INNODATA ISOGEN INC
Form 10-Q/A
February 10, 2010

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

FORM 10-Q/A
Amendment No. 1

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2009

OR

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

For the transition period from ________________ to ________________

Commission file number: 0-22196

INNODATA ISOGEN, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	13-3475943 (I.R.S. Employer Identification No.)
Three University Plaza Hackensack, New Jersey (Address of principal executive offices)	07601 (Zip Code)

(201) 371-8000
(Registrant's telephone number, including area code)

[None]
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

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

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

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

The number of outstanding shares of the registrant's common stock, $.01 par value, as of October 31, 2009 was 25,375,246.

EXPLANATORY NOTE

We are filing this Amendment No. 1 on Form 10-Q/A to the Quarterly Report on Form 10-Q of Innodata Isogen, Inc. (“we” or the “Company”) for the quarter ended September 30, 2009, which was originally filed with the Securities and Exchange Commission (“SEC”) on November 5, 2009.

The Company concluded that the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2008 and the Quarterly Report on Form 10-Q for the period ended September 30, 2009 should be restated to correct errors in the computation of the Company's deferred tax asset and income tax benefit account and related valuation allowances.

In 2005 and 2006, the Company established a deferred tax asset to reflect tax loss carryforwards that were generated in those years. The Company also established an offsetting valuation allowance as management believed that it was more likely than not that such deferred tax assets would not be realized. In 2006 and 2007, the deferred tax asset and the valuation allowance erroneously included losses generated by tax deductions that were taken by the Company on the exercise of stock options. The deferred tax asset and the valuation allowance were also overstated as an incorrect state income tax rate was applied to the state tax loss carryforwards for the calculation of the related deferred tax asset.

Since the recorded deferred tax asset and the valuation allowance offset each other in 2006 and 2007, the errors did not affect net income or reported asset accounts in those years. In the fourth quarter of 2008, based on management’s assessment that the tax deferred asset would more likely than not be realized, management reversed the entire valuation allowance. Since the Company’s deferred tax account and valuation allowance were both overstated, the reversal in 2008 of the valuation allowance resulted in the erroneous recognition of a deferred tax asset and related tax benefit in 2008.

To correct these errors, the Company filed restated financial statements in an amended Annual Report on Form 10-K/A on February 10, 2010.

As of September 30, 2009, the net result of the errors was that the Company’s deferred tax asset and retained earnings on its condensed consolidated balance sheet was overstated by $926,000. The errors did not affect net income or net cash flows during 2009. These corrections are described in more detail in Note 11 of the restated condensed consolidated financial statements.

As a result of the restatement, we have amended Items 1 and 4 of Part I of the original Form 10-Q. This Amendment No. 1 on Form 10-Q/A also contains currently dated certifications as Exhibits 31.1, 31.2, 32.1 and 32.2.

For the reader’s convenience, this Form 10-Q/A sets forth the entire Form 10-Q, which was prepared and which relates to the Company as of September 30, 2009. However, this Form 10-Q/A only amends and restates the items described above to reflect the effects of the restatement. No attempt has been made to modify or update other disclosures presented in our September 30, 2009 Form 10-Q. Accordingly, except for the foregoing amended information, this Form 10-Q/A continues to speak as of November 5, 2009 (the original filing date of the September 30, 2009 Form 10-Q) and does not reflect events occurring after the filing of our September 30, 2009 Form 10-Q and does not modify or update those disclosures affected by subsequent events. Unless otherwise stated, information in this Form 10-Q/A not affected by such current restatements remains unchanged and reflects the disclosures made at the time of the original filing.

INNODATA ISOGEN, INC. AND SUBSIDIARIES
For the Quarter Ended September 30. 2009

INDEX

INNODATA ISOGEN, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in thousands, except share data)

	September 30, 2009 As Restated	December 31, 2008 As Restated
ASSETS		
Current assets:		
Cash and cash equivalents	$ 27,867	$ 13,875
Accounts receivable, net	12,911	14,017
Prepaid expenses and other current assets	3,903	2,246
Deferred income taxes	562	3,189
Total current assets	45,243	33,327
Property and equipment, net	6,105	6,726
Other assets	2,737	2,825
Deferred income taxes	964	906
Goodwill	675	675
Total assets	$ 55,724	$ 44,459
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,152	$ 1,053
Accrued expenses	2,307	2,540
Accrued salaries, wages and related benefits	5,362	5,289
Income and other taxes	1,223	1,649
Current portion of long term obligations	873	915
Deferred income taxes	208	-
Total current liabilities	11,125	11,446
Deferred income taxes	2,075	2,080
Long term obligations	1,234	1,671
Commitments and contingencies		
STOCKHOLDERS' EQUITY:		
Serial preferred stock; 5,000,000 shares authorized, none outstanding	-	-
Common stock, $.01 par value; 75,000,000 shares authorized; 26,163,000 issued and 25,375,000 outstanding at September 30, 2009; and 24,907,000 issued and 24,119,000 outstanding at December 31, 2008	262	249
Additional paid-in capital	20,245	16,614
Retained earnings	21,927	13,846
Accumulated other comprehensive income	1,045	742
	43,479	31,451
Less: treasury stock, 788,000 shares at cost	(2,189)	(2,189)
Total stockholders' equity	41,290	29,262
Total liabilities and stockholders' equity	$ 55,724	$ 44,459

See notes to condensed consolidated financial statements.

1

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

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008
Revenues	$ 19,107	$ 18,333
Operating costs and expenses:		
Direct operating costs	13,398	13,130
Selling and administrative expenses	3,752	3,653
Interest income, net	(6)	(61)
Totals	17,144	16,722
Income before provision for income taxes	1,963	1,611
Provision for income taxes	667	503
Net income	$ 1,296	$ 1,108
Income per share:		
Basic and diluted	$ .05	$ .05
Weighted average shares outstanding:		
Basic	24,670	24,124
Diluted	26,039	24,565

See notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2009	2008
Revenues	$ 62,557	$ 54,603
Operating costs and expenses		
Direct operating costs	40,707	40,197
Selling and administrative expenses	10,422	12,044
Interest income, net	(25)	(167)
Total	51,104	52,074
Income before provision for income taxes	11,453	2,529
Provision for income taxes	3,372	552
Net income	$ 8,081	$ 1,977
Income per share:		
Basic	$ .33	$ .08
Diluted	$ .32	$ .08
Weighted average shares outstanding:		
Basic	24,354	24,481
Diluted	25,401	25,391

See notes to condensed consolidated financial statements.

3

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

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Cash flow from operating activities:		
Net income	$ 8,081	$ 1,977
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,767	2,811
Stock-based compensation	197	136
Deferred income taxes	2,557	(169)
Pension cost	125	505
Changes in operating assets and liabilities:		
Accounts receivable	1,106	(208)
Prepaid expenses and other current assets	(1,119)	(522)
Refundable income taxes	-	449
Other assets	(322)	(102)
Accounts payable and accrued expenses	(134)	(555)
Accrued salaries, wages and related benefits	73	(417)
Income and other taxes	(426)	(164)
Net cash provided by operating activities	12,905	3,741
Cash flow from investing activities:		
Capital expenditures	(1,736)	(1,980)
Cash flow from financing activities:		
Payment of long term obligations	(624)	(653)
Purchase of treasury stock	-	(1,870)
Proceeds from exercise of stock options	3,447	71
Net cash provided by (used in) financing activities	2,823	(2,452)
Increase (decrease) in cash and cash equivalents	13,992	(691)
Cash and cash equivalents, beginning of period	13,875	14,751
Cash and cash equivalents, end of period	$ 27,867	$ 14,060
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 25	$ 43
Cash paid for income taxes	$ 2,013	$ 703
Non-cash investing and financing activities:		
Vendor financed software licenses acquired	$ -	$ 1,650

See notes to condensed consolidated financial statements

INNODATA ISOGEN, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 2009 (As Restated) AND 2008
(Unaudited) (In thousands)

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive Income	Treasury	
	Shares	Amount	Capital	Earnings	(Loss)	Stock	Total
January 1, 2009	24,119	$ 249	$ 16,614	$ 13,846	$ 742	$ (2,189)	$ 29,262
Net income	-	-	-	8,081	-	-	8,081
Issuance of common stock upon exercise of stock options	1,256	13	3,434	-	-	-	3,447
Stock-based compensation	-	-	197	-	-	-	197
Change in transitional projected benefit obligation, net of taxes	-	-	-	-	(27)	-	(27)
Change in fair value of derivatives, net of taxes	-	-	-	-	330	-	330
September 30, 2009	25,375	$ 262	$ 20,245	$ 21,927	$ 1,045	$ (2,189)	$ 41,290
January 1, 2008	24,699	$ 249	$ 16,323	$ 7,188	$ (211)	$ (319)	$ 23,230
Net income	-	-	-	1,977	-	-	1,977
Issuance of common stock upon exercise of stock options	26	-	71	-	-	-	71
Purchase of treasury stock	(606)	-	-	-	-	(1,870)	(1,870)
Stock-based compensation	-	-	136	-	-	-	136
Change in transitional projected benefit obligation, net of taxes	-	-	-	-	62	-	62
Change in fair value of derivatives, net of taxes	-	-	-	-	(290)	-	(290)
September 30, 2008	24,119	$ 249	$ 16,530	$ 9,165	$ (439)	$ (2,189)	$ 23,316

See notes to condensed consolidated financial statements

INNODATA ISOGEN, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(Unaudited)

1. Description of Business and Summary of Significant Accounting Policies

Description of Business-Innodata Isogen, Inc. and subsidiaries (the “Company”) is a leading provider of knowledge process outsourcing (“KPO”) services as well as publishing and related information technology (“IT”) services that help leading media, publishing and information service companies create, manage, use and maintain their products. Our publishing services include digitization, conversion, composition, data modeling and XML encoding, and our KPO services include research and analysis, authoring, copy-editing, abstracting, indexing and other content creation activities. Our staff of IT systems professionals design, implement, integrate and deploy systems and technologies used to improve the efficiency of authoring, managing and distributing content.

Basis of Presentation-The condensed consolidated financial statements for the interim periods included herein are unaudited; however, they contain all adjustments (consisting of only normal recurring adjustments) which, in the opinion of management, are necessary to present fairly the consolidated financial position of the Company as of September 30, 2009, and the results of its operations and its cash flows for the three and nine months ended September 30, 2009 and 2008. The results of operations for the interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2008 included in the Company's Annual Report on Form 10-K. Unless otherwise noted, the accounting policies used in preparing these condensed consolidated financial statements are the same as those described in the December 31, 2008 consolidated financial statements.

The Company has evaluated subsequent events through the date and time the financial statements were issued on November 5, 2009. No material subsequent events have occurred since September 30, 2009 that would require recognition or disclosure in these condensed consolidated financial statements.

Principles of Consolidation-The condensed consolidated financial statements include the accounts of Innodata Isogen, Inc. and its subsidiaries, all of which are wholly owned. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates-In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include those related to revenue recognition, allowance for doubtful accounts and billing adjustments, long-lived assets, goodwill, valuation of deferred tax assets, valuation of securities underlying stock-based compensation, litigation accruals, pension benefits, valuation of derivative instruments and estimated accruals for various tax exposures.

INNODATA ISOGEN, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(Unaudited)

Recent Accounting Pronouncements

In the third quarter of 2009, the Company adopted the Financial Accounting Standards Board ("FASB") "Accounting Standards Codification" ("ASC"). The ASC is the single official source of authoritative, nongovernmental GAAP, other than guidance issued by the SEC. The adoption of the ASC did not have any impact on the condensed consolidated financial statements included herein.

In August 2009, the FASB issued Accounting Standards Update No. 2009-05, an update to "Fair Value Measurements and Disclosures." This update provides amendments that reduce potential ambiguity in financial reporting when measuring the fair value of liabilities. Among other provisions, this update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the valuation techniques described in the update. This update will become effective for the Company's annual financial statements for the year ending December 31, 2009. The adoption of this update is not expected to have any impact on the Company's consolidated financial statements.

2. Long term obligations

Total long term obligations as of September 30, 2009 and December 31, 2008 consist of the following (amounts in thousands):

	2009	2008
Vendor obligations:		
Capital lease obligations	$ 233	$ 453
Deferred lease payments	121	89
Microsoft license	688	1,100
Pension obligations:		
Accrued pension liability	1,065	944
	2,107	2,586
Less: current portion of long term obligations	873	915
Totals	$ 1,234	$ 1,671

3. Income taxes

The Company had unrecognized tax benefits of $861,000 and $840,000 at September 30, 2009 and December 31, 2008, respectively. The portion of unrecognized tax benefits relating to interest and penalties were $274,000 and $253,000 at September 30, 2009 and December 31, 2008, respectively. $685,000 and $664,000 of the unrecognized tax benefits as of September 30, 2009 and December 31, 2008, respectively, if recognized, would have an impact on the Company's effective tax rate.

The following presents a roll forward of the Company's unrecognized tax benefits and associated interest for the nine months ended September 30, 2009 (amounts in thousands):

		Unrecognized tax benefits
Balance - January 1, 2009	$	840
Interest accrual		21
Balance – September 30, 2009	$	861

7

INNODATA ISOGEN, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(Unaudited)

The Company is subject to US federal income tax as well as income tax in various states and foreign jurisdictions. The Company is no longer subject to examination by federal and New Jersey taxing authorities for years prior to 2006. Various foreign subsidiaries currently have open tax years ranging from 2004 through 2008.

Pursuant to an income tax audit by the Indian Bureau of Taxation in March 2006, one of the Company’s Indian subsidiaries received a tax assessment approximating $339,000, including interest through September 30, 2009, for the fiscal tax year ended March 31, 2003. Management disagrees with the basis of the tax assessment, and has filed an appeal against the assessment, which it will contest vigorously. The Indian Bureau of Taxation has also completed an audit of the Company’s Indian subsidiary’s income tax return for the fiscal tax year ended March 31, 2004. The ultimate outcome was favorable, and there was no tax assessment imposed for the fiscal tax year ended March 31, 2004. In December 2008, the Indian subsidiary received a final tax assessment for the fiscal year ended March 31, 2005 from the Indian Bureau of Taxation approximating $340,000, including interest through September 30, 2009. Management disagrees with the basis of the tax assessment, and has filed an appeal against the assessment, which it will contest vigorously. In 2008, the Indian Bureau of Taxation commenced an audit of this subsidiary’s income tax return for the fiscal year ended 2006. The ultimate outcome cannot be determined at this time.

4. Commitments and contingencies

Line of Credit-The Company has a $7.0 million line of credit pursuant to which it may borrow up to 80% of eligible accounts receivable. Borrowings under the credit line bear interest at the bank’s alternate base rate plus 0.5% or LIBOR plus 2.5%. The line, which expires in June 2010, is collateralized by the Company’s accounts receivable. The Company has no outstanding obligations under this credit line as of September 30, 2009. The Company plans on renewing the line of credit in the second quarter of 2010.

Litigation– The Supreme Court of the Republic of the Philippines has refused to review a decision of the Court of Appeals in Manila against a Philippines subsidiary of the Company that is inactive and has no material assets, and purportedly also against Innodata Isogen, Inc., that orders the reinstatement of certain former employees of the subsidiary to their former positions and also orders the payment of back wages and benefits that aggregate approximately $7.5 million. Complainants have moved for execution of this decision before the Department of Labor and Employment National Labor Relations Commission, Republic of the Philippines, and the Department of Labor and Employment Office of the Secretary of Labor and Employment, Republic of the Philippines. Based on consultation with legal counsel, the Company believes that recovery against the Company is nevertheless unlikely.

The Company is also subject to various legal proceedings and claims which arise in the ordinary course of business. While management currently believes that the ultimate outcome of these proceedings will not have a material adverse effect on the Company’s consolidated financial position or overall trends in results of operations, litigation is subject to inherent uncertainties. Substantial recovery against the Company in the above referenced Philippines actions could have a material adverse impact on the Company, and unfavorable rulings or recoveries in the other proceedings could have a material adverse impact on the operating results of the period in which the ruling or recovery occurs. In addition, the Company’s estimate of the potential impact on the Company’s consolidated financial position or overall results of operations for the above legal proceedings could change in the future.

8

INNODATA ISOGEN, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(Unaudited)

5. Stock options

The Company adopted, with stockholder approval, the Innodata Isogen, Inc. 2009 Stock Plan (the “2009 Plan”). The maximum number of shares of common stock that may be delivered under the 2009 Plan is (i) 1,000,000 shares of common stock, plus (ii) 835,834, shares of common stock that were available for issuance under the Company’s 2001 and 2002 Stock Option Plans (the “Prior Plans”) as of the effective date of the 2009 Plan, plus (iii) any shares subject to an award or portion of any award under the Prior Plans that were outstanding as of the effective date of the 2009 Plan that expire or terminate unexercised, become unexercisable or are forfeited or otherwise terminated, surrendered or canceled as to any shares without the delivery of shares of common stock or other consideration, subject to adjustment for certain specified changes to the Company's capital structure. No further grants may be made under the Prior Plans.

All directors, officers and other employees and other persons who provide services to the Company are eligible to participate in the 2009 Plan. The 2009 Plan provides for the grants of stock options (which may be incentive stock options within the meaning of the Internal Revenue Code of 1986, as amended, or non-qualified stock options). The stock options granted may have a maximum term of up to ten years. The 2009 Plan also provides for awards of stock appreciation rights, restricted stock awards, stock units and performance grants.

The Company’s board of directors may amend, alter, suspend, discontinue, or terminate the 2009 Plan or any portion thereof at any time; provided that no such amendment, alteration, suspension, discontinuation or termination shall be made without stockholder approval, if such approval is necessary to comply with any tax or regulatory requirement applicable to the 2009 Plan; and provided further that any such amendment, alteration, suspension, discontinuance or termination that would impair the rights of any participant or any holder or beneficiary of any award theretofore granted shall not to that extent be effective without the consent of the affected participant, holder or beneficiary. Notwithstanding the foregoing, the board of directors may unilaterally amend the 2009 Plan and outstanding awards without participant consent, as it deems necessary or appropriate, to ensure compliance with applicable securities laws and provisions of the Internal Revenue Code of 1986.

A summary of option activity under the Company’s stock option plans as of September 30, 2009, and changes during the period then ended is presented below:

INNODATA ISOGEN, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(Unaudited)

	Number of Shares		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)		Aggregate Intrinsic Value
Outstanding at January 1, 2009	3,173,111	$	2.68			
Granted	—		—			
Exercised	(1,255,747)		2.75			
Forfeited/Expired	(60,334)	$	2.59			
Outstanding at September 30, 2009	1,857,030	$	2.63	4.52	$	9,371,500
Exercisable at September 30, 2009	1,827,030	$	2.62	4.47	$	9,244,800

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

	Nine months ended September 30, 2009 (1)	2008
Weighted average fair value of options granted	$ —	$ 2.46
Risk-free interest rate	—	3.61%
Expected life (years)	—	8.00
Expected volatility factor	—	97%
Expected dividends	—	None

(1) There were no options granted during the nine months ended September 30, 2009.

The total compensation cost related to non-vested stock options not yet recognized as of September 30, 2009 totaled approximately $85,000. The weighted-average period over which these costs will be recognized is eighteen months.

The total intrinsic value of options exercised for the nine months ended September 30, 2009 and 2008 was approximately $3.7 million and $88,000, respectively. The total fair value of stock options vested during the nine months ended September 30, 2009 was $199,000.

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

	Three months ended September 30, 2009	2008	Nine months ended September 30, 2009	2008

Direct operating costs	$ 4	$ 12	$ 10	$ 43
Selling and adminstrative expenses	27	51	187	93
Total stock-based compensation	$ 31	$ 63	$ 197	$ 136

10

INNODATA ISOGEN, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(Unaudited)

6. Comprehensive income

The components of comprehensive income are as follows (in thousands):

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Net income	$ 1,296	$ 1,108	$ 8,081	$ 1,977
Pension liability adjustment	(9)	21	(27)	62
Unrealized gain (loss) from derivatives	468	659	330	(290)
Comprehensive income	$ 1,755	$ 1,788	$ 8,384	$ 1,749

Accumulated other comprehensive income as reflected in the consolidated balance sheets consists of changes in transitional projected benefit obligation, net of taxes and changes in fair value of derivatives, net of taxes.

7. Segment reporting and concentrations

The Company operates in one reportable segment.

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

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Unites States	$ 15,237	$ 14,117	$ 51,626	$ 42,569
The Netherlands	1,382	1,861	4,258	5,702
Others - principally Europe	2,488	2,355	6,673	6,332
	$ 19,107	$ 18,333	$ 62,557	$ 54,603

Long-lived assets as of September 30, 2009 and December 31, 2008, respectively, by geographic regions are comprised of (in thousands):

	2009	2008
United States	$ 1,219	$ 1,372
Foreign countries:		
Philippines	3,050	3,379
India	1,665	1,675
Sri Lanka	547	654

Israel		299		321
Total foreign		5,561		6,029
	$	6,780	$	7,401

INNODATA ISOGEN, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(Unaudited)

The Company’s top two clients generated approximately 41% and 39% of our revenues for the three months ended September 30, 2009 and 2008, respectively. No other client accounted for 10% or more of revenues during these periods. Further, for the three months ended September 30, 2009 and 2008, revenues from non-US clients accounted for 20% and 23%, respectively, of the Company's revenues.

The Company’s top two clients generated approximately 49% and 45% of our revenues for the nine months ended September 30, 2009 and 2008, respectively. No other client accounted for 10% or more of revenues during these periods. Further, for the nine months ended September 30, 2009 and 2008, revenues from non-US clients accounted for 17% and 22%, 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 includes significant amounts due from such clients. In addition, as of September 30, 2009, approximately 27% of the Company's accounts receivable was from foreign (principally European) clients and 49% of accounts receivable was due from three clients. As of December 31, 2008, approximately 22% of the Company's accounts receivable was from foreign (principally European) clients and 51% of accounts receivable was due from two clients.

8. Income per share

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
	(in thousands, except per share amounts)			
Net income	$ 1,296	$ 1,108	$ 8,081	$ 1,977
Weighted average common shares outstanding	24,670	24,124	24,354	24,481
Dilutive effect of outstanding options	1,369	441	1,047	910
Adjusted for dilution computation	26,039	24,565	25,401	25,391

Basic income per share is computed using the weighted-average number of common shares outstanding during the year. Diluted income per share is computed by considering the impact of the potential issuance of common shares, using the treasury stock method, on the weighted average number of shares outstanding.

All options outstanding were included in the computation of diluted income per share for the three months ended September 30, 2009, as the exercise price was lower than the average market price. Options to purchase 1,512,000 shares of common stock for the three months ended September 30, 2008 were outstanding but not included in the computation of diluted income per share because the options’ exercise price was greater than the average market price of the common shares and therefore, the effect would have been antidilutive.

INNODATA ISOGEN, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(Unaudited)

All options outstanding were included in the computation of diluted income per share for the nine months ended September 30, 2009 and 2008, as the exercise price was lower than the average market price.

9. Derivatives

In the first quarter of 2009, the Company adopted a recent accounting standard on "Derivatives and Hedging," which requires enhanced qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about the fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements.

The Company has a large portion of its operations in international markets that are subject to foreign currency fluctuations. The most significant foreign currency exposures occur when revenue and associated accounts receivable are collected in one currency and expenses incurred in order to generate that revenue in another currency. The Company's primary exchange rate exposure relates to payroll, other payroll costs and operating expenses in the Philippines, India and Israel.

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

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedge transactions. The Company does not hold or issue derivatives for trading purposes. All derivatives are recognized at their fair value and classified based on the instrument's maturity date. The total notional amount for outstanding derivatives as of September 30, 2009 was $35.5 million, which is comprised of cash flow hedges denominated in U.S. Dollars.

As of December 31, 2008, there were no outstanding foreign currency forward contracts or other derivative instruments.

The following table presents the fair value of derivative instruments included within the condensed consolidated balance sheet as of September 30, 2009 (in thousands):

	Asset Derivative			Liability Derivative		
	Balance Sheet Location	Fair Value		Balance Sheet Location	Fair Value	
Derivative designated as hedging instruments under SFAS 133:						
Foreign currency forward contracts	Prepaid expenses and other current assets	$	538	Accrued expenses	$	—

Total derivative	$ 538	$ —

The effect of foreign currency forward contracts designated as cash flow hedges on our condensed consolidated statements of operations were as follows (in thousands):

INNODATA ISOGEN, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(Unaudited)

	Three months ended September 30, 2009	Nine months ended September 30, 2009
Net gain recognized in OCI (1)	$ 676	$ 538
Net loss reclassified from accumulated OCI into income (2)	$ (45)	$ (45)
Net gain (loss) recognized in income (3)	$ —	$ —

(1) Net change in the fair value of the effective portion classified in other comprehensive income ("OCI").
(2) Effective portion classfied as direct operating costs
(3) There were no ineffective portions for the period peresented.

10. Financial Instruments

The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable and accounts payable approximated their fair value as of September 30, 2009 and December 31, 2008, because of the relative short maturity of these instruments.

“Fair Value Measurements and Disclosures” defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The Company adopted an update made to “Fair Value Measurements and Disclosures” on January 1, 2009, which delayed the effective date of the accounting standard for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value on a recurring basis (at least annually). This update did not have any impact on the Company’s condensed consolidated financial statements.

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

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

The following table sets forth the financial assets and liabilities as of September 30, 2009 that the Company measured at fair value, on a recurring basis by level, within the fair value hierarchy (in thousands). As required by the standard, assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to their fair value measurement.

14

INNODATA ISOGEN, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(Unaudited)

	Level 1	Level 2	Level 3
Assets			
Derivatives	$ —	$ 538	$ —
Liabilities			
Derivatives	$ —	$ —	$ —

The Level 2 assets contain foreign currency forward contracts. Fair value is determined based on the observable market transactions of spot and forward rates. The fair value of these contracts as of September 30, 2009 is included in prepaid expenses and other current assets in the accompanying condensed consolidated balance sheets.

11. Restatement of Condensed Consolidated Financial Statements

The Company concluded that the financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2008, and its Quarterly Report for the period ended September 30, 2009, should be restated to correct errors in the computation of deferred tax assets and income taxes and related valuation allowances.

In 2006 and 2007, the deferred tax asset and the valuation allowance erroneously included losses generated by tax deductions that were taken by the Company on exercise of stock options. The deferred tax asset and the valuation allowance were also overstated as an incorrect state income tax rate was applied to the state tax loss carryforwards for the calculation of the deferred tax asset. Since the recorded deferred tax asset and the valuation allowance offset each other in 2006 and 2007, the errors did not affect net income or reported asset accounts in those years. In the fourth quarter of 2008, based on management’s assessment that the deferred tax asset would more likely than not be realized, management reversed the entire valuation allowance. Since the Company’s deferred tax asset account and valuation allowance were both overstated, the reversal in 2008 of the valuation allowance resulted in the erroneous recognition of a deferred tax asset and related tax benefit in 2008.

The effect of correcting these errors in the condensed consolidated financial statements as of September 30, 2009 is as follows (in thousands):

Consolidated Balance Sheet at September 30, 2009:

	As Reported	Adjustment	As Restated
Deferred income taxes	$ 1,488	$ (926)	$ 562
Total current assets	46,169	(926)	45,243
Total assets	56,650	(926)	55,724
Retained earnings	22,853	(926)	21,927
Total stockholders' equity	42,216	(926)	41,290
Total liabilities and stockholders' equity	56,650	(926)	55,724

15

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Disclosures in this Form 10-Q/A contain certain forward-looking statements, including without limitation, statements concerning our operations, economic performance, and financial condition. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words “estimate,” “believe,” “expect,” “anticipate” and other similar expressions generally identify forward-looking statements, which speak only as of their dates.

These forward-looking statements are based largely on our current expectations, and are subject to a number of risks and uncertainties, including without limitation, the primarily at-will nature of the contracts with our customers and the ability of customers to reduce, delay or cancel projects, including projects that we regard as recurring; continuing revenue concentration in a limited number of clients, continuing reliance on project-based work; inability to replace projects that are completed, cancelled or reduced; depressed market conditions; changes in external market factors; the ability and willingness of our clients and prospective clients to execute business plans which give rise to requirements for digital content and professional services in knowledge processing; difficulty in integrating and deriving synergies from acquisitions; potential undiscovered liabilities of companies that we acquire; changes in our business or growth strategy; the emergence of new or growing competitors; various other competitive and technological factors; and other risks and uncertainties indicated from time to time in our filings with the Securities and Exchange Commission.

Our actual results could differ materially from the results referred to in the forward-looking statements. In light of these risks and uncertainties, there can be no assurance that the results referred to in the forward-looking statements contained in this release will occur.

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

Business Overview

We provide knowledge process outsourcing (KPO) services, as well as publishing and related information technology (IT) services, that help leading media, publishing and information services companies create, manage and maintain their products. We also provide our services to companies in other information-intensive industries, such as information technology, manufacturing, aerospace, defense, government, law and intelligence.

We help our clients lower costs, realize productivity gains and improve operations, enabling them to compete more effectively in demanding global markets.

Our publishing services include digitization, conversion, composition, data modeling and XML encoding. Our KPO services include research and analysis, authoring, copy-editing, abstracting, indexing and other content creation activities. We often combine publishing services and KPO services within a single client engagement, providing an end-to-end content supply chain solution.

Our staff of IT systems professionals design, implement, integrate and deploy systems and technologies used to improve the efficiency of authoring, managing and distributing content.

We use a distributed global resource model. Our onshore workforce works from our North American and European offices, as well as from client sites. Our distributed global workforce delivers services from our ten offshore facilities in India, the Philippines, Sri Lanka and Israel.

Services that we anticipate a client will require for an indefinite period generate what we regard as recurring revenues. Services that terminate upon completion of a defined task generate what we regard as project, or non-recurring, revenues.

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

Our vertically-aligned groups understand our clients' businesses and strategic initiatives and are able to help them meet their goals. With respect to media, publishing and information services, for example, we have continued to hire experts out of that sector to establish solutions and services tailored to companies in that sector. They work with many of the world's leading media, publishing and information services companies, dealing with challenges involving new product creation, product maintenance, digitization, content management and content creation.

Our service/process-aligned groups are comprised of engineering and delivery personnel responsible for creating the most efficient and cost-effective custom workflows. These workflows integrate proprietary and third-party technologies, while harnessing the benefits of a globally distributed workforce. They are responsible for executing our client engagements in accordance with our service-level agreements and ensuring client satisfaction.

Our support groups are responsible for managing a diverse group of enabling functions, including human resources and recruiting, global technology infrastructure and physical infrastructure and facilities.

Revenues

Our publishing services include digitization, conversion, composition, data modeling and XML encoding and our KPO services include research and analysis, authoring, copy-editing, abstracting, indexing and other content creation activities. Our staff of IT systems professionals focus on the design, implementation, integration and deployment of digital systems used to author, manage and distribute content. We price our publishing services and KPO services based on the quantity delivered or resources utilized and generally recognize revenue in the period in which the services are performed and delivered. A substantial majority of our IT professional services is provided on a project basis that generates non-recurring revenues. We price our IT professional services on an hourly basis for actual time and expense incurred, or on a fixed-fee turn-key basis. Revenues for contracts billed on a time-and-materials basis are recognized as services are performed. Revenues under fixed-fee contracts, which are not significant to the overall revenues, are recognized on the percentage of completion method of accounting as services are performed or as portions of projects are completed.

Direct Operating Costs

Direct operating costs consist of direct payroll, occupancy costs, depreciation, telecommunications, computer services and supplies.

Selling and Administrative Expenses

Selling and administrative expenses consist of management and administrative salaries, sales and marketing costs, new services research and related software development, professional fees and consultant costs, and other administrative overhead.

Results of Operations

Three Months Ended September 30, 2009 and 2008

Revenues

Revenues were $19.1 million for the three months ended September 30, 2009 compared to $18.3 million for the similar period in 2008, an increase of approximately 4%. The $0.8 million increase in revenues, which is principally attributable to two clients and is partially offset by a decrease in revenue from one client, reflects an increase of $1.6 million from non-recurring project revenue and a $0.8 million decrease in recurring revenue.

Our top two clients generated approximately 41% and 39% of our revenues for the three months ended September 30, 2009 and 2008, respectively. No other client accounted for 10% or more of our total revenues for these periods. Further, for the three months ended September 30, 2009 and 2008, revenues from clients located in foreign countries (principally in Europe) accounted for 20% and 23% respectively, of our total revenues.

For the three months ended September 30, 2009, approximately 69% of our revenue was recurring and 31% was non-recurring, compared with 75% and 25%, respectively, for the three months ended September 30, 2008.

Direct Operating Costs

Direct operating costs were $13.4 million and $13.1 million for the three months ended September 30, 2009 and 2008, respectively, an increase of approximately 2%. Direct operating costs as a percentage of revenues for the three months ended September 30, 2009 and 2008 were 70% and 72% respectively.

The increase in direct operating costs was principally attributable to an increase in variable labor (management and production personnel) and other operating costs in support of increased revenue. The increase in direct operating costs was partially offset by cost savings from restructuring activity undertaken in December 2008 and a favorable impact of foreign exchange rates of approximately $0.7 million in direct operating costs resulting from a strengthening of the U.S. dollar against the Philippine peso and Indian rupee. In addition, the three months ended September 30, 2008 reflect $0.8 million in losses from the settlement of foreign currency forward contracts, compared with no such significant losses in the three months ended September 30, 2009. Direct operating expenses as a percentage of revenues were lower in the three months ended September 30, 2009, compared to the corresponding 2008 period, principally due to higher revenues and less than proportional increases in fixed costs and favorable foreign exchange rates.

Selling and Administrative Expenses

Selling and administrative expenses were $3.8 million and $3.7 million for the three months ended September 30, 2009 and 2008, respectively, an increase of approximately 3%. Selling and administrative expenses as a percentage of revenues were 20% for the three months ended September 30, 2009 and 2008.

18

The increase in selling and administrative expenses principally reflects the new hire costs of the sales executives partially offset by cost reductions resulting from a restructuring program undertaken in December 2008, the favorable impact of foreign exchange rates and a decrease in professional fees and consulting costs.

Income Taxes

For the three months ended September 30, 2009, we recorded a provision for income taxes for the U.S. entity and certain other foreign subsidiaries, as certain foreign subsidiaries are subject to preferential tax rates. In addition, certain overseas income is not subject to tax in the U.S. unless repatriated.

For the three months ended September 30, 2008, no provision for income taxes, other than alternative minimum tax, was recorded for our U.S. entity primarily due to utilization of net operating losses for which a valuation allowance was previously recorded against the corresponding deferred tax assets. We recorded a provision for income taxes for certain foreign subsidiaries, as certain foreign subsidiaries are subject to tax holidays or preferential tax rates. In addition certain overseas income is not subject to tax in the U.S. unless repatriated.

Net Income

We generated net income of $1.3 million in the three months ended September 30, 2009 compared with net income of $1.1 million in the comparable period in 2008. The change was principally attributable to an increase in gross margin resulting from increased revenues and favorable foreign exchange rates, offset by an increase in selling and administrative expenses and provision for income taxes.

Nine Months Ended September 30, 2009 and 2008

Revenues

Revenues were $62.6 million for the nine months ended September 30, 2009 compared to $54.6 million for the similar period in 2008, an increase of approximately 15%. The $8.0 million increase in revenues is principally attributable to one client. The increase primarily resulted from non-recurring project revenue.

Our top two clients generated approximately 49% and 45% of our revenues for the nine months ended September 30, 2009 and 2008, respectively. No other client accounted for 10% or more of our total revenues for these periods. Further, for the nine months ended September 30, 2009 and 2008, revenues from clients located in foreign countries (principally in Europe) accounted for 17% and 22%, respectively, of our total revenues.

For the nine months ended September 30, 2009, approximately 62% of our revenue was recurring and 38% was non-recurring, compared with 71% and 29%, respectively, for the nine months ended September 30, 2008.

Direct Operating Costs

Direct operating costs were $40.7 million and $40.2 million for the nine months ended September 30, 2009 and 2008, respectively, an increase of 1%. Direct operating costs as a percentage of revenues for the nine months ended September 30, 2009 and 2008 were 65% and 74% respectively.

The increase in direct operating costs was principally attributable to an increase in variable labor (management and production personnel) and other operating costs in support of increased revenue. The increase in direct operating costs was partially offset by cost savings from restructuring activity undertaken in December 2008 and a favorable impact of foreign exchange rates of approximately $3.7 million in direct operating costs resulting from a strengthening of the U.S. dollar against the Philippine peso and Indian rupee. In addition, the nine months ended September 30, 2008 reflects $0.8 million in losses from the settlement of foreign currency forward contracts, compared with no such significant losses in the nine months ended September 30, 2009. Direct operating expenses as a percentage of revenues were lower in the nine months ended September 30, 2009, compared to the corresponding 2008 period, principally due to higher revenues and less than proportional increases in fixed costs and favorable foreign exchange rates.

Selling and Administrative Expenses

Selling and administrative expenses were $10.4 million and $12.0 million for the nine months ended September 30, 2009 and 2008, respectively, representing a decline of approximately 13%. Selling and administrative expenses as a percentage of revenues were 17% and 22% for the nine months ended September 30, 2009 and 2008, respectively. The lower percentage reflects reduced operating cost levels on a higher revenue base.

The decrease in selling and administrative expenses principally reflects cost reductions resulting from a restructuring program undertaken in December 2008, the favorable impact of foreign exchange rates and a decrease in professional fees and consulting costs, partially offset by the new hire costs of the sales executives.

Income Taxes

For the nine months ended September 30, 2009, we recorded a provision for income taxes for the U.S. entity and certain other foreign subsidiaries, as certain foreign subsidiaries are subject to tax holidays or preferential tax rates. In addition, certain overseas income is not subject to tax in the U.S. unless repatriated.

For the nine months ended September 30, 2008, no provision for income taxes, other than alternative minimum tax, was recorded for our U.S. entity primarily due to utilization of net operating losses for which a valuation allowance was previously recorded against the corresponding deferred tax assets. We recorded a provision for income taxes for certain foreign subsidiaries, as certain foreign subsidiaries are subject to tax holidays or preferential tax rates. In addition certain overseas income is not subject to tax in the U.S. unless repatriated.

Net Income

We generated net income of $8.1 million in the nine months ended September 30, 2009 compared with net income of approximately $2.0 million in the comparable period in 2008. The change was principally attributable to an increase in gross margin resulting from increased revenues and favorable foreign exchange rates, lower selling and administrative expenses, partially offset by an increase in the provision for income taxes.

Liquidity and Capital Resources

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

		September 30, 2009		December 31, 2008
Cash and cash equivalents	$	27,867	$	13,875
Working capital		34,118		21,881

At September 30, 2009, we had cash and cash equivalents of $27.9 million, representing a significant increase of approximately $14.0 million from December 31, 2008. We have used, and plan to use, such cash for (i) expansion of existing operations; (ii) general corporate purposes, including working capital; and (iii) possible acquisitions. As of September 30, 2009, we had working capital of approximately $34.1 million as compared to working capital of approximately $21.9 million as of December 31, 2008. Accordingly, we do not anticipate any near-term liquidity issues.

Net Cash Provided By Operating Activities

Cash provided by our operating activities for the nine months ended September 30, 2009 was $12.9 million, representing a significant increase from $3.7 million for the nine months ended September 30, 2008.

Cash provided by our operating activities for the nine months ended September 30, 2009 was $12.9 million resulting from a net income of $8.1 million, adjustments for non-cash items of $5.6 million and $0.8 million used for working capital. Adjustments for non-cash items primarily consisted of $2.8 million for depreciation and amortization and $2.6 million for deferred income taxes. Working capital activities primarily consisted of a source of cash of $1.1 million for a decrease in accounts receivable due to timing of collection, a use of cash of $1.1 million for an increase in prepaid expenses and other current assets representing various prepayments made and the timing of payment and a use of cash for $0.4 million in income and other taxes.

Cash provided by our operating activities for the nine months ended September 30, 2008 was $3.7 million resulting from a net income of $2.0 million, adjustments for non-cash items of $3.3 million and approximately $1.6 million used for working capital. Adjustments for non-cash items primarily consisted of $2.8 million for depreciation and amortization and $0.5 million for pension costs. Working capital activities primarily consisted of a use of cash of $0.2 million for an increase in accounts receivable, a use of cash of $0.5 million for an increase in prepaid expenses and other current assets representing various prepayments made and the timing of payment, a use of cash of $0.6 million for a decrease in accounts payable and accrued expenses representing payments to vendors and a use of cash for $0.2 million in income and other taxes.

At September 30, 2009, our days' sales outstanding were approximately 65 days as compared to 62 days as of December 31, 2008.

Net Cash Used in Investing Activities

For the nine months ended September 30, 2009, we spent cash approximating $1.7 million for capital expenditures, compared to approximately $2.0 million for the nine months ended September 30, 2008. Capital spending in 2009 related principally to the purchasing of routine technology equipment and software. Capital spending in 2008 related principally to the purchasing of routine technology equipment and facility upgrades. During the next twelve months, we anticipate that capital expenditures for ongoing technology, hardware, equipment and infrastructure upgrades will approximate $4.0 to $4.5 million, a portion of which we may finance.

Net Cash From Financing Activities

Cash from financing activities was principally driven by employee stock option exercises. Cash proceeds received from the exercise of stock options amounted to approximately $3.4 million and $0.1 million for the nine months ended September 30, 2009 and 2008, respectively. In addition, total payments of long term obligations approximated $0.6 million and $0.7 million for the nine months ended September 30, 2009 and 2008, respectively.

In March 2008, we renewed a vendor agreement, which had expired in February 2008, to acquire certain additional software licenses and to receive support and subsequent software upgrades on these and other currently owned software licenses through February 2011, for a total cost of approximately $1.7 million, representing a non-cash investing and financing activity. In conjunction with this agreement, we paid approximately $0.4 million, in each of the nine months ended September 30, 2009 and 2008.

During the quarter ended September 30, 2008, we announced that the Board of Directors authorized the repurchase of up to $2.0 million of our common stock. As of September 30, 2008, we had acquired approximately 606,000 shares of our common stock for $1.9 million at a volume weighted average price of $3.08 per share.

Future Liquidity and Capital Resource Requirements

We have a $7.0 million line of credit pursuant to which we may borrow up to 80% of eligible accounts receivable. Borrowings under the credit line bear interest at the bank's alternate base rate plus 0.5% or LIBOR plus 2.5%. The line, which expires in June 2010, is collateralized by our accounts receivable. We have no outstanding obligations under this credit line as of September 30, 2009. We plan on renewing the line of credit in the second quarter of 2010.

We believe that our existing cash and cash equivalents, funds generated from our operating activities and funds available under our credit facility will provide sufficient sources of liquidity to satisfy our financial needs for the next twelve months. However, if circumstances change, we may need to raise debt or additional equity capital in the future.

Contractual Obligations

The table below summarizes our contractual obligations (in thousands) at September 30, 2009 and the effects that those obligations are expected to have on our liquidity and cash flows in future periods.

	Payments Due by Period				
Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Capital lease obligations	$ 233	$ 192	$ 41	$ -	$ -
Non-cancelable operating leases	2,628	721	1,589	318	-
Long term vendor obligation	688	550	138	-	-
Total contractual cash obligations	$ 3,549	$ 1,463	$ 1,768	$ 318	$ -

22

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

Inflation, Seasonality and Prevailing Economic Conditions

To date, inflation has not had a significant impact on our operations. We generally perform work for our clients under project-specific contracts, requirements-based contracts or long term contracts. Contracts are typically subject to numerous termination provisions.

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

Critical Accounting Policies and Estimates

Our discussion and analysis of our results of operations, liquidity and capital resources is based on our consolidated financial statements which have been prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and judgments, including those related to revenue recognition, allowance for doubtful accounts and billing adjustments, long-lived assets, goodwill, valuation of deferred tax assets, value of securities underlying stock-based compensation, litigation accruals, pension benefits, valuation of derivative instruments and estimated accruals for various tax exposures. We base our estimates on historical and anticipated results and trends and on various other assumptions that we believe are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from our estimates and could have a significant adverse effect on our results of operations and financial position. For a discussion of our critical accounting policies see Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2008. There have been no material changes to our critical accounting policies during the nine months ended September 30, 2009.

Recent Accounting Pronouncements

In the third quarter of 2009, we adopted the Financial Accounting Standards Board (“FASB”) “Accounting Standards Codification” (“ASC”). The ASC is the single official source of authoritative, nongovernmental GAAP, other than guidance issued by the SEC. The adoption of the ASC did not have any impact on our condensed consolidated financial statements included herein.

In August 2009, the FASB issued Accounting Standards Update No. 2009-05, an update to “Fair Value Measurements and Disclosures.” This update provides amendments that reduce potential ambiguity in financial reporting when measuring the fair value of liabilities. Among other provisions, this update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the valuation techniques described in the update. This update will become effective for our annual financial statements for the year ending December 31, 2009. The adoption of this update is not expected to have any impact on our consolidated financial statements.

23

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest rate risk

We are exposed to interest rate change market risk with respect to our credit line with a financial institution which is priced based on the bank's alternate base rate (3.25% at September 30, 2009) plus 0.5% or LIBOR (0.25% at September 30, 2009) plus 2.5%. We have no outstanding obligations under this line. To the extent we utilize all or a portion of this line of credit, changes in the interest rate will have a positive or negative effect on our interest expense.

Foreign currency risk

We have operations in several international markets that are subject to foreign currency fluctuations. Although the majority of our contracts are denominated in U.S. Dollars, a substantial portion of the costs incurred to render services under these contracts is incurred in the local currencies of several international markets where we carry on our operations. Our significant operations are based in the Philippines, India and Israel where revenues are generated in U.S. Dollars and the corresponding expenses are generated in Philippine pesos, Indian rupees and Israeli shekels.

To mitigate the exposure of fluctuating future cash flows due to changes in foreign exchange rates, we entered into foreign currency forward contracts. These foreign currency forward contracts were entered with a maximum term of twelve months and have an aggregate notional amount of approximately $35.5 million as of September 30, 2009. We may continue to enter into such instruments or other instruments in the future to reduce foreign currency exposure to appreciation or depreciation in the value of these foreign currencies.

The impact of foreign currency fluctuations will continue to present economic challenges to us and could negatively impact our overall results of operations. A 1% appreciation in the U.S. Dollar's value relating to the hedged currencies would decrease the forward contracts' fair value by approximately $0.4 million as of September 30, 2009. Similarly, a 1% depreciation in the U.S. Dollar's value relative to the hedged currencies would increase the forward contracts' fair value by approximately $0.4 million. Any increase or decrease in the fair value of our currency exchange rate sensitive forward contracts, if utilized, would be substantially offset by a corresponding decrease or increase in the fair value of the hedged underlying cash flows.

Other than the aforementioned forward contracts, we have not engaged in any hedging activities nor have we entered into off-balance sheet transactions or arrangements.

As of September 30, 2009, our foreign locations held cash totaling approximately $12.7 million.

Item 4. Controls and Procedures

As of the end of the period covered by this report, we performed an evaluation under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) under the Securities and Exchange Act of 1934 (the Exchange Act)). Based on the material weakness in our internal control over financial reporting described below, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures were not effective.

In the course of making our assessment of the effectiveness of internal controls over financial reporting, we identified a material weakness in our internal control over financial reporting. This material weakness consisted of errors in computation of deferred tax assets and income tax benefit accounts and related valuation allowances.

As a consequence of that determination, we have implemented a procedure designed to detect or prevent this error from occurring in the future. The Company implemented a control requiring an outside tax advisor and consulting firm to review our quarterly as well as annual tax provision calculations. We have discussed this action with our audit committee and believe that such enhanced procedure will prospectively mitigate the material weakness.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There were no material changes from the legal proceedings previously disclosed in Part I, Item 3. “Legal Proceedings” in our Annual Report on Form 10-K for the year ended December 31, 2008.

Item 1A. Risk Factors

There were no material changes from the risk factors previously disclosed in Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2008.

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits

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

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

32.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

INNODATA ISOGEN, INC.

Date:February 9, 2010	/s/ Jack Abuhoff Jack Abuhoff Chairman of the Board, Chief Executive Officer and President
Date:February 9, 2010	/s/ O'Neil Nalavadi O'Neil Nalavadi Chief Financial Officer and Principal Accounting Officer