

INNODATA ISOGEN INC
Form 10-Q
May 03, 2010

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

FORM 10-Q

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

For the quarterly period ended March 31, 2010

OR

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

For the transition period from _____ to _____

Commission file number: 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 No

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 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

Edgar Filing: INNODATA ISOGEN INC - Form 10-Q

company” in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of outstanding shares of the registrant’s common stock, \$.01 par value, as of April 26, 2010 was 25,419,246.

INNODATA ISOGEN, INC. AND SUBSIDIARIES
For the Quarter Ended March 31, 2010

INDEX

		Page No.
Part I – Financial Information		
Item 1.	Condensed Consolidated Financial Statements (Unaudited):	
	Condensed Consolidated Balance Sheets as of March 31, 2010 and December 31, 2009	1
	Condensed Consolidated Statements of Operations for the three months ended March 31, 2010 and 2009	2
	Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2010 and 2009	3
	Condensed Consolidated Statement of Stockholders' Equity for the three months ended March 31, 2010 and 2009	4
	Notes to Condensed Consolidated Financial Statements	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	19
Item 4.	Controls and Procedures	20
Part II – Other Information		
Item 1.	Legal Proceedings	21
Item 1A.	Risk Factors	21
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	21
Item 3.	Defaults Upon Senior Securities	21
Item 4.	Reserved	21
Item 5.	Other Information	21
Item 6.	Exhibits	22
	Signatures	23

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

	March 31, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 25,830	\$ 26,480
Accounts receivable, net	10,441	11,741
Prepaid expenses and other current assets	4,455	3,899
Deferred income taxes	1,785	1,763
Total current assets	42,511	43,883
Property and equipment, net	5,617	5,559
Other assets	2,467	2,505
Deferred income taxes	950	943
Goodwill	675	675
Total assets	\$ 52,220	\$ 53,565
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,038	\$ 1,261
Accrued expenses	1,832	2,293
Accrued salaries, wages and related benefits	4,915	5,022
Income and other taxes	1,506	1,339
Current portion of long term obligations	721	892
Deferred income taxes	631	487
Total current liabilities	10,643	11,294
Deferred income taxes	87	87
Income and other taxes – long term	300	-
Long term obligations	1,286	1,199
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; 26,207,000 shares issued and 25,419,000 outstanding at March 31, 2010; and 26,167,000 shares issued and 25,379,000 outstanding at December 31, 2009	262	262
Additional paid-in capital	20,288	20,267
Retained earnings	19,755	21,159
Accumulated other comprehensive income	1,788	1,486
	42,093	43,174
Less: treasury stock, 788,000 shares at cost	(2,189)	(2,189)
Total stockholders' equity	39,904	40,985
Total liabilities and stockholders' equity	\$ 52,220	\$ 53,565

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2010	2009
Revenues	\$ 15,474	\$ 21,112
Operating costs and expenses:		
Direct operating costs	12,272	12,407
Selling and administrative expenses	4,135	3,607
Interest income, net	(2)	(13)
Totals	16,405	16,001
Income (loss) before provision for income taxes	(931)	5,111
Provision for income taxes	473	1,530
Net income (loss)	\$ (1,404)	\$ 3,581
Income (loss) per share:		
Basic and diluted	\$ (.06)	\$.15
Weighted average shares outstanding:		
Basic	25,379	24,138
Diluted	25,379	24,568

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2010	2009
Cash flow from operating activities:		
Net income (loss)	\$ (1,404)	\$ 3,581
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	956	916
Stock-based compensation	21	83
Deferred income taxes	(31)	973
Pension cost	101	73
Changes in operating assets and liabilities:		
Accounts receivable	1,300	(1,119)
Prepaid expenses and other current assets	(105)	(112)
Other assets	(103)	(73)
Accounts payable and accrued expenses	(684)	(441)
Accrued salaries, wages and related benefits	(107)	(360)
Income and other taxes	467	(224)
Net cash provided by operating activities	411	3,297
Cash flow from investing activities:		
Capital expenditures	(873)	(349)
Cash flow used in financing activities:		
Payment of long term obligations	(188)	(274)
Proceeds from exercise of stock options	-	81
Net cash used in financing activities	(188)	(193)
Increase (decrease) in cash and cash equivalents	(650)	2,755
Cash and cash equivalents, beginning of period	26,480	13,875
Cash and cash equivalents, end of period	\$ 25,830	\$ 16,630
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 3	\$ 10
Cash paid for income taxes	\$ 107	\$ 1,027

See notes to condensed consolidated financial statements

INNODATA ISOGEN, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited)
(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
January 1, 2010	25,379	\$ 262	\$ 20,267	\$ 21,159	\$ 1,486	\$ (2,189)	\$ 40,985
Net loss	-	-	-	(1,404)	-	-	(1,404)
Stock-based compensation	-	-	19	-	-	-	19
Issuance of restricted shares	40	-	2	-	-	-	2
Pension liability adjustments, net of taxes	-	-	-	-	(3)	-	(3)
Change in fair value of derivatives, net of taxes	-	-	-	-	305	-	305
March 31, 2010	25,419	\$ 262	\$ 20,288	\$ 19,755	\$ 1,788	\$ (2,189)	\$ 39,904
January 1, 2009	24,119	\$ 249	\$ 16,614	\$ 14,772	\$ 742	\$ (2,189)	\$ 30,188
Net income	-	-	-	3,581	-	-	3,581
Issuance of common stock upon exercise of stock options	35	-	81	-	-	-	81
Stock-based compensation	-	-	83	-	-	-	83
Pension liability adjustments, net of taxes	-	-	-	-	(10)	-	(10)
March 31, 2009	24,154	\$ 249	\$ 16,778	\$ 18,353	\$ 732	\$ (2,189)	\$ 33,923

See notes to condensed consolidated financial statements

INNODATA ISOGEN, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(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. The Company’s staff of IT systems professionals designs, implements, integrates and deploys 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 March 31, 2010, and the results of its operations, cash flows and stockholders’ equity for the three months ended March 31, 2010 and 2009. 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, 2009 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 is the same as those described in the December 31, 2009 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.

Reclassifications-Certain reclassifications have been made to the prior periods’ consolidated condensed financial statements to conform to the current period’s presentation.

INNODATA ISOGEN, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited)

Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standard Board (“FASB”) issued an amendment to its accounting guidance on revenue arrangements with multiple deliverables. This new accounting guidance addresses the unit of accounting for arrangements involving multiple deliverables and how consideration should be allocated to separate units of accounting, when applicable. This guidance will be effective for fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The adoption of this guidance is not expected to have an impact on the Company’s condensed consolidated financial statements.

In January 2010, the FASB issued an amendment regarding improving disclosures about fair value measurements. This new guidance requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The adoption of this guidance is not expected to have an impact on the Company’s condensed consolidated financial statements.

2. Income taxes

The Company had unrecognized tax benefits of approximately \$1.6 million and \$1.3 million at March 31, 2010 and December 31, 2009, respectively. The portion of unrecognized tax benefits relating to interest and penalties was approximately \$0.4 million at both March 31, 2010 and December 31, 2009. The unrecognized tax benefits as of March 31, 2010 and December 31, 2009, 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 three months ended March 31, 2010 (amounts in thousands):

	Unrecognized tax benefits
Balance - January 1, 2010	\$ 1,303
Increases for tax position in current period	300
Interest accrual	15
Balance – March 31, 2010	\$ 1,618

The Company is subject to U.S. 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 2009.

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 March 31, 2010, 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 31, 2008 and 2009, the Indian subsidiary received a final tax assessment for the fiscal years ended March 31, 2005 and 2006 from the Indian Bureau of Taxation approximating \$340,000 and \$301,000, respectively, including interest through March 31, 2010. Management disagrees with the basis of these tax assessments, and has filed an appeal against the assessments, which it will contest vigorously. In 2009, the Indian Bureau of Taxation commenced an audit of this subsidiary's income tax return for the fiscal year ended March 31, 2008. The ultimate outcome cannot be determined at this time. As the Company is continually subject to tax audits by the Indian Bureau of Taxation, the Company assessed the likelihood of an unfavorable assessment for the fiscal years ended March 31, 2008 and 2009 for this subsidiary and recorded an additional tax provision amounting to \$631,000, including interest through March 31, 2010.

INNODATA ISOGEN, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited)

3. 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 March 31, 2010. 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 Philippine 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. Matters relating to execution of this decision are on file with 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 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 potential impact on the Company's financial position or overall results of operations for the above legal proceedings could change in the future.

4. Stock options

A summary of option activity under the Company's stock option plans as of March 31, 2010, and changes during the period then ended, is presented below:

INNODATA ISOGEN, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited)

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Contractual Term (years)	Remaining Aggregate Value	Intrinsic Value
Outstanding at January 1, 2010	1,846,780	\$ 2.63			
Granted	150,000	\$ 5.20			
Exercised	—	—			
Forfeited/Expired	—	—			
Outstanding at March 31, 2010	1,996,780	\$ 2.82	4.46	\$ 2,681,000	
Exercisable at March 31, 2010	1,824,280	\$ 2.62	3.98	\$ 2,671,300	

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:

	Three months ended March 31, 2010	2009 (1)
Weighted average fair value of options granted	\$ 3.54	\$ —
Risk-free interest rate	3.19%	—
Expected life (years)	8.00	—
Expected volatility factor	90%	—
Expected dividends	None	—

(1) There were no options granted during the three months ended March 31, 2009.

No options were exercised during the three months ended March 31, 2010. The total intrinsic value of options exercised for the three months ended March 31, 2009 was approximately \$4,000. No options vested during the three months ended March 31, 2010.

In March 2010, the Compensation Committee of the Company's Board of Directors approved the issuance of 40,000 restricted shares, which vest over four years. No restricted shares vested as of March 31, 2010. The weighted average grant date fair value of the restricted shares was \$0.2 million.

The total compensation cost related to non-vested stock awards not yet recognized as of March 31, 2010 totaled approximately \$0.7 million. The weighted-average period over which these costs will be recognized is twenty-six months.

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

INNODATA ISOGEN, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited)

	Three months ended March 31,	
	2010	2009
Direct operating costs	\$ 3	\$ 3
Selling and administrative expenses	18	80
Total stock-based compensation	\$ 21	\$ 83

5. Comprehensive income (loss)

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

	Three months ended March 31,	
	2010	2009
Net income (loss)	\$ (1,404)	\$ 3,581
Pension liability adjustment, net of taxes	(3)	(10)
Unrealized gain from derivatives, net of taxes	305	—
Comprehensive income (loss)	\$ (1,102)	\$ 3,571

Accumulated other comprehensive income as reflected in the condensed consolidated balance sheets consists of changes in pension liability adjustments, net of taxes and changes in fair value of derivatives, net of taxes.

6. 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 March 31,	
	2010	2009
United States	\$ 10,557	\$ 17,317
United Kingdom	1,947	1,232
The Netherlands	1,870	1,673
Other - principally Europe	1,100	890
	\$ 15,474	\$ 21,112

Long-lived assets as of March 31, 2010 and December 31, 2009, respectively, by geographic regions are comprised of (in thousands):

INNODATA ISOGEN, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited)

	2010	2009
United States	\$ 1,160	\$ 1,152
Foreign countries:		
Philippines	3,117	2,927
India	1,219	1,284
Sri Lanka	544	592
Israel	252	279
Total foreign	5,132	5,082
	\$ 6,292	\$ 6,234

The Company's top two clients generated approximately 29% and 58% of our revenues for the three months ended March 31, 2010 and 2009, respectively. No other client accounted for 10% or more of revenues during these periods. Further, for the three months ended March 31, 2010 and 2009, revenues from non-US clients accounted for 32% and 18%, respectively, of the Company's revenues.

A significant amount of the Company's revenues is derived from clients in the publishing industry. Accordingly, the Company's accounts receivable generally include significant amounts due from such clients. In addition, as of March 31, 2010, approximately 43% of the Company's accounts receivable were from foreign (principally European) clients and 38% of accounts receivable were due from two clients. As of December 31, 2009, approximately 37% of the Company's accounts receivable were from foreign (principally European) clients and 31% of accounts receivable were due from two clients.

7. Income (loss) per share

	Three months ended March 31,	
	2010	2009
	(in thousands, except per share amounts)	
Net income (loss)	\$ (1,404)	\$ 3,581
Weighted average common shares outstanding	25,379	24,138
Dilutive effect of outstanding stock awards	—	430
Adjusted for dilution computation	25,379	24,568

Basic income (loss) per share is computed using the weighted-average number of common shares outstanding during the year. Diluted income (loss) per share is computed by considering the impact of the potential issuance of common shares, using the treasury stock method, on the weighted average number of shares outstanding. Options to purchase 0.1 million shares of common stock and 1.4 million shares of common stock as of March 31, 2010 and 2009, respectively, were outstanding but not included in the computation of diluted income (loss) 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. In addition, diluted net loss per share does not include 2.0 million potential common shares derived from the exercise of stock options and unvested restricted shares as of March 31, 2010 because as a result of

the Company incurring losses, their effect would have been antidilutive.

10

INNODATA ISOGEN, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited)

8. Derivatives

The Company has a large portion of its operations in international markets that subject it to foreign currency fluctuations. The most significant foreign currency exposures occur when revenue and associated accounts receivable are collected in one currency and expenses 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 March 31, 2010 was \$35.6 million, which is comprised of cash flow hedges denominated in U.S. dollars.

The following table presents the fair value of derivative instruments included within the condensed consolidated balance sheet as of March 31, 2010 and December 31, 2009 (in thousands):

	Balance Sheet Location	Fair Value	
		2010	2009
Derivatives designated as hedging instruments:			
Foreign currency forward contracts	Prepaid expenses and other current assets	\$ 1,750	\$ 1,300

The effect of foreign currency forward contracts designated as cash flow hedges on our condensed consolidated statements of operations for the three months ended March 31, 2010 and 2009 were as follows (in thousands):

	2010	2009 (4)
Net gain recognized in OCI (1)	\$ 962	\$ —
Net gain reclassified from accumulated OCI into income (2)	\$ 512	\$ —
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 classified as direct operating costs.

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

(4) No foreign currency forward contracts at March 31, 2009.

INNODATA ISOGEN, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited)

9. Financial Instruments

The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable and accounts payable approximated their fair value as of March 31, 2010 and December 31, 2009, 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 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 March 31, 2010 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.

Level 1	Level 2	Level 3
---------	---------	---------
