

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

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

For the Quarter Ended  
September 30, 1995

Commission  
File No. 33-9390

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

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

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

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

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      x                                      No

State the number of shares outstanding of each of the issuer's classes of common stock, as of September 30, 1995:

Common Stock, par value \$.01, 471,549 shares

Transitional small business disclosure format.

Yes                                      No      x                                      .

PART I - FINANCIAL STATEMENTS

Item 1. Financial Statements

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
September 30, 1995

ASSETS

Current assets	
Cash and cash equivalents	\$ 29,596
Accounts receivable	4,111,107
Employee advances	48,242
Income tax receivables	48,557
Deferred income taxes	48,193
Other receivables and prepayments	182,559
	-----
Total current assets	4,468,254
Fixed assets	
At cost, net of accumulated depreciation and amortization of \$1,056,350	326,968
Equipment under capital leases	
Net of accumulated amortization of \$29,443	76,378

Investments	10,000
Other receivables	44,500
	-----
Total assets	\$ 4,926,100
	=====

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
September 30, 1995

LIABILITIES & STOCKHOLDERS' EQUITY

Current liabilities	
Accounts payable	\$ 1,540,899
Accrued payroll	442,726
Other accrued liabilities	36,302
Note payable - bank	704,000
Current maturities of long term debt and capital lease obligations	19,301
Current portion of deferred rent	10,224
	-----
Total current liabilities	2,753,452
Long term debt and capital lease obligations net of current portion	65,943
Deferred income taxes	9,500
Deferred rent	3,408
	-----
Total liabilities	2,832,303
	-----
Common stock, par value \$0.01 1,000,000 shares authorized; 621,228 shares issued	
	6,212
Paid in capital in excess of par value	772,198
Retained earnings	2,097,325
Less treasury stock; 149,679 shares at cost	(781,938)
	-----
Total stockholders' equity	2,093,797
	-----
Total liabilities and stockholders' equity	\$ 4,926,100
	=====

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF OPERATIONS

<TABLE>  
<CAPTION>

	For the Three months ended September 30,	
	1995	1994
	-----	-----
<S>		
Sales		
Professional fees	\$ 3,628,264	\$ 4,143,281
Software sales	96,080	686,941
	-----	-----
Total sales	3,724,344	4,830,222
	-----	-----
Cost of sales		
Cost of professional fees	2,932,978	3,226,940
Cost of software sales	81,208	574,029
	-----	-----
Total cost of sales	3,014,186	3,800,969
	-----	-----
Gross profit	710,158	1,029,253
Selling, general and administrative expenses	714,865	892,869
	-----	-----
Income from operations	(4,707)	136,384
Other income and expenses		

Interest income	2,688	4,601
Interest expense	(29,415)	(31,939)
	-----	-----
Income before (benefit) provision for income taxes	(31,434)	109,046
(Benefit) provision for income taxes	(11,663)	40,981
	-----	-----
Net (loss) income	(19,771)	68,065
Retained earnings:		
Beginning of period	2,117,096	2,102,561
	-----	-----
End of period	\$ 2,097,325	\$ 2,170,626
	=====	=====
Income per common and common equivalent share	\$ (0.04)	\$ 0.14
Weighted average common and common equivalent shares outstanding	481,800	494,551

</TABLE>

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

<TABLE>  
<CAPTION>

	For the nine months ended September 30,	
	1995	1994
	----	----
<S> Sales	<C>	<C>
Professional fees	\$ 12,016,630	\$ 11,876,978
Software sales	210,911	870,204
	-----	-----
Total sales	12,227,541	12,747,182
	-----	-----
Cost of sales		
Cost of professional fees	9,526,293	9,196,993
Cost of software sales	183,762	755,591
	-----	-----
Total cost of sales	9,710,055	9,952,584
	-----	-----
Gross profit	2,517,486	2,794,598
Selling, general and administrative expenses	2,314,621	2,602,888
	-----	-----
Income from operations	202,865	191,710
Other income and expenses		
Interest income	6,037	12,583
Interest expense	(100,055)	(72,340)
	-----	-----
Income before provision for income taxes	108,847	131,953
Provision for income taxes	41,643	50,143
	-----	-----
Net income	67,204	81,810
Retained earnings:		
Beginning of period	2,030,121	2,088,816
	-----	-----
End of period	\$ 2,097,325	\$ 2,170,626
	=====	=====
Income per common and common equivalent share	\$ 0.14	\$ 0.16
Weighted average common and common equivalent shares outstanding	483,467	499,733

</TABLE>

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>  
<CAPTION>

	For the nine months ended September 30,	
	1995	1994
	-----	-----
Cash flows from operating activities		
<S>	<C>	<C>
Cash received from customers	\$ 12,016,657	\$ 12,015,622
Cash paid to suppliers and employees	(11,099,471)	(12,352,600)
Interest received	6,037	12,583
Interest paid	(100,055)	(72,340)
Income taxes paid (net)	0	(42,790)
	-----	-----
Net cash provided (used) by operating activities	823,168	(439,525)
	-----	-----
Cash flows from investing activities		
Loans and advances	5,537	11,663
Acquisition of furniture and equipment	(71,941)	(76,748)
Proceeds from sale of equipment	0	8,500
	-----	-----
Net cash (used) in investing activities	(66,404)	(56,585)
	-----	-----
Cash flows from financing activities		
Net borrowing under bank revolving line of credit	(688,000)	597,000
Principal payments on debt and capital leases	(12,866)	(19,001)
(Repurchase) of common stock	(61,788)	(69,250)
Proceeds from exercise of incentive stock options	275	121
	-----	-----
Net cash provided (used) by financing activities	(762,379)	508,870
	-----	-----
Net (decrease) in cash and cash equivalents	(5,615)	12,760
Cash and cash equivalents at beginning of the period	35,211	24,046
	-----	-----
Cash and cash equivalents at end of the period	\$ 29,596	\$ 36,806
	=====	=====

Reconciliation of net income to cash provided by operating activities

Net income	\$ 67,204	\$ 81,810
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	130,856	115,730
Loss on sale of fixed assets and investments	0	8,470
Changes in operating assets and liabilities		
Accounts receivable	(210,884)	(731,561)
Other receivables and prepayments	72,640	(112,533)
Accounts payable and accrued expenses	729,377	198,875
Deferred rent	(7,668)	(7,668)
Income tax liability	41,643	7,352
	-----	-----
Net cash provided (used) by operating activities	\$ 823,168	\$ (439,525)
	=====	=====

</TABLE>

INFORMATION ANALYSIS INCORPORATED

Notes to Financial Statements

The interim financial statements are furnished without audit; however, they reflect all adjustments which are, in the opinion of management, necessary for the fair statement of the financial position and results of operations for the nine months ended September 30, 1995 and 1994. The financial statements should be read in conjunction with the summary of significant accounting policies and notes to financial statements included in the Company's annual report for the year ended December 31, 1994.

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

Results of Operations

The Company's revenues in the third quarter of 1995 from its computer and software related services and sales segment increased by \$408,972 or by 12.5%, to \$3,668,548, from \$3,259,576 for the third quarter of 1994. Software sales for the third quarter of 1995 declined by \$590,881 when compared to software sales in the third quarter of 1994. However, the Company realized a \$999,853 increase in computer related consulting and professional fees over the consulting and professional fees generated during the same quarter in 1994. The reduction in software sales revenue was due to one order for approximately \$600,000 which was obtained in the third quarter of 1994. Apart from this one order, software sales were basically equal for the 1994 and 1995 third quarter. Even though revenues increased, profit margins decreased from 23.0% in the third quarter of 1994 to 19.3% in the third quarter of 1995. Selling, general and administrative expenses, as a percentage of revenue, was basically constant for the third quarter of 1995 compared to the corresponding quarter of 1994, being 18.3% this year compared to 18.1% last year. Primarily as a result of the reduction in profit margins, the Company's third quarter 1995 profits from its computer and software business segment decreased to \$38,846 from \$158,308 in the third quarter of 1994, or a reduction of \$119,462.

The Company's revenue generated from the health care segment of its business through Allied Health and Information Systems, Inc. ("AHISI") declined in the third quarter of 1995 to \$55,796 from \$1,570,646 during the corresponding quarter of 1994. This reduction in revenue resulted from the Company's implementation of its objective to wind-down the health care segment of its business. In this regard, effective as of July 1, 1995, AHISI terminated its contract with the District of Columbia Department of Corrections. This alone caused a reduction in third quarter revenue of \$983,386, which was the revenue generated in the third quarter of 1994 from AHISI's contract with the District of Columbia Department of Corrections. As of October 1, 1995, AHISI's funded backlog was reduced to \$121,940 under one contract it maintains with the United States Department of Justice. Once this contract expires, the Company will generate no further revenue through AHISI. AHISI's third quarter 1995 loss was \$43,553 compared to a \$21,924 loss realized during the corresponding quarter of 1994.

On a consolidated basis, as a result of winding-down its health care services business, the Company's overall 1995 third quarter revenues declined by \$1,105,878, or by 22.9%, to \$3,734,344 from \$4,830,222 in the third quarter of 1994. Consolidated gross profit margins also declined to 19.1% in the third quarter of 1995 compared to 21.3% in the third quarter of 1994. Selling, general and administrative expenses as a percentage of revenue increased by less than 1% in the third quarter of 1995, to 19.2% from 18.5% in the corresponding quarter of 1994. This substantiates that the Company was able to reduce its overall general and administrative expenses in response to its declining revenues. After considering the effect of interest and taxes, the Company sustained a consolidated third quarter loss of \$19,771 in 1995 compared to a \$68,065 profit which was generated in the third quarter of 1994.

Year to date consolidated revenues for the nine months ended September 30, 1995 decreased \$519,641 over the corresponding nine months of 1994, or a 4.1% decrease. Again, this decrease was attributable to winding-down AHISI's business. The Company's consolidated gross profit margin also declined for the nine months ended September 30, 1995 to 20.6% from 21.9% during the first nine months of 1994. Conversely, improvement was realized in selling, general and administrative expenses as a percentage of revenue which was reduced to 18.9% for the nine months ended September 30, 1995 compared to 20.4% for the first nine months of 1994. After interest income and expense, net income decreased to \$67,204 for the first nine months of 1995 compared to net income of \$81,810 for the first nine months of 1994.

Liquidity and Capital Resources

In the third quarter of 1995, as with the third quarter of 1994, the Company financed its operations from current collections and through advances on its line of credit with its bank. As of September 30, 1995, the outstanding balance on its line of credit was, \$704,000 as compared to \$1,652,000 as of September 30, 1994, a decrease of \$948,000. The divesting of AHISI has reduced the Company's working capital requirements allowing it to significantly reduce its borrowings on the line of credit. Cash and cash equivalents at September 30, 1995 were \$29,596, compared to \$36,806 at September 30, 1994.

The Company's \$2,000,000 line of credit was renewed on June 5, 1995. This line of credit expires May 30, 1996 at which time it is subject to renewal. The line of credit coupled with funds generated from operations is sufficient to meet the Company's operating cash requirements.

The Company has no material commitments for capital expenditures.

## PART II - FINANCIAL INFORMATION

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

(b) No reports on Form 8-K were filed by the registrant during the quarter ended September 30, 1995.

### SIGNATURES

Pursuant to the requirements of the Securities and 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  
(Registrant)

Date: November 15, 1995

By: \_\_\_\_\_  
Sandor Rosenberg  
Chairman of the Board  
and President

Date: November 15, 1995

By: \_\_\_\_\_  
Brian R. Moore  
Treasurer

WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

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