

**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549  
**FORM 10-K**

(Mark One)

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

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002**

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

COMMISSION FILE NUMBER 0-22196

**INNODATA CORPORATION**

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

13-3475943

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

THREE UNIVERSITY PLAZA  
HACKENSACK, NEW JERSEY

(Address of principal executive offices)

07601

(Zip Code)

(201) 488-1200

(Registrant's telephone number)

Securities registered under Section 12(b) of the Exchange Act: NONE

Securities registered under Section 12(g) of the Exchange Act: COMMON STOCK,  
\$.01 PAR VALUE

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).  
Yes ☐ No ☒

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. \$25,100,000

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

**DOCUMENTS INCORPORATED BY REFERENCE**  
**[SEE INDEX TO EXHIBITS]**

**PART I**

Disclosures in this Form 10-K contain certain forward-looking statements, including without limitation, statements concerning the Company's operations, economic performance and financial condition. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words "intend", "believe," "expect," "anticipate" and other similar expressions generally identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates.

These forward-looking statements are based largely on the Company's current expectations, and are subject to a number of risks and uncertainties, including without limitation, continuation or worsening of present depressed market conditions, changes in external market factors, the ability and willingness of the Company's clients and prospective clients to execute business plans which give rise to requirements for digital content and professional services in knowledge processing, difficulty in integrating and deriving synergies from acquisitions, potential undiscovered liabilities of companies that Innodata acquires, changes in the Company's business or growth strategy, the emergence of new or growing competitors, various other competitive and technological factors, risks and uncertainties described under "Risk Factors", and other risks and uncertainties indicated from time to time in the Company's filings with the Securities and Exchange Commission.

Actual results could differ materially from the results referred to in the forward-looking statements. In light of these risks and uncertainties, there can be no assurance that the results referred to in the forward-looking statements contained in this Form 10-K will in fact occur. We make no commitment to revise or update any forward-looking statements in order to reflect events or circumstances after the date any such statement is made.

**ITEM 1. DESCRIPTION OF BUSINESS.**

**GENERAL**

We deliver content manufacturing and XML- related digital asset services to online information providers and companies in the telecommunications, technology, healthcare, defense, and Internet commerce sectors. We have over 100 active clients, including Amazon.com, Dow Jones & Company, Lockheed Martin Corporation, ProQuest Company, Reed Elsevier, Reuters, Simon & Schuster, The Thomson Corporation, and Wolters Kluwer.

We operate through three divisions. Our Content Division aggregates, converts, tags and editorially enhances digital content - services we refer to collectively as "content manufacturing" services. We offer content manufacturing services as a comprehensive outsourcing solution and individually as discrete activities. The Content Division also transforms data to Extensible Markup Language (XML). Our Systems Division offers system design, custom application development, consulting services, and systems integration conforming to XML and related standards. Our Training Division provides a broad range of introductory as well as advanced curricula and training on XML and other knowledge management standards.

Our content manufacturing clients often have time-critical outsourcing needs, with content that requires regular updating or enhancement. We typically service these needs through multi-year contracts or relationships. Substantially all of our 2002 revenue was derived from clients that used our services for more than one year, and approximately 70% of our 2002 revenue was derived from clients that used our services more than two years.

Our XML transformation clients typically engage us to assist in building new, large-scale XML-compliant information repositories or in transforming large-scale legacy electronic information repositories to XML-compliant information repositories. Our XML Content Factory is the largest dedicated factory purpose-built to create XML content.

We are headquartered in Hackensack, New Jersey and have two other offices in North America, seven production facilities in the Philippines, India, and Sri Lanka, and a technology development center in India. Our largest production facility is the XML Content Factory, in Mandaue, the Philippines. Our wide area network and communications systems enable multiple production processes to be performed simultaneously at various of our production facilities.

We use server-based information technology to operate through a structured workflow using advanced tools. We drive efficiency and quality by using advanced manufacturing and management techniques including total quality management and statistical process control.

**Content Manufacturing and Outsourcing**

By capitalizing on the benefits of our scale and specialization, we aim to be a strategic long-term provider of comprehensive content manufacturing services that complement our customers' in-house capabilities and enable them to respond to market challenges. Our business

strategy is to expand our client base and enhance our service offerings in this area.

A critical component of our content manufacturing and outsourcing services is the conversion of hardcopy and paper collections and legacy-formatted data to a variety of output formats including XML and XML derivatives, HTML, SGML, Open eBook (OeB), Microsoft Reader (.LIT), Rocket eBook (.RB), and PDF. For this purpose, we use high-speed scanning; a variety of commercial and proprietary OCR/ICR (optical/intelligent character recognition) applications; structured workflow processes; and proprietary applications and tools designed to create accurate, consistent markup and data. We use proprietary technology for data enhancement and validation, and create automated procedures - utilizing industry standards-aware software tools such as Omnimark, XMetaL, Epic, etc. - to ensure validated SGML and XML markup.

Another critical component of our content manufacturing and outsourcing services is the enhancement of content. Our engineers and programmers develop custom conversion filters and parsers for this purpose. Our subject matter experts in fields such as law, education, science, medicine, and engineering provide taxonomy and controlled vocabulary development, hyperlinking, tagging, general editorial services, and indexing and abstracting.

We typically price our services on a resource-utilization basis or quantity-delivered basis.

## **XML Transformation**

Content publishers seek to migrate to XML-based publishing systems in order to save money and save time by creating a single data store from which to create multiple information products (as opposed to having to build a separate data store for each information product). In addition, publishers who maintain their content in XML can syndicate content and spontaneously synthesize data into interactive "web services." XML content transformation is the prerequisite for content owners to accomplish these outcomes.

To transform content to XML, tags are inserted within the content to give the content meaning which computers can read. Our proprietary technology includes production-grade, auto-tagging applications that utilize pattern recognition based on comprehensive rule sets and heuristic online databases. The technology enables mass creation or conversion of XML content from complex, unstructured information.

We also translate desktop publishing documents (QuarkXPress, PDF, MS Word, etc.) to XML variants, from which we generate multiple file formats (HTML, OeB, PDF, proprietary eBook formats, etc.) to support multiple channels of distribution.

We typically price these services based on units of data produced or transformed.

## **XML Systems and Training**

Clients who use our XML systems engineering and consulting services typically require publishing systems or performance support / process automation systems that enable multiple authors to collaborate on content and enable multiple products to be generated from single-source XML assemblies. Our Systems Division provides full-service consulting and information system design and systems integration to configure, improve, and validate these and other software systems and technologies. Services are provided in ISO, IEC, ANSI, IETF, and W3C standards.

Our Training Division provides clients with professional training, courseware, and briefings in XML and other formal public standards.

We typically price these services on a fixed-fee turnkey basis.

## **BUSINESS STRATEGY**

We seek to capitalize on the increased willingness of companies in our markets to explore outsourcing as a way of reducing expenses associated with content manufacture while reserving internal resources to focus on strategic core competencies such as high-level editorial processes, product development, and publishing. We also seek to respond to our customers' increased interest in publishing information from a single repository to multiple channels (i.e., web, print, CD, print-on-demand, PDA) and to re-use existing digital assets to quickly create new products.

We believe that there is a vast quantity of textual, audio, and video data sources that will be made available on the Web by electronic publishers, and that many of them will choose XML and its related standards as the underlying technology. We intend to be the partner of choice for clients requiring large-scale XML transformations as well as XML systems development and training.

We intend to target publishers and information providers, knowledge service and eLearning companies, Internet content portals, information aggregators, e-content vendors, rich media owners, and corporations with online commerce and knowledge management initiatives.

Specifically, we plan to drive content manufacturing and outsourcing opportunities by:

Expanding existing client relationships and developing long-term relationships with new clients who have recurring requirements for content manufacturing and outsourcing services;

Leveraging our subject matter expertise, world-wide data manufacturing capabilities, and information technology infrastructure to drive

substantial cost savings for clients while decreasing their product latency and enabling them to launch products more quickly in response to market opportunities; and

Offering custom-tailored XML-based business solutions using a variety of proprietary and third-party licensed software on multiple hardware and systems software platforms and domestic and international workforces.

We aim to be a leader in the market for XML content transformation, systems, and training by:

Further leveraging existing and emerging technologies to create increasingly efficient tools for creating large-scale XML content repositories;

Maintaining our position as the preferred supplier of large-scale XML content services, while extending our leadership in XML architecture and XML consulting;

Entering into additional high-profile client partnerships for large-scale XML content services; and

Continuing to take an active role in developing key structured information standards.

Furthermore, we plan to:

Extend our service offerings into other strategic areas consistent with our position as a leading provider of digital asset services and solutions;

Design customized service offerings to meet the unique needs of targeted vertical markets;

Respond to opportunities to provide increased value-added services to our clients;

Expand our delivery capabilities to embrace new technology initiatives that are strategic for our clients; and

Cultivate and maintain a significant client and project base to create economies of scale that enable us to achieve competitive costs.

### **Close Relationships With Clients**

Innodata views its long-term partnership with our clients as a critical element in its historical and future success.

To continue to meet the needs of existing and prospective clients in a timely fashion, Innodata works directly with its clients to identify and develop new and improved service offerings. To promote a close and continuing relationship with clients, we sell through our North American Solutions Center and provide 24/7 project support through our Asia-based customer service center.

We generally perform our work for our clients under project-specific contracts, requirements-based contracts, or long-term contracts. Contracts are typically subject to numerous termination provisions.

One client accounted for 30% and 27% of the Company's revenues for the years ended December 31, 2002 and 2001 respectively and a second client accounted for 16% of the Company's revenues for the year ended December 31, 2002. One other client, which substantially curtailed operations, accounted for 30% and 54% of the Company's revenues in the years ended December 31, 2001 and 2000, respectively. No other client accounted for 10% or more of revenues during this period. Further, in 2002, 2001, and 2000, export revenues, substantially all of which were derived from European clients, accounted for 23%, 13%, and 10%, respectively, of the Company's revenues.

We are from time to time required by clients to enter into non-disclosure agreements pursuant to which we agree not to disclose their identity or the nature of our relationship with them. Reasons for requiring such arrangements vary, but typically involve a preference on the part of the client not to publicize its outsourcing strategy or to telegraph to competitors a new product development initiative.

### **Comprehensive Service Offering**

Our comprehensive service offering distinguishes us from our competitors. Many competitors offer only a single service, such as data capture, but do not offer the full complement of specialized services large organizations require in order to build large-scale XML repositories or manufacture large-scale digital content. Innodata provides a broad range of content-related services to enable its clients to obtain the full benefit of outsourcing within a seamless operational framework premised on our accountability to our clients.

### **Innovative Technology-Based Solutions**

We have invested substantially in our manufacturing infrastructure in order to ensure clients a reliable and highly redundant infrastructure and to enable us to employ the latest tools to drive significant process efficiencies.

## **INFORMATION AS TO OPERATING SEGMENTS**

The applicable information on operating segments of the Company for the three years ended December 31, 2002 and at the end of each year, are included in Note 8 to the Company's financial statements.

## **SALES AND MARKETING**

Our full-time direct sales force primarily conducts sales and marketing functions. Sales and marketing activities consist primarily of exhibiting at trade shows in the United States and Europe, and seeking direct personal access to decision-makers at existing and prospective clients. We have also obtained visibility by way of articles published in the trade press, through participation in industry conferences and standards organizations, and by speaking engagements at industry events. To date, Innodata has not conducted any significant advertising campaign in the general media.

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

## **COMPETITION**

The markets for our services are highly competitive. The most significant competitive factors are quality and reliability of services, price of services, scope and scale, quality of supporting services, and technical competence. We are not aware of any single competitor that provides the same range of services as we do, and we believe that we have created significant differentiation relative to our quality of services as well as our scope of services and scale of services. However, our industry is highly fragmented and we face significant competition in each of our service areas.

In terms of content manufacturing/outsourcing, we believe we compete successfully by offering high quality services and favorable pricing by leveraging our technical skills, process knowledge, and economies of scale. Competition is highly fragmented and depends on the specific service provided. We have substantially greater resources than most of our competitors, resulting in greater breadth of services as well as scope and scale. Thus, we have a greater ability to obtain client contracts where the undertaking required is technically sophisticated, sizable in scope or scale, or requires significant investment. Our outsourcing services also compete with clients' and potential clients' "in-sourcing" personnel, who may attempt to duplicate our services using in-house staff.

In terms of XML data transformation, companies compete on the basis of quality, accuracy, price, and consistency, as well as ability to deliver large-scale, tag-intensive requirements quickly. Innodata's ability to compete favorably is, therefore, dependent upon its ability to react appropriately to short and long-term trends, harness new technology, and deliver large-scale requirements quickly. SPI, Inc. and Jouve, S.A. among others, compete for the XML content creation business.

With respect to XML systems and consulting, Thomas Technology Solutions, Inc., Bearing Point (formerly KPMG Consulting), and Booz Allen Hamilton are among those providing competitive services. In addition, we must frequently compete with our clients' own internal information technology capability.

## **RESEARCH AND DEVELOPMENT**

We maintain a research and development capability to evaluate, on an ongoing basis, advances in computer software, hardware and peripherals, computer networking, telecommunication systems and Internet-related technologies as they relate to our business and to develop and install enhancements to our proprietary systems. During the last two fiscal years, we invested heavily in the development and integration of proprietary applications for use in our XML Content Factory. Applications development was predominantly associated with improving accuracy, consistency, and speed of complex XML tagging for large-scale requirements. We intend to make further investments in applications development and integration in order to respond to market opportunities. For the three years ended December 31, 2002, all research and development expenditures were charged as development expenses.

## **EMPLOYEES**

As of February 28, 2003, we employed an aggregate of approximately 70 persons in the United States, and approximately 7,000 persons in five production facilities in the Philippines, one production facility in Sri Lanka, one production facility in India, and a software development center in India. No employees are currently represented by a labor union and we believe that our relations with our employees are satisfactory.

At all of our locations, we enforce vigorous policies to protect our employees against sexual harassment and discrimination based on age, race, gender or sexual orientation. The average age of our employees is approximately 25 to 30 years. Most of our employees have graduated from at least a two-year college program. Many of our employees hold advanced degrees in law, business, technology, medicine, and social sciences.

To retain our qualified personnel, Innodata offers highly competitive base salaries that are supplemented by results-based incentives. Senior management is eligible for bonuses and stock options. Our compensation structure is coupled with an extensive benefits package that includes comprehensive health insurance coverage, canteen and grocery subsidies, paid holiday leaves, continuing education programs, clothing and optical allowances, and a retirement program. Moreover, Innodata provides overtime premiums, holiday pay, bereavement and birthday leaves,

as well as maternity and paternity benefits.

## **RISK FACTORS**

The nature of our business, as well as our strategy, the size and location of our facilities, and other factors entail a certain amount of risk. These risks may include, but are not limited to, the following:

### **RISK OF CONTINUATION OR WORSENING OF PRESENT MARKET CONDITIONS**

The current economic uncertainty has curtailed business initiatives by our clients and potential clients. To address this sales challenge and to reduce the percentage of total revenue that are often non-recurring, we have begun to refocus our sales force to emphasize our content manufacturing outsourcing services. Nevertheless, a material recovery in revenues and earnings will in substantial part depend on removal of the current uncertainty and a return to more vigorous economic growth.

### **RISKS OF EXPANDED OPERATIONS**

We have expanded our operations rapidly in recent years. As a result, we have incurred new fixed operating expenses associated with our expansion efforts, including increases in depreciation expense, rental expense, and overall increases in cost of sales. In order to capitalize on this investment, we need to develop new client relationships and expand existing ones. If our revenues do not increase sufficiently to offset these expenses, our operating results may be adversely affected.

### **RISKS OF ACQUISITIONS**

Acquisitions involve a number of risks and challenges. These include, but are not limited to: diversion of management's attention; the need to integrate acquired operations; potential loss of key employees and clients of the acquired companies; lack of experience operating in the market of the acquired business; and an increase in expenses and working capital requirements.

To integrate acquired operations, we must implement management information systems and operating systems and assimilate and manage the personnel of the acquired operations. Geographic distances may further complicate integration. The integration of acquired businesses may not be successful and could result in disruption to other parts of our business.

Any of these and other factors could adversely affect our ability to achieve anticipated levels of profitability of acquired operations or realize other anticipated benefits of an acquisition. Furthermore, any future acquisitions may require us to incur debt or obtain additional equity financing, which could increase our leverage or be dilutive to our existing shareholders. No assurance can be given that we will consummate any additional acquisitions in the future.

### **VARIABILITY OF CLIENT REQUIREMENTS AND OPERATING RESULTS**

A number of our significant client contracts are requirements-based. Clients may cancel their production requirements, change their production requirements, or delay their production requirements for a number of reasons. Cancellations, reductions, or delays by a significant client or by a group of clients would adversely affect our results of operations. In addition, other factors may contribute to fluctuations in our results of operations. These factors include: the timing of client orders; the volume of these orders relative to our capacity; market acceptance of clients' new products; the timing of our expenditures in anticipation of future orders; our effectiveness in managing manufacturing processes; changes in economic conditions; and local factors and events that may affect our production volume (such as local holidays) or unforeseen events (e.g., earthquakes, storms, civil unrest).

We make significant decisions based on our estimates of client requirements, including decisions about the levels of business that we will seek and accept, production schedules, equipment procurement, personnel hiring, and other resource acquisition. The nature of our clients' commitments and the possibility of changes in demand for their products may reduce our ability to estimate accurately future client requirements. On occasion, clients may require rapid increases in production, which can stress our resources. Although we have increased our content conversion capacity and plan further increases, there can be no assurance we will have sufficient capacity at any given time to meet all of our clients' demands. In addition, because many of our costs and operating expenses are relatively fixed, a reduction in client demand can adversely affect our margins.

### **VARIABILITY OF QUARTERLY OPERATING RESULTS**

We expect our revenues and operating results to vary from quarter to quarter. Such variations are likely to be caused by many factors that are, to some extent, outside our control, including: mix and timing of client projects; completing client projects; timing of new contracts; and one-time non-recurring and unusual charges.

Accordingly, we believe that quarter-to-quarter comparisons of operating results for preceding quarters are not necessarily meaningful. You should not rely on the results of one quarter as an indication of our future performance.

### **CLIENT CONCENTRATION; DEPENDENCE ON THE ONLINE INFORMATION INDUSTRY**



One client accounted for 30% and 27% of the Company's revenues for the years ended December 31, 2002 and 2001, respectively, and a second client accounted for 16% of the Company's revenues for the year ended December 31, 2002. One other client, which substantially curtailed operations, accounted for 30% and 54% of the Company's revenues in the years ended December 31, 2001 and 2000, respectively. No other client accounted for 10% or more of revenues during this period. Further, in 2002, 2001, and 2000, export revenues, substantially all of which were derived from European clients, accounted for 23%, 13%, and 10%, respectively, of the Company's revenues. A significant amount of our revenues are derived from clients in the online information industry. Accordingly, our accounts receivable generally include significant amounts due from such clients. In addition, as of December 31, 2002, approximately 33% of the Company's accounts receivable was from foreign (principally European) clients. On occasion, we may lose a client as a result of a business failure, contract expiration, or the selection of another service provider. We cannot guarantee that we will be able to retain long-term relationships or secure renewals of short-term relationships with our major clients in the future. Moreover, revenue derived from certain of our relationships depend upon the level of services we perform, which may vary from period to period depending on client requirements.

Factors affecting the online information industry generally could have a material adverse effect on our clients and, as a result, on our performance. Such factors include: the inability of our clients to adapt to rapidly changing technology and evolving industry standards, the inability of our clients to develop and market their products, some of which are new and untested; and, recessionary periods in our clients' markets. If clients' products become obsolete or fail to gain widespread commercial acceptance, our business may be materially and adversely affected.

### **RISK OF INCREASED TAXES**

We have structured our operations in a manner designed to maximize income in countries where tax incentives have been extended to encourage foreign investment or where income tax rates are low. Our taxes could increase if these tax incentives are not renewed upon expiration, or tax rates applicable to us are increased. Substantially all of the services provided by our Asian subsidiaries are performed on behalf of clients based in North America and Europe. We believe that profits from our Asian operations are not sufficiently connected to jurisdictions in North America or Europe to give rise to income taxation there. However, tax authorities in jurisdictions in North America and Europe could challenge the manner in which profits are allocated among our subsidiaries, and we may not prevail in any such challenge. If our Asian profits became subject to income taxes in such other jurisdictions, our worldwide effective tax rate could increase.

### **RISKS OF COMPETITION**

The markets for our services are extremely competitive and fragmented. As a result of this highly competitive environment, we may lose customers or have difficulty in acquiring new customers and our results of operations may be adversely affected. A significant source of competition for us is the in-house capability of our target client base. There can be no assurance that these clients will outsource more of their needs or that such businesses will not bring in-house services that they currently outsource.

### **RISKS OF INTERNATIONAL OPERATIONS**

While the major part of our operations are carried on in the Philippines, India, and Sri Lanka, our headquarters are in the United States and our clients are primarily located in North America and Europe. As a result, we are not as affected by economic conditions overseas as we would be if we depended on revenues from sources internal to those countries. However, such adverse economic factors as inflation, external debt, negative balance of trade, and underemployment may significantly impact us.

Certain aspects of overseas economies directly affect us. Overseas operations remain vulnerable to political unrest, which could interfere with our operations. Political instability could also change the present satisfactory legal environment for us through the imposition of restrictions on foreign ownership, repatriation of funds, adverse labor laws, and the like.

Our Indian operations are conducted through wholly-owned subsidiaries that have been granted an income tax holiday through March 31, 2006. Accordingly, minimal income taxes will be payable on earnings from operations of the subsidiaries during such period, unless repatriated to the U.S.

We fund our overseas operations through transfers of U.S. dollars only as needed and generally do not maintain any significant amount of funds or monetary assets overseas. To the extent that we need to bring currency to the United States from our overseas operations, we may be affected by currency control regulations.

The Philippines is subject to relatively frequent earthquakes, volcanic eruptions, floods, and other natural disasters, which may disrupt our operations. Further, power outages lasting for periods of as long as eight hours per day have occurred. Our facilities are equipped with standby generators that have produced electric power during these outages; however, there can be no assurance that our operations will not be adversely affected should municipal power production capacity deteriorate.

The geographical distances between Asia, the Americas, and Europe create logistical and communications challenges which we must overcome.

The Philippines has ongoing problems with Muslim insurgents. The Abu Sayyaf group of kidnappers, which is purported to have ties to the Al

Qaeda terrorist organization, is concentrated on Basilan Island, an island far away from our facilities, and the government has stepped up activities to eradicate the group. There can be no assurances that these efforts will be successful or that the group will not attempt to disrupt activities or commit terrorist acts in other areas.

## **RISKS OF CURRENCY FLUCTUATIONS AND HEDGING OPERATIONS**

The Philippines has historically experienced high rates of inflation and major fluctuations in exchange rate between the Philippine peso and the U.S. dollar. Continuing inflation without corresponding devaluation of the peso against the dollar, or any other increase in value of the peso relative to the dollar, may have a material adverse effect on our operations and financial condition. Since 1997, we have not purchased foreign currency futures contracts for pesos. However, we may choose to do so in the future.

## **DEPENDENCE ON KEY PERSONNEL**

Our success depends to a large extent upon the continued services of our key executives and skilled personnel. Several of our officers and key employees are bound by employment or non-competition agreements. However, there can be no assurance that we will retain our officers and key employees. We could be materially and adversely affected by the loss of such personnel.

## **VOLATILITY OF MARKET PRICE OF COMMON STOCK**

The stock market in recent years has experienced significant price and volume fluctuations that have affected the market prices for the common stock of technology and Internet-related companies. Such fluctuations have often been unrelated to or disproportionately impacted by the operating performance of such companies. The market for our common stock may be subject to similar fluctuations. Factors such as fluctuations in our operating results, announcements of new contracts, partnerships, acquisitions and alliances, technological innovations or events affecting other companies in the Internet or technology industry generally, as well as currency fluctuations and general market conditions, may have a significant effect on the market price of our common stock.

## **ITEM 2. DESCRIPTION OF PROPERTY.**

Our services are primarily performed from our Hackensack, New Jersey corporate headquarters, two other North American offices, and seven overseas production facilities, including our 100,000 square foot XML Content Factory complex located in Mandaue, the Philippines. In addition, we have a software development facility in Gurgaon, India. All facilities are leased for terms expiring on various dates through 2010, and many are cancelable at our option. Annual rental payments on property leases are expected to approximate \$1,600,000.

We believe that we maintain adequate fire, theft and liability insurance for our facilities and that our facilities are adequate for our present needs.

## **ITEM 3. LEGAL PROCEEDINGS.**

In connection with the cessation of all operations at certain foreign subsidiaries, certain former employees have filed various illegal dismissal actions in the Philippines seeking, among other remedies, reinstatement of employment, payment of back wages and damages approximating one million dollars. Outside counsel has advised management that under the circumstances, the Company is not legally obligated to pay severance to such terminated employees. Based upon the advice of counsel, management believes the actions are substantially without merit and intends to defend the actions vigorously.

In addition, one of the foreign subsidiaries which ceased operations has been presented with a tentative tax assessment by the Philippine Bureau of Internal Revenue for an amount approximating \$400,000, plus applicable interest and penalties. Management believes the tentative assessment is principally without substance and any amounts that the Company estimates might ultimately be paid in settlement (which are not expected to be material) have been accrued.

In addition, the Company is subject to various legal proceedings and claims which arise in the ordinary course of business.

While management currently believes that that ultimate outcome of all these proceedings will not have a material adverse effect on the Company's financial position or overall trends in results of operations, litigation is subject to inherent uncertainties. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on the operating results of the period in which the ruling occurs. In addition, the estimate of potential impact on the Company's financial position or overall results of operations for the above legal proceedings could change in the future.

## **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

See Part II, Item 4 of Form 10-Q for September 30, 2002 as to results of voting at our Annual Meeting held on October 1, 2002.

## **PART II**

## **ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.**



Innodata Corporation (The "Company") Common Stock is quoted on the Nasdaq National Market System under the symbol "INOD." On February 28, 2003, there were 114 stockholders of record of the Company's Common Stock based on information provided by the Company's transfer agent. Virtually all of the Company's publicly held shares are held in "street name" and the Company believes the actual number of beneficial holders of its Common Stock to be approximately 4,000.

The following table sets forth the high and low sales prices on a quarterly basis for the Company's Common Stock, as reported on Nasdaq, for the two years ended December 31, 2002, after giving retroactive effect to a three-for-one stock dividend paid on September 9, 1999, a two-for-one stock dividend paid on December 7, 2000 and a two-for-one stock dividend paid on March 23, 2001.

	COMMON STOCK SALE PRICES	
2001 ----	HIGH ----	LOW -----
First Quarter	\$7.78	\$3.91
Second Quarter	9.25	3.05
Third Quarter	3.98	1.26
Fourth Quarter	3.73	1.98
2002 ----	HIGH ----	LOW -----
First Quarter	\$3.30	\$1.81
Second Quarter	2.60	1.05
Third Quarter	1.50	0.75
Fourth Quarter	1.07	0.60

## DIVIDENDS

The Company has never paid cash dividends on its Common Stock and does not anticipate that it will do so in the foreseeable future. The future payment of dividends, if any, on the Common Stock is within the discretion of the Board of Directors and will depend on the Company's earnings, its capital requirements and financial condition and other relevant factors. The Company paid a three-for-one stock dividend on September 9, 1999, a two-for-one stock dividend on December 7, 2000, and a two-for-one stock dividend on March 23, 2001.

## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

Information setting forth securities authorized for issuance under equity compensation plans is provided in Part III, Item 12 of this Form 10-K.

## ITEM 6. SELECTED FINANCIAL DATA (DOLLARS IN THOUSANDS)

YEAR ENDED DECEMBER 31,	2002	2001	2000	1999	1998
-----	-----	-----	-----	-----	-----
REVENUES	\$36,385	\$58,278	\$50,731	\$27,490	\$19,593
	-----	-----	-----	-----	-----
OPERATING COSTS AND EXPENSES					
Direct operating costs	32,005	44,354	34,458	17,854	13,069
Selling and administrative	10,038	8,337	7,248	6,783	4,982
Provision for doubtful accounts	-	2,942	-	-	-

Restructuring costs and asset impairment	244	865	-	-	133
(Gain) loss on settlement of currency contracts	-	-	-	-	(488)
Interest expense	29	9	43	10	77
Interest income	(89)	(216)	(155)	(111)	(98)
	-----	-----	-----	-----	-----
Total	42,227	56,291	41,594	24,536	17,675
	-----	-----	-----	-----	-----
(LOSS) INCOME BEFORE (BENEFIT FROM) PROVISION FOR INCOME TAXES	(5,842)	1,987	9,137	2,954	1,918
(BENEFIT FROM) PROVISION FOR INCOME TAXES	(677)	639	2,969	841	(332)
	-----	-----	-----	-----	-----
NET (LOSS) INCOME	\$ (5,165)	\$ 1,348	\$ 6,168	\$ 2,113	\$ 2,250
	=====	=====	=====	=====	=====
BASIC (LOSS) INCOME PER SHARE	\$ (.24)	\$ .06	\$ .30	\$ .11	\$ .13
	=====	=====	=====	=====	=====
DILUTED (LOSS) INCOME PER SHARE	\$ (.24)	\$ .05	\$ .26	\$ .10	\$ .12
	=====	=====	=====	=====	=====
CASH DIVIDENDS PER SHARE	-	-	-	-	-
	=====	=====	=====	=====	=====
DECEMBER 31,	2002	2001	2000	1999	1998
	-----	-----	-----	-----	-----
WORKING CAPITAL	\$ 8,570	\$ 8,854	\$ 9,505	\$ 5,966	\$ 4,749
	=====	=====	=====	=====	=====
TOTAL ASSETS	\$22,697	\$30,094	\$27,946	\$15,646	\$10,596
	=====	=====	=====	=====	=====
LONG-TERM DEBT	-	-	-	\$ 5	\$ 24
	=====	=====	=====	=====	=====
STOCKHOLDERS' EQUITY	\$15,569	\$20,362	\$19,316	\$11,652	\$ 7,485
	=====	=====	=====	=====	=====

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### RESULTS OF OPERATIONS

#### YEARS ENDED DECEMBER 31, 2002 AND 2001

Revenues decreased 38% to \$36,385,000 for the year ended December 31, 2002 compared to \$58,278,000 for the similar period in 2001. Revenues from the content services segment decreased 43% to \$33,089,000 for the year ended December 31, 2002 compared to \$57,825,000 for the similar period in 2001. The decrease principally resulted from the loss in revenues from one client which substantially curtailed operations, which accounted for approximately \$17 million of the Company's content services segment revenues in 2001, and from the decline in revenues from a second client, whose projects were substantially completed in 2002. Revenues from the Company's systems and training segment were \$3,296,000 for the year ended December 31, 2002 and \$453,000 for the one month period from December 1, 2001 (date of acquisition) to December 31, 2001.

One client accounted for 30% and 27% of the Company's revenues for the year ended December 31, 2002 and 2001 respectively and a second client accounted for 16% of the Company's revenues for the year ended December 31, 2002. One other client, which substantially curtailed

operations, accounted for 30% of the Company's revenues in the year ended December 31, 2001. No other client accounted for 10% or more of revenues during this period. Further, in the year ended December 31, 2002 and 2001, export revenues, substantially all of which were derived from European clients, accounted for 23% and 13%, respectively, of the Company's revenues.

In early 2001, a significant portion of the Company's revenue increase came from XML transformation projects by early-stage companies that had raised significant venture capital to pursue digital library and e-business initiatives. The downturn in the technology industry in 2001 resulted in a falloff of revenues from companies in this industry sector. The economic downturn also caused many blue-chip publishers to curtail discretionary spending and new initiatives on XML transformation projects. To address this sales challenge and to reduce the percentage of total revenue that are often non-recurring, the Company has begun to refocus its sales force to emphasize its content outsourcing services.

Direct operating expenses were \$32,005,000 for the year ended December 31, 2002 and \$44,354,000 for the year ended December 31, 2001, a decrease of 28%. Direct operating expenses as a percentage of revenues were 88% in 2002 and 76% in 2001. Direct operating expenses for the content services segment were \$28,053,000 and \$44,039,000 in the year ended December 31, 2002 and 2001, respectively, a decrease of 36%. Direct operating expenses as a percentage of revenues for the content services segment were 85% and 76% in the year ended December 31, 2002 and 2001, respectively. The dollar decrease for the content services segment in the 2002 period is principally due to a reduction in labor costs associated with lower revenues, and to reductions in fixed costs associated with the Company's cost reduction initiatives. The percentage increase for the content services segment in the 2002 period is primarily attributable to the decrease in revenues without a corresponding decrease in non-labor costs. Labor costs as a percentage of revenue remained consistent. Direct operating expenses for the Company's systems and training segment were \$3,952,000, or 120% of systems and training segment revenues, for the year ended December 31, 2002 and \$315,000, or 70% of revenues, for the month of December 2001. Direct operating expenses primarily include direct payroll, telecommunications, depreciation, equipment maintenance and upgrade costs, computer services, supplies and occupancy.

Selling and administrative expenses were \$10,038,000 and \$8,337,000 in the year ended December 31, 2002 and 2001, respectively, an increase of 20%. Selling and administrative expenses for the content services segment were \$8,525,000 and \$8,227,000 for the year ended December 31, 2002 and 2001, respectively, an increase of 4%. The increase for the content services segment is primarily due to a non-cash compensation charge of approximately \$500,000, and an increase in selling and marketing costs of approximately \$684,000, offset by a 14% reduction in general and administrative expenses. Selling and administrative expenses as a percentage of revenues for the content services segment increased to 26% in the 2002 period from 19% in the 2001 period due primarily to the decrease in revenues without a corresponding decrease in such expenses. Selling and administrative expenses for the systems and training segment were \$1,513,000, or 46% of sales, in the year ended December 31, 2002 compared to \$110,000, or 24% of sales, for the one month period December 2001. Selling and administrative expenses primarily include management and administrative salaries, sales and marketing costs, and administrative overhead.

For the year ended December 31, 2001, the Company provided an allowance for doubtful accounts of approximately \$2.6 million representing the remaining balance due at December 31, 2001 from a client that accounted for 30% of its 2001 revenues because the client has reported an inability to raise further operating funds required to make payment. In addition, in 2001 the Company provided approximately \$350,000 for other client bad debts incurred in the ordinary course of business.

During the fourth quarter 2001, the Company commenced certain actions to reduce production operations at a wholly owned Asian subsidiary that was operating at a loss and to reduce overall excess capacity in Asia. Such activities, which culminated in the cessation and closure of all operations at the subsidiary and included employee layoffs, were completed in 2002. In addition, during 2002, the Company closed a second facility, resulting in the write-off of property and equipment associated with the closed facility totaling approximately \$244,000. Such write-off of equipment has been classified as Restructuring Costs and Asset Impairment for the year ended December 31, 2002. Included in Restructuring Costs and Asset Impairment for the year ended December 31, 2001 are estimated facility closure costs, including employee related costs, approximating \$600,000, and the write-off of leasehold improvement costs totaling approximately \$265,000. In 2002, the Company paid approximately \$350,000 in closing costs.

For the year ended December 31, 2002, the income tax benefit was lower as a percentage of pre-tax loss than the federal statutory rate due primarily to certain overseas foreign source losses for which no tax benefit is available.

#### **YEARS ENDED DECEMBER 31, 2001 AND 2000**

Revenues increased 15% to \$58,278,000 for the year ended December 31, 2001 compared to \$50,731,000 for the similar period in 2000. Sales to one client who accounted for \$27.4 million (54%) of the Company's revenues in 2000 declined by approximately \$10 million in 2001. The Company replaced this shortfall in 2001 by a \$14.4 million increase in revenues from another client and net increases in revenues from various other new and existing clients. As a result, total revenues in 2001 increased by \$7.5 million from 2000.

One client accounted for 30% and 54% of the Company's revenues in 2001 and 2000, respectively. One other client accounted for 27% of the Company's revenues in 2001. No other client accounted for 10% or more of the Company's revenues. Further, in 2001 and 2000, export revenues, the vast majority of which were derived from European customers, accounted for 13% and 10%, respectively, of the Company's revenues.

In 2000 and early 2001, a significant portion of the Company's revenue increase came from XML transformation projects by early-stage companies that had raised significant venture capital to pursue digital library and e-business initiatives. The downturn in the technology industry in 2001 resulted in a falloff of revenues from companies in this industry sector. Furthermore, the economic downturn that became

evident late in 2001 resulted in many blue-chip publishers that had shown increased interest in XML transformation projects electing to curtail discretionary spending and slow down new initiatives. To in part address this sales challenge, the Company began to refocus its sales force to emphasize its content manufacturing/outsourcing services.

Direct operating expenses were \$44,354,000 for the year ended December 31, 2001 and \$34,458,000 for the year ended December 31, 2000, an increase of 29%. Direct operating expenses as a percentage of revenues were 76% in 2001 and 68% in 2000. The dollar increase in 2001, approximately 60% of which is comprised of an increase in labor costs, is principally due to costs incurred for increased revenues. The percentage increase in 2001 is principally attributable to an increase in fixed and certain labor costs incurred for increased production capacity which was underutilized during the second half of 2001. Direct operating expenses include primarily direct payroll, telecommunications, depreciation, equipment lease costs, computer services, supplies and occupancy.

Selling and administrative expenses were \$8,337,000 and \$7,248,000 for the years ended December 31, 2001 and 2000, respectively, representing an increase of 15%. The increase is primarily attributable to an increase in selling and marketing costs, travel costs and facility administrative overhead associated with the Company's continued growth. Selling and administrative expenses as a percentage of revenues were 14% in both the 2001 and 2000 periods. Selling and administrative expense includes management and administrative salaries, sales and marketing costs and administrative overhead.

The Company provided an allowance for doubtful accounts of approximately \$2.6 million representing the remaining balance due at December 31, 2001 from a client that accounted for 30% of its 2001 revenues because the client has reported an inability to raise further operating funds required to make payment. In addition, the Company provided approximately \$350,000 for other client bad debts incurred in the ordinary course of business.

During the fourth quarter 2001, the Company took certain actions to reduce production operations at a wholly owned Asian subsidiary that was operating at a loss and to reduce overall excess capacity in Asia. Such activities included the termination of leases and employee layoffs. Included in Restructuring Costs and Asset Impairment for the year ended December 31, 2001 are estimated facility closure costs, including employee related costs, approximating \$600,000, and the write-off of leasehold improvement costs totaling approximately \$265,000.

## LIQUIDITY AND CAPITAL RESOURCES

Selected measures of liquidity and capital resources are as follows:

	December 31, 2002	December 31, 2001
	-----	-----
Cash and Cash Equivalents	\$7,255,000	\$6,267,000
Working Capital	8,570,000	8,854,000
Stockholders' Equity Per Common Share*	\$.73	\$.95

\* Represents total stockholders' equity divided by the actual number of common shares outstanding (which excludes treasury stock).

## NET CASH PROVIDED BY OPERATING ACTIVITIES

Net cash provided by operating activities was \$3,050,000 and \$4,840,000 for the years ended December 31, 2002 and 2001, respectively, a decrease of approximately \$1,790,000. The decrease was primarily due to a decrease in net income of \$6.5 million and a decrease in non-cash charges of \$2.9 million partially offset by an increase in net changes in operating assets and liabilities of \$7.7 million (principally accounts receivable). In addition, approximately \$900,000 of the \$3,050,000 cash provided by operating activities for the year ended December 31, 2002 resulted from the sale of certain value-added tax credits held by the Company. These tax credits had been included as other assets on the balance sheet on December 31, 2001.

Accounts Receivable totaled \$3,253,000 at December 31, 2002 representing approximately 52 days of sales outstanding, compared to \$7,846,000, or 61 days, at December 31, 2001. The decrease in accounts receivable resulted principally from a decrease in sales, and from more accelerated collections. In addition, refundable income taxes increased to \$1,491,000 at December 31, 2002 from \$509,000 at December 31, 2001 due primarily to tax refunds available resulting from losses incurred in 2002 which are available for carryback to prior years.

## NET CASH USED IN INVESTING ACTIVITIES

As a result of the capital investments made during 2001 and 2000, the need for new equipment has been diminished in comparison with both such periods. Accordingly, in the year ended December 31, 2002, the Company spent approximately \$1,162,000 for capital expenditures,

compared to approximately \$5,568,000 in the year ended December 31, 2001. In addition, in the year ended December 31, 2001, the Company acquired the operating assets and assumed certain designated liabilities of the ISOGEN International operating division of DataChannel, Inc. The purchase price, including acquisition costs, consisted of \$796,000 in cash, two acquisition promissory notes which were paid in 2002, each for \$325,000, plus an additional \$68,000. At present, the Company anticipates capital spending for 2003 to range between \$1.5 million and \$2 million.

## **NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES**

In the year ended December 31, 2002, net cash used in financing activities totaled approximately \$900,000 primarily due to the repayment of two acquisition promissory notes totaling \$650,000 in connection with the acquisition of the ISOGEN International operating division. In addition, the Company repurchased 340,000 shares of the Company's common stock for \$360,000 in 2002, compared to \$1,639,000 in 2001.

## **AVAILABILITY OF FUNDS**

The Company has a \$4 million line of credit with a bank pursuant to which it may borrow up to 80% of eligible accounts receivable. Eligible accounts receivable, which excludes foreign receivables as well as receivables outstanding in excess of 90 days, approximated \$1.2 million at December 31, 2002. The line, which is due on demand and was unused at December 31, 2002, is collateralized by accounts receivable. Interest is charged at 1/2% above the bank's prime rate. The line expires on May 31, 2003.

Management believes that existing cash, internally generated funds and short term bank borrowings will be sufficient for reasonably anticipated working capital and capital expenditure requirements during the next 12 months. The Company funds its foreign expenditures from its U.S. corporate headquarters on an as-needed basis.

## **INFLATION, SEASONALITY AND PREVAILING ECONOMIC CONDITIONS**

To date, inflation has not had a significant impact on the Company's operations. The Company generally performs its work for its clients under project-specific contracts, requirements-based contracts or long-term contracts. Contracts are typically subject to numerous termination provisions. The Company's revenues are not significantly affected by seasonality.

## **CRITICAL ACCOUNTING POLICIES**

### **Basis of Presentation and Use of Estimates**

Management's discussion and analysis of its results of operations and financial condition is based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to accounts receivable. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

### **Allowance for Doubtful Accounts**

The Company records an allowance for doubtful accounts for estimated losses resulting from the inability of its clients to make required payments. If the financial condition of the Company's clients were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be necessary.

### **Revenue Recognition**

Revenue is recognized in the period in which services are performed and delivered.

### **Depreciation**

Depreciation is provided on the straight-line method over the estimated useful lives of the related assets, which is two to five years. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the lives of the leases.

### **Income Taxes**

Deferred taxes are determined based on the difference between the financial statement and tax bases 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 some or all of a deferred tax asset will not be realized. Unremitted earnings of foreign subsidiaries have been included in the consolidated financial statements without giving effect to the United States taxes that may be payable on distribution to the United States to the extent such earnings are not anticipated to be remitted to the United States.

## **Goodwill and Other Intangible Assets**

SFAS 142 requires that goodwill be tested for impairment at the reporting unit level (segment or one level below a segment) on an annual basis and between annual tests in certain circumstances. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. Significant judgments required to estimate the fair value of reporting units include estimating future cash flows, determining appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

## **Accounting for Stock-Based Compensation**

The Company accounts for stock-based compensation plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. In general, no stock-based employee compensation cost is reflected in the results of operations, unless options granted under those plans have an exercise price that is less than the market value of the underlying common stock on the date of grant.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

### **Accounting for Costs Associated with Exit or Disposal Activities**

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS No. 146). SFAS No. 146 requires that liabilities associated with the exit or disposal activity be recognized only when the liability is incurred. SFAS No. 146 is effective for exit and disposal activities that are initiated after December 31, 2002. The Company does not expect SFAS No. 146 to have a material impact upon its financial statements.

### **Accounting For Stock-Based Compensation Transition and Disclosure**

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure (SFAS No. 148), which amends SFAS No.

123. SFAS No. 148 provides alternate methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation, and requires enhanced disclosure about the method used and the effect of the method used on requested results. Under SFAS No. 148, stock-based compensation disclosures must be included with the summary of significant accounting policies and made both quarterly and annually. The Company does not plan to adopt the fair value method of accounting for stock-based compensation.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company is exposed to interest rate change market risk with respect to its credit facility with a financial institution, which is priced based on the prime rate of interest. At December 31, 2002, there were no outstanding borrowings under the credit facility. Changes in the prime interest rate during 2003 will have a positive or negative effect on the Company's interest expense. Such exposure will increase accordingly should the Company utilize its line of credit during 2003.

The Company has operations in foreign countries. While it is exposed to foreign currency fluctuations, the Company presently has no financial instruments in foreign currency and does not maintain funds in foreign currency beyond those necessary for operations.

## **ITEM 8. FINANCIAL STATEMENTS.**

### **INNODATA CORPORATION AND SUBSIDIARIES INDEX TO FINANCIAL STATEMENTS**

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Consolidated Balance Sheets as of December 31, 2002 and 2001	II-12
Consolidated Statements of Operations for the three years ended December 31, 2002	II-13
Consolidated Statement of Stockholders' Equity for the three years ended December 31, 2002	II-14



## INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders  
Innodata Corporation

We have audited the accompanying consolidated balance sheets of Innodata Corporation and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Innodata Corporation and subsidiaries as of December 31, 2002 and 2001, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

We have also audited Schedule II for each of the three years in the period ended December 31, 2002. In our opinion, this schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information therein.

/s/

-----  
Grant Thornton LLP  
New York, New York  
March 7, 2003

### INNODATA CORPORATION AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2002 AND 2001 (DOLLARS IN THOUSANDS)

	2002	2001
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	\$ 7,255	\$ 6,267
Accounts receivable-net of allowance for doubtful accounts of \$1,254,000 in 2002 and \$1,853,00 in 2001	3,253	7,846
Prepaid expenses and other current assets	706	469
Refundable income taxes	1,491	509
Deferred income taxes	1,501	1,793
	-----	-----

TOTAL CURRENT ASSETS	14,206	16,884
PROPERTY AND EQUIPMENT - NET	6,707	10,236
OTHER ASSETS	1,109	2,351
GOODWILL	675	623
	-----	-----
TOTAL	\$22,697	\$30,094
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Acquisition notes payable	\$ -	\$ 650
Accounts payable	647	1,468
Accrued expenses	2,008	1,407
Accrued salaries and wages	2,526	3,770
Income and other taxes	455	735
	-----	-----
TOTAL CURRENT LIABILITIES	5,636	8,030
	-----	-----
DEFERRED INCOME TAXES	1,492	1,702
	-----	-----
COMMITMENTS AND CONTINGENT LIABILITIES		
STOCKHOLDERS' EQUITY:		
Common stock, \$.01 par value-authorized 75,000,000 shares; issued - 22,046,000 shares in 2002 and 21,716,000 shares in 2001	220	217
Additional paid-in capital	14,084	13,355
Retained earnings	3,264	8,429
	-----	-----
	17,568	22,001
Less: treasury stock - at cost; 610,000 and 270,000 shares in 2002 and 2001 respectively	(1,999)	(1,639)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	15,569	20,362
	-----	-----
TOTAL	22,697	\$30,094
	=====	=====

See notes to consolidated financial statements

**INNODATA CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000**  
**(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)**

2002	2001	2000
-----	-----	-----

REVENUES	\$36,385	\$58,278	\$50,731
	-----	-----	-----
OPERATING COSTS AND EXPENSES			
Direct operating costs	32,005	44,354	34,458
Selling and administrative expenses	10,038	8,337	7,248
Provision for doubtful accounts	-	2,942	-
Restructuring costs and asset impairment	244	865	-
Interest expense	29	9	43
Interest income	(89)	(216)	(155)
	-----	-----	-----
TOTAL	42,227	56,291	41,594
	-----	-----	-----
(LOSS) INCOME BEFORE (BENEFIT FROM)			
PROVISION FOR INCOME TAXES	(5,842)	1,987	9,137
(BENEFIT FROM) PROVISION FOR INCOME TAXES	(677)	639	2,969
	-----	-----	-----
NET (LOSS) INCOME	\$(5,165)	\$ 1,348	\$ 6,168
	=====	=====	=====
BASIC (LOSS) INCOME PER SHARE	\$(.24)	\$.06	\$.30
	=====	=====	=====
DILUTED (LOSS) INCOME PER SHARE	\$(.24)	\$.05	\$.26
	=====	=====	=====

See notes to consolidated financial statements

**INNODATA CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000**  
(IN THOUSANDS)

	COMMON SHARES	STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	TREASURY STOCK	TOTAL
	-----	-----	-----	-----	-----	-----
JANUARY 1, 2000	20,536	\$205	\$10,755	\$ 913	\$ (221)	\$11,652
Net income	-	-	-	6,168	-	6,168
Issuance of common stock upon exercise of stock options and warrants	1,152	12	689	-	-	701
Income tax benefit from exercise of stock options	-	-	795	-	-	795
	-----	-----	-----	-----	-----	-----

DECEMBER 31, 2000	21,688	217	12,239	7,081	(221)	19,316
Net income	-	-	-	1,348	-	1,348
Issuance of common stock upon exercise of stock options	605	6	384	-	-	390
Purchase of treasury stock	-	-	-	-	(1,639)	(1,639)
Retirement of treasury stock	(577)	(6)	(215)	-	221	-
Income tax benefit from exercise of stock options	-	-	947	-	-	947
	-----	-----	-----	-----	-----	-----
DECEMBER 31, 2001	21,716	217	13,355	8,429	(1,639)	20,362
Net loss	-	-	-	(5,165)	-	(5,165)
Issuance of common stock upon exercise of stock options	318	3	107	-	-	110
Purchase of treasury stock	-	-	-	-	(360)	(360)
Non-cash compensation	12	-	523	-	-	523
Income tax benefit from exercise of stock options	-	-	99	-	-	99
	-----	-----	-----	-----	-----	-----
DECEMBER 31, 2002	22,046	\$220	\$14,084	\$3,264	\$(1,999)	\$15,569
	=====	=====	=====	=====	=====	=====

See notes to consolidated financial statements

**INNODATA CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000**  
(IN THOUSANDS)

	2002	2001	2000
	-----	-----	-----
OPERATING ACTIVITIES:			
Net (loss) income	\$(5,165)	\$ 1,348	\$ 6,168
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	5,228	4,790	2,989
Non-cash compensation	523	-	-
Provision for doubtful accounts	-	2,942	-
Tax benefit from exercise of stock options	99	947	795
Restructuring costs and asset impairment	244	865	-
Deferred income taxes	30	(463)	574
Changes in operating assets and liabilities, net of acquisition:			
Accounts receivable	4,593	(3,913)	(552)

Prepaid expenses and other current assets	(680)	545	(977)
Refundable income taxes	(982)	(509)	-
Other assets	894	(723)	(409)
Accounts payable	(811)	(907)	1,064
Accrued expenses	601	365	589
Accrued salaries and wages	(1,244)	(71)	1,531
Income and other taxes	(280)	(376)	615
	-----	-----	-----
Net cash provided by operating activities	3,050	4,840	12,387
	-----	-----	-----
INVESTING ACTIVITIES:			
Capital expenditures	(1,162)	(5,568)	(7,403)
Payments in connection with acquisition	-	(796)	-
	-----	-----	-----
Net cash used in investing activities	(1,162)	(6,364)	(7,403)
	-----	-----	-----
FINANCING ACTIVITIES:			
Payment of acquisition notes	(650)	-	(25)
Proceeds from exercise of stock options	110	390	701
Purchase of treasury stock	(360)	(1,639)	-
	-----	-----	-----
Net cash (used in) provided by financing activities	(900)	(1,249)	676
	-----	-----	-----
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	988	(2,773)	5,660
CASH AND EQUIVALENTS, BEGINNING OF YEAR	6,267	9,040	3,380
	-----	-----	-----
CASH AND EQUIVALENTS, END OF YEAR	\$ 7,255	\$ 6,267	\$ 9,040
	=====	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Income taxes	\$ 261	\$ 1,513	\$ 1,018
Interest expense	\$ 29	\$ -	\$ -

See notes to consolidated financial statements

**INNODATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**BUSINESS AND BASIS OF PRESENTATION** - Innodata Corporation and subsidiaries (the "Company") is a leading provider of digital asset services and solutions. Innodata delivers content manufacturing / outsourcing, XML transformation, and XML (and related standards-based) systems engineering and training through offices located both in the U.S. and Asia. The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All intercompany transactions and balances have been eliminated in consolidation.

**USE OF ESTIMATES** - In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those

estimates.

**REVENUE RECOGNITION** - Revenue is recognized in the period in which services are performed and delivered.

**FOREIGN CURRENCY** - The functional currency for the Company's production operations located in the Philippines, India and Sri Lanka is U.S. dollars. As such, transactions denominated in Philippine pesos, Indian and Sri Lanka rupees were translated to U.S. dollars at rates which approximate those in effect on transaction dates. Monetary assets and liabilities denominated in foreign currencies at December 31, 2002 and 2001 were translated at the exchange rate in effect as of those dates. Exchange losses resulting from such transactions in 2002 totaled approximately \$59,000. Exchange gains resulting from such transactions in 2001 totaled approximately \$75,000. Exchange losses in 2000 resulting from such transactions totaled \$180,000.

**STATEMENT OF CASH FLOWS** - For financial statement purposes (including cash flows), the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Supplemental disclosure of non-cash investing activities in 2001 (in thousands) is as follows:

Acquisition costs	\$1,514
Acquisition notes issued	(650)
Other amounts payable	(68)
	-----
Payments in connection with acquisition	\$ 796
	=====

**DEPRECIATION** - Depreciation is provided on the straight-line method over the estimated useful lives of the related assets, which is two to five years. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the lives of the leases.

**GOODWILL AND OTHER INTANGIBLE ASSETS** - SFAS 142 requires that goodwill be tested for impairment at the reporting unit level (segment or one level below a segment) on an annual basis and between annual tests in certain circumstances. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. Significant judgments required to estimate the fair value of reporting units include estimating future cash flows, determining appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

**INCOME TAXES** - Deferred taxes are determined based on the difference between the financial statement and tax bases 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 some or all of a deferred tax asset will not be realized. Unremitted earnings of foreign subsidiaries have been included in the consolidated financial statements without giving effect to the United States taxes that may be payable on distribution to the United States to the extent such earnings are not anticipated to be remitted to the United States.

**ACCOUNTING FOR STOCK-BASED COMPENSATION** - At December 31, 2002, the Company has various stock-based employee compensation plans, which are described more fully in Note 7. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. In general, no stock-based employee compensation cost is reflected in the results of operations, unless options granted under such plans have an exercise price less than the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

YEAR ENDED DECEMBER 31,	2002	2001	2000
	(in thousands, except per share amounts)		
Net (loss) income, as reported	\$(5,165)	\$1,348	\$6,168
Deduct: Total stock-based employee compensation determined under fair value based method, net of related tax effects	1,997	2,185	664
	-----	-----	-----
Pro forma net (loss) income	\$(7,162)	\$ (837)	\$5,504



	=====	=====	=====
(Loss) income per share:			
Basic - as reported	\$ ( .24 )	\$ .06	\$ .30
	=====	=====	=====
Basic - pro forma	\$ ( .33 )	\$ ( .04 )	\$ .27
	=====	=====	=====
Diluted - as reported	\$ ( .24 )	\$ .05	\$ .26
	=====	=====	=====
Diluted - pro forma	\$ ( .33 )	\$ ( .04 )	\$ .24
	=====	=====	=====

**FAIR VALUE OF FINANCIAL INSTRUMENTS** - The Company has estimated the fair value of financial instruments using available market information and other valuation methodologies in accordance with SFAS No. 107, "Disclosures About Fair Value of Financial Instruments." Management of the Company believes that the fair value of financial instruments for which estimated fair value has not been specifically presented, primarily cash and accounts receivable, is not materially different than the related carrying value. Determinations of fair value are based on subjective data and significant judgment relating to timing of payments and collections and the amounts to be realized. Different assumptions and/or estimation methodologies might have a material effect on the fair value estimates. Accordingly, the estimates of fair value are not necessarily indicative of the amounts the Company would realize in a current market exchange.

**ACCOUNTS RECEIVABLE** - The majority of the Company's accounts receivable are due from secondary publishers and information providers. Credit is extended based on evaluation of a clients' financial condition and project terms and, generally, collateral is not required. Accounts receivable are generally due within 30 days and are stated at amounts due from customers net of an allowance for doubtful accounts. Accounts outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company's previous loss history, the client's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes-off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

**INCOME (LOSS) PER SHARE** - Basic earnings per share is based on the weighted average number of common shares outstanding without consideration of potential common stock. Diluted earnings per share is based on the weighted average number of common and, if dilutive, potential common shares outstanding. The calculation takes into account the shares that may be issued upon exercise of stock options, reduced by the shares that may be repurchased with the funds and tax benefits received from the exercise, based on average prices during the year.

**ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES** - In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS No. 146). SFAS No. 146 requires that liabilities associated with the exit or disposal activity be recognized only when the liability is incurred. SFAS No. 146 is effective for exit and disposal activities that are initiated after December 31, 2002. The Company does not expect SFAS No. 146 to have a material impact upon its financial statements.

## 2. PROPERTY AND EQUIPMENT

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

DECEMBER 31,	2002	2001
Equipment	\$16,136	\$16,805
Furniture and office equipment	1,037	961
Leashold improvements	2,314	2,360
	-----	-----
Total	19,487	20,126
Less accumulated depreciation and amortization	12,780	9,890
	-----	-----

\$ 6,707	\$10,236
=====	=====

As of December 31, 2002 and 2001, the net book value of property and equipment located at the Company's production facilities in the Philippines, India, and Sri Lanka was approximately \$6,361,000 and \$9,812,000, respectively.

### 3. ACQUISITION

As of December 1, 2001, the Company acquired the operating assets, and assumed certain designated liabilities, of the ISOGEN International operating division of DataChannel, Inc. ISOGEN International ("ISOGEN") helps clients across a variety of industries with the design, architecture, implementation, integration and deployment of the systems that they use to manage information. It specializes in consulting and training in the knowledge-processing technologies of XML (Extensible Markup Language), SGML (Standard Generalized Markup Language), and other standards.

The purchase price, including acquisition costs, consisted of \$796,000 in cash, two acquisition promissory notes, each for \$325,000, plus an additional \$68,000 payable September 30, 2002 subject to realization of certain events. The promissory notes accrued interest at a rate of 7% per annum, and were paid in 2002.

The acquisition was accounted for by the purchase method of accounting in accordance with SFAS No. 141 'Business Combinations' and, accordingly, the consolidated statements of operations include the results of the acquired business beginning December 1, 2001. A summary of the assets acquired and liabilities assumed in the acquisition (in thousands) is as follows:

Accounts receivable	\$1,077
Property and equipment	90
Other assets	7
Liabilities assumed	(335)
	-----
Net tangible assets acquired	839
Purchase price	1,514
	-----
Goodwill	\$ 675
	=====

During the quarter ended September 30, 2002, additional adjustments were made to the purchased assets of ISOGEN resulting in an increase in goodwill of \$52,000.

### 4. INCOME TAXES

The significant components of the (benefit from) provision for income taxes (in thousands) are as follows:

	2002	2001	2000
Current income tax (benefit) expense:			
Foreign	\$ 97	\$ (7)	\$ 61
Federal	(827)	906	2,040
State and local	23	203	294

	-----	-----	-----
	( 707)	1,102	2,395
Deferred income tax expense (benefit)	30	(463)	574
	-----	-----	-----
(Benefit from) provision for income taxes	\$(677)	\$ 639	\$2,969
	=====	=====	=====

Reconciliation of the U.S. statutory rate with the Company's effective tax rate is summarized as follows:

	2002	2001	2000
Federal statutory rate	(35.0)%	35.0%	34.0%
Effect of:			
State income taxes (net of federal tax benefit)	0.6	1.8	1.6
Foreign source losses for which no tax benefit is available	23.8	-	-
Effect of foreign tax holiday, net of foreign income not deemed permanently reinvested	(3.4)	(5.3)	(3.4)
Foreign taxes	-	0.9	0.7
Other	2.4	(0.2)	(0.4)
	-----	-----	-----
Effective rate	(11.6)%	32.2%	32.5%
	=====	=====	=====

As of December 31, 2002 and 2001, the composition of the Company's net deferred income taxes (in thousands) is as follows:

	2002	2001
Deferred income tax assets:		
Allowances not currently deductible	\$ 1,435	\$ 1,711
Depreciation and amortization	230	170
Equity compensation not currently deductible	150	-
Expenses not deductible until paid	66	82
	-----	-----
	1,881	1,963
	-----	-----
Deferred income tax liabilities:		
Foreign source income, not taxable until repatriated	(1,872)	(1,872)
	-----	-----
Net deferred asset	\$ 9	\$ 91
	=====	=====

Net deferred income tax asset - current	\$ 1,501	\$ 1,793
Net deferred income tax liability - non-current	(1,492)	(1,702)
	-----	-----
Net deferred income tax asset	\$ 9	\$ 91
	=====	=====

## 5. COMMITMENTS AND CONTINGENT LIABILITIES

**LINE OF CREDIT** - The Company has a \$4 million line of credit with a bank pursuant to which it may borrow up to 80% of eligible accounts receivable. The line, which is due on demand and was unused at December 31, 2002, is collateralized by accounts receivable. Interest is charged at 1/2% above the bank's prime rate. The line of credit expires on May 31, 2003.

**LEASES** - The Company is obligated under various operating lease agreements for office and production space. The agreements contain escalation clauses and requirements that the Company pay taxes, insurance and maintenance costs. The lease agreements for production space in most overseas facilities, which expire through 2010, contain provisions pursuant to which the Company may cancel the leases upon three months notice, generally subject to forfeiture of security deposit. The annual rental for the cancelable leased space is approximately \$1,200,000. For the years ended December 31, 2002, 2001 and 2000, rent expense for office and production space totaled approximately \$2,100,000, \$1,900,000 and \$1,600,000, respectively.

In addition, the Company leases certain equipment under short-term operating lease agreements. For the years ended December 31, 2002, 2001 and 2000, rent expense for equipment totaled approximately \$46,000, \$400,000 and \$900,000, respectively.

At December 31, 2002, future minimum annual rental commitments on non-cancelable leases (excluding equipment leases with terms less than one year) (in thousands) are as follows:

2003	\$460
2004	350
2005	320
2006	320
2007	320
Thereafter	640
	----
	2,410
	=====

**LITIGATION AND FOREIGN TAX ASSESSMENTS** - In connection with the cessation of all operations at certain foreign subsidiaries (Note 10), certain former employees have filed various illegal dismissal actions in the Philippines seeking, among other remedies, reinstatement of employment, payment of back wages and damages approximating one million dollars. Outside counsel has advised management that under the circumstances, the Company is not legally obligated to pay severance to such terminated employees. Based upon the advice of counsel, management believes the actions are substantially without merit and intends to defend the actions vigorously.

In addition, one of the foreign subsidiaries which ceased operations has been presented with a tentative tax assessment by the Philippine Bureau of Internal Revenue for an amount approximating \$400,000, plus applicable interest and penalties. Management believes the tentative assessment is principally without substance and any amounts that might ultimately be paid in settlement (which is not expected to be material) have been accrued.

In addition, the Company is subject to various legal proceedings and claims which arise in the ordinary course of business.

While management currently believes that that ultimate outcome of all these proceedings will not have a material adverse effect on the Company's financial position or overall trends in results of operations, litigation is subject to inherent uncertainties. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on the operating results of the period in which the ruling occurs. In addition, the estimate of potential impact on the Company's financial position or overall results of operations for the above legal proceedings could change in the future.

**FOREIGN CURRENCY** - The Company's production facilities are located in the Philippines, India and Sri Lanka. To the extent that the currencies of these countries fluctuate, the Company is subject to risks of changing costs of production after pricing is established for certain

customer projects. However, most significant contracts contain provisions for price renegotiation.

**EMPLOYMENT AGREEMENTS** - In connection with the acquisition of ISOGEN, the Company entered into a three year employment agreement with its co-founder to serve as the division's President. Pursuant to the agreement, he will be compensated at a rate of \$200,000 per annum for the first year, subject to annual review for discretionary annual increases thereafter, and will be eligible to receive an annual cash bonus, the amount of which will be based upon meeting certain goals. In addition, he was granted an option to purchase 150,000 shares of the Company's common stock at \$4.00 per share, and was issued 11,587 unregistered shares of the Company's common stock. Compensation expense of approximately \$10,000 was recorded in the year ended December 31, 2002 as selling and administrative expenses pursuant to the stock issuance.

In May 2001, the Company entered into an agreement with its then Chairman of the Board pursuant to which he will continue to serve as a part-time employee at a salary of \$2,000 per month for five years. In addition, the Company paid him \$400,000 in exchange for a six year non-compete agreement, which is included in other assets and is being amortized over the term of the agreement. On December 31, 2002, the unamortized balance was \$289,000.

**PHILIPPINE PENSION REQUIREMENT** - The Philippine government enacted legislation requiring businesses to provide a lump-sum pension payment to employees working at least five years and who are employed by the Company at age 60. Those eligible employees are to receive approximately 60% of one month's pay for each year of employment with the Company. The liability for the future payment is insignificant at December 31, 2002. Under the legislation, the Company is not required to fund future costs, if any.

**INDEMNIFICATIONS** - The Company is obligated under certain circumstances to indemnify directors and certain officers against costs and liabilities incurred in actions or threatened actions brought against such individual because such individuals acted in the capacity of director and / or officer of the Company. In addition, the Company has contracts with certain clients pursuant to which the Company has agreed to indemnify the client for certain specified and limited claims. These indemnification obligations are in the ordinary course of business and, in many cases, do not include a limit on a maximum potential future payments. As of December 31, 2002, the Company has not recorded a liability for any obligations arising as a result of these indemnifications.

**LIENS** - In connection with the procurement of tax incentives at one of the company's foreign subsidiaries, the foreign zoning authority was granted a first lien on the subsidiary's property and equipment. As of December 31, 2002, such equipment had a book value of \$570,000.

## 6. CAPITAL STOCK

**COMMON STOCK** - On each of December 7, 2000 and March 23, 2001, the Company paid two-for-one stock dividends. In addition, in 2001 the stockholders increased the number of common shares the Company is authorized to issue to 75,000,000. The financial statements and notes thereto, including all share and per share amounts, have been restated to reflect all such splits.

**PREFERRED STOCK** - The Board of Directors is authorized to fix the terms, rights, preferences and limitations of the preferred stock and to issue the preferred stock in series which differ as to their relative terms, rights, preferences and limitations.

**STOCKHOLDER RIGHTS PLAN** - On December 16, 2002, the Board of Directors adopted a Stockholder Rights Plan ("Rights Plan") in which one right ("Right") was declared as a dividend for each share of the Company's common stock outstanding. The purpose of the plan is to deter a hostile takeover of the Company. Each Right entitles its holders to purchase, under certain conditions, one one-thousandth of a share of newly authorized Series C Participating Preferred Stock ("Preferred Stock"), with one one-thousandth of a share of Preferred Stock intended to be the economic and voting equivalent of one share of the Company's common stock. Rights will be exercisable only if a person or group acquires beneficial ownership of 15% (25% in the case of specified executive officers of the Company) or more of the Company's common stock or commences a tender or exchange offer, upon the consummation of which such person or group would beneficially own such percentage of the common stock. Upon such an event, the Rights enable dilution of the acquiring person's or group's interest by providing that other holders of the Company's common stock may purchase, at an exercise price of \$4.00, the Company's common stock having a market value of \$8.00 based on the then market price of the Company's common stock, or at the discretion of the Board of Directors, Preferred Stock, having double the value of such exercise price. The Company will be entitled to redeem the Rights at \$.001 per right under certain circumstances set forth in the Rights Plan. The Rights themselves have no voting power and will expire on December 26, 2012, unless earlier exercised, redeemed or exchanged.

**COMMON STOCK RESERVED** - At December 31, 2002, the Company reserved for issuance approximately 9,870,000 shares of common stock pursuant to the Company's stock option plans (including an aggregate of 1,057,164 options issued to the Company's current and to its prior Chairman which were not granted pursuant to stockholder approved stock option plans).

**TREASURY STOCK** - During the years ended December 31, 2002 and 2001, the Company repurchased 340,000 shares and 270,000 shares, respectively, of its common stock at a cost of \$360,000 and \$1,639,000, respectively.

In August 2002, the Board of Directors authorized the repurchase of up to \$1.5 million of the Company's common stock, of which approximately \$1,140,000 remains available for repurchase under the program at December 31, 2002.

## 7. STOCK OPTIONS

The Company adopted, with stockholder approval, 1993, 1994, 1994 Disinterested Director, 1995, 1996, 1998, 2001, and 2002 Stock Option Plans (the "1993 Plan," "1994 Plan," "1994 DD Plan," "1995 Plan," "1996 Plan," "1998 Plan," "2001 Plan," and "2002 Plan") which provide for the granting of options to purchase not more than an aggregate of 1,050,000, 1,260,000, 210,000, 2,400,000, 1,999,992, 3,600,000, 900,000, and 950,000 shares of common stock, respectively, subject to adjustment under certain circumstances. Such options may be incentive stock options ("ISOs") within the meaning of the Internal Revenue Code of 1986, as amended, or options that do not qualify as ISOs ("Non-Qualified Options").

The option exercise price per share may not be less than the fair market value per share of common stock on the date of grant (110% of such fair market value for an ISO, if the grantee owns stock possessing more than 10% of the combined voting power of all classes of the Company's stock). Options may be granted under the Stock Option Plan to all officers, directors, and employees of the Company and, in addition, Non-Qualified Options may be granted to other parties who perform services for the Company. No options may be granted under the 1993 Plan after April 30, 2003; under the 1994 Plan and 1994 DD Plan after May 19, 2004; under the 1995 Plan after May 16, 2005; under the 1996 Plan after July 8, 2006; under the 1998 Plan after July 8, 2008; under the 2001 Plan after May 31, 2011; and under the 2002 Plan until after June 30, 2012.

The Plans may be amended from time to time by the Board of Directors of the Company. However, the Board of Directors may not, without stockholder approval, amend the Plans to increase the number of shares of common stock which may be issued under the Plans (except upon changes in capitalization as specified in the Plans), decrease the minimum exercise price provided in the Plans or change the class of persons eligible to participate in the Plans.

The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock Based Compensation." Accordingly, to the extent the exercise price of options granted to employees is equal to or greater than the market value of the underlying common stock on the date of grant, compensation expense is not recognized for stock options granted to employees. Had compensation cost for the Company's stock option grants been determined based on the fair value at the grant date for awards in 2002, 2001, and 2000, consistent with the provisions of SFAS No. 123, the Company would have reflected a net loss of approximately \$7.1 million or \$(.33) basic and diluted in 2002; a net loss of \$837,000 or \$(.04) per share, basic and diluted, in 2001; and net income of \$5.5 million or \$.27 per share, basic, and \$.24 per share, diluted in 2000. The fair value of options at date of grant was estimated using the Black-Scholes pricing model with the following weighted average assumptions: expected life of four years; risk free interest rate of 3.5% in 2002, 5% in 2001, and 6% in 2000, expected volatility of 119% in 2002, 118% in 2001, and 115% in 2000; and a zero dividend yield.

The following table presents information related to stock options for 2002, 2001 and 2000.

	PER SHARE RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
	-----	-----	-----	-----	-----	-----
Balance 1/1/00	\$0.25 - 0.47	1,321,320	2	\$0.34	1,321,320	\$0.34
	\$0.50 - 0.75	3,645,740	3	\$0.58	2,056,940	\$0.57
	\$1.19 - 2.00	794,196	2	\$1.62	437,796	\$1.31
		-----			-----	
		5,761,256			3,816,056	
					=====	
Cancelled	\$0.35 - 2.00	(267,840)		\$0.85		
Granted	\$1.57 - 2.69	2,729,600		\$1.97		
Exercised	\$0.25 - 2.00	(902,440)		\$0.61		
		-----				
Balance 12/31/00	\$0.25 - 0.47	1,019,640	2	\$0.34	1,019,640	\$0.34
	\$0.50 - 0.75	2,858,632	3	\$0.58	2,429,632	\$0.56
	\$1.29	399,996	2	\$1.29	399,996	\$1.29
	\$1.56 - 2.25	2,699,108	4	\$1.90	295,984	\$1.73
	\$2.50 - 2.69	343,200	5	\$2.52	-	-
		-----			-----	
		7,320,576			4,145,252	
					=====	
Cancelled	\$2.00 - 6.10	(156,127)		\$3.83		
Granted	\$3.05 - 6.57	1,292,200		\$5.42		
Exercised	\$0.25 - 4.00	(605,357)		\$0.71		



-----							
Balance 12/31/01	\$0.25 - 0.47	979,644	1	\$0.35	979,644	\$0.35	
	\$0.50 - 0.75	2,406,818	2	\$0.58	2,406,818	\$0.58	
	\$1.29	399,996	1	\$1.29	399,996	\$1.29	
	\$1.56 - 2.25	2,564,992	4	\$1.89	928,903	\$1.87	
	\$2.50 - 2.69	277,642	4	\$2.50	80,519	\$2.50	
	\$3.05 - 4.60	29,200	4	\$3.70	0	-	
	\$5.43 - 5.89	1,180,000	4	\$5.45	0	-	
	\$6.00 - 6.57	13,000	4	\$6.21	0	-	
		-----			-----		
		7,851,292			4,795,880		
					=====		
Cancelled	\$0.25 - 6.22	(489,482)		\$1.29			
Granted	\$1.00 - 4.60	220,750		\$3.64			
Exercised	\$0.25 - 0.50	(317,676)		\$0.35			
-----							
Balance 12/31/02	\$0.25 - 0.47	445,668	2	\$0.41	445,668	\$0.41	
	\$0.50 - 0.75	2,347,922	2	\$0.59	2,347,922	\$0.59	
	\$1.00 - 1.29	409,996	5	\$1.28	399,996	\$1.28	
	\$1.56 - 2.25	2,421,548	3	\$1.88	1,524,469	\$1.87	
	\$2.50	228,800	3	\$2.50	124,026	\$2.50	
	\$3.00 - 4.60	232,950	5	\$3.74	12,105	\$3.68	
	\$5.43 - 5.89	1,170,000	4	\$5.45	544,855	\$5.45	
	\$6.00 - 6.57	8,000	4	\$6.24	3,416	\$6.25	
		-----			-----		
		7,264,884			5,402,457		
		=====			=====		

Generally, options granted vest over a four year period and have a five year life. The weighted average fair value as of the date of grant for options granted in 2002, 2001 and 2000 is \$3.64, \$4.25 and \$1.58, respectively.

In September 2002, the Company extended the expiration date of options to the Chief Executive Officer to purchase 6,672, 248,496, 360,000, 399,996 and 123,996 shares of its common stock at \$.42, \$.50, \$.58, \$1.29 and \$.25 per share, respectively. In connection with this transaction, compensation expense of approximately \$513,000 was recorded in the year ended December 31, 2002 based upon the difference between the exercise price and the market price of the underlying common stock on the date the options were extended. No compensation expense was recognized in connection with stock option grants for the years ended December 31, 2001 and 2000, since the exercise price of options granted in those years equaled or exceeded the market value of the underlying common stock on the date of grant. Compensation expense is included as a component of selling and administrative expenses.

## 8. SEGMENT REPORTING AND CONCENTRATIONS

As a result of the acquisition of ISOGEN International in December 2001, the Company's management currently monitors its operations through two reporting segments: (1) content services and (2) systems integration and training. The content services operating segment aggregates, converts, tags and editorially enhances digital content and performs XML transformations. The Company offers such services as a comprehensive outsourcing solution and individually as discrete activities. The Company's systems integration and training operating segment offers system design, custom application development, consulting services, and systems integration conforming to XML and related standards and provides a broad range of introductory as well as advanced curricula and training on XML and other knowledge management standards.

	2002	2001
	(in thousands)	
Revenues		
-----		
Content services	\$33,089	\$57,825
Systems and training services	3,296	453
	-----	-----
Total consolidated	\$36,385	\$58,278
	=====	=====

(Loss) income before income taxes (a)		
-----		
Content services	\$ (3,649)	\$ 1,959
Systems and training services	(2,193)	28
	-----	-----
Total consolidated	\$ (5,842)	\$ 1,987
	=====	=====

(a) Corporate overhead has not been allocated to the systems and training services segment.

	DECEMBER 31,	
	-----	
	2002	2001
	-----	-----
	(IN THOUSANDS)	
Total assets	-----	
Content services	\$20,721	\$28,414
Systems and training services	1,976	1,680
	-----	-----
Total consolidated	\$22,697	\$30,094
	=====	=====

One client accounted for 30% and 27% of the Company's revenues for the years ended December 31, 2002 and 2001 respectively, and a second client accounted for 16% of the Company's revenues for the year ended December 31, 2002. One other client, which substantially curtailed operations, accounted for 30% and 54% of the Company's revenues in the years ended December 31, 2001 and 2000, respectively. No other client accounted for 10% or more of revenues during this period. Further, in the years ended December 31, 2002, 2001 and 2000, export revenues, substantially all of which were derived from European clients, accounted for 23%, 13%, and 10%, respectively, of the Company's revenues.

A significant amount of the Company's revenues are derived from clients in the publishing industry. Accordingly, the Company's accounts receivable generally include significant amounts due from such clients. In addition, as of December 31, 2002, approximately 33% of the Company's accounts receivable was from foreign (principally European) clients.

#### 9. (LOSS) INCOME PER SHARE

	2002	2001	2000
	(in thousands, except per share amounts)		
Net (loss) income	\$ (5,165)	\$ 1,348	\$ 6,168
	=====	=====	=====
Weighted average common shares outstanding	21,489	21,332	20,262
Dilutive effect of outstanding options	-	3,312	3,016
	-----	-----	-----

Adjusted for dilutive computation	21,489 =====	24,644 =====	23,278 =====
Basic (loss) income per share	\$ (.24) =====	\$.06 =====	\$.30 =====
Diluted (loss) income per share	\$ (.24) =====	\$.05 =====	\$.26 =====

Diluted net loss per share in 2002 does not include potential common shares derived from stock options because they are antidilutive. The number of antidilutive securities excluded from the dilutable loss per share calculation were 1,542,000 for the year ended December 31, 2002.

#### 10. RESTRUCTURING COSTS AND ASSET IMPAIRMENT

During the fourth quarter 2001, the Company commenced certain actions to reduce production operations at a wholly owned Asian subsidiary that was operating at a loss and to reduce overall excess capacity in Asia. Such activities, which culminated in the cessation and closure of all operations at such subsidiary and included employee layoffs, were completed in 2002. In addition, during 2002 the Company closed a second facility, resulting in the write-off of property and equipment associated with the closed facility totaling approximately \$244,000. Such write-off of equipment has been classified as Restructuring Costs and Asset Impairment for the year ended December 31, 2002.

Included in Restructuring Costs and Asset Impairment for the year ended December 31, 2001 are estimated facility closure costs, including employee related costs, approximating \$600,000, and the write-off of leasehold improvement costs totaling approximately \$265,000. In 2002, the Company paid approximately \$350,000 in closing costs.

#### 11. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
	(in thousands, except per share)			
2002				
Revenues	\$12,556	\$10,389	\$ 7,278	\$ 6,162
Net income (loss)	243	(899)	(2,521)	(1,988)
Net income (loss) per share	\$.01	\$(.04)	\$(.12)	\$(.09)
Diluted net income (loss) per share	\$.01	\$(.04)	\$(.12)	\$(.09)
2001				
Revenues	\$18,058	\$ 13,782	\$ 13,849	\$ 12,589
Net income (loss)	2,683	110	40	(1,485)
Net income (loss) per share	\$.13	\$.01	\$ -	\$(.07)
Diluted net income (loss) per share	\$.11	\$ -	\$ -	\$(.07)

### PART III

#### ITEM 10. DIRECTORS, OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.

##### DIRECTORS AND OFFICERS AND CERTAIN SIGNIFICANT EMPLOYEES

The directors and officers of the Company are as follows:

NAME	AGE	POSITION
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Jack Abuhoff	41	Chairman of the Board of Directors, Chief Executive Officer and President
Todd Solomon	41	Vice Chairman of the Board of Directors and Consultant
Dr. Charles F. Goldfarb	63	Director
John R. Marozsan	61	Director
Haig S. Bagerdjian	47	Director
Louise C. Forlenza	53	Director
George Kondrach	50	President - ISOGEN International, LLC
Stephen Agress	41	Vice President - Finance
Klaas Brouwer	36	Vice President - Technology
Al Girardi	37	Vice President - Strategic Communications
Ashok Mishra	47	Vice President - Project Delivery
Jan Palmen	48	Vice President - Sales
Jurgen Tanpho	38	Vice President - Operations
Amy R. Agress	38	Secretary and Corporate Counsel

JACK ABUHOFF has served as President and CEO since September 15, 1997. He has been a Director of the Company since its founding. From 1995 to 1997 he was Chief Operating Officer of Charles River Corporation, an international systems integration and outsourcing firm. From 1992 to 1994, he was employed by Chadbourne & Parke, and engaged in Sino-American technology joint ventures with Goldman Sachs. He practiced international corporate law with White & Case from 1986 to 1992. He holds an A.B. degree from Columbia College (1983) and a J.D. degree from Harvard Law School (1986).

TODD SOLOMON has been Vice Chairman and consultant to the Company since his resignation as President and CEO on September 15, 1997. He served as President and a Director of the Company since its founding by him in 1988. He had been Chief Executive Officer since August 1995. Mr. Solomon was President of Ruck Associates, an executive recruiting firm from 1986 until 1987. Mr. Solomon holds an A.B. in history and physics from Columbia University (1986).

DR. CHARLES F. GOLDFARB has been a Director of the Company since October 2000. Dr. Goldfarb invented SGML (Standard Generalized Markup Language) in 1974 and later led the team that developed it into the International Standard (ISO 8879) on which the World Wide Web's HTML (HyperText Markup Language) and XML (Extensible Markup Language) are based. HTML is an SGML application, while XML is a Web-optimized subset of SGML. Dr. Goldfarb served as Editor of the SGML International Standard for 20 years, and is a consultant to developers of SGML and XML applications and products. He is co-author of "The XML Handbook " and author of "The SGML Handbook" (Oxford University Press, 1990). He has been profiled in "Forbes," "Web Techniques," "Red Herring," and other publications. He holds the Printing Industries of America's Gutenberg Award, and is an Honorary Fellow of the Society for Technical Communication. Dr. Goldfarb earned an A.B. degree from Columbia College (1960) and a J.D. at Harvard Law School (1964).

JOHN R. MAROZSAN has been a Director of the Company since June 2001. Mr. Marozsan retired in 1999 as President, Chief Executive Officer and as a member of the Executive Committee of CCH Incorporated, a leading provider of tax and business law information. In addition, he was a member of the Board of Directors of Wolters Kluwer U.S., of which CCH is a wholly owned subsidiary. Prior to joining CCH in 1996, Mr. Marozsan was President and CEO of Aspen Publishers, Inc., also a Wolters Kluwer U.S. company. Aspen Publishers, Gaithersburg, MD, develops and markets print and electronic books, loose-leaf reporting services, journals and newsletters for business professionals. Before becoming President and CEO in 1986, he spent 10 years in a number of management positions at Aspen, including Editor-in-Chief and Publisher. Mr. Marozsan received a B.S. degree in Physics from Trenton State College (1967), and an M.A. from Harvard University (1970).

HAIG S. BAGERDJIAN has been a Director of the Company since June 2001. He is the Executive Vice President for Syncor International

Corporation (Nasdaq:

SCOR), and the President and Chief Executive Officer for Syncor Overseas Ltd., its international division. Syncor is an international provider of high-technology healthcare services primarily for radiopharmacy and medical imaging segments of the healthcare industry, with annual sales of over \$700 million. Mr. Bagerdjian joined Syncor in 1991 as an Associate General Counsel and Assistant Secretary, became Vice President, Secretary and General Counsel in January 1995, and was appointed Senior Vice President, Business Development, in October 1996. He also served as Chief Legal Officer from June 1998 until June 1999, Chairman and CEO of Syncor Pharmaceuticals, Inc. from January 1999 until February 2001 and Secretary from January 1995 until January 2001. Mr. Bagerdjian received a B.A. in International Relations and Slavic Languages and Literature, and Certificates in Russian Studies, Strategic Defense and National Security, from the University of Southern California in 1983, and a J.D. from Harvard Law School in 1986. He is admitted to the State Bar of California. Mr. Bagerdjian has also served as a director of Advanced Machine Vision Corporation (Nasdaq: AMVC) and currently serves as Chairman of the Board of Point.360 (Nasdaq: PTSX).

LOUISE C. FORLENZA has, for the past 10 years, provided audit consultancy, management advisory, and tax planning services to a diverse group of corporate clients. From 1987 through 1992, she was the Chief Financial Officer and Chief Operating Officer of Intercontinental Exchange Partners, an international foreign exchange company, and served as a Director and as chair of its International Audit Committee. Prior to joining Intercontinental, she was the Chief Financial Officer of Bierbaum-Martin, a foreign exchange firm. Ms. Forlenza is a Director and Audit Committee chair of Medical Documents International Inc., a provider of medical information, and served as a Director and chair of the Finance Committee at A&M Foods. She participates actively in various not-for-profit and philanthropic organizations including as benefit chair for Greenwich Hospital and finance committee for The Acting Company, a New York City based promoter of arts and literacy founded in 1972 by actor John Houseman. Ms. Forlenza is a certified public accountant and served on the faculty of the accounting department of Iona College having graduated with a B.B.A. in Accounting from Iona College (1971).

GEORGE KONDRACH was appointed President of the Company's ISOGEN International, LLC wholly-owned subsidiary on December 10, 2001. Mr. Kondrach, who in 1991 co-founded ISOGEN International, served as its Chairman until April 1999 when ISOGEN was acquired by DataChannel, Inc. Since 1999 and until ISOGEN was acquired by the Company in December 2001, Mr. Kondrach served in various executive management capacities with DataChannel, most recently as Senior Vice President of Solutions Architecture. He holds a B.S. degree in biology from Southern Methodist University (1975).

STEPHEN AGRESS was elected Vice President - Finance in March 1998. He served as Corporate Controller since joining the Company in August 1995. Mr. Agress is a certified public accountant and had been a senior audit manager with Deloitte & Touche for more than five years prior to his resignation in 1995. Mr. Agress holds a B.S. in accounting from Yeshiva University (1982).

KLAAS BROUWER was elected Vice President - Technology in July 2000. He was Assistant Vice President for Technology from September 1998 until June 2000. Mr. Brouwer was Chief Technical Officer and Special Projects Division Manager at SPI Technologies, Inc., a leading competitor of the Company, from 1996 through 1998. From 1993 up to 1996, he served as IT Manager and member of the Management Team of Elsevier Science, responsible for the implementation of Software Development, LAN, WAN and Data Centers. Mr. Brouwer holds a Bachelors Degree in Information Technology from the Noordelijke Hogeschool Leeuwarden, a leading university in the Netherlands (1993).

AL GIRARDI joined the Company as Vice President - Strategic Communications in July 2002. Prior to joining the Company, Mr. Girardi was Vice President, Marketing, Communications & Brand Strategy at Antenna Software, a developer of web-based, wireless CRM software applications from February 2000 to January 2002. From February 1999 to January 2000, Mr. Girardi was Managing Director of the Corporate Branding Practice at Bozell Sawyer Miller (now Weber Shandwick), a leading worldwide strategic communications company, whose clients included General Electric, Moster.com, Unisys and Fujitsu. Prior to that, Mr. Girardi was Vice President, Corporate and Financial Communications for Grey Communications International. Mr. Girardi holds a B.A. from Vassar College (1987) and an MSJ from Northwestern University (1991).

ASHOK MISHRA was elected Vice President - Project Delivery in October 2001 after serving as AVP - Project Delivery from November 2000 to September 2001 and General Manager of India operations from 1997 to October 2000. Prior to joining Innodata in 1997, Mr. Mishra was Deputy General Manager Switching Production in ITI Ltd, a premier Telecom manufacturer in India, where he held various management positions in Production, Planning, Process and Quality areas between 1977 to 1997. Mr. Mishra holds Bachelor of Technology degree in Mechanical Engineering from Pantnagar University (1976), Component Manufacturing Technical Training from Alcatel France (1985) and condensed MBA course from Indian Institute of Management Bangalore (1995).

JAN PALMEN was elected Vice President - Sales in February 1999. Mr. Palmen was chief operating officer at SPI Technologies, Inc., a leading competitor of the Company, from 1995 through 1998. Prior to SPI, he was general manager, production for Reed/Elsevier from 1991 through 1995. He was also a member of the steering committee for global SGML implementation. Before that, he spent three years with United Dutch Publishers as head of sales and production and two years with a global management consultancy company as a strategic consultant. He holds a M.B.A. degree (1979) in marketing, economics and logistics management and a B.B.A. degree (1976) in economics and marketing, both from Erasmus University in Amsterdam.

JURGEN TANPHO was elected Vice President - Operations in March 1998. He served in various management capacities since joining the Company in 1991, including the position of Assistant to the President. He holds a B.S. degree in industrial engineering from the University of the Philippines (1986).

AMY R. AGRESS was elected Secretary in June 2001 and has served as the Innodata's Corporate Counsel since 1998. Prior to joining Innodata, she was an associate at a general practice law firm in Manhattan. Ms. Agress holds a J.D. degree from Fordham University School of Law (1989) and a B.A. degree from New York University (1986).

There are no family relationships between or among any directors or officers of the Company, except for Mr. Agress and Ms. Agress, who are husband and wife. Directors are elected to serve until the next annual meeting of stockholders and until their successors are elected and qualified. Officers serve at the discretion of the Board.

#### COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.

The Company believes that during the period from January 1, 2002 through December 31, 2002 all executive officers, directors and greater than ten-percent beneficial owners complied with Section 16(a) filing requirements.

#### ITEM 11. EXECUTIVE COMPENSATION.

##### EXECUTIVE COMPENSATION

The following table sets forth information with respect to compensation paid by the Company for services to the Company during the three fiscal years ended December 31, 2002 to the Company's Chief Executive Officer and to those other executive officers whose aggregate salary and bonus in 2002 exceeded \$100,000.

##### SUMMARY COMPENSATION TABLE

NAME AND POSITION	CALENDAR YEAR	ANNUAL COMPENSATION -----		NUMBER OF STOCK OPTIONS AWARDED
		SALARY	BONUS	
Jack Abuhoff Chairman of the Board of Directors, Chief Executive Officer and President	2002	\$315,600	\$ -	1,139,160 (a)
	2001	315,600	-	-
	2000	297,892	75,000	1,020,000
George Kondrach President - ISOGEN International, LLC Subsidiary	2002	\$200,000	\$ 10,660	150,000
	2001	16,667	-	-
Stephen Agress Vice President - Finance	2002	\$169,000	\$ -	-
	2001	169,000	-	100,000
	2000	164,800	24,720	100,000
Klaas Brouwer Vice President - Technology	2002	\$101,400	\$ -	-
	2001	101,400	-	100,000
	2000	92,950	25,097	100,000
Jan Palmen Vice President - Sales	2002	\$156,000	\$ 72,338	-
	2001	156,000	40,817	100,000
	2000	138,000	115,719	140,000
Jurgen Tanpho Vice President - Operations	2002	\$105,716	\$ -	-
	2001	105,716	-	100,000
	2000	102,724	15,409	100,000

(a) Represents options granted in 1997 for which the expiration date was extended from 2002 to 2007.

The above compensation does not include certain other personal benefits, the total value of which does not exceed as to any named officer, the lesser of \$50,000 or 10% of such person's cash compensation. The Company has not granted any stock appreciation rights nor does it have any



"long-term incentive plans," other than its stock option plans.

### OPTION GRANTS IN LAST FISCAL YEAR INDIVIDUAL GRANTS

NAME	NUMBER OF OPTIONS GRANTED	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE	EXPIRATION DATE	POTENTIAL REALIZED VALUE AT ASSUMED ANNUAL RATES OF STOCK APPRECIATION FOR OPTION TERM	
					5%	10%
Jack Abuhoff	6,672 (a)	-%	\$0.42	9/07	\$ 7,000	\$ 10,000
Jack Abuhoff	248,496 (a)	18%	\$0.50	9/07	\$253,000	\$352,000
Jack Abuhoff	360,000 (a)	26%	\$0.58	9/07	\$338,000	\$481,000
Jack Abuhoff	399,996 (a)	29%	\$1.29	9/07	\$ 92,000	\$251,000
Jack Abuhoff	123,996 (a)	9%	\$0.25	12/07	\$157,000	\$207,000
George Kondrach	150,000 (b)	11%	\$4.00	3/07	\$ -	\$ -

(a) Represents options granted in 1997 for which the expiration date was extended from 2002 to 2007.

(b) 25% of the options vest on March 31, 2003; thereafter, the remainder vest on a linear basis over 36 months.

### AGGREGATE OPTION EXERCISES IN LAST FISCAL YEAR; FISCAL YEAR END OPTION VALUES

NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	NUMBER OF UNEXERCISED OPTIONS AT FISCAL YEAR END EXERCISABLE/UNEXERCISABLE	VALUE OF UNEXERCISED IN-THE- MONEY OPTIONS AT FISCAL YEAR END EXERCISABLE/UNEXERCISABLE
Jack Abuhoff	20,988	21,407	2,049,942/446,718	\$467,398/\$-
George Kondrach	-	-	- /150,000	-/-
Stephen Agress	-	-	278,407/89,593	65,040/-
Klaas Brouwer	-	-	194,407/89,593	26,040/-
Jan Palmen	-	-	204,070/107,930	20,880/-
Jurgen Tanpho	-	-	326,083/89,593	86,971/-

### DIRECTORS COMPENSATION

Messrs. Bagerdjian and Marozsan and Ms. Forlenza are compensated at the rate of \$1,250 per month, plus out-of-pocket expenses for each meeting attended. In addition, on June 11, 2001, Messrs. Bagerdjian and Marozsan were each granted options to purchase 40,000 shares at an exercise price of \$5.59 per share.

Dr. Charles F. Goldfarb is compensated at a rate of \$2,000 per month, plus out-of-pocket expenses for each meeting attended. In addition, Dr. Goldfarb received approximately \$1,250 and \$29,000 in fees for certain special assignments in 2002 and 2001, respectively, and was granted options in 2001 to purchase 40,000 shares at an exercise price of \$5.44 per share.

The Company has an arrangement with Mr. Todd Solomon, its former President and CEO, that provides for a salary of \$75,000 per annum. In addition, Mr. Solomon was granted options in 2001 to purchase 176,000 shares at an exercise price of \$5.44 per share. Mr. Solomon serves as Vice Chairman of the Board and in certain capacities as designated by the CEO or the Board of Directors.

Mr. Barry Hertz was paid at a rate of \$75,000 per annum for services performed as Chairman of the Board of Directors until his resignation on May 7, 2001. In addition, Mr. Hertz received options to purchase 250,000 shares at an exercise price of \$5.44 per share in 2001.

## COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Through September 10, 2002, the compensation committee comprised of Messrs. Bagerdjian, Solomon, and Marozsan, none of whom are currently executive officers of the Company. The Company has an arrangement with Mr. Solomon, who served as President and Chief Executive Officer of the Company through September 1977, which provides for a current salary of \$75,000 per annum. On September 11, 2002, Mr. Solomon resigned as a member of the Committee.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

### SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets forth the aggregate information for the Company's equity compensation plans in effect as of December 31, 2002:

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (A)	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (B)	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS (C)
Equity compensation plans approved by security holders	6,207,000	\$2.19	2,605,000
Equity compensation plans not approved by security holders	1,057,000(1) -----	\$0.83 -----	- -----
Total	7,264,000 =====	\$1.99 =====	2,605,000 =====

- (1) Consists of (i) stock options to purchase 42,000 shares of common stock granted to the Company's former Chairman pursuant to an agreement entered into in 1993, and (ii) stock options to purchase 1,015,164 shares of common stock granted to the Company's current Chairman pursuant to an agreement entered into at time of hire.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of February 28, 2003, certain information regarding the beneficial ownership (as defined in Rule 13d-3 under the Securities Exchange Act of 1934) of the Company's Common Stock based upon the most recent information available to the Company for (i) each person known by the Company to own beneficially more than five (5%) percent of the Company's outstanding Common Stock, (ii) each of the Company's directors, (iii) each of the Company's Executive Officers whose total annual salary and bonus compensation exceeded \$100,000 in 2002 and (iv) all Executive Officers and Directors of the Company as a group. Unless otherwise indicated, each stockholder's

address is c/o Company, Three University Plaza, Hackensack, New Jersey 07601.

NAME AND ADDRESS OF BENEFICIAL OWNER	SHARES OWNED BENEFICIALLY(1) AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS
Track Data Corporation (2)	1,893,356	8.8%
DIRECTORS:		
Todd Solomon (3)	3,018,805	13.6%
Jack Abuhoff (4)	2,270,913	9.6%
Charles Goldfarb (5)	83,298	*
John R. Marozsan (6)	13,333	*
Haig S. Bagerdjian (6)	23,333	*
Louise C. Forlenza	2,500	*
NAMED EXECUTIVE OFFICERS:		
Stephen Agress (7)	591,606	2.7%
Jurgen Tanpho (8)	390,413	1.8%
Klaas Brouwer (9)	232,071	1.1%
Jan Palmen (10)	224,067	1.0%
George Kondrach (11)	67,452	*
All Executive Officers and Directors as a Group (12 persons) (12)	6,936,747	27.0%

\* Less than 1%.

1. Unless otherwise indicated, (i) each person has sole investment and voting power with respect to the shares indicated and (ii) the shares indicated are currently outstanding shares. For purposes of this table, a person or group of persons is deemed to have "beneficial ownership" of any shares as of a given date which such person has the right to acquire within 60 days after such date. For purposes of computing the percentage of outstanding shares held by each person or group of persons named above on a given date, any security which such person or persons has the right to acquire within 60 days after such date is deemed to be outstanding for the purpose of computing the percentage ownership of such person or persons, but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person. Subject to the foregoing, the percentages are calculated based on 21,435,386 shares outstanding.
2. The address of Track Data Corporation ("TDC") is 95 Rockwell Place, Brooklyn, New York 11217. TDC is controlled by Barry Hertz, its Chairman and principal shareholder. The information above does not include 33,600 shares held in a pension plan for the benefit of Mr. Hertz and exercisable options held by Mr. Hertz to purchase 539,677 shares of Common Stock. Including such stock options and shares, Mr. Hertz and TDC combined are beneficial owners of 2,466,633 shares of common stock, representing 11% of the total shares outstanding.
3. Includes currently exercisable options to purchase 790,645 shares of Common

Stock.

4. Includes currently exercisable options to purchase 2,134,929 shares of Common Stock.
5. Includes currently exercisable options to purchase 82,498 shares of Common Stock.
6. Includes currently exercisable options to purchase 13,333 shares of Common Stock.
7. Includes (i) currently exercisable options held by Mr. Agress to purchase 295,071 shares of Common Stock and (ii) currently exercisable options held by his wife to purchase 54,495 shares of Common Stock. Mr. Agress disclaims beneficial ownership in the shares attributable to his wife.
8. Includes currently exercisable options to purchase 342,747 shares of Common Stock.
9. Includes currently exercisable options to purchase 211,071 shares of Common Stock.
10. Consists of shares currently issuable upon exercisable options granted under the Company's stock option plans.
11. Includes currently exercisable options to purchase 40,625 shares of Common Stock
12. Includes currently exercisable options to purchase 4,167,275 shares of Common Stock.

#### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.**

In May 2001, the Company entered into an agreement with Mr. Barry Hertz, its then Chairman of the Board, pursuant to which he is continuing to serve as a part-time employee at a salary of \$2,000 per month for five years. In addition, the Company paid him at that time \$400,000 in exchange for a six year non-compete agreement.

#### **ITEM 14. CONTROLS AND PROCEDURES.**

##### **(a) Evaluation of Disclosure Controls and Procedures.**

An evaluation has been carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Accounting Officer, of the effectiveness of the design and the operation of our "disclosure controls and procedures" (as such term is defined in Rules 13a-14(c) under the Securities Exchange Act of 1934). This evaluation took place as of a date within 90 days prior to the filing date of this annual report ("Evaluation Date"). Based on such evaluation, our Chief Executive Officer and Chief Accounting Officer have concluded that, as of the Evaluation Date, the disclosure controls and procedures are reasonably designed and effective to ensure that (i) information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) such information is accumulated and communicated to the our management, including our Chief Executive Officer and Chief Accounting Officer, as appropriate to allow timely decisions regarding required disclosure.

##### **(b) Changes in Internal Controls.**

Since the Evaluation Date, there have not been any significant changes in our internal controls or in other factors that could significantly affect such controls.

### **PART IV**

#### **ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K**

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

EXHIBIT -----	DESCRIPTION -----	FILED AS EXHIBIT -----
3.1	Restated Certificate of Incorporation	Exhibit 3.1 to Form SB-2 Registration Statement No. 33-62012
3.2	Form of Amended and Restated By-Laws	Exhibit 3.1 to Form 8-K dated December 16, 2002
3.3	Form of Certificate of Designation of Series C Participating Preferred Stock	Filed as Exhibit A to Exhibit 4.1 to Form 8-K dated December 16, 2002
4.2	Specimen of Common Stock certificate	Exhibit 4.2 to Form SB-2 Registration Statement No. 33-62012
4.3	Form of Rights Agreement, dated as of December 16, 2002 between Innodata Corporation and American Stock Transfer & Trust Co., as Rights Agent	Exhibit 4.1 to Form 8-K dated December 16, 2002
10.1	1994 Stock Option Plan	Exhibit A to Definitive Proxy dated August 9, 1994
10.2	1993 Stock Option Plan	Exhibit 10.4 to Form SB-2 Registration Statement No. 33-62012
10.3	Form of Indemnification Agreement	Filed herewith
10.4	1994 Disinterested Directors Stock Option Plan	Exhibit B to Definitive Proxy dated August 9, 1994
10.5	1995 Stock Option Plan	Exhibit A to Definitive Proxy dated August 10, 1995
10.6	1996 Stock Option Plan	Exhibit A to Definitive Proxy dated November 7, 1996
10.7	1998 Stock Option Plan	Exhibit A to Definitive Proxy dated November 5, 1998
10.8	2001 Stock Option Plan	Exhibit A to Definitive Proxy dated June 29, 2001
10.9	2002 Stock Option Plan	Exhibit A to Definitive Proxy dated September 3, 2002
21	Significant subsidiaries of the registrant	Filed herewith
23	Consent of Grant Thornton LLP	Filed herewith
99.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith
99.2	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith

(b) Form 8-K Report. During the three months ended December 31, 2002, a Form 8-K was filed dated as of December 16, 2002, announcing

under Item 5 the adoption of Amended and Restated By-laws for the Company and the adoption of a stockholder Rights Agreement.

(d) Financial Statement Schedules

**Schedule II - Valuation and Qualifying Accounts**

**SIGNATURES**

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**INNODATA CORPORATION**

By \_\_\_\_\_/s/

-----  
*Jack Abuhoff*  
*Chairman of the Board of Directors,*  
*Chief Executive Officer and President*

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature ----- /s/	Title -----	Date ----
----- Jack Abuhoff	Chairman of the Board of Directors, Chief Executive Officer and President	March 26, 2003
----- /s/ ----- Todd Solomon	Vice Chairman of the Board of Directors and Consultant	March 26, 2003
----- /s/ ----- Stephen Agress	Vice President - Finance Chief Accounting Officer (Principal Accounting and Financial Officer)	March 26, 2003
----- /s/ ----- Haig S. Bagerdjian	Director	March 26, 2003
----- /s/ ----- Louise C. Forlenza	Director	March 26, 2003
----- /s/ ----- Dr. Charles F. Goldfarb	Director	March 26, 2003
----- /s/ ----- John R. Marozsan	Director	March 26, 2003

## CERTIFICATIONS

I, Jack Abuhoff, certify that:

1. I have reviewed this annual report on Form 10-K of Innodata Corporation;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures 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 annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: March 26, 2003

/s/

-----  
*Jack Abuhoff*  
*Chairman of the Board,*  
*Chief Executive Officer and President*

I, Stephen Agress, certify that:

1. I have reviewed this annual report on Form 10-K of Innodata Corporation;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures 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 annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: March 26, 2003

/s/

-----  
Stephen Agress  
Vice President, Finance and  
Chief Accounting Officer

**INNODATA CORPORATION**  
**SCHEDULE II**  
**VALUATION AND QUALIFYING ACCOUNTS**  
(DOLLARS IN THOUSANDS)

Activity in the Company's allowance for doubtful accounts for the years ended December 31, 2002, 2001 and 2000 was as follows:

PERIOD	BALANCE AT BEGINNING OF PERIOD	ADDITIONS			BALANCE AT END OF PERIOD
		CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS	
2002	\$1,853	\$ -	\$ -	\$ (599)	\$1,254
2001	\$ 884	\$2,942	\$ -	\$ (1,973)	\$1,853
2000	\$ 580	\$ 304	\$ -	\$ -	\$ 884

**EXHIBIT 21****SIGNIFICANT SUBSIDIARIES**

NAME OF SUBSIDIARY -----	STATE OR OTHER JURISDICTION OF INCORPORATION -----	NAME UNDER WHICH SUBSIDIARY CONDUCTS BUSINESS -----
Isogen International, LLC	Delaware	Same
Innodata India (Private) Limited	India	Same
Innodata XML Content Factory, Inc.	Philippines	Same
Innodata Lanka (Private) Limited	Sri Lanka	Same

## EXHIBIT 23

### CONSENT OF INDEPENDENT AUDITORS

We have issued our report dated March 7, 2003 accompanying the consolidated financial statements and schedules included in the Annual Report of Innodata Corporation on Form 10-K for the year ended December 31, 2002. We hereby consent to the incorporation by reference of said reports in the Registration Statements of Innodata Corporation on Form S-8 (Registration No. 33-85530, dated October 21, 1994, Registration No. 333-3464, dated April 18, 1996, Registration No. 33-63085, dated September 9, 1998 and Registration No. 333-82185, dated July 2, 1999) and on Form S-3 (Registration No. 33-62012, dated April 11, 1996, Registration No. 333-91649, dated January 6, 2000 and Registration No. 333-51400, dated January 2, 2001).

/s/

-----  
*Grant Thornton LLP*  
*New York, New York*  
*March 7, 2003*

**EXHIBIT 99.1**

**CERTIFICATION 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 Annual Report of Innodata Corporation (the "Company") on Form 10-K for the quarter ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jack Abuhoff, Chief Executive Officer of the Company, 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) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/

-----  
*Jack Abuhoff  
Chairman of the Board,  
Chief Executive Officer and President  
March 26, 2003*

**EXHIBIT 99.2**

**CERTIFICATION 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 Annual Report of Innodata Corporation (the "Company") on Form 10-K for the quarter ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen Agress, Principal Financial Officer of the Company, 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) 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/

-----  
*Stephen Agress  
Vice President, Finance and  
Chief Accounting Officer  
March 26, 2003*

## EXHIBIT 10.3

### INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT is entered into as of this 16th day of December, 2002, by and between Innodata Corporation, a Delaware corporation (the "Company"), and (NAME), residing at (ADDRESS) ("Indemnitee").

#### RECITALS

A. The Company is aware that because of the increased exposure to litigation costs, talented and experienced persons are increasingly reluctant to serve or continue serving as directors and officers of corporations unless they are protected by comprehensive liability insurance and indemnification.

B. The statutes and judicial decisions regarding the duties of directors and officers are often difficult to apply, ambiguous, or conflicting, and therefore fail to provide such directors and officers with adequate guidance regarding the proper course of action.

C. The Board of Directors of the Company (the "Board") has concluded that, in order to retain and attract talented and experienced individuals to serve as officers and directors of the Company and its subsidiaries and to encourage such individuals to take the business risks necessary for the success of the Company and its subsidiaries, the Company should contractually indemnify its officers and directors, and the officers and directors of its subsidiaries, in connection with claims against such officers and directors in connection with their services to the Company and its subsidiaries, and has further concluded that the failure to provide such contractual indemnification could be detrimental to the Company, its subsidiaries and stockholders.

NOW, THEREFORE, the parties, intending to be legally bound, hereby agree as follows:

#### 1. Definitions.

(a) Agent. "Agent" with respect to the Company means any person who is or was a director, officer, employee or other agent of the Company or a Subsidiary of the Company; or is or was serving at the request of, for the convenience of, or to represent the interests of, the Company or a Subsidiary of the Company as a director, officer, employee or agent of another entity or enterprise; or was a director, officer, employee or agent of a predecessor corporation (or other predecessor entity or enterprise) of the Company or a Subsidiary of the Company, or was a director, officer, employee or agent of another enterprise at the request of, for the convenience of, or to represent the interests of such predecessor.

(b) Expenses. "Expenses" means all direct and indirect costs of any type or nature whatsoever (including, without limitation, all attorneys' fees, costs of investigation and related disbursements) incurred by the Indemnitee in connection with the investigation, settlement, defense or appeal of a Proceeding covered hereby or the establishment or enforcement of a right to indemnification under this Agreement.

(c) Proceeding. "Proceeding" means any threatened, pending, or completed claim, suit or action, whether civil, criminal, administrative, investigative or otherwise.

(d) Subsidiary. "Subsidiary" means any corporation or other entity of which more than 10% of the outstanding voting securities or other voting interests is owned directly or indirectly by the Company, and one or more other Subsidiaries, taken as a whole.

#### 2. Maintenance of Liability Insurance.

(a) The Company hereby covenants and agrees with Indemnitee that, subject to Section 2(b), the Company shall obtain and maintain in full force and effect directors' and officers' liability insurance ("D&O Insurance") in reasonable amounts as the Board of Directors shall determine from established and reputable insurers, but no less than the amounts in effect upon initial procurement of the D&O Insurance. In all policies of D&O Insurance, Indemnitee shall be named as an insured.

(b) Notwithstanding the foregoing, the Company shall have no obligation to obtain or maintain D&O Insurance if the Company determines in good faith that the premium costs for such insurance are (i) disproportionate to the amount of coverage provided after giving effect to exclusions, and (ii) substantially more burdensome to the Company than the premiums charged to the Company for its initial D&O Insurance.

#### 3. Mandatory Indemnification. The Company shall defend, indemnify and hold harmless Indemnitee:

(a) Third Party Actions. If Indemnitee is a person who was or is a party, or is threatened to be made a party, to any Proceeding (other than an action by or in the right of the Company) by reason of the fact that Indemnitee is or was or is claimed to be an Agent of the Company, or by reason of anything done or not done by Indemnitee in any such capacity, or by reason of the fact that Indemnitee personally guaranteed any obligation of the Company at any time, against any and all Expenses and liabilities or any type whatsoever (including, but not limited to, legal fees, judgments, fines, ERISA excise taxes or penalties, and amounts paid in settlement) incurred by such person in connection with the investigation, defense, settlement or appeal of such Proceeding, so long as the Indemnitee acted in good faith and in a manner the Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, or, with respect to any criminal action or Proceeding, had no reasonable cause to believe such person's conduct was unlawful.

(b) Derivative Actions. If Indemnitee is a person who was or is a party, or is threatened to be made a party, to any Proceeding by or in the right of the Company by reason of the fact that he is or was an Agent of the Company, or by reason of anything done or not done by him in any such capacity, against any and all Expenses and liabilities of any type whatsoever (including, but not limited to, legal fees, judgments, fines, ERISA excise taxes or penalties, and amounts paid in settlement) incurred by him in connection with the investigation, defense, settlement or appeal of such Proceeding, so long as the Indemnitee acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company; except that no indemnification under this subsection shall be made, and Indemnitee shall repay all amounts previously advanced by the Company, in respect of any claim, issue or matter for which such person is judged in a final, non-appealable decision to be liable to the Company by a court of competent jurisdiction due to willful misconduct in the performance of his duties to the Company, unless and only to the extent that the court in which such Proceeding was brought or the Court of Chancery of Delaware shall determine that Indemnitee is fairly and reasonably entitled to indemnity.

(c) Actions Where Indemnitee Is Deceased. If Indemnitee is a person who was or is a party, or is threatened to be made a party, to any Proceeding by reason of the fact that he is or was an Agent of the Company, or by reason of anything done or not done by him in any such capacity, and prior to, during the pendency of, or after completion of, such Proceeding, the Indemnitee shall die, then the Company shall defend, indemnify and hold harmless the estate, heirs and legatees of the Indemnitee against any and all Expenses and liabilities incurred by or for such persons or entities in connection with the investigation, defense, settlement or appeal of such Proceeding on the same basis as provided for the Indemnitee in Sections 3(a) and 3(b) above.

The Expenses and liabilities covered hereby shall be net of any payments by D&O Insurance carriers or others.

4. Partial Indemnification. If Indemnitee is found under Section 3, 6 or 9 hereof not to be entitled to indemnification for all of the Expenses relating to a Proceeding, the Company shall indemnify the Indemnitee for any portion of such Expenses not specifically precluded by the operation of such Section 3, 6 or 9.

5. Indemnification Procedures; Mandatory Advancement of Expenses.

(a) Promptly after receipt by Indemnitee of notice to him or her of the commencement or threat of any Proceeding covered hereby, Indemnitee shall notify the Company of the commencement or threat thereof, provided that any failure to so notify shall not relieve the Company of any of its obligations hereunder.

(b) If, at the time of the receipt of a notice pursuant to Section 5(a) above, the Company has D&O Insurance in effect, the Company shall give prompt notice of the Proceeding or claim to its insurers in accordance with the procedures set forth in the applicable policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay all amounts payable as a result of such Proceeding in accordance with the terms of such policies.

(c) Indemnitee shall be entitled to retain one or more counsel from time to time selected by it in its sole discretion to act as its counsel in and for the investigation, defense, settlement or appeal of each Proceeding. The Company shall not waive any privilege or right available to Indemnitee in any such Proceeding.

(d) The Company shall bear all fees and Expenses (including invoices for advance retainers) of such counsel, and all fees and Expenses invoiced by other persons or entities, in connection with the investigation, defense, settlement or appeal of each such Proceeding. Such fees and Expenses are referred to herein as "Covered Expenses."

(e) Until a determination to the contrary under Section 6 hereof is made, the Company shall advance all Covered Expenses in connection with each Proceeding. If required by law, as a condition to such advances, Indemnitee shall, at the request of the Company, agree to repay such amounts advanced if it shall ultimately be determined by a final order of a court that Indemnitee is not entitled to be indemnified by the Company by the terms hereof or under applicable law.

(f) Each advance to be made hereunder shall be paid by the Company to Indemnitee within 10 days following delivery of a written request therefor by Indemnitee to the Company.

(g) The Company acknowledges the potentially severe damage to Indemnitee should the Company fail timely to make such advances to Indemnitee.

6. Determination of Right to Indemnification.

(a) To the extent Indemnitee has been successful on the merits or otherwise in defense of any Proceeding, claim, issue or matter covered hereby, Indemnitee need not repay any of the Expenses advanced in connection with the investigation, defense or appeal of such Proceeding.

(b) If Section 6(a) is inapplicable, the Company shall remain obligated to indemnify Indemnitee, and Indemnitee need not repay Expenses previously advanced, unless the Company, by motion before a court of competent jurisdiction, obtains an order for preliminary or permanent relief suspending or denying the obligation to advance or indemnify for Expenses.



(c) Notwithstanding a determination by a court that Indemnatee is not entitled to indemnification with respect to a specific Proceeding, Indemnatee shall have the right to apply to the Court of Chancery of Delaware for the purpose of enforcing Indemnatee's right to indemnification pursuant to this Agreement.

(d) Notwithstanding any other provision in this Agreement to the contrary, the Company shall indemnify Indemnatee against all Expenses incurred by Indemnatee in connection with any Proceeding under Section 6(b) or 6(c) and against all Expenses incurred by Indemnatee in connection with any other Proceeding between the Company and Indemnatee involving the interpretation or enforcement of the rights of Indemnatee under this Agreement unless a court of competent jurisdiction finds that each of the material claims and/or defenses of Indemnatee in any such Proceeding were frivolous or made in bad faith.

7. Certificate of Incorporation and By-Laws. The Company agrees that the Company's Certificate of Incorporation and By-laws in effect on the date hereof shall not be amended to reduce, limit, hinder or delay (i) the rights of Indemnatee granted hereby, or (ii) the ability of the Company to indemnify Indemnatee as required hereby. The Company further agrees that it shall exercise the powers granted to it under its Certificate of Incorporation, its By-laws and by applicable law to indemnify Indemnatee to the fullest extent possible as required hereby.

8. Witness Expenses. The Company agrees to compensate Indemnatee for the reasonable value of his or her time spent, and to reimburse Indemnatee for all Expenses (including attorneys' fees and travel costs) incurred by him or her, in connection with being a witness, or if Indemnatee is threatened to be made a witness, with respect to any Proceeding, by reason of his or her serving or having served as an Agent of the Company.

9. Exceptions. Notwithstanding any other provision hereunder to the contrary, the Company shall not be obligated pursuant to the terms of this Agreement:

(a) Claims Initiated by Indemnatee. To indemnify or advance Expenses to Indemnatee with respect to Proceedings or claims initiated or brought voluntarily by Indemnatee and not by way of defense (other than Proceedings under Section 6(b) or Section 6(c) or brought to establish or enforce a right to indemnification under this Agreement or the provisions of the Company's Certificate of Incorporation or By-laws unless a court of competent jurisdiction determines that each of the material assertions made by Indemnatee in such Proceeding were not made in good faith or were frivolous).

(b) Unauthorized Settlements. To indemnify Indemnatee under this Agreement for any amounts paid in settlement of a Proceeding covered hereby without the prior written consent of the Company to such settlement.

10. Non-exclusivity. This Agreement is not the exclusive arrangement between the Company and Indemnatee regarding the subject matter hereof and shall not diminish or affect any other rights which Indemnatee may have under any provision of law, the Company's Certificate of Incorporation or By-laws, under other agreements, or otherwise.

11. Continuation After Term. Indemnatee's rights hereunder shall continue after the Indemnatee has ceased acting as a director or Agent of the Company and the benefits hereof shall inure to the benefit of the heirs, executors and administrators of Indemnatee.

12. Interpretation of Agreement. This Agreement shall be interpreted and enforced so as to provide indemnification to Indemnatee to the fullest extent now or hereafter permitted by law.

13. Severability. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable, the other provisions of the Agreement shall not in any way be affected or impaired thereby, and to the fullest extent possible, the provisions of this Agreement shall be construed or altered by the court so as to remain enforceable and to provide Indemnatee with as many of the benefits contemplated hereby as are permitted under law.

14. Counterparts, Modification and Waiver. This Agreement may be signed in counterparts. This Agreement constitutes a separate agreement between the Company and Indemnatee and may be supplemented or amended as to Indemnatee only by a written instrument signed by the Company and Indemnatee, with such amendment binding only the Company and Indemnatee. All waivers must be in a written document signed by the party to be charged. No waiver of any of the provisions of this Agreement shall be implied by the conduct of the parties. A waiver of any right hereunder shall not constitute a waiver of any other right hereunder.

15. Notices. All notices, demands, consents, requests, approvals and other communications required or permitted hereunder shall be in writing and shall be deemed to have been properly given if hand delivered (effective upon receipt or when refused), or if sent by a courier freight prepaid (effective upon receipt or when refused), in the case of the Company, at the addresses listed below, or to such other addresses as the parties may notify each other in writing.

To Company:  
Amy R. Agress, Esq.  
Corporate Counsel  
Innodata Corporation  
Three University Plaza

Hackensack, New Jersey 07601

With a copy to:  
Oscar D. Folger, Esq.  
521 Fifth Avenue  
New York, NY 10175

**To Indemnitee:**

At the Indemnitee's residence address and facsimile number on the records of the Company from time to time.

16. Evidence of Coverage. Upon request by Indemnitee, the Company shall provide evidence of the liability insurance coverage required by this Agreement. The Company shall promptly notify Indemnitee of any change in the Company's D&O Insurance coverage.

17. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of Delaware.

IN WITNESS WHEREOF, the parties hereto have entered into this Indemnification Agreement effective as of the date first above written.

**Innodata Corporation**

By : \_\_\_\_\_  
Jack S. Abuhoff  
Chairman and CEO

(NAME)

**End of Filing**