance - January 1, 2026	$ 2,079
Foreign currency translation adjustment	(36)
Balance - September 30, 2026	$ 2,043

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Intangibles

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

	September 30, 2026			
	Gross Carrying Value	Accumulated Amortization	Foreign Currency Translation Adjustment	Net Carrying Value
Acquired Intangible Assets				
Developed technology	$ 3,011	$ (3,011)	$ -	$ -
Customer relationships	2,066	(2,065)	(1)	-
Trademarks and tradenames	862	(862)	-	-
Patents	42	(42)	-	-
Media Contact Database	3,647	(3,646)	(1)	-
Total Acquired Intangible Assets	**$ 9,628**	**$ (9,626)**	**$ (2)**	**$ -**
Capitalized Developed Software				
Capitalized Developed Software	$ 28,781	$ (17,971)	$ (200)	$ 10,610
Capitalized Developed Software - in Progress	3,735	-	11	3,746
Total Capitalized Developed Software	**$ 32,516**	**$ (17,971)**	**$ (189)**	**$ 14,356**
Total	**$ 42,144**	**$ (27,597)**	**$ (191)**	**$ 14,356**

	December 31, 2025			
	Gross Carrying Value	Accumulated Amortization	Foreign Currency Translation Adjustment	Net Carrying Value
Acquired Intangible Assets				
Developed technology	$ 2,881	$ (2,834)	$ 3	$ 50
Customer relationships	1,965	(1,874)	9	100
Trademarks and tradenames	840	(835)	1	6
Patents	40	(40)	-	-
Media Contact Database	3,528	(3,359)	15	184
Total Acquired Intangible Assets	**$ 9,254**	**$ (8,942)**	**$ 28**	**$ 340**
Capitalized Developed Software				
Capitalized Developed Software	$ 23,137	$ (13,933)	$ 254	$ 9,458
Capitalized Developed Software - in Progress	4,180	-	5	4,185
Total Capitalized Developed Software	**$ 27,317**	**$ (13,933)**	**$ 259**	**$ 13,643**
Total	**$ 36,571**	**$ (22,875)**	**$ 287**	**$ 13,983**

Amortization expense relating to acquired intangible assets was $0.01 million and $0.2 million for the three month periods ended September 30, 2026 and 2025, respectively. Amortization expense relating to acquired intangible assets was $0.3 million and $0.6 million for the nine month periods ended September 30, 2026 and 2025, respectively.

Amortization expense relating to capitalized developed software was $1.3 million and $1.0 million for the three month periods ended September 30, 2026 and 2025, respectively. Amortization expense relating to capitalized developed software was $3.6 million and $2.9 million for the nine month periods ended September 30, 2026 and 2025, respectively.

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As of September 30, 2026, estimated future amortization expense for intangible assets was as follows (in thousands):

Year	Amortization
Remaining for 2026	$ 1,675
2027	5,761
2028	4,232
2029	2,140
2030	494
2031 and thereafter	54
	$ 14,356

5. Accrued expenses and other liabilities

As of September 30, 2026 and December 31, 2025, the Company had accrued expenses of $33.0 million and $7.8 million, respectively, primarily related to content acquisition costs incurred for AI enabled projects and outstanding obligations associated with ongoing customer programs.

6. Income Taxes

The Company's tax provision for interim periods is determined using an estimated annual effective tax rate, adjusted for discrete items arising in that quarter including excess tax benefits from stock-based compensation, offset by stock-based compensation related to IRC Section 162(m), the expense and benefits related to foreign prior year true-ups, foreign exchange fluctuations and changes in unrecognized tax benefits. In each quarter, the Company updates the annual effective tax rate based on the most recent annual forecast and makes a year-to-date adjustment to the tax provision.

The estimated annual effective tax rate is subject to significant volatility due to several factors including the Company's ability to accurately forecast the pre-tax book income and permanent adjustments in multiple jurisdictions including certain stock-based compensation expense, IRC Section 162(m) adjustments, Foreign-Derived Deduction Eligible Income ("FDDEI") formerly known as Foreign-Derived Intangible Income ("FDII"), and a net benefit related to foreign tax credits ("FTC") and the U.S. tax implications of Global Intangible Low Taxed Income ("GILTI").

The following table provides effective tax rate information for the three and nine months ended September 30, 2026 and 2025:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
Amounts in thousands	2026	2025	2026	2025
Income before provision for income taxes	$ 9,989	$ 12,179	$ 44,886	$ 30,066
Provision for income taxes	$ (340)	$ 3,837	$ 5,247	$ 6,718
Effective tax rate	(3.4%)	31.5%	11.7%	22.3%

The Company's tax provision for the three and nine months ended September 30, 2026 was favorably impacted by net windfalls related to stock-based compensation, a U.S. deduction on FDDEI, and a net benefit related FTC, partially offset by IRC Section 162(m) adjustments, the U.S. tax implications of GILTI and the impact of foreign prior year true-ups and exchange fluctuations.

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The Company's overall effective tax rate for the nine months ended September 30, 2026 was favorably impacted by net windfalls related to stock-based compensation, a U.S. deduction on FDDEI, and a net benefit related FTC, partially offset by IRC Section 162(m) adjustments, the U.S. tax implications of GILTI and the impact of foreign prior year true-ups and exchange fluctuations.

The Company's overall effective tax rate applied to the nine-month period ended September 30, 2025 is higher than the U.S. federal statutory rate of 21% principally due to IRC Section 162(m) adjustments, state income tax provisions, deemed interest and tax effect of foreign operations offset in part by the favorable effect of stock-based compensation, withholding taxes and a change in the valuation allowance.

In addition, the Company's effective tax rate reflects the impact of state tax planning and apportionment methodologies, which reduced the incremental state income tax impact that would otherwise increase the combined federal and state statutory rate.

The following table presents a roll-forward of the Company's unrecognized tax benefits and associated interest for the nine months ended September 30, 2026 (in thousands):

	Unrecognized Tax Benefits
Balance - January 1, 2026	$ 1,162
Increase for current period tax positions	55
Decrease for prior year tax positions	(313)
Interest accrual	46
Foreign currency translation adjustment	(69)
Balance - September 30, 2026	$ 881

7. Operating Leases

The Company has various lease agreements for its offices and service delivery centers and 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 are accounted for separately, as shown in the table below.

Most of these lease agreements are renewable at the mutual consent of the parties to the contract. These lease agreements are for terms ranging from three to eleven years and, in most cases, provide for rent escalations ranging from 1.75% to 15%.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2026	2025	2026	2025
Rent expense for long-term operating leases	$ 379	$ 337	$ 1,135	$ 966
Rent expense for short-term leases	164	46	361	136
Total rent expense	$ 543	$ 383	$ 1,496	$ 1,102

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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, 2026 (in thousands):

Year	Amount
Remaining for 2026	$ 399
2027	1,547
2028	1,161
2029	725
2030 and thereafter	192
Total lease payments	4,024
Less: Interest	(496)
Net present value of lease liabilities	$ 3,528
Current portion	$ 1,333
Long-term portion	2,195
Total	$ 3,528

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

	For the Nine Months Ended September 30,	
	2026	2025
Cash paid for amounts included in the measurement of lease liabilities (in thousands):		
Operating cash flows from operating leases	$ 1,135	$ 966
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 37	$ 736

	September 30, 2026	December 31, 2025
Weighted-average lease term remaining (in months)	30	38
Weighted-average discount rate	9.14 %	9.14 %

8. Pension Benefits

U.S. Defined Contribution Pension Plan - The Company has a defined contribution plan qualified under Section 401(k) of the Internal Revenue Code, pursuant to which substantially all of its U.S. employees are eligible to participate after completing six months of service. Participants may elect to contribute a portion of their compensation to the plan. Under the plan, the Company has the discretion to match a portion of participants' contributions. For the three and nine months ended September 30, 2026 and 2025 the Company did not make any matching contributions.

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Most of the Company's non-U.S. subsidiaries provide for government-mandated defined pension benefits. For certain of these non-U.S. subsidiaries, vested eligible employees are provided a lump sum payment upon retiring from the Company at a defined age. The lump sum amount is based on the salary and tenure as of retirement date. Other non-U.S. subsidiaries provide for a lump sum payment to vested employees on retirement, death, incapacitation or termination of employment, based upon the salary and tenure as of the date employment ceases. The liability for such defined benefit obligations is determined and provided on the basis of actuarial valuations. As of September 30, 2026, these plans were unfunded. Pension expense for the Company's foreign subsidiaries totaled approximately $0.4 million and $0.3 million for the three months ended September 30, 2026 and 2025, respectively, and $1.2 million and $1.0 million for the nine months ended September 30, 2026 and 2025, respectively.

Components of Net Periodic Pension Cost:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2026	2025	2026	2025
Current service cost	$ 218	$ 183	$ 735	$ 595
Interest cost	143	130	438	390
Actuarial loss recognized	2	(1)	8	(1)
Net periodic pension cost	$ 363	$ 312	$ 1,181	$ 984

There were no plan amendments, settlements, or curtailments during the period. The Company does not expect any significant changes to its pension funding requirements or benefit obligations during the remainder of the fiscal year.

9. Long-term obligations

Total long-term obligations as of September 30, 2026 and December 31, 2025 consisted of the following (in thousands):

	September 30, 2026	December 31, 2025
Pension obligations - accrued pension liability	$ 9,567	$ 9,278
Microsoft licenses [1]	1,693	6
	11,260	9,284
Less: Current portion of long-term obligations	2,370	1,659
Total Non-Current portion of long-term obligations	$ 8,890	$ 7,625

[1] In March 2026, the Company renewed a vendor agreement to acquire certain additional software licenses, receive technical support and future software upgrades on software licenses through February 2029. Pursuant to this agreement, the Company is contractually liable to pay approximately $0.9 million annually over the term of the agreement.

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10. 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 $5.2 million, plus legal interest that accrued at 12% per annum from August 13, 2008 to June 30, 2013, and thereafter accrued and continues to accrue legal interest 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 principal relevant cases in the Philippines are Court of Appeals Case Nos. CA-G.R. SP No. 93295 Innodata Employees Association (IDEA), Eleanor Tolentino, et al. vs. Innodata Philippines, Inc., et al., and CA-G.R. SP No. 90538 Innodata Philippines, Inc. vs. Honorable Acting Secretary Manuel G. Imson, et al. (28 June 2007), the Department of Labor and Employment National Labor Relations Commission, Republic of the Philippines (NLRC-NCR-Case No.07-04713-2002, et al., Innodata Employees Association (IDEA) and Eleanor A. Tolentino, et al. vs. Innodata Philippines, Inc., et al), and the Department of Labor and Employment Office of the Secretary of Labor and Employment, Republic of the Philippines (Case No. OS-AJ-0015-2001, In Re: Labor Dispute at Innodata Philippines, Inc.). The U.S. District Court action is Civil Action No.: 2:17-cv-13268-SDW-LDW Innodata Inc. v. Myrna C. Augustin-Simon; et al.

The Company is also subject to various other legal proceedings and claims that have arisen in the ordinary course of business. While the Company believes that it has adequate reserves for those losses that it believes are probable and can be reasonably estimated, the ultimate results of legal proceedings and claims cannot be predicted with certainty.

While management currently believes that the ultimate outcome of these proceedings will not have a material adverse effect on 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 judgements 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 $400,000 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.

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11. Stock Options and Restricted Stock Units

Equity Compensation Plans

On April 20, 2026, the Company adopted the Amended and Restated Innodata Inc. Equity Compensation Plan (the "2026 Plan"), which was approved by the Company's stockholders on June 4, 2026. The 2026 Plan amends and restates the Innodata Inc. 2021 Equity Compensation Plan, as amended and restated (the "2021 Plan"). The 2021 Plan was originally approved by the Board on April 8, 2021, and approved by stockholders on June 8, 2021, and was amended and restated effective as of April 11, 2022.

The stock-based compensation expense related to the Innodata Inc. 2013 Stock Plan, as amended and restated effective June 7, 2016 (the "2013 Plan", and together with the 2021 Plan, and the 2026 Plan, collectively, the "Equity Plans") were allocated as follows (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2026	2025	2026	2025
Direct operating costs	$ 597	$ 444	$ 1,943	$ 1,312
Selling and administrative expenses	6,217	2,263	17,975	6,997
Total stock-based compensation	$ 6,814	$ 2,707	$ 19,918	$ 8,309

Stock Options

2013 Plan

A summary of option activity under the 2013 Plan and changes during the nine-month period ended September 30, 2026 is presented below:

	Number of Options	Weighted - Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at January 1, 2026	2,639,893	$ 3.45	5.25	$ 125,407,354
Granted	-	-	-	-
Exercised	(1,808,120)	4.28	-	-
Forfeited/Expired	(3)	5.05	-	-
Outstanding at September 30, 2026	831,770	$ 1.63	3.40	$ 53,339,257
Exercisable at September 30, 2026	831,770	$ 1.63	3.40	$ 53,339,257
Vested and Expected to vest at September 30, 2026	831,770	$ 1.63	3.40	$ 53,339,257

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2021 Plan

A summary of option activity under the 2021 Plan and changes during the nine-month period ended September 30, 2026 is presented below.

	Number of Options	Weighted - Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at January 1, 2026	568,684	$ 21.83	7.79	$ 16,557,907
Granted	-	-	-	-
Exercised	(226,804)	14.17	-	-
Forfeited/Expired	-		-	-
Outstanding at September 30, 2026	341,880	$ 26.92	7.26	$ 13,279,100
Exercisable at September 30, 2026	164,378	$ 9.78	6.21	$ 9,201,795
Vested and Expected to vest at September 30, 2026	341,880	$ 26.92	7.26	$ 13,279,100

There were no options granted during the nine months ended September 30, 2026.

During the nine months ended September 30, 2026, a total of 2,034,924 options were exercised at a weighted average exercise price of $5.38.

The compensation cost related to non-vested stock options not yet recognized as of September 30, 2026 totaled approximately $3.5 million. The weighted-average period over which these costs will be recognized is 15 months.

Restricted Stock Units

Restricted stock unit activity under the Equity Plans during the nine-month period ended September 30, 2026 is presented below:

	Number of Performance Restricted Stock Units	Weighted-Average Grant Date Fair Value	Number of Restricted Stock Units	Weighted-Average Grant Date Fair Value
Unvested at January 1, 2026	470,172	$ 50.95	692,301	$ 47.22
Granted	16,444	73.12	31,522	74.60
Vested	-	-	(27,613)	46.79
Forfeited/Expired	-	-	(30,772)	46.61
Unvested at September 30, 2026	486,616	$ 51.70	665,438	$ 48.57

During the nine months ended September 30, 2026, the Company granted 7,024 restricted stock units to a non-employee advisor and non - employee directors.

The compensation cost related to non-vested restricted stock units not yet recognized as of September 30, 2026 totaled approximately $38.3 million. The weighted-average period over which these costs will be recognized is 24 months.

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(Unaudited)

12. Comprehensive loss

Accumulated other comprehensive loss, as reflected in the condensed consolidated balance sheets, consists of pension liability adjustments, net of taxes, foreign currency translation adjustment and changes in fair value of derivatives, net of taxes. The components of accumulated other comprehensive loss as of September 30, 2026 and 2025, and reclassifications from accumulated other comprehensive loss for the three and nine-month periods, are presented below (in thousands):

	Pension Liability Adjustment	Fair Value of Derivatives	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Loss
Balance at July 1, 2026	$ (611)	$ (608)	$ (1,681)	$ (2,900)
Other comprehensive income (loss) before reclassifications, net of taxes	1	(563)	203	(359)
Total other comprehensive loss before reclassifications, net of taxes	(610)	(1,171)	(1,478)	(3,259)
Net amount reclassified to earnings	2	339	-	341
Balance at September 30, 2026	$ (608)	$ (832)	$ (1,478)	$ (2,918)

	Pension Liability Adjustment	Fair Value of Derivatives	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Loss
Balance at January 1, 2026	$ (617)	$ (270)	$ (1,229)	$ (2,116)
Other comprehensive loss before reclassifications, net of taxes	1	(1,241)	(249)	(1,489)
Total other comprehensive loss before reclassifications, net of taxes	(616)	(1,511)	(1,478)	(3,605)
Net amount reclassified to earnings	8	679	-	687
Balance at September 30, 2026	$ (608)	$ (832)	$ (1,478)	$ (2,918)

	Pension Liability Adjustment	Fair Value of Derivatives	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Loss
Balance at July 1, 2025	$ (269)	$ 127	$ (1,151)	$ (1,293)
Other comprehensive loss before reclassifications, net of taxes	-	(378)	(178)	(556)
Total other comprehensive loss before reclassifications, net of taxes	(269)	(251)	(1,329)	(1,849)
Net amount reclassified to earnings	(1)	63	-	62
Balance at September 30, 2025	$ (270)	$ (188)	$ (1,329)	$ (1,787)

	Pension Liability Adjustment	Fair Value of Derivatives	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Loss
Balance at January 1, 2025	$ (233)	$ (395)	$ (1,842)	$ (2,470)
Other comprehensive income (loss) before reclassifications, net of taxes	(37)	8	513	484
Total other comprehensive loss before reclassifications, net of taxes	(270)	(387)	(1,329)	(1,986)
Net amount reclassified to earnings	-	199	-	199
Balance at September 30, 2025	$ (270)	$ (188)	$ (1,329)	$ (1,787)

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Taxes related to each component of other comprehensive loss were not material for each of the three-month periods presented and therefore not disclosed separately.

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

13. Segment reporting and concentrations

The Company's Chief Operating Decision Maker ("CODM") is the Company's Chief Executive Officer ("CEO").

During the quarter ended March 31, 2026, the Company reassessed its operating and reportable segment structure and concluded that it operates as a single reportable segment. This change reflects a shift in how the Company's CEO evaluates performance and allocates resources. The CEO now reviews financial results on a consolidated basis and does not regularly review discrete financial information at a level below the consolidated entity for purposes of allocating resources or assessing performance. In addition, the Company's operations have become increasingly integrated, with shared delivery infrastructure, technology platforms, and workforce supporting its service offerings. As a result, the Company determined that it has one operating and reportable segment.

The U.S. GAAP measures used by the Company's CEO to evaluate segment performance and allocate resources such as employees, property, and financial or capital resources during the annual budgeting and forecasting process, are Revenues, Gross Profit and Net Income. Performance results are monitored, reviewed, and measured monthly and quarterly by comparing budget and forecast to actual results for profit measures, assessing returns on investment, compensation decisions and changing strategies, if required.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2026	2025	2026	2025
Revenues	$ 95,618	$ 62,550	$ 277,856	$ 179,287
Direct operating costs [1] [3]	60,081	37,046	160,067	107,508
Gross profit	35,537	25,504	117,789	71,779
Selling and administrative expenses [2] [4]	26,882	13,745	76,374	42,837
Operating income	8,655	11,759	41,415	28,942
Interest income, net	(1,334)	(420)	(3,471)	(1,124)
Income before provision for income taxes	9,989	12,179	44,886	30,066
Provision for income taxes	(340)	3,837	5,247	6,718
Net Income	$ 10,329	$ 8,342	$ 39,639	$ 23,348

(1) Direct operating costs consist of direct and indirect labor costs including incentives, bonuses, stock-based compensation, third-party delivery resource costs, occupancy costs, content acquisition costs, data center hosting fees, cloud services, AI technology subscriptions, depreciation and amortization, travel, telecommunications, computer services and supplies, realized (gain) loss on forward contracts, foreign currency revaluation (gain) loss, recruitment costs and other direct expenses that are incurred in providing services to customers.

(2) Selling and administrative expenses consist of payroll and related costs including commissions, bonuses, and stock-based compensation; marketing, advertising, trade conferences and related expenses; new services research and related software development expenses, software subscriptions, AI technology subscriptions, professional and consultant fees, provision for credit losses and other administrative overhead expenses.

(3) Includes non-cash expenses which consist mainly of depreciation, amortization of capitalized software development costs and stock-based compensation expense.

(4) Includes non-cash expenses which consist mainly of stock-based compensation and depreciation and amortization expense.

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

Revenues for the three and nine-month periods ended September 30, 2026, and 2025 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,	
	2026	2025	2026	2025
United States	$ 85,086	$ 52,752	$ 244,182	$ 150,202
Canada	3,230	3,024	9,614	8,702
United Kingdom	2,774	2,735	8,504	7,635
The Netherlands	2,175	1,864	6,801	6,320
Others - European countries principally, Germany, Belgium and France	2,353	2,175	8,755	6,428
Totals	$ 95,618	$ 62,550	$ 277,856	$ 179,287

Long-lived assets as of September 30, 2026 and December 31, 2025 by geographic region were comprised of (in thousands):

	September 30, 2026	December 31, 2025
United States	$ 13,648	$ 12,576
Foreign countries:		
Canada	5,986	6,325
Philippines	4,738	5,091
India	2,279	2,582
Sri Lanka	780	833
United Kingdom	561	653
Israel	51	56
Germany	4	6
Total foreign	14,399	15,546
Totals	$ 28,047	$ 28,122

Long-lived assets include the unamortized balance of right-of-use-assets amounting to $3.3 million and $4.1 million as of September 30, 2026 and December 31, 2025, respectively.

One customer generated approximately 31% and 56% of the Company's total revenues for the three months ended September 30, 2026 and 2025, respectively. Another customer generated approximately 43% of the Company's total revenues for the three months ended September 30, 2026. No other customer accounted for 10% or more of total revenues during these periods. Revenues from non-U.S. customers accounted for 11% and 16% of the Company's total revenues for the three months ended September 30, 2026 and 2025, respectively.

One customer generated approximately 41% and 58% of the Company's total revenues for the nine months ended September 30, 2026 and 2025, respectively. Another customer generated approximately 32% of the Company's total revenues for the nine months ended September 30, 2026. No other customer accounted for 10% or more of total revenues during these periods. Revenues from non-U.S. customers accounted for 12% and 16% of the Company's total revenues for the nine months ended September 30, 2026 and 2025, respectively.

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As of September 30, 2026, approximately 10% of the Company's accounts receivable was due from foreign (principally European) customers and 67% of the Company's accounts receivable was due from two customers. As of December 31, 2025, approximately 10% of the Company's accounts receivable was due from foreign (principally European) customers and 63% 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, 2026 and December 31, 2025.

14. Income Per Share

The calculation of the dilutive effect of outstanding options and restricted stock units is shown in the table below (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2026	2025	2026	2025
Net income attributable to Innodata Inc. and Subsidiaries	$ 10,329	$ 8,342	$ 39,639	$ 23,348
Weighted average common shares outstanding	34,389	31,848	33,497	31,690
Dilutive effect of outstanding options and restricted stock units	1,233	3,418	1,622	3,306
Adjusted for dilutive computation	35,622	35,266	35,119	34,996

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

Options to purchase 1.2 million shares of common stock for the three and nine months ended September 30, 2026 are outstanding and included in the computation of diluted income per share. Also included in the computation of diluted income per share are 282,784 and 226,578 restricted stock units for the three and nine months ended September 30, 2026, respectively, using the treasury stock method to determine the dilutive effect of restricted stock units outstanding as of September 30, 2026.

Options to purchase 3.6 million shares of common stock for the three months and nine months ended September 30, 2025 were outstanding and included in the computation of diluted income per share. Also included in the computation of diluted income per share for the three months and nine months ended September 30, 2025 are 390,569 restricted stock units using the treasury stock method to determine the dilutive effect of restricted stock units outstanding as of September 30, 2025.

15. Derivatives

The Company conducts a large portion of its operations in international markets, which subjects 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, Canada, the United Kingdom and Israel.

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In addition, although most of the Company's revenue is denominated in U.S. dollars, a 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 of 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) is reclassified to earnings and included as part of direct operating costs. For derivative instruments that are not designated as hedges, any change in fair value is recorded directly in earnings 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 $40.4 million and $19.7 million as of September 30, 2026 and December 31, 2025, respectively.

The Company's forward contracts are at level 2 in the fair value hierarchy.

The following table presents the fair value of derivative instruments included within the condensed consolidated balance sheets as of September 30, 2026 and December 31, 2025 (in thousands):

	Balance Sheet Location	Fair Value	
		September 30, 2026	December 31, 2025
Derivatives designated as hedging instruments:			
Foreign currency forward contracts	Accrued expenses and other liabilities	$ 1,053	$ 342

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, 2026 and 2025 were as follows (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2026	2025	2026	2025
Net gain (loss) recognized in OCI[1]	$ (563)	$ (378)	$ (1,241)	$ 8
Net loss reclassified from accumulated OCI into income[2]	$ 339	$ 63	$ 679	$ 199
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 periods presented.

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16. Line of Credit

On April 4, 2023, the Company entered into a Credit Agreement (the "Credit Agreement") with Wells Fargo Bank, National Association, as lender, and Innodata Inc., Innodata Synodex, LLC, Innodata docGenix, LLC and Agility PR Solutions LLC as co-borrowers. On July 21, 2023, Innodata Services, LLC signed a Joinder Agreement to join the Credit Agreement as a co-borrower. On August 5, 2024, July 18, 2025, and March 19, 2026 the Company entered into a second amendment, third amendment, and fourth amendment, respectively, to the Credit Agreement (together with the Credit Agreement, the "Amended Credit Agreement"). The Amended Credit Agreement provides for a secured revolving line of credit (the "Revolving Credit Facility") up to an amount equal to the lesser of the borrowing base and $50.0 million (the "Maximum Credit"). The Revolving Credit Facility's borrowing base is calculated on the basis of (i) 85% of eligible accounts (other than eligible foreign accounts and unbilled accounts), plus (ii) 85% of eligible government prime accounts (other than eligible foreign accounts and unbilled accounts), plus (iii) the lesser of (a) 80% of eligible accounts that are unbilled accounts and (b) 30% of all eligible accounts, plus (iv) the lesser of (a) 85% of eligible foreign accounts from accounts in a tier 1 country, (b) 20% of all eligible accounts, and (c) $5.0 million, minus (v) reserves. As of September 30, 2026, such borrowing base calculation equaled approximately $29.0 million. The Credit Agreement contains a financial covenant that requires the Borrowers, on a consolidated basis, to maintain a fixed charge coverage ratio of not less than 1.10 to 1.00. Except as set forth in the Credit Agreement, borrowings under the Revolving Credit Facility bear interest at a rate equal to the daily simple secured overnight financing rate ("SOFR") plus 2.25%. The Company did not utilize the Revolving Credit Facility during the nine months ended September 30, 2026 or during the subsequent period through the filing date of this Report.

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, financial condition, developmental program expansion and position in the generative AI services market. Words such as "project," "believe," "expect," "can," "continue," "could," "intend," "may," "should," "will," "anticipate," "indicate," "predict," "likely," "estimate," "plan," "potential," "possible," 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, impacts resulting from ongoing geopolitical conflicts; anticipated and actual use cases and outcomes; investments in large language models; that contracts may be terminated by customers; projected or committed volumes of work may not materialize; pipeline opportunities and customer discussions which may not materialize into work or expected volumes of work; the likelihood of continued development of the AI markets, particularly new and emerging markets, that our services support; the ability and willingness of our customers and prospective customers to execute business plans that give rise to requirements for our services; continuing reliance on project-based work and the primarily at-will nature of such contracts and the ability of these customers to reduce, delay or cancel projects; potential inability to replace projects that are completed, canceled or reduced; revenue concentration among a limited number of customers; our dependency on third-party providers and partners; our ability to achieve revenue and growth targets; difficulty in integrating and deriving synergies from acquisitions, joint ventures 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; changes in external market factors; the potential effects of U.S. global trade and monetary policy, including the interest rate policies of the Federal Reserve; changes in our business or growth strategy; the emergence of new, or growth in existing competitors; various other competitive and technological factors; our 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 ("SEC").

Our actual results could differ materially from the results referred to in any forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, the risks discussed in Part I, Item 1A. "Risk Factors," 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 SEC on February 26, 2026 and in our other filings that we may make with the SEC.

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 U.S. 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. "Financial Statements" of this Report.

Business Overview

Innodata Inc. (Nasdaq: INOD) (together with its subsidiaries, the "Company", "Innodata", "we", "us" or "our") is a global data engineering and AI systems services company that supports the development, training, post-training, evaluation, and deployment of advanced artificial intelligence systems. We partner with leading technology companies, frontier AI laboratories, and enterprises to help enable AI systems that perform reliably, align with intended objectives, and operate safely in real-world environments.

Our mission is to enable the responsible advancement of artificial intelligence by providing the data, evaluation frameworks, and human expertise required to build AI systems that can be trusted at scale. We believe that AI will increasingly function as a foundational layer of the digital economy - embedded across consumer products, enterprise workflows, and mission-critical systems. As AI systems grow more capable and autonomous, we believe the quality of training data, the effectiveness of post-training alignment, and the rigor of ongoing evaluation will be decisive factors in determining whether AI systems are adopted, regulated, and scaled responsibly.

Innodata was founded more than 35 years ago on the principle that high-quality, well-structured data is essential to leading information-retrieval systems. In 2016 and 2017, we began building proprietary AI language models based on then-emerging research and frameworks and integrating them into our data production workflows. Through this work, we developed and refined techniques for generating, curating, and validating human-created data used to train probabilistic, learning-based AI systems, and recognized that data quality and structure were critical determinants of model performance. This insight led us to invest in the development of an integrated set of AI lifecycle data solutions, addressing a growing market need for specialized data engineering, evaluation, and refinement capabilities across the full lifecycle of AI systems.

Today, leading AI innovation labs and Big Tech companies (including five of the so-called "Magnificent Seven") building frontier generative AI models and leading enterprises engage us to provide (i) training and post-training data development; (ii) alignment and preference optimization; (iii) capabilities, alignment, and safety evaluation; and (iv) AI enablement and operationalization, including support for agentic and tool-using systems.

We believe Innodata is differentiated by: (i) our ability to operate across the AI lifecycle in alignment with AI developers' internal development and deployment pipelines; (ii) our scale of specialized human expertise; (iii) purpose-built platforms and processes that combine automation with rigorous human oversight; (iv) a research-driven approach to measurement, safety, and operational reliability, which is particularly relevant for frontier model developers and enterprises deploying AI in high-stakes environments; and (v) our dual role supporting leading technology companies building advanced AI systems and enterprises deploying those systems in production, which we believe creates a reinforcing feedback loop that strengthens our capabilities across both contexts and differentiates us from competitors focused on only one side of the market.

Market Opportunities

AI Training and Post-Training Data

Modern AI systems are trained using large volumes of data rather than explicit, rule-based programming. Foundation models - such as large language models ("LLMs") and multimodal models - learn statistical representations of language, images, code, and other modalities from vast training corpora.

As model architectures have matured, leading developers have increasingly emphasized the importance of training data quality, data provenance, supervised fine-tuning, and post-training alignment techniques. We believe that as model scale increases, marginal improvements in data quality and post-training signals can have an outsized impact on performance, reliability, and usability - often exceeding the impact of further parameter scaling alone.

Organizations developing AI systems therefore require partners that can design, execute, and continuously refine data pipelines capable of supporting large-scale training and post-training cycles while maintaining quality, consistency, and auditability. We believe Innodata is well positioned to meet these requirements.

Model Evaluation ("Evals"), Alignment, and Safety

We believe that evaluation of model capabilities and safety ("evals") are emerging as foundational layers of the AI technology stack, analogous to testing, security, and reliability engineering in traditional software systems. Unlike deterministic software, generative AI systems are probabilistic and context dependent. Their behavior may vary across prompts, tasks, and deployment environments, and may change over time as models are updated or integrated with tools and new data sources.

As a result, organizations increasingly require continuous evals to understand, measure, and manage model behavior throughout development and deployment. These evals typically include: (i) capabilities evals that assess reasoning, knowledge, and task competence; (ii) alignment and safety evals that measure harmful behavior, misuse risk, and adherence to constraints; and (iii) regression evals designed to detect drift or degradation across model versions. We believe this represents a durable and expanding market opportunity distinct from, but complementary to, data preparation and model training.

From Output Scoring to Behavioral and Agentic Evals

Early AI evaluation focused primarily on output correctness. In contrast, today's frontier systems - particularly agentic and tool-using systems - require behavioral and agentic evals that assess how models plan, reason, and act over time. These evals may examine reasoning coherence, tool selection and invocation, multi-step task execution, adherence to system instructions, and robustness under adversarial or ambiguous inputs.

This shift toward agentic evaluation materially increases the importance of structured human judgment, domain expertise, and scalable evaluation operations. We believe that the ability to measure not only what a model outputs, but how it arrives at those outputs, is increasingly central to deployment readiness and long-term safety.

Human-in-the-Loop Evals and Evidence for Trust

As AI systems are deployed into regulated or high-stakes environments, customers increasingly require evidence that systems have been evaluated, documented, and monitored. This has driven demand for human-in-the-loop eval frameworks that combine expert judgment with automation to produce results that are interpretable, repeatable, and auditable.

Innodata's evaluation programs emphasize rubricized scoring for consistency, subject-matter experts for high-risk domains, hybrid human-plus-automated evaluation pipelines, and longitudinal measurement to track regressions and improvements over time. We believe these capabilities position us to support emerging governance and regulatory expectations related to transparency, accountability, and risk management in AI systems.

Red Teaming, Adversarial Evals, and Safety Research

AI safety has expanded to include misuse, exploitability, and unintended system behaviors - particularly as models are connected to retrieval systems, code execution environments, autonomous agents, and enterprise tools. Innodata conducts structured red teaming and adversarial evaluations to surface failure modes that are not observable through standard benchmarks. These efforts include probing prompt-injection and jailbreak vulnerabilities, testing misuse scenarios involving retrieval-augmented generation, agent workflows, and tool use, identifying degradation under distribution shift, and supporting mitigation through targeted post-training datasets. In parallel, we have expanded our cybersecurity capabilities as applied to LLMs and AI agents, including threat modeling for agent-based systems, assessment of data exfiltration and privilege-escalation risks, evaluation of secure tool invocation and sandboxing controls, and testing of monitoring and guardrail mechanisms designed to reduce exposure to adversarial attacks and enterprise security breaches.

We believe red teaming and adversarial evals are increasingly viewed as prerequisites for deployment rather than optional safeguards.

High-Risk Domains and Societal Safety

As frontier AI capabilities advance, developers and governments have raised concerns about misuse in high-impact domains, including non-proliferation, chemical and biological risk, and large-scale misinformation. Innodata supports mitigation efforts through domain-specific safety evals, targeted mitigation datasets, collaboration with academic and government-adjacent experts, and evaluation frameworks designed to preserve performance on legitimate use cases while reducing the risk of harmful behaviors or misuse.

AI Model Deployment and Integration

We believe that over the next decade, AI will be embedded across nearly all industries. Innodata supports customers in operationalizing AI systems, including model customization, workflow integration, context engineering, and continuous quality assurance. Our platforms and services are designed to accommodate rapid innovation in model architectures and techniques, enabling customers to adopt new approaches without re-architecting their AI operations.

AI-Enabled Industry Platforms

We offer a range of AI-enabled platforms and solutions that support data transformation, analytics, and workflow automation across industries, including solutions that convert medical records into structured digital data for use in insurance and healthcare applications, as well as media intelligence and public relations workflow software enhanced with AI-driven monitoring, analytics, and content capabilities.

These offerings operate within a unified technology and service delivery model and leverage shared data, infrastructure, and artificial intelligence capabilities. We continue to invest in these solutions to incorporate advances in artificial intelligence, with a focus on reliability, transparency, and user trust.

We operate under one single segment.

Prevailing Economic Conditions and Seasonality

Prevailing Economic Conditions

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, we would seek to manage our liquidity by utilizing the Revolving Credit Facility, reducing capital expenditures, deferring investment activities, and reducing operating costs.

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.

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 negatively 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, 2025.

Changes in Segment Reporting

Effective as of the quarter ended March 31, 2026, the Company revised its segment reporting structure. Previously, we reported three segments; following a change in the CODM's approach, we now report as a single segment. This change was made to align segment reporting with the CODM's resource allocation and performance assessment process. For additional information, refer to Note 13 to the financial statements.

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 use 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 Gross Profit and Adjusted Gross Margin

We define Adjusted Gross Profit as revenues less direct operating costs attributable to Innodata Inc. and its subsidiaries in accordance with U.S. GAAP, plus depreciation and amortization of intangible assets, stock-based compensation and other one-time costs included within direct operating cost.

We define Adjusted Gross Margin by dividing Adjusted Gross Profit over total U.S. GAAP revenues.

We use Adjusted Gross Profit and Adjusted Gross Margin to evaluate 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 Gross Profit and Gross Margin in accordance with the U.S. GAAP attributable to Innodata Inc. and its subsidiaries to Adjusted Gross Profit and Adjusted Gross Margin for the three and nine month periods ended September 30, 2026 and 2025 (in thousands).

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2026	2025	2026	2025
Gross Profit attributable to Innodata Inc. and Subsidiaries	$ 35,537	$ 25,504	$ 117,789	$ 71,779
Depreciation and amortization	2,199	1,729	6,559	4,855
Stock-based compensation	597	444	1,943	1,312
Adjusted Gross Profit	$ 38,333	$ 27,677	$ 126,291	$ 77,946
Gross Margin	37 %	41 %	42 %	40 %
Adjusted Gross Margin	40 %	44 %	45 %	43 %

Adjusted EBITDA

We define Adjusted EBITDA as net income attributable to Innodata Inc. and its subsidiaries in accordance with U.S. GAAP before net interest expense (income), 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 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 this measure is an important component of our internal performance measurement process.

The following table contains a reconciliation of U.S. GAAP net income attributable to Innodata Inc. and its subsidiaries to Adjusted EBITDA for the three and nine month periods ended September 30, 2026 and 2025 (in thousands).

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2026	2025	2026	2025
Net income attributable to Innodata Inc. and Subsidiaries	$ 10,329	$ 8,342	$ 39,639	$ 23,348
Provision for income taxes	(340)	3,837	5,247	6,718
Interest income, net	(1,334)	(420)	(3,471)	(1,124)
Depreciation and amortization	2,256	1,748	6,730	4,913
Stock-based compensation	6,814	2,707	19,918	8,309
Adjusted EBITDA	$ 17,725	$ 16,214	$ 68,063	$ 42,164

Results of Operations

The amounts in the MD&A below have been rounded. All percentages have been calculated using rounded amounts.

Three Months Ended September 30, 2026 and 2025

Revenues

Total revenues were $95.6 million and $62.6 million for the three months ended September 30, 2026 and 2025, respectively, an increase of $33.0 million or approximately 53%. Revenue increased primarily due to higher volume for AI data engineering services from existing customer programs.

One customer generated approximately 31% and 56% of the Company's total revenues for the three months ended September 30, 2026 and 2025, respectively. Another customer generated approximately 43% of the Company's total revenues for the three months ended September 30, 2026. No other customer accounted for 10% or more of total revenues during these periods. Revenues from non-U.S. customers accounted for 11% and 16% of the Company's total revenues for the three months ended September 30, 2026 and 2025, respectively.

Direct Operating Costs

Direct operating costs consist of direct and indirect labor costs including incentives, bonuses, stock-based compensation, third-party delivery resource costs, occupancy costs, content acquisition costs, data center hosting fees, cloud services, AI technology subscriptions, depreciation and amortization, travel, telecommunications, computer services and supplies, realized (gain) loss on forward contracts, foreign currency revaluation (gain) loss, recruitment costs and other direct expenses that are incurred in providing services to customers.

Direct operating costs were $60.1 million and $37.0 million for the three months ended September 30, 2026 and 2025, respectively, an increase of $23.1 million or approximately 62%. The cost increase was primarily attributable to an increase in direct and indirect labor-related costs, third-party delivery resource costs, and content acquisition costs to support higher volumes of AI data engineering services from existing customer programs.

The $23.1 million increase in direct operating costs includes $0.6 million from direct and indirect labor-related costs, primarily driven by higher third-party delivery resource costs, salary increases and higher stock-based compensation expense offset in part by headcount reductions in the quarter. Additional increases primarily included approximately $21.0 million in expenditures incurred for the content acquisition costs of our AI enabled projects, $1.5 million for cloud services and AI technology-related subscription costs driven by increased cloud usage and data processing requirements to support higher revenue and expanded customer engagements, depreciation and amortization of capitalized developed software of $0.5 million, occupancy-related costs of $0.3 million, and an unfavorable impact of foreign exchange rate fluctuations of $0.3 million, offset in part by lower recruitment fees of $0.8 million and other direct operating costs of $0.3 million. Direct operating costs as a percentage of total revenues were 63% and 59% for the three months ended September 30, 2026 and 2025, respectively. The increase in direct operating costs as a percentage of total revenues was primarily attributable to increased direct operating costs, offset in part by higher revenues.

Gross Profit and Gross Margin

Gross profit is derived by revenues less direct operating costs, while the Gross margin percentage is derived by dividing gross profit over revenues.

Gross profit was $35.5 million and $25.5 million for the three months ended September 30, 2026 and 2025, respectively. The $10.0 million increase in gross profit was primarily due to higher revenues, offset in part by higher direct operating costs. Gross margin was 37% and 41% for the three months ended September 30, 2026 and 2025, respectively. The decrease in gross margin was primarily due to higher direct operating costs, offset in part by higher revenues.

Selling and Administrative Expenses

Selling and administrative expenses consist of payroll and related costs including commissions, bonuses, and stock-based compensation; marketing, advertising, trade conferences and related expenses; new services research and related software development expenses; software subscriptions; AI technology subscriptions; professional and consultant fees; provision for credit losses; and other administrative overhead expenses.

Selling and administrative expenses were approximately $26.9 million and $13.7 million for the three months ended September 30, 2026 and 2025, respectively, an increase of $13.2 million or approximately 96%. The increase in selling and administrative expenses was primarily due to continued investments in growth-oriented and capability-building functions. In addition, labor costs increased as we continue to invest in sales, account management, and marketing resources to support new customer acquisition, expand relationships with existing customers, and strengthen our market presence through solution design, go-to-market execution, and thought leadership initiatives.

The $13.2 million increase in selling and administrative expenses was primarily attributable to increased selling, marketing, and administrative payroll and related expenses of $9.2 million, driven by new hires, salary increases, stock-based compensation expense, incentives and bonuses. Additional increases included business software and AI technology subscriptions of $1.6 million, professional fees of $1.6 million, marketing-related expenses of $0.2 million, fees related to the annual shareholders meeting of $0.1 million, insurance cost of $0.1 million and other selling and administrative expenses of $0.6 million, offset in part by a favorable impact of foreign exchange rate fluctuations of $0.2 million. Selling and administrative expenses as a percentage of total revenues were approximately 28% and 22% for the three months ended September 30, 2026 and 2025, respectively. The increase in selling and administrative expenses as a percentage of total revenues was primarily attributable to increased selling and administrative expenses offset by higher revenues.

Income Taxes

We recorded an income tax provision of approximately ($0.3) million and $3.8 million for the three months ended September 30, 2026 and 2025, respectively. The effective tax rate was (3.4%) and 31.5% for the three months ended September 30, 2026 and 2025, respectively. Our overall effective tax rate for the three months ended September 30, 2026 was favorably impacted by net windfalls related to stock-based compensation, a U.S. deduction on Foreign-Derived Deduction Eligible Income (“FDDEI”) formerly known as Foreign-Derived Intangible Income (“FDII”), and a net benefit related to foreign tax credits (“FTC”), partially offset by IRC Section 162(m) adjustments, the U.S. tax implications of Global Intangible Low Taxed Income (“GILTI”) and the impact of foreign prior year true-ups and exchange fluctuations.

In each quarter, we update the estimated annual effective tax rate based on the most recent annual forecast and make a year-to-date adjustment to the tax provision. The estimated annual effective tax rate is subject to significant volatility due to several factors including the Company’s ability to accurately forecast the pre-tax book income and permanent adjustments in multiple jurisdictions including certain stock-based compensation expense, IRC Section 162(m) adjustments, FDDEI, and a net benefit related to FTC and the U.S. tax implications of GILTI.

(Refer to Note 6 of Notes to Condensed Consolidated Financial Statements for the components of the income tax provision for the three-month periods ended September 30, 2026 and 2025).

Net Income

Net income was $10.3 million and $8.3 million for the three months ended September 30, 2026 and 2025, respectively. The $2.0 million increase was a result of higher revenue, offset in part by higher direct operating costs and higher selling and administrative expenses in the current quarter.

Earnings per share

For the three months ended September 30, 2026, basic and diluted earnings per share were $0.30 and $0.29, respectively, compared to $0.26 and $0.24 for the prior year period. This represents a per share increase of $0.04 for basic EPS and $0.05 for diluted EPS. Earnings per share increased for the quarter due to continued improvement in profitability and operating leverage, reflecting higher revenues and cost efficiencies across the business.

Adjusted Gross Profit and Margin

Adjusted Gross Profit and Adjusted Gross Margin are non-GAAP financial measures. For a reconciliation of Adjusted Gross Profit and Adjusted Gross Margin to the most directly comparable GAAP measure, please see the description of “Non-GAAP Financial Measures – Adjusted Gross Profit and Adjusted Gross Margin” above.

Adjusted gross profit was $38.3 million and $27.7 million for the three months ended September 30, 2026 and 2025, respectively. The $10.6 million increase in adjusted gross profit was primarily due to higher revenues, offset in part by higher direct operating costs. Adjusted gross margin was 40% and 44% for the three months ended September 30, 2026 and 2025, respectively. The decrease in adjusted gross margin was primarily due to higher direct operating costs, offset in part by higher revenues.

Adjusted EBITDA

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.

Adjusted EBITDA was $17.7 million and $16.2 million for the three months ended September 30, 2026 and 2025, respectively. The $1.5 million increase in Adjusted EBITDA was due to higher net income, higher stock-based compensation and depreciation and amortization, offset in part by higher interest income in the current quarter.

Nine Months Ended September 30, 2026 and 2025

Revenues

Total revenues were $277.9 million and $179.3 million for the nine months ended September 30, 2026 and 2025, respectively, an increase of $98.6 million or approximately 55%. Revenue increased primarily due to higher volume for AI data engineering services from existing customer programs.

One customer generated approximately 41% and 58% of the Company's total revenues for the nine months ended September 30, 2026 and 2025, respectively. Another customer generated approximately 32% of the Company's total revenues for the nine months ended September 30, 2026. No other customer accounted for 10% or more of total revenues during these periods. Revenues from non-U.S. customers accounted for 12% and 16% of the Company's total revenues for the nine months ended September 30, 2026 and 2025, respectively.

Direct Operating Costs

Direct operating costs consist of direct and indirect labor costs including incentives, bonuses, stock-based compensation, third-party delivery resource costs, occupancy costs, content acquisition costs, data center hosting fees, cloud services, AI technology subscriptions, depreciation and amortization, travel, telecommunications, computer services and supplies, realized (gain) loss on forward contracts, foreign currency revaluation (gain) loss, recruitment costs and other direct expenses that are incurred in providing services to customers.

Direct operating costs were $160.1 million and $107.5 million for the nine months ended September 30, 2026 and 2025, respectively, an increase of $52.6 million or approximately 49%. The cost increase was primarily attributable to an increase in direct and indirect labor-related costs, third-party delivery resource costs and content acquisition costs to support higher volumes of AI data engineering services from existing customer programs.

The $52.6 million increase in direct operating costs includes $25.3 million from direct and indirect labor-related costs, primarily driven by new hires, salary increases, incentives, stock-based compensation expense, severance and third-party delivery resources. Additional increases primarily included approximately $23.4 million in expenditures incurred for the content acquisition costs of our AI enabled projects, $3.8 million for cloud services and AI technology-related subscription costs driven by increased cloud usage and data processing requirements to support higher revenue and expanded customer engagements, depreciation and amortization of capitalized developed software of $1.7 million, occupancy-related costs of $0.6 million, travel and entertainment costs of $0.2 million, offset in part by a reduction in recruitment fees of $1.8 million, a favorable impact of foreign exchange rate fluctuations of $0.4 million and other direct operating costs of $0.2 million. Direct operating costs as a percentage of total revenues were 58% and 60% for the nine months ended September 30, 2026 and 2025, respectively. The decrease in direct operating costs as a percentage of total revenues was primarily attributable to higher revenues, offset in part by increased direct operating costs.

Gross Profit and Gross Margin

Gross profit is derived by revenues less direct operating costs, while the Gross margin percentage is derived by dividing gross profit over revenues.

Gross profit was $117.8 million and $71.8 million for the nine months ended September 30, 2026 and 2025, respectively. The $46.0 million increase in gross profit was primarily due to higher revenues, offset in part by higher direct operating costs. Gross margin was 42% and 40% for the nine months ended September 30, 2026 and 2025, respectively. The increase in gross margin was primarily due to higher revenues, offset in part by higher direct operating costs.

Selling and Administrative Expenses

Selling and administrative expenses consist of payroll and related costs including commissions, bonuses, and stock-based compensation; marketing, advertising, trade conferences and related expenses; new services research and related software development expenses; software subscriptions; AI technology subscriptions; professional and consultant fees; provision for credit losses; and other administrative overhead expenses.

Selling and administrative expenses were approximately $76.4 million and $42.8 million for the nine months ended September 30, 2026 and 2025, respectively, an increase of $33.6 million or approximately 79%. The increase in selling and administrative expenses was primarily due to continued investments in growth-oriented and capability-building functions. In addition, labor costs increased as we continue to invest in sales, account management, and marketing resources to support new customer acquisition, expand relationships with existing customers, and strengthen our market presence through solution design, go-to-market execution, and thought leadership initiatives.

The $33.6 million increase in selling and administrative expenses was primarily attributable to increased selling, marketing, and administrative payroll and related expenses of $28.6 million, driven by new hires, salary increases, stock-based compensation expense, incentives and bonuses. Additional increases included business software and AI technology subscriptions of $3.5 million, marketing-related expenses of $0.7 million, unused line of credit facilitation fees of $0.3 million, indirect taxes of $0.3 million, travel and entertainment costs of $0.2 million, insurance cost of $0.2 million, fees related to the annual shareholders meeting of $0.2 million and other selling and administrative expenses of $0.9 million, offset in part by credit loss recoveries of $0.8 million and lower professional and recruitment fees of $0.5 million. Selling and administrative expenses as a percentage of total revenues were approximately 27% and 24% for the nine months ended September 30, 2026 and 2025, respectively. The increase in selling and administrative expenses as a percentage of total revenues was primarily attributable to increased selling and administrative expenses offset by higher revenues.

Income Taxes

We recorded an income tax provision of approximately $5.2 million and $6.7 million for the nine months ended September 30, 2026 and 2025, respectively. The effective tax rate was 11.7% and 22.3% for the nine months ended September 30, 2026 and 2025, respectively. Our overall effective tax rate for the nine months ended September 30, 2026 was favorably impacted by net windfalls related to stock-based compensation, a U.S. deduction on FDDEI and a net benefit related to FTC, partially offset by IRC Section 162(m) adjustments, the U.S. tax implications of GILTI and the impact of foreign prior year true-ups and exchange fluctuations.

In each quarter, we update the estimated annual effective tax rate based on the most recent annual forecast and make a year-to-date adjustment to the tax provision. The estimated annual effective tax rate is subject to significant volatility due to several factors including the Company's ability to accurately forecast the pre-tax book income and permanent adjustments in multiple jurisdictions including certain stock-based compensation expense, IRC Section 162(m) adjustments, FDDEI, and a net benefit related to FTC and the U.S. tax implications of GILTI.

(Refer to Note 6 of Notes to Condensed Consolidated Financial Statements for the components of the income tax provision for the nine-month periods ended September 30, 2026 and 2025).

Net Income

Net income was $39.6 million and $23.3 million for the nine months ended September 30, 2026 and 2025, respectively. The $16.3 million increase was a result of higher revenue, offset in part by higher direct operating costs and higher selling and administrative expenses in the current period.

Earnings per share

For the nine months ended September 30, 2026, basic and diluted earnings per share were $1.18 and $1.13, respectively, compared to $0.74 and $0.67 for the prior year period. This represents a per share increase of $0.44 for basic EPS and $0.46 for diluted EPS. Earnings per share increased for the period due to continued improvement in profitability and operating leverage, reflecting higher revenues and cost efficiencies across the business.

Adjusted Gross Profit and Margin

Adjusted Gross Profit and Adjusted Gross Margin are non-GAAP financial measures. For a reconciliation of Adjusted Gross Profit and Adjusted Gross Margin to the most directly comparable GAAP measure, please see the description of "Non-GAAP Financial Measures – Adjusted Gross Profit and Adjusted Gross Margin" above.

Adjusted gross profit was $126.3 million and $78.0 million for the nine months ended September 30, 2026 and 2025, respectively. The $48.3 million increase in adjusted gross profit was primarily due to higher revenues, offset in part by higher direct operating costs. Adjusted gross margin was 45% and 43% for the nine months ended September 30, 2026 and 2025, respectively. The increase in adjusted gross margin was primarily due to higher revenues, offset in part by higher direct operating costs.

Adjusted EBITDA

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.

Adjusted EBITDA was $68.1 million and $42.2 million for the nine months ended September 30, 2026 and 2025, respectively. The $25.9 million increase in Adjusted EBITDA was due to higher net income, higher stock-based compensation and depreciation and amortization, offset in part by higher interest income in the current period.

Liquidity and Capital Resources

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

	September 30, 2026	December 31, 2025
Cash and cash equivalents	$ 163,967	$ 82,230
Working capital	151,132	84,862

As of September 30, 2026, $36.3 million of our cash and cash equivalents balance was held by our foreign subsidiaries, and $127.7 million was held in the United States.

As of September 30, 2026, cash and cash equivalents were $164.0 million, which includes $8.6 million received in connection with ongoing customer programs remained recorded within advances from customers. In addition, as of September 30, 2026, $3.8 million of advance from customers remained unpaid and is included in accrued expenses.

The cash is not required to be segregated. Management considers both advances from customers and the related unpaid project obligations when assessing our liquidity requirements.

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) product management and strategic marketing; (v) general corporate purposes, including working capital; and (vi) possible business acquisitions. As of September 30, 2026, we had working capital of approximately $151.1 million, as compared to working capital of approximately $84.9 million as of December 31, 2025. Working capital grew primarily due to strong revenue-driven cash inflows, which were partially offset by increased payroll and other operating expenses to support expanding AI and AI-related services and customer engagements.

We did not have any material commitments for capital expenditures as of September 30, 2026.

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.

We maintain a revolving line of credit facility. See Note 16, Line of Credit, of the Notes to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, which is incorporated by reference herein.

In August 2026, we filed an automatic shelf registration statement on Form S-3ASR (Registration No. 333-281379) (the "Form S-3") with the SEC that enables us to offer for sale, from time to time and as the capital markets permit, an unspecified amount of common stock, preferred stock, debt securities, rights, warrants and units. The terms of any future offering under the Form S-3 will be established at the time of such offering and will be described in a prospectus supplement filed with the SEC prior to the completion of any such offering.

At-The-Market Stock Offering Program

On August 6, 2026, we entered into an Equity Distribution Agreement (the "Sales Agreement") with Goldman Sachs & Co. LLC, Craig-Hallum Capital Group LLC, Wells Fargo Securities, LLC, Maxim Group LLC, and Wedbush Securities Inc. (each, a "Sales Agent" and collectively, the "Sales Agents"), pursuant to which we may offer and sell shares of our Common Stock, having an aggregate offering price of up to $300,000,000 from time to time to or through the Sales Agents acting as principal and/or sales agent. No sales were made under the Sales Agreement during the three months ended September 30, 2026.

Cash Flows

Net Cash Provided by Operating Activities

Cash provided by our operating activities for the nine months ended September 30, 2026 was $80.5 million resulting from net income of $39.6 million, adjusted for non-cash expenses of $25.8 million and an increase in working capital of $15.1 million. 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, 2025 was $33.7 million resulting from net income of $23.3 million, adjusted for non-cash expenses of $17.4 million and a decrease in working capital of $7.0 million. Refer to the Condensed Consolidated Statements of Cash Flows for further details.

Net Cash Used in Investing Activities

Cash used in our investing activities was $7.7 million and $8.3 million for the nine-month periods ended September 30, 2026 and 2025, respectively, 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 capitalized developed software and ongoing technology, equipment and infrastructure upgrades will approximate to $10.0 million, a portion of which we may finance.

Net Cash Provided by Financing Activities

Cash provided by financing activities for the nine months ended September 30, 2026 was $9.8 million primarily from proceeds of stock option exercises of $11.0 million, offset in part by withholding taxes on net settlement of restricted stock awards of $0.3 million and payment for long-term obligations of $0.9 million.

Cash provided by financing activities for the nine months ended September 30, 2025 was $1.3 million primarily from proceeds of stock option exercises of $1.5 million, offset in part by payment of long-term obligations of $0.2 million.

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 credit losses and billing adjustments, long-lived assets, intangible assets, goodwill, valuation of deferred tax assets and income tax provision, value of securities underlying stock-based compensation, litigation accruals, pension benefits, valuation of derivative instruments and estimated accruals for various tax exposures. We base our estimates on historical and anticipated results and trends and on various other assumptions that we believe are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from our estimates and could have a significant adverse effect on our 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

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, principal financial officer and principal accounting 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, principal financial officer and principal accounting 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, 2026. Based on this evaluation, our principal executive officer, principal financial officer and principal accounting officer concluded that, as of September 30, 2026, 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, 2026 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 10, 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

As of the date of this filing, there have been no material changes to the risk factors associated with our business previously disclosed. For information regarding Risk Factors, please refer to Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2025.

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, 2026.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

Rule 10b5-1 Trading Plans

During the quarter ended September 30, 2026, none of the Company’s directors or officers informed the Company of the adoption or termination of a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as those terms are defined in Regulation S-K, Item 408.

Item 6. Exhibits

Exhibit No.	Description
10.1*	Amendment Number 4 to Employment Agreement, by and between Innodata Inc. and Jack Abuhoff, as amended, effective as of September 30, 2026 (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K/A filed with the Securities and Exchange Commission on September 30, 2026).
10.2*	Amendment Number 1 to Employment Agreement, by and between Innodata Inc. and Rahul Singhal, effective as of September 30, 2026 (incorporated herein by reference to Exhibit 10.2 to the Current Report on Form 8-K/A filed with the Securities and Exchange Commission on September 30, 2026).
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.
31.3**	Certificate of Chief Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1***	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2***	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.3***	Certification of Chief Accounting Officer 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, 2026, formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets as of September 30, 2026 (unaudited) and December 31, 2025; (ii) Condensed Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended September 30, 2026 and 2025 (unaudited); (iii) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2026 and 2025 (unaudited); (iv) Condensed Consolidated Statements of Stockholders' Equity for the three and nine months ended September 30, 2026 and 2025 and (v) Notes to Condensed Consolidated Financial Statements (unaudited).
104	Cover Page Interactive Data File, formatted in iXBRL and contained in Exhibit 101.

* Exhibit represents a management contract or compensatory plan, contract or arrangement required to be filed as Exhibits to this Quarterly Report on Form 10-Q.

** Filed herewith.

*** In accordance with SEC Release 33-8238, Exhibits 32.1, 32.2 and 32.3 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 5, 2026

/s/ Rahul Singhal
Rahul Singhal
Chief Executive Officer and President

Date:November 5, 2026

/s/ Jayant Chauhan
Jayant Chauhan
Chief Financial Officer
and Principal Financial Officer

Date:November 5, 2026

/s/ Marissa B. Espineli
Marissa B. Espineli
Chief Accounting Officer
and Principal Accounting Officer

Exhibit 31.1

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

I, Rahul Singhal, 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 5, 2026

/s/ Rahul Singhal
Rahul Singhal
Chief Executive Officer and President

Exhibit 31.2

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

I, Jayant Chauhan, 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 officers 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 officers 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 5, 2026

/s/ Jayant Chauhan
Jayant Chauhan
Chief Financial Officer and Principal Financial Officer

Exhibit 31.3

CERTIFICATION OF THE PRINCIPAL ACCOUNTING 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 officers 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 officers 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 5, 2026

/s/ Marissa B. Espineli
Marissa B. Espineli
Chief Accounting Officer and Principal Accounting Officer

Exhibit 32.1

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, 2026, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Rahul Singhal, 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/ Rahul Singhal
Rahul Singhal
Chief Executive Officer and President
November 5, 2026

Exhibit 32.2

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, 2026, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jayant Chauhan, 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/ Jayant Chauhan
Jayant Chauhan
Chief Financial Officer and Principal Financial Officer
November 5, 2026

Exhibit 32.3

CERTIFICATION OF THE PRINCIPAL ACCOUNTING 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, 2026, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Marissa B. Espineli, Chief Accounting 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
Chief Accounting Officer and Principal Accounting Officer
November 5, 2026