INNODATA ISOGEN INC
Form 10-K/A
December 02, 2010

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

FORM 10-K/A

Amendment No. 2

(Mark One)
þ   Annual report under section 13 or 15(d) of the securities exchange act of 1934
For the fiscal year ended December 31, 2009

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

Commission file number 0-22196

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

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

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o   No þ

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).   Yes ¨   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. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large accelerated filer o   Accelerated filer þ   Non-accelerated filer o   Smaller reporting companyo

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant (based on the closingprice reported on the NasdaqStock Market on June 30, 2009) was $95,149,175.

The number of outstanding shares of the registrant's common stock, $.01 par value, as of February 28, 2010 was 25,379,246.

<div align="center">DOCUMENTS INCORPORATED BY REFERENCE</div>

<div align="center">None</div>

EXPLANATORY NOTE

We are filing this Amendment to include the entire Item 1, Description of Business, of our Form 10-K for 2009 originally filed on March 11, 2010, as amended by the Form 10-K/A filed on November 30, 2010.

This Amendment speaks as of March 11, 2010 which is the date we filed our Form 10-K. It does not reflect events after March 11, 2010.

INNODATA ISOGEN, INC
Form 10-K/A
For the Year Ended December 31, 2009

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PART I

Item 1. Description of Business

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 (consisting of consultants, information architects, solution architects, and program managers) works from our North American and European offices, as well as from client sites. Our distributed global workforce (consisting of encoders, graphic artists, project managers, programmers, data architects performing publishing services, and advanced degree holders such as physicians, attorneys, MBAs and engineers who perform our KPO services) deliver those services from our ten offshore facilities in India, the Philippines, Sri Lanka and Israel.

For fiscal 2009, our revenue was $79.3 million, representing an increase of 6% over 2008, and our income before income taxes was $8.3 million, an increase of approximately 49% compared to income before income taxes in 2008 of $5.5 million. For fiscal 2008, our revenue was $75.0 million, representing an increase of 11% over 2007, and our income before income taxes was $5.5 million, as compared to income before income taxes in 2007 of $4.5 million, representing an increase of approximately 23%.

Services that are ongoing in nature 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. Approximately 65% of our revenues were recurring in the fiscal year ended December 31, 2009 as compared to 68% in the fiscal year ended December 31, 2008 and 61% in the fiscal year ended December 31, 2007.

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.

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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.

Our Opportunity

Media, publishing and information services companies, as well as companies in other content-intensive sectors, are increasingly seeking ways to reduce content costs as well as to accelerate delivery times and improve quality. Increasingly, they view outsourcing, along with technology and process re-engineering, as crucial strategies for accomplishing these objectives.

The trend toward outsourcing has accelerated in recent years. Businesses are outsourcing their internal processes – often to offshore providers – to improve productivity and manage costs. By leveraging offshore talent, companies are increasingly boosting their profits, productivity, quality levels, business value and performance. As outsourcing to offshore providers has become more accepted, a growing number of organizations have become more confident in making the decision to outsource business operations to Asia and other high-value labor markets. Moreover, the notion of what can be outsourced and the benefits that can be achieved via outsourcing continue to expand. Client demands are evolving toward higher value-added and more complex services, including research and analysis, editorial tasks and other knowledge-based functions. This trend is driven by competitive pressures as well as by advances in technology.

The KPO market is relatively young and is expected to continue expanding. An increasing number of companies are outsourcing high-end knowledge work as they seek to gain cost-savings and operational efficiencies and access the highly talented workforce in the Philippines, India and other countries. Universities in those countries are graduating thousands of qualified lawyers, doctors and scientists each year. As technology makes it possible to move vast amounts of data across the globe at relatively low cost, it is now quite cost effective for companies to tap into this labor pool.

With respect to information and content processes, there is growing awareness that labor cost reduction is only part of the solution. Advances in technologies for creating, managing, finding, sharing and delivering content (including text analytics, semantic technologies and search technologies) have enabled what were previously manual tasks to become either fully or partially automated.

As a result, content-driven companies, like media, publishing and information services companies, are increasingly relying on service providers, such as Innodata Isogen, to provide both outsourcing and related IT services.

To meet this demand, we have assembled dedicated teams of scientists, doctors, lawyers and other subject matter experts, armed with an in-depth understanding of complex technical material. For increasing numbers of clients, we are becoming an extended part of their work teams, helping them enhance and create content, write technical documentation and deliverresearch and analysis services utilizing global resources as well as advanced technologies.

Our Services

We believe that we have developed an effective set of core competencies that enable us to help information-intensive companies reduce their operating costs, realize benefits of scale and flexible cost structures and achieve significant

process improvements. Our business model combines a global offshore staff, on-site staff and technologists who integrate internally-developed and best-in-class third party products to continually improve the efficiency of our processes.

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We provide a broad and expanding range of publishing services, knowledge process outsourcing services and engineering and consulting services.

Publishing Services – Our publishing services include activities such as digitization, conversion, composition, data modeling and XML encoding. Typically, we bill clients for services based upon the units of information we produce and deliver.

We are helping customers take advantage of the fast-growing eBook market by converting books into eBook-ready formats. One of our customers, for example, is a global eBook retailer that offers a catalog of over two million books on nearly any consumer device including dedicated readers, laptops, Blackberries, iPhones and other emerging smart devices. We also work with several of the leading device manufacturers in the market.

We are also helping leading publishers of scientific, technical and medical journals aggregate content, copy-edit author submissions and compose journal pages for both online and print publication. For one such publisher, seeking to build one of the world's largest databases of scientific journal citations and references, we created records of nearly 15,000 journal titles going back almost 13 years, encoded in a way that supports integrated web searches and seamless linking.

Knowledge Processing Outsourcing (KPO) Services – Our KPO services specifically target processes that demand advanced information analysis and interpretation, as well as judgment and decision-making. For information and media companies, these services include content creation and enhancement, analytics, taxonomy and controlled vocabulary development, hyperlinking, indexing, abstracting, technical writing and editing, copy-editing and general editorial services, including the provision of synopses and annotations. These services cover a wide spectrum of disciplines, including medicine, law, engineering, management, finance, science and the humanities. To provide these services, we have organized knowledge teams that consist of educated and highly trained people with expertise in relevant subjects. We typically price our knowledge services based on the quantity delivered or resources utilized.

For example, we support several providers of medical informatics products and clinical decision support systems. Our physicians and health care professionals create content for these systems by analyzing the latest medical journal articles and conference proceedings.

In many of our engagements, we perform end-to-end services that combine publishing and KPO services, using advanced technologies, to provide fully outsourced content supply chain solutions. For example, under a long-term engagement, we maintain a leading bibliographic citations database, managing, on behalf of our client, a continuing production process in which we first aggregate, digitize and convert data from multiple sources and then have healthcare professionals perform analyses of the data and create derivative data for inclusion in the client database. Our engineering staff continues to drive the automation of several of these underlying processes.

We are also using our KPO delivery capabilities that we use to support information companies as a springboard to enable us to enter new markets and provide new services. For example, we are using our legal subject matter experts who deliver KPO services to media, publishing and information services companies to also provide select KPO services - such as research and document review - to corporate law offices and law firms.

In 2007, we launched a new KPO business area to provide technical communications services to clients. This unit started as a technical writing service and has expanded to include technical editing, e-learning, mobile and micro learning, translation and marketing communication services. The team has expanded significantly since its inception to include project managers, writers and editors who work from multiple locations across China, the Philippines, Sri Lanka, India, Israel and the United States.

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For example, we are providing technical writing services to a leading global technology manufacturer. By co-locating teams in China and India where this client manufactures equipment, and our production centers in other Asian locales, we have helped the company generate quality documentation – ensuring that its customers use its products effectively – while also reducing our client's overall costs.

We are also providing round-the-clock writing, editing, e-learning and troubleshooting documentation for one of the biggest video game companies in the world using our resources in the US, Israel, Philippines and India.

Technology Services — Both our publishing services and KPO services are supported by our technology engineering teams, comprised of solution architects, analysts, programmers and systems integrators.A number of our engineering staff have played leadership roles in the development of structured information standards such as Standard General Markup Language (SGML), Extensible Markup Language (XML), as well as XML-based standards such as Darwin Typing Information Architecture (DITA) and S1000D.

Our technologists build the workflow and tools that we utilize internally for projects that we perform for clients on an outsourced basis. They also provide services directly to clients.

Their role in outsourced projects is to improve efficiency and quality. They continually design and develop productivity tools to automate manual processes and improve the consistency and quality of our work product. These tools include categorization engines that utilize pattern recognition algorithms based on comprehensive rule sets and related heuristics, data extraction tools that automatically retrieve specific types of information from large data sources, and workflow systems that enable various tasks and activities to be performed across our multiple facilities.

When working directly for clients, our engineers provide IT services (which include systems integration, custom application development, applications maintenance, tool evaluation and training) which are typically provided on a project basis that does not generate significant amounts of recurring revenue. Clients who use these services typically require publishing, performance support or process automation systems that enable information to be created, managed and distributed utilizing the most cost efficient and effective technologies.

For example, we helped the world's leading software company create automated processes for reducing the cost of creating online help information. Our engineering staff created the systems that are used by one of the world's largest manufacturers of computers and peripherals to create and publish multi-lingual product support and technical information. It also collaborated with Lockheed Martin to build a content management system and digital asset management system for the F-35 Joint Strike Fighter program. For a leading electronic publisher of financial data, it automated the process of extracting and normalizing detailed financial information from public company filings. Our staff defines client requirements (often working on-site at clients during this process), write specifications and design, develop, test and integrate technologies. Projects vary in size and duration.

To better support an ongoing engagement with a $10 billion information services company, our engineering staff developed a machine-aided indexing solution that uses lemmatization (the process that determines the most crucial term in a sentence to reflect its meaning and context) and semantically-driven natural language analysis to deliver precision and recall at 95% accuracy. Once the text is tokenized or assigned a value according to the words in a particular sentence, a set of rules and linguistic filters are then used to identify candidate term phrases within the text. The system also extracts terms and ranks them based on the decreasing likelihood of accuracy against a thesaurus that applies simple string matching. This automation enables us to add millions of additional topics to the publisher's database, which may then be further enhanced by our editorial teams.

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Consulting Services — In addition to our publishing, KPO and IT services, our consulting practice works with clients at a strategic business and technology level to address new challenges and optimize their business processes. The practice has primary services that span content supply chain optimization, technology architecture and strategy, global sourcing, product and market strategy and development, and the deployment of content technologies.

For example, we worked with a leading specialist health information publisher to optimize their business process across technology, workflow, sourcing and organizational dimensions. Another customer, one of the world's largest information media businesses, deep in the implementation of a game-changing technology replatforming, has a team of our consultants engaged in helping them implement this program successfully. At one of the leading publishing houses, we helped transform production processes, reducing the cost of product fabrication by 40%.

Clients

Revenues from Bloomberg L.P. ("BLP") in the fiscal year ended 2009 were approximately $27.1 million, or 34% of total revenues. Revenues from Reed Elsevier affiliated companies (the "RE Clients") in the fiscal year ended 2009 were approximately $8.2 million or 10% of total revenues. No other client generated more than 10% of our revenues in 2009. BLP and the RE Clients together generated approximately 44%, 47% and 49% of our total revenues in the fiscal years ended December 31, 2009, 2008 and 2007, respectively. Revenues from clients located in foreign countries (principally in Europe) accounted for 21%, 21% and 23% of our total revenues for each of these respective fiscal years.

We have long-standing relationships with many of our clients, and have provided services to the clients mentioned in the preceding paragraph for over nine years. Many of our clients are recurring clients, meaning that they have continued to provide additional projects to us after their initial engagement. Our track record of delivering high-quality services helps us to solidify client relationships and gain increased business from our existing clients. As a result, our history of client retention enables us to derive a significant proportion of revenue from repeat clients.

Our contractual arrangements with BLP consist of a master services agreement ("MSA") and separately agreed to statements of work ("SOWs") for specific services. The MSA automatically renews on an annual basis unless terminated by either party on 60 days' prior notice. BLP may terminate the MSA on 30 days' notice, and it may terminate the SOWs on notice periods ranging from 30 days to 90 days. The MSA and SOWs may also be terminated by either BLP or the Company on notice periods of 30 days or less for "cause," or on insolvency related events or changes of control of the other party. The MSA also contains confidentiality, limitation of liability, indemnification and other standard provisions.

Our contractual arrangements with the RE Clients consist of three MSAs and separately agreed to SOWs for specific services. Two of the MSAs have indefinite terms, and the third has a term that ends in February 2014. RE Clients may terminate one MSA without prior notice, the second on six months' notice and the third on three months' notice, and they may terminate their respective SOWs on notice periods of up to 180 days. They may also terminate certain of the MSAs and SOWs on notice periods of 90 days or less for "cause" and for insolvency related events, and on changes of control, force majeure and the imposition of certain price increases by the Company that are not acceptable to them. The Company may terminate two of the MSAs on notice periods of 180 days, and it may also terminate certain of the MSAs and SOWs for "cause", insolvency related events affecting the RE Clients, and certain other defined events. The MSAs contain confidentiality, limitation of liability, indemnification and other standard provisions.

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

Competitive Strengths

Our vertical expertise.   We are primarily focused on the media, publishing and information services vertical market. We maintain a staff of highly skilled experts to provide a range of end-to-end business solutions. In addition, we utilize our underlying domain experts in law, medicine, finance and engineering to provide additional value-added KPO services directly to these sectors.

Our global delivery model.   We have operations in seven countries in North America, Europe and Asia. We provide services to our clients through a comprehensive global delivery model that integrates both local and global resources to obtain the best economic results. For example, we create high-end website content using teams from India, the Philippines and Israel that together constitute a global workflow. We use a similar approach in providing technical writing services to a large telecommunications company, virtually joining resources from the United States, the Philippines and China. Our offshore outsourcing centers are ISO 9001:2000 certified and our engineering and IT facility in Noida, India meets ISO/IEC 27001:2005specifications.

Our proven track record and reputation.   By consistently providing high-quality services, we have achieved a track record of project successes. This track record is embodied by our reputation as a leader in the KPO marketplace, especially within the media, publishing and information services sector. This reputation or brand provides an assurance of expertise, quality execution and risk mitigation.

Our focus on technology and engineering.   Rather than simply relying on labor cost arbitrage to create value for clients, our engineering team optimizes efficiency by integrating proprietary and best-in-class third party tools into our workflows. In addition, our engineering team provides work directly to our clients, helping them achieve improved efficiencies within their own operations.

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

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

Our internal infrastructure.   We utilize established facilities, technology and communications infrastructure to support our business model. We own and operate some of the most advanced content production facilities in the world, which are linked by multi-redundant data connections. Our Wide Area Network – along with our Local Area Networks, Storage Area Networks and data centers – is configured with full redundancy, often with more than one backup to ensure 24x7 availability. Our infrastructure is built to accommodate advanced tools, processes and technologies that support our content and technical experts.

Our focus on quality.   We believe strongly in quality throughout our organization. We maintain independent quality assurance capabilities in all geographies where we operate. Our quality teams are compliant and certified to the ISO 9000:2000 quality management system standards.

Sales and Marketing

We market and sell our services directly through our professional staff, senior management and direct sales personnel operating out of our corporate headquarters in Hackensack, New Jersey, just outside New York City, our Dallas, Texas office and our Paris, France office. We have four executive-level business development and marketing professionals, and during 2009, we maintained approximately 11 full-time sales and marketing personnel. We also deploy solutions architects, technical support experts and consultants who support the development of new clients and new client engagements. These resources work within teams (both permanent and ad hoc) that provide support to clients.

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

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

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

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

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

Research and Development

We did not incur any research and development costs in each of the three years ended December 31, 2009.

Competition

The market for publishing services and related KPO and IT services is highly competitive, fragmented and intense. Our major competitors include Apex CoVantage, Aptara, Cenveo, Infosys, HCL Technologies, MacMillan India, SPI Technologies and Thomson Digital.

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

As a provider of these services, we also compete with in-house personnel at existing or prospective clients who may attempt to duplicate our services in-house.

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Locations

We are headquartered in Hackensack, New Jersey, just outside New York City. We have additional offices in Dallas, Texas; Paris, France; and Beijing, China. We have ten production facilities in the Philippines, India, Sri Lanka and Israel. We were incorporated in Delaware in 1988.

Employees

As of December 31, 2009, we employed approximately 60 persons in the United States and Europe and over 7,000 persons in ten production facilities in the Philippines, India, Sri Lanka and Israel. Most of our employees have graduated from at least a two-year college program. Many of our employees hold advanced degrees in law, business, technology, medicine and social sciences. No employees are currently represented by a labor union, and we believe that our relations with our employees are satisfactory.

Corporate Information

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

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PART IV

Item 15.   Exhibits and Financial Statement Schedules

The following exhibits are filed as part of this report:

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.

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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 ISOGEN, INC.

By: /s/ Jack Abuhoff
Jack Abuhoff
Chairman of the Board,
Chief Executive Officer and President
December 2, 2010

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