
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

Annual Report pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 1999
Commission File No. 0-22405

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

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

11240 Waples Mill Road, Suite 400 Fairfax, Virginia 22030
(Address of principal executive offices) (Zip Code)

(703) 383-3000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, \$0.01 par value
(Title of Class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

The issuer's revenue for its most recent fiscal year was \$9,585,772

The aggregate market value of the Registrant's Common Stock held by non-affiliates as of March 15, 2000 was approximately \$10,989,859.

As of March 15, 2000 the Registrant had 9,478,673 shares of Common Stock outstanding.

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This Form 10-KSB contains forward looking statementsRichard DeRoseFinancial Printing GroupThis Form 10-KSB contains forward looking statements. These statements are based on certain assumptions and involve risks and uncertainties. Actual future results may vary materially from those discussed herein. Any statements that are not historical facts should be forward-looking statements. These forward looking statements are subject to the safe harbor created by the Private Securities Litigation Reform of 1995. IAI does not undertake any obligation to publicly release the result of any revision which may be made to any forward-looking statements after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

PART I

Item 1. Business Description

Overview

Founded in 1979, Information Analysis Incorporated ("IAI" or "the Company") is in the business of modernizing client information systems. Since its inception, IAI has performed software development and conversion projects for over 100 commercial and government clients including Computer Sciences Corporation, IBM, Computer Associates, MCI, Sprint, Citibank, U.S. Customs Service, U.S. Department of Agriculture, U.S. Department of Energy, U.S. Army, U.S. Air Force, Veterans Administration, and the Federal Deposit Insurance Corporation. Today, IAI primarily applies its technology, services and experience to legacy software migration and modernization and to developing web based solutions.

The migration and modernization market is complex and diverse as to the multiple requirements clients possess to upgrade their older systems. In the early 1990's, many organizations tried to convert or re-engineer their mainframe

legacy systems to PC client server environments. Many of these attempts failed because the technology for client servers lacked sufficient hardware performance and capacity. The available software languages and tools were also immature. By the mid 1990's, organizations did establish mid-level server technology (Unix) to off-load and decentralize some of their decision support or departmental systems, and they connected local area networks of PCs to provide better user interfaces. However, many large legacy systems remained in use because of the enormous cost to re-engineer these systems.

Currently, the options available to modernize these systems are many. Performance and capacity of client server systems, both UNIX and NT, rival the traditional mainframe systems. There is a plethora of software that can interface with legacy systems via PC interfaces. New software development languages also allow users to warehouse and data-mine information from legacy databases. Finally, the arrival of the internet and intranet technology offers a different approach at collecting and processing large volumes of user transactions, processes which are the forte of older legacy systems.

Now that Year 2000 projects are virtually completed, companies are being driven for various reasons to address the upgrading of their legacy systems. The Y2K experience has impressed on them the difficulty of finding and retaining staff with outdated technical skills, much of which are practiced by senior programmers in their fifties. Hardware platforms such as Unisys and Honeywell are reaching the horizon of their usefulness, and older programming and data base languages are poorly supported by their providers. Additionally, maintenance costs are skyrocketing as vendors squeeze the most out of clients before the life-cycles of hardware and software expire. In addition, the internet has added a new level of pressure to compete in the electronic marketplace with their sector rivals. The next ten years should see an upsurge of movement and change as organizations revamp their older legacy systems.

The web solutions market is the fastest growing segment of the computer consulting business as individuals, small companies, large companies, and governmental agencies rush to establish a presence on the Internet. The range of products and services involved in this sector is extensive and therefore, require some specialization for a small company such as IAI to make an impact. Most small web companies are involved in building web-sites and typically have many small duration projects. More complex web applications generally require knowledge of clients' back-end systems based on mainframe or mid-level computers. Few small companies have the expertise to develop these more sophisticated web applications. However, these types of applications will be more prominent in the future as the web is better understood and this will be the area that future expenditures will grow the most.

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The commercial and government sectors of the market can be quite different in their requirements on the Internet, as, generally, companies are interested in cataloging and selling items versus government agencies that wish to disseminate data to the citizenry. There is some overlap in common functionality when web applications are designed for procurement transactions or customer relations. What distinguishes the government requirements is that most government processes are based on forms. Many government agencies rely on thousands of internal and external forms to conduct their business. Any company that wishes to develop governmental web applications must address the forms issue. JetForm, the electronic forms product resold and supported by IAI is the predominant forms software in the federal government.

Description of Business and Strategy

Since the mid-90's IAI has migrated clients from older computer languages generally associated with legacy computer systems to more modern languages used with current-day computer system platforms. In fixing their legacy systems to comply with Y2K dates impacts, many organizations became aware of the evolving obsolescence of these systems and are now beginning to fund their modernization. In addition, as part of this modernization many organizations wish to extend these legacy systems to interface with Internet applications. The company's strategy has been to develop and/or acquire tools that will facilitate the modernization process and differentiate the Company's offerings in the marketplace.

The Company has developed a series of workbench tools called ICONS. These tools, used in conjunction with IAI's methodology, enhance a programmer's ability to convert code to new platforms and/or computer languages. ICONS can be used with a variety of languages such as DATACOM COBOL and IDEAL, and Unisys COBOL. ICONS will facilitate the Company's ability to provide systems modernization services to companies that seek to migrate from mainframe legacy systems to modern environments, including current computer languages, data bases, and mainframe, midrange, client servers, intranet and internet platforms.

IAI has structured the company to address the wide range of requirements that it envisions the market will demand. The suite of ICONS tools give IAI, in

its opinion, a competitive edge in performing certain conversions and migrations faster and more economically than many other vendors. The diverse capabilities of IAI's staff in mainframe technology and client server implementations help to assure that IAI staff can analyze the original systems properly to conduct accurate and thorough conversions.

IAI's modernization methodology has developed over the past several years through the completion of successful conversion projects. Senior members of IAI's professional staff can perform both technical and business requirements analyses, and prepare general and detail design documentation, develop project plans including milestones, staffing, deliverables, and schedules. The actual work can be performed at client sites or at IAI's premises, which has mainframe and client server facilities for the use of IAI's personnel.

The Company is also using the experience it has acquired as a JetForm reseller to help secure engagements for web based applications requiring forms.. The JetForm product has evolved over the years into a robust tool that can form the backbone of applications, especially those requiring forms. The company has used this expertise to penetrate a number of federal government clients and build sophisticated web applications. IAI's knowledge of legacy system languages has been instrumental in connecting these web applications to legacy databases residing on mainframe computers. During 1999 the company has built a core group of professionals that can build this practice over the coming years.

Concentrating on the niche of electronic forms related web applications through IAI's relationship with JetForm, the company has developed a cadre of professionals that can quickly and efficiently develop web applications. IAI will focus on federal government clients during 2000 and leverage the company's outstanding reputation with federal clients to penetrate these agencies. IAI will be able to reference successful projects completed or in development for the Veterans Affairs (VA), Federal Mediation and Conciliation Service (FMCS), U.S. Department of Agriculture (USDA), Immigration and Naturalization Service (INS), and U.S. Air Force Logistics Command (AFLC).

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Competition

The competition in the conversion and modernization market is very strong. Many software professional services companies have had some involvement in this area and profess proficiency in performing these projects. The Company also faces competition from other companies which purport to substantially automate the process through software tools including Alydaar, Crystal Systems Solutions and Sapiens International. "Off the shelf" software for enterprise resource planning, such as SAP and Baan, provides an additional source of competition, although, to date, the cost and lengthy installation time for enterprise resource planning software has slowed its implementation in the market place. No matter what type of solution is offered, many of the Company's competitors have greater name recognition than the Company, a larger, more established customer base and significantly greater financial and market resources in comparison to the Company.

Patents and Proprietary Rights

The Company depends upon a combination of trade secret and copyright laws, nondisclosure and other contractual provisions and technical measures to protect its proprietary rights in its methodologies, databases and software. The Company has not filed any patent applications covering its methodologies and software. The Company distributes ICONS under agreements that grant customers non-exclusive licenses and contain terms and conditions restricting the disclosure and use of the Company's databases or software and prohibiting the unauthorized reproduction or transfer of its products. In addition, IAI attempts to protect the secrecy of its proprietary databases and other trade secrets and proprietary information through agreements with employees and consultants.

The Company also seeks to protect the source code of ICONS as trade secrets and under copyright law. The copyright protection accorded to databases, however, is fairly limited. While the arrangement and selection of data can be protected, the actual data is not, and others are free to create software performing the same function. The Company believes, however, that the creation of competing databases would be very time consuming and costly.

Backlog

As of December 31, 1999, the Company estimated its backlog at approximately \$3.8 million. Of the entire backlog, the Company believes approximately 95% will be completed by December 31, 2000. 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.

Employees

As of December 31, 1999, the Company employed 54 full-time and part-time individuals. In addition, the Company maintained independent contractor relationships with 18 individuals for computer services. Approximately 80% 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.

Item 2. Properties

The Company's offices are located at 11240 Waples Mill Road, Suite 400, Fairfax, VA. 22030. IAI holds a lease for 18,280 square feet. This lease expires on February 28, 2004.

Item 3. Legal Proceedings

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

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

IAI held its Annual Meeting of Shareholders on December 14, 1999. At that meeting, shareholders cast votes for Board of Directors for the coming year, and for the ratification of the Board's selection of Rubino and McGeehin as outside auditors. Messrs. Rosenberg, May, and Wester: and Ms. Wachtel each received 6,266,385 votes in favor of their serving on the Board with 53,329 votes against or withheld. Rubino and McGeehin was ratified with 6,263,880 votes in favor, and 40,284 votes against and 15,550 votes abstained.

PART II

Item 5. Market for the Company's Common Stock and Related Stockholder Matters

The Company's Common Stock (symbol: IAIC) has been traded on over the counter bulletin board (OTCBB) since July 29, 1999, on the NASDAQ National Market from June 2, 1998 to July 28 1999, the NASDAQ Small Cap Market from September 8, 1997 to June 1, 1998; and over the counter prior to September 8, 1997. The following table sets forth, for the fiscal periods indicated, the high and low bid prices of the Common Stock, as reported:

<TABLE>
<CAPTION>

1999	Fiscal Year Ended December 31, 1998				Fiscal Year Ended December 31,		
	Quarter Ended:				Quarter Ended:		
<S> <C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
12/31/99	3/31/98	6/30/98	9/30/98	12/31/98	3/31/99	6/30/99	9/30/99
High	\$ 20.75	\$ 16.375	\$ 14.50	\$ 2.438	\$ 1.593	\$ 0.750	\$ 0.625
\$ 1.218							
Low	\$ 11.75	\$ 9.875	\$ 1.531	\$ 1.063	\$ 0.625	\$ 0.375	\$ 0.125
\$ 0.156							

</TABLE>

The quotations on which the above data are based for periods prior to September 8, 1997 and after July 29, 1999 reflect inter-dealer prices without adjustment for retail markup, markdown or commission, and may not necessarily represent actual transactions. From September 8, 1997 to July 28, 1999, the prices reflect the high and low bid prices as reported by NASDAQ.

As of December 31, 1999, the Company had 111 stockholders of record. The Company has not paid a cash dividend on its Common Stock for the last two fiscal years. The Company does not anticipate the payment of cash dividends to the holders of Common Stock in the foreseeable future.

The Company raised \$1,150,000 through a private placement of 2,300,000 shares of common stock and 1,150,000 five-year warrants which expire on December 31, 2004, exercisable at \$1.00 per share. All investors were accredited individuals. The Company relied upon Regulation D under the Securities Act of 1933 as amended in connection with the issuance of these unregistered shares.

Item 6. Management's Discussion and Analysis of Financial Condition and Results

Overview

1999 was a transition year for the Company. During this year the following occurred:

- . During 1999, IAI reoriented its sales and marketing organizations to capitalize on its services and tools to address the legacy modernization and conversion market. Additional resources were added to support Web based solutions and staff augmentation.
- . Other product and service activities which have produced revenues in prior years were further de-emphasized.
- . A private placement of shares to fund certain operations for 2000.

The effect of this re-orientation has been to change IAI's focus from primarily offering Year 2000 conversion services to an information technology organization offering a balance of services and products in legacy modernization, conversion, and re-engineering, and Web solutions. Management expects this change will be more evident in 2000 since the Company has ceased any work in the remediation area.

IAI was not profitable in 1999. The Company's expenses related to sales, marketing, administrative, and research and development infrastructure exceeded the gross profits from its revenues. As the Company transitions away from Year 2000 efforts, the Company believes its economic prospects will improve.

Results of Operations

The following table sets forth, for the periods indicated, selected information from the Company's Consolidated Statements of Operations, expressed as a percentage of revenue:

<TABLE>
<CAPTION>

	Years Ended	
	December 31, 1999 <C>	December 31, 1998 <C>
<S>		
Revenue	100.0%	100.0%
Cost of Goods Sold	80.3%	82.7%
Gross Profit	19.7%	17.3%
Operating Expenses		
Selling, general and administrative	40.1%	45.5%
Research and development	0.6%	11.0%
(Loss) from operations	(21.0%)	(39.2%)
Non recurring item	(20.6%)	(20.1%)
Other (expense) income	(1.4%)	0.5%
(Loss) before income taxes	(43.0%)	(58.9%)
Provision for income taxes	(0.0%)	(0.0%)
Net (loss)	(43.0%)	(58.9%)

</TABLE>

1999 Compared to 1998

Revenue. Fiscal 1999 revenue decreased \$5.7 million, or 37.5%, to \$9.6 million in fiscal year 1999 from \$15.3 million in fiscal year 1998. The reason for this decrease was primarily due to lower over-all Year 2000 sales in both product and professional services sales. Revenue from software sales decreased \$3.9 million, or 74.6%, to \$1.3 million in fiscal year 1999 from \$5.2 million in fiscal year 1998. Revenue from professional services decreased \$1.9 million, or 18.4%, to \$8.3 million in fiscal year 1999 from \$10.1 million in fiscal year 1998. Revenue overall attributable to year 2000 work decreased \$7.2 million, or 71.3%, to \$2.9 million in 1999 from \$10.1 million in 1998.

Gross Profit. Gross profit was \$1.9 million in fiscal 1999 versus \$2.6 million in 1998, or 19.7% of revenue in 1999 compared to 17.3% of revenue in 1998. Professional services gross margin was 30.1% of revenue in 1999, compared to 4.3% in 1998. The increase in professional services gross margin was primarily attributable to the non-existence of certain fixed-price Year 2000 contracts in 1999, which had a negative effect on the gross margin during the same period in 1998. Software sales gross margin was (45.5%) of revenue in 1999, down from 42.2% in 1998. The decrease in software sales gross margin was due to the acceleration in amortization for UNICAST capitalized software. In 1999 UNICAST after write-offs is fully amortized.

Selling, General and Administrative (SG&A). Fiscal 1999 SG&A expense decrease to \$3.8 million, or 40.1% of revenue, from \$7.0 million, or 45.5% of revenue in

1998, a decrease in expenses of 44.9%. The decrease was do to a concerted effort by management to scale back expenses during the Company's transition away from its Year 2000 products, services, and support for the UNICAST product line.

Research and Development (R&D). Fiscal 1999 R&D expense decreased to \$0.1 million, or 0.6% of revenue, from \$1.7 million, or 11% of revenue in 1998. The decrease is due to lower software maintenance for the Company's versions of its UNICAST product line of tools.

Year 2000 Compliance

The Company has installed and tested a new version of our accounting system. It is in production at this time and is Year 2000 compliant. The Company uses off the shelf Microsoft Windows software for internal ad hoc reporting. This software is certified by the vendor to be Year 2000 compliant.

Liquidity and Capital Resources

IAI raised \$1.2 million from a private placement during fiscal 1999. This private placement, along with current collections and net borrowing of \$0.5 million from the Company's bank provided financing for the Company's operations in 1999. For fiscal year 1999, net cash proved by operating and financing activities of \$0.3 million along with a net loss of \$4.1 million resulted in a cash and cash equivalent of \$0.2 million. The Company's line of credit of \$2,000,000 with First Virginia Bank expired on June 19, 1999. First Virginia Bank has executed forbearance agreements with the Company, which effectively extends a line of credit of \$1,000,000 until April 20, 2000. The Company is in negotiations with various organizations to obtain a new line of credit.

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.

Item 7. Financial Statements and Supplementary Data

See Consolidated Financial Statements included herein beginning on page F-1.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On January 11, 1999, the Company dismissed Ernst & Young, LLP ("Ernst & Young") as its independent accountant. The report of Ernst & Young for fiscal year ended December 31, 1997 (the sole fiscal year for which Ernst & Young was engaged) did not contain an adverse opinion or a disclaimer of opinion, nor was such report qualified or modified as to uncertainty, audit scope or accounting principles. During the fiscal year ended December 31, 1997 and for all subsequent interim periods thereafter prior to the dismissal of Ernst & Young, there were no disagreements on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreement(s), if not resolved to the satisfaction of Ernst & Young, would have caused it to make a reference to the subject matter of the disagreement(s) in connection with its reports. The Company's determination to change accountants was approved by its audit committee.

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Effective January 11, 1999, the Company engaged Rubino & McGeehin, Chtd. ("Rubino & McGeehin") as its new independent accountant to audit the Company's financial statement, commencing with the fiscal year ended December 31, 1998. During the period that Ernst & Young served as the Company's independent accountant, including all interim periods within 1998, the Company (or someone on its behalf) never consulted Rubino & McGeehin regarding any matter. Rubino & McGeehin did serve as the Company's independent accountant prior to the Company's engagement of Ernst & Young.

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PART III

Item 9. Directors and Executive Officers of the Registrant

The information required by item 9 concerning Directors and Executive Officers of the Registrant is incorporated herein by reference to the Company's definitive Proxy Statement for its 2000 Annual Meeting of Shareholders which will be filed pursuant to Regulation 1414A within 120 days after the end of the Company's last fiscal year.

Item 10. Executive Compensation

The information required by item 10 concerning Executive Compensation is

incorporated herein by reference to the Company's definitive Proxy Statement for its 2000 Annual Meeting of Shareholders which will be filed pursuant to Regulation 1414A within 120 days after the end of the Company's last fiscal year.

Item 11. Security Ownership of Certain Beneficial Owners and Managers

The information required by item 11 concerning Security Ownership of Certain Beneficial owners and Managers is incorporated herein by reference to the Company's definitive Proxy Statement for its 2000 Annual Meeting of Shareholders which will be filed pursuant to Regulation 1414A within 120 days after the end of the Company's last fiscal year.

Item 13. Exhibits, Financial Statements Schedules, and Reports on Form 8-K

- (a) (1) Financial Statements:
- | | |
|---|----------|
| Report of Independent Auditors | F-1 |
| Consolidated Balance Sheets | F-2 |
| Consolidated Statements of Operations | F-3 |
| Consolidated Statements of Stockholders' Equity | F-4 |
| Consolidated Statements of Cash Flow | F-5 |
| Notes to Consolidated Financial Statements | F-6-F-18 |
- (a) (2) Exhibits:
See Exhibit Index on page 10.
- (b) No reports were filed on Form 8-K during the last quarter of 1999.

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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 29, 2000

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
<u>/s/ Sandor Rosenberg</u> Sandor Rosenberg	Chairman of the Board and President	March 29, 2000
<u>/s/ Charles A. May, Jr.</u> Charles A. May	Director	March 29, 2000
<u>/s/ Bonnie K. Wachtel</u> Bonnie K. Wachtel	Director	March 29, 2000
<u>/s/ James D. Wester</u> James D. Wester	Director	March 29, 2000
<u>/s/ Richard S. DeRose</u> Richard S. DeRose	Treasurer	March 29, 2000

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Exhibit Index

<TABLE>
<CAPTION>

Exhibit No.	Description	Location
<C>	<S>	<C>
3.1	Amended and Restated Articles of Incorporation effective March 18, 1997	Incorporated by reference from the Registrant's Form 10-KSB/A for the fiscal year ending December 31, 1996 and filed on July 3, 1997
3.2	Articles of Amendment to the Articles of Incorporation	Incorporated by reference from the Registrant's Form 10-KSB/A for the fiscal year ending December 31, 1997 and filed on March 30, 1998
3.3	Amended By-Laws of the Company	Incorporated by reference from the Registrant's Form S-18 dated November 20, 1986 (Commission File No. 33-9390).
4.1	Copy of Stock Certificate	Incorporated by reference from the Registrant's Form 10-KSB/A for the fiscal year ending December 31, 1997 and filed on March 30, 1998
4.2	Form of Warrant issued in December 1999 and January 2000	Filed with this Form 10-KSB
4.3	Common Stock and Warrant Purchase Agreement dated December 1999	Filed with this Form 10-KSB
10.1	Office Lease for 18,280 square feet at 11240 Waples Mill Road, Fairfax, Virginia 22030.	Incorporated by reference from the Registrant's Form 10-KSB/A for the fiscal year ending December 31, 1996 and filed on July 3, 1997
10.2	Company's 401(k) Profit Sharing Plan through Aetna Life Insurance and Annuity Company.	Incorporated by reference from the Registrant's Form 10-KSB/A for the fiscal year ending December 31, 1996 and filed on July 3, 1997
10.3	1986 Stock Option Plan	Incorporated by reference from the Registrant's Form S-8 filed on December 20, 1988
10.4	1996 Stock Option Plan	Incorporated by reference from the Registrant's Form S-8 filed on June 25, 1996
10.5	Line of Credit Agreement with First Virginia Bank	Incorporated by reference the Registrant's Form 10-KSB for the fiscal year ending December 31, 1995 and filed April 15, 1996 (Commission File No. 33-9390).
10.6	Warrant Agreement between James D. Wester, a director, and the Company dated February 24, 1993	Incorporated by reference from the Registrant's Form 10-KSB/A for the fiscal year ending December 31, 1996 and filed on July 3, 1997
10.7	Royalty Agreement between James D. Wester and the Company in exchange for development expense advances.	Incorporated by reference from the Registrant's Form 10-KSB/A for the fiscal year ending December 31, 1996 and filed on July 3, 1997
10.8	Amended Royalty Agreement between James D. Wester and the Company in exchange for development expense advances.	Incorporated by reference from the Registrant's Form 10-QSB for the period ending March 31, 1998 and filed on May 15, 1998.

</TABLE>

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<TABLE>

<CAPTION>

<C>	<S>	<C>
10.9	Software License Agreement dated March 24, 1997 between the Company and Computer Associates, International, Inc.,	Incorporated by reference from the Registrant's Form 10-QSB/A for the Quarter ended March 31, 1997 and filed on July 18, 1997.
10.10	Office lease for 19,357 square feet at 3877 Fairfax Ridge Road, Fairfax, Virginia	Incorporated by reference from the Registrant's Form 10-QSB for the period ending March 31, 1998 and filed on May

15, 1998.

21.1	List of Subsidiaries.	Filed with this Form 10-KSB
23.1	Consent of independent auditors, Rubino & McGeehin, Chartered	Filed with this Form 10-KSB
27.1	Financial Data Schedule.	Filed with this Form 10-KSB

INDEPENDENT AUDITORS' REPORT

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, 1999, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years ended December 31, 1999 and 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the 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, 1999, and their consolidated results of operations and cash flows for the years ended December 31, 1999 and 1998, in conformity with generally accepted accounting principles.

/s/ Rubino & McGeehin, Chartered

February 24, 2000
Bethesda, Maryland

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INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

<TABLE>
<CAPTION>

	December 31, 1999
ASSETS	<C>
Current assets	
Cash and cash equivalents	\$ 133,468
Accounts receivable, net of allowance of \$466,890	1,902,244
Employee advances	6,230
Prepaid expenses	129,995
Other receivables	97,299

Total current assets	2,269,236
Fixed assets, net of accumulated depreciation and amortization	
of \$1,940,295	279,787
Equipment under capital leases, net of accumulated amortization	
of \$63,649	11,553
Capitalized software, net of accumulated amortization of \$2,430,737	463,653
Other receivables	28,992
Other assets	58,275

Total assets	\$ 3,111,496
	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities	
Accounts payable	\$ 1,491,179
Accrued payroll and related liabilities	276,871
Other accrued liabilities	727,904
Revolving line of credit	501,500
Current maturities of capital lease obligations	6,936

Total current liabilities	3,004,390

Common stock, par value \$0.01, 15,000,000 shares authorized, 10,723,284 shares issued, 9,218,673 shares outstanding	107,233
Additional paid-in capital	13,763,904
Accumulated deficit	(12,909,718)
Less treasury stock, 1,504,611 shares, at cost	(854,313)

Total stockholders' equity	107,106

Total liabilities and stockholders' equity	\$ 3,111,496
	=====

</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 OPERATIONS

<TABLE>

<CAPTION>

	For the years ended December 31,	
	1999	1998
	-----	-----
<S>	<C>	<C>
Sales		
Professional fees	\$ 8,259,492	\$10,118,435
Software sales	1,326,280	5,213,923
	-----	-----
Total sales	9,585,772	15,332,358
	-----	-----
Cost of sales		
Cost of professional fees	5,770,008	9,686,651
Cost of software sales	1,929,496	3,000,639
	-----	-----
Total cost of sales	7,699,504	12,687,290
	-----	-----
Gross profit	1,886,268	2,645,068
Selling, general and administrative expenses	3,842,212	6,974,211
Research and development	60,719	1,680,818
	-----	-----
Loss from operations	(2,016,663)	(6,009,961)
Other items:		
Write-down of capitalized software costs	(1,978,362)	(3,083,642)
Other (expense) income	(129,611)	69,658
	-----	-----
Loss before provision for income taxes	(4,124,636)	(9,023,945)
Provision for income taxes	-	-
	-----	-----
Net loss	\$ (4,124,636)	\$ (9,023,945)
	=====	=====
Loss per common share (basic and diluted)	\$ (0.59)	\$ (1.35)
Weighted average common shares outstanding		

(basic and diluted)
</TABLE>

6,988,336

6,665,321

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

F-3

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

	Shares of Common Stock Issued	Common Stock	Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Treasury Stock	
Total	-----	-----	-----	-----	-----	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balances, December 31, 1997	7,498,430	\$ 74,984	\$ 6,517,655	\$ 238,863	\$(854,313)	\$
5,977,189						
Exercise of stock options and warrants	456,148					
217,684		2,177	453,971	-	-	
Stock issued for private placement	580,155	5,802	5,640,883	-	-	
5,646,685						
Stock issued for ISSC acquisition	62,515	625	27,157	-	-	
27,782						
Net loss (9,023,945)	-	-	-	(9,023,945)	-	
-----	-----	-----	-----	-----	-----	---
Balances, December 31, 1998	8,358,784	83,588	12,639,666	(8,785,082)	(854,313)	
3,083,859						
Exercise of stock options and warrants	44,500	445	19,329	-	-	
19,774						
Stock issued for software purchase	20,000	200	17,909	-	-	
18,109						
Stock issued for private placement	2,300,000	23,000	1,087,000	-	-	
1,110,000						
Net loss (4,124,636)	-	-	-	(4,124,636)	-	
-----	-----	-----	-----	-----	-----	---
Balances, December 31, 1999	10,723,284	\$107,233	\$13,763,904	\$(12,909,718)	\$(854,313)	\$
107,106	=====	=====	=====	=====	=====	
=====						

</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 CASH FLOWS

<TABLE>
<CAPTION>

For the years ended December 31,

1999

1998

-----	-----	-----
<S>	<C>	<C>
Net loss	\$ (4,124,636)	\$ (9,023,945)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	282,966	383,214
Amortization	20,325	38,786
Amortization of capitalized software	1,096,170	1,314,272
Loss on sale of fixed assets	24,923	6,886
Capitalized software write-down	1,978,362	2,902,152
Changes in operating assets and liabilities		
Accounts receivable	2,517,551	(1,368,743)
Other receivables and prepaid expenses	3,076	(29,362)
Accounts payable and accrued expenses	(1,611,793)	1,814,506
Refundable income taxes	-	33,119
	-----	-----
Net cash provided (used) in operating activities	186,944	(3,929,115)
	-----	-----
Cash flows from investing activities		
Acquisition of furniture and equipment	-	(266,036)
Increase in capitalized software	(113,555)	(3,191,574)
Proceeds from sale of fixed assets	56,665	3,670
	-----	-----
Net cash used in investing activities	(56,890)	(3,453,940)
	-----	-----
Cash flows from financing activities		
Net (payments) borrowing under bank revolving line of credit	(1,294,700)	1,196,600
Repayment of long-term debt	-	(83,346)
Principal payments on capital leases	(8,059)	(20,386)
Proceeds from private placement of common stock	1,110,000	5,646,685
Proceeds from exercise of stock options and warrants	19,774	456,148
	-----	-----
Net cash (used) provided by financing activities	(172,985)	7,195,701
	-----	-----
Net decrease in cash and cash equivalents	(42,931)	(187,354)
Cash and cash equivalents at beginning of the year	176,399	363,753
	-----	-----
Cash and cash equivalents at end of the year	\$ 133,468	\$ 176,399
	=====	=====
Supplemental cash flow information		
Interest paid	\$ 137,988	\$ 44,965
Income taxes paid	\$ -	\$ -

</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, International Software System Corporation (ISSC), Allied Health & Information Systems, Inc. (AHISI) and DHD Systems, Inc. Upon consolidation, all material intercompany accounts, transactions and profits are eliminated.

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.

Revenue Recognition

The Company provides services under various pricing arrangements. Revenue from "cost-plus-fixed-fee" contracts is recognized on the basis of reimbursable contract costs incurred during the period, plus a percentage of the fixed fee. Revenue from "firm-fixed-price" contracts is recognized on the percentage-of-completion method. Under this method, individual contract revenues are recorded based on the percentage relationship that contract costs incurred bear to management's estimate of total contract costs. Revenue from "time and material" contracts is recognized on the basis of hours utilized, plus other reimbursable contract costs incurred during the period. Contract losses, if any, are accrued when their occurrence becomes known and the amount of the loss is reasonably determinable.

Revenue from software sales is recognized upon delivery, when collection of the receivable is probable. Maintenance revenue is recognized ratably over the maintenance period.

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INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Segment Reporting

The Company adopted Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information," in 1998, and concluded that it operates in one business segment, providing products and services to modernize client information systems.

Government Contracts

Company sales to departments or agencies of the United States Government are subject to audit by the Defense Contract Audit Agency (DCAA), which could result in the renegotiating of amounts previously billed. Audits by DCAA were completed through the year ended December 31, 1997. No amounts were changed as a result of the audits. Management is of the opinion that any disallowance of costs for subsequent fiscal years by the government auditors, other than amounts already provided, will not materially affect the Company's financial statements.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Company considers all highly liquid investments with maturities of ninety days or less at the time of purchase to be cash equivalents. Deposits are maintained with a federally insured bank. Balances at times exceed insured limits, but management does not consider this to be a significant concentration of credit risk.

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.

Advertising

All costs related to advertising the Company's products are expensed in the period incurred.

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1. Summary of Significant Accounting Policies (continued)

Software Development Costs

The Company has capitalized costs related to the development of the ICON software product. In accordance with Statement of Financial Accounting Standards No. 86, capitalization of costs begins when technological feasibility has been established and ends when the product is available for general release to customers. Amortization is computed and recognized for the product when available for general release to customers based on the greater of a) the ratio that current gross revenues for the product bear to the total of current and anticipated future gross revenues for that product or, b) the straight-line method over the economic life of the product. Capitalized costs and amortization periods are management's estimates and may have to be modified due to inherent technological changes in software development.

Stock-Based Compensation

The Company records compensation expense for all stock-based compensation plans using the intrinsic value method prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees." The Company's annual financial statements disclose the required pro forma information as if the fair value method prescribed by Financial Accounting Standards Board's Statement No. 123, "Accounting for Stock-Based Compensation," had been adopted.

Earnings Per Share

The Company's earnings per share calculations are based upon the weighted average of shares of common stock outstanding. The dilutive effect of stock options and warrants are included for purposes of calculating diluted earnings per share, except for periods when the Company reports a net loss, in which case the inclusion of stock options and warrants would be antidilutive.

Income Taxes

Under Financial Accounting Standards Board Statement No. 109, "Accounting for Income Taxes," the liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

1. Summary of Significant Accounting Policies (continued)

Fair Market Value of Financial Instruments

The Company's financial instruments include trade receivables and other receivables, accounts payable and notes payable. Management believes the carrying value of financial instruments approximates their fair market value, unless disclosed otherwise in the accompanying notes.

2. Receivables

Accounts receivable at December 31, 1999, consist of the following:

<TABLE>	
<S>	<C>
Billed-federal government	\$ 353,859
Billed-commercial	1,699,426

Total billed	2,053,285
Unbilled	315,849
Less: allowance of doubtful accounts	(466,890)

Total accounts receivable	\$1,902,244

</TABLE>

Unbilled receivables are for services provided through the balance sheet date which are expected to be billed and collected within one year.

3. Fixed Assets

A summary of fixed assets and equipment at December 31, 1999, consist of the following:

<TABLE>

<S>	<C>
Furniture and equipment	\$ 294,333
Leasehold improvements and other	204,634
Computer equipment and software	1,721,115

	2,220,082
Less: accumulated depreciation and amortization	(1,940,295)

Total	\$ 279,787
	=====

</TABLE>

Depreciation expense for the years ended December 31, 1999 and 1998, was \$282,966 and \$385,448 respectively.

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INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Software Development Costs

Software development costs as of December 31, 1999 consist of the following:

<TABLE>

<S>	<C>
Cumulative costs incurred	\$ 7,956,394
Accumulated amortization	(2,430,737)
Cumulative write-down of capitalized costs	(5,062,004)

Net software development costs	\$ 463,653
	=====

</TABLE>

Amortization expense for the years ended December 31, 1999 and 1998, was \$1,096,170 and \$1,314,272, respectively. During 1999 and 1998, there was a \$1,978,362 and \$2,902,152 write-down of capitalized costs to estimated net realizable value, which is included separately in the statement of operations.

At December 31, 1999, capitalized software development costs of \$463,653, net of accumulated amortization of \$118,010, are for a new software tool being amortized over four years. All costs related to other products have been amortized or written off. Additions totaling \$131,664 for 1999 include \$18,109 recorded for 20,000 shares of stock issued for certain software rights.

5. Other Assets

Other assets at December 31, 1999, consist of the following:

<TABLE>

<S>	<C>
Security deposits	\$48,275
Other	10,000

Total other assets	\$58,275
	=====

</TABLE>

6. Other Accrued Liabilities

Other accrued liabilities at December 31, 1999, consist of the following:

<TABLE>

<S>	<C>
Royalties payable	\$343,191
Accrued related Jetform costs	248,971
Accrued payables	50,000
Other	85,742

Total other accrued liabilities

\$727,904
=====

</TABLE>

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INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Revolving Line of Credit

At December 31, 1999, the Company had a revolving line of credit with a bank providing for demand or short-term borrowings up to \$1,000,000. The Company's line of credit of \$2,000,000 with the bank expired on June 19, 1999. The bank has executed forbearance agreements with the Company, which effectively extends the line of credit until April 20, 2000. Draws against this line are limited by varying percentages of the Company's accounts receivable balances depending on the source of the receivables and their age. The bank is granted a security interest in certain assets if there are borrowings under the line of credit. Interest on outstanding amounts is payable monthly at the bank's prime rate plus 0.5% (9.00% at December 31, 1999). The lender has a first priority security interest in the Company's receivables and a direct assignment of its U.S. Government contracts. The revolving line of credit, among other covenants, requires the Company to comply with certain financial ratios. The Company was not in compliance with any of the financial ratios at December 31, 1999, when there was an outstanding balance of \$501,500 on the line.

The Company is in negotiations with various organizations to obtain a new line of credit. The current line of credit, coupled with funds generated from operations, assuming the operations are cash flow positive, should be sufficient to meet the Company's operating cash requirements. The Company, however, may be required from time to time to delay timely payments of its accounts payable. The Company cannot be certain that there will not be a need for additional working capital in the near future. It is uncertain whether the Company will be able to obtain such additional working capital.

8. Commitments and Contingencies

Capital Leases

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

<TABLE>

<S>

	<C>
Year ending December 31, 2000	\$7,121
Less amount representing interest	(185)

Total obligation representing principal	\$6,936
	=====

</TABLE>

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INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Commitments and Contingencies (continued)

Operating Leases

The Company leases facilities and equipment under long-term operating lease agreements extending through 2004. Rent expense was \$439,312 and \$766,314 for the years ended December 31, 1999 and 1998, respectively. The future minimum rental payments to be made under non-cancelable operating leases, principally for facilities, are as follows:

<TABLE>

<S>

	<C>
Year ending December 31, 2000	\$ 595,000
2001	586,500
2002	519,100
2003	494,800
2004	105,600

Total minimum rent payments	\$2,301,000

</TABLE>

=====

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 security deposits in the amount of \$48,275.

The aggregate future minimum rentals to be received under non-cancelable subleases as of December 31, 1999, is \$215,100, of which \$110,300 is payable in 2000, \$32,000 is payable in 2001, \$33,000 is payable in 2002, and \$39,800 is payable in 2003 through 2004.

Royalties

In August 1996, the Company entered into an agreement to purchase the software product UNICAST. As part of the agreement, royalties are paid to the seller on sales of the UNICAST licensing fees collected by the Company. The aggregate amount of the royalties pursuant to this agreement will not exceed \$1,000,000. No royalties were paid in 1999 and \$640 in royalties were paid in 1998.

In September 1996, the Company entered into an agreement whereby, in consideration of an expense sharing arrangement, the Company will pay royalties on sales of the UNICAST licensing fees collected by the Company. The royalties will not exceed \$245,831. As of December 31, 1999, total royalties expenses to date were \$34,779 and total royalties paid to date were \$7,667.

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INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Commitments and Contingencies (continued)

In March 1997, the Company entered into an agreement with Computer Associates International, Inc. (CA). As part of the agreement, royalties are paid to CA based upon sales of the UNICAST licensing fees collected by the Company. As of December 31, 1999 total royalties expenses to date were \$667,635 and total royalties paid to date were \$403,370.

In February 1998, the Company entered into an agreement to acquire all rights, title and interest for the development of a software application which runs on a personal computer to remedy software which is not Year 2000 compliant (the "Tool"). As part of the agreement, royalties are paid on all professional service fees in which the Tool is utilized for assessment and/or remediation services. The aggregate amount of the royalties pursuant to this agreement will not exceed \$4,000,000. As of December 31, 1999, total royalties expenses to date were \$123,772 and total royalties paid to date were \$71,958.

9. Income Taxes

The tax effect of significant temporary differences representing deferred tax assets and deferred tax liabilities at December 31, 1999, are as follows:

<TABLE>

<S>

<C>

Deferred tax assets	
Net operating loss carryforward	\$ 6,096,142
Accrued vacation	50,056
Allowance for bad debts	117,378
Intangibles	22,741
Fixed assets	79,513
Other	2,464

Subtotal	6,368,294
Valuation allowance	(6,368,294)

Subtotal	-

Deferred tax liabilities	
Intangibles	\$ -
Fixed assets	-

Subtotal	-

Total

\$ -
=====

</TABLE>

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INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Income Taxes (continue)

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

<TABLE>
<CAPTION>

	December 31,	
	1999	1998
	----	----
<S>	<C>	<C>
Loss before taxes	\$ 4,124,636	\$ (9,023,945)
	=====	=====
Income taxes (benefit) on above amount at federal statutory rate	(1,402,400)	(3,068,100)
State income taxes net of federal benefit	(165,000)	(361,000)
Increase in valuation allowance	1,606,200	3,230,500
Effect of change in estimates and non deductible items	(38,800)	198,600
	-----	-----
Provision for income taxes	\$ -	\$ -
	=====	=====

</TABLE>

The Company has recognized a valuation allowance to the full extent of its net deferred tax assets since the likelihood of realization of the benefit cannot be determined.

The Company has net operating loss carryforwards of approximately \$16 million, which expire, if unused, in the year 2018. The tax benefits of approximately \$2.3 million of net operating losses related to stock options will be credited to equity when the benefit is realized through utilization of the net operating loss carryover.

10. Major Customers

Traditionally, IAI's clients have spanned a wide range of enterprises in the private sector along with government agencies. The Company's revenue derived from a single commercial software company constituted 9% of the Company's 1999 revenue and 24% of the 1998 revenue. The Company's revenue derived from a single commercial technology company accounted for 6% of the Company's 1999 revenue and 10% of the 1998 revenue.

11. 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. Participants can elect to have up to 15% of their salary reduced and contributed to the plan. The Company is required to make a matching contribution of 25% of the first 6% 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, 1999 and 1998, were \$44,170 and \$106,418, respectively.

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INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Stock Options and Warrants

The Company has an incentive stock option plan, which became effective June 25, 1996. The plan provides for the granting of stock options to certain employees and directors. The maximum number of shares for which options may be granted under the plans is 2,575,000. Options expire no later than ten years from the date of grant or when employment ceases, whichever comes first, and vest over periods determined by the board of directors. The average vesting period for options granted in 1999 was one year. The

exercise price of each option equals the quoted market price of the Company's stock on the date of grant. The stock option plan is accounted for under Accounting Principles Board (APB) Opinion No. 25. Accordingly, no compensation has been recognized for the plan. Had compensation cost for the plans been determined based on the estimated fair value of the options at the grant date consistent with the method of Statement of Financial Accounting Standards (SFAS) No. 123, the Company's net income and earnings would have been:

<TABLE>
<CAPTION>

		1999	
		----	----
1998			

<S>	<C>	<C>	<C>
Net loss	As reported	\$ (4,124,636)	
\$ (9,023,945)			
	Pro forma	\$ (4,175,800)	
\$ (9,251,100)			
Loss per share	As reported	\$ (0.59)	\$
(1.35)			
	Pro forma	\$ (0.60)	\$
(1.39)			

</TABLE>

The fair value of the options granted in 1999 and 1998 is estimated on the date of the grant using the Black-Scholes options-pricing model assuming the following:

<TABLE>
<CAPTION>

	1999	1998
	----	----
<S>	<C>	<C>
Dividend yield	None	None
Risk-free interest rate	5.5%	5.5%
Expected volatility	102.8%	102.8%
Expected term of options	3 years	3 years

</TABLE>

The effects on 1999 and 1998 pro forma net income and earnings per share of expensing the estimated fair value of stock options are not necessarily representative of the effects on reported net income for future years due to such things as the vesting period of the stock options and the potential for issuance of additional stock options in future years. The weighted average fair value per option granted in 1999 and 1998, was \$0.33 and \$3.74, respectively.

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Stock Options and Warrants (continued)

The following table summarizes information about stock options outstanding at December 31, 1999:

<TABLE>
<CAPTION>

Exercisable	Options Outstanding			Options
	Number	Weighted Average	Weighted Average	
Weighted				
Range of Exercise	of	Exercise	Contractual	Number of
Average	Options	Price	Life	Options
Prices				
Exercised Price				
<S>	<C>	<C>	<C>	<C>
<C>				

Less than \$1.00	1,303,450	\$0.43	7.1 years	1,153,450
\$0.42				
\$1.00 and more	202,100	\$5.55	7.7 years	196,100
\$5.68				
Total	1,505,550	\$1.11	7.2 years	1,349,550
\$1.19				
	=====			=====

</TABLE>

Unexercisable options are as follows: 1,000 at \$0.688 per share, 1,500 options at \$0.444 per share, 2,000 options at \$0.720 per share, 60,000 options at \$0.590 per share, 11,500 options at \$0.620 per share, 21,000 options at \$0.500 per share, 9,000 options at \$0.190 per share, 40,000 options at \$0.160 per share, 4,000 options at \$0.600 per share, 5,000 options at \$1.31 per share, and 1,000 options at \$1.25 per share. Transactions involving the plan were as follows:

<TABLE>
<CAPTION>

	December 31,		
	1999		
1998			
-----	-----	-----	-----
Weighted		Weighted	
Average		Average	
Price	Shares	Price	Shares
-----	-----	-----	-----
<S>	<C>	<C>	<C>
<C>			
Outstanding, beginning of year	1,626,400	\$ 5.42	1,855,550
\$ 4.76			
Granted	187,300	0.50	78,800
5.87			
Exercised	(44,500)	0.44	(183,400)
1.29			
Canceled	(263,650)	11.39	(124,550)
15.50			
-----	-----	-----	-----
Outstanding, end of year	1,505,550	\$ 1.11	1,626,400
\$ 5.42			
=====	=====	=====	=====

</TABLE>

On January 5, 1999, the Board of Directors authorized the Company to reprice 122,600 employee stock options at a price range of \$9.333 to \$14.50 per share, to \$1.31 per share which was the fair market value of the common stock at the close on that date. On October 1, 1999, the Board of Directors authorized the Company to reprice 100,000 stock options to executive officers at a price range of \$0.62 to \$14.50 per share, to a price of \$0.26 per share which was not less than the current closing price of the Company's common stock as of October 1, 1999.

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INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Stock Options and Warrants (continued)

The Board of Directors has also granted warrants to directors, employees and others. No warrants were issued to directors or employees in 1999 and 1998. In connection with its March 1997 private placement, the Company issued 97,827 warrants exercisable at \$6.42 per share to an investment banking entity. In connection with its December 1999 private placement, the Company issued 1,400,000 five-year warrants exercisable at \$1.00 per share to individual investors. There were no warrants exercised in 1999 and 58,374 warrants were exercised in 1998. As of December 31, 1999, outstanding warrants are 1,535,339, of which 135,339 expire in 3 years and 1,400,000 expire in 5 years. The purchase price for shares issued upon exercise of these warrants range from \$0.56 to \$6.42 per share. These warrants are exercisable immediately.

13. Computation Of Earnings (Loss) Per Share

<TABLE>
<CAPTION>

	For the years ended December 31,	
	1999	1998
	----	----
<S>	<C>	<C>
Numerator for basic and diluted earnings (loss) per share - net loss	\$ (4,124,636)	\$ (9,023,945)
Denominator for basic earnings per share - weighted average shares	6,988,336	6,665,321
Effect of dilutive securities:		
Stock options	-	-
Dilutive potential common shares	-	-
Denominator for diluted earnings per share - adjusted weighted average Shares and assumed conversions	6,988,336	6,665,321
Basic earnings (loss) per share	\$ (0.59)	\$ (1.35)
Diluted earnings (loss) per share	\$ (0.59)	\$ (1.35)

</TABLE>

Options and warrants to purchase shares of common stock were outstanding during 1999 and 1998 (See Note 12), but were not included in the computation of diluted earnings per share as the effect would be antidilutive.

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INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Subsequent Events Private Placement Memorandum

In January 2000, the Company completed the second phase of its December 1999, private placement memorandum which raised an additional \$125,000 in exchange for 250,000 shares of common stock and 150,000 five-year warrants, exercisable at \$1.00 per share. The shares and warrants were sold to individual investors. The funds will be utilized to finance the operations of the Company. These warrants are exercisable immediately.

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WARRANT

THIS SECURITY HAS BEEN ACQUIRED IN A TRANSACTION NOT INVOLVING ANY PUBLIC OFFERING AND HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), AND MAY NOT BE OFFERED, SOLD OR TRANSFERRED EXCEPT IN COMPLIANCE WITH THE ACT.

INFORMATION ANALYSIS INCORPORATED

COMMON STOCK PURCHASE WARRANT

Certificate No. _____
Dated as of _____

1. Grant. For consideration of \$ _____ and other value received,

Information Analysis Incorporated, a Virginia corporation (the "Corporation"), hereby grants to _____ or its assigns or transferees (the "Holder"), at the exercise price set forth in Section 3 below, the right to purchase _____ shares (the "Warrant Shares") of Common Stock (or other security issued in accordance with Section 6).

2. Exercise Period. The right to exercise this Warrant, in whole or in part, begins on the date hereof. The right to exercise this Warrant expires on December 31, 2004 ("Expiration Date").

3. Exercise Price. The exercise price of this Warrant is \$1.00 per share, as adjusted from time to time as hereinafter set forth (the "Exercise Price").

4. Adjustments.

(a) Adjustment for Change in Common Stock.

(i) If the Corporation (A) pays a dividend or makes a distribution on its Common Stock in shares of its Common Stock, (B) subdivides or reclassifies its outstanding shares of Common Stock into a greater number of shares, or (C) combines or reclassifies its outstanding shares of Common Stock into a smaller number of shares (each, an "Adjustment Event"), the Exercise Price and the number of Warrant Shares issuable hereunder immediately prior to such action shall be proportionately adjusted to reflect such Adjustment Event.

(ii) The adjustment shall become effective immediately after the record date in the case of a dividend or distribution and immediately after the effective date in the case of a subdivision, combination or reclassification.

(iii) The adjustment shall be made successively whenever any Adjustment Event occurs.

(b) Adjustment for Reorganization. If the Corporation consolidates or

merges with or into another Person or enters into any other similar transaction, recapitalization or reorganization (any such action, a "Reorganization"), there shall thereafter be deliverable, upon exercise of this Warrant (in lieu of the number of Warrant Shares theretofore deliverable) the number of shares of stock or other securities or property to which a holder of the number of shares of Common Stock that would otherwise have been deliverable upon exercise of this Warrant would have been entitled upon such Reorganization if such Warrant has been exercised in full immediately prior to such Reorganization.

5. Prior Notice as to Certain Events.

(a) Dividends, Distributions, Subscription Rights. If the Corporation

(i) pays any dividend or makes any other distribution, or (ii) offers any subscription rights pro rata to the holders of its Common Stock, then at least

15 days prior to the record date for such action, the Corporation will send written notice (by first class mail, postage prepaid, addressed to the Holder at its address shown on the books of the Corporation) of the dates on which (A) the Corporation will close its books or take a record for such action and (B) the holders of Common Stock of record will participate in such action.

(b) Reorganizations. If the Corporation (i) enters into any

Reorganization or reclassification of its capital stock, or (ii) is the subject of a voluntary or involuntary dissolution, liquidation or winding up of the Corporation, then at least 15 days prior to such action, the Corporation will send written notice (by first class mail, postage prepaid, addressed to the Holder at its address shown on the books of the Corporation) of the dates on which (A) such action will occur and (B) the holders of Common Stock of record may exchange their Common Stock for securities or other property deliverable upon such action.

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6. Alternate Class. In the event the Corporation consummates the

registration of any of its securities other than Common Stock (the "Alternate Class") in accordance with the Securities Act of 1933, as amended, upon the request of the Holder:

(a) the Corporation will issue to Holder, upon exercise of this Warrant, the equivalent number of shares of such Alternate Class, so long as the holders of the shares of the Alternate Class have all of the same rights as the holders of shares of Common Stock, except for voting rights; and

(b) all references herein to Common Stock shall be deemed to refer to the Alternate Class.

7. Reservation of Common Stock. The Corporation will reserve and keep

available for issuance and delivery upon the exercise of this Warrant such number of its authorized but unissued shares of Common Stock or other securities of the Corporation as will be sufficient to permit the exercise in full of this Warrant. Upon issuance, each of the Warrant Shares will be validly issued, fully paid and nonassessable, free and clear of all liens, security interests, charges and other encumbrances or restrictions on sale and free and clear of all preemptive rights.

8. No Voting Rights; Limitations of Liability. Prior to exercise, this

Warrant will not entitle the Holder to (a) any voting rights, or (b) other rights as a stockholder of the Corporation not granted herein. No provision of this Warrant, in the absence of affirmative action by the Holder to exercise this Warrant, and no enumeration in this Warrant of the rights or privileges of the Holder, will give rise to any liability of such Holder for the Exercise Price.

9. Exercise Procedure. To exercise this Warrant, the Holder must deliver

to the principal office of the Corporation (prior to the Expiration Date) this Warrant, the subscription substantially in the form of Exhibit A attached

hereto, and the Exercise Price (as adjusted pursuant to the terms hereof). The Holder may deliver the Exercise Price by any of the following methods, at its option: (i) in legal tender, (ii) by bank cashier's or certified check, (iii) by wire transfer to an account designated by the Corporation, or (iv) in accordance with Section 10. Upon exercise, the Corporation, at its sole expense (including the payment of any documentary, stamp, issue or transfer taxes), will issue and deliver to Holder, within 10 days after the date on which the Holder exercises this Warrant, certificates for the Warrant Shares purchased hereunder. The Warrant Shares shall be deemed issued, and the Holder deemed the holder of record of such Warrant Shares, as of the opening of business on the date on which the Holder exercises this Warrant.

10. Cashless Payment.

(a) Right to Convert. In lieu of paying the applicable Exercise Price

by legal tender, check, or wire transfer, the Holder may elect to receive, upon exercise of this Warrant, that number of Warrant Shares equal to the quotient obtained by dividing:

[(A-B) (X)] by (A), where:

- A = the Conversion Value (as defined below) of a share of Common Stock on the date of exercise;
- B = the Exercise Price for a share of Common Stock;
- X = the number of Warrant Shares (equal to or less than the number of Warrant Shares then issuable hereunder) as to which this Warrant is being exercised.

(b) Conversion Value. For purposes of this Section 10 only, the

Conversion Value of a share of Common Stock means:

- (i) if the Common Stock is listed on a national securities exchange or admitted to unlisted trading privileges on such exchange or listed for trading on the Nasdaq National Market System maintained by the National Association of Securities Dealers, Inc., -- the last reported sale price of the Common Stock on the last trading day prior to the date of exercise of this Warrant (or the average closing bid and asked prices for such day if no such sale is made on such day);
- (ii) if clause (i) does not apply, and if the prices are reported by the National Quotation Bureau, Inc., -- the mean of the last reported bid and asked prices reported on the last trading day prior to the date of exercise of this Warrant; and
- (iii) in all other cases -- the per share value as determined by the board of directors in good faith.

11. Participation in Repurchases or Redemptions. If the Corporation

repurchases or redeems any of its securities, the Corporation will offer to include the Holder in such repurchase or redemption, as if the Holder had exercised this Warrant immediately prior to the event (or any record date with respect thereto). If the Holder elects to participate in a repurchase or redemption, this Warrant shall be modified (as of the date of such event) so that the Holder shall be entitled to receive, upon exercise, the number of Warrant Shares issuable hereunder less the number of Warrant Shares redeemed or repurchased. Any such repurchases or redemptions should be net of the Exercise Price for the Warrant Shares being deemed repurchased or redeemed.

12. Sale of Warrant or Warrant Shares. Neither this Warrant nor any of

the Warrant Shares have been registered under the Act or under the securities laws of any state. Neither this Warrant nor any of the Warrant Shares (when issued) may be sold, assigned, transferred, pledged or hypothecated or otherwise disposed of except as permitted: (i) by any shareholders agreement then in effect, (ii) by any effective registration statement under the Act and by the securities laws of any state in question, or (iii) by an opinion of counsel reasonably satisfactory to the Corporation stating that such registration under the Act and registration or qualification under the securities

laws of any state is not required. Until the Warrant Shares have been registered under the Act and registered and qualified under the securities laws of any state in question, the Corporation shall cause each certificate evidencing any Warrant Shares to bear the following legend:

The shares evidenced by this certificate have not been registered under the Securities Act of 1933, as amended, or under the securities laws of any state. The shares may not be offered, sold, assigned, transferred, pledged or hypothecated or otherwise disposed of in the absence of an effective registration statement under the Securities Act of 1933, as amended, and such registration or qualification as may be necessary under the securities laws of any state, or an opinion of counsel satisfactory to the CORPORATION that such registration or qualification is not required.

13. Transfer. The Corporation will register this Warrant on its books and

keep such books at its offices. To effect a transfer permitted by Section 11 hereof, the Holder must present (either in person, or by duly authorized attorney) written notice substantially in the form of Exhibit B attached hereto.

To prevent a transfer in violation of Section 11, the Corporation may issue appropriate stop orders to its transfer agent.

14. Replacement of Warrant. If the Holder provides evidence that this

Warrant or any certificate or certificates representing the Warrant Shares have been lost, stolen, destroyed or mutilated, the Corporation (at the request and expense of the Holder) will issue a replacement warrant upon reasonably satisfactory indemnification by the Holder (if required by the Corporation).

15. Governing Law. The laws of the Commonwealth of Virginia (other than _____ its conflict of law rules) govern this Warrant.

IN WITNESS WHEREOF, the Corporation has caused this Warrant to be signed on its behalf, in its corporate name, by its President, and its corporate seal to be hereunto affixed and the said seal to be attested by its Secretary, as of the ____ day of _____.

INFORMATION ANALYSIS INCORPORATED
a Virginia corporation

Attest: _____ By: _____ [Seal]
Secretary , President

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Exhibit A

IRREVOCABLE SUBSCRIPTION

To: Information Analysis Incorporated

The undersigned hereby elects to exercise its right under the attached Warrant by purchasing ____ shares of the Common Stock, and hereby irrevocably subscribes to such issue. The certificates for such shares shall be issued in the name of:

(Name)

(Address)

(Taxpayer Number)

and delivered to:

(Name)

(Address)

The Exercise Price of \$ _____ is enclosed.

Or
--

In lieu of payment of the Exercise Price, the undersigned hereby invokes the provisions of Section 10 of the Warrant.

Date: _____

Signed: _____
(Name of Holder, Please Print)

(Address)

(Signature)

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Exhibit B

ASSIGNMENT

For value received, the undersigned hereby sells, assigns and transfers unto:

(Name)

(Address)

the attached Warrant, together with all right, title and interest therein to purchase [__] shares of the Common Stock, and does hereby irrevocably appoint _____ as attorney-in-fact to transfer said Warrant on the books of Information Analysis Incorporated with full power of substitution in the premises.

Done this _____ day of _____ 19__.

(Signature)

(Name and title)

(Address)

INFORMATION ANALYSIS INCORPORATED

COMMON STOCK AND WARRANT PURCHASE AGREEMENT

THIS COMMON STOCK AND WARRANT PURCHASE AGREEMENT is made as of the _____ day of _____, 1999, by and between Information Analysis Incorporated, a Virginia corporation (the "Company"), and the Investors who execute a signature page to this Agreement which the Company accepts, all of whom shall be set forth on Schedule A hereto and each of whom is herein referred to as an "Investor," and all of whom are herein referred to collectively as the "Investors."

THE PARTIES HEREBY AGREE AS FOLLOWS:

1. Purchase and Sale of Units.

1.1 Sale and Issuance of Units. Subject to the terms and conditions of

this Agreement, each Investor agrees, severally, to purchase, and the Company agrees to sell and issue to such Investor, at the Closing (as defined below), that number of Units set forth in the signature page submitted by each Investor which is accepted by the Company. Each "Unit" shall be equal to one share of the Company's Common Stock (the "Common Stock") and one-half Warrant. The Units shall be sold at a price per unit of \$0.50 (the "Price Per Unit").

1.2 The Warrants. Subject to the terms and conditions of this Agreement,

the Warrants herein referred to individually as a "Warrant" and collectively as the "Warrants," which terms shall also include any warrants delivered in exchange or replacement thereof, shall be substantially in the form set forth as Exhibit B hereto.

1.3 Initial Closing. The initial purchase and sale of the Units to the

Investors pursuant to Section 1.1 hereof shall take place at such time the Company secures minimum subscriptions at least equal to \$400,000 ("Initial Closing"). At the Initial Closing, the Company shall deliver to each of the Investors a certificate representing the number of Units that such Investor is purchasing as set forth in the signature page submitted by each Investor and opposite such Investor's name in Schedule A hereto against delivery to the

Company by such Investor a certified or cashier's check acceptable to the Company in the amount of the purchase price therefor payable to the Company's order, or by the wire transfer of immediately available funds to a bank designated by the Company, for the Company's account, in the amount of the purchase price therefor.

1.4 Subsequent Sale of Units. Following the Initial Closing, the Company

may for a period of three (3) months sell and issue additional Units to such purchasers as it shall select (each of whom is herein also referred to as an "Additional Investor," and all of whom are herein also referred to collectively as the "Additional Investors"), at a price as provided in Section 1.1. Each such Additional Investor shall become a party to this Agreement and shall have the rights and obligations of an Investor hereunder. The Company shall have the right to accept from Additional Investors such subscriptions for the purchase of the number of Units identified on the signature page submitted by each Additional Investor. Each Additional Investor hereby agrees to purchase the number of Units identified on the signature page submitted by each Investor and opposite such Investor's name in Schedule A.

2. Representations and Warranties of the Company. The Company hereby

represents and warrants to each Investor that, except as to the matters set forth in the Schedule of Exceptions attached hereto as Schedule B (the "Schedule of Exceptions"), which shall be deemed to be (a) exceptions to the representations and warranties made herein and (b) additional representations and warranties as if made hereunder.

2.1 Organization, Good Standing and Qualification. The Company is a

corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Virginia, has all requisite corporate power and authority to carry on its business as now conducted and is duly qualified to transact business and is in good standing in each jurisdiction in which the failure so to qualify would have a material adverse effect on its business or properties.

2.2 Capitalization. The authorized capital of the Company consists of:

- (A) Common Stock. 15,000,000 shares authorized of Common Stock, of which

6,918,673 shares are outstanding. Up to 3,000,000 shares will be sold to the Investors pursuant to Sections 1.1 of this Agreement.

The rights, privileges and preferences of the Common Stock are as stated in the Company's Articles of Incorporation (the "Articles of Incorporation").

- (B) Except for Warrants to purchase up to 1,500,000 shares of Common Stock issued or issuable to the Investors, and, up to 1,608,589 shares of Common Stock issuable to employees and directors of the Company as compensation or as an incentive for the retention of services, as approved by the Board of Directors, there are not outstanding any options, warrants, rights (including conversion or preemptive rights) or agreements for the purchase or acquisition from the Company of any of its securities.

2.3 Authorization. All corporate action on the part of the Company, its

officers, directors and shareholders necessary for the authorization, execution and delivery of this Agreement and the Warrants, the performance of all obligations of the Company hereunder and thereunder and the authorization, issuance (or reservation for issuance) and delivery of (a) the Common Stock being sold hereunder, and (b) the Warrants and the Common Stock issuable upon the exercise of the Warrants, has been taken or will be taken prior to the Closing, and this Agreement and the Warrants, constitute valid and legally binding obligations of the Company, enforceable in accordance with their respective terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies.

2.4 Valid Issuance of Common Stock.

- (A) Based in material part upon the representations of the Investors in this Agreement,
- (i) the Common Stock which is being purchased by the Investors hereunder, when issued, sold and delivered in accordance with the terms hereof for the consideration expressed herein, will be duly and validly issued, fully paid and nonassessable and will be issued in compliance with all applicable federal and state securities laws; and
- (ii) the Warrants and the Common Stock issuable upon the exercise of the Warrants purchased under this Agreement has been duly and validly reserved

for issuance and, upon issuance will be duly and validly issued, fully paid and nonassessable, and will be issued in compliance with all applicable federal and state securities laws, as presently in effect.

- (B) The outstanding shares of Common Stock are all duly and validly authorized and issued. All of said shares are fully paid and nonassessable. All of the outstanding shares of Common Stock were issued in compliance with all applicable federal and state securities laws.

2.5 Disclosure. The Company will, if requested, provide to each Investor,

all of the information which such Investor has requested or requests for deciding whether to purchase the Common Stock and all information which the Company believes is reasonably necessary to enable such Investor to make such decision. Neither this Agreement, the Warrants, nor other statements or certificates made or delivered in connection herewith or therewith and all reports filed by the Company with the SEC, including Forms 10K and Forms 10Q, contains any untrue statement of a material fact or omits to state a material

fact necessary to make the statements herein or therein not misleading.

3. Representations and Warranties of the Investors. Each Investor hereby

represents and warrants that:

3.1 Authorization. This Agreement constitutes its valid and legally

binding obligation, enforceable in accordance with its terms.

3.2 Purchase Entirely for Own Account. This Agreement is made with each

Investor in reliance upon such Investor's representation to the Company, which by such Investor's execution of this Agreement such Investor hereby confirms, that the Units to be received by such Investor will be acquired for investment for such Investor's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that such Investor has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Agreement, each Investor further represents that such Investor does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participation to such person or to any third person, with respect to any of the Securities. Each Investor represents, that such investor has full power and authority to enter into this Agreement.

3.3 Disclosure of Information. Each Investor has received all of the

information that such investor has requested and believes such investor has received all of the information such investor considers necessary or appropriate for deciding whether to purchase the Units. Each Investor further represents that such investor has read carefully and understands the information provided by the Company and has had ample opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of the Units. The foregoing, however, does not limit or modify the representations and warranties of the Company in Section 2 of this Agreement or the right of the Investors to rely thereon.

3.4 Investment Experience. Each Investor is an investor in securities of

early stage companies and acknowledges that such investor is able to fend for himself or herself, can bear the economic risk of the investment in the Units and has such knowledge and experience in financial or business matters that such investor is capable of evaluating the merits and risks of the investment in the Units.

3.5 Adequate Means. Each Investor has adequate means of providing for the

each Investor's current needs and possible personal contingencies and has no need for liquidity in this

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investment and each Investor can bear the economic risk and/or entire loss of any investment in the Units. Each Investor's commitment to illiquid investments is reasonable in relation to such investor's needs. All financial information provided to the Company by each Investor is true and correct.

3.6 Accredited Investor. Each Investor, if a United States resident, is

an "accredited investor" within the meaning of Regulation D promulgated under the Securities Act of 1933, as amended, inasmuch as each Investor is:

- (A) a natural person whose individual net worth, or joint net worth with that person's spouse, at the time of purchase exceeds \$1,000,000;
- (B) a natural person who had an individual income in excess of \$200,000 in each of the two most recent years or joint income with that person's spouse of \$300,000 in each of those years and who has a reasonable expectation of reaching the same income level in the current year;
- (C) an organization described in section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts or similar business trust or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of \$5,000,000; or
- (D) otherwise meets the requirements under Regulation D.

If the Investor is purchasing the Units hereby in a fiduciary capacity, the above representations and warranties shall be deemed to have been made on behalf of the person or persons for whom the Investor is so purchasing.

3.7 No Public Solicitation. Neither the offer nor the sale of the Units

to each Investor has been accomplished by the publication of any form of advertisement or general solicitation, including, but not limited to, the following:

- (A) Any advertisement, article, notice or other communication published in any newspaper, magazine, or similar media or broadcast over television or radio; and
- (B) Any seminar or meeting whose attendees have been invited by any general solicitation or general advertising.

3.8 Restricted Securities. Each Investor understands that the Units are

characterized as "restricted securities" under the federal securities laws in as much as they are being acquired from the Company in a transaction not involving a public offering and that under such laws and applicable regulations such securities may be resold without registration under the Securities Act of 1933, as amended (the "Act"), only in certain limited circumstances. In this connection, each Investor represents that such investor is familiar with SEC Rule 144, as presently in effect, and understands the resale limitations imposed thereby and by the Act.

3.9 Further Limitations on Disposition. Without in any way limiting the

representations set forth above, each Investor further agrees not to make any disposition of all or any portion of the Units unless and until the transferee has agreed in writing for the direct benefit of the Company to be bound by this Section 3, and:

- (A) There is then in effect a Registration Statement under the Act covering such proposed disposition and such disposition is made in accordance with such Registration Statement; or
- (B) (i) Such Investor shall have notified the Company of the proposed disposition and shall have furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition, and

(ii) If reasonably requested by the Company, such Investor shall have furnished the Company with an opinion of counsel, reasonably satisfactory to the Company, that such disposition will not require registration of such Units under the Act. It is agreed that the Company will not require opinions of counsel for transactions made pursuant to Rule 144, except in unusual circumstances.

- (C) Notwithstanding the provisions of paragraphs (A) and (B) above, no such registration statement or opinion of counsel shall be necessary for a transfer by an Investor which is a partnership to a partner of such partnership, or a retired partner of such partnership who retires after the date hereof, or to the estate of any such partner or retired partner or the transfer by gift, will or intestate succession of any partner to his spouse or to the siblings, lineal descendants or ancestors of such partner or his spouse, if the transferee agrees in writing to be subject to the terms hereof to the same extent as if he were an original Investor hereunder.

3.10 Legends. It is understood that the certificates evidencing the Units

may bear one or all of the following legends:

- (A) "THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. THE SHARES HAVE BEEN ACQUIRED FOR INVESTMENT AND MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER SUCH ACT OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 OF SUCH ACT."
- (B) "THIS WARRANT HAS BEEN ACQUIRED FOR INVESTMENT AND HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR ANY APPLICABLE STATE SECURITIES LAWS. THIS WARRANT MAY NOT BE OFFERED, PLEDGED, SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM."
- (C) Any legends required by law.

3.11 Risks. Each Investor recognizes that an investment in the Units

involves significant risks and has taken full cognizance of and understands all

of the risk factors related to the purchase of the Units. The risks associated with investment in the Company include, but are not limited to those risks described on Exhibit A hereto. Each Investor understands that Exhibit A attached

hereto does not contain a complete list of the risks involved in the investment in the Units.

4. Conditions of Investor's Obligations at Closing. The obligations of each

Investor under Section 1.1 of this Agreement are subject to the fulfillment on or before the Closing of each of the following conditions, the waiver of which shall not be effective against any Investor who does not consent in writing thereto:

4.1 Representations and Warranties. The representations and warranties of

the Company contained in Section 2 hereof shall be true on and as of the Closing with the same effect as though such representations and warranties had been made on and as of the date of the Closing.

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4.2 Performance. The Company shall have performed and complied with all

agreements, obligations and conditions contained in this Agreement that are required to be performed or complied with by it on or before the Closing.

5. Conditions of the Company's Obligations at Closing. The obligations of the

Company to each Investor under this Agreement are subject to the fulfillment on or before the Closing of each of the following conditions by that Investor:

5.1 Representations and Warranties. The representations and warranties of

the Investors contained in Section 3 shall be true on and as of the Closing with the same effect as though such representations and warranties had been made on and as of the Closing.

5.2 Payment of Purchase Price. The Investors shall have paid in full in

the manner provided above, and the Company shall have received, the purchase price for the number of Units subscribed for by them.

6. Registration Rights. The Company covenants and agrees as follows:

6.1 Definitions. For purposes of this Section 6:

-
- (A) The term "Act" refers to the Securities Act of 1933, as amended. The term "1934 Act" refers to the Securities and Exchange Act of 1934, as amended.
 - (B) The terms "register," "registered" and "registration" refer to a registration effected by preparing and filing a registration statement or similar document in compliance with the Act, and the declaration or ordering of effectiveness of such registration statement or document,
 - (C) The term "Registerable Securities" means (1) the Common Stock underlying this Agreement; and (2) any Common Stock issued as a dividend or other distribution with respect to, or in exchange for or in replacement of, such Common Stock;
 - (D) The number of shares of "Registerable Securities then outstanding" shall be determined by the number of shares of Common Stock outstanding which are, and the number of shares of Common Stock issuable pursuant to, then exercisable securities which are, Registerable Securities.
 - (E) The term "Holder" means any person owning or having the right to acquire Registerable Securities, or any assignee thereof; and
 - (F) The term "Form S-3" means such form under the Act as in effect on the date hereof or any registration form under the Act subsequently adopted by the Securities and Exchange Commission ("SEC") which permits inclusion or incorporation of substantial information by reference to other documents filed by the Company with the SEC.

6.2 Reports Under Securities Exchange Act of 1934. With a view to making

available to the Holders the benefits of Rule 144 promulgated under the Act and any other rule or regulation of the SEC that may at any time permit a Holder to

sell securities of the Company to the public without registration or pursuant to a registration on Form S-3, the Company agrees to:

- (A) Make and keep public information available, as those terms are understood and defined in SEC Rule 144;

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- (B) Take such action as is necessary to enable the Holders to utilize Form S-3 for the sale of their Registerable Securities;
- (C) File with the SEC in a timely manner all reports and other documents required of the Company under the Act and the 1934 Act; and
- (D) Furnish to any Holder, so long as the Holder owns any Registerable Securities, forthwith upon request (i) a written statement by the Company that it has complied with all reporting requirements so as to enable Investor to utilize SEC Rule 144, or that it qualifies as a registrant whose securities may be resold pursuant to Form S-3 (at any time after it so qualifies), (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, and (iii) such other information as may be reasonably requested in availing any Holder of any rule or regulation of the SEC which permits the selling of any such securities without registration or pursuant to such form.

6.3 Form S-3 Registration.

- (A) No later than fifteen (15) days after the Initial Closing, the Company shall file a registration statement on Form S-3 covering the Common Stock issuable or issued upon exercise of the Warrants and will promptly give written notice of the proposed registration, and any related qualification or compliance, to all Holders. No later than six (6) months from the date of this Agreement, the Company shall file a registration statement on Form S-3 covering the Registerable Securities and will promptly give written notice of the proposed registration, and any related qualification or compliance, to all Holders;
- (B) The Company shall not be obligated to effect any such registration, qualification or compliance, pursuant to this Section 6.3: (1) if Form S-3 or another short form registration statement under the Act is not available for such registration, except if such short form is not available because of a breach by the Company of Section 6.2; (2) if the Holders, together with the holders of any other security of the Company entitled to inclusion in such registration, propose to sell Registerable Securities and such other securities (if any) at an aggregate gross offering price of less than \$300,000; (3) if the Company shall furnish to such Holders a certificate signed by the President of the Company stating that in the good faith judgment of the Board of Directors of the Company, it would be seriously detrimental to the Company and its shareholders for such Form S-3 Registration to be effected at such time, in which event the Company shall have the right to defer the filing of the Form S-3 registration statement for a period of not more than 90 days under this Section 6.3; provided, however, that the Company shall not utilize this right more than once in any twelve-month period; (4) within six months of the effective date of any other registration statement relating to an underwritten public offering filed by the Company with the SEC so long as the Holders have piggyback registration rights under said other registration statement; or (5) in any particular jurisdiction in which the Company would be required to qualify to do business or to execute a general consent to service of process in effecting such registration, qualification or compliance.
- (C) All expenses the Company incurs in connection with a registration pursuant to this Section 6.3, including (without limitation) all registration, filing, qualification, printer's and accounting fees and the reasonable fees and disbursements of counsel for the Company shall be paid by the Company. All discounts and commissions associated with the Registerable Securities shall be borne pro rata by the Holders.

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6.4 Indemnification.

(a) In the event of a registration of any of the Registerable Securities under the Securities Act pursuant to this Section 6, the Company will indemnify and hold harmless each holder of Registerable Securities, its officers

and directors, each underwriter of such Registerable Securities thereunder and each other person, if any, who controls such seller or underwriter within the meaning of the Securities Act, against any losses, claims, damages or liabilities, joint or several, to which such holder, officer, director, underwriter or controlling person may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in any registration statement under which such Registerable Securities was registered under the Securities Act pursuant to this Section 6, any preliminary prospectus or final prospectus contained therein, or any amendment or supplement thereof, (ii) any blue sky application or other document executed by the Company specifically for that purpose or based upon written information furnished by the Company filed in any state or other jurisdiction in order to qualify any or all of the Registerable Securities under the securities laws thereof (any such application, document or information herein called a "Blue Sky Application"), (iii) the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, (iv) any violation by the Company or its agents of any rule or regulation promulgated under the Securities Act applicable to the Company or its agents and relating to action or inaction required of the Company in connection with such registration, or (v) any failure to register or qualify the Registerable Securities in any state where the Company or its agents has affirmatively undertaken or agreed in writing that the Company (the undertaking of any underwriter chosen by the Company being attributed to the Company) will undertake such registration or qualification on the seller's behalf (provided that in such instance the Company shall not be so liable if it has undertaken its best efforts to so register or qualify the Registerable Securities) and will reimburse each such holder, and such officer and director, each such underwriter and each such controlling person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company will not be liable in any such case

if and to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission so made in conformity with information furnished by any such seller, any such underwriter or any such controlling person in writing specifically for use in such registration statement or prospectus.

(b) In the event of a registration of any of the Registerable Securities under the Securities Act pursuant to this Section 6, each seller of such Registerable Securities thereunder, severally and not jointly, will indemnify and hold harmless the Company, each person, if any, who controls the Company within the meaning of the Securities Act, each officer of the Company who signs the registration statement, each director of the Company, each other holder of Registerable Securities, each underwriter and each person who controls any underwriter within the meaning of the Securities Act, against all losses, claims, damages or liabilities, joint or several, to which the Company or such officer, director, other seller, underwriter or controlling person may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the registration statement under which such Registerable Securities was registered under the Securities Act pursuant to this Section 6, any preliminary prospectus or final prospectus contained therein, or any amendment or supplement thereof, or any Blue Sky Application or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Company and each such officer, director, other seller, underwriter and controlling person for any legal or other expenses reasonably incurred by them in

connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that such seller will be liable

hereunder in any such case if and only to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in reliance upon and in conformity with information pertaining to such seller, as such, furnished in writing to the Company by such seller specifically for use in such registration statement or prospectus; and provided, further, however, that the

liability of each seller hereunder shall be limited to the proportion of any such loss, claim, damage, liability or expense which is equal to the proportion that the public offering price of the shares sold by such seller under such registration statement bears to the total public offering price of all securities sold thereunder, but not in any event to exceed the proceeds received by such seller from the sale of Registerable Securities covered by such registration statement.

(c) Promptly after receipt by an indemnified party hereunder of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party hereunder, notify the indemnifying party in writing thereof, but the omission so to notify the indemnifying party shall not relieve it from any liability which it may have to such indemnified party other than under this Section 6.4 and shall only relieve it from any liability which it may have to such indemnified party under this Section 6.4 if and to the extent the indemnifying party is prejudiced by such omission. In case any such action shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate in and, to the extent it shall wish, to assume and undertake the defense thereof with counsel satisfactory to such indemnified party, and, after notice from the indemnifying party to such indemnified party of its election so to assume and undertake the defense thereof, the indemnifying party shall not be liable to such indemnified party under this Section 6.4 for any legal expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation and of liaison with counsel so selected; provided, however, that, if the defendants in any such action include both the

indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that the interests of the indemnified party reasonably may be deemed to conflict with the interests of the indemnifying party, the indemnified party shall have the right to select a separate counsel and to assume such legal defenses and otherwise to participate in the defense of such action, with the expenses and fees of such separate counsel and other expenses related to such participation to be reimbursed by the indemnifying party as incurred.

(d) The indemnities provided in this Section 6.4 shall survive the transfer of any Registerable Securities by such holder.

7. Miscellaneous.

7.1 Survival of Warranties. The warranties, representations and covenants of the Company and Investors contained in or made pursuant to this Agreement shall survive the execution and delivery of this Agreement and the Closing and shall in no way be affected by any investigation of the subject matter thereof made by or on behalf of the Investors or the Company.

7.2 Successors and Assigns. Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties (including transferees of any shares of Common Stock sold hereunder or any Common Stock issued upon conversion thereof). Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

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7.3 Governing Law. This Agreement shall be governed by and construed under the laws of the Commonwealth of Virginia.

7.4 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

7.5 Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

7.6 Notices. Unless otherwise provided, any notice required or permitted under this Agreement shall be given in writing and shall be deemed effectively given upon personal delivery to the party to be notified or upon deposit with the United States Post Office, by registered or certified mail, postage prepaid and addressed to the party to be notified at the address indicated for such party on the signature page hereof, or at such other address as such party may designate by ten (10) days' advance written notice to the other parties.

7.7 Aggregation of Stock. All shares of Common Stock held or acquired by affiliated entities or persons shall be aggregated together for the purpose of determining the availability of any rights under this Agreement.

7.8 Amendments and Waivers. Any term of this Agreement may be amended and

the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only with written consent of the Company and the holders of a majority of the Common Stock issued or issuable upon conversion of the Common Stock. Any amendment or waiver effected in accordance with this Section 7.8 shall be binding upon each holder of any securities purchased under this Agreement at the time outstanding (including securities into which such securities are convertible), each future holder of all such securities, and the Company; provided, however, that no condition set forth in Section 5 hereof may be waived with respect to any Investor who does not consent thereto.

7.9 Severability. If one or more provisions of this Agreement are held to

be unenforceable under applicable law, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

7.10 Entire Agreement. This Agreement and the documents referred to herein

constitute the entire agreement among the parties and no party shall be liable or bound to any other party in any manner by any warranties, representations, or covenants except as specifically set forth herein or therein.

IN WITNESS WHEREOF, the parties have executed the undersigned has executed this signature page on the date set forth below.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Signature Page

The undersigned hereby purchases _____ Units comprised of _____ Shares of Common Stock and _____ Warrants at a price of \$0.50 per Unit, and tenders herewith, in full payment thereof, good funds in the amount of \$_____ (the "Purchase Price") by check payable to "Information Analysis Incorporated" on this _____ day of _____, 1999.

NON INDIVIDUAL INVESTOR

INDIVIDUAL INVESTOR(S)

Print Name of Entity

(If Units are to be held in joint ownership, all owners must sign.)

By: _____
Signature

Signature

Print Name and Title

Print Name

Tax Identification No.

Social Security No.

Street No.

Street No.

City State Zip

City State Zip

ACCEPTED:
COMPANY

Signature

INFORMATION ANALYSIS INC.
a Virginia corporation

Print Name

Social Security No.

By: _____
Title: Executive Vice President Street No. _____

Address: 11240 Waples Mill Road _____
Fairfax, Virginia 22030 City State Zip

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SCHEDULE A
Schedule of Investors

Name & Address of Investor	Number of Share Purchased	Number of Warrants Purchased
----------------------------	---------------------------------	---------------------------------

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SCHEDULE B
Schedule of Exceptions

None.

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EXHIBIT A
Risk Factors

Each Investor has carefully considered the risks described below. If any of the following risks actually occurs, the Company's business, financial condition or operating results could be materially adversely affected. In such case, the Investors may lose all or part of their investment.

The risks and uncertainties described below are not the only ones the Company face. Additional risks and uncertainties, including those not presently known to the Company or that the Company currently deem immaterial, may also impair the Company's business.

RISKS RELATED TO THE COMPANY'S BUSINESS.

The Company's Business Is Difficult to Evaluate Because The Company Has a Limited Operating History Under The Company's Current Business Model.

The Company has a limited operating history under the Company's current business model upon which the Investor can evaluate the Company's business. Accordingly, an investor in the Company's Securities must consider the challenges, risks and uncertainties frequently encountered by companies using new business models in new and rapidly evolving markets. These challenges include the Company's:

- * Need to increase the Company's brand name awareness;
- * Need to manage changing and expanding operations;
- * Need to compete effectively;
- * Dependence on experienced personnel.

The Company cannot be certain that the Company's business strategy will be successful or that the Company will successfully address these and other challenges, risks and uncertainties. Any failure to do so would seriously harm the Company's business and operating results.

The Company Has a Negative Current Net Worth; May Incur Future Losses.

The Company has a negative current net worth and has been incurring losses on its business operations for the past several years. The Company is not currently able to satisfy its obligations and requires additional working capital. The Company may continue to incur operating losses. Operating results may be affected by factors beyond the Company's control, such as the state of the economy, business conditions in general and the other factors discussed herein.

The Company Need to Manage Changing and Expanding Operations.

The Company expects the Company's business to grow. This growth may place a significant strain on the Company's business resources, which have been reduced as a result of the Company's recent losses. To manage this growth effectively, the Company may need to implement additional management information systems capabilities, further develop the Company's operating, administrative, financial and accounting systems and controls, improve coordination among accounting, finance, marketing and operations and hire and train additional personnel. The Company may not successfully implement the Company's expansion program in whole or in part. The Company cannot be certain that the Company's management will be able to successfully identify, manage and exploit existing and potential market opportunities.

Information Analysis Incorporated

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The Company's Market is Highly Competitive.

The Company does business in a market that is highly competitive, and the Company expects competition to intensify in the future. Increased competition is likely to result in price reductions, reduced gross margins and loss of market share, any of which could harm the Company's net revenue and results of operations.

The Company may not be able to compete with current and potential competitors, many of whom have longer operating histories, greater name recognition, larger, more established customer bases and significantly greater financial, technical, and marketing resources. Further, some of the Company's competitors provide or have the ability to provide the same range of services the Company offers. Also, competitors may compete directly with the Company by adopting a similar business model or through the acquisition of companies which can provide complementary products or services. The Company's failure to compete effectively in the Company's markets would have a material adverse affect on the Company's business.

The Company Must Attract and Retain Experienced Personnel and The Company Rely on Senior Management.

The success of the Company's business depends to a large extent upon the efforts of the Company's officers and management personnel. If the Company fails to attract, assimilate or retain highly qualified managerial and technical personnel the Company's business could be materially adversely affected. The Company's performance is substantially dependent on the performance of the Company's executive officers and key employees who must be knowledgeable and experienced. The Company is also dependent on its ability to retain and motivate high quality personnel, especially management and highly skilled technical teams. The loss of the services of any executive officers or key employees could have a material adverse effect on the Company's business. The Company's future success also depends on the continuing ability to identify, hire, train and retain other highly qualified managerial and technical personnel. Competition for such personnel is intense.

Discretion as to Use of Proceeds.

The Company expects that the proceeds from the sale of the Securities will be used for working capital. The Company expects to also use the proceeds to meet current operating cost obligations and to make payments on outstanding obligations which are estimated to be about \$1,000,000. However, the projected uses of proceeds are approximate, and management will have discretion with respect to the allocation of proceeds.

Proceeds Insufficient to Satisfy Current Obligations.

The proceeds from the sale of Securities will not be sufficient to satisfy the full value of the Company's current outstanding obligations. The Company's creditors are working closely with the Company to allow it to continue operations while making reduced payments. While the Company does not consider the risk likely, such creditors can and may sue to collect upon the full amount

of their outstanding obligations at any time.

Revenue May Be Insufficient to Reverse Losses.

The Company expects its losses to continue; however, cash flow from operations is likely to be positive. The Company has several large contracts that are moving toward fruition in the next

several months, but if any of these contracts do not become finalized, it could have a material adverse effect on the Company's operations.

Investment Risk; Additional Financing.

There can be no assurance that the investors in the Securities will recoup their investment. The Company may seek to raise additional capital for future expansion. There is no assurance that the Company will be able to raise this capital. Should the Company obtain such additional funds, prospective investors in this Offering may experience dilution of their equity interest in the Company.

The Company may not achieve cash flow break-even and may require additional infusions of capital to sustain operations. This capital may not be available. The Company may need to raise additional funds sooner than the Company expects if the Company incurs unforeseen required capital expenditures or substantial operating losses. If adequate funds are not available or are not available on acceptable terms, the Company may not be able to develop or enhance the Company's services, take advantage of future opportunities or respond to competitive pressures, which could have a material adverse effect on the Company's business.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Company's materials may contain statements about future events and expectations, which are "forward-looking statements." Any statement in the Company's materials that is not a statement of historical fact may be deemed to be a forward-looking statement. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. In evaluating these statements, the Investor should specifically consider various factors, including the risks outlined in the Risk Factors section above. These factors may cause the Company's actual results to differ materially from any forward-looking statement. Specific factors that might cause such a difference include, but are not limited to:

- . the potential fluctuation in the Company's operating results;
- . the Company's potential need for additional capital;
- . the Company's potential inability to expand the Company's services;
- . the Company's competition; and,
- . the Company's ability to attract and retain skilled personnel.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither the Company nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. The Company is under no duty to update any of the forward-looking statements to conform such statements to actual results or to changes in the Company's expectations.

Use of Financial Forecasts. Any financial forecasts the Company may have provided in connection with this Offering are based on assumptions made by the Company's management in formulating the Company's current business plan. The Company can provide no assurance that the assumptions will prove to be valid and therefore, can give no assurance that the projected yields will be realized. The validity and accuracy of all such assumptions will depend in large part on future events over which the Company has limited control. To the extent that any of the assumptions upon which the financial forecasts are based are incorrect or inaccurate, the actual operating results of the Company will not correspond to the financial forecast. Such differences

may be material and actual results may differ substantially from those projected. Accordingly, the Investor should not make an investment in the Company in reliance on any projected financial performance.

EXHIBIT B
Form of Warrant

Exhibit 21.1

SUBSIDIARIES OF
INFORMATION ANALYSIS INCORPORATED<TABLE>
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Name	State of Incorporation	Name under which Subsidiary Does Business
<S>	<C>	<C>
Allied Health & Information Systems, Inc.	VA	N/A
DHD Systems, Inc.	VA	N/A
International Software Services Corporation	VA	N/A

</TABLE>

Exhibit 23.1

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statements (Form S-8 No. 33-26249 and No. 33-305136) pertaining to the 1986 Stock Option Plan and 1996 Stock Option Plan of Information Analysis Incorporated of our report dated February 24, 2000, with respect to the consolidated financial statements of Information Analysis Incorporated included in the Annual Report (Form 10-KSB) for the year ended December 31, 1999.

/s/ Rubino & McGeehin, Chartered

Bethesda, Maryland
March 29, 2000

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
REGISTRANT'S 10-KSB AS FOR THE YEAR ENDED DECEMBER 31, 1999 AND IS QUALIFIED BY
REFERENCE TO SUCH FINANCIAL STATEMENTS.

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