FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
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INNODATA CORP

CIK:**903651**| IRS No.: **133475943** | State of Incorp.:**DE** | Fiscal Year End: **1231**
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-KSB

(Mark One)
/X/ Annual report under section 13 or 15(d) of the securities exchange act of 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

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

COMMISSION FILE NUMBER 0-22196

INNODATA CORPORATION
(Name of small business issuer in its charter)

DELAWARE
(State or other jurisdiction of incorporation or organization)

13-3475943
(I.R.S. Employer Identification No.)

THREE UNIVERSITY PLAZA
HACKENSACK, NEW JERSEY
(Address of principal executive offices)

07601
(Zip Code)

(201) 488-1200
(Issuer's telephone number)

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

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 /X/ No / /

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB. / /

State issuer's revenues for its most recent fiscal year. $19,593,353

State the aggregate market value of the voting stock held by non-affiliates of the registrant based on the closing price of the Company's Common Stock on February 26, 1999 of $5.88 per share. $6,279,281

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

1,491,985 SHARES OF COMMON STOCK, $.01 PAR VALUE, AS OF FEBRUARY 28, 1999.

DOCUMENTS INCORPORATED BY REFERENCE
[SEE INDEX TO EXHIBITS]

PART I

ITEM 1. DESCRIPTION OF BUSINESS.

GENERAL

Innodata Corporation ("Innodata" or the "Company") is a leading provider of Internet and on-line data conversion and content management services, providing all the necessary steps for product development and data conversion to enable its customers to disseminate vast amounts of information both on-line and via the Internet. The Company's operations are classified in two business segments: Internet and On-Line Data Conversion and Content Management Services and Document Imaging Services. See Note 8 of the Notes to Consolidated Financial Statements in Item 7 of this report for further information about the Company's business segments.

The Company was incorporated in Delaware in June 1988, maintains its executive offices in Hackensack, New Jersey, and employs globally approximately 3,000 persons in offices in Hackensack, New Jersey; Garden Grove, California; London, U.K.; Manila, The Philippines; Cebu, The Philippines; Delhi, India; and Colombo Sri Lanka.

INDUSTRY BACKGROUND

Since its founding, Innodata has provided a host of services to commercial electronic data providers that publish CD-ROM and on-line products ("traditional electronic publishers"). Historically, the market has been dominated by a few large competitors in most vertical markets (e.g., Dialog, Lexis/Nexis, Westlaw, Elsevier Science BV). These traditional electronic publishers obtain information from a variety of different providers and resell it to targeted groups of end users (e.g., Dialog and Elsevier Science to libraries, Lexis/Nexis and Westlaw to attorneys).

Traditional electronic publishers discovered that outsourcing offered the most efficient and cost-effective way to develop and deploy massive electronic content to meet their on-line publishing goals.

With the rapid growth and popularity of the Internet and the wide acceptance of Internet publishing standards, the market for electronic information has grown enormously. The Internet offers traditional electronic publishers and new market entrants unprecedented opportunities for global information distribution.

Traditional electronic publishers have responded by becoming increasingly ambitious in delivering large quantities of information quickly to subscribers, and new market entrants have developed novel electronic information offerings, such as adding image content to traditional text products and offering new media deliverables such as PDF (Portable Document Format) and XML (eXtensible Markup Language).

In order to stay competitive, traditional electronic publishers and new market entrants are becoming more focused on speed of product delivery and product quality, and increasing the value added which accrues to their information content.

At the same time, as standards regarding Internet and Web protocols have become universal and solutions for data security have become more reliable, major corporations have begun to implement electronic knowledge management initiatives as a way of mitigating the cost of lost knowledge, isolated islands of information, and redundancies and duplication in work efforts. Corporations are viewing the Web as a viable publishing environment for enabling unprecedented information access to knowledge workers.

As a result, many document-intensive companies are confronted with the challenge of making large quantities of data accessible to both current and new users. This is causing a revolution in the way organizations create, manage, and access information of all types. Providing timely and accurate information to knowledge workers is a publishing process, and corporations - no matter what their business - are becoming de facto electronic publishers of product and technical documentation and policy and procedures manuals.

CORPORATE STRATEGY

The Internet opportunity for Innodata is five-fold: 1) enable traditional electronic information providers and new market entrants to prepare and deliver increasingly massive amounts of content over the Internet reliably and efficiently; 2) support electronic publishers' race for product currency by becoming increasingly flexible with a focus on delivering information quickly and reliably; 3) respond to opportunities to provide increased value-add to content; 4) configure service offerings specifically geared to corporate organizations' knowledge management initiatives, which is a new fast-growth market area where the Company's core competencies apply; and 5) provide industry thought leadership and specific service offerings around XML as it becomes the key part of the future of the Internet, intranets, and the World Wide Web.

CLOSE RELATIONSHIPS WITH CUSTOMERS

Innodata views the long-term partnerships with its customers as a critical element in its historical and future success. Innodata's customers include many of the largest and most highly regarded electronic publishers and Fortune 500 companies. In order to continue to meet the needs of its existing and prospective customers in a timely fashion, the Company works directly with its customers to identify and develop new and improved services. To promote a close and continuing relationship with customers, the Company sells through its direct sales organizations in North America and Europe, provides consulting expertise through its Professional Services Group, and provides 24/7 project support through its Customer Service Center.

The Company generally performs its work for its customers under project-specific contracts or long-term contracts, which are subject to numerous termination provisions.

During 1998, 1997 and 1996, one customer that is comprised of twelve affiliated companies, accounted for 21%, 16% and 28% of the Company's Internet and on-line data conversion and content management services revenues, respectively. One other customer accounted for 13%, 10% and 10% of such revenues in 1998, 1997 and 1996, respectively. No other customer accounted for 10% or more of such revenues. Further, in 1998, 1997 and 1996, export revenues, all of which were derived from European customers, accounted for 22%, 24% and 22%, respectively, of such revenues. A significant amount of the Company's revenues are derived from customers in the publishing industry. Accordingly, the Company's accounts receivable generally include significant amounts due from such customers.

During 1998, 1997 and 1996 one customer accounted for 53%, 11% and 12% of the Company's document imaging service revenues, respectively. Another customer accounted for 10% and 12% of such revenues in 1997 and 1996. No other customer accounted for 10% or more of such revenues.

RECURRING BUSINESS

The Company's marketing, pricing, and support strategies are focused on the generation of both one-time and recurring revenues. Many of the Company's customers are involved in publishing information content that requires regular updating, thus providing Innodata with recurring business. To support these initiatives and preserve recurring revenue, Innodata has configured on-site facilities management service offerings. In addition, the Company is working with many of its long-time customers to migrate their products to new, less proprietary formats, and to add both more and richer content.

COMPREHENSIVE SERVICE OFFERINGS

The Company's comprehensive set of services distinguishes the Company from its competitors. Many competitors offer only a single service, such as data capture, or do not offer the full complement of specialized services to enable large organizations to develop on-line/Internet services. Innodata provides a broad range of conversion and processing services and consulting services to enable its clients to publish massive content databases quickly and economically.

INTERNET AND ON-LINE DATA CONVERSION AND CONTENT MANAGEMENT SERVICES

Innodata's customers represent an array of major electronic publishers of legal, scientific, educational, and medical information, as well as document-intensive companies repurposing their proprietary information into electronic resources that can be referenced via web-centric applications.

The Company's specific services include:

Consulting and Support

Through its Professional Services Group, the Company offers customers vendor-neutral conversion and consulting services, including SGML (Standard Generalized Markup Language), XML (eXtensible Markup Language), and HTML (Hypertext Markup Language) consulting services, customized programming and conversion application development, document analysis, DTD architecture analysis, and design and database quality assurance.

The Company operates two Customer Support Centers, one located at its U.S. headquarters in New Jersey and one located at its Asian headquarters in the Philippines. Seamlessly linked over a proprietary fiber-optic wide area network, the Customer Support Centers offer customers 24/7 hotline project support and remote dial-in services for data transmission.

Data Conversion

For customers desiring the ability to use electronic data for on-line information retrieval, intranet, extranet, or Internet distribution, permanent archives, electronic publishing, CD-ROM and DVD distribution or printing on demand, the Company converts massive hardcopy and paper collections to a variety of output formats including Adobe PDF (Portable Document Format), tagged ASCII (American Standard Code for Information Interchange), and EBCDIC (Extended Binary Coded Decimal Interchange Code), as well as SGML, XML and HTML conforming electronic files.

To accomplish this, the Company utilizes high speed scanning and a variety of commercial and proprietary OCR/ICR (optical/intelligent character recognition) applications, in concert with structured methodologies and work flow processes designed to accomplish rapid turnaround of data with high degrees of accuracy (typically guaranteeing up to 99.995% character accuracy). Its systems enable multiple production processes to be performed simultaneously at one or more of its production sites. In addition, the Company uses a wide variety of advanced tools for data enhancement and validation, and its Conversion Engineers create automatic procedures - utilizing industry standards such as Omnimark, DynaText, Adept, etc. - to ensure validated SGML structure for legacy data files. Finally, Editorial Specialists enhance the structured files by adding hyperlinks, ensuring quality of tagging and inserting electronic markers.

In addition, the Company converts a broad range of legacy-formatted data and proprietary electronic formatted data to SGML and SGML-related electronic files. The Company maintains a staff of experienced engineers and programmers who utilize custom conversion filters and parsers for this purpose.

Two of the Company's conversion facilities have been accorded ISO 9003 and 9002 Certifications. The ISO 9000-series certification program is an internationally recognized marque of quality assurance and process conformity. Regularly scheduled ISO audits assure a high degree of staff acuity to the documented processes and serve to build accountability within all levels of the Company's delivery organizations. Increasingly, customers rely on their vendors' conformity to documented processes and promised quality levels when making purchasing decisions. Innodata's early adoption of the ISO program has resulted in such processes having become engrained in its operating culture, which in turn serves as a major contributor to generating and maintaining customer confidence in the Company's ability to make deliveries as promised.

Content Development and Data Enhancement

The Company's teams of Content Editors enhance customers' databases by creating links to related material and building indexes and abstracts as the basis of subject links and access points.

Innodata's highly educated professionals are trained to index and abstract a wide variety of scientific, medical, and technical data in diverse fields, including law, medicine, biology, pharmacology, and engineering.

New services include Web mining and indexing of information published on the Internet.

DOCUMENT IMAGING SERVICES

The Company also provides high volume backfile and day-forward conversion of business documents, technical manuals, engineering drawings, aperture cards, roll film, and microfiche, providing high quality computer accessible images and indexing.

After conversion, these documents are stored on various optical and magnetic media to populate document management systems such as Documentum and FileNet. Traditional markets for document imaging services include Fortune 500 manufacturers, major utilities, governmental departments, hospital medical records, and commercial back-office.

The Company utilizes the latest in state-of-the-art equipment from high-end document scanners to large format and film scanners. Throughout its operations, the Company maintains a quality control program to ensure the integrity of the imaging and indexing. The Company provides Document Imaging Services at its production facility in Garden Grove, California. Upon client request, the Company can provide equipment to process documents at remote client-site locations.

SALES AND MARKETING

Sales and marketing functions are primarily conducted by the Company's full-time sales personnel. Sales and marketing activities have consisted primarily of exhibiting at trade shows in the United States and Europe, and seeking direct personal access to decision-makers. The Company has also obtained visibility by way of articles published in the trade press. The Company's Director of Professional Services has authored a widely acclaimed book on the subject of data conversion for the Internet and regularly publishes articles in trade magazines and on vendor websites. To date, the Company has not conducted any significant advertising campaign in the general media.

The direct sales effort is closely supported by sales engineering and pre-sales consulting personnel from the Company's Professional Services Group. These individuals assist the sales force in understanding the technical needs of customers and providing responses to these needs, including demonstrations, prototypes, pricing quotations and time estimates.

Document Imaging Services has a reseller program that allows qualified companies in document and records management, micrographics, reprographics and CAD to resell conversion services. The division also works with strategic document imaging systems vendors.

COMPETITION

Internet and On-Line Data Conversion and Content Management Services

The Company's ability to compete favorably is, in significant part, dependent upon its ability to control costs, react swiftly and appropriately to short and long-term trends, harness technology and competitively price its services. Firms compete based on quality, speed, accuracy, and "customer intimacy," as well as on the relative ability to accomplish massive and complex data conversions economically. Major competitors include: for document and information outsourcing, F.Y.I. Inc. and Lason Inc.; for data conversion services, Saztec Philippines, Inc., Access Innovations, Inc., APEX Data Services, Inc. and Jouve S.A.; for SGML/XML and related consulting services, Database Publishing Systems Ltd. and KPMG Consulting. The Company may also be considered in competition with customers' and potential customers' in-house personnel who may attempt to duplicate the Company's services.

Document Imaging Services

The Company's scanning conversion services conducted through its Imaging Services division competes with numerous companies that may have substantially greater financial, technical, and other resources than the Company. Firms compete based on price, geographic location, quality, and speed of turn-around, as well as on the size of project and the complexity and level of work that they can perform on an economic basis. Major national competitors include Lason Inc. and IKON Office Solutions Inc. The Company may also be considered in competition with customers' and potential customers' in-house personnel who may attempt to duplicate the Company's services.

RESEARCH AND DEVELOPMENT

The Company has not made significant expenditures for research and development, although expenditures were incurred in connection with OCR technology developments and enhancing its networking and telecommunications capabilities.

FACTORS AFFECTING BUSINESS OVERSEAS

While the major part of the Company's operations are carried on in the Philippines, India and Sri Lanka, the Company's headquarters are in the United States and its customers to date have all been located in North America and Europe. As a result, the Company is not as affected by economic conditions overseas as it would be if it depended on revenues from sources internal to those countries. However, such adverse economic factors as inflation, external debt, negative balance of trade, political pressure to raise salaries and underemployment may significantly impact the Company.

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

Since April 1, 1995 and April 1, 1997, the Philippine and Indian operations, respectively, are conducted through wholly-owned subsidiaries that have been granted income tax holidays for four-year periods. Accordingly, no income taxes will be payable on earnings from operations of the subsidiaries during such period, unless repatriated to the U.S.

The Company funds its overseas operations through transfers of U.S. dollars only as needed and generally does not maintain any significant amount of funds or monetary assets overseas. To the extent that the Company needs to bring currency to the United States from its overseas operations, it will be affected by currency control regulations.

The Philippines has historically experienced high rates of inflation and major fluctuations in exchange rate between the Philippine peso and the U.S. dollar. Continuing inflation without corresponding devaluation of the peso against the dollar, or any other increase in value of the peso relative to the dollar, may have a material adverse effect on the Company's operations and financial condition. From time to time, the Company has purchased futures contracts for pesos at fixed prices, in order to ensure a stable cost of services. In the second half of 1997 and the first part of 1998 these contracts stabilized prices for the Company's services at a time when the peso was significantly devalued. As a result, the Company was unable to enjoy the benefits it would have otherwise received.

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

EMPLOYEES

As of February 28, 1999, the Company employed an aggregate of approximately 50 persons in the United States and the United Kingdom, and approximately 3,000 persons in the Philippines, Sri Lanka and India.

Employees at the Company's Manila facilities are members of a union. The Company reached agreement in 1996 on a collective bargaining agreement which provides for approximately 10% wage increases per annum plus one-half of any government mandated increases for the five years ending March 31, 2001.

No other of the Company's employees are represented by any labor union. The Company believes that its relations with its employees are satisfactory.

Production Staff; Recruitment and Training-Philippines

The Philippines offers a well-educated workforce trained in an English language school system. Economic opportunity in the Philippines is not commensurate with the level of education in the workforce. The overall depressed economic conditions and low wage scale permit an educated professional to enjoy a comfortable standard of living on an income that is relatively low when compared to that in developed nations.

The Company's staff in the Philippines has a median age of approximately twenty-five. A significant number of employees have college degrees. A substantial middle management infrastructure, grown both from within the ranks of the Company and through experienced hires, is in place. These managers are in charge of departmental responsibilities, including personnel, public relations, facilities, quality control, programming, systems and development.

The Company maintains a vigorous recruiting, screening and training program. All applicants are given an extensive battery of written and practical tests, many developed specifically by the Company, over a two-day period. The Company hires less than 10% of all applicants. Diagnostic tests and equipment have allowed the Company to hire the brightest people available rather than focusing solely on typing ability.

Once hired, the Company uses intensive efforts to train its employees and to ensure that their skills are constantly upgraded. Training is performed under close supervision by senior personnel. In addition, the Company has an in-house training program for new employee applicants who have all the requisite skills, excepting the speed of their performance. The course consists of approximately three weeks of half-day sessions. Upon satisfactory completion, full time employment is offered.

The Company seeks to maintain high levels of motivation and retention. It offers its employees what it believes to be one of the most comprehensive benefit packages available in the Philippines. This package includes comprehensive medical insurance, eye care, food subsidies, a subsidized general store and canteen, tuition credits, and free computer-programming classes. It maintains a modern and well-appointed facility. It conducts aggressive incentive programs tied to performance. It affords to its employees the opportunity to advance.

Similar conditions and methods are in place at the Company's facilities in India and Sri Lanka.

ITEM 2. DESCRIPTION OF PROPERTY

The Company's Manila, Philippines premises are occupied under a five-year lease which expires on December 31, 2003 and which is cancelable at the Company's option. The premises consist of a four-story, 45,000 square foot building with a separate cafeteria building. The lease provides for monthly payments of approximately $23,000.

The Company's operations in the Philippines city of Cebu are conducted in approximately 10,000 square feet of space leased through March 2001, cancelable at the Company's option, at a monthly rental of approximately $5,500.

The Company has a lease for a 12,000 square foot office and production facility located in Hackensack, New Jersey. The lease provides for monthly rental payments of approximately $16,000 through December 1999. In addition, the Company leases a 6,000 square foot office and production facility in California for approximately $5,000 per month. The lease expires February 2002.

The Company leases its production facility in India and is obligated to make payments aggregating approximately $125,000 per year for an initial term of five years.

The Company's operations in Colombo, Sri Lanka are conducted in approximately 7,000 square feet of space leased through July 2001, cancelable at the Company's option, at a monthly rental of approximately $2,700.

The Company believes that it maintains adequate fire, theft and liability insurance for its facilities and that its facilities are adequate for its present needs.

ITEM 3. LEGAL PROCEEDINGS.

There is no material litigation pending to which the Company is a party or of which any of its property is the subject.

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

See Part II, Item 4 of Form 10-QSB for September 30, 1998 as to results of voting at the Company's Annual Meeting held on November 5, 1998.

PART II

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

The Company's Common Stock is quoted on the Nasdaq SmallCap Market under the symbol "INOD." On February 28, 1999, there were 101 stockholders of record of the Company's Common Stock based on information provided by the Company's transfer agent. Virtually all of the Company's publicly held shares are held in "street name" and the Company believes the actual number of beneficial holders of its Common Stock to be approximately 1,000.

The following table sets forth the high and low sales prices on a quarterly basis for the Company's Common Stock, as reported on Nasdaq, for the two years ended December 31, 1998, after giving retroactive effect to a one-for-three reverse stock split on March 25, 1998.

<TABLE>
<CAPTION>

<S>	<C>	<C>
	COMMON STOCK SALE PRICES	
1997	HIGH	LOW
First Quarter	4-1/2	3-3/16
Second Quarter	3-27/32	1-7/8
Third Quarter	3-3/4	2-1/4
Fourth Quarter	3-9/16	2-1/4
1998		
First Quarter	2-29/32	1-1/8
Second Quarter	6-1/4	1-5/32
Third Quarter	9-1/2	3-1/2
Fourth Quarter	8-3/8	3-9/16

</TABLE>

DIVIDENDS

The Company has never paid cash dividends on its Common Stock and does not anticipate that it will do so in the foreseeable future. The future payment of dividends, if any, on the Common Stock is within the discretion of the Board of Directors and will depend on the Company's earnings, its capital requirements and financial condition and other relevant factors.

ITEM 6. SELECTED FINANCIAL DATA AND MANAGEMENT'S DISCUSSION AND ANALYSIS.

SELECTED FINANCIAL DATA

<TABLE>
<CAPTION>

YEAR ENDED DECEMBER 31,	1998	1997	1996	1995	1994
REVENUES	$19,593,353	$20,116,935	$20,536,448	$20,767,405	$14,344,914
OPERATING COSTS AND EXPENSES					
Direct operating costs	13,068,660	16,007,051	16,783,595	14,044,067	10,764,658
Selling and administrative	4,982,127	5,283,891	4,799,739	4,344,793	2,834,534
Restructuring costs, impairment of assets and other	133,141	1,500,000	-	-	393,195
(Gain) loss on settlement of currency contracts	(487,458)	1,400,000	-	-	-
Interest expense	77,594	85,595	36,383	18,476	7,392
Interest income	(98,391)	(59,384)	(123,771)	(151,319)	(160,689)
Total	17,675,673	24,217,153	21,495,946	18,256,017	13,839,090
INCOME (LOSS) BEFORE INCOME TAXES	1,917,680	(4,100,218)	(959,498)	2,511,388	505,824
INCOME TAXES (BENEFIT)	(332,000)	100,000	(357,000)	1,000,000	199,000
NET INCOME (LOSS)	$ 2,249,680	$(4,200,218)	$ (602,498)	$ 1,511,388	$ 306,824
BASIC INCOME (LOSS) PER SHARE	$ 1.52	$ (2.80)	$ (.40)	$ 1.02	$ .21
DILUTED INCOME (LOSS) PER SHARE	$ 1.49	$ (2.80)	$ (.40)	$ .97	$ .21
CASH DIVIDENDS PER SHARE	-	-	-	-	-
AS OF DECEMBER 31,	1998	1997	1996	1995	1994
WORKING CAPITAL	$ 4,749,101	$ 2,091,848	$ 4,774,121	$ 6,247,708	$ 4,972,682
TOTAL ASSETS	$10,595,508	$10,029,247	$12,416,296	$12,538,694	$10,077,049
LONG-TERM DEBT	$ 24,089	$ 79,604	$ 195,960	$ 92,180	$ 191,666
STOCKHOLDERS' EQUITY	$ 7,485,438	$ 5,254,133	$ 9,477,471	$ 9,747,655	$ 8,327,601

</TABLE>

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion should be read in conjunction with the Audited Financial Statements and related Notes thereto of the Company for the years ended December 31, 1998, 1997 and 1996 included in Item 7 of this Form 10-KSB.

RESULTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 1998 AND 1997

Revenues decreased 3% to $19,593,353 for the year ended December 31, 1998 compared to $20,116,935 for the similar period in 1997. Revenues from the Internet and online data conversion and content management services segment decreased to $17,401,346 in 1998 from $18,032,232 in 1997. The 1997 period included approximately $2,612,000 from journal and book pagination and medical transcription businesses that were discontinued. During 1998 and 1997, one customer that is comprised of twelve affiliated companies, accounted for 21% and 16% of the Company's Internet and on-line data conversion and content management services revenues, respectively. One other customer accounted for 13% and 10% of such revenues in 1998 and 1997, respectively. No other customer accounted for 10% or more of such revenues. Further, in 1998 and 1997, export revenues, all of which were derived from European customers, accounted for 22% and 24%, respectively, of such revenues. Revenues from the document imaging services segment increased to $2,192,007 in 1998 from $2,084,703 in 1997. During 1998 and 1997, one customer accounted for 53% and 11% of the Company's document imaging service revenues, respectively. The Company has no present arrangement with this customer for 1999. Another customer accounted for 10% of such revenues in 1997. No other customer accounted for 10% or more of such revenues.

Direct operating expenses were $13,068,660 for the year ended December 31, 1998 and $16,007,051 for the similar period in 1997, a decrease of 18%. Direct operating expenses for the Internet and on-line data conversion and content management services decreased to $10,701,569 in 1998 from $14,265,974 in 1997, or 25%. Direct operating expenses as a percentage of revenues were 61% in 1998 and 79% in 1997. The decrease in direct operating expenses in 1998 was due primarily to a favorable foreign exchange rate for the Philippine peso and the elimination of journal and book page making services. Direct operating expenses in the document imaging services segment increased to $2,367,091 in 1998 from $1,741,077 in 1997. The increase in 1998 was due principally to significant inefficiencies incurred in connection with a project that required offsite management and hiring of temporary workers as well as a staggered workflow provided by the segment's largest customer. Direct operating expenses include primarily direct payroll, telecommunications, freight, computer services, supplies and occupancy.

Selling and administrative expense was $4,982,127 and $5,283,891 for the years ended December 31, 1998 and 1997, respectively, representing a decrease of 6% in 1998 from 1997. Selling and administrative expense as a percentage of revenues was 25% in 1998 and 26% in 1997. The decrease primarily reflects the elimination of pagination services offset by the addition of sales and technical support staff, primarily at the beginning of the third quarter, for expansion of the Company's sales and marketing efforts. Selling and administrative expense includes management salaries, sales and marketing salaries, clerical and administrative salaries, rent and utilities not included in direct costs, marketing costs and administrative overhead.

During the second quarter of 1997 management determined to reduce its U.S. based overhead. The principal actions were to eliminate U.S. production for the publishing services division and merge the east and west coast document imaging operations into one facility on the west coast. The restructuring costs consisted of estimated losses on leases and severance pay, while the impairment costs consisted of a write-off of goodwill in connection with the document imaging business and equipment in connection with both the imaging and publishing services businesses. The restructuring and impairment costs totaled $1,500,000.

In the fourth quarter of 1998, management determined that its plans to significantly increase the revenues of the document imaging services segment were not realized. While management continues to evaluate this business, it was determined that the remaining goodwill associated with the business could not be recovered. Accordingly, the remaining unamortized amount of $382,000 was written off at December 31, 1998. Further, certain estimated liabilities for restructuring and other items totaling $249,000 were deemed in excess of actual amounts payable and were recognized as a gain in the fourth quarter of 1998.

The Company recognized an unrealized loss of $1,400,000 in 1997 in connection with foreign currency contracts that were in dispute. The loss represented the difference between the contract rate for Philippine pesos and the estimated fair value at December 31, 1997. In the second quarter of 1998, the Company reached an agreement regarding the disputed currency contracts. This resulted in a reduction of the estimated liability previously provided by $487,000 that was recognized as a gain.

In 1998, the Internet and on-line data conversion and content management services segment realized income before income taxes of $3,151,928, while the document imaging services segment incurred a loss of $1,234,248, including a write-off of goodwill in the amount of $382,000. In 1997, the Internet and on-line data conversion and content management services segment incurred a loss before income taxes of $2,894,158, including a loss on foreign currency contracts and restructuring costs of $2,107,000, while the document imaging services segment incurred a loss of $1,206,060, including restructuring costs of

$793,000.

The Company recognized a benefit from income taxes in 1998 from a reduction in the tax valuation allowance and a utilization of net operating loss carryforwards that were not recognized as tax benefits in 1997 for losses incurred in that year.

As a result of the aforementioned items, the Company realized net income of $2,249,680 in 1998 and incurred a net loss of $(4,200,218) in 1997. The 1997 loss was principally due to the charges set forth above, no benefit for income taxes and higher overhead.

YEARS ENDED DECEMBER 31, 1997 AND 1996

Revenues decreased 2% to $20,116,935 for the year ended December 31, 1997 compared to $20,536,448 for the similar period in 1996. Revenues from the Internet and on-line data conversion and content management services segment increased to $18,032,232 in 1997 from $17,852,384 in 1996. During 1997 and 1996, one customer that is comprised of twelve affiliated companies, accounted for 16% and 28% of the Company's Internet and on-line data conversion and content management services revenues, respectively. One other customer accounted for 10% of such revenues in 1997 and 1996. No other customer accounted for 10% or more of such revenues. Further, in 1997 and 1996, export revenues, all of which were derived from European customers, accounted for 24% and 22%, respectively, of such revenues. Revenues from the document imaging services segment decreased to $2,084,703 in 1997 from $2,684,064 in 1996. This decrease was primarily due to a restructuring in 1997 and closing of the east coast facility which resulted in a loss of customers in that area. During 1997 and 1996 two customers accounted for 11% and 10% of such revenues in 1997 and 12% and 12% in 1996, respectively. No other customer accounted for 10% or more of such revenues.

Direct operating expenses were $16,007,051 for the year ended December 31, 1997 and $16,783,595 for the similar period in 1996, a decrease of 5%. Direct operating expenses for the Internet and on-line data conversion and content management services decreased to $14,265,974 in 1997 from $14,655,036 in 1996 due principally to a favorable Philippine peso exchange rate. Direct operating expenses for the document imaging services segment decreased to $1,741,077 in 1997 from $2,128,559 in 1996 principally due to lower revenues in that year.

Selling and administrative expense was $5,283,891 and $4,799,739 for the years ended December 31, 1997 and 1996, respectively, representing an increase of 10% in 1997 from 1996. Selling and administrative expense as a percentage of revenues was 26% in 1997 and 23% in 1996. The dollar and percentage increase in 1997 primarily reflects the expansion of the Company's sales and marketing efforts.

During the second quarter of 1997 management determined to reduce its U.S. based overhead. The principal actions were to eliminate U.S. production for the publishing services division and merge the east and west coast document imaging operations into one facility on the west coast. The restructuring costs consisted of estimated losses on leases and severance pay, while the impairment costs consisted of a write-off of goodwill in connection with the document imaging business and equipment in connection with both the imaging and publishing services businesses. The restructuring and impairment costs totaled $1,500,000.

The Company recognized an unrealized loss of $1,400,000 in 1997 in connection with foreign currency contracts that were in dispute. The loss represents the difference between the contract rate for Philippine pesos and the estimated fair value at December 31, 1997.

Internet and on-line data conversion and content management services incurred a loss before income taxes of $2,894,158 in 1997 and $475,744 in 1996. Document imaging services incurred a loss before income taxes of $1,206,060 in 1997, including restructuring costs of $793,000, and $483,754 in 1996.

The Company did not recognize tax benefits in 1997 for losses incurred in that year.

The Company incurred net losses of $(4,200,218) in 1997 and $(602,498) in 1996. The 1997 loss was greater than that incurred in 1996 due to the charges set forth above, no benefit for income taxes and higher overhead.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities increased to $2,547,013 in 1998 from $1,128,671 in 1997, principally from profitable operations in 1998. Net cash of $841,710 and $1,015,088 was used in investing activities in 1998 and 1997, respectively, for the purchase of fixed assets. Net cash used in financing activities decreased to $139,622 in 1998 from $240,924 in 1997 principally from lower payments on borrowings in 1998.

The Company expects to make capital expenditures of approximately $2,000,000 for its production facilities in 1999.

The Company has a line of credit with a bank in the amount of $1 million. The line is collateralized by the assets of the Company. Interest is charged at 2% above the bank's prime rate and is due on demand. The line is believed to be sufficient for the Company's cash requirements.

The Company relies on certain hardware, software and operating systems (collectively, "Systems") for production, financial reporting and general administration. The Company has been evaluating these Systems to identify potential Year 2000 compliance problems and has been planning appropriate remedial efforts and testing, where required. In addition, it has been evaluating its external interfaces with customers and service suppliers to coordinate Year 2000 compliance.

The Company has planned to replace older, non-compliant Systems components as a means by which to obtain Year 2000 compliance and to obtain increased functionality and efficiency. These new Systems components will cost approximately $500,000, most of which will be capitalized as fixed assets. All such historical costs have been funded out of existing cash and cash flows from operations, and the Company expects that future costs will be funded similarly.

The Company has obtained compliance statements from each of its significant service suppliers, most of which have provided positive assurances regarding their compliance.

Based on currently available information, the Company expects to attain Year 2000 compliance and institute appropriate final testing of its modifications and replacements no later than June 30, 1999. The foregoing notwithstanding, the Company plans to have in place contingency plans to deal with the possibility that any component of the Systems fails to pass final testing by such date. Such contingency plans may include, without limitation, implementing substitute production Systems and obtaining services from substitute vendors. The Company does not anticipate that the cost of effecting Year 2000 compliance will have a material impact on the Company's financial condition or results of operations. Nevertheless, achieving Year 2000 compliance is dependent upon many factors, some of which are not completely within the Company's control. Should either one or more of the Company's critical Systems components or one or more of its critical vendors, including those vendors providing services in foreign countries in which the Company has operations, fail to achieve Year 2000 compliance, the Company's business and its results of operations could be adversely affected.

INFLATION, SEASONALITY AND PREVAILING ECONOMIC CONDITIONS

To date, inflation has not had a significant impact on the Company's operations. The Company generally performs its work for its customers on a task by task at-will basis, or under short-term contracts or contracts which are subject to numerous termination provisions. The Company has flexibility in its pricing due to the absence of long-term contracts. The Company's revenues are not significantly affected by seasonality.

Disclosures in this Form 10-KSB contain certain forward-looking statements, including without limitation, statements concerning the Company's operations, economic performance and financial condition, including in particular, Year 2000 and market risk information. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words "believe," "expect," "anticipate" and other similar expressions generally identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. These forward-looking statements are based largely on the Company's current expectations and are subject to a number of risks and uncertainties, including without limitation, changes in external market factors, changes in the Company's business or growth strategy or an inability to execute its strategy due to changes in its industry or the economy generally, the emergence of new or growing competitors, various other competitive factors and other risks and uncertainties indicated from time to time in the Company's filings with the Securities and Exchange Commission. Actual results could differ materially from the results referred to in the forward-looking statements. In light of these risks and uncertainties, there can be no assurance that the results referred to in the forward-looking statements contained in this Form 10-KSB will in fact occur.

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders

Innodata Corporation
Hackensack, New Jersey

We have audited the accompanying consolidated balance sheets of Innodata Corporation and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Innodata Corporation and subsidiaries as of December 31, 1998 and 1997, and the consolidated results of their operations and their consolidated cash flows for the years then ended in conformity with generally accepted accounting principles.

Grant Thornton LLP
Parsippany, New Jersey
February 25, 1999

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Innodata Corporation
Brooklyn, New York

We have audited the accompanying consolidated statements of operations, stockholders' equity and cash flows of Innodata Corporation and subsidiaries for the year ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of Innodata Corporation and subsidiaries for the year ended December 31, 1996 in conformity with generally accepted accounting principles.

Margolin, Winer & Evens LLP
Garden City, New York
March 14, 1997

INNODATA CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1998 AND 1997

<TABLE>
<CAPTION>

<S> <C> <C>

	1998	1997
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	$ 3,535,533	$ 1,969,852
Accounts receivable-net of allowance for doubtful accounts of $425,000 in 1998 and $450,000 in 1997	2,943,422	3,188,920
Prepaid expenses and other current assets	555,127	825,586
Deferred income taxes	376,000	136,000
TOTAL CURRENT ASSETS	7,410,082	6,120,358
FIXED ASSETS-NET	2,669,892	2,909,619
GOODWILL	-	410,076
OTHER ASSETS	515,534	589,194
TOTAL	$10,595,508	$10,029,247
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 56,718	$ 122,450
Accounts payable and accrued expenses	1,295,347	1,507,866
Accrued salaries and wages	849,608	641,186
Estimated loss on foreign currency contracts	-	1,400,000
Income and other taxes	459,308	357,008
TOTAL CURRENT LIABILITIES	2,660,981	4,028,510
LONG-TERM DEBT, LESS CURRENT PORTION	24,089	79,604
DEFERRED INCOME TAXES	425,000	667,000
COMMITMENTS AND CONTINGENT LIABILITIES		
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par value-authorized 20,000,000 shares; issued - 1,528,402 shares in 1998 and 1,521,736 shares in 1997	15,284	15,217
Additional paid-in capital	8,890,661	8,870,731
Deficit	(1,199,538)	(3,449,218)
	7,706,407	5,436,730
Less: treasury stock - at cost; 48,083 shares in 1998 and 26,400 shares in 1997	(220,969)	(182,597)
TOTAL STOCKHOLDERS' EQUITY	7,485,438	5,254,133
TOTAL	$10,595,508	$10,029,247

<FN>
See notes to consolidated financial statements.
</TABLE>

INNODATA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

<TABLE>
<CAPTION>
<S> <C> <C> <C>

	1998	1997	1996
REVENUES	$19,593,353	$20,116,935	$20,536,448

OPERATING COSTS AND EXPENSES			
Direct operating costs	13,068,660	16,007,051	16,783,595
Selling and administrative expenses	4,982,127	5,283,891	4,799,739
Restructuring costs, impairment of assets and other	133,141	1,500,000	-
(Gain) loss on foreign currency contracts	(487,458)	1,400,000	-
Interest expense	77,594	85,595	36,383
Interest income	(98,391)	(59,384)	(123,771)
TOTAL	17,675,673	24,217,153	21,495,946
INCOME (LOSS) BEFORE (BENEFIT) PROVISION FOR INCOME TAXES	1,917,680	(4,100,218)	(959,498)
(BENEFIT) PROVISION FOR INCOME TAXES	(332,000)	100,000	(357,000)
NET INCOME (LOSS)	$ 2,249,680	$(4,200,218)	$ (602,498)
BASIC INCOME (LOSS) PER SHARE	$ 1.52	$ (2.80)	$ (.40)
DILUTED INCOME (LOSS) PER SHARE	$ 1.49	$ (2.80)	$ (.40)

<FN>
See notes to consolidated financial statements
</TABLE>

INNODATA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

<TABLE>
<CAPTION>

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
	ADDITIONAL	UNREALIZED	(DEFICIT)				
	COMMON STOCK	PAID-IN	LOSS ON	RETAINED	TREASURY		
	SHARES	AMOUNT	CAPITAL	SECURITIES	EARNINGS	STOCK	TOTAL
JANUARY 1, 1996	1,492,424	$ 14,924	$ 8,527,302	$ (4,192)	$ 1,353,498	$(143,877)	$ 9,747,655
Net loss	-	-	-	-	(602,498)	-	(602,498)
Issuance of common stock upon exercise of stock options	7,645	76	65,692	-	-	-	65,768
Issuance of common stock as partial acquisition costs	21,667	217	193,736	-	-	-	193,953
Warrant costs for consulting arrangement	-	-	68,401	-	-	-	68,401
Redemption of available-for-sale securities	-	-	-	4,192	-	-	4,192
DECEMBER 31, 1996	1,521,736	15,217	8,855,131	-	751,000	(143,877)	9,477,471
Net loss	-	-	-	-	(4,200,218)	-	(4,200,218)
Warrant costs for consulting arrangement	-	-	15,600	-	-	-	15,600
Purchase of treasury stock	-	-	-	-	-	(38,720)	(38,720)
DECEMBER 31, 1997	1,521,736	15,217	8,870,731	-	(3,449,218)	(182,597)	5,254,133
Net income	-	-	-	-	2,249,680	-	2,249,680
Issuance of common stock upon exercise of stock options	6,666	67	19,930	-	-	-	19,997

Purchase of treasury stock	-	-	-	-	-	(38,372)	(38,372)
DECEMBER 31, 1998	1,528,402	$ 15,284	$ 8,890,661	$ -	$(1,199,538)	$(220,969)	$ 7,485,438

<FN>
See notes to consolidated financial statements
</TABLE>

INNODATA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

<TABLE>
<CAPTION>

<S>	<C> 1998	<C> 1997	<C> 1996
OPERATING ACTIVITIES:			
Net income (loss)	$ 2,249,680	$(4,200,218)	$ (602,498)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,322,721	1,321,555	1,372,731
Restructuring costs, impairment of assets and other	133,141	1,500,000	-
Gain on disposal of fixed assets	(74,399)	-	-
(Gain) loss on foreign currency contracts	(487,458)	1,400,000	-
Deferred income taxes	(482,000)	400,000	(150,000)
Changes in operating assets and liabilities:			
Accounts receivable	419,834	529,363	1,380,498
Prepaid expenses and other current assets	120,459	304,924	(479,251)
Other assets	23,660	(116,769)	(271,413)
Accounts payable and accrued expenses	(76,805)	(104,330)	187,764
Liability for foreign currency contracts	(912,542)	-	-
Accrued salaries and wages	208,422	15,707	100,991
Income and other taxes payable	102,300	78,439	(641,737)
Net cash provided by operating activities	2,547,013	1,128,671	897,085
INVESTING ACTIVITIES:			
Expenditures for fixed assets	(1,024,622)	(1,015,088)	(1,231,273)
Proceeds from disposal of fixed assets	182,912	-	-
Payments in connection with acquisition	-	-	(410,646)
Short-term investments	-	-	1,240,000
Net cash used in investing activities	(841,710)	(1,015,088)	(401,919)
FINANCING ACTIVITIES:			
Proceeds from borrowings	-	577,000	626,014
Payments of borrowings	(121,247)	(779,204)	(656,409)
Proceeds from exercise of stock options	19,997	-	65,768
Purchase of treasury stock	(38,372)	(38,720)	-
Net cash (used in) provided by financing activities	(139,622)	(240,924)	35,373
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	1,565,681	(127,341)	530,539
CASH AND EQUIVALENTS, BEGINNING OF YEAR	1,969,852	2,097,193	1,566,654
CASH AND EQUIVALENTS, END OF YEAR	$ 3,535,533	$ 1,969,852	$ 2,097,193
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	$ 32,524	$ 85,595	$ 35,238
Income taxes	-	-	922,789

<FN>
See notes to consolidated financial statements
</TABLE>

INNODATA CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS AND BASIS OF PRESENTATION - Innodata Corporation and subsidiaries (the "Company") performs data conversion and content management services and document imaging services tailored to customer requirements. The Company's services are performed in production facilities located in the Philippines, Sri Lanka, India and the United States. The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All intercompany transactions and balances have been eliminated in consolidation.

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

REVENUE RECOGNITION - Revenue is recognized in the period in which the service is performed.

WORK-IN-PROCESS - Work-in-process, included in other current assets, consists of actual labor and certain other costs incurred for uncompleted and unbilled services.

FOREIGN CURRENCY - The functional currency for the Company's production operations located in the Philippines, India and Sri Lanka is U.S. dollars. As such, transactions denominated in Philippine pesos, Indian and Sri Lanka rupees were translated to U.S. dollars at rates which approximate those in effect on transaction dates. Monetary assets and liabilities denominated in foreign currencies at December 31, 1998 and 1997 were translated at the exchange rate in effect as of those dates. In 1997, the Company recognized a gain of $125,000 resulting from such foreign currency translation. Exchange gains and losses in 1998 and 1996 resulting from such transactions were immaterial.

STATEMENT OF CASH FLOWS - For financial statement purposes (including cash flows), the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. During 1996, the Company leased equipment under capital leases for approximately $237,000. Supplemental disclosure of non-cash investing and financing activities is as follows:

<TABLE>
<CAPTION>

<S>	<C> 1996
Acquisition costs	$ 563,771
Common stock issued	(153,125)
Payments in connection with acquisition	$ 410,646

</TABLE>

DEPRECIATION - Depreciation is provided on the straight-line method over the estimated useful lives of the related assets which are as follows:

<TABLE>
<CAPTION>

<S> CATEGORY	<C> ESTIMATED USEFUL LIVES
Equipment	3-5 years
Furniture and fixtures	10 years

</TABLE>

Leasehold improvements are amortized on the straight-line basis over the shorter of their estimated useful lives or the lives of the leases.

INCOME TAXES - Deferred taxes are determined based on the difference between the financial statement and tax basis of assets and liabilities, using enacted tax rates, as well as any net operating loss or tax credit carryforwards expected to reduce taxes payable in future years.

ACCOUNTING FOR STOCK-BASED COMPENSATION - The Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," which became effective in 1996. As permitted by SFAS No. 123, the Company has elected to continue to account for employee stock options under APB No. 25, "Accounting for Stock Issued to Employees."

SEGMENT REPORTING - The Company adopted Statement of Financial Accounting Standards SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information" for the year ended December 31, 1998. SFAS No. 131 requires that the Company disclose certain information about its operating segments defined as "components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance." Generally, financial information is required to be reported on the basis that it is used internally for evaluating segment performance and deciding how to allocate resources to segments.

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

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

2. FIXED ASSETS

Fixed assets, stated at cost less accumulated depreciation and amortization, consist of the following:

<TABLE>
<CAPTION>

DECEMBER 31,	1998	1997
Equipment	$6,647,870	$6,095,004
Furniture and fixtures	427,807	372,566
Leasehold improvements	678,557	472,574
Total	7,754,234	6,940,144
Less accumulated depreciation and amortization	5,084,342	4,030,525
	$2,669,892	$2,909,619

</TABLE>

As of December 31, 1998 and 1997, the net book value of fixed assets located at the Company's production facilities in the Philippines, India and Sri Lanka was approximately $1,553,000 and $1,600,000, respectively. In addition, equipment financed by capital leases has a net book value of $153,000 at December 31, 1998.

3. INCOME TAXES

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

<TABLE>
<CAPTION>

<S> <C> <C> <C>

	1998	1997	1996
Current income tax expense (benefit):			
Foreign	$ 50,000	$ -	$ -
Federal	55,000	(300,000)	(159,000)
State and local	45,000	-	(48,000)
	----------	----------	----------
	150,000	(300,000)	(207,000)
Deferred income tax (benefit) expense	(482,000)	400,000	(150,000)
	----------	----------	----------
(Benefit from) provision for income taxes	$(332,000)	$ 100,000	$(357,000)
	==========	==========	==========

</TABLE>

During 1998 the Company utilized approximately $1,100,000 of net operating loss carryforwards, resulting in a tax benefit of $375,000.

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

<TABLE>
<CAPTION>
<S> <C> <C> <C>

	1998	1997	1996
Federal statutory rate	34.0%	(34.0)%	(34.0)%
Effect of:			
Valuation allowance	(35.0)	34.0	-
Utilization of net operating loss carryforwards not previously recognized	(19.5)	-	-
State income taxes (net of federal tax benefit)	1.6	-	(5.4)
Foreign taxes	2.6	-	-
Other	(1.0)	2.4	2.2
	-----	-----	-----
Effective rate	(17.3)%	2.4%	(37.2)%
	=====	=====	=====

</TABLE>

As of December 31, 1998 and 1997, the composition of the Company's net deferred taxes is as follows:

<TABLE>
<CAPTION>
<S> <C> <C>

	1998	1997
Deferred income tax assets:		
Allowances not currently deductible	$ 266,000	$ 247,000
Expenses not deductible until paid	60,000	161,000
Net operating loss carryforwards	150,000	500,000
	----------	----------
	476,000	908,000
Less: valuation allowance	(100,000)	(772,000)
	----------	----------
Deferred income tax assets	376,000	136,000
	----------	----------
Deferred income tax liabilities:		
Foreign source income, not taxable unless repatriated	(415,000)	(415,000)
Depreciation and amortization	(10,000)	(252,000)
	----------	----------
	(425,000)	(667,000)
	----------	----------
Net deferred income tax liability	$ (49,000)	$(531,000)
	==========	==========

</TABLE>

The valuation allowance reduces total deferred tax assets to an amount management believes will likely be realized. At December 31, 1998, the Company's net operating loss carryforward for federal income tax purposes of approximately $400,000 expires in 2012. These net operating losses may be limited to annual use based on IRS regulations.

4. LONG-TERM DEBT

Long-term debt is as follows:

<TABLE>
<CAPTION>

<S>	<C> 1998	<C> 1997
Equipment leases, at 9.6% to 13.5%	$88,581	$226,335
Less: deferred interest	7,774	24,281
	-------	--------
Total	80,807	202,054
Less: current portion of long-term debt	56,718	122,450
	-------	--------
Long-term debt	$24,089	$ 79,604
	=======	========

</TABLE>

Long term debt matures as follows: 1999 - $62,494; 2000 - $19,299; and 2001 - $6,788.

5. COMMITMENTS AND CONTINGENT LIABILITIES

LINE OF CREDIT - The Company has a line of credit with a bank in the amount of $1 million. The line is collateralized by the assets of the Company. Interest is charged at 2% above the bank's prime rate and is due on demand. The line is presently unused.

LEASES - The Company is obligated under various operating lease agreements for office and production space. The agreements contain escalation clauses and requirements that the Company pay taxes, insurance and maintenance costs. The lease agreements for production space in the Philippines, which expire through 2003, contain provisions pursuant to which the Company may cancel the leases at any time. The annual rental for the leased space in the Philippines is approximately $350,000. For the years ended December 31, 1998, 1997 and 1996, rent expense totaled approximately $700,000, $940,000 and $825,000, respectively.

At December 31, 1998, future minimum annual rental commitments on non-cancellable leases are as follows:

<TABLE>
<CAPTION>

<S>	<C>
1999	$382,000
2000	191,000
2001	193,000
2002	165,000

	931,000
	========

</TABLE>

EMPLOYMENT AGREEMENTS - The Company has a three-year employment agreement through August 2000 with its President and CEO. He is currently paid at the rate of $240,000 per annum with any bonuses and future increases at the discretion of the Board of Directors. In addition, each December 31 during the term of the agreement he will receive 10,333 options to purchase common stock of the Company at then prevailing market prices. In consideration of the signing of the agreement he was granted five year options as follows (after repricing in June 1998): 10,000 options at $3.00 per share; 16,666 at $5.00; 23,333 at $6.00; 30,000 at $7.00; and 33,333 at $15.50. The options are exercisable upon the earliest to occur of (i) various dates during 1999; or (ii) in the event of a sale of the Company where a third party acquires more than 50% of the Company.

The Company has an employment agreement with its former President and CEO expiring September 30, 2000 that provides for a salary of $75,000 per annum. He will serve as Vice Chairman of the Board and in executive capacities as designated by the CEO or the Board of Directors.

LITIGATION - The Company is subject to legal proceedings and claims which arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the Company's financial statements.

FOREIGN CURRENCY - The Company's production facilities are located in the Philippines, India and Sri Lanka. To the extent that the currencies of these countries fluctuate, the Company is subject to risks of changing costs of production after pricing is established for certain customer projects, although most arrangements are at will and can be terminated or renegotiated.

OTHER COMMITMENTS - Employees at the Company's Manila facilities voted to join a union. The Company has a collective bargaining agreement with the rank and file employees at its Manila facility which provides for approximately 10% wage increases per annum plus one-half of any government mandated increases through March 31, 2001.

PHILIPPINE PENSION REQUIREMENT - The Philippine government enacted legislation requiring businesses to provide a lump-sum pension payment to employees working at least five years and who are employed by the Company at age 60. Those eligible employees are to receive approximately 59% of one month's pay for each year of employment with the Company. The terms of the collective bargaining agreement provide benefits similar to the government. Based on actuarial assumptions and calculations in accordance with SFAS No. 87, "Employers' Accounting for Pensions," the liability for the future payment is insignificant at December 31, 1998. Under the legislation, the Company is not required to fund future costs, if any.

6. CAPITAL STOCK

COMMON STOCK - In 1993 the Company sold pursuant to a public offering 563,500 shares of its common stock and certain warrants that expired in 1997 and realized net proceeds after all expenses of the offering of $6,752,585.

The Company's stockholders approved a one-for-three reverse stock split effective on March 25, 1998. All share and per share amounts have been restated to reflect such split.

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

COMMON STOCK RESERVED - At December 31, 1998, the Company reserved for issuance 999,356 shares of its common stock as follows: (a) 982,690 shares pursuant to the Company's Stock Option Plans (including 120,332 options issued to the Company's Chairman and its President which were not granted under the plans); and (b) 16,666 shares issuable upon exercise of warrants issued to a consultant.

7. STOCK OPTIONS AND WARRANTS

STOCK OPTIONS

The Company adopted, with stockholder approval, 1993, 1994, 1995, 1996 and 1998 Stock Option Plans (the "1993 Plan," "1994 Plan," "1994 DD Plan," "1995 Plan," "1996 Plan" and the "1998 Plan") which provide for the granting of options to purchase not more than an aggregate of 87,500, 105,000, 17,500, 200,000, 166,666 and 300,000 shares of common stock, respectively, subject to adjustment under certain circumstances. Such options may be incentive stock options ("ISOs") within the meaning of the Internal Revenue Code of 1986, as amended, or options that do not qualify as ISOs ("Non-Qualified Options").

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

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

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock Based Compensation." Accordingly, no compensation expense has been recognized for stock options granted to employees. Had compensation cost for the Company's stock option grants been determined based on the fair value at the grant date for awards in 1998, 1997 and 1996 consistent with the provisions of SFAS No. 123, the Company's net income would have been $1,463,259, or $1.00 per share, basic, and $.97 per share, diluted, in 1998, net loss would have been $(4,359,807), or $(2.90) per share, in 1997 and $(738,987), or $(.49) per share, in 1996. The fair value of options at date of grant was estimated using the Black-Scholes pricing model with the following weighted average assumptions: expected life of four years; risk free interest rate of 5% in 1998 and 6.4% in 1997 and 1996; expected volatility of 107% in 1998 and 40% in 1997 and 1996; and a zero dividend yield. The effects of applying SFAS No. 123 in this disclosure are not indicative of future disclosures.

<TABLE>
<CAPTION>

<S>	<C> PER SHARE RANGE OF EXERCISE PRICES	<C> NUMBER OUTSTANDING	<C> WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	<C> WEIGHTED AVERAGE EXERCISE PRICE	<C> NUMBER EXERCISABLE	<C> WEIGHTED AVERAGE EXERCISE PRICE	<C> WEIGHTED AVERAGE FAIR VALUE, DATE OF GRANT
Balance 1/1/96	$ 7.89 - 9.75	132,696	3	$ 8.25			
	$ 10.14 - 17.85	135,050	3	$ 12.93			
		267,746			120,098	$ 10.38	
Canceled	$ 9.03	(166)					
Granted	$ 6.93 - 11.79	29,666	5	$ 9.18			$ 3.66
Exercised	$ 7.89 - 9.03	(7,646)					
Balance 12/31/96	$ 6.93 - 9.75	138,717	3	$ 8.13	111,513	$ 8.88	
	$ 10.14 - 17.85	150,883	3	$ 12.69	89,157	$ 13.17	
		289,600			200,670		
Canceled	$ 7.89 - 13.89	(48,883)					
Granted	$ 3.00 - 6.00	100,000	5	$ 3.63			$ 1.26
Granted	$ 9.00 - 21.00	86,666	5	$ 13.44			$ .18
Balance 12/31/97	$ 3.00 - 9.75	246,192	4	$ 6.42	115,969	$ 8.16	
	$ 10.14 - 21.00	181,191	3	$ 14.10	93,996	$ 12.96	
		427,383			209,965		
Canceled	$ 3.75 - 10.50	(161,366)					
Canceled	$ 11.44 - 21.00	(162,543)					
Granted	$ 3.00 - 6.38	176,299	5	$ 5.49			$ 4.00
Granted and Repriced	$ 5.00 - 8.63	267,260	2	$ 6.34			$ 2.67
Granted and Repriced	$ 15.50	33,333	3	$ 15.50			$ 1.98
Exercised	$ 3.00	(6,666)					
BALANCE 12/31/98	$ 3.00 - 9.03	537,217	3	$ 5.67	97,496	$ 4.13	
	$ 14.28 - 17.85	36,483	2	$ 15.69	3,150	$ 17.65	
		573,700			100,646		

</TABLE>

WARRANTS

In connection with a consulting agreement on December 18, 1995, the Company issued a five-year warrant to purchase 16,666 shares at a price of $11.44 per share.

8. SEGMENT REPORTING

The Company's operations are classified in two business segments; Internet and on-line data conversion and content management services and document imaging services.

Internet and on-line data conversion and content management services provide all the necessary steps for product development and data conversion to enable its customers to disseminate vast amounts of information both on-line and via the Internet. Its customers represent an array of major electronic publishers of legal, scientific, educational, and medical information, as well as document-intensive companies repurposing their proprietary information into electronic resources that can be referenced via web-centric applications.

During 1998, 1997 and 1996, one customer that is comprised of twelve affiliated companies, accounted for 21%, 16% and 28% of the Company's Internet and on-line data conversion and content management service revenues, respectively. One other customer accounted for 13%, 10% and 10% of such revenues in 1998, 1997 and 1996, respectively. No other customer accounted for 10% or more of such revenues. Further, in 1998, 1997 and 1996, export revenues, all of which were derived from European customers, accounted for 22%, 24% and 22%, respectively, of such revenues. A significant amount of the Company's revenues are derived from customers in the publishing industry. Accordingly, the Company's accounts receivable generally include significant amounts due from such customers.

The document imaging services segment provides high volume backfile and day-forward conversion of business documents, technical manuals, engineering drawings, aperture cards, roll film, and microfiche, providing high quality computer accessible images and indexing.

During 1998, 1997 and 1996 one customer accounted for 53%, 11% and 12% of the Company's document imaging service revenues, respectively. The Company has no present arrangements with this customer for 1999. Another customer accounted for 10% and 12% of such revenues in 1997 and 1996. No other customer accounted for 10% or more of such revenues.
<TABLE>

<CAPTION>

<S>	<C> 1998	<C> 1997	<C> 1996
Revenues			
Internet and on-line services	$17,401,346	$18,032,232*	$17,852,384
Document imaging services	2,192,007	2,084,703	2,684,064
Total consolidated	$19,593,353	$20,116,935	$20,536,448

<FN>
* Includes $2,612,000 from journal and book pagination and medical transcription businesses that were discontinued in 1997.
</TABLE>

<TABLE>
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<S>	<C>	<C>	<C>
Income (loss) before income taxes			
Internet and on-line services	$ 3,151,928(a)	$(2,894,158)(c)	$(475,744)
Document imaging services	(1,234,248)(b)	(1,206,060)(d)	(483,754)
Total consolidated	$ 1,917,680	$(4,100,218)	$(959,498)

<FN>
(a) Includes gain on foreign currency contracts and reversal of previously estimated liabilities of $736,000.
(b) Includes write off of goodwill of $382,000.
(c) Includes loss on foreign currency contracts and restructuring costs of $2,107,000.
(d) Includes restructuring costs of $793,000.
</TABLE>

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	1998	1997	1996
Total assets			
Internet and on-line services	$ 9,520,116	$ 8,703,927	$ 9,501,943
Document imaging services	1,075,392	1,325,320	2,914,353
Total consolidated	$10,595,508	$10,029,247	$12,416,296
Capital expenditures			
Internet and on-line services	$ 980,218	$ 907,535	$ 1,071,190
Document imaging services	44,404	107,553	160,083
Total consolidated	$ 1,024,622	$ 1,015,088	$ 1,231,273
Depreciation and amortization			
Internet and on-line services	$ 1,116,445	$ 1,048,875	$ 1,115,674
Document imaging services	206,276	272,680	257,057
Total consolidated	$ 1,322,721	$ 1,321,555	$ 1,372,731

9. INCOME (LOSS) PER SHARE

	1998	1997	1996
Net income (loss)	$2,249,680	$(4,200,218)	$ (602,498)
Weighted average common shares outstanding	1,478,408	1,501,043	1,503,196
Dilutive effect of outstanding warrants and options	31,391	-	-
Adjusted for dilutive computation	1,509,799	1,501,043	1,503,196
Basic income (loss) per share	$ 1.52	$ (2.80)	$ (.40)
Diluted income (loss) per share	$ 1.49	$ (2.80)	$ (.40)

Reference is made to Note 7 with respect to options and warrants that would have been dilutive in 1997 and 1996 had there not been a loss in those years.

10. RESTRUCTURING COSTS AND IMPAIRMENT OF ASSETS

During the second quarter of 1997 management implemented a plan to reduce the Company's U.S. based overhead. The principal actions were to eliminate U.S. production for the publishing services division and merge the east and west coast document imaging operations into one facility on the west coast. The restructuring costs consisted of estimated losses on leases and severance pay totaling approximately $325,000, while the impairment costs consisted of a write-off of goodwill in connection with the document imaging business totaling approximately $700,000 and fixed assets related to both the imaging and publishing services businesses totaling approximately $475,000.

In the fourth quarter of 1998, management determined that its plans to significantly increase the revenues of the document imaging services segment were not realized. While management continues to evaluate this business, it was determined that the goodwill associated with the business could not be recovered. Accordingly, the remaining unamortized amount of $382,000 was written off at December 31, 1998. Further, certain estimated liabilities for restructuring and other items totaling $249,000 were deemed in excess of actual amounts payable and were recognized as income in the fourth quarter of 1998.

11. FOREIGN CURRENCY CONTRACTS

The Company recognized an unrealized loss of $1,400,000 in 1997 in connection with foreign currency contracts that were in dispute. The loss represented the difference between the contract rate for Philippine pesos and the estimated fair value at December 31, 1997. In the second quarter of 1998, the Company reached an agreement regarding the disputed currency contracts. This resulted in a reduction of the estimated liability previously provided by $487,000 that was recognized as a gain.

ITEM 8. CHANGE IN ACCOUNTANTS.

Margolin, Winer & Evens LLP ("MWE") was the principal auditor of the Company for each of the three years in the period ended December 31, 1996. On November 11, 1997 the Company and MWE agreed that MWE would not serve as principal accountant for the year ended December 31, 1997.

MWE reports on the financial statements of the Company for the Company's fiscal years ended December 31, 1996 and 1995 contained no adverse opinion, disclaimer of opinion, modification, or qualification. During the two years ended December 31, 1996 and the interim period through November 11, 1997, there were no disagreements with MWE on any matter of accounting principles and practices, financial statement disclosure, or audit scope and procedure, which disagreement, if not resolved to the satisfaction of MWE, would have caused it to make reference to the subject matter of the disagreement in connection with its reports.

On November 12, 1997, the Company selected Grant Thornton LLP as its auditor for the fiscal year ended December 31, 1997.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

OFFICERS AND DIRECTORS

The officers and directors of the Company are as follows:

<TABLE>
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NAME	AGE	POSITION
Barry Hertz	49	Chairman of the Board of Directors
Jack Abuhoff	37	President, Chief Executive Officer and Director
Todd Solomon	37	Vice Chairman of the Board of Directors and Consultant
Martin Kaye	51	Executive Vice President, Chief Financial Officer, Secretary and Director
Stephen Agress	37	Vice President - Finance
Jurgen Tanpho	34	Vice President - Operations
Jan Palmen	44	Vice President - Sales
Dr. Albert Drillick	53	Director
Dr. E. Bruce Fredrikson	61	Director
Morton Mackof	51	Director
Stanley Stern	48	Director

</TABLE>

BARRY HERTZ has been Chairman since 1988 and Chief Executive Officer of the Company until August 1995. He founded Track Data Corporation ("Track") in 1981. He was Track's sole stockholder and Chief Executive Officer until its merger (the "Merger") on March 31, 1996 with Global Market Information, Inc.

("Global"), a public company co-founded by Mr. Hertz, who was its Chairman and Chief Executive Officer. Upon consummation of the Merger, Global changed its name to Track Data Corporation ("TDC"). Mr. Hertz holds a B.S. degree in mathematics from Brooklyn College (1971) and an M.S. degree in computer science from New York University (1973).

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

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

MARTIN KAYE has been Chief Financial Officer of the Company since October 1993 and was elected Vice President - Finance in August 1995 and was elected Executive Vice President in March 1998. He has been a Director since March 1995. He is a certified public accountant and serves as Vice President of Finance and a Director of TDC. Mr. Kaye had been an audit partner with Deloitte & Touche for more than five years until his resignation in 1993. Mr. Kaye holds a B.B.A. in accounting from Baruch College (1970).

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

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

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

DR. ALBERT DRILLICK has been a Director of the Company since 1990. He has served as a director of applications and senior systems analyst for TDC for more than the past five years. He holds a Ph.D. degree in mathematics from New York University Courant Institute (1971).

DR. E. BRUCE FREDRIKSON has been a Director of the Company since August 1993. He is currently a professor of finance at Syracuse University School of Management where he has taught since 1966 and has previously served as chairman of the finance department. Dr. Fredrikson has a B.A. in economics from Princeton University and a M.B.A. and a Ph.D. in finance from Columbia University. He is a director of Eagle Finance Corp., a company that acquires and services non-prime automobile installment sales contracts. He is also an independent general partner of Fiduciary Capital Partners, L.P. and Fiduciary Capital Pension Partners, L.P. He is also a director of TDC.

MORTON MACKOF has been a Director of the Company since April 1993. He is President and CEO of Third Millennium Technology Inc., a company involved in information technology consulting and software development. He had been executive vice president of Track since February 1991 and was elected its President in December 1994, and since the Merger served as President of TDC. He resigned as President in November 1996. From 1986 to 1991, he was president of Medical Leasing of America, Inc. From 1981 to 1986 he was vice president of sales with Fonar Corp. He holds a B.S. degree in electrical engineering from Rensselaer Polytechnic Institute (1970) and did graduate work in computer science. He is also a director of TDC.

STANLEY STERN has been a Director of the Company since August 1988. He was chief operating officer of Track, and in predecessor positions, for more than five years and since the Merger was Executive Vice President of TDC until his resignation in December 1996. Mr. Stern holds a B.B.A. from Baruch College (1973). He was also a director of TDC until his resignation in September 1997.

There are no family relationships between or among any directors or officers of the Company. Directors are elected to serve until the next annual meeting of stockholders and until their successors are elected and qualified. Officers serve at the discretion of the Board.

COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

The Company believes that during the period from January 1, 1998 through December 31, 1998 all officers, directors and greater than ten-percent beneficial owners complied with Section 16(a) filing requirements.

ITEM 10. EXECUTIVE COMPENSATION.

EXECUTIVE COMPENSATION

The following table sets forth information with respect to compensation paid by the Company for services to the Company during the three fiscal years ended December 31, 1998 to those executive officers whose aggregate cash and cash equivalent compensation exceeded $100,000.

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	CALENDAR YEAR	ANNUAL COMPENSATION SALARY	BONUS	NUMBER OF STOCK OPTIONS AWARDED
Jack Abuhoff	1998	$ 200,000	$20,000	20,833
President, CEO since				(A)109,514
September 1997	1997	37,500	-	114,500
Barry Hertz	1998	$ 75,000	$ -	14,000
Chairman				(A)37,000
	1997	50,000	-	13,333
	1996	50,000	-	-
Todd Solomon	1998	$ 93,750	$ -	10,500
President, CEO through				(A)71,699
September 1997, Vice	1997	209,166	-	20,333
Chairman of the Board	1996	231,000	-	10,333
and Consultant thereafter				

(A) Options granted in prior years and repriced in 1998

The above compensation does not include certain insurance and other personal benefits, the total value of which does not exceed as to any named officer, the lesser of $50,000 or 10% of such person's cash compensation. The Company has not granted any stock appreciation rights nor does it have any "long-term incentive plans," other than its stock option plans.

OPTION GRANTS IN LAST FISCAL YEAR
INDIVIDUAL GRANTS

NAME	NUMBER OF OPTIONS GRANTED	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE PER SHARE	EXPIR-ATION DATE
Jack Abuhoff	20,833	12%	$3.00-6.00	7/2003
Barry Hertz	14,000	8%	$ 6.00	7/2003
Todd Solomon	10,500	6%	$ 6.00	7/2003

The options become exercisable one half on the first anniversary and one half on the second anniversary.

AGGREGATE OPTION EXERCISES IN LAST FISCAL YEAR;

FISCAL YEAR END OPTION VALUES

NAME	SHARES ACQUIRED ON EXERCISE	NUMBER OF UNEXERCISED OPTIONS AT FISCAL YEAR END EXERCISABLE/ UNEXERCISABLE	VALUE OF UNEXERCISED IN-THE- MONEY OPTIONS AT FISCAL YEAR END EXERCISABLE/ UNEXERCISABLE
Jack Abuhoff	None	21,499/120,014	$ 69,872/$30,238
Barry Hertz	None	13,333/51,000	$ 43,332/$12,800
Todd Solomon	None	20,333/82,199	$ 66,082/$43,978

DIRECTORS COMPENSATION

Dr. E. Bruce Fredrikson and Stanley Stern were compensated at the rate of $1,250 and $833 per month, respectively, plus out-of-pocket expenses for each meeting attended. No other director is compensated for his services as director. Further, Messrs. Fredrikson and Stern received options to purchase 2,500 and 1,200 shares, respectively, in 1998.

EMPLOYMENT AGREEMENTS

The Company has a three-year employment agreement through August 2000 with Jack Abuhoff, its President and CEO. He is currently paid at the rate of $240,000 per annum with any bonuses and future increases at the discretion of the Board of Directors. In addition, each December 31 during the term of the agreement he will receive 10,333 options to purchase common stock of the Company at then prevailing market prices. In consideration of the signing of the agreement he was granted five year options as follows (after repricing in June 1998): 10,000 options at $3.00 per share; 16,666 at $5.00; 23,333 at $6.00; 30,000 at $7.00; and 33,333 at $15.50. The options are exercisable upon the earliest to occur of (i) various dates during 1999; or (ii) in the event of a sale of the Company where a third party acquires more than 50% of the Company.

The Company has an employment agreement with Todd Solomon, its former President and CEO, expiring September 30, 2000 that provides for a salary of $75,000 per annum. He will serve as Vice Chairman of the Board and in executive capacities as designated by the CEO or the Board of Directors.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table sets forth, as of February 28, 1999 information regarding the beneficial ownership of the Company's Common Stock based upon the most recent information available to the Company for (i) each person known by the Company to own beneficially more than five (5%) percent of the Company's outstanding Common Stock, (ii) each of the Company's officers and directors, and (iii) all officers and directors of the Company as a group. Unless otherwise indicated, each stockholder's address is c/o Company, 95 Rockwell Place, Brooklyn, NY 11217.

NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS
Track Data Corporation (2)	214,748	14.4%
Barry Hertz (3)	251,381	16.5%
Todd Solomon (4)	236,827	15.3%
Jack Abuhoff (5)	58,796	3.8%
Martin Kaye (6)	23,374	1.5%

Stephen Agress (7)	7,458	*
Jurgen Tanpho (8)	902	*
Albert Drillick (9)	5,325	*
Dr. E. Bruce Fredrikson (10) Syracuse University School of Management Syracuse, NY 13244	8,581	*
Morton Mackof (9)	5,325	*
Stanley Stern (9)	2,750	*
All Officers and Directors as a Group (11 persons) (3)(4)(5)(6)(7)(8)(9)(10)	600,719	36.3%

<FN>

* Less than 1%.
1. Except as noted otherwise, all shares are owned beneficially and of record. Includes shares pursuant to options presently exercisable or which are exercisable within 60 days. Based on 1,491,985 shares outstanding.
2. Consists of 214,748 shares owned by Track Data Corporation, which is majority owned by Mr. Hertz.
3. Includes 214,748 shares owned by Track Data Corporation, which is majority owned by Mr. Hertz, 2,800 shares held in a pension plan for the benefit of Mr. Hertz and currently exercisable options to purchase 33,833 shares of Common Stock.
4. Includes currently exercisable options to purchase 56,845 shares of Common Stock.
5. Includes currently exercisable options to purchase 49,796 shares of Common Stock.
6. Includes currently exercisable options to purchase 20,041 shares of Common Stock.
7. Includes currently exercisable options to purchase 6,458 shares of Common Stock.
8. Consists of shares issuable upon exercise of currently exercisable options granted under the Company's Stock Option Plans.
9. Includes currently exercisable options to purchase 1,172 shares of Common Stock and 4,153 shares for Messrs. Drillick and Mackof and 1,578 shares for Mr. Stern held in the Track Data Phantom Unit Trust to be released upon termination of association with the Company or Track Data Corporation, or earlier with approval of the Board of Directors.
10. Includes currently exercisable options to purchase 5,248 shares of Common Stock.

</TABLE>

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.RELATIONSHIPS AND RELATED TRANSACTIONS

There were no material related party transactions.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

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

<TABLE>
<CAPTION>

<S> EXHIBIT	<C> DESCRIPTION	<C> FILED ASEXHIBIT
3.1	Restated Certificate of Incorporation	Exhibit 3.1 to Form SB-2 Registration Statement No. 33-62012
3.2	By-Laws Statement No. 33-62012	Exhibit 3.2 to Form SB-2 Registration
4.2	Specimen of Common Stock certificate	Exhibit 4.2 to Form SB-2 Registration Statement No. 33-62012
10.1	1994 Stock Option Plan	Exhibit A to Definitive Proxy dated August 9, 1994

10.2	Contract of Lease with JM and Company, Inc.	Filed herewith
10.3	Contract of Lease with Elcado Realty Corporation	Filed herewith
10.4	1993 Stock Option Plan	Exhibit 10.4 to Form SB-2 Registration Statement No. 33-62012
10.5	Form of Indemnity Agreement with Directors	Exhibit 10.5 to Form SB-2 Registration Statement No. 33-62012
10.6	1994 Disinterested Directors Stock Option Plan	Exhibit B to Definitive Proxy dated August 9, 1994
10.7	Contract of Sublease with Computer Leasing, Inc.	Exhibit 10.11 to Form 10-KSB for year ended December 31, 1995
10.8	1995 Stock Option Plan	Exhibit A to Definitive Proxy dated August 10, 1995
10.9	1996 Stock Option Plan	Exhibit A to Definitive Proxy dated November 7, 1996
10.10	Employment Agreement dated August 19, 1997 with Jack Abuhoff	Exhibit 10.11 to Form 10-KSB for the year ended December 31, 1997
10.11	1998 Stock Option Plan	Exhibit A to Definitive Proxy dated November 5, 1998
21	Subsidiaries of Small Business Issuer	Filed herewith
23.1	Consent of Grant Thornton LLP	Filed herewith
23.2	Consent of Margolin, Winer & Evens LLP	Filed herewith
27	Financial Data Schedule	Filed herewith

</TABLE>

(b) There were no reports on Form 8-K filed during the quarter ended December 31, 1998.

SIGNATURES

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

INNODATA CORPORATION

By /s/

Barry Hertz
Chairman of the Board

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

<TABLE>

<CAPTION>

<S> Signature	<C> Title	<C> Date
/s/ Barry Hertz	Chairman of the Board	March 25, 1999
/s/ Jack Abuhoff	President, Chief Executive Officer and Director	March 25, 1999

/s/ ----------------------- Todd Solomon	Vice Chairman of the Board	March 25, 1999
/s/ ----------------------- Martin Kaye	Executive Vice President (Principal Financial Officer), Director	March 25, 1999
/s/ ----------------------- Stephen Agress	Vice President - Finance (Principal Accounting Officer)	March 25, 1999
/s/ ----------------------- Dr. Albert Drillick	Director	March 25, 1999
/s/ ----------------------- Dr. E. Bruce Fredrikson	Director	March 25, 1999
/s/ ----------------------- Morton Mackof	Director	March 25, 1999
/s/ ----------------------- Stanley Stern	Director	March 25, 1999

</TABLE>

[ARTICLE] 2
[CIK] 0000903651
[NAME] INNODATA CORPORATION

CONTRACT OF LEASE

KNOW ALL MEN BY THESE PRESENTS:

This Contract of Lease, made and entered into this 9th day of November, 1998 at Makati City, Philippines, by and between:

JM & COMPANY, INC., a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines with offices at 2nd Floor, JM Building, South Superhighway corner Rockefeller Street, Makati City, represented herein by VICENTE S. VARGAS, Executive Vice President, hereinafter referred to as the LESSOR;

- and -

INNODATA PHILIPPINES, INC., a corporation duly organized and Existing under and by virtue of the laws of the Republic of the Philippines, with address at 2900 Faraday Street comer South Superhighway, Makati City, represented herein by JURGEN C. TANPHO, Vice President-Global Operations, hereinafter referred to as the LESSEE

WITNESSETH: That -

WHEREAS, the LESSOR is the absolute and registered owner of a complex covered by Transfer Certificate of Title no. 165246 of the Registry of Deed of Rizal, Metro Manila,with all improvements constructed thereon, composed of the entire four-floor building,the adjacent canteen building, the parking slots and the entire uncovered lot area of the complex. Said four-floor building has an area of four thousand one hundred and sixteen square meters (4,116 sqm), more or less, hereinafter referred to as the "Building"; said adjacent canteen building has anarea of three hundred sixty four and twenty - three (364.23 sqm), more or less, hereinafter referred to as the"Canteen"; said parking slots are composed of fifteen (15) units, hereinafter referred to as the"Parking Slots"; and said uncovered lot area having an area of nine hundred eighty square meters, more or less, hereinafter referred to as the "Uncovered Lot Area"; all of the above hereinafter referred to collectively as the "Leased-Premises' ' or Premises .

WHEREAS, the LESSEE is desirous of leasing the above described premises;

NOW, THEREFORE, for and in consideration of the mutual covenants and stipulations hereinafter set forth, the LESSOR hereby leases unto the LESSEE, and the LESSEE does hereby accepts said lease from the LESSOR the above described premises, subject to the following terms and conditions:

Section 1. PERIOD OF LEASE

The Contract of Lease shall be for a period of five (5) years starting January 1, 1999 to December 31, 2003. The lease is extendable for additional two (2) years under such terms and conditions, as the parties shall agree upon.

Contract automatically preterminates in event of expropriation by government of property for infrastructure purposes. LESSOR has no liability in event of expropriation provided six (6) month notice is given If LESSOR gives between four (4) months to less than six (6) months notice, LESSOR shall be liable for a penalty equivalent to one (1) month's rent. If LESSOR gives between two (2) months to less than four- (4) months notice, LESSOR shall be liable for a penalty equivalent to two- (2) month's rent. If LESSOR gives less than two (2) months notice, LESSOR shall be liable for a penalty equivalent to four (4) months' rent.

Contract is preterminable without penalty by LESSEE by giving sixty (60) days notice; provided pretermination as a result of Innodata having obtained knowledge of an eminent domain proceeding shall only require thirty (30) days notice and, in such an event, Innodata shall have no limit on holdover. Holdover is defined as the right to maintain occupancy of the demised premises beyond the lease termination date at a daily rate. Other pretermination without cause by LESSEE shall result in a maximum liability equivalent to one-half of the rental deposit.

LESSOR warrants full disclosure to LESSEE of all notices, documents and information which it obtains relating to contacts made with LESSOR by outside parties relating to acquisition of the building for the Skyway. LESSOR agrees that if it fails to do so, it will indemnify LESSEE by the amount of equivalent to four (4) months' rent.

If during the term of this lease, or any renewal of it, the premises shall be substantially destroyed by fire, typhoon, earthquake or any other unforeseen cause not the fault of either the LESSOR or the LESSEE, then the LESSEE shall have the option, upon notice in writing to the LESSOR, to terminate the lease, suspend payments of rentals, or proportionately reduce the rentals. In case the lease is terminated, the LESSOR shall refund to the LESSEE any portion of the rent paid in advance and not earned at the time of such destruction within fifteen (15) days from the date of termination.

If the lease is terminated pursuant to the provisions of this Contract or for any other Valid and justifiable cause, the LESSOR shall refund to the LESSEE the deposit within fifteen (15) days from the date of termination subject to Section 3. In case of pretermination by the LESSEE without due cause as provided in this Contract, the LESSOR shall dispose of the deposit as follows:

(i)50% thereof shall constitute liquidated damages and pertain to the LESSOR; and

(ii)50% thereof shall be utilized to pay any unpaid utilities of the LESSEEor damages to the leased premises chargeable to the LESSEE as provided in this Contract; provided that any excess amount shall pertain to the LESSOR as additional liquidated damages; provided further that the LESSEE shall remain liable in case of a deficiency.

The LESSOR hereby accepts the above-described liquidated damages to represent payment for full and final damages incurred and LESSOR agrees to seek no further claims from LESSEE in connection with said pre-termination. _ If, however, during the term, the premises shall be partially destroyed by fire or any other cause, then the LESSOR shall repair the premises as speedily as possible, at LESSOR's expense, and the LESSEE shall be entitled to a reduction of rent in proportion to the amount of floor space of which it was deprived of use while such repairs are being made.

Damages to such extent as to render fifty percent (50%) or more of the floor space unusable/unsuitable for the purpose of LESSEE's business shall be deemed "substantial destruction" within the meaning of this agreement, and damage which render less than fifty percent (50%) of the floor space unusable/unsuitable for the purpose of the LESSEE's business, but which cannot be repaired within thirty (30) days shall likewise be deemed to be a "substantial destruction". Damage which renders less than fifty percent (50%) of floor space unusable/unsuitable for the purpose of LESSEE's business, and which can be repaired within thirty (30) days shall be deemed to be a "partial destruction" within the meaning of the agreement.

In case the leased premises shall be deserted or vacated before the expiration of this lease for a period of thirty consecutive calendar days, the LESSOR shall have the right and is hereby authorized by the LESSEE to enter the same as agent of the LESSEE, without being liable for any prosecution therefor and to relet the same as the agent of the LESSEE, and to receive the rent therefor and apply the same to the payment of the rent hereunder, holding the LESSEE liable for any deficiency.

Section 2. RENTAL

The LESSEE during the period of the lease shall pay a fixed monthly rent based on the following schedule:

	OFFICE BUILDING		CANTEEN		PARKING SLOTS		TOTAL
YEAR	PER SQM	MONTHLY RENTAL	PER SQM	MONTHLY RENTAL	PER SQM	MONTHLY RENTAL	MONTHLY RENTAL
1	206.00	847,896.00	103.00	37,516.00	220.00	3,300.00	888,712.00
2	221.00	909,636.00	110.50	40,247.00	236.50	3,547.00	953,430.00
3	238.00	979,608.00	119.00	43,343.00	254.00	3,810.00	1,026,761.00
4	256.00	1,053,696.00	128.00	46,621.00	273.00	4,095.00	1,104,412.00
5	275.00	1,131,900.00	137.50	50,082.00	294.00	4,410.00	1,186,392.00

The monthly rental shall be paid to the LESSOR at its business address without the need of any demand not later than the first five (5) working days of each month. Any monthly rental not paid when due shall earn three percent (3%) per month as penalty charges until fully paid.

Further to the Presidential Decrees No. 1351 and revenue regulation numbers 13-78 implementing the withholding of creditable income taxed from certain income payments and the additional requirements for deductibility of such income payments, which are otherwise deductible from the gross income of the payor, effective November 01, 1978, five percentum (5%) of the herein mentioned rental amount due to the LESSOR shall be automatically deducted and withheld by the LESSEE and shall be remitted to the government by the LESSEE as prescribed under said revenue regulation numbers 13-78 as well as any and/or all government regulations, amendments to regulations, etc., that may follow, regarding the above. The LESSEE hereby assumes direct and total responsibility and/or liability for the implementation of the above and in no way shall the LESSOR be held liable and/or responsible for non-compliance and/or late compliance in any form.

The LESSEE shall present evidence to the LESSOR in the form of a written statement duly signed by the proper government agent showing the withholding payment made by the LESSEE together with a copy of the official receipt for said payment within the first ten (10) days of each succeeding quarter for the preceding three (3) months deduction.

The LESSEE on or before March 1 of every year shall present evidence to the LESSOR in the form prescribed by the Bureau of Internal Revenue that the LESSEE has filed with the Bureau of Internal Revenue an annual return of income tax withheld at source from the LESSOR for the government. Said returns should contain the following information:

a. The official receipt, date of payment and amount paid for each month, as Withheld from the rental income due the LESSOR.

b. The name, address and taxpayer's account number of the LESSOR.

c. The nature of income payment, gross amount and total amount of tax Withheld from the LESSOR.

Evidence should be in the form of actual copy of said annual return of withheld taxes filed with and received by the Bureau of Internal Revenue.

The above mentioned procedure may be changed from time to time as the Bureau of Internal Revenue or new government regulations are promulgated or changed.

Section 3. SECURITY DEPOSIT

The LESSEE shall deposit with the LESSOR the amount of Pesos Two Million Six Hundred Sixty Six Thousand One Hundred Thirty Six & 00/100 (P2, 666,136.00) or equivalent of three (3) months rental upon signing of the Contract of Lease to guarantee the LESSEE's obligation under this lease contract, to cover damages to the leased premises, and any unpaid obligation and liabilities of the LESSEE, including utilities at the termination of the lease.

The deposit shall not be applied to the monthly rentals, but shall be retained by the LESSOR, and shall be refunded to the LESSEE within 45 days after the LESSEE vacates the leased premises, less deduction as enumerated above, if any.

In case legal devaluation or revaluation, extraordinary inflation or deflation of the Philippine Peso as declared by the Central Bank of the Philippines, adjustment in the rate of the contract shall be done upon mutual consent.

The LESSEE agrees to always maintain a deposit equivalent to three (3) months rental for the duration of the lease contract. The above mentioned-deposit amount shall be within the first ten (10) days of the year be increased accordingly based on the rental rates of the current year or the leased rates as shown in Section entitled "Rentals".

Section 4. OWNERSHIP OF LEASED PREMISES

The LESSOR warrants that it is the absolute owner of the above-described property and has the right to lease the same. Furthermore, the LESSOR shall, in case of litigation or controversy concerning the LESSOR's right, title and interest in the premises, defend and hold harmless the rights of the LESSEE under the terms and conditions of this Contract at the LESSOR's expense.

Section 5. TAXES

LESSOR shall pay and defray at LESSOR's own expense all real estate taxes and other government assessments;

The LESSOR shall, for the entire duration of the lease, be exclusively liable for payment of all realty taxes due on the lease premises covering the land and building only.

The value-added tax levied or assessed on the rentals and other payments owing by the LESSEE to the LESSOR shall be for the account of the LESSEE. For this purpose, the LESSEE shall pay to the LESSOR the amount corresponding to the value-added tax payable on account of this lease by delivering to the latter the said amount simultaneously with the payment by the former of the rental for the Leased Property.

The documentary stamp tax arising from this lease shall be borne equally by the LESSOR and LESSEE.

Section 6: USE OF PREMISES

The premises hereby leased shall be used exclusively as a Computer Data Processing Office and the LESSEE shall not divert the premises to other uses without prior written consent of the LESSOR, it being expressly agreed that if, at anytime during the existence of this lease and without the previous written consent of the LESSOR the said premises are used for other purposes, the LESSOR has the choice to (a) rescind this contract in accordance with Section entitled "Default", or; (b) increase the rent, or; (c) compel the LESSEE to stop the new activities.

It is further expressly understood that under no circumstances will the LESSEE permit the use of the leased premises except for the canteen area as an eatery for the dispensation of food, hard or soft beverages of any kind whatsoever unless served gratuitously to customers or visitors.

The sidewalks, lobbies, entries, passages, fire exits and stairways of the building shall not be obstructed or used by the LESSEE for any purpose other than for ingress to and egress from the building.

Section 7. CARE OF THE LEASED PREMISES

The LESSEE hereby expressly agrees that it shall, at its expense, keep and maintain the leased premises in good, clean, tenantable and sanitary condition, free from obnoxious odors, disturbing noises or other nuisance and, upon the expiration of the lease, shall surrender and return the premises and fixtures in as good condition as they were actually found at the beginning of the lease, ordinary wear and tear excepted, and further agrees that it shall be liable for any damages to the leased premises and for any violation of the above restrictions due to the carelessness or negligence of the said LESSEE, its agents, sub-lessee(s) or other persons under or subject to its direct control. Any injury or damage caused or done by the LESSEE may be repaired by the LESSOR for the account of the LESSEE.

The LESSEE binds itself to use the leased premises within the structural limits of the load capacity of the footings, columns, concrete flooring and beams. The LESSOR shall advise the LESSEE of such structural limits and load capacities.

The LESSEE shall provide itself, at its own cost and expense, receptacles which the city by ordinance may require it to hold and contain waste matter, garbage and refuse, and shall deposit them within its own premises or at such places as may be designated by the LESSOR.

Section 8. REPAIRS AND MAINTENANCE

LESSOR accepts full responsibility for maintenance of sewage, elevator and water inflow systems.

Major repairs shall be made by the LESSOR at its own expense. Major repairs shall consist of building structure restoration, plumbing, air conditioning, and electrical systems. Major repairs shall be understood to mean any single repair work on the items mentioned in the preceding sentence involving an expenditure of Five Thousand Pesos (P5, 000.00), or more per repair. Minor repairs and maintenance, such as fluorescent lamps, fuse replacements, etc., landscaping, gardening, shall be the LESSEE's responsibility and account.

In case the LESSOR fails to make and complete the necessary repairs within fifteen (15) days from the date the malfunction or damage has been reported to the LESSOR by the LESSEE in writing, the LESSEE shall undertake the repair with all expenses reimbursable by the LESSOR upon submission of job quotations and receipts. LESSOR to settle within thirty (30) days else to deduct from rent due.

Due to the LESSEE's critical requirement of continuously operating air conditioning units, LESSOR shall grant LESSEE the permission to undertake repairs of systems and subsystems affecting the air conditioning units without the necessity of informing the LESSOR, provided that the LESSOR retains the right to inspect all such repairs and associated documents. Further, LESSEE will subject only material costs shall be subject to reimbursement by the LESSOR at above-mentioned calculation of major or minor repairs. LESSEE will shoulder for LESSEE's own account all labor expenses for items covered by this paragraph.

The LESSOR may perform necessary work on the building provided that it will not interfere or interrupt with the use of the leased premises, in which case, prior consent of the LESSEE shall be first be obtained.

Section 9. STRUCTURAL WARRANTY

LESSOR warrants the structural integrity of the structure in the premises, in particular the building, the canteen and the car park, at all times.

Section 10. UNRESTRICTED ACCESS TO PREMISES

LESSOR grants LESSEE permission to occupy and fully operate leased premises building, systems and applicable environs twenty-four hours a day, seven days a week, without restriction of access. Should this right be abridged or caused to be abridged by the LESSOR without justifiable cause, the LESSEE may preterminate the contract without penalty of forfeiture of rental deposit. By justifiable cause is meant imminent danger to person and/or property.

Section 11. PROHlBITIONS

The LESSEE shall not, without prior written consent of the LESSOR, which consent shall not be unreasonably withheld, bring into, store and/or install any apparatus, machinery or equipment which may cause abnormal tremors or noise or expose the leased premises to fire or increase the fire hazard of the building or change the insurance rate of the building, or any other article which the LESSOR may reasonably prohibit; it being understood that should the LESSEE do so, not only shall the latter be responsible for all damages which such violation may cause the LESSOR and/or its other tenants but the LESSOR shall in addition thereto, have the right to cancel this contract. If the LESSEE shall use the building, or deposit therein any such matter as to result in any increase in the rate of the insurance payable by the LESSOR, the increase shall be for the account of the LESSEE, except when such use is in consonance with the Section entitled "Use of Premises".

LESSOR hereby permits LESSEE to bring into leased premises, diesel fuel for LESSEE's generator units and liquified petroleum gas (LPG) for LESSEE's canteen, in quantities reasonable for operation of the above.

Section 12. Improvement and Signs

a.All interior partitions, which the LESSEE shall put up at its own expense, shall remain the property of the LESSEE during the period of the original lease. Ownership of all partitions, except movable partitions, upon termination of the original lease period shall revert to the LESSOR. Prior to the termination of this lease, LESSEE shall have the option to remove the partitions at its own expense or sell them to the LESSOR at an agreed depreciated value, determined by employing the straight line method, with the partitions having a depreciable life of five (5) years. The LESSOR, however, is not bound to take the partitions at depreciated value.

Movable partitioning shall mean partitions that are not fastened by any means to the ceiling and/or flooring and can be readily removed without damage to the floor tiles or ceiling finish.

Before any interior partitions are put up, the LESSEE shall provide the LESSOR two (2) copies each of the proposed partitioning lay-out and electrical system lay-out for the LESSOR's verification on whether the proposed interior partitioning shall be compatible with the building's air conditioning and electrical system.

The LESSOR agrees to conduct the verification without delay, and as so as the proposed plan is verified and approved by the LESSOR, the LESSEE agrees to strictly comply with the approved plan. The LESSEE likewise agrees to secure written consent from the LESSOR any additions, alterations or revisions thereof, which consent the LESSOR shall give within fifteen (15) days from the date of its receipt of a written request made by the LESSEE.

b.The LESSEE may install or introduce at its sole discretion and for its exclusive account venetian blinds, curtains, individual air conditioning traits provided the existing electrical system can carry this additional load and is technically feasible), lighting and other fixtures, upon the leased premises,all of which may be removed at the termination of the lease provided that the leased premises can be restored to their original condition, ordinary wear and tear excepted. The LESSEE, however, shall secure written approvalfrom the LESSOR before nstalling any major electrical equipment within the premises.

No permanent improvements or fixtures including air conditioning units linked up with the central air conditioning system which cannot be removed without causing damage to the leased premises or without affecting the operations of the electrical or mechanical systems shall be made without prior written consent of the LESSOR.

Ownership of the additional air conditioning unit/equipment exclusive of ducting introduced in the premises shall remain with the LESSEE even after the lease period.

LESSOR shall have the option to purchase the additional air conditioning unit/system at a price mutually agreed upon by both parties. Should LESSOR not purchase such units, LESSEE shall immediately restore the original air conditioning system and make the necessary restoration works such that the original air conditioning systems in the premises are operable.

c. The LESSEE shall have the right, subject to the approval of the LESSOR and the proper government authorities, to place in, upon and about the leased premises, except on the roof, such signs and advertising materials as it may desire. The LESSEE shall inform, in writing, the LESSOR of any intention to install a sign including proposed location, dimensions, etc. to enable the LESSOR to verify the technical feasibility, location and power requirements of the proposed sign.

Section 13. BUILDING NAME

LESSOR gives LESSEE permission to name the building and/or premises as "Innodata Building" or "Innodata Center" and to erect signs stating this fact subject to approval by LESSOR as provided by Section entitled "Improvement and Signs".

Section 14. ANTENNA RIGHTS

LESSOR grants LESSEE permission to install antenna aerials and satellite dishes subject to approval by LESSOR of its design, location and installation.

Section 15. AUTOMATIC TELLER MACHINE (ATM)

LESSOR grants LESSEE permission to install automatic teller machines (ATMs) within premises.

Should the party(s) owning, operating and/or installing such ATMs require that the public have access to said machines, LESSOR and LESSEE will conduct discussions with said party regarding possible arrangements.

Section 16. INJURY OR DAMAGE

The LESSEE shall be responsible for all acts and omissions of its officers, employees, helpers, agents and sub-lessee(s) and of all other persons allowed by it to have access to the leased premises for any damage which may be caused to persons or property or third persons while remaining either casually or on business in any part of the premises leased to the LESSEE and further binds itself to hold the LESSOR free and harmless from any such claim for injury or damage.

The LESSOR shall not be made responsible nor liable for the following:

a. For the presence of bugs, vermin, ants, insects, if any, in the leased premises;

b. For the injury, loss of life and/or damages to goods and property caused by fire, earthquake shock, earthquake, typhoons, water leaks caused by rains, theft, building or building partitions collapse, the cracking of any glass window, or done upon or about said leased premises, and other similar causes, as well as lightning;

c. For any injury, loss of life and/or damage which the LESSEE, its agents or employees might sustain in the premises due to any cause other than the LESSOR's willful or negligent acts, or those of its agents or employees, or the LESSOR's violation of the provisions of this Contract; or

d. For any damage to goods and property of the LESSEE done or occasioned by, or arising from plumbing, gas, water and/or other lines or the bursting, leaking or destruction of any cistern tank, wash stand, water closet or waste pipe in, above, upon or about the leased premises, except to the extent that the LESSOR is required to make repairs under the provisions of this Contract, particularly under the provisions of Section entitled "Repairs and Maintenance.

Section 17. PUBLIC UTILITIES AND SERVICES

LESSOR warrants the presence and operability of all connections with electric, water and sewage systems upon turn over of the premises. LESSOR further warrants that there are no arrearage or existing causes that would cause these utilities to refuse to deal with the occupant of the premises. LESSOR further guarantees that all unsettled obligations, if any, occurring prior to the occupancy of the premises by LESSEE will be settled by LESSOR and shall be the sole liability of the LESSOR.

All utilities and services such as light, telephone, gas, water, garbage collections and other similar services shall be paid by and for the account of the LESSEE. It is understood that the LESSOR shall not be liable for any stoppage, absences, failure or deficiency in such utilities and services. Janitorial and security services used by the LESSEE shall also be paid by and for the account of the LESSEE. Telephone service shall be negotiated between the LESSEE and the Philippine Long Distance Telephone Company.

In case of water supply, LESSEE hereby agrees to share pro-rata in the cost of supplying water into the leased premises based on the readings of the water meter corresponding to the leased premises.

Should the need arise to deal with these utility companies, the LESSOR will either make necessary representations on behalf of the LESSEE or will authorize in writing the LESSEE to represent the premises' and/or LESSOR's interest, if any, in such transactions or discussions.

Section 18. OPTION ON ADDITIONAL SPACE

Should additional leasable space become available for rent in any property owned, administered or controlled by the LESSOR which is adjacent to premises, LESSOR agrees to give LESSEE the first-right-of-refusal/matching offer option.

Upon availability for lease of such space, LESSOR shall notify LESSEE in writing. Within seven (7) business days from receipt of the notice, LESSEE shall submit a written offer for the space. If the offer is unacceptable to the LESSOR, LESSOR can proceed to negotiate a deal with any other third party. LESSOR shall disclose to the LESSEE the terms of the "third party" deal. LESSEE will have three (3) business days from date of written notice of such terms to match the "third party's" terms. However, if LESSEE opts not to match a particular "deal" and that deal falls through, LESSEE shall have the right to match any succeeding deals both on the particular space and on spaces covered by this option.

Section 19. BUILDING FOR SALE

Should the premises or any part thereof be offered for sale, LESSOR agrees to notify LESSEE prior to any other third party.

In the event that the LESSOR shall sell, convey or otherwise alienate the property or premises herein leased during the effectivity of the contract or any renewal thereof with all its terms and conditions, it is understood that the LESSOR shall make it part of the sale terms and conditions that this lease contract will be honored by the buyer or LESSOR's successor.

Section 20. RULES AND REGULATIONS

The LESSEE shall comply with all the laws, ordinances, regulations or orders of the national or city government arising from or regarding the use, occupation and sanitation of the leased premises other than those for which the LESSOR should be responsible and/or pertaining to ownership. Failure to comply with the said laws, ordinances, regulations or orders shall be at the exclusive risk and responsibility of the said LESSEE,

The LESSEE further agrees to abide by all local and national ordinances, rules and regulations with respect to the use of' the premises and shall hold the LESSOR harmless against stoppage or interruption due to non-compliance with existing or future rules, regulations and ordinances, with respect to the use of the premises as intended by the LESSEE. The LESSEE warrants that LESSEE is aware of all local and national restrictions regarding the use of the premises.

During the term of the Contract of Lease, the LESSEE shall allow agents or representative of the LESSOR to inspect the leased premises during reasonable business hours.

The LESSEE shall comply with any and all reasonable rules and safety regulations, which may be promulgated from time to time by the LESSOR or the administration of the building.

Failure of the LESSOR to insist on one or more instances in the strict performance of any of the covenants of this lease or to exercise any option herein contained, shall thereafter not to be construed as abandonment or cancellation or waiver of such covenant or option. No waiver by the LESSOR shall be deemed to have been made unless expressed in writing and signed by the LESSOR.

The LESSEE shall comply with all government orders and requirements affecting the said leased premises regarding any prohibited effects or articles or contraband, which the LESSEE may have in its possession therein.

Insurance on the premises will be for the LESSOR's account.

LESSOR and LESSEE shall both insure their respective insurable interest. Both parties agree that should harm come to the premises covered by this Contract, the aggrieved party, it any, will seek compensation from its insurance company/assurer and will not seek compensation from the other party, regardless of fault.

Section 21. SUBLEASE

With prior written consent of. the LESSOR, which consent shall not be unreasonably withheld, the LESSEE shall have the right to sublet a portion of the leased premises to any party but the LESSEE shall not be relieved of the obligation to the LESSOR under this contract. The LESSEE is prohibited from assigning or mortgaging this lease contract without consent of. the LESSOR which consent shall not be unreasonably withheld. Should the LESSEE lease to a sublessee the subleased portion at a rental rate which shall exceed the rental rate agreed between the LESSOR and the LESSEE for the subleased portion of the premises, the LESSEE agrees to share the rental rate difference with the LESSOR in a proportion which shall be mutually agreed upon. Sharing of the rental rate differential by the LESSOR should not be construed as relieving the LESSEE of its liability in so far as rental dues from the subleased area is concerned.

All interior partitioning that the sublessee shall put shall be approved by the LESSOR and subject to the terms and conditions of the Article entitled "Improvements and Signs" regarding submission of proposed partitioning, electrical plans, etc., to the LESSOR for approval and verifications, etc.

Section 22. SURRENDER OF LEASED PREMISES

The LESSEE shall, at the end or cancellation of this Contract promptly surrender the leased premises, with all keys to them, in the same good and tenantable condition in which the LESSEE received them together with articles and effects of any kind other than such alterations, additions, or improvements which the LESSE can remove, in accordance with the provisions of Section entitled Improvement and Signs.

Section 23. CANCELLATION OF PREVIOUS AGREEMENTS

This Contract of Lease supersedes and renders void any and all agreements and understanding, oral or written, previously entered into between the parties covering the property herein leased, the same having been considered merged herein.

Section 24. DEFAULT

If the rentals stipulated be in arrears for thirty (30) days or if the LESSEE should delay in the payment of rent for thirty (30) days, the LESSOR shall serve LESSEE a written notice asking that such arrearage be settled within thirty (30) days from written notice, if after the expiry of this thirty (30) days period provided in said notice the LESSEE has not settled such arrearage, the LESSOR will immediately be entitled to terminate this lease by giving the LESSEE written notice thirty (30) days in advance of the intended date of termination.

Should the LESSEE fail or neglect to perform or observe any of the agreements, covenants or conditions herein contained, or if the LESSEE shall cause deliberate damage to the leased premises, the LESSOR shall serve the LESSEE a written notice asking that remedial measures be undertaken within thirty (30) day period provided in said notice, If the LESSEE has not commenced remedial measures after the end of the above stated thirty (30) day period, the LESSOR will immediately be entitled to terminate this lease by giving the LESSEE written notice thirty (30) days in advance of the intended date of termination.

Upon such termination, the LESSOR or its duly authorized representative is hereby authorized by the LESSEE to take legal and physical possession of the leased premises including all its improvements and/or contents without compensation to the LESSEE and without necessity of court action provided the LESSEE is advised in writing either through private or public messenger or mail service or telegram at least thirty (30) days before the take over date or from date of written notice, whichever is earlier.

Section 25. BINDING EFFECT

This Contract of Lease shall be binding not only upon parties hereof, but also upon their successors-in-interest and assigns.

IN WITNESS WHEREOF, the parties have hereunto set their hands on the date and place first above written.

JM & COMPANY, INC. Lessor	INNODATA PHILIPPINES, INC. Lessee
By: ______________________ VICENTE S. VARGAS Executive Vice-President	By: ______________________ JURGEN C. TANPHO VP-Global Operations

SIGNED IN THE PRESENCE OF:

_________________________ _________________________

ACKNOWLEDGEMENT

REPUBLIC OF THE PHILIPPINES)
CITY OF MAKATI, METRO MANILA) S.S.

BEFORE ME, a Notary Public for and in the above jurisdiction, this 9th day of November 1998 personally appeared the following:

Name	Comm. Tax Cert. No.	Issued on/at
JM & Company, Inc.	00011177	January 21, 1998/Makati City
represented by:		
Vicente S. Vargas	01398740	January 20, 1998/Makati City
Innodata Philippines, Inc.	00011314	January 20, 1998/Makati City
represented by:		
Jurgen C. Tanpho	7826066	April 02, 1998/Makati City

known to me and by me known to be the same persons who executed the foregoing Contract of Lease and they acknowledged that the same is their free and voluntary act and deed as well as that of the corporations herein represented.

WITNESS MY HAND AND SEAL on the date and at the place abovewritten.

ROSALIA S. BARTOLOME
Notary Public
Until December 31, 1999
IBP NoCity/1-07-98
PIN NoCity/1-16-98

Doc. No. 438
Page No. 88
Book No. 111,
Series of 1998

[ARTICLE] 3
[CIK] 0000903651
[NAME] INNODATA CORPORATION

CONTRACT OF LEASE

KNOW ALL MEN BY THESE PRESENTS:

This Contract of Lease made and executed on this 29th day of January 1999, by and between:

ELCADO REALTY CORPORATION, a domestic corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with offices and principal place of business at the basement of Benigno Du Building, Fuente Osmena Oval, Cebu City, represented in this act by its President, Dolores D. Diez, MD, hereinafter referred to as LESSOR;

- and -

INNODATA PHILIPPINES, INC. a domestic corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with offices and principal place of business at 2F Benigno Du Building, Fuente Osmenia Oval, Cebu City, represented in this act by its Assistant Vice-President/Head of Facility, Ma. Rosario R. Remoquillo, - hereinafter referred to as LESSEE;

WITNESSETH:

WHEREAS, the LESSOR is the absolute and registered owner of the BENIGNO DU BUILDING (hereafter, the "Building"), located at the Fuente Osmena Oval, Cebu City.

WHEREAS, the LESSEE desires to lease a portion of the basement, a portion of the second floor and a portion of the third floor of the Building currently existing hereinafter collectively referred to as the "Leased Premises", with a total area of one thousand six hundred one and 79/100 square meters (1,601.79 sqm.) and the LESSOR is willing to lease said premises to the LESSEE under the terms and conditions hereinafter provided.

NOW, THEREFORE, for and in consideration of the mutual covenants and obligations hereinafter contained, the LESSOR hereby leases unto the LESSEE, and the LESSEE hereby agrees to lease from the LESSOR the Leased Premises:

1. USE OF THE PREMISES - The LESSEE shall use the Leased Premises exclusively as a data encoding and software design office.

2. TERM - This Lease shall be for a period of five (5) years, to begin on February 1, 1999 and to expire on January 31, 2004.

The area leased from the LESSOR by the LESSEE under lease contact for the second and third floors and addendum for additional space in the basement, all documents covering the period of time from March 7, 1996 to March 6, 2001, hereinafter collectively referred to as the "Old Contract", shall continue to have full force and effect within the applicable period, except modified explicitly in this Contract. All terms referred to here shall not apply for the Old Contract unless otherwise specifically stated.

3. AREA - The Lease shall cover Leased Premises with a total of one thousand six hundred one and 79/100 square meters (1,601.79 sq.). Said Leased Premises is composed or seventy-five and 63/100 square meters (75.63 sqm.) on the basement, hereinafter referred to as "Basement Leased Premises", and eight hundred eight and 59/100 square meters (808.59 sqm.) on the second floor, hereinafter referred to as "2F Leased Premises", and seven hundred seventeen and 57/100 square meters (717.57 sqm.) on the third floor, hereinafter referred to as "3F Leased Premises".

The exact location and size of the Leased Premises is documented in a floor plan labeled "Annex A", "Annex B" and "Annex C" for the Basement Leased Premises, 2F Leased Premises and 3F Leased Premises, respectively, and shall form an integral part of this contract.

4. CONSTRUCTION AND TURNOVER OF LEASED PREMISES - Upon signing of this Contract, LESSOR shall, at its own expense, undertake the steps listed below. These actions shall occur within the time period covered by the Old Contract and the locations stipulated in the Old Contract as thus accordingly modified.

a. LESSOR shall ensure full operationability of items under LESSOR's responsibility like windows which should be capable of being opened and closed properly, and shall replace all broken, missing or cracked glass panes. Pipes should not be clogged nor leak, roof slabs and walls should be free from cracks and leaks. Holes in floor slabs should be properly patched, reinforced or repaired.

Any leaks occurring during the lease period shall be immediately attended to by LESSOR, including the repair of any portion of the Leased Premises damaged thereby (e.g. ceilings, floors, walls, carpets, tiles, paint, etc.). LESSOR shall not be liable for any consequential damages to office supplies, computers, office equipment, air conditioners and other similar items arising from such cracks and leaks.

LESSOR shall ensure that the Leased Premises are equipped with an electrical system with a capacity of at least 200 KVA. LESSOR and LESSEE shall both designate the location of the main panel box area within the Leased Premises. LESSOR is responsible for electrical connections from the point supplied by the electric company to the main panel box.

The completion date of such construction should not be later than February 28, 1999. All such construction and other activities to be undertaken by are the LESSOR at the LESSOR's sole expense unless otherwise provided in this document.

b. LESSOR grants LESSEE to install generator(s) with a combined capacity of approximately 250 KVA in area specified in Annex "E" of the Old Contract which the LESSEE shall rent at the thirty-three percent (33%) of the rental rate of the Leased Premises. All electrical connections from generator to the main panel box area shall be undertaken by the LESSEE, Likewise, all generator-associated equipment and materials like manual/automatic transfer switches, circuit breakers and conduits shall be provided for and installed by LESSEE. LESSEE can maintain existing structure constructed over existing generator site that shields the generator from weather and restricts access to this equipment. The generator and all generator-related equipment shall remain the property of the LESSEE and shall be removed by the LESSEE at the expiration or termination of this Contract.

c. LESSOR hereby grants LESSEE permission to install (i) window-type air conditioning units along walls not facing Fuente Osmena, (ii) condenser units of split-type air conditioning to be installed along the air conditioning ledge found at the rear of the building specified in Annex "F" of the Old Contract and (iii) air handling units of split-type air conditioners to be installed anywhere within the Leased Premises. All other types, configuration and location for air conditioners not specifically mentioned herein shall be subject to LESSOR's prior approval. All air conditioning units and attendant piping, equipment and accessories shall remain the property of LESSEE and shall be removed by the LESSEE at the expiration or termination of this Contract.

d. LESSEE may install any kind of partition in the Leased Premises without further consultation with the LESSOR.

5. RENTAL - The parties herein agree that the monthly rental of the Leased Premises shall be as follows:

February 1, 1999 to January 31, 2000P 185.00 / sqm./month February 1, 2000 to January 31,2001P 194.25 / sq.m. / month February 1,2001 to January 31, 2002P 203.96 / sq.m. / month February 1, 2002 to January 31, 2003P 214.16 / sq.m. / month February 1, 2003 to January 31, 2004P 235.58 / sq.m. / month

or a total of Two Hundred Ninety-Six Thousand Three Hundred Thirty-One Pesos and 15/100 Centavos (P296, 331.15) per month in Philippine Currency, based on the floor area of one thousand six hundred one and 79/100 square meters (1,601.79 sq.m.) at One Hundred Eighty-Five Pesos (P185.00) per square meter per month for the first year. This amount will change as the rate changes.

The rental payment due is subject to application by the advance rental payment as described below.

Rental obligations of the LESSEE to the LESSOR less applications of the rental advance, if any, are payable within the first five (5) days of every calendar month without a need of demand.

6. DEPOSIT - All deposits made by the LESSEE with the LESSOR for the Leased Premises under the Old Contract shall be maintained without change. This deposit is refundable upon the expiry of this Contact without interest. The Deposit shall answer at the end of the lease for any unpaid utility bills or any damage

to the premises attributable to causes of other than ordinary wear and tear and acts of God. 7. ADVANCE RENTAL - Upon signing of this Contract, the LESSEE shall pre-pay to the LESSOR the amount of One Million Seven Hundred Seventy-Seven Thousand Nine Hundred Eighty-Six Pesos and 90/100 Centavos (P1, 777,986.90), calculated as one thousand six hundred one and 79/100 square meters (1,601.79 sq.m.), the total area of the Basement Leased Premises, 2F Leased Premises and 3F Leased Premises, multiplied by One Hundred Eighty-Five Pesos (P185.00) per square meter.

This advance rental shall be applied over a period of six months beginning February 1, 1999. In other words, Two Nine Hundred Six Thousand Three Hundred Thirty-One Pesos and 15/100 Centavos (P296, 331.15) shall be deducted from the advance made and applied to the rental payment that is due, until this advance is exhausted.

8. ADJUSTMENTS - In case of legal devaluation or extra-ordinary inflation of the Philippine Peso, the parties shall mutually consent to make the necessary adjustment in the rate of rentals.

9.IMPROVEMENTS - For the duration of this Contract, the LESSEE may, at its own expense, and with written approval of the LESSOR, install additional improvements in the Leased Premises. Provided that such improvements do not violate or cause the LESSOR to violate any applicable building or safety code or structurally endanger the building in any way; provided further, that such permanent improvements shall become the property of the LESSOR at the termination of this Contract; provided finally, that temporary improvements like furniture, fixtures and equipment which can be removed without defacing or damaging the building or any part of it shall remain the property of the LESSEE. The LESSEE shall furnish the LESSOR a complete set of "as-built" plans upon-completion of its renovations.

10. CANTEEN - LESSOR hereby grants the LESSEE permission to operate a canteen in the Building.

11.ELECTRIC SYSTEMS - All electrical works undertaken by either party hereto shall conform to the Philippine Electrical Code and/or such other pertinent law. Both parties undertaking such work shall be responsible for compliance of their work with such regulations and will be liable for violations and/or damages arising from non-compliance therewith.

12. CONSTRUCTION - All construction works undertaken by either party hereto shall conform to the Philippine Building Code and/or such other pertinent law. Both parties undertaking such work shall be responsible for compliance of their work with such regulations and will be liable for violations and/or damages arising from non-compliance therewith.

13. REPAIRS & MAINTENANCE - The LESSOR shall be responsible for maintenance and repair of the premises attributable to ordinary and reasonable wear and tear.

The LESSEE shall be responsible for repair of any damage due to the fault or negligence of the LESSEE, its employees, clients or customers and their companions. The LESSEE shall also be responsible for lost keys to locks in their premises and replacement of consumable such as light bulbs and fuses.

14. PEST CONTROL - LESSEE shall be responsible for retaining a pest control contractor for regular fumigation

15. SIGNS - The LESSEE may install at its own cost, various and customary signs, displays, lettering, illuminated or otherwise, at the exterior portion of the Leased Premises provided the installation of the same is not in violation of any ordinance law or zoning regulation. Said signs, logos or names shall not deface nor obstruct any areas common to other lessees and shall be subject to prior consultation with, and the mutual agreement of, LESSOR and LESSEE.

16. INSURANCE - Either party may, at its option and expense, secure an appropriate insurance policy over its respective insurable interest on the Leased Premises.

17. UTILITIES - The LESSEE shall promptly pay (upon billing) through the LESSOR all electrical, water, telephone, garbage and other utility fees furnished to the LESSEE by the LESSOR during the term of this Contract. The LESSEE shall not be liable for any other fee, including any subsequent Condominium Association due, not expressly mentioned herein.

a. Electricity - The Leased Premises shall be provided with an electric sub-meter. Electrical consumption shall be billed by the LESSOR and paid by the LESSEE to the LESSOR every month at prevailing VECO per kilowatt-hour rates.

b. Water - The Leased Premises shall be provided with a sub-meter. Water consumption shall be billed by the LESSOR and paid by the LESSEE to the LESSOR every month at prevailing commercial rate per cubic meter of the MCWD.

c. Telephone - The LESSOR shall allow LESSEE to use the telephone terminals of the Building for the additional installation of eight (8) telephone lines in the 'Leased Premises at LESSEE's expense. Telephone rental and long distance toll charges shall be for the account of the LESSEE. For telephones in the name of the LESSOR, said bills shall be payable to the LESSOR upon presentation of monthly bills.

18. RESERVE PARKING SPACE - The LESSOR shall provide the LESSEE with three (3) reserve parking spaces at the basement free of charge during the entire lease term.

19. TAXES - The LESSOR shall pay and defray at its own expense all real estate taxes and other government assessments. Any taxes on rental payments shall be withheld and settled by the LESSEE to the Commissioner of Internal Revenue for the account of the LESSOR.

20. WARRANTY - The LESSOR warrants that the premises which is subject of this Contract is free from all liens and encumbrances and shall maintain peaceful and legal possession of the Leased Premises in favor of the LESSEE during the term of this Contract.

21.SALE OR MORTGAGE OF LEASED PREMISES - The LESSEE agrees that the right to sell, mortgage or otherwise dispose of the Leased Premises shall be reserved to the LESSOR, provided the LESSEE's right and interest under this Contract are respected.

22. SUBLEASE - The LESSEE shall not sublease or sublet all or any portion of the Leased Premises without written consent of the LESSOR.

23. INSPECTION OF PREMISES - The LESSOR or its authorized agent shall, by previous arrangement with the LESSEE, have the right to enter the Leased Premises at any reasonable time during normal office hours to examine the same, or for any purpose, which it may deem necessary, for the operation or maintenance of the building or its installation, for purposes of making repairs or to undertake all work necessary for the building or any part thereof. No compensation or claim shall be allowed against the LESSOR by reason of any inconveniences, annoyance or injury to the LESSEE's business that may arise by virtue of undertaking any work under this provision.

24. PROHIBITION - The LESSEE shall not bring into or store in the leased premises any thing of a highly inflammable nature or explosive materials nor install therein any apparatus, machinery or equipment which may cause obnoxious tremors, noise, or which may expose the leased premises to fire or increase the fire hazard of the building or change the insurance rate of the building, or any article the LESSOR may reasonably prohibit it being understood that should the LESSEE do so, not only shall the latter be responsible for all damages which such violation may cause the LESSOR and/or its other tenants, but the LESSOR shall, in addition thereto, have the fight to cancel the lease.

LESSOR permits LESSEE to store reasonable amount of diesel fuel for LESSEE's generator.

25. COMPLIANCE WITH RULES AND REGULATIONS - The LESSEE binds itself to abide and comply with all the reasonable rules and regulations which may be promulgated from time to time by the LESSOR, as well as rules, regulations, ordinances and laws promulgated by the Bureau of Health or other duly constituted authorities regarding the use, occupancy and sanitation of the Leased Premises.

Upon signing of this Contract, the LESSEE shall furnish the LESSOR a copy of the business permit and all other pertinent permits in relation to the conduct of the business.

26. FIRE - In case of damage to the Leased Premises or its appurtenances by fire, earthquake or other unforeseen cause, the LESSEE shall give immediate notice to the LESSOR. If the building or the Leased Premises be so destroyed as to make it untenantable, without fault or neglect of the LESSEE, either party may demand the recession of this Contract, in such cases without forfeiture of deposit, advancerental or other charges to the LESSEE. 27. TERMINATION OF LEASE - The LESSEE agrees to return or surrender the Leased Premises at the expiration of the term or termination of this Contract in as good condition as reasonable wear and tear will permit devoid of all occupants, furniture, equipment,

articles and effects of any kind other than partitions, alternations, installations, additions or improvements of permanent character ownership over which accrues in favor of the LESSOR in accordance with the applicable provisions of this Contract. LESSOR shall, within ten (10) days from expiration or termination of this contract, notify the LESSEE of any furniture, equipment and effects that have not been removed and which LESSOR would want to be removed from the Leased Premises. Any furniture, equipment, articles, and effects not removed from the Leased Premises within thirty (30) days from expiration or termination of this Contract shall belong to the LESSOR. In case of breach of any condition of this Contract, the aggrieved party can extrajudicialy terminate this Contract and further, collect damages, costs of collection, expenses of litigation and reasonable; attorney's fees._ 28. PRE-TERMINATION - LESSEE may pre-terminate this Contract should LESSOR restrict or cause to restrict LESSEE's 24 hours a day, 7-days a week access to Leased Premises. Such pre-termination shall not cause the forfeiture of LESSEE's Deposit as above provided.

LESSEE may also pre-terminate this Contract in the event that the Leased Premises shall become untenantable as hereinafter defined. Such pre-termination shall not cause the forfeiture of LESSEE's deposit, which LESSOR shall immediately return to LESSEE provided that LESSEE has fulfilled all its contractual obligations.

In the event that LESSEE does not chose to preterminate this Contract despite the fact that the Leased Premises has become untenantable, LESSEE shall inform the LESSOR of the actions it should take in order to remedy the tenantability of the Lease Premises within one hundred twenty (120) days from notice thereof. During this period, LESSEE shall continue to pay rental for the tenantable areas and shall remit the same in escrow for the credit of LESSOR. Untenantable areas shall not generate rental income. Failure of LESSOR to take appropriate action to remedy the condition of the Leased Premises shall entitle the LESSEE to pre-terminate this Contract and retrieve all amounts paid in escrow.

For purposes of this paragraph, damage is defined as the reduction or impairment of usability of the Leased Premises. Untenantability shall be defined as follows:

(a) The declaration by competent authority of such fact due to damage or destruction arising from earthquake, fire, water, age, atmospheric disturbance or similar incidents;

(b) The inability of LESSEE to continue normal operations within the Leased Premises due to dangers posted by the above or due to lack of power, water, drainage or the impairment of such utilities; and

(c) The prohibition of ingress or egress by LESSOR or other competent authority due to hazards to occupants.

On the other hand, LESSEE may also pre-terminate this Contract without due cause and shall forfeit its right to the return of its Deposit. LESSOR agrees to consider the forfeited deposit as the full settlement of damages that may be suffered by the same on account of the pre-termination and shall not seek further claim against LESSEE for the pre-termination.

29. FIRST OPTION - LESSEE shall have the right of first refusal for any and all space that may become available for lease or renewal of lease whether the same be caused by vacancy of existing tenant, expiration of a contract or construction of additional space; LESSEE is likewise given the option to match any offer made by third parties thereon. LESSOR shall immediately inform LESSEE in writing of the availability of lease space to which LESSEE shall reply by a written offer within seven (7) days from receipt of LESSOR's notice. Failure of LESSOR and LESSEE to arrive at mutually acceptable terms shall entitle LESSOR to negotiate with. any third party. The terms arrived at which such third party be disclosed to LESSEE and LESSEE shall be given three (3) business days from notice thereof to match third party's offer. The non-exercise by the LESSEE of its right under this paragraph in one instance shall in no way diminish the same for exercise in the future. Breach of this right by the LESSOR shall entitle the LESSEE to immediately pre-terminate this Contract without forfeiture of its Deposit.

30. ASSIGNABILITY - Either party may assign this Contract to its successors-in-interest or to any other party as it may deem fit.

31. VENUE - The parties hereby agree that the venue of any court litigation that may arise under this Contract shall be brought before the proper courts of Cebu City exclusively, and thus expressly waive all other venues.

32. VALIDITY - This Contract supersedes and renders void any and all agreements and undertakings, oral and/or written, previously entered into by and between the parties, covering the Lease Premises. However, as mentioned, the Old Contract shall remain in full force and effect during the period covered by the Old Contract, except for provisions specifically provided in this Contract.

This Contract may not hereafter be modified or altered except by instrument in writing duly signed by the parties hereto.

In the event one or more provisions of this Contract be declared null and void and/or of no legal effect, the said provisions shall not affect and/or render null and - void the other provisions not included therein.

IN WITNESS WHEREOF, the parties thereto have caused this instrument to be duly executed by their respective authorized signatories on dates and places indicated below.

ELCADO REALTY CORPORATION
LESSOR

By: DOLORES D. DIEZ, MD
President

INNODATA PHILLIPPINES, INC.
LESSEE

MA. ROSARIO R. REMOQUILLO
Assistant Vice-President/
Head of Facility

SIGNED IN THE PRESENCE OF

ACKNOWLEDGEMENT

REPUBLIC OF THE PHILIPPINES) CITY OF CEBU) S.S.

BEFORE ME, a Notary Public for and in the City of Cebu, Province of Cebu, this 1st day of March 1999 personally appeared Ma. Rosario R. Remoquillo with residence certificate October l 1998 02778 issued on February 25, 1999 at Cebu City, Cebu Province, in her capacity as Assistant Vice-President/Head of Facility of Innodata Philippines, Inc. above written and Dolores D. Diez, MD with residence certificate 3792512E issued on January 21, 1999 at Cebu City, Cebu Province, in her capacity as President of Elcado Realty Corporation above written, known to me and to me known to be the same persons named in and who executed the foregoing instrument and they acknowledged to me that the execution of the same is of their free and voluntary act and deed of the corporations which they represent.

This instrument refers to a Contract of Lease consisting of nine (9) pages, including this page, signed on all pages by the parties and their material witnesses.

SIGNED AND SEALED BY ME AT THE CITY OF CEBU, PROVINCE OF CEBU

Doc No. 442
Page No. 89
Book No. XVI
Series of 1999

INOCENCIO A. DELA CERNA, JR.
Notary Public
Until December 31, 2000
PTR No. 3318129 issued on
January 4, 1999 at Cebu City

[ARTICLE] 4
[CIK] 0000903651
[NAME] INNODATA CORPORATION

EXHIBIT 21

SUBSIDIARIES OF SMALL BUSINESS ISSUER

<TABLE>
<CAPTION>

<S> NAME OF SUBSIDIARY	<C> STATE OR OTHER JURISDICTION OF INCORPORATION	<C> NAME UNDER WHICH SUBSIDIARY CONDUCTS BUSINESS
Innodata Philippines, Inc.	Philippines	Same
Innodata India (Private) Limited	India	Same

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[ARTICLE] 5
[CIK] 0000903651
[NAME] INNODATA CORPORATION

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the Registration Statements of Innodata Corporation on Form S-8 (Registration No. 33-85530, dated October 21, 1994, Registration No. 333-3466, dated April 11, 1996 and Registration No. 333-63085, dated September 9, 1998) and on Form S-3 (Registration No. 333-3464, dated April 11, 1996) of our report dated February 25, 1999, appearing in the Annual Report on Form 10-KSB of Innodata Corporation for the year ended December 31, 1998.

Grant Thornton LLP
Parsippany, New Jersey
February 25, 1999

[ARTICLE] 6
[CIK] 0000903651
[NAME] INNODATA CORPORATION

EXHIBIT 23.2

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the Registration Statements of Innodata Corporation on Form S-8 (Registration No. 33-85530, dated October 21, 1994, Registration No. 333-3466, dated April 11, 1996 and Registration No. 333-63085, dated September 9, 1998) and on Form S-3 (Registration No. 333-3464, dated April 11, 1996) of our report dated March 14, 1997, appearing in the Annual Report on Form 10-KSB of Innodata Corporation for the year ended December 31, 1998.

Margolin, Winer & Evens LLP
Garden City, New York
February 25, 1999

WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

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