

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

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

For the Quarter Ended  
September 30, 2000  
-----

Commission  
File No. 0-22405  
-----

Information Analysis Incorporated  
(Exact name of Registrant as specified in its charter)

Virginia  
(State or other jurisdiction of  
incorporation or organization)  
54-1167364  
-----  
(IRS Employer  
Identification No.)  
11240 Waples Mill Road, #400  
Fairfax, VA  
-----  
22030  
-----  
(Address of principal executive offices) (Zip Code)  
(Registrant's telephone number,  
including area code) (703)383-3000  
-----

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 Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No   
-----

State the number of shares outstanding of each of the issuer's classes of common stock, as of October 31, 2000:

Common Stock, par value \$.01, 9,701,473 shares

Transitional small business disclosure format.

Yes  No   
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INFORMATION ANALYSIS INCORPORATED  
FORM 10-QSB

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Information Analysis Incorporated and Subsidiaries  
Consolidated Balance Sheets

<TABLE>  
<CAPTION>

	As of September 30, 2000 (unaudited) ----- <C>	As of December 31, 1999 (audited) ----- <C>
<S>		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 156,820	\$ 133,468
Accounts receivable, net	1,467,992	1,902,244
Employee advance	--	6,230
Prepaid expenses	131,592	129,995
Other receivables	65,366	97,299
	-----	-----
Total current assets	1,821,770	2,269,236
Fixed assets, net	129,453	279,787
Equipment under capital leases, net	7,926	11,553
Capitalized software, net	530,189	463,653
Other receivables	38,142	28,992
Other assets	58,275	58,275
	-----	-----
Total assets	\$ 2,585,755	\$ 3,111,496
	=====	=====
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,431,731	\$ 1,491,179
Accrued payroll and related liabilities	228,470	276,871
Other accrued liabilities	132,594	727,904
Revolving line of credit	655,991	501,500
Current maturities of capital lease obligations	1,105	6,936
	-----	-----
Total current liabilities	2,449,891	3,004,390
	-----	-----
Total liabilities	2,449,891	3,004,390
Common stock, par value \$0.01, 30,000,000 shares authorized; 11,206,084 and 10,723,284 shares issued, 9,701,473 and 9,218,673 outstanding at September 30, 2000 and December 31, 1999, respectively		
	112,061	107,233
Additional paid in capital	13,915,702	13,763,904
Accumulated Deficit	(13,037,586)	(12,909,718)
Less treasury stock; 1,504,611 shares at cost	(854,313)	(854,313)
	-----	-----
Total stockholders' equity	135,864	107,106
	-----	-----
Total liabilities and stockholders' equity	\$ 2,585,755	\$ 3,111,496
	=====	=====

</TABLE>

See accompanying notes

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Information Analysis Incorporated and Subsidiaries  
Consolidated Statements of Operations

<TABLE>  
<CAPTION>

	Three months ended September 30,	
	<C>	<C>
<S>	2000	1999
(unaudited)	----	----
Net sales:		
Professional services	\$1,257,921	\$ 1,548,178
Software sales	127,701	549,767
	-----	-----
Total sales	1,385,622	2,097,945
Cost of goods sold and services provided:		
Cost of professional services	854,137	1,037,233
Cost of software sales	176,788	791,447
	-----	-----

Total cost of goods sold and services provided	1,030,925	1,828,680
Gross margin	354,697	269,265
Operating expenses:		
Selling, general and administrative	467,637	702,495
	-----	-----
Total operating expenses	467,637	702,495
Operating loss	(112,940)	(433,230)
Other (expense)	(17,255)	(32,301)
	-----	-----
Loss before income taxes	(130,195)	(465,531)
Provision for income taxes	--	--
	-----	-----
Net loss	\$ (130,195)	\$ (465,531)
	=====	=====
Net loss per common share:		
Basic	\$ (0.01)	\$ (0.07)
	=====	=====
Diluted	\$ (0.01)	\$ (0.07)
	=====	=====
Weighted average common shares outstanding:		
Basic	9,589,299	6,918,673
Diluted	9,589,299	6,918,673

	Nine months ended September 30,	
(unaudited)	2000	1999
	----	----
Net sales:		
Professional services	\$3,887,652	\$ 6,988,853
Software sales	733,639	1,150,366
	-----	-----
Total sales	4,621,291	8,139,219
Cost of goods sold and services provided:		
Cost of professional services	2,792,988	4,713,115
Cost of software sales	464,948	1,528,403
	-----	-----
Total cost of goods sold and services provided	3,257,936	6,241,518
Gross margin	1,363,355	1,897,701
Operating expenses:		
Selling, general and administrative	1,467,263	2,943,048
Research and development	--	72,935
	-----	-----
Total operating expenses	1,467,263	3,015,983
Operating loss	(103,908)	(1,118,282)
Other (expense)	(23,960)	(104,662)
	-----	-----
Loss before income taxes	(127,868)	(1,222,944)
Provision for income taxes	--	--
	-----	-----
Net loss	\$ (127,868)	\$ (1,222,944)
	=====	=====
Net loss per common share:		
Basic	\$ (0.01)	\$ (0.18)
	=====	=====
Diluted	\$ (0.01)	\$ (0.18)
	=====	=====
Weighted average common shares outstanding:		
Basic	9,535,635	6,910,713
Diluted	9,535,635	6,910,713

</TABLE>

See accompanying notes

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Information Analysis Incorporated and Subsidiaries  
Consolidated Statement of Cash Flows

<TABLE>

<CAPTION>

	For the nine Months Ended September 30,	
	-----	
<S>	<C>	<C>
(unaudited)	2000	1999
Net (loss)	\$ (127,868)	\$ (1,222,944)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	150,334	222,819
Amortization	3,627	15,547
Amortization of Capitalized Software	115,911	821,253
Loss on sale of fixed assets	--	25,361
Changes in operating assets and liabilities		
Accounts receivable	434,252	1,854,848
Other receivables and prepaid expenses	27,416	(12,238)
Accounts payable and accrued expenses	(703,159)	(1,167,084)

Net cash (used) provided by operating activities	\$ (99,487)	\$ 562,038
Cash flows from investing activities		
Acquisition of furniture and equipment	--	(1,961)
Increase in capitalized software	(182,447)	--
Proceeds from sale of fixed assets	--	55,566
Net cash (used) provided in investing activities	(182,447)	53,605
Cash flows from financing activities		
Net borrowing (payments) under bank revolving line of credit	154,491	(669,500)
Principal payments on capital leases	(5,831)	(6,559)
Net Proceeds from private placement	125,000	--
Proceeds from exercise of stock options and warrants	31,626	19,774
Net cash provided (used) by financing activities	305,286	(656,285)
Net increase (decrease) in cash and cash equivalents	23,352	(40,642)
Cash and cash equivalents at beginning of the period	133,468	176,399
Cash and cash equivalents at end of the period	\$ 156,820	\$ 135,757
Supplemental cash flow Information		
Interest paid	\$ 42,617	\$ 112,049

</TABLE>

See accompanying notes

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#### PART I

#### Item 1. Financial Statements.

##### INFORMATION ANALYSIS, INCORPORATED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Basis of Presentation

The accompanying consolidated financial statements have been prepared by Information Analysis Incorporated ("IAI" or the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission. Financial information included herein is unaudited, however, in the opinion of management, all adjustments (which include normal recurring adjustments) considered necessary for a fair presentation have been made. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations, but the Company believes that the disclosures made are adequate to make the information presented not misleading. For more complete financial information, these financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 1999 included in the Company's annual report on Form 10-KSB. Results for interim periods are not necessarily indicative of the results for any other interim period or for the full fiscal year.

#### Cautionary Statement Regarding Forward-Looking Statements

This Form 10-QSB contains forward-looking statements regarding the Company's business, customer prospects, or other factors that may affect future earnings or financial results that are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. Such statements involve risks and uncertainties which could cause actual results to vary materially from those expressed in the forward-looking statements. Investors should read and understand the risk factors detailed in the Company's 10-KSB for the fiscal year ended December 31, 1999 and in other filings with the Securities and Exchange Commission.

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#### Net Income Per Share

Earnings per share are presented in accordance with SFAS No. 128, "Earnings Per Share." This statement requires dual presentation of basic and diluted earnings per share on the face of the income statement. Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

<TABLE>  
<CAPTION>

The following is a reconciliation of the amounts used in calculating basic and diluted net income per common share.

Share	Income	Shares	Per
Amount	-----	-----	--
----	-----	-----	--
<S>	<C>	<C>	<C>
(dollars in thousand)			
Basic net income per common share for the nine months ended September 30, 2000:			
Income available to common stockholders \$(0.01)	\$ (128)	9,535,635	
Effect of dilutive stock options		--	
--			
Diluted net income per common share for the nine months ended September 30, 2000:	\$ (128)	9,535,635	
\$(0.01)			
Basic net income per common share for the nine months ended September 30, 1999:			
Income available to common stockholders \$(0.18)	\$ (1,223)	6,910,713	
Effect of dilutive stock options		--	
--			
Diluted net income per common share for the nine months ended September 30, 1999:	\$ (1,223)	6,910,713	
\$(0.18)			
Basic net income per common share for the three months ended September 30, 2000:			
Income available to common stockholders \$(0.01)	\$ (130)	9,589,299	
Effect of dilutive stock options		--	
--			
Diluted net income per common share for the three months ended September 30, 2000:	\$ (130)	9,589,299	
\$(0.01)			
Basic net income per common share for the three months ended September 30, 1999:			
Income available to common stockholders \$(0.07)	\$ (466)	6,918,673	
Effect of dilutive stock options		--	
--			
Diluted net income per common share for the three months ended September 30, 1999:	\$ (466)	6,918,673	
\$(0.07)			

</TABLE>

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Item 2. Management's Discussion and Analysis of Financial Condition or Plan of Operation.

Overview

Prior to mid-1999, the Company was primarily dedicated to solving Year 2000 problems by providing software and services. Since the latter part of 1999 the Company's main focus has been modernizing client information systems and developing Web-based solutions. The Company primarily applies its technology, services and experience to legacy software migration and modernization. The arrival of the Internet and Intranet technology has offered a different approach at collecting and processing large volumes of user transactions, processes which were the forte of older legacy systems. The Company has been using its expertise in legacy systems to develop solutions that allow these legacy systems to interface with the Web.

Three Months Ended September 30, 2000 Versus Three Months Ended September 30, 1999

Revenue

IAI's revenues in the third quarter of fiscal 2000 were \$1.4 million, compared to \$2.1 million in the third quarter of fiscal 1999, a decrease of 34.0%. Professional services revenues were \$1.3 million versus \$1.5 million, a decrease of 18.7%, and product revenues were \$0.1 million versus \$0.5 a decrease of 76.8%. The decrease in revenue for services and product continues to be a result of diminished sales across the board for Year 2K related projects during

the third quarter of fiscal 2000 as compared to the same quarter in 1999.

#### Gross margin

Gross margins were \$0.4 million or 25.6% of sales, in the third quarter of fiscal 2000 versus \$0.3 million, or 12.8% of sales, in the third quarter of fiscal 1999. Of the \$0.4 million in 2000, \$0.4 million was attributable to professional services and (\$0.0 million) was due to software sales. Gross margins as a percentage of sales were 32.1% for professional services and (38.4%) for software sales. In the third quarter of 1999, the Company reported gross margins of approximately 33.0% for professional services and (44.0%) for software. The increase in percentages for gross margins in the third quarter of fiscal 2000 is primarily attributable to Year 2K fixed price contracts in 1999 that no longer exist, which contained overall lower margins.

#### Selling, General & Administrative (SG&A)

SG&A was \$0.5 million, or 33.7% of revenues, in the third quarter of 2000 versus \$0.7 million, or 33.5% of revenues, in the third quarter of 1999, a decrease in expenses of 33.4%. The decrease is attributable to the Company's elimination of its marketing and support expenses associated with Year 2K services and product.

#### Profit

The Company reported an operating loss of \$0.1 million in the third quarter of 2000 compared to an operating loss of \$0.5 million in the third quarter of 1999. The primary cause of the improvement was a combination of higher gross margin percentages, lower SG&A and the discontinued amortization of UNICAST capitalized software which was fully written-off by year-end 1999.

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### Nine Months Ended September 30, 2000 Versus nine Months Ended September 30, 1999

#### Revenue

IAI's revenues in the first nine months of fiscal 2000 were \$4.6 million, compared to \$8.1 million in the first nine months of fiscal 1999, a decrease of 43.2%. Professional services revenues were \$3.9 million versus \$7.0 million, a decrease of 44.4%, and product revenues were \$0.7 million versus \$1.2 million, a decrease of 36.2%. The decrease in revenues for both professional services and product sales is a result of diminished sales for Year 2K related projects.

#### Gross margin

Gross margins were \$1.4 million or 29.5% of sales, in the first nine months of fiscal 2000 versus \$1.9 million, or 23.3% of sales, in the first nine months of fiscal 1999. Of the \$1.4 million in 2000, \$1.1 million was attributable to professional services and \$0.3 million was due to software sales. Gross margins as a percentage of sales were 28.2% for professional services and 36.6% for software sales for 2000, versus 32.6% for professional services and (32.9%) for software sales in 1999. The increase in gross margins as a whole is attributable to the discontinuation of Year 2K related projects which contained lower overall margins.

#### Selling, General & Administrative

SG&A was \$1.5 million, or 31.8% of revenues, for the nine months ending 2000 versus \$3.0 million, or 36.2% of revenues, for the nine months ending 1999, a decrease in expenses of 50.1%. The decrease is attributable to the Company's elimination of its marketing and support expenses associated with Year 2K services and product.

#### Research and Development

No R&D expenditures were incurred in the first nine months of fiscal 2000 versus \$72,935 R&D expenditures in the first nine months of fiscal 1999.

#### Profit

The Company reported an operating loss of \$0.1 million for the first nine months of fiscal 2000 compared to an operating loss of \$1.2 million, for the first nine months of 1999. In general, the Company experienced a loss through the third quarter of 2000. The decrease in operating loss over the first nine months for 2000, versus the same period for 1999 is mainly attributable to the combination of higher gross margin percentages, lower SG&A and the discontinued amortization of UNICAST capitalized software which was fully written-off by year-end 1999.

#### Liquidity and Capital Resources

Through the first nine months of 2000, the Company financed its operations from current collections and through its bank line of credit. Cash and cash equivalents at September 30, 2000 were \$156,820 compared to \$135,757 at September 30, 1999. As of September 30, 2000 the Company had an outstanding

balance on its line of credit of \$655,991.

The Company is in default with its line of credit with First Virginia Bank as a result of the Company's failure to meet certain financial tests. However, a forbearance agreement between the Company and First Virginia Bank is in effect which effectively extends the line of credit of \$1,000,000 to December 31, 2000. The Company is in negotiations with various organizations to obtain a new line of credit.

If revenue continues at current levels the Company believes that it will derive sufficient cash flow to continue to pay all essential expenses which are required to operate the business. Any material reduction in revenue could have a material adverse effect on the Company's operational

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capabilities. The Company cannot be certain that there will not be a need for additional cash resources at some point in fiscal 2000. Accordingly, the Company may from time to time consider additional equity offerings to finance business expansion. The Company is uncertain that it will be able to raise additional capital.

The Company has no material commitments for capital expenditures.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

The Company is not aware of any legal proceedings against it at this time.

### Item 2. Changes in Securities

During the third quarter of 2000, the Company issued 100,000 shares of its common stock as a contingent payment against the outstanding balance of \$170,000 owed to Cornell Technical Services for services rendered. The shares have since been registered under a SB-2 registration statement that has been declared effective. The issuance was made in order to encourage Cornell Technical Services to defer collection efforts until the Company was able to make final payment of this debt. Both companies agreed that any proceeds Cornell Technical Services realizes from the sale of the shares will be applied against the amount that the Company owes. There have been no reported sales of any of these shares. The Company relied upon Section 4(2) of the Securities Act of 1933, as amended, in connection with the issuance of unregistered securities to Cornell Technical Services.

During the third quarter of 2000, the Company issued 20,000 shares of its common stock as a contingent payment against the outstanding balance of \$46,000 owed to Brendan Dawson under his previous employment agreement with the Company. The shares have since been registered under a SB-2 registration statement that has been declared effective. The issuance was made in order to encourage Mr. Dawson to defer collection efforts until the Company was able to make final payment of this debt. The Company and Mr. Dawson have agreed that any proceeds that Mr. Dawson realizes from the sale of any of the shares will be applied against the amount owed Mr. Dawson. There have been no reported sales of any of these shares. The Company relied upon Section 4(2) of the Securities Act of 1933, as amended, in connection with the issuance of unregistered securities to Mr. Dawson.

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

### Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibit 27.1, "Financial Data Schedule" is attached.
- (b) No reports on Form 8-K were filed for the quarter for which this report is filed.

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## SIGNATURES

In accordance with the requirements of the Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Information Analysis Incorporated

-----  
(Registrant)

Date: November 14, 2000  
-----

By: /s/ Sandor Rosenberg  
-----

Sandor Rosenberg, Chairman of the  
Board and President

By: /s/ Richard S. DeRose

-----  
Richard S. DeRose, Executive Vice  
President and Treasurer

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INDEX TO EXHIBITS

Exhibit No.	Description	Location
27.1	Financial Data Schedule	Filed with this Form 10-QSB

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<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE REGISTRANT'S 10-QSB AS FOR THE QUARTER ENDED SEPTEMBER 30, 2000 AND IS QUALIFIED BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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