

Report Date: February 15, 2024
Company: Innodata, Inc.
Ticker: INOD US
Industry: Professional Services
Stock Price (USD): \$12.26
Market Cap (USD, Millions): \$351.8



Exposing INOD's "Smoke and Mirrors" AI

We are short Innodata, Inc. (NASDAQ: INOD) because despite management's pumping that it is "delivering the promise of AI to many of the world's most prestigious companies," it is a deteriorating, manual data-entry business driven by offshore labor, not innovation. INOD used to disclose its R&D spend in its quarterly earnings press releases, but INOD's R&D spend apparently fell so low that after Q1 2022¹ the company stopped disclosing it entirely. INOD disclosed spending a grand total of \$4.4 million on R&D over the last five years and disclosed less spend on R&D in 2023 than it spent on press releases pumping its "AI."

INOD's business has been slowly decaying over the last two decades as automatic data annotation has made its legacy business offshoring manual data annotation less relevant and consistently unprofitable. And INOD flat out does not have the money to pivot to AI or anything else. As of Q3 2023, INOD's trailing twelve-month (TTM) net loss was \$4.5 million, and it had only \$6.4 million of net working capital (NWC) on its balance sheet.² With \$5.1 million of its cash tied up overseas³ and only \$4.7 million of credit available, INOD cannot make any significant investments without a highly dilutive, deeply discounted equity raise.⁴ We expect dilution soon.

Prior to the AI pump, INOD had been a perennial \$2-\$3 stock, partly because over the last decade they have been consistently unprofitable. INOD turned \$32.4 million in retained earnings at the end of 2012 into a \$11.3 million accumulated deficit as of Q3 2023.⁵ We expect INOD's stock to return to its historical levels, especially if there is a dilutive raise.

- A former high-level employee we spoke with called INOD's AI "smoke and mirrors." When we asked another former employee about INOD's claims concerning its AI, they said management was "putting lipstick on a pig."
- INOD does not look or operate like a technology company, much less an AI company, it does not even have a Chief Technology Officer. INOD claims its AI platform, Goldengate, powers most of what it's doing,⁶ but our analysis indicates Goldengate is rudimentary software developed by just a handful of employees.
- INOD's management has pumped its Silicon Valley contracts and AI in general as a "transformative" opportunity driving up its stock more than 300% since the beginning of 2023. But the real opportunity appears to have been the ability to dump shares, which management did in concert with many of its press releases touting AI, sometimes on the *same day*. In 2023, insiders dumped over \$13 million in stock, which is nearly *three times* as much as insiders sold in the 10 years prior to 2023.⁷
- INOD purports to be supporting generative AI development with four of the five biggest tech companies in the world and acts like these companies are coming to INOD for its expertise in training AI models. We think this is grossly misleading; INOD has a large offshore labor force that specializes in basic data annotation, what a former high-level employee described as "banging away on keyboards."

- We asked a former employee if INOD was going to utilize AI to any significant degree for the new Silicon Valley contracts it won this year:

Former Employee: *“All they do is services...”*

Wolfpack Analyst: *“Would all services include AI?”*

Former Employee: *“No... services meaning labeling, tagging, computer vision, data aggregation, as far as taking unstructured to structured.”*

Wolfpack Analyst: *Right, so that’s not AI?*

Former Employee: *Nope*

So no, the software giants are *not* coming to INOD to “deliver the promise of AI.” This point was made succinctly in another former interview we conducted.

“They don’t need Innodata to help them with AI. They’re trillion-dollar market cap companies and they really have to come to Innodata for their AI expertise? It doesn’t- you know-it doesn’t add up.”

- The numbers do not lie. INOD’s PP&E dropped ~12.7% year-over-year in Q3 2023 while its direct competitors have raised over \$180 million, most of which was invested in AI-capable servers or software development. Developing AI requires serious investment. Google has reportedly spent over *\$200 billion* on AI over the past decade,⁸ Meta invested \$31.4 billion in AI in 2022 alone,⁹ and Amazon recently announced it will invest up to \$4 billion in AI startup Anthropic.¹⁰
- Signs that this is not an AI company are everywhere. 96% of INOD’s workforce is overseas and its average employee generates less than \$20k of revenue annually. In contrast, Palantir Technologies (PLTR), a serious AI company, generates more than \$496k in annual revenue per employee.
- While companies we identified as INOD’s primary competitors cumulatively raised more than \$180 million. INOD’s spend on cloud services in 2022 increased a mere \$400k¹¹, even though the computing power needed for AI doubles every 100 days.¹²

An AI Built On Buzzwords

INOD’s executive team utilizes a veritable library of AI buzzwords in earnings calls and press releases, but our research shows their AI platform is more fiction than fact.¹³ A former employee we spoke to described management’s portrayal of INOD’s AI capabilities as “*smoke and mirrors.*”

The crown jewel of INOD’s AI is its purportedly proprietary “AI technology stack” called Goldengate. According to INOD’s 2022 10-K, it first began working on AI and machine learning eight years ago and began implementing it into the business in 2019.¹⁴ [Innodata Lab’s website](#) claims, “*Goldengate is a low-code AI implementing learning and massive language models.*”

INOD’s CEO’s penchant for buzzwords was on full display in the Q2 2021 earnings call, when he was asked about Goldengate:

Analyst: “I was wondering with your data annotation platform, does that have a proprietary nature to it?”

*Jack Abuhoff: “Yes. It absolutely does. We’re -- we’re building several platforms right now. **The platform that we’ve been investing in most substantially is what we refer to internally as our Goldengate platform. It’s a very high-performing AI, full stack platform that can be used to address real world problems. And when we kind of bring that capability to customers, what they’re seeing is that they can get higher quality, faster deployment with less risk from using our platform than they can from the competitive platforms that they’ve looked at. So that’s really strong. And that platform is powering most of what we’re doing...**”¹⁵*

Innodata Labs has supposedly been the source of the company’s AI development. Yet, previous web records of Innodata Labs’ website indicate they had a team of eight employees—we believe at least four of these employees are no longer with INOD per their LinkedIn profiles.¹⁶ None of the former employees we spoke with had even heard of Innodata Labs.

Since INOD first reported R&D expense in 2019, the company has spent a mere \$4.4 million on it—a fact only disclosed in its earnings press releases between Q1 2020 and Q1 2022.¹⁷ After Q1 2022, INOD stopped reporting its R&D budget, leading us to believe that it slashed its R&D budget to *zero*, or was so embarrassingly low that they stopped reporting it.

How it is possible for INOD to have built a “*very high-performing AI,*” given this lack of investment? We believe the answer is a simple one: it hasn’t. Or as one former employee put it, management is “*putting lipstick on a pig.*”

Furthermore, a former employee told us that potential customers would trial Goldengate for free, but these trials didn’t convert to sales because the results were “*horrible.*” When we mentioned that Abuhoff was marketing Goldengate as a near look alike to ChatGPT, a former employee adamantly disagreed with this claim:

Wolfpack Analyst: “That (Goldengate) cannot be as good as Chat GPT or even in the same world?”

Former Employee: “Nope no...no way...no way...absolutely no way”

In addition to its miniscule R&D spend, in 2023 INOD's net PP&E declined by 12.7% year-over-year to only \$2.4 million.¹⁸ We believe if the CEO was being honest about Goldengate's capabilities, we would have seen a significant increase in INOD's PP&E due to investments in generative AI capable servers for its data centers in 2022.

INOD's network infrastructure consists of its own data centers and cloud hosting services provided by Microsoft, Amazon, Oracle, and Google.¹⁹ INOD increased its cloud services spending by only \$400k in 2022, while computing power required for AI is [doubling](#) every 100 days.²⁰ The numbers tell us that INOD's claims that it has developed a proprietary AI platform cannot be taken seriously.

These are the facts, but the CEO is spinning a different yarn and was recently [profiled](#) in an article ironically titled: *Artificial Intelligence Software from Seven Years of R&D Wins Major Contracts*. Considering that INOD appears to have spent more on PR than R&D in the first three quarters of 2023, we think this article is outright embarrassing for the CEO and all of its employees.

The Fiction of Frugality: Unmasking INOD's Zero-Budget AI Fairytale

R&D spend on AI broadly has increased significantly in the past few years as it has come to the forefront of investors' minds.²¹ Meanwhile, INOD (a self-proclaimed AI company) did not disclose any R&D spend since Q2 2022, while pushing out 15 press releases specifically about its purported advances in AI since ChatGPT was released to the public in November 2022.²²

To provide some context as to how absurd this is, we can compare INOD's R&D expenses to those of Palantir Technologies, Inc. (PLTR). PLTR is an innovator in the space that INOD pretends to operate in. They develop software, much of which is driven by AI, to analyze many kinds of data, including unstructured data.

Over the last five years, PLTR has routinely spent nearly 50% of its revenues on R&D, although that percentage has declined in the last two years due to PLTR's significant revenue growth.²³ During that same period, INOD's spend on R&D never exceeded 2.5% of its meager revenues:

R&D Expense Comparison					
USD, Millions	2018	2019	2020	2021	2022
INOD R&D Expenses	\$0.00	\$1.35	\$1.28	\$1.28	\$0.50
<i>% of revenues</i>	<i>0.0%</i>	<i>2.4%</i>	<i>2.2%</i>	<i>1.8%</i>	<i>0.6%</i>
PLTR R&D Expenses	\$285.45	\$305.56	\$560.66	\$387.49	\$359.68
<i>% of revenues</i>	<i>47.9%</i>	<i>41.1%</i>	<i>51.3%</i>	<i>25.1%</i>	<i>18.9%</i>
INOD R&D Expense % of PLTR R&D Expense	0.0%	0.4%	0.2%	0.3%	0.1%

Despite all of this, AI and AI-related buzzwords were mentioned nearly five times as often on INOD's 3Q23 earnings call (49 times) than they were on PLTR's respective 3Q23 earnings call (10 times).²⁴

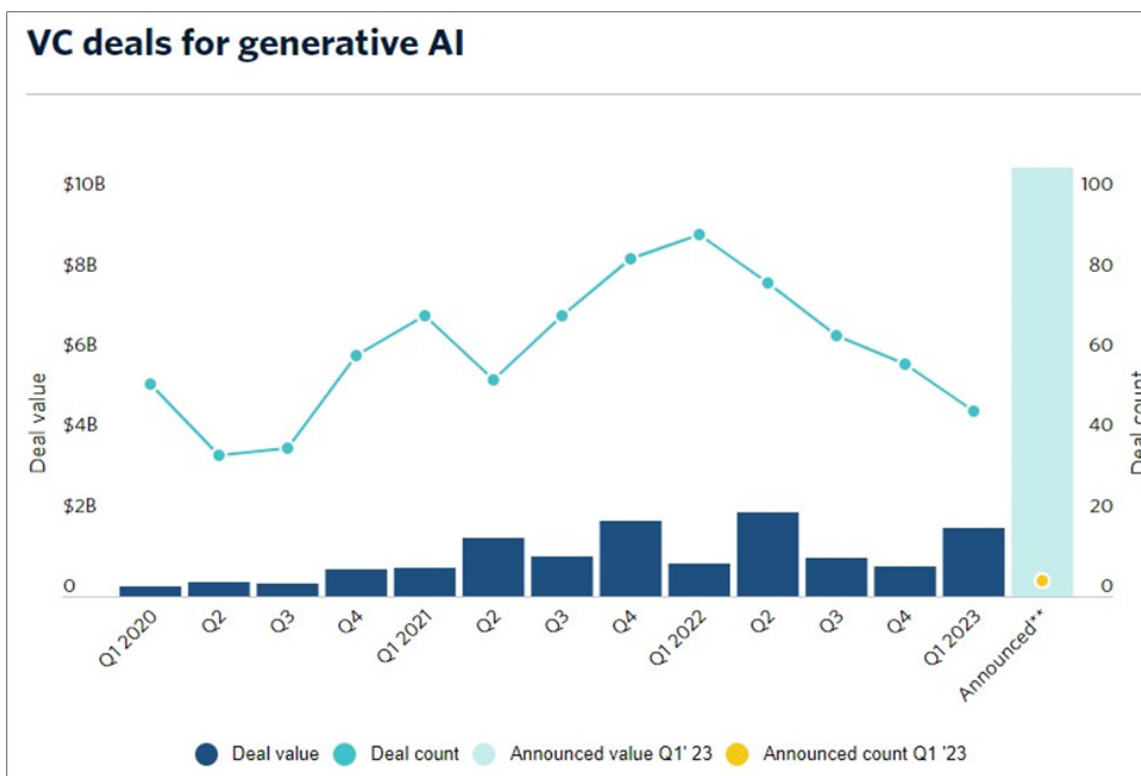
The demand for AI computing power has pushed GPU prices up so dramatically that even older Nvidia A100 GPUs have been selling for \$10,000 or more.²⁵ Google has reportedly spent over \$200 billion on AI over the past decade.²⁶ Meta invested \$31.4 billion in AI in 2022 alone,²⁷ and Amazon recently announced it will invest up to \$4 billion in AI startup Anthropic.²⁸ The idea that the teams at these companies are coming to INOD for expertise on AI is absurd.

Talk is cheap, but that appears to be all INOD can afford.

Investors Beware: Serious Generative AI Startups Snatch Billions in VC Funding While INOD Flounders

VCs signed or announced \$12.4 billion worth of investments in generative AI startups in 1Q23 alone, per [Pitchbook data](#). However, despite all its talk about AI, no serious investors seem interested in throwing money at INOD.

The problem doesn't appear to be with INOD's industry but isolated to INOD itself. In November 2021, one of INOD's more serious competitors, Sama, a crowdsourced data annotation platform raised \$70 million in a Series B round.²⁹ In January 2022, another competitor, Label Box, announced that they raised \$110 million in a Series D round.³⁰



INOD was nowhere to be found in this fundraising blitz. Instead, it appears INOD's management was busy crafting press releases to pump its stock price and trying to convince shareholders it offered a top-of-the-line AI platform. Its lack of spending on R&D, network infrastructure, or third-party cloud hosting services tells us that this simply cannot be the case.

This assertion is supported by a former employee with knowledge of the product, who told us that the Goldengate software is not doing the heavy lifting on its projects, instead the company's offshore employees are manually performing the bulk of the work. The software the company describes as Goldengate is apparently only able to automate relatively limited aspects of the company's workload.

INOD's "AI" Is Powered by Thousands of Low-Wage Offshore Employees, Not Proprietary Software

Descriptions of INOD's offshore operations by former employees paint a different picture than the one INOD management portrays. On INOD's 1Q23 earnings call, Abuhoff purports they are doing more sophisticated AI annotation than the work that was used to train Chat GPT:³¹

Analyst: *"It's supposedly when Microsoft did their ChatGPT, supposedly a lot of the annotation was done in Kenya for \$3.00 an hour. I mean is there a difference in the kind of annotation you guys do versus that kind of annotation?"*

Jack Abuhoff: *"Yes, there is. There's a great deal of difference. Some of the early models that have been built kind of go very broad but very narrow. There's not a great deal of annotation that's required. Much of what we do is the complex stuff. It's going deep into subject matter domains, it's going deep into use cases."*

Former employees describe INOD's operation as being incredibly labor-intensive with cheap, offshore workers conducting data entry. It is clear humans, not AI, are doing the brunt of the work.

While INOD's management team proclaims AI is at the crux of their business, a former INOD employee told us otherwise:

Wolfpack Analyst: *"This doesn't sound very AI related; you know, people pounding on keyboards..."*

Former Employee: *"No...that's the thing I don't get and that's why I say they're spinning. They're making more out of it than it is...I am sure that [AI] has a role in their company but I think they're billing themselves as very much an AI company. When [at the] end of the day, 10 years ago they had 5,000 people banging away at keyboards and they still have 5,000 people banging away at keyboards [now]."*

INOD’s Rudimentary Software (Passed Off as AI) Has Apparently Not Improved Productivity; Revenue Per Employee Has Remained Abysmally Low for The Last Three Years

Diligence into INOD’s financials reveals their secret sauce isn’t proprietary AI, but rather a brigade of offshore employees. INOD’s business consist of three segments: Digital Data Solutions (DDS), Synodex, & Agility PR Solutions.³² INOD’s reliance on offshore labor comes from DDS & Synodex—a data digitization practice focused on digitizing medical records & insurance data.

Despite supposedly implementing AI/ML in 2019; INOD’s full-time offshore employee count has increased by ~15% since then. ~96% of INOD’s full time employees are offshore.³³ We’d expect the opposite to happen with an AI implementation.

After all, isn’t the point of artificial intelligence to reduce human workload? INOD only generates \$18.8k in annual revenue per an employee—a number we believe is exceedingly low for an AI company. For context, PLTR, an actual AI company, generates \$496.6k per employee—over 2,500% more.^{34, 35}

<i>*Revenue In Millions, Except Per Employee Numbers</i>			
	2020	2021	2022
INOD:			
Total Revenue	\$58.24	\$69.76	\$79.00
Full-time Employee Count	3,711	4,878	4,205
Annual Revenue Per Employee	\$15,693.88	\$14,300.94	\$18,787.16
Hourly Revenue Per Employee	\$7.85	\$7.15	\$9.39
PLTR:			
Total Revenue	\$1,092.67	\$1,541.89	\$1,905.87
Full-time Employee Count	2,439	2,920	3,838
Annual Revenue Per Employee	\$447,999.18	\$528,044.52	\$496,578.95
Hourly Revenue Per Employee	\$224.00	\$264.02	\$248.29

Big Tech Companies are Hiring INOD for Cheap Labor, Not Its “AI Expertise”

INOD does not even have a Chief Technology Officer (CTO). Low cost, offshore employees are what drives customer demand for INOD, not its AI abilities. Yet, management would like its shareholders to believe exactly the opposite. Abuhoff claimed on INOD’s 3Q22 earnings call that ten large customers are using INOD’s AI/ML (Machine Learning) services:

Jack Abuhoff: *“Outside these transitory issues, we believe our business continues to build momentum. We now have 10 large customers for our AIML lifecycle services, which we believe will increase their spend with us in 2023, some significantly, based on our current line of sight.”*

The CEO claimed that these services involve use cases like facial recognition, security monitoring, and voice to text.³⁶ We think this is nonsense.

Large companies don’t turn to INOD for their AI expertise, but instead an incredibly cheap, fleet of overseas labor. We asked a former employee about INOD’s recent string of deals with big tech customers, and they confirmed that INOD is not offering anything new:

Former Employee: *“All they do is services...”*

Wolfpack Analyst: *“Would all services include AI?”*

Former Employee: *“No... services meaning labeling, tagging, computer vision, data aggregation, as far as taking unstructured to structured.”*

Wolfpack Analyst: *Right, so that’s not AI?*

Former Employee: *Nope*

INOD is sticking to what they’ve always done – manual data entry, but they are talking as if they are the innovators in AI.

According to this former employee, a lack of AI is not the only problem at the company. INOD also apparently struggles to execute, especially on new projects like the big tech projects they recently won, because it relies almost exclusively on offshore labor.

Former Employee: *“Even though you are employing people offshore, if they are not executing at a high enough accuracy level, then you just have a ton of Q&A and back and forth.”*

Wolfpack Analyst: *Right, I guess that would eat into the costs too.*

Former Employee: *Right.*

INOD's Management Team Has Used Press Releases to Pump Up Its Stock and Cash Out

INOD's insiders have sold a total of \$16 million of stock since 2020, *with \$13 million of those sales coming in the past nine months alone*. This recent bout of insider selling follows on the heels of INOD's announcements of purportedly “*transformational*” generative AI deals with the largest tech companies in the world.

Insiders have been brazenly selling stock right after their promotional press releases. This didn't surprise former employees we spoke to – as one put it to us:

“They're [Management] is looking for some end game and money is the only thing I see.”

The most egregious example so far came on August 29th, following an announcement that INOD “*potentially*” expects to add \$10 million in annualized revenue on a partnership expansion. *The very same day*, Abuhoff & the Chairman of the Board, Nick Toor, unceremoniously dumped ~\$3.2 million worth of stock.

This is not an isolated instance—rather a repeated pattern; INOD's insiders continually dump their stock on the backs of positive press releases.^{37, 38}



Innodata Announces Potentially Transformative Deals in Generative AI with Three of the Largest Global Tech Companies and Reports First Quarter 2023 Results

NEW YORK – May 11, 2023 – INNODATA INC. (NASDAQ: INOD) today reported results for the first quarter ended March 31, 2023.

Date	Insider Name	Position	Price	Shares	Proceeds (Cost)
5/16/2023	Nick Toor	Chairman	\$9.01	(26,500)	\$238,765
5/16/2023	Stewart Massey	Lead Director	\$8.65	(70,000)	\$605,500
5/17/2023	Louise Forlenza	Director	\$8.26	(15,000)	\$123,900
5/18/2023	Nick Toor	Chairman	\$9.94	(54,249)	\$538,990
5/18/2023	Marissa Espineli	Interim CFO	\$9.91	(3,000)	\$29,730
5/22/2023	Nick Toor	Chairman	\$10.01	(45,751)	\$457,968
5/22/2023	Marissa Espineli	Interim CFO	\$10.00	(5,000)	\$50,000
5/30/2023	Nick Toor	Chairman	\$11.60	(59,010)	\$684,516
5/30/2023	Ashok Mishra	EVP and COO	\$11.26	(141,859)	\$1,597,332

Innodata Announces Start of Generative AI Development With Top-Five Big-Tech Existing Customer

Tuesday, 13 June 2023 00:00

Date	Insider Name	Position	Price	Shares	Proceeds (Cost)
6/14/2023	Nick Toor	Chairman	\$12.26	(81,564)	\$1,000,329
6/20/2023	Stewart Massey	Lead Director	\$12.26	(1,000)	\$12,260
6/20/2023	Nick Toor	Chairman	\$12.33	(41,278)	\$508,958

Innodata Announces Agreement Signed with Big Five Tech Customer

NEW YORK, NY / ACCESSWIRE / [August 22, 2023](#) / [Innodata Inc.](#) (NASDAQ:INOD), a leading data engineering company, today announced that the agreement for the win it announced on August 10, 2023 with a new Big Five technology customer is now signed. With the signing of this agreement, Innodata is now engaged to support four of the Big Five technology companies in their generative AI development initiatives.

Date	Insider Name	Position	Price	Shares	Proceeds (Cost)
8/23/2023	Nick Toor	Chairman	\$13.56	(217,428)	\$2,949,074
8/28/2023	Marissa Espineli	Interim CFO	\$15.07	(8,372)	\$126,197
8/28/2023	Louise Forlenza	Director	\$13.74	(5,000)	\$68,700

Innodata Lands Significant LLM Expansion with New "Big Five" Customer Announced July 18, 2023

Raises Previously Provided Guidance to \$25 Million of End-of-Year Run Rate Revenue, up by \$10 Million

NEW YORK, NY / ACCESSWIRE / [August 29, 2023](#) / [Innodata Inc.](#) (NASDAQ:INOD), a leading data engineering company, today announced that it is expanding its large language model (LLM) development program with the new customer it announced July 18, 2023. The customer is one of the "Big Five" global tech companies. As a result, Innodata now anticipates potentially reaching an annualized run rate of \$25 million or more by the end of 2023, an increase of \$10 million from the potential annualized run rate of \$15 million announced on July 18, 2023.

Date	Insider Name	Position	Price	Shares	Proceeds (Cost)
8/29/2023	Jack Abuhoff	CEO	\$14.54	(150,000)	\$2,180,724
8/29/2023	Nick Toor	Chairman	\$14.77	(67,804)	\$1,001,465
8/30/2023	Marissa Espineli	Interim CFO	\$15.04	(11,628)	\$174,885
8/30/2023	Nick Toor	Chairman	\$14.77	(23,383)	\$345,367

Actions speak louder than words, and INOD's management team's recent actions seem to be screaming one thing: *get out while you still can.*^{39, 40}

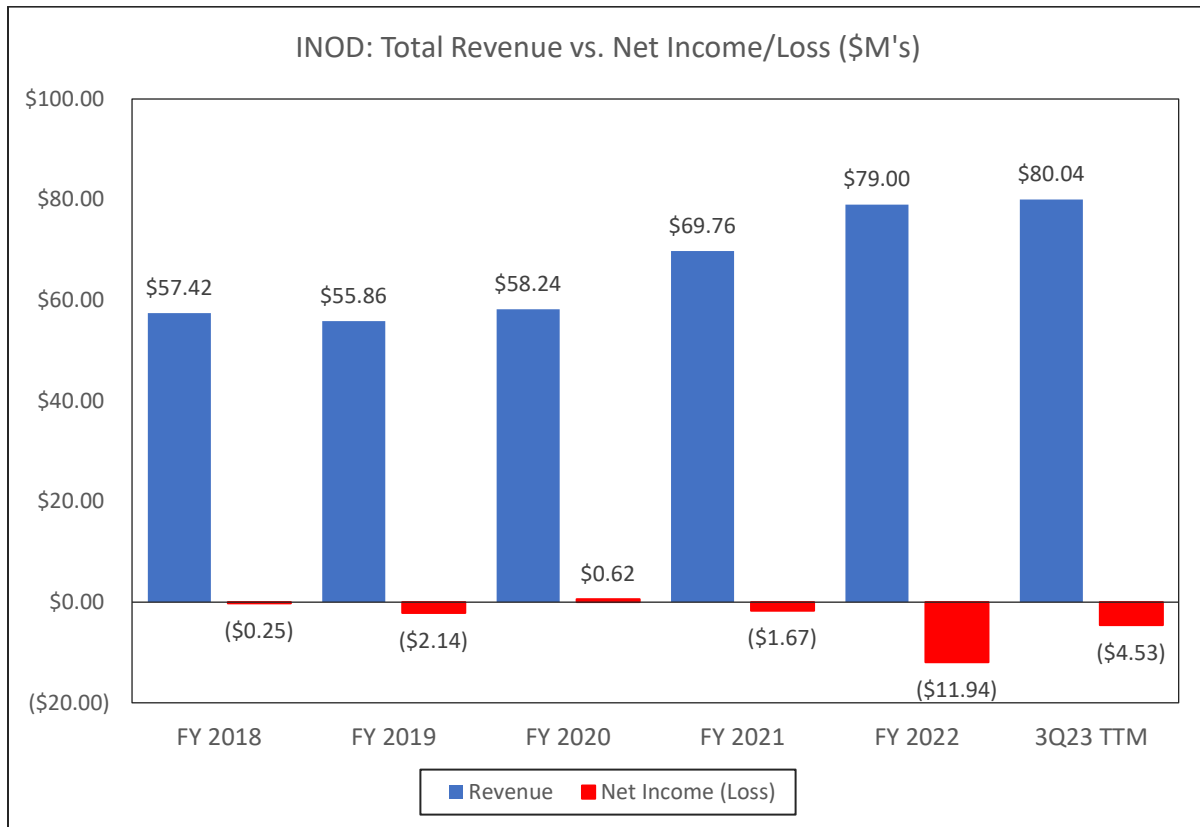
INOD Is Structurally Unprofitable: The More Revenue It Generates, The More Money It Loses

INOD’s largest segment is its Digital Data Services (DDS) segment, where it generates revenue from its offshore subsidiaries which are subject to transfer pricing agreements. INOD utilizes the “*cost-plus*” method to determine the amounts INOD’s foreign subsidiaries charge back to the US parent, per a former employee we spoke to.⁴¹

This means that INOD’s foreign subsidiaries apply a markup to the costs they charge back to the US parent company in order to satisfy the tax authorities in each subsidiary’s respective jurisdiction. In effect, the international subsidiaries make a guaranteed profit at the direct expense of the parent company and INOD’s shareholders.

The key implication of these transfer pricing agreements is that INOD must pay income taxes in foreign jurisdictions even when the publicly traded parent reports pretax losses on a consolidated basis. While intercompany transactions are eliminated upon consolidation under GAAP, they are not eliminated for the purposes of tax accounting.⁴²

With income tax liabilities accruing in foreign jurisdictions even while INOD reports pre-tax losses on a consolidated basis, INOD is structurally unprofitable due to its heavy reliance on its international subsidiaries to generate revenue. The chart below shows INOD’s structural unprofitability; **the more revenue INOD generates, the more money it loses:**



INOD’s Revenues Have Been Shrinking for a Decade, Despite Acquiring Unprofitable Companies to Buy Revenue Growth

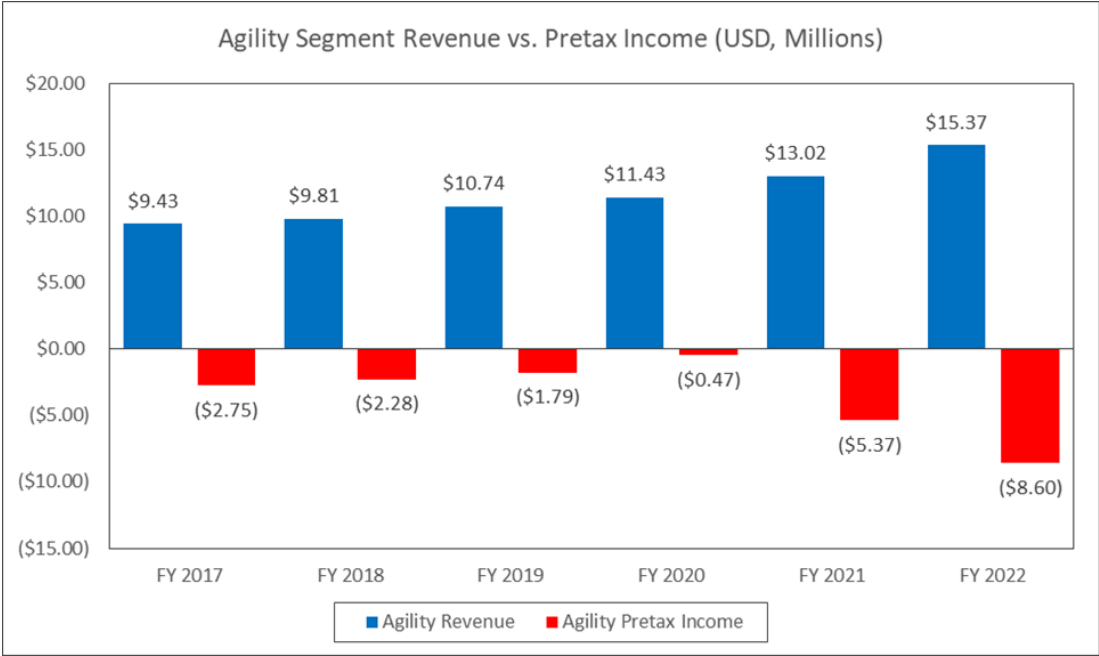
The legacy, unstructured data that fuels demand for INOD’s DDS business is becoming increasingly scarce. Much of the data that is created today is already tagged and structured in a way that can be used to train LLMs – including the Word document this report was written in, and the PDF document you are reading it in.

We think the lack of relevancy of INOD’s legacy business is providing the impetus for INOD to pose as an AI company. Our understanding based on our conversations with former employees is that AI companies have contracted INOD’s DDS to outsource the extremely labor intensive, often **one-time** job of structuring and tagging previously unstructured data so it can be used to train their Large Language Models (LLMs).

INOD’s management team constantly refers to contracts they have signed with AI companies as “*transformational*.” However, investors would probably prefer it if they knew these deals were *recurring*. The declining relevance of its primary service in an increasingly digitized world has resulted in deteriorating demand.

On a trailing twelve-month (TTM) basis as of 3Q23, DDS only accounted for 69% of INOD’s \$80 million of revenue. INOD’s DDS segment had its high watermark *in 2012*, with \$85.4 million. More than a decade later, INOD’s topline revenue continues to fall short of this prior achievement, even after adding inorganic revenue from the acquisitions of MediaMiser in 2014 and Agility in 2016 to create a segment focused on media analysis services.

We believe INOD’s management team has tried to conceal the declining revenue of its key DDS segment by purchasing low quality revenue for a total of \$9.6 million.^{43, 44} These acquisitions were combined to create INOD’s consistently unprofitable Agility segment. As shown in the chart below, the more revenue Agility generates, the more money it loses – in that sense, Agility is more of the same for INOD:



INOD's Corporate Structure Exacerbates a Liquidity Crunch That We Believe Will Motivate Management to Launch a Dilutive Equity Raise

Structural unprofitability isn't the only implication of INOD's convoluted corporate structure – it also has a constant negative impact on the company's liquidity. While INOD technically can repatriate its subsidiaries' profits back to the US, the company would incur even more tax liabilities if it did so. INOD acknowledges this in its SEC filings, stating it intends to indefinitely reinvest its foreign earnings in its foreign subsidiaries because,

“If such earnings are repatriated in the future, or are no longer deemed to be indefinitely reinvested, the Company would have to accrue as a liability the applicable amount of foreign jurisdiction withholding taxes associated with such remittances.”⁴⁵

This exacerbates INOD's constant liquidity issues in a way that investors could easily overlook. The “cash and cash equivalents” line on INOD's consolidated balance sheet includes the full amount of cash held overseas, even though the US parent couldn't access this cash to cover its liabilities because repatriating cash from overseas would create additional tax liabilities.

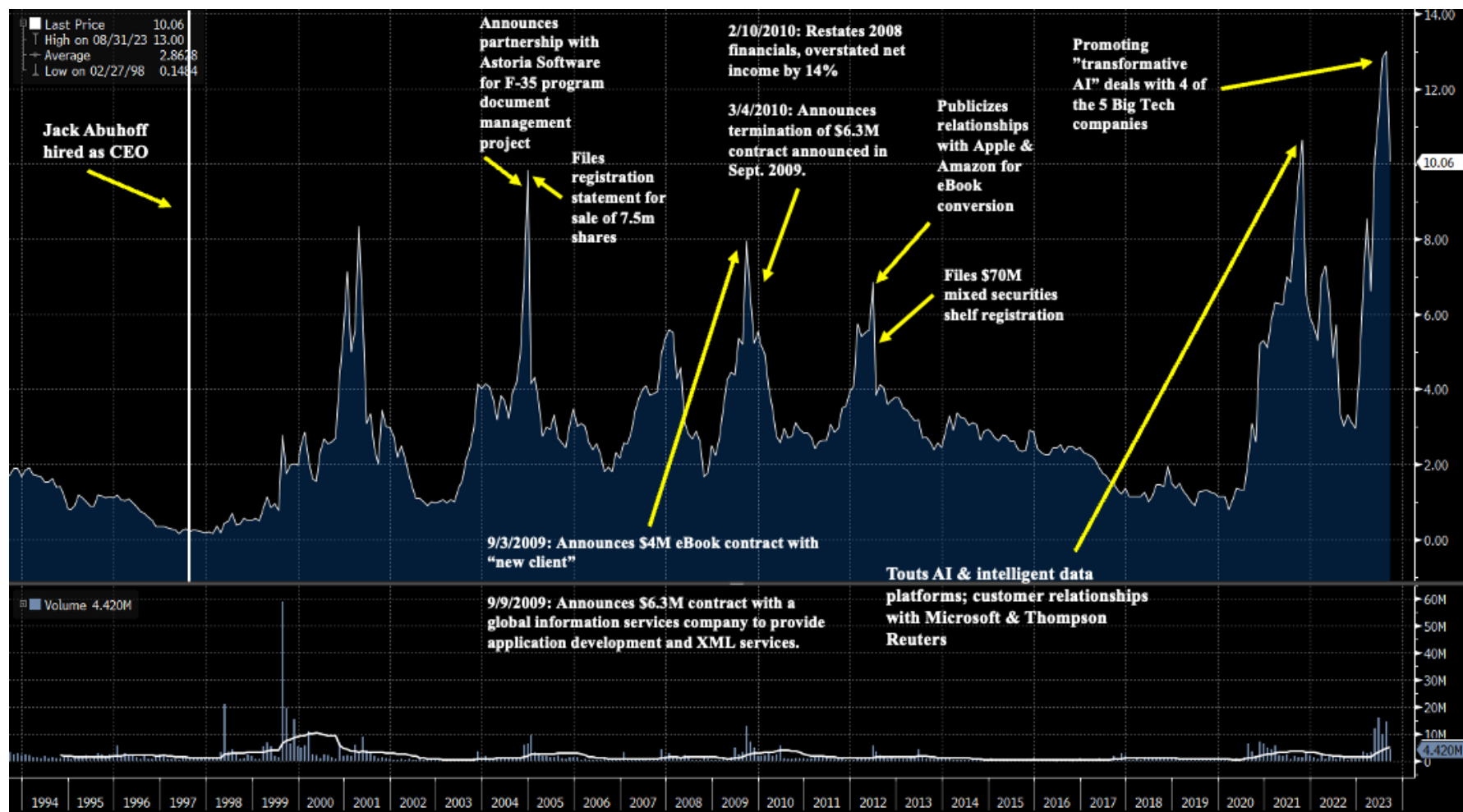
When we adjust INOD's net working capital (NWC) to exclude the inaccessible cash held overseas (\$5.1 million as of 3Q23), it is left with only \$1.3 million of NWC – an especially precarious liquidity position for a company that burned \$7.7 million in FCF in 2022.⁴⁶

Further, while INOD technically has a \$10 million revolving credit facility from Wells Fargo to fund its so-called “*transformational*” AI deals, INOD's 3Q23 10-Q reveals it only has access to \$4.7 million of its revolver due to a borrowing base requirement as well as a financial covenant requiring INOD to maintain a fixed charge coverage ratio of 1.10 to 1.00 by no later than December 31, 2023.⁴⁷

Given INOD's precarious liquidity position and limited access to capital, the PR-driven rise in its share price, and the significant amount of insider sales in the last nine months, *we believe a highly dilutive equity raise at a significant discount to its current share price is likely.*

When INOD dilutes, the company will likely say the money will fund the next step in AI advancement, or something of that sort. However, in the race to develop AI, where tech companies are spending many multiples of INOD's market cap on R&D every year, and VCs are investing billions in promising startups, INOD looks dead in the water as its core business continues to wane. We think any money raised by INOD will only buy management a little more time to come up with a new *transformational* business plan.

Appendix A: INOD's Long History of Empty Promises



The CEO has been at the helm for more than 20 years, and in that time, INOD's share price has popped several times as management has been able to generate exciting spin on what is really a low margin, non-sticky business that is becoming more and more obsolete. In 2004, academic & cultural institutions such as Harvard Business School were turning to INOD's army of offshore labor to digitize their collections.⁴⁸ At the time, INOD framed this as becoming one of the "world's leading content services companies."⁴⁹ But once archives were digitized, the contracts dried up and the stock crashed.

In 2009, INOD started promoting itself as a leader in eBook services. Following the announcement of eBook & XML application development services in '08, the stock surged before Abuhoff revealed net income was overstated by 14% in their 2008 financials, and the termination of a \$6.3 million contract.^{50, 51} Again, the relationships were not that sticky, and the price reverted to the mean.

In 2012, the price shot up again after INOD announced its eBook partnerships with Amazon & Apple, while also promoting contracts with seven of the ten largest publishing & information organizations in the world. Shortly after these contracts were announced, INOD would file a \$70 million mixed shelf registration offering, which they had to withdraw.⁵² INOD lost its contract with Apple shortly thereafter per a former high-level employee with knowledge of the situation.

In 2020, INOD's stock rose higher on the back of announcements of 20 new customers for INOD's *AI related services*.⁵³ Yet, the stock went back down to ~\$3 a share as investors realized that INOD's "AI" was not AI.

In 2023, INOD's management coined a new phrase, "a global data engineering company delivering the promise of AI to many of the world's most prestigious companies."⁵⁴ INOD has announced four of the "Big Five Tech" companies as clients for its generative AI service.⁵⁵

History may not be repeating itself, but it certainly is rhyming. We expect a crash back below \$3 as the company either dilutes or fails to retain key customers.

Appendix B: INOD Former CFO's Explanation of its Cost-Plus Transfer Pricing Agreements with its Foreign Subsidiaries

INOD's Q4 2015 Earnings Call:

***Analyst:** "Hi, guys. Saw the report. I wanted to go over first of all with O'Neil, just in terms of a lot of accounting stuff going on in that quarter, kind of go on from that the simplest to the complex. **Now why do we accrue a tax when the company was unprofitable for the quarter and also unprofitable for the year?**"*

***Former INOD CFO:** "Hi, Tim. Good morning. So the tax accruals comes and accounted the way our businesses structured. As I've shared in the past, we have a U.S. entity and we've got global operating subsidiaries, right. **So the global operating subsidiaries, which are really this -- that do all the work for the parent company have to be compensated and the way we compensate them is on a cost-plus basis and that creates, that essentially results in the profit in the operating subsidiaries.**"*

*"And the reason why we have to do that as we have to pull our transfer pricing guidelines and we have point outside into external experts to guide us on the transfer pricing and the margins. **And because of the profit in the international subsidiaries, we have a tax charge in those countries and it results in a taxable and we have a taxable loss in the U.S. entity. Is that clear?**"*

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Citations

- ¹ INOD 10-Ks, 10-Qs and Quarterly Earnings Press Releases Q1 2018 – Q3 2023. On the income statements in INOD’s 10-Qs and 10-Ks, it simply lists “direct operating costs” and “selling and administrative expenses” as its two operating expense line items. R&D expense can only be found in INOD’s earnings [press releases](#) from Q1 2020 until Q1 2022. Since Q1 2022 INOD has not disclosed any R&D expense in its 10-Qs, 10-Ks, earnings press releases, or *any* SEC filing to-date
- ² Net Working Capital (NWC) = Current Assets minus Current Liabilities
- ³ INOD 3Q23 10-Q, p. 40: “*n September 30, 2023, we had cash and cash equivalents of \$14.8 million, of which \$5.1 million was held by our foreign subsidiaries, and \$9.7 million was held in the United States.*”
- ⁴ INOD 3Q23 10-Q, p. 25: “*As of September 30, 2023, such borrowing base calculation equaled approximately \$4.7 million.*”
- ⁵ INOD 3Q23 10-Q, p. 2
- ⁶ INOD 2Q21 Earnings Call
- ⁷ INOD SEC Form 4s, accessed via SEC EDGAR
- ⁸ [Reuters: AI lesson for Microsoft and Google: Spend money to make money](#)
- ⁹ [Bloomberg: Meta’s Pricey Bet on AI Comes With New Custom Chips, Coder Tools](#)
- ¹⁰ [TechCrunch: Amazon to invest up to \\$4 billion in AI startup Anthropic](#)
- ¹¹ INOD 2023 3Q 10-Q, and 2022 3Q 10-Q
- ¹² [Intelligent Computing: The Latest Advances, Challenges, and Future](#)
- ¹³ INOD has a history of changing business plans and pushing promotional PRs to pump the stock – see [Appendix A](#)
- ¹⁴ INOD 2022 10-K p. 8
- ¹⁵ INOD 2Q21 Earnings Call Transcript, accessed via Bloomberg, LP
- ¹⁶ <https://web.archive.org/web/20200129121220/http://www.innodatalabs.com/>
- ¹⁷ See supra footnote 1.
- ¹⁸ INOD 2022 10-K, p. F-4
- ¹⁹ INOD 2022 10-K, p. 8
- ²⁰ INOD 2022 10-K, p. 28
- ²¹ Andreessen Horowitz: [Navigating the High Cost of AI Compute](#)
- ²² [Nasdaq Website: INOD Press Releases](#)
- ²³ PLTR SEC Filings 2018-2022
- ²⁴ AI and AI related buzzwords included in the count for both INOD and PLTR were: “artificial intelligence”, “AI”, “AI/ML”, “ChatGPT”, “Language Model” and “Machine Learning”
- ²⁵ [Meet the \\$10,000 Nvidia chip powering the race for A.I.](#)
- ²⁶ [Reuters: AI lesson for Microsoft and Google: Spend money to make money](#)
- ²⁷ [Bloomberg: Meta’s Pricey Bet on AI Comes With New Custom Chips, Coder Tools](#)
- ²⁸ [TechCrunch: Amazon to invest up to \\$4 billion in AI startup Anthropic](#)
- ²⁹ [Sama Raises \\$70M Series B to Build a More Accurate, More Ethical, End-to-End AI Development Pipeline](#)
- ³⁰ [Data Startup Labelbox Reaches Toward \\$1 Billion Valuation With SoftBank Funding](#)
- ³¹ INOD 1Q23 Earnings Call Transcript, Accessed Via Bloomberg LP
- ³² INOD 2022 10-K, p. 7
- ³³ INOD 2022 10-K, p. 13: “*As of December 31, 2022, we employed 4,209 employees, 4,205 of which are full-time, with 181 persons in the United States, Canada and the United Kingdom, and 4,028 persons in the Philippines, India, Sri Lanka, Canada, Germany, and Israel.*”
- ³⁴ PLTR 2022 10-K, p. 12
- ³⁵ INOD 2020, 2021 and 2022 10-Ks, p. 12, 10 and 13, respectively. Hourly revenue per employee assumes 2,000 hours worked per year per employee.
- ³⁶ INOD 3Q22 Earnings Call, Accessed via Bloomberg LP
- ³⁷ [Innodata Announces Potentially Transformative Deals in Generative AI with Three of the Largest Global Tech Companies and Reports First Quarter 2023 Results](#)
- ³⁸ [Innodata Announces Start of Generative AI Development With Top-Five Big-Tech Existing Customer](#)
- ³⁹ [Innodata Announces Agreement Signed with Big Five Tech Customer](#)
- ⁴⁰ [Innodata Lands Significant LLM Expansion with New "Big Five" Customer Announced July 18, 2023](#)
- ⁴¹ INOD’s former CFO also explains this well on its 4Q15 earnings call – see [Appendix B](#)
- ⁴² <https://www.journalofaccountancy.com/issues/2013/oct/20137721.html>

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- ⁴³ [Innodata announces acquisition of MediaMiser](#)
⁴⁴ [MediaMiser, an Innodata Company, Acquires Agility PR](#)
⁴⁵ INOD 3Q23 10-Q,
⁴⁶ INOD 2022 10-K, p. F-7: OCF less Capex = (\$1.216m) less (\$6.526m) = (\$7.742m)
⁴⁷ INOD 3Q23 10-Q,
⁴⁸ INOD Digitizes Cases in [HBS Publishing Case Collection](#)
⁴⁹ INOD [Major Announcement](#)
⁵⁰ INOD [Restates Financial Statements](#) To Correct Errors in Deferred Income Tax Accounting
⁵¹ [INOD Announces 2009 Fiscal Year Results](#)
⁵² [INOD Announces Shelf Registration](#)
⁵³ INOD [2020 Annual Report](#)
⁵⁴ INOD Investor Presentation Aug. 29th, 2023
⁵⁵ INOD [Announces Another Big Five Tech Customer](#)