

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

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

For the Quarter Ended  
March 31, 2000  
-----

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, VA 22030  
-----  
(Address of principal executive offices) (Zip Code)  
  
(Registrant's telephone number,  
including area code) (703) 383-3000  
-----

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

Yes  No   
--- ---

State the number of shares outstanding of each of the issuer's classes of  
common stock, as of April 14, 2000:

Common Stock, par value \$.01, 9,581,473 shares

Transitional small business disclosure format.

Yes  No   
--- ---

INFORMATION ANALYSIS INCORPORATED  
FORM 10-QSB

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INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET

<TABLE>  
<CAPTION>

	As Of March 31, 2000 Unaudited -----
<S>	<C>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 89,341
Accounts receivable, net	1,903,054
Employee advances	7,451
Prepaid expenses	134,510
Other receivables	50,298
	-----
Total current assets	2,184,654
Fixed assets, net	219,952
Equipment under capital leases, net	10,344
Capitalized software, net	470,696
Other receivables	28,992
Other assets	58,275
	-----
Total assets	\$ 2,972,913 =====
LIABILITIES & STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	\$ 1,265,904
Accrued payroll and related liabilities	318,108
Other accrued liabilities	417,189
Revolving line of credit	660,600
Current maturities of capital lease obligations	5,478
	-----
Total current liabilities	2,667,279
Long-term debt	--
	-----
Total liabilities	2,667,279
Common stock, par value \$0.01, 15,000,000 shares authorized; 11,086,084 shares issued, 9,581,473 outstanding at March 31, 2000	110,861
Additional paid in capital	13,916,902
Retained earnings	(12,867,816)
Less treasury stock; 1,504,611 shares at cost	(854,313)
	-----
Total stockholders' equity	305,634
	-----
Total liabilities and stockholders' equity	\$ 2,972,913 =====

</TABLE>

See accompanying notes

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>  
<CAPTION>

	For the three months ended March 31, -----
-----	2000
1999	Unaudited
Unaudited	-----
-----	<C>
<S>	
<C>	
Sales	
Professional fees	\$ 1,221,805
\$3,515,958	

Software sales	466,512
319,706	
-----	-----
Total sales	1,688,317
3,835,664	
Cost of sales	
Cost of professional fees	939,154
2,095,509	
Cost of software sales	144,514
375,711	
-----	-----
Total cost of sales	1,083,668
2,471,220	
-----	-----
Gross profit	604,649
1,364,444	
Selling, general and administrative expenses	560,544
1,186,837	
Research & Development	0
72,935	
-----	-----
Income from operations	44,105
104,672	
Other (expense) income	(2,203)
(34,489)	
-----	-----
Income before provision for income taxes	41,902
70,183	
Provision for income taxes	0
0	
-----	-----
Net income	\$ 41,902
\$ 70,183	
=====	=====
Earnings per common share	
Basic	\$0.00
\$0.01	
Diluted	\$0.00
\$0.01	
Weighted average common shares outstanding	
Basic	9,435,543
6,894,529	
Diluted	10,149,573
8,029,979	
</TABLE>	

See accompanying notes

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>  
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Ended	For the Three Months
	March 31,
-----	-----
1999	2000
Unaudited	Unaudited
-----	-----
<S>	<C>
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Net income	\$ 41,902

\$ 70,183

Adjustments to reconcile net income to net cash provided by operating activities:

Depreciation	57,352
84,816	
Amortization	3,691
5,265	
Amortization of capitalized software	38,637
274,174	
Loss on sale of fixed assets	0
8,286	
Changes in operating assets and liabilities	
Accounts receivable	(810)
510,428	
Other receivables and prepaid expenses	41,265
(77,054)	
Accounts payable and accrued expenses	(494,752)
(981,610)	
-----	-----
Net cash used by operating activities	\$ (312,715)
\$(105,512)	
-----	-----

Cash flows from investing activities

Increase in capitalized software	(45,680)
0	
Proceeds from sale of fixed assets	0
11,805	
-----	-----
Net cash (used) provided in investing activities	(45,680)
11,805	
-----	-----

Cash flows from financing activities

Net borrowing under bank revolving line of credit	159,100
37,000	
Principal payments on capital leases	(1,458)
(2,186)	
Net Proceeds from private placement	125,000
0	
Proceeds from exercise of stock options and warrants	31,626
19,774	
-----	-----
Net cash provided by financing activities	314,268
54,588	
-----	-----

Net decrease in cash and cash equivalents

(39,119)	(44,127)
Cash and cash equivalents at beginning of the period	133,468
176,399	
-----	-----

Cash and cash equivalents at end of the period

137,280	\$ 89,341
-----	-----

Supplemental cash flow Information

Interest paid	\$ 6,242
\$ 38,562	

See accompanying notes

PART I

Item 1. Financial Statements.

INFORMATION ANALYSIS, INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Basis of Presentation

The accompanying consolidated financial statements have been prepared

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

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

### Overview

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

### Cautionary Statement Regarding Forward-Looking Statements

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

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### Three Months Ended March 31, 2000 Versus Three Months Ended March 31, 1999

#### Revenue

IAI's revenues in the first quarter of fiscal 2000 were \$1.7 million, compared to \$3.8 million in the first quarter of fiscal 1999, a decrease of 56%. Professional services revenue was \$1.2 million versus \$3.5 million, a decrease of 65.2%, and product revenue was \$0.5 million versus \$0.3 million an increase of 45.9%. The decrease in professional services revenue is primarily attributable to the discontinuation of Year 2000 sales for the first quarter of fiscal 2000 versus Year 2000 sales recorded over the same period in 1999. In the first quarter 1999 Year 2000 sales accounted for \$2.1 million in professional services revenue. The increase in product sales was mainly attributable to the sales of ICON'S a software toolset capable of conversions and migrations from mainframe legacy systems.

#### Gross Margins

Gross margin was \$0.6 million, or 35.8% of sales, in the first quarter of fiscal 2000 versus \$1.4 million, or 35.6% of sales, in the first quarter of fiscal 1999. Of the \$0.6 million in 2000, \$0.3 million was attributable to services and \$0.3 million was attributable to software sales. Gross margin as a percentage of sales was 23.1% for professional services and 69.0% for software sales. In the first quarter of 1999, the Company reported gross margin of approximately 40.4% for services and (17.5%) for software sales.

#### Selling, General and Administrative

Selling, general and administrative expenses (SG&A) were \$0.6 million, or 33.2% of revenues, in the first quarter of 2000 versus \$1.2 million, or 30.9% of revenues, in the first quarter of 1999, a decrease in expenses of 52.8%. The decrease is attributable to the Company's elimination of its marketing and support expenses associated with Year 2000 services and product.

#### Profits

The Company generated an operating profit of \$44,000 in the first quarter of 2000 compared to \$105,000 in the first quarter of 1999. In general, the profit reflected a slight improvement in the overall percentage for gross margin sales of 0.2%. Because of a net operating loss carryforward, the Company

did not accrue for income taxes in the first quarter of 2000.

#### Liquidity and Capital Resources

The Company financed its operations from current collections, the proceeds from the sales of private equity and through its bank line of credit. Cash and cash equivalents at March 31, 2000 were \$89,341, compared to \$137,280 at March 31, 1999.

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

If revenue continues at current levels the Company believes that it will derive sufficient cash flow to continue to pay all essential expenses which are required to operate the business.

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Any material reduction in revenue could have a material adverse effect on the Company's operational capabilities. The Company cannot be certain that there will not be a need for additional cash resources at some point in fiscal 2000. Accordingly, the Company may from time to time consider additional equity offerings to finance business expansion. The Company is uncertain that it will be able to raise additional capital.

The Company has no material commitments for capital expenditures.

#### PART II - OTHER INFORMATION

##### Item 2. Changes in Securities

In the first quarter of 2000, the Company completed the second phase of its December 1999, private placement which raised an additional \$125,000 in exchange for 250,000 shares of common stock and 125,000 five-year warrants, exercisable at \$1.00 per share. The shares and warrants were sold to accredited investors in reliance upon Rule 505 of Regulation D under the Securities Act of 1933 as amended.

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

(a) See the Index to Exhibits attached hereto.

(b) No reports on Form 8-K were filed for the quarter for which this report is filed.

#### SIGNATURES

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

Information Analysis Incorporated

-----  
(Registrant)

Date: May 12, 2000  
-----

By: /S/ Sandor Rosenberg  
-----  
Sandor Rosenberg, Chairman of the  
Board and President

By: /S/ Richard S. DeRose  
-----  
Richard S. DeRose, Executive Vice  
President and Treasurer

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#### INDEX TO EXHIBITS

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

9



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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE REGISTRANT'S 10-QSB AS FOR THE QUARTER ENDED MARCH 31, 2000 AND IS QUALIFIED BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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