

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10KSB  
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ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended  
December 31, 1995

Commission  
File No. 33-9390

INFORMATION ANALYSIS INCORPORATED  
(Exact name of Registrant as specified in its charter)

Virginia 54-1167364  
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

2222 Gallows Road, Suite 300 22027  
Dunn Loring, Virginia (Address of principal executive offices) (Zip Code)

(Registrant's telephone number,  
including area code) (703) 641-0955

Securities registered pursuant to Section 12(b) of the Act:

NONE

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes      x/      No

The issuer's revenue for its most recent fiscal year was \$15,696,896.

The aggregate market value of the Registrant's Common Stock held by nonaffiliates as of December 31, 1995 was approximately \$846,212.

As of December 31, 1995 the Registrant had 467,053 shares of Common Stock outstanding.

Item 1. Business

General

Since its incorporation in 1979, Information Analysis Incorporated ("IAI") has been engaged in various facets of the computer and information field. IAI has continually adapted the nature of its services and the types of its products it markets to the perceived needs of its client and prospective client base. Today, IAI's activities, along with those of its subsidiary, DHD Systems, Inc. ("DHD"), are primarily related to software applications development, hardware and software consulting services, software sales and support services. Software sales are limited to a few types of products which IAI believes it can successfully sell based upon its familiarity with a particular market niche and potential purchasers for those products.

In 1991, IAI organized DHD to acquire the business of DHD Services, Inc. This acquisition was intended to provide IAI with the capacity to provide additional services in the mainframe market since IAI services were principally geared to personal and microcomputer uses. Until early 1994, IAI and DHD operated, for the most part, as separate business units. Today, however, the operations of IAI and DHD operate as a single business unit.

In 1991, IAI organized Allied Health and Information Systems, Inc. ("AHISI") as a wholly-owned subsidiary. AHISI was formed to pursue an opportunity presented to IAI to provide medical personnel to penal institutions

to provide physical examinations, provide patient management and perform primary care and minor surgery. In 1995, the determination was made to wind-down AHISI's business. To this end, AHISI did not seek to renew, or respond to any proposals for additional, contracts.

In 1995, the combined revenues of IAI, DHD and AHISI (collectively "the Company") decreased by 6% over 1994. The computer related business revenue of IAI and DHD (hereafter collectively referred to as "IAI") increased by 26% and the health care business revenue of AHISI decreased by 70%. The Company is in the process of winding down AHISI.

See "Medical Services" below.

#### Computer Related Services

In 1995, the Company continued to provide a broad range of consulting services to its clients. These services included transition engineering, feasibility and requirements analysis, systems planning analysis and design, data base design and management, software development, and project management. Primarily as a result of consulting services provided to its clients, the Company has developed expertise for particular applications in areas such as financial information, systems for the U.S. Customs Service, personnel systems, and state-of-the-art applications utilizing artificial intelligence and expert systems. The Company continues to maintain, through its personnel, proficiency in a multiple number of computer

languages, hardware and software products, and software applications in both the local area network and mainframe environments.

Traditionally, IAI's clients have spanned a wide range of enterprises in the private sector along with government agencies. 1995 was no exception with IAI providing services to companies such as, The Arbitron Corporation, Lockheed Martin, Hayes-Ligon Corporation, Caterpillar Corporation, Citicorp, and Mass Mutual. In 1995 governmental clients included the U.S. Army Personnel Command, General Services Administration, U.S. Air Force, U.S. Customs Service ("USCS"), Veterans Benefit Administration, Department of Energy, and the U.S. Navy. In 1995, IAI's largest client remained the U.S. Customs Service, which accounted for 65% of the Company's computer related revenue.

In 1995 approximately 82% of the Company's revenue from computer related services was attributed to governmental clients.

On March 26, 1996, the Company was informed that another company had won the recompetition of IAI's "USCS" contract. This contract has provided over 50% of the Company's revenue over the past two years. IAI has issued a protest over the selection of the other company, and the results of that protest may not be decided soon. The loss of this contract will have a severe impact on the Company's revenue and profitability in the second half of 1996. All efforts will be made to increase short term revenue in other areas and to reduce costs.

#### Software Sales

In 1995, IAI continued to maintain marketing rights to two proprietary software products, Jetform and the Migrator. Jetform is an electric forms solution which allows users to electronically create and complete any form on multi-platform environments. Migrator is a re-engineering tool which can convert older COBOL based systems to the newer technology Computer Aided System Engineering (CASE) product from Intersolve. IAI does not own the Jetform product but acts as a reseller, specifically in the Federal government market where buyers can purchase the product through the General Services Administration schedule. IAI maintains the right to grant licenses to use the Migrator in both commercial and government arenas.

Total Jetform related revenue in 1995 was \$260,253. This represented both sales of the product and accompanying services such as training and forms development. The Company sold additional Jetform product to over a dozen Federal agencies.

Although no license sales of Migrator product occurred in 1995, the Migrator software facilitated generating professional services opportunities through IAI staff use of the product in performing systems modernization services. Since the product must be customized for each conversion application, it will probably not generate substantial license revenues in the

margins from its professional service business.

#### Medical Services

AHISI significantly reduced business activities in 1995 by completing contracts, novating certain government contracts, and not pursuing additional contracts. As of December 31, 1995, the AHISI's funded backlog was reduced to \$88,293 under one contract it maintains with the United States Department of Justice. Once this contract expires, the Company does not plan to generate additional revenue through AHISI.

#### Employees

As of December 31, 1995, the Company employed 101 full-time and part-time individuals. In addition, the Company maintained independent contractor relationships with four individuals for computer services.

Of the Company's employees, 38 hold undergraduate degrees and 16 hold graduate degrees. Approximately 90% of the Company's professional employees have at least four years of related experience. For computer related services, the Company believes that the diverse professional opportunities and interaction among its employees contribute to maintaining a stable professional staff with limited turnover.

#### Marketing

For its computer related services, the Company relies upon a marketing staff of three full time account executives combined with program managers and other senior management to market its services. These individuals principally concentrate on the marketing of professional services and software products. In addition to these individuals, the Company's technical staff is encouraged to assist in marketing the Company's various services.

#### Backlog

As of December 31, 1995, the Company estimated its backlog at approximately \$10,950,000 of which 43.3% of this amount is from one multi-year government contract with USCS. (Even though the Company was not successful in recompeting for the USCS contract (see "Computer Related Services" above), the Company anticipates the full backlog associated with the USCS contract will be realized.) Of the entire backlog, the Company projects approximately 66.6% will be completed by December 31, 1996. This backlog consists of outstanding contracts and general commitments from current clients. The Company regularly provides services to certain clients on an as-needed basis without regard to a specific contract. General commitments represent those services which the Company anticipates providing to such clients during a twelve-month period.

#### Competition

The computer services industry is highly competitive. Many of the Company's competitors are larger and have greater financial resources than the Company. Smaller firms also present significant competition. The Company competes for government contracts, either directly or as a subcontractor, on the basis of competitive procurements. The Company believes that its long-term success depends upon its ability to consistently offer quality services at competitive prices. This approach is designed to satisfy current client requirements and to attract new business opportunities.

#### Principal Clients

In 1995, on a consolidated basis, the USCS, under its contract with IAI remained the principal client of the Company. In this regard, the revenue from USCS accounted for 58% of consolidated revenue and 65% of IAI revenue. The USCS contract expired September 30, 1995, but was extended through April 30, 1996. The only other significant client for IAI was the U.S. Army through IAI's subcontract with PRC Inc. which accounted for 7% of consolidated revenue and 8% of IAI revenue. For AHISI, the principal client remained the District of Columbia through its contract with the Department of Corrections which accounted for 7% of consolidated revenue and 54% of AHISI revenue.

#### Item 2. Property

The Company's offices are located at 2222 Gallows Road, Dunn Loring, Virginia 22027. IAI holds a lease for 15,812 square feet which expires January 31, 1997. AHISI has a lease for 5,696 square feet which expires April 30, 1997.

#### Item 3. Legal Proceedings

The Company is currently engaged in two significant litigation matters. One case was filed in the fourth quarter, 1995 by AHISI in the United States District Court for the District of Delaware against Prison Health Services, Inc. ("PHS"). In this case, AHISI is seeking payment of accounts receivable of approximately \$185,000 and other damages emanating from the subcontract PHS granted to AHISI to provide certain healthcare services in Maryland prisons. PHS has counterclaimed against AHISI for reimbursement of overpayments.

In the fourth quarter, 1994, one Frank H. Smitley filed a medical malpractice claim against AHISI and others resulting from the failure to properly diagnose a bulging disk that eventually left Mr. Smitley a quadriplegic. This case was initially filed as a health claims arbitration case under Maryland's malpractice law and was recently transferred to the Circuit Court of Washington County, Maryland. Although the Company is of the opinion that Mr. Smitley may be in a position to recover damages, the extent of AHISI's liability should be covered by malpractice insurance.

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

In the fourth quarter of 1995, the Company had its annual meeting of shareholders at which Sandor Rosenberg, George T. DeBakey, James C. Wester, John D. Sanders and Bonnie K. Wachtel were elected as directors.

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PART II

Item 5. Market for Registrant's Common Equity and Related Stockholders' Matters

The Company's Common Stock is traded in the over-the-counter market. The range of bid price quotations for the last two years on a quarter-by-quarter basis is as follows:

	1994				1995			
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
<C>	1st	2nd	3rd	4th	1st	2nd	3rd	
Qtr. 4th								
Low Bid 4	4	4	4	4	4	4	4	4
High Bid 4	4	4	4	4	4	4	4	4

</TABLE>

The quotations on which these data are based reflect inter-dealer prices without adjustment for retail markup, markdown or commission, and may not necessarily represent actual transactions.

As of December 31, 1995, the Company had 108 stockholders of record. The Company has never paid a cash dividend on its Common Stock, and intends to follow a policy of retaining earnings to finance future growth and possible acquisitions. Accordingly, the Company does not anticipate the payment of cash dividends to the holders of Common Stock in the foreseeable future.

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## Item 6.

Management's Discussion and Analysis of Financial Condition  
and Results of Operations

## Results of Operations 1995 Compared to 1994

The Company's revenue from its computer and software related services and sales increased by \$2,893,845, or by 26.0%, to \$14,012,017 in 1995 from \$11,118,172 in 1994. In 1995, the Company generated profit from this business segment of \$333,198 (before interest income and expenses, taxes and certain miscellaneous other items of income and expense which were not allocated to this segment or any other business segment). This represented a slight decrease from 1994 in which the Company generated a \$334,651 profit from this line of business.

In 1995, the Company's gross profit margin from computer and software related services and sales declined to 21.0% from 24.2% in 1994. This reduction was principally caused by expanding the scope of services the Company was providing under its USCS contract for which a subcontractor was utilized. The Company's profit margins for the services provided under the subcontract were substantially less than the profit margins the Company generally realizes from its own services. Selling, general and administrative expenses as a percentage of revenue declined to 18.6% in 1995 from 21.2% in 1994. The Company attributes this reduction to greater utilization of its resources in response to its escalating revenue base from the business associated with IAI and DHD.

The Company's revenue from the healthcare related services through AHISI declined by \$3,886,483, or by 69.7% to \$1,684,879 in 1995 from \$5,571,362 in 1994. This reduction was a direct result of the decision to wind-down AHISI's business. AHISI lost \$330,619 (before interest income and expenses, taxes and certain other miscellaneous other items of income and expense which were not allocated to AHISI or any other business segment). This loss was caused, in part, by a reduction in gross margin in 1995 to 0.6% from 15.1% in 1994. This reduction is primarily attributable to reserves established for certain receivables and substantially lower margins in the AHISI business remaining through the winding-down process. Also, in 1995, selling, general and administrative expenses as a percentage of revenue declined to 20.1% from 21.0% in 1994.

On a consolidated basis, the Company's overall revenues in 1995 declined by \$992,638, or by 6% to \$15,696,896 in 1995 from \$16,689,534 in 1994. The Company's consolidated gross profit margin decreased in 1995 to 18.8% from 21.2% in 1994. Selling, general and administrative expenses as a percentage of revenue was 2.4% lower in 1995 than in 1994 or 18.8% compared to 21.2%. Income from operations decreased slightly to \$2,579 in 1995 from \$6,240 in 1994. Overall, considering the effect of interest and taxes, in 1995, the Company sustained a consolidated loss of \$74,633 compared to a loss in 1994 of \$58,695.

## Liquidity and Capital Resources

In 1995, as in 1994, the Company financed its operations from current collections and through advances under its line of credit with the bank. As of December 31, 1995 the Company's outstanding balance on its line of credit was \$550,000, a \$842,000 decrease over the prior year. Cash and cash equivalents at the end of 1995 had increased by \$21,805 in comparison to the end of the prior year. The winding down of AHISI during 1995 resulted in significantly decreased working capital requirements.

The Company's \$2,000,000 line of credit was renewed on June 5, 1995. This line of credit expires May 30, 1996 at which time it is subject to renewal. The line of credit coupled with funds generated from operations is sufficient to meet the Company's operating cash requirements. The Company has no material commitments for capital expenditures.

## Item 7.

## Financial Statements

The following Financial Statements are filed as part of this report:

<TABLE>  
<CAPTION>

<S>		<C>
(i)	Report of Independent Certified Public Accountants	18
(ii)	Consolidated Balance Sheet as of December 31, 1995	19-20
(iii)	Consolidated Statements of Operations for the Years Ended December 31, 1995 and 1994	21
(iv)	Consolidated Statements of Cash Flows for the Years Ended December 31, 1995 and 1994	22
(v)	Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 1995 and 1994	23
(vi)	Notes to Consolidated Financial Statements	24-35

</TABLE>

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Item 8. Disagreements of Accounting and Financial Disclosure

None.

PART III

Item 9. Directors and Executive Officers of the Registrant

The executive officers and directors of the Company are:

Name	Position with the Company
Sandor Rosenberg	Chairman of the Board, President and Secretary
Richard S. DeRose	Executive Vice President
George T. DeBakey	Director
John D. Sanders	Director
James D. Wester	Director
Bonnie K. Wachtel	Director
Brian R. Moore	Treasurer

Directors serve until the next annual meeting of shareholders or until successors have been elected and qualified. Officers serve at the discretion of the Board of Directors.

Sandor Rosenberg, 49, has been President and Chairman of the Board since 1979. Mr. Rosenberg holds a B.S. degree in Aerospace Engineering from Rensselaer Polytechnic Institute, and has done graduate studies in Operations Research at George Washington University.

Richard S. DeRose, 57, has been Executive Vice President since 1991. From 1979 to 1991 he served as the President and CEO for DHD, Inc. Mr. DeRose holds a B.S. degree in Science from the U.S. Naval Academy and an M.S. degree in Computer Systems Management from the U.S. Naval Post Graduate School, Monterey. Mr. DeRose has been involved in computer sales and operations for the past 20 years.

George T. DeBakey, 46, has been a director since 1989 and Secretary since 1990. Mr. DeBakey is an international business and education consultant. From 1987 to 1989, Mr. DeBakey was Executive Director of the Information Technology Association of America. In addition, he served as Deputy Assistant Secretary at the Department of Commerce from 1985 to 1987 responsible for the high technology industries for trade policy and trade promotion. He has a B.S. from Drake University, his Master's of International Management from American Graduate School of International Management, and his M.B.A. from Southern Methodist University.

John D. Sanders, 57, has been a Director since 1983. Since 1968, he has been a vice president of Wachtel & Co., Inc., investment bankers and since 1986 served as Chairman and CEO of TechNews, Inc., publisher of the Washington Technology newspaper. Mr. Sanders

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obtained a B.E.E. degree from the University of Louisville and M.S. and Ph.D. degrees in Electrical Engineering from Carnegie-Mellon University. He is a member of the board of directors of: Daedalus Enterprises, Inc., an electronics

equipment manufacturer; Industrial Training Corporation, a manufacturer of video-based training programs; and Tork, Inc., an electrical equipment manufacturer.

James D. Wester, 57, has been a Director since 1985. He has been a computer services marketing consultant for more than 15 years. Since 1984, he has been president of Results, Inc. Mr. Wester obtained a B.M.E. degree from Auburn University and an M.B.A. from George Washington University.

Bonnie K. Wachtel, 40, has been a Director since 1992. Since 1984, she has served as vice president and general counsel of Wachtel & Co., Inc., investment bankers in Washington, D.C. Ms. Wachtel holds B.A. and M.B.A. degrees from the University of Chicago and a J.D. from the University of Virginia. She is a director of Integral Systems, Inc., a provider of computer systems and software for the satellite communications market; SSE Telecom, Inc., a satellite equipment manufacturer; and VSE Corporation, a provider of technical services to the federal government.

Brian R. Moore, 40, was appointed Treasurer in November 1993. He joined IAI in June 1993 as Corporate Controller. Previously, Mr. Moore served as a Division Controller for PRC, Inc. He has a B.S. degree from Virginia Tech and is a Certified Public Accountant. He also serves as the Treasurer of AHISI.

There are no family relationships between any directors or executive officers of IAI.

Item 10. Executive Compensation

The following table sets forth the compensation paid over the last three fiscal years to the Company's chief executive officer and other individuals serving as executive officers as of December 31, 1995.

<TABLE>  
<CAPTION>

Summary Compensation Table

Name and Number of Principal Stock Options	Position	Year	Salary	Bonus	Other Annual Compensation1/ 1/
<hr/>					
Granted					
<S>	<C>	<C>	<C>	<C>	<C>
<C>					
Sandor Rosenberg	President	1995	\$100,007	\$25,900	\$ 487
-		1994	\$ 99,910	\$30,000	\$ 162
-		1993	\$ 94,992	-	\$ 325
-					
James Hagedorn2/	Vice President	1995	\$125,814	\$20,900	\$2,682
-		1994	\$100,006	\$42,457	\$1,605
(IAI)		1993	\$100,156	\$18,916	\$ 44
-					
Richard DeRose	Vice President	1995	\$109,730	\$30,900	\$3,415
-		1994	\$ 99,622	\$30,000	\$3,268
(IAI) 10,000		1993	\$ 80,000	\$60,000	\$4,985
<hr/>					

cost of life insurance coverage over \$50,000. No officer received any personal benefits or perquisites greater than 10% of their compensation.

2/ Mr. Hagedorn's employment terminated on December 31, 1995.

In September, 1983, IAI adopted for the benefit of its employees a stock option plan which expired in 1993. As of December 31, 1995, options for 37,828 shares were outstanding ranging in exercise prices of \$3.00 to \$7.50 per share. No options were granted in 1995 and no executive officers exercised any options in 1995.

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Item 11. Security Ownership of Certain Beneficial Owners and Management

Set forth below is information concerning ownership of IAI's Common Stock as of December 31, 1995.

<TABLE>  
<CAPTION>

Name and Position of Certain Beneficial Owners and Management	Shares of Common Stock	Percentage of Ownership
<S> Sandor Rosenberg, Chairman of the Board and President	<C> 245,000	<C> 48.4%
Richard DeRose, Vice President, DHD	15,000(1)	3.0%
James Hagedorn(2)	5,000	1.0%
George T. DeBakey, Director	1,000(3)	0.2%
John D. Sanders, Director	10,500(4)	2.1%
James D. Wester, Director	12,500(5)	2.5%
Bonnie K. Wachtel, Director	5,000(6)	1.0%
Total Directors and Executive Officers as a Group (6 persons)	294,000	58.2%

</TABLE>

(1) Includes 15,000 stock options granted to Mr. DeRose, 5,000 of which are exercisable at \$5.00 per share and expire, subject to continuing employment, on June 23, 2002, and 10,000 of which are exercisable at \$4.50 per share and expire, subject to continuing employment, on January 4, 2003.

(2) Mr. Hagedorn's employment terminated on December 31, 1995. Includes 5,000 options which are exercisable at \$5.00 per share and will have expired unless exercised within three months from termination of employment.

(3) Includes a warrant issued June 1, 1989, exercisable for 1,000 shares at a price of \$7.50 per share. This warrant expires June 30, 1999.

(4) Includes a warrant issued November 20, 1991, exercisable for 3,000 shares at a price of \$5.50 per share. This warrant expires November 20, 1996.

(5) Includes a warrant issued on February 24, 1993, exercisable for 12,000

shares at \$5.00 per share and which expires on February 24, 2004.

- (6) Includes a warrant issued November 20, 1991, exercisable for 2,500 shares at a price of \$5.50 per share. This warrant expires November 20, 1996. The shares reflected for Ms. Wachtel exclude 9,500 shares which Wachtel & Co., Inc., a registered broker-dealer of which Ms. Wachtel is an affiliate, held in connection with its market making activities.

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Item 12. Certain Relationships and Related Transactions

During 1995, IAI repurchased from its President, Sandor Rosenberg, on nine separate occasions an aggregate of 17,200 shares of its common stock at an average price of \$4.31 per share, for a total purchase price of \$72,663.

During 1994, IAI repurchased from its President, Sandor Rosenberg, on three separate occasions an aggregate of 20,500 shares of its common stock at an average price of \$4.75 per share, for a total purchase price of \$88,375.

The Exhibits set forth below are filed as part of this report:

Exhibit No.	Description	Page(s)
(3)	Articles of Incorporation and Bylaws*	
	*Incorporated by reference from the Company's Registration Statement on Form S-18 dated November 20, 1986.	
(10)	Material Contracts:	
(i)	Lease of 15,812 square feet of office space at 2222 Gallows Road, Dunn Loring, Virginia, from John Hancock Mutual Life Insurance Company***	
(ii)	Lease of 5,696 square feet of office space at 2222 Gallows Road, Dunn Loring, Virginia, from John Hancock Mutual Life Insurance Company ****	
(iii)	Adoption Agreement and Plan for the Information Analysis Incorporated 401(k) Profit Sharing Plan+	
(iv)	Employee Stock Option Agreement+	
(v)	Non-incentive Stock Option Warrant Agreement++	
(vi)	Loan Agreement between Information Analysis Incorporated and First Virginia Bank++	

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(vii)	Line of Credit Agreement with First Virginia Bank	36-39
(viii)	Agreement with DHD Systems, Inc.**	
(ix)	Employment Agreements with George Davis and Richard DeRose**	
(x)	Agreement with SDA, Inc.**	
(xi)	Agreement with Weysoft, Inc. ****	

	Pages	
(11)	Computation of Earnings Per Share for the years ended December 31, 1995 and 1994	40

\* Incorporated by reference from the Company's Annual 10K Report dated March 30, 1989.

\*\* Incorporated by reference from the Company's Annual 10K Report dated March 30, 1992.

\*\*\* Incorporated by reference from the Company's Annual 10K Report dated March 30, 1993.

\*\*\*\* Incorporated by reference from the Company's Annual 10K Report dated March 30, 1994.

+Incorporated by reference from the Company's Registration Statement on Form S-8 dated December 20, 1988.

++Incorporated by reference from the Company's Registration Statement on Form S-18 dated November 20, 1986.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d), of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

INFORMATION ANALYSIS INCORPORATED

By:

Sandor Rosenberg, President  
March 31, 1996

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
Sandor Rosenberg	Chairman of the Board and President	March 31, 1996
George T. DeBakey	Director	March 31, 1996
John D. Sanders	Director	March 31, 1996
Bonnie K. Wachtel	Director	March 31, 1996
James D. Wester	Director	March 31, 1996
Brian R. Moore	Treasurer	March 31, 1996

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

DECEMBER 31, 1995 AND 1994  
(WITH INDEPENDENT AUDITORS' REPORT THEREON)

To the Board of Directors  
Information Analysis, Incorporated

We have audited the accompanying consolidated balance sheet of Information Analysis Incorporated and subsidiaries as of December 31, 1995, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the two years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Information Analysis Incorporated and subsidiaries as of December 31, 1995, and the consolidated results of operations and cash flows for each of the two years then ended in conformity with generally accepted accounting principles.

Rubino & McGeehin, Chartered  
Bethesda, Maryland  
February 29, 1996

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INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
December 31, 1995

ASSETS

Current assets	
Cash and cash equivalents	\$ 57,016
Accounts receivable	3,251,643
Employee advances	24,624
Income taxes receivable	20,695
Deferred income taxes	95,887
Prepaid expenses	109,283
Other receivables	102,186
	-----
Total current assets	3,661,334
Fixed assets	
At cost, net of accumulated depreciation and amortization of \$1,077,150	273,208
Equipment under capital leases	
Net of accumulated amortization of \$34,889	70,932
Investments	10,000
Other receivables	157,660
	-----
Total assets	\$ 4,173,134
	=====

The accompanying notes are an integral part of the consolidated financial statements

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INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
December 31, 1995

LIABILITIES & STOCKHOLDERS' EQUITY

Current liabilities

Accounts payable	\$ 1,267,926
Accrued payroll	303,353
Other accrued liabilities	11,799
Note payable - bank	550,000
Current maturities of capital lease obligations	18,229
Deferred rent	11,076
	-----
Total current liabilities	2,162,383
Capital lease obligations, net of current portion	58,895
Deferred income taxes	19,000
	-----
Total liabilities	2,240,278
	-----
Common stock, par value \$0.01 1,000,000 shares authorized; 621,232 shares issued	6,212
Paid in capital in excess of par value	772,219
Retained earnings	1,955,488
Less treasury stock; 154,179 shares at cost	(801,063)
	-----
Total stockholders' equity	1,932,856
	-----
Total liabilities and stockholders' equity	\$ 4,173,134
	=====

The accompanying notes are an integral part of the consolidated financial statements

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INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF OPERATIONS

<TABLE>  
<CAPTION>

	For the Years Ended December 31,	
	1995	1994
<S>	-----	-----
Sales	<C>	<C>
Professional fees	\$ 15,436,643	\$ 15,783,360
Software sales	260,253	906,174
Total sales	15,696,896	16,689,534
Cost of sales	-----	-----
Cost of professional fees	12,511,118	12,361,424
Cost of software sales	224,477	788,432
Total cost of sales	12,735,595	13,149,856
Gross profit	2,961,301	3,539,678
Selling, general and administrative expenses	2,958,722	3,533,422
Income from operations	2,579	6,256
Other income and expenses	-----	-----
Interest income	7,554	15,343
Interest expense	(110,748)	(106,623)
Income (loss) before provision for income taxes	(100,615)	(85,024)
Provision (benefit) for income taxes	(25,982)	(26,329)

Net loss	\$ (74,633)	\$ (58,695)
Net loss per common and common equivalent share	\$ (0.15)	\$ (0.12)
Weighted average common and common equivalent shares outstanding	478,561	497,180

The accompanying notes are an integral part of the consolidated financial statements

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>  
<CAPTION>

	For the Years Ended December 31,	
	1995	1994
<S>	<>C>	<>C>
Cash flows from operating activities		
Cash received from customers	\$ 16,345,476	\$ 16,799,821
Cash paid to suppliers and employees	(15,309,026)	(16,772,529)
Interest received	7,554	15,343
Interest paid	(110,748)	(106,623)
Income taxes paid (net)	57,293	(79,990)
Net cash provided (used) by operating activities	990,549	(143,978)
Cash flows from investing activities		
Loans and advances	29,155	16,991
Acquisition of furniture and equipment	(79,983)	(144,931)
Proceeds from sale of equipment	25,687	10,300
Net cash used in investing activities	(25,141)	(117,640)
Cash flows from financing activities		
Net borrowing under bank revolving line of credit	(842,000)	337,000
Principal payments on debt and capital leases	(20,986)	24,037
(Repurchase) of common stock	(80,913)	(88,375)
Proceeds from exercise of incentive stock options	296	121
Net cash (used) provided by financing activities	(943,603)	272,783
Net increase in cash and cash equivalents	21,805	11,165
Cash and cash equivalents at beginning of the period	35,211	24,046
Cash and cash equivalents at end of the period	\$ 57,016	\$ 35,211
Reconciliation of net loss to cash provided by operating activities		
Net loss	\$ (74,633)	\$ (58,695)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	173,530	159,556
Loss on sale of fixed assets and investments	(1,113)	9,412
Changes in operating assets and liabilities		
Accounts receivable	648,580	110,287
Other receivables and prepaid expenses	(69,430)	(96,046)
Accounts payable and accrued expenses	292,528	(151,949)
Deferred rent	(10,224)	(10,224)
Income tax liability	31,311	(106,319)
Net cash provided (used) by operating activities	\$ 990,549	\$ (143,978)

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements

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INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
For the Years Ended December 31, 1995 and 1994

<TABLE>  
<CAPTION>

	Shares of Common Stock Outstanding	Common Stock	Additional Paid in Capital	Retained Earnings	Treasury Stock
Total	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
<C>					
Balances, December 31, 1993	621,151	6,212	771,802	2,088,816	(631,775)
2,235,055					
Exercise of stock options	27		121		
121					
Purchase of treasury stock					(88,375)
(88,375)					
Net income				(58,695)	
(58,695)					
<C>	-----	-----	-----	-----	-----
Balances, December 31, 1994	621,178	6,212	771,923	2,030,121	(720,150)
2,088,106					
Exercise of stock options	54		296		
296					
Purchase of treasury stock					(80,913)
(80,913)					
Net loss				(74,633)	
(74,633)					
<C>	-----	-----	-----	-----	-----
Balances, December 31, 1995	621,232	6,212	772,219	1,955,488	(801,063)
1,932,856					
<C>	=====	=====	=====	=====	=====

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements

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INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations

Information Analysis Incorporated (the Company) was incorporated under the corporate laws of the Commonwealth of Virginia in 1979 to develop and market computer applications software systems, programming services, and related software products and automation systems.

Principles of Consolidation

The consolidated financial statements include the accounts of the company and its wholly owned subsidiaries - DHD Systems, Inc. (DHD) and Allied Health & Information Systems, Inc. (AHISI). Upon consolidation, all material intercompany accounts, transactions and profits are eliminated. Both subsidiaries commenced operations in 1991.

Investments in companies less than 20% owned are reported at cost less allowances for permanent decline in value. Income is recognized when dividends are declared. No dividends were declared in 1994 or 1995.

## Revenue Recognition

Revenue from cost-plus-fixed-fee contracts is recognized on the basis of direct costs plus indirect costs incurred and an allocable portion of the fixed fee. Revenue from fixed-price contracts is recognized on the percentage-of-completion method, with costs and estimated profits recorded as work is performed. Revenue from time and material contracts is recognized based on fixed hourly rates for direct hours expended. The fixed hourly rate includes direct labor, indirect expenses and profit. Material or other specified direct costs are recorded at actual cost.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance. Provisions of estimated losses on uncompleted contracts are made in the period in which losses are determined. Changes in job performance, job conditions, and estimated profitability, including final contract settlements, may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

## Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

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## INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid investments with maturities of sixty days or less at time of purchase to be cash equivalents. Deposits are maintained with a federally insured bank. Balances at times may exceed insured limits.

#### Fixed Assets

Fixed assets are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the term of the lease or the estimated life of the improvement, whichever is shorter. Maintenance and minor repairs are charged to operations as incurred. Gains and losses on dispositions are recorded in current operations.

#### Deferred Rent

Rental expense on operating leases are charged to operations over the life of the lease using the straight-line method. Differences between the amounts charged and the amounts paid are recorded as deferred rent.

#### Earnings Per Share

Earnings per common equivalent share are based on the weighted average number of common shares and common share equivalents outstanding during this year. When dilutive, stock options are included as share equivalents using the treasury stock method.

Under that method, earnings per share data are computed as if the options and warrants were exercised at the beginning of the period (or at the time of issuance, if later) and as if the funds obtained thereby were used to purchase common stock at the average market price during the period.

#### Income Taxes

Deferred income tax assets and liabilities are recognized for the estimated future tax effects of the differences between the financial statement and tax bases of assets and liabilities given the provisions of enacted tax laws. The provision for income taxes consists of the amount payable for the year and the change in the deferred tax liability or asset.

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## INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Accounting Standards

In October 1995, the Financial Accounting Standards Board ("FASB") issued Statement 123, "Accounting for Stock-Based Compensation" ("Statement 123"), which establishes fair value-based accounting and reporting standards for all transactions in which a company acquires goods or services by issuing equity securities. As such, Statement 123 covers stock-based compensation plans including all arrangements under which employees receive shares of stock. Statement 123 encourages, but does not require, employers to adopt its prescribed fair value-based method of accounting to recognize compensation expense for employee stock compensation plans. Employers must comply with the disclosure requirements set forth in the statement. Statement 123 is effective for fiscal years beginning after December 15, 1995. The Company expects to adopt only the reporting standards of Statement 123. The Company accounts for its employee stock compensation plan under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

## 2. INDUSTRY SEGMENT AND CREDIT CONCENTRATION

During 1995 and 1994, the Company's operations included two reportable segments: computer applications and healthcare. The computer applications segment include those operations involved in developing and marketing computer application software systems and providing programming services. The Company and its subsidiary DHD, operate in this segment. Approximately 82% of this segment's revenue in 1995, and 76% in 1994, came from contracts and subcontracts with departments and agencies of the federal government. Subsequent to December 31, 1995, the Company was informed that it was unsuccessful in obtaining the renewal of a contract with the United States Customs Service. Approximately 65% of this segment's revenue in 1995 and 51% in 1994, came from the contract with the United States Customs Service.

The healthcare segment, operated by AHISI, is involved in providing the services of certified physician assistants, nurses and medical doctors to healthcare facilities operated by third parties in conjunction with state and local governments, the District of Columbia, and the federal government. The Company is in the process of winding down the activities of this business segment. The Company anticipates that no future revenue will be generated from this business segment after 1996.

### INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2. INDUSTRY SEGMENT AND CREDIT CONCENTRATION (CONTINUED)

Summarized financial information by business segment for 1995 and 1994 is as follows:

<TABLE>  
<CAPTION>

	1995	1994
	-----	-----
<S>		
Net Sales		
Computer Applications	\$14,012,017	11,118,172
Healthcare	1,684,879	5,571,362
Income (loss) from operations (pre-tax)		
Computer Applications	333,198	334,651
Healthcare	(330,619)	(328,395)
Identifiable assets		
Computer Applications	3,361,013	2,736,398
Healthcare	494,616	1,626,086
Capital Expenditures		
Computer Applications	79,354	99,205

## Depreciation and Amortization

Computer Applications	155,289	142,604
Healthcare	18,241	16,952

&lt;/TABLE&gt;

Operating income by business segment excludes interest income, interest expense and miscellaneous income and expense items that could not be identified with either segment. Other than those acquired by AHISI, all furniture, equipment, and capital leases and their related depreciation and amortization are considered the assets and expenses, respectively, of the computer application segment. In addition, accounts receivable are considered identifiable assets of the respective segment. Cash and cash equivalents, and the remaining other assets are considered corporate assets. There were no significant intersegment sales or transfers during 1995 and 1994.

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 3. RECEIVABLES

Accounts receivable at December 31, 1995 consisted of the following:

Billed - Federal government	\$1,812,702
Billed - prime contractors	699,992
Billed - commercial	523,383
-----	-----
Total billed	\$3,036,077
-----	-----
Unbilled - Federal government	\$11,388
Unbilled - prime contractors	60,438
Unbilled - commercial	143,740
-----	-----
Total unbilled	\$215,566
-----	-----
Total accounts receivable	\$3,251,643
-----	-----

Unbilled receivables are for unbilled services provided through the balance sheet date which are expected to be billed and collected within one year. Included in the unbilled accounts receivable at December 31, 1995 is approximately \$185,000 related to a claim with a former customer. The Company is currently in litigation against this customer and is seeking recovery of \$185,000 plus additional damages. The Company anticipates that this litigation will not be resolved within the next year.

Additionally, at December 31, 1995, the Company is due approximately \$500,000 from a former customer. An agreement between the parties calls for extended payments. Accordingly, a portion of the receivable is included as a non current other receivable.

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 4. FIXED ASSETS

A summary of fixed assets and equipment under capital leases at December 31, 1995 is as follows:

Furniture and Equipment	\$1,378,500
Leasehold Improvements	40,666
Motor Vehicles	37,013
	-----
Accumulated depreciation and amortization	1,456,179
	(1,112,039)
	-----
Total	\$344,140
	-----

##### 5. NOTE PAYABLE

At December 31, 1995, the Company had a revolving line of credit with a bank providing for demand or short-term borrowings of up to \$2,000,000. This line expires on May 30, 1996. Drawings against this line are based on varying percentages of the Company's accounts receivable balances depending on the source of the receivables and their age. On December 31, 1995, the outstanding balance on this loan was \$550,000. The bank's prime rate on that date was 8.75%. The lender has a first priority security interest in the Company's receivables and a direct assignment of its major U.S. Government contracts. The line of credit, among other covenants, requires the Company to comply with certain financial ratios.

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#### INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

##### 6. COMMITMENTS AND CONTINGENCIES

###### Capital Leases

The future minimum payments under capital leases for equipment and the present value of the minimum lease payments are as follows:

Year ending December 31	
1996	\$ 24,318
1997	24,318
1998	27,367
1999	15,132
	-----
Total minimum lease payments	91,135
Less amount representing interest	( 14,011)
	-----
Total obligation representing principal	77,124
Less current portions of capital lease obligations	( 18,229)
	-----
Long-term portion of capital lease obligations	\$ 58,895
	-----

###### Operating Leases

Rent expense was \$263,031, and \$329,864 for the years ended December 31, 1995, and 1994 respectively.

The future minimum rental payments to be made under noncancelable operating leases, principally for facilities, are as follows:

Year ending December 31	
1996	\$321,412
1997	45,865
	-----
Total minimum rent payments	\$367,277
	-----

The above minimum lease payments reflect the base rent under the lease agreements. However, these base rents shall be adjusted each year to reflect increases in the consumer price index and the Company's proportionate share of real estate tax increases on the leased property.

The leases are secured by irrevocable letters of credit for \$26,982. As of December 31, 1995 none of the letters of credit have been used.

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**6. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Operating Leases (continued)**

In September 1993, the Company leased additional space at its corporate headquarters to provide for the growth of its subsidiary, Allied Health. In conjunction with these negotiations, a \$51,112 leasehold improvement allowance on the main facility lease was converted into a rent credit. This rent credit is spread over the life of the lease and accounted for as deferred rent.

**Royalties**

In October 1993, the Company purchased ownership rights to a software product called Migrator. Included in the purchase price is an obligation for royalty payments of 10% on all Migrator license fees generated during the four year period following the sale. As of December 31, 1995, no Migrator license fees have been generated. During 1995, \$63,191 in research and development costs were incurred in the development of the Migrator product. As of December 31, 1995, all Migrator research and development costs have been expensed.

**Government Contracts**

Company sales to departments or agencies of the United States Government are subject to audit by the Defense Contract Audit Agency (DCAA). Audits by DCAA have not been performed for any years. Management is of the opinion that disallowances, if any, by DCAA for unaudited years will not result in any material adjustments to the financial statements.

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**7. INCOME TAXES**

The provision for income taxes consists of the following:

	December 31	
	1995	1994
<b>Current Expense</b>		
Federal	\$ 9,996	\$ 48,628
State	2,216	10,772
	<hr/> 12,212	<hr/> 59,400
<b>Deferred Benefit</b>		
Federal	(31,268)	(70,182)
State	(6,926)	(15,547)
	<hr/> (38,194)	<hr/> (85,729)
<b>Provision (benefit) for income taxes</b>	<b>\$ (25,982)</b>	<b>\$ (26,329)</b>
	<hr/>	<hr/>

The items that give rise to the deferred tax benefit shown above are as follows:

	December 31	
	1995	1994
Net IRC Section 481 (a) adjustment	\$ 0	\$ (122,589)
Depreciation	9,500	0

Vacation expense	13,106	( 550)
Bad debt expense	(60,800)	37,410
	-----	-----
Tax effects of temporary differences	\$ (38,194)	\$ (85,729)
	-----	-----

Prior to 1991, the Company reported its income for tax purposes on the cash basis. In 1991, the Company converted to the accrual method for tax reporting purposes. As a result, per IRC Section 481 (a), the Company is required to include with its current period taxable income, one fourth of the previously untaxed accrual income net of certain adjustments over a four year period ending with 1994.

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. INCOME TAXES (CONTINUED)

The tax effect of significant temporary differences representing deferred tax assets and liabilities at December 31, 1995 are as follows:

Depreciation	\$ 35,087	
Bad debt expense	60,800	
	-----	
Deferred tax asset	\$ 95,887	
	-----	
Depreciation - deferred tax liability	\$ 19,000	
	-----	

The provision for income taxes is at an effective rate different from the federal statutory rate due to principally to the following reasons:

	December 31	
	1995	1994
Income (loss) before taxes	\$ (100,615)	\$ (85,024)
	-----	-----
Income taxes (benefit) on above amount at federal statutory rate	(34,209)	(28,908)
State income taxes net of federal benefit	(4,648)	(3,928)
Effect of graduated tax brackets, change in estimates, and other	12,875	6,507
	-----	-----
Provision (benefit) for income taxes	\$ (25,982)	\$ (26,329)
	-----	-----

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. STOCK OPTIONS AND WARRANTS

The Company has an employee stock incentive plan which reserved 100,000 shares of common stock to be sold to certain employees. At December 31, 1995, options to purchase stock under this plan were outstanding to employees as follows:

Number of shares	Exercise price per share
32	\$3.00
200	4.00
20,200	4.50
17,000	5.00
396	5.50

These options are exercisable immediately.

Transactions involving the plan were as follows:

December 31		
	1995	1994
Outstanding at beginning of year	43,443	72,158
Granted	0	0
Exercised	(54)	(27)
Canceled	(5,561)	(28,688)
	-----	-----
	37,828	43,443
	-----	-----

The Board of Directors has granted warrants to directors and employees. As of December 31, 1995, warrants to acquire 19,000 shares of common stock had been granted to such persons and were outstanding. The purchase price for shares issued upon exercise of these warrants range from \$3.00 to \$7.50 per share. These warrants are exercisable immediately. In addition, warrants to purchase 10,000 of common stock at \$5.50 per share were issued to the underwriters as part of the cost of the issuance of stock in November 1986. These warrants expired in 1991 and were replaced by warrants to purchase 10,000 shares of common stock at \$5.50 per share.

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#### INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

##### 9. RETIREMENT PLANS

The Company adopted a Cash or Deferred Arrangement Agreement (CODA) which satisfies the requirements of section 401(k) of the Internal Revenue Code, on January 1, 1988. This defined contribution retirement plan covers substantially all employees. Each participant can elect to have up to 6% of their salary reduced and contributed to the plan. The Company is required to make a matching contribution of 25% of this salary reduction. The Company can also make additional contributions at its discretion. Amounts expensed under the plan for the years ended December 31, 1995 and 1994 were \$44,549 and \$47,994 respectively.

The Company does not provide post employment benefits and, as a result, Statement of Financial Accounting Standards No. 106 does not have any impact on these financial statements.

##### 10. LITIGATION

At December 31, 1995, the Company is involved in litigation with a former inmate at a correctional facility where the Company has provided medical services. The case is a malpractice claim against the Company as well as other related parties. The plaintiff seeks \$850,000 to \$1,300,000. The Company has insurance to cover claims of up to \$1 million per occurrence, and there are other defendants who will likely contribute to either a settlement or a judgment, if any. In the opinion of management, there will be no material adverse effect on the Company's financial statements. No amounts have been accrued in the financial statements related to this matter.

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June 5, 1995

Mr. Sandor Rosenberg, Chairman  
Information Analysis, Inc.  
2222 Gallows Road  
Suite 300  
Dunn Loring, Virginia 22027

Dear Sandy:

It is my pleasure to inform you that First Virginia Bank has renewed the following credit arrangements for Information Analysis, Inc.

BORROWER: Information Analysis, Inc.

AMOUNT: Two million and 00/100 dollars (\$2,000,000.00).

CREDIT FACILITY: Line of credit, secured.

ADVANCES: Borrowings under this line are available as follows:

(Bullet) Up to 90% of less than ninety (90) day, billed invoices under Prime, U.S. Government contracts; plus

(Bullet) Up to 75% of less than ninety (90) day commercial receivables, U.S. Government subcontracts, and D.C. Government contracts, not to exceed \$1 million.

Borrowings are available by telephone from authorized officers or employees of the borrower under a "Master Note" arrangement.

Borrowings under the line are not available for any "real estate" related transaction, without the prior written consent of the Bank.

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Commitment Letter  
Information Analysis, Inc.  
June 5, 1995  
Page 2

SECURITY:

(Bullet) A first priority, security interest in all company receivables, now acquired and hereafter arising, filed under Virginia Uniform Commercial Code; and

(Bullet) Direct assignment of major U.S. and D.C. Government contracts under the Federal Assignment of Claims Act, where applicable.

INTEREST RATE &  
ADMINISTRATIVE EXPENSE  
OPTIONS:

Please choose one of the following:

( ) First Virginia Bank's prime rate plus 1/2%, which today is 9.50% plus an administrative fee of \$2,500, which covers periodic reviews of contracts, financial statements, and other reports of Borrower;

OR

( ) First Virginia Bank's prime rate plus 1/4%, which today is 9.25%, plus an administrative fee of \$5,000, which covers periodic reviews of contracts, financial statements, and other reports of Borrower;

OR

(x) First Virginia Bank's prime rate which today is 9.00%, plus an administrative fee of \$7,500, which covers periodic reviews of contracts, financial statements and other reports of Borrower.

The administrative fee covers costs to the Bank such as the review of contracts; perfecting the Bank's security interest under the Federal Assignment of Claims Act and the Virginia Uniform Commercial Code; and the review of periodic reports and financial statements. The administrative fee is earned upon commitment acceptance and will be charged to Borrower's operating account.

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Commitment Letter  
Information Analysis, Inc.  
June 5, 1995  
Page 3

The term prime rate shall mean the rate established from time to time by the Bank as a reference for fixing the lending rate of commercial loans.

These interest rates are considered variable and may fluctuate periodically with general money market conditions.

LETTER AGREEMENT:

This \$2 million secured, lined of credit continues to be subject to a certain Letter Agreement and Amendment dated September 3, 1992 and June 30, 1993 respectively and is noted here for reference purposes.

DEPOSITS:

We appreciate the deposit relationship that Information Analysis and you personally have maintained with First Virginia Bank over time. We would expect the Company to continue making the Bank its primary depository, while this line of credit is in effect.

BANK COLLATERAL

AUDITS:

At any reasonable time and from time to time during normal business hours, permit the Bank or any agent or representative thereof, to examine and make copies and abstracts from the records and books of account of, and visit the properties of, the Borrower and any Subsidiary, and to discuss the affairs, finances, and accounts of the Borrower and any Subsidiary with any of their respective officers and directors and the Borrower's independent accountants. Expenses associated with the above will be the responsibility of the Borrower.

FINANCIAL REPORTING  
REQUIREMENTS:

The following financial statements and reports are requested for our periodic and confidential review:

(Bullet) A listing and aging of Company receivables (along with a Borrowing Base certification) and payables are due twenty (20) days after the end of each month.

(Bullet) Quarterly, Company prepared financial statements are due forty-five (45) days after the end of each fiscal quarter, including year-end, but subject to CPA adjustments.

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Commitment Letter  
Information Analysis, Inc.  
June 5, 1995  
Page 4

(Bullet) CPA prepared, audited year-end financial statements along with the accompanying Management Letter are due one hundred twenty (120) days after the end of each fiscal year.

(Bullet) Such other financial data and reports as the Bank may require from time to time.

## MATURITY:

This secured, line of credit expires May 30, 1996, at which time the line will be considered for renewal by the Bank.

## MISCELLANEOUS:

Any credit extension granted now or in the future are conditioned upon Information Analysis, Inc. maintaining a financial condition satisfactory to First Virginia Bank.

The provisions of this commitment letter will remain in full force and effect until this line of credit is paid in full.

If the general terms and conditions renewing this \$2.0 million secured line are acceptable to you, please so indicate by signing and returning the original of this commitment letter to my attention by June 27, 1995, after which time this renewal may expire at the Bank's option.

Sandy, we are please to renew the \$2 million credit line for Information Analysis and hope that it meets the Company's short-term credit needs. Should you have any questions in connection with this renewal, please call me.

Sincerely,

Joseph J. Calabrese, III  
Vice President  
Telephone 703/241-3180

cc: Mr. Brian Moore, Treasurer &  
Director-Finance & Administration

AGREED to and ACCEPTED this 7th day of June, 1995.

INFORMATION ANALYSIS, INC.

By: Sandor Rosenberg, Chairman

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INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES  
COMPUTATION OF EARNINGS PER SHARE

<TABLE>  
<CAPTION>

For the Years Ended December 31,			
		1995	1994
<S>		-----<C>	-----<C>
Primary earnings per share			
Earnings			
Net loss	\$	(74,633)	\$ (58,695)
-----			
Shares			
Weighted average number of common shares outstanding		477,303	495,922
Excess shares issuable from assumed exercise of stock options		8	8
Excess shares issuable from assumed exercise of stock warrants		1,250	1,250
-----			
Average shares as adjusted		478,561	497,180
-----			
Primary earnings per share	\$	(0.15)	\$ (0.12)
-----			

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