Table of Contents

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-K

**(Mark One)**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2008**

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission file number 000-22405**

# Information Analysis Incorporated
**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Virginia**<br>State or other jurisdiction of incorporation or organization | **54-1167364**<br>(I.R.S. Employer Identification No.) |
| **11240 Waples Mill Road, Suite 201, Fairfax, Virginia**<br>(Address of principal executive offices) | **22030**<br>(Zip Code) |

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

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

| Title of each class | Name of each exchange on which registered |
|---|---|

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

**Common Stock, $0.01 par value**
**(Title of class)**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. ☐ Yes ☒ No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ (Do not check if a smaller reporting company) | Smaller reporting company | ☒ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) ☐ Yes ☒ No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. $1,413,099 as of June 30, 2008

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. 11,196,760 shares Common Stock, $0.01 par value, as of March 30, 2009

DOCUMENTS INCORPORATED BY REFERENCE

Definitive Proxy Statement for the 2009 Annual Meeting is incorporated by reference in Part III of this Annual Report on Form 10-K.

**TABLE OF CONTENTS**

**Cautionary Statement Regarding Forward-Looking Statements**

This Form 10-K contains forward-looking statements regarding our 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 here in our Form 10-K and in other filings with the Securities and Exchange Commission. These risks include, among others, the following:

- our failure to keep pace with a changing technological environment;
- intense competition from other companies;
- inaccuracy in our estimates of the cost of services and the timeline for completion of contracts;
- changes in the way the US government contracts with businesses and changes in the budgetary priorities;
- non-performance by our subcontractors and suppliers;
- terms specific to US government contracts;
- our failure to adequately integrate businesses we may acquire;
- fluctuations in our results of operations and its impact on our stock price;

In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “could,” “would,” “expect,” “plans,” “anticipates,” “believes,” “estimates,” “projects,” “predicts,” “intends,” “potential” and similar expressions intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. We discuss many of these risks in greater detail under the heading “Risk Factors” in Item 1A. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this report. Except as required by law, we assume no obligation to update any forward-looking statements after the date of this report.

## PART I

### Item 1. Business.

***Overview of Market***

Founded in 1979, Information Analysis Incorporated, which we sometimes refer to as IAI, is in the business of modernizing client information systems, developing and maintaining information technology systems, and performing consulting services to government and commercial organizations. Since its inception, we have performed software development and conversion projects for over 100 commercial and government customers including Computer Sciences Corporation, IBM, Computer Associates, MCI, Sprint, Citibank, U.S. Department of Homeland Security, U.S. Treasury Department, U.S. Department of Agriculture, U.S. Department of Energy, U.S. Army, U.S. Air Force, U.S. Department of Veterans Affairs, and the Federal Deposit Insurance Corporation. Today, we primarily apply our technology, services and experience to legacy software migration and modernization for commercial companies and government agencies, and to developing web-based solutions for agencies of the federal government.

The migration and modernization market is complex and diverse as to the multiple requirements clients possess to upgrade their older systems. Many large legacy systems remain 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 .NET, rival the traditional mainframe systems. There are many brands 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 evolution of the Internet and intranet technology offer a different approach for collecting and processing large volumes of user transactions, processes which are the forte of older legacy systems. All of these options are very expensive and time consuming because they require starting all over in defining requirements, designing structures, programming, and testing. Costs can range as high as $10 or more per line of new code.

Companies are being driven for various reasons to address the upgrading of their legacy systems. One reason is the difficulty of finding and retaining staff with outdated technical skills, many of which are possessed only by senior programmers nearing retirement. Hardware platforms such as Unisys are reaching the horizon of their usefulness, and consequently, older programming and data base languages are generally poorly supported by their providers. Additionally, maintenance costs are materially increasing 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 sector rivals. We expect that the next ten years should see an upsurge of movement and change as organizations revamp their older legacy systems.

A segment of mainframe users is interested in simply updating their legacy systems without drastic rewritings to these systems in newer languages or adapting expensive off-the-shelf products (such as SAP or Oracle) to their needs. These potential customers are looking for automated tools that can quickly and cost-effectively move applications onto cheaper computer platforms without the risk of failure. Tools such as those provided by Micro Focus can perform this function by preserving the business rules in COBOL but extending the screens to be accessed over the Internet and providing compilers and utilities that allow the application to work on PC and UNIX platforms. It is difficult to determine the size of this segment, but even a 5% share of this market would represent hundreds of prospective customers.

The web solutions market continues to be one of the fastest growing segments of the computer consulting business as individuals, small companies, large companies, and governmental agencies expand their 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 websites and typically have many short duration projects. More complex web applications generally require knowledge of customers' back-end systems based on mainframe or mid-level computers. Few small companies have the expertise to develop these more sophisticated web applications. We distinguish ourselves among smaller companies by having this expertise that is usually associated with larger companies. These types of applications should become more prominent in the future as web-based solutions continue to evolve thereby resulting in increasing opportunities for those firms with the requisite skill sets and experience, such as those possessed by IAI.

The commercial and government sectors of the software migration and modernization market can be quite different in their requirements for web-based applications. Many companies are generally interested in cataloging and selling items whereas government agencies 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. Adobe electronic forms products resold and supported by IAI are the predominant forms software in the federal government.

***Description of Business and Strategy***

Since the mid-1990's we have migrated customers from older computer languages generally associated with legacy computer systems to more modern languages used with current-day computer system platforms. Many organizations have become 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 web-based applications. Our strategy has been to develop and/or acquire tools that will facilitate the modernization process and differentiate our offerings in the marketplace.

In 2004, we aligned with Micro Focus, an established company in the legacy COBOL environment, to participate in an effort intended to promote, quickly and cost-effectively, the conversion of large legacy mainframe systems to PC and Unix server platforms. Micro Focus has developed a suite of products that simplify the conversion process and enable the entry screens to be Internet accessible. The convergence of these tools with the recent advancements in hardware performance of PC servers has finally permitted users to substantially reduce their annual mainframe hardware maintenance costs. As an authorized reseller and installer of the tools, our plan is to derive revenue from software sales and installation services as well as acquire supplementary programming services that typically occur with each engagement.

Over the last ten years we have developed a series of workbench tools called ICONS. These tools, used in conjunction with our 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 facilitates our ability to provide systems modernization services to companies and government agencies 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. A number of leads derived from Micro Focus and Microsoft require use of our ICONS tools as a precursor to implementing the Micro Focus solution.

We have structured our company to address the wide range of requirements that we envision the market will demand. We believe that the Micro Focus tool suite and the suite of ICONS tools will give us a competitive edge in performing certain conversions and migrations faster and more economically than many other vendors. The diverse capabilities of our staff in mainframe technology and client server implementations help to assure that our staff can analyze the original systems properly to conduct accurate and thorough conversions.

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

Our strategy to exploit the conversion and modernization market is also based on forming alliances with large information technology consulting firms who currently maintain the legacy systems for large government agencies and Fortune 1000 companies. These firms have established relationships with such customers, who rely on their advice in selecting tools and services to modernize legacy systems. We have been successful in forming partnerships with firms such as IBM, EDS, Northrop Grumman, Unisys, SI International, and Oracle. These alliances have resulted in significant contracts in the past and are important in procuring future business.

In addition to gaining new business, we will focus on retaining and expanding existing contracts.

We are also using the experience we have acquired as an Adobe Lifecycle reseller to help secure engagements for web-based applications requiring forms. The Adobe products have evolved over the years into robust tools that can form the backbone of applications, especially those requiring forms. We have used this expertise to penetrate a number of federal government clients such as the Internal Revenue Service and Veteran Affairs and build sophisticated web applications. Our knowledge of legacy system languages has been instrumental in connecting these web applications to legacy databases residing on mainframe computers. Our 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 our relationship with Adobe products, we have developed a cadre of professionals that can quickly and efficiently develop web applications. We will focus on federal government clients during 2009 and beyond and leverage the company's reputation with existing federal customers to penetrate these agencies. We will be able to reference successful projects completed or in development for the Department of Homeland Security, the Department of Veterans Affairs, Federal Mediation and Conciliation Service, U.S. Department of Agriculture, General Services Administration, Army Reserve, and U.S. Air Force Logistics Command.

In addition, to our legacy migration and Adobe business practices, we have decided to expand into a new business practice area called business intelligence. This practice will be built around our partnership with software products developed by a local firm called LogiXML. We believe that we can develop significant product and services sales in the federal government in this business intelligence sector. We have also, built several important relationships with larger companies such as Unisys, General Dynamics and Price

Waterhouse Coopers, and BearingPoint. These relationships have already resulted in new opportunities that we intend to expand in 2009.

Management will not only explore ways to expand our current market spaces, but intends to explore new ones that may offer more opportunity. This may take the shape of organic growth or through acquisition of other companies. In any event, IAI will be more aggressive than in the past and will take more risks in terms of investment in business development, exploring the potential of diversified business opportunities, and seeking targets of acquisition. We expect to see the results of these efforts during 2009.

***Backlog***

As of December 31, 2008, we estimated our backlog at approximately $22.3 million over the next three years, of which $2.3 million was funded. This backlog consists of outstanding contracts and general commitments from current clients. We regularly provide services to certain clients on an as-needed basis without regard to a specific contract. General commitments represent those services which we anticipate providing to such clients during a twelve-month period.

***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. We also face competition from other companies that purport to substantially automate the process through software tools including Blue Phoenix Solutions, Fujitsu, and IBM. "Off the shelf" software for enterprise resource planning, such as SAP and Oracle, 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 our competitors have greater name recognition than our company, a larger, more established customer base, and significantly greater financial and market resources.

In the electronic forms arena there are multiple forms vendors such as IBM (Pure Edge), Microsoft, and FormNet. These are formidable competitors who are constantly trying to gain a share of the Adobe market penetration. In the federal marketplace, the cost of switching from Adobe and losing the sizeable investments in forms already developed gives Adobe an advantage in retaining and extending its client base. Also, the prevalence of Adobe's PDF standard format for presenting images in the electronic world is a difficult obstacle for its competitors to overcome.

There are hundreds of firms performing traditional information technology services and consulting for the federal government. A great number of them are much larger than IAI, and are more established in the marketplace, and have more resources to pursue individual prospects.

***Governmental Regulations***

We supply our products and services to the United States federal government pursuant to its General Services Administration Information Technology contract, its General Services Administration Mission Oriented Business Integrated Services contract, and through contracts resulting from competitive bidding processes. We are bound by various rules and regulations promulgated by agencies of the federal government. We have not experienced undue expense beyond those expenses normally incurred in our ordinary course of business in adhering to such rules and regulations.

***Intellectual Property***

We depend upon a combination of trade secret and copyright laws, nondisclosure and other contractual provisions and technical measures to protect our proprietary rights in our methodologies, databases and software. We have not filed any patent applications covering our methodologies and software. In addition, we attempt to protect the secrecy of our proprietary databases and other trade secrets and proprietary information through agreements with employees and consultants.

We also seek 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. We believe, however, that the creation of competing databases would be very time consuming and costly.

### *Employees*

As of December 31, 2008, we employed 31 full-time and 4 part-time individuals. In addition, we maintained subcontractor relationships with companies and individuals that add 8 individuals for professional information technology services. Approximately 75% of our professional employees have at least four years of related experience. For computer related services, we believe that the diverse professional opportunities and interaction among our employees contribute to maintaining a stable professional staff with limited turnover.

We have no collective bargaining agreements or other such labor contracts with our employees and believe that our employee relationships are satisfactory. In the long-term, management will likely hire additional staff to meet its anticipated growth requirements. We do not anticipate encountering material problems in our ability to hire individuals with the requisite employee skill sets, despite a competitive market for our requisite technical skill sets and government clearances, when required. We utilize fee-based recruiting firms when it is necessary to speed up the process of locating and hiring employees with specialized skill sets and clearances.

### *Available Information*

We make available free of charge on or through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission, or SEC. Our website address is *www.infoa.com.*

## Item 1A. Risk Factors.

We operate in a rapidly changing environment that involves a number of risks, some of which are beyond our control. This discussion highlights some of the risks which may affect future operating results. These are the risks and uncertainties we believe are most important for you to consider. Additional risks and uncertainties not presently known to us, which we currently deem immaterial or which are similar to those faced by other companies in our industry or business in general, may also impair our business operations. If any of the following risks or uncertainties actually occurs, our business, financial condition and operating results would likely suffer.

*Failure to keep pace with a changing technological environment could negatively impact our business.*

The computer industry in general, and the market for our application software offerings and services, is characterized by rapidly changing technology, frequent new technology introductions, and significant competition. In order to keep pace with this rapidly changing market environment, we must continually develop and incorporate into our services new technological advances and features desired by the marketplace at acceptable prices. The successful development and commercialization of new services and technology involves many risks, including the identification of new opportunities, timely completion of the development process, the control and recovery of development and production costs and acceptance by customers of our products and services. If we are unsuccessful in identifying, developing and marketing our services and technology or adapting our business to rapid technological change, it will have a material negative impact on our results of operations.

*We are subject to intense competition from other companies engaged in software development and computer related services.*

The market for our products and services is competitive, rapidly evolving, and can be affected by new product introductions and other market activities of industry participants. Some of these companies have longer operating histories, greater financial, marketing and other resources, greater name recognition in other markets and a larger base of customers than IAI. In addition, some companies have well-established relationships with our current and prospective customers. As a result, these competitors may be able to devote greater resources to the development, promotion and sale of their products and services than we can. Should we not be able to maintain our competitive advantages in light of these factors, it could have a material negative impact on our results of operations.

*If we are unable to accurately estimate the cost of services and the timeline for completion of contracts, the profitability of our contracts may be materially and adversely affected.*

Our commercial and federal government contracts are typically awarded on a competitive basis. Our bids are based upon, among other items, the cost to provide the services. To generate an acceptable return on our investment in these contracts we must be able to accurately estimate our costs to provide the services required by the contract and be able to complete the contracts in a timely manner. If we fail to accurately estimate our costs or the time required to complete a contract the profitability of our contracts may be materially and adversely affected.

*Changes in the way the US government contracts with businesses, and changes in the funding priorities of the US government may materially and adversely affect our revenue and earnings.*

Since the US government is our largest customer, both directly and with us as a subcontractor, changes in the way the government awards contracts may create a disadvantage for us to compete in certain markets. Additionally, the funding priorities of the US government are subject to change. If the information technology services that we are equipped to provide are no longer a priority, it may materially and adversely affect us as funding is shifted to new priorities.

*Contracts on which we utilize subcontractors or suppliers may be adversely affected if our subcontractors or suppliers fail to perform required obligations under the contract.*

We frequently utilize subcontract labor on contracts where we bid as partners, we lack a specific type of expertise, or where the subcontractor has brought the opportunity to us. If our subcontractors or suppliers fail to perform as specified, it may adversely affect our contracts and subject us to loss of the contracts, unintended expenses, and/or the inability to secure future contracts due to our nonperformance.

*US government contracts are generally subject to terms more favorable to the customer than commercial contracts.*

US government contracts generally contain provisions and are subject to laws and regulations that give the federal government rights and remedies not typically found in commercial contracts, including provisions permitting the federal government to:

- terminate our existing contracts;
- reduce potential future income from our existing contracts;
- modify some of the terms and conditions in our existing contracts;
- suspend or permanently prohibit us from doing business with the federal government or with any specific government agency;
- impose fines and penalties;
- subject the award of some contracts to protest or challenge by competitors, which may require the contracting federal agency or department to suspend our performance pending the outcome of the protest or challenge and which may also require the government to solicit new proposals for the contract or result in the termination, reduction or modification of the awarded contract;
- suspend work under existing multiple year contracts and related task orders if the necessary funds are not appropriated by Congress;
- decline to exercise an option to extend an existing multiple year contract; and
- claim rights in technologies and systems invented, developed or produced by us.

The federal government may terminate a contract with us either “for convenience” (for instance, due to a change in its perceived needs or its desire to consolidate work under another contract) or if we default by failing to perform under the contract. If the federal government terminates a contract with us for convenience, we generally would be entitled to recover only our incurred or committed costs, settlement expenses and profit on the work completed prior to termination. If the federal government terminates a contract with us based upon our default, we generally would be denied any recovery for undelivered work, and instead may be liable for excess costs incurred by the federal government in procuring undelivered items from an alternative source and other damages as authorized by law.

Our federal government contracts typically have terms of one or more base years and one or more option years. Federal governmental agencies generally have the right not to exercise options to extend a contract. A decision to terminate or not to exercise options to extend our existing contracts could have a material adverse effect on our business, prospects, financial condition and results of operations.

*We are dependent on key personnel to maintain our profitability and grow our business.*

Our future success depends, to a significant extent, on the continued services of our key personnel. A loss of certain key personnel, both managerial and technical, would most likely have an adverse effect on our business. In addition, competition for qualified technical personnel throughout the industry is significant and we may be unable to retain our current personnel or attract, integrate or retain other highly qualified personnel in the future. If we do not succeed in retaining our current personnel or in attracting and motivating new personnel, our business could be adversely affected.

*Failure to adequately integrate prospective new businesses or acquisitions could materially impact and disrupt our business.*

We are seeking to expand our business and may acquire or make investments in companies or businesses offering complementary products, services and technologies in the future. Acquisitions and investments typically involve numerous risks including, but not limited to difficulties in integrating operations, technologies, services and personnel and diversion of financial and managerial resources from existing operations. To manage this prospective growth effectively, we may need to implement additional management information systems capabilities, further develop our operating, administrative, financial and accounting systems and controls, improve coordination among accounting, finance, marketing and operations and hire and train additional personnel. Should these prospective integrations prove more difficult and time consuming than anticipated, it could negatively impact our results of operations.

*Fluctuations in our results of operations from period to period may cause fluctuations in our stock price.*

Our financial results vary from quarter to quarter based on certain factors such as the timing of significant orders, contract funding approvals and contract completions, some of which are beyond our control. As a consequence, our quarterly and annual revenue and operating results may fluctuate from period to period, and period comparisons may therefore not be meaningful. Such fluctuations in the future could contribute to corresponding fluctuations in our stock price and in certain cases cause the trading price of our stock to decline.

*The exercise of outstanding options and warrants to purchase our common stock could substantially dilute shareholders' investments.*

Under the terms of existing warrants to purchase our common stock, non compensatory options to acquire our common stock, and other outstanding options to acquire our common stock issued to employees and others, the holders thereof are given an opportunity to profit from a rise in the market price of our common stock that, upon the exercise of such warrants and/or options or conversion of such notes, could result in dilution in the interests of our other shareholders.

*Our business potential could be impacted by our failure to adequately protect our intellectual property.*

Our success depends in part on our ability to obtain and maintain proprietary protection for our technologies, products, and processes, and our ability to operate without infringing the proprietary rights of other parties. We may not be able to obtain copyright, patent or other protection for our proprietary technologies or for certain processes developed by our employees. Legal standards relating to intellectual property rights in computer software are still developing and this area of the law is evolving with new technologies. Any copyrights, patents or other registrations may not sufficiently protect us against competitors with similar technology. In addition, our intellectual property rights may be challenged, narrowed, invalidated or circumvented. Our intellectual property rights do not guarantee any competitive advantage. Because our success in part relies upon our technologies, if proper protection is not available or can be circumvented, our business may be negatively impacted.

*There is a limited public market for our common stock*

Our common stock is presently quoted on the OTC Bulletin Board under the symbol "IAIC", and the securities are traded through broker-dealers. Because our stock trades on the OTC Bulletin Board rather than on a national securities exchange, a shareholder may find it difficult to either dispose of, or obtain quotations as to the price of our common stock. There has historically been a low trading volume of our shares which may have an adverse impact on a shareholder's ability to execute transactions of our shares.

*Our forward-looking statements and projections may prove to be inaccurate.*

Our actual financial results likely will be different from those projected due to the inherent nature of projections and may be better or worse than projected. Given these uncertainties, you should not rely on forward-looking statements. The forward-looking statements contained in this Form 10-K speak only as of the date of this Form 10-K. We expressly disclaim a duty to provide updates to forward-looking statements after the date of this Form 10-K to reflect the occurrence of subsequent events, changed circumstances, changes in our expectations, or the estimates and assumptions associated with them. The forward-looking statements in this Form 10-K are intended to be subject to the safe harbor protection provided by the federal securities laws.

*Continuing to incur losses period over period could significantly reduce our ability to finance our operations.*

If we are unable to generate enough cash flow from new and continuing business, we may not be able to support our operations indefinitely. Incurring period over period losses will cause us to use our cash reserves, will make it less likely that we can borrow funds to finance our operations, and will make it less likely that we can raise capital through the issuance of stock.

## Item 2. Properties.

Our offices are located at 11240 Waples Mill Road, Fairfax, VA 22030. We hold a lease for 4,434 square feet. This lease expires on March 31, 2010. We believe that our current facility is suitable and adequate to meet our current needs, and that suitable additional or substitute space will be available as needed to accommodate expansion of our operations.

**Item 3. Legal Proceedings.**

There are presently no pending legal proceedings to which we are a party or to which any of our property is subject and, to the best of our knowledge, no such actions against us are contemplated or threatened.

## PART II

**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

***Market Information***

Our Common Stock trades on the Over-the-Counter Bulletin Board under the symbol IAIC. The following table sets forth, for the fiscal periods indicated, the high and low bid prices of the Common Stock, as reported by Yahoo Finance:

| | Fiscal Year Ended December 31, 2008 | | | | Fiscal Year Ended December 31, 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | Quarter Ended: | | | | Quarter Ended: | | | |
| | 3/31/08 | 6/30/08 | 9/30/08 | 12/31/08 | 3/31/07 | 6/30/07 | 9/30/07 | 12/31/07 |
| High | $0.37 | $0.29 | $0.18 | $ 0.14 | $0.46 | $0.45 | $0.48 | $ 0.44 |
| Low | $0.25 | $0.14 | $0.14 | $ 0.04 | $0.36 | $0.30 | $0.32 | $ 0.27 |

The quotations on which the above data are based reflect inter-dealer prices without adjustment for retail mark-up, mark-down or commission, and may not represent actual transactions.

Because our stock trades on the OTC Bulletin Board rather than on a national securities exchange, a shareholder may find it difficult to either dispose of or obtain quotations as to the price of our common stock. There has historically been a low trading volume of our shares which may have an adverse impact on a shareholder's ability to execute transactions of our shares.

As of December 31, 2008, we had 117 holders of record of our Common Stock.

***Dividends***

We have never paid any cash dividends on our common stock and do not anticipate paying cash dividends within the foreseeable future. Our management anticipates that all earnings, if any, will be retained for development of our business. Any future dividends will be subject to the discretion of the board of directors and will depend on, among other things, future earnings, our operating and financial condition, our capital requirements and general business conditions.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion should be read in conjunction with the attached financial statements and notes thereto. Reference is made to "Cautionary Statement Regarding Forward-Looking Statements" on page 1 hereof, which describes important factors that could cause actual results to differ from expectations and non-historical information contained herein.

***Overview***

During 2008 our sales and marketing efforts were focused to capitalize on our expertise in these areas – services and tools to address the legacy modernization/conversion market, including third party tools, legacy and post-conversion database support, electronic forms software, conversion, modernization, accessibility, and web-enablement, development and support of database-backed web portals, other web-based solutions, and management consulting services. We expanded our number of strategic partnerships with services and software development companies, but the cycles that produce significant revenue from these new partnerships are long, particularly in the government sector.

In 2008 we had net losses of $371,390. Our stockholders' equity was $1,552,203 at December 31, 2008. Our expenses related to sales, general and administrative infrastructure decreased in 2008, though expenditures for marketing personnel and marketing-related expenses increased significantly. The overall decrease is due primarily to decreases in commissions earned, stock compensation expense, and recruiting fees, all resulting from our decreases in income-producing contracts. Our deferred revenue increased due to the more timely renewal of maintenance contracts, in addition to sales of maintenance contracts with new products.

Despite our losses, our cash and cash equivalents increased due to more timely billing and collection of receivables, strategic planning of payables, and increases in prepaid maintenance contracts under which revenue is deferred. We were able to maintain and to grow our investment in interest bearing accounts, and we were able to operate throughout 2008 without borrowing against our line of credit.

***Results of Operations***

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

| | Years Ended | |
|---|---|---|
| | December 31, 2008 | December 31, 2007 |
| Revenue | 100.0% | 100.0% |
| Cost of Goods Sold | 75.0% | 77.0% |
| Gross Profit | 25.0% | 23.0% |
| Operating Expenses Selling, general and administrative | (30.8)% | (21.1)% |
| (Loss) income from operations | (5.8)% | 1.9% |
| Other income (expense) | 0.3% | (0.0)% |
| (Loss) income before income taxes | (5.5)% | 1.9% |
| Provision for income taxes | (0.0)% | (0.0)% |
| Net (loss) income | (5.5)% | 1.9% |

***2008 Compared to 2007***

*Revenue.* Revenue for 2008 decreased $3.3 million, or 32.8%, to $6.7 million from $10.0 million in 2007. Revenue from professional services decreased $2.1 million, or 29.7%, to $5.0 million in 2008 from $7.0 million in 2007. Revenue from software sales decreased $1.2 million, or 40.1%, to $1.7 million in 2008 from $2.9 million in 2007. Several of our professional services contracts expired during 2008. In some cases, the systems on which we worked were phased out after several years of product maturity. In other cases, elements on which we worked were bundled with other professional services tasks and re-competed, or the work was simply completed. In addition, we believe that general economic uncertainty experienced in the latter half of 2008 led to a decrease in the ability and willingness of several US government agencies to commit to new long-term projects. In 2008, new product sales were minimal, but our sales of maintenance contracts on products sold in previous years exceeded our expectations.

*Gross Profit.* Gross profit decreased $615,000, or 26.8% in 2008 versus 2007. Gross profit as a percentage of revenue increased from 23.0% of revenue in 2007 to 25.0% of revenue in 2008. Our gross profit decreased by a lesser percentage than our revenue, demonstrating that some of the contracts that expired had less desirable margins than our average contract. Professional services gross margin was $1.3 million or 25.9% of revenue in 2008, compared to $1.7 million, or 23.9% of revenue in 2007. Software sales gross margin decreased from $610,000 in 2007 to $395,000 in 2008. Gross margin as a percentage of revenue for software sales increased from 21.0% in 2007 to 22.6% in 2008. This difference in gross margin as a percentage of revenue for software sales is largely due to an increase in renewals of third-party maintenance contracts on products we previously sold.

*Selling, General and Administrative.* Selling, general and administrative expense for 2008 decreased 1.5% to $2.07 million, or 30.9% of revenue, from $2.10 million, or 21.1% of revenue, in 2007. Despite increases in marketing salaries and costs, legal and accounting fees, and increases in overhead labor as we carried select key personnel between billable contracts, we still incurred less overall selling, general and administrative expense. The overall decrease is due to decreases in sales commissions, stock compensation expense, and recruiting fees.

***Recent Accounting Pronouncements Not Yet Adopted***

In September 2006, FASB issued SFAS No. 157, Fair Value Measurements (“SFAS No. 157”). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 does not impose fair value measurements on items not already accounted for at fair value; rather it applies, with certain exceptions, to other accounting pronouncements that either require or permit fair value measurements. Under SFAS No. 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market. The standard clarifies that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In February 2008, the FASB issued FASB Staff Position No. 157-2, Effective Date of FASB Statement No. 157 (“FSP FAS 157-2”), which delays the effective date of SFAS No. 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal years beginning after November 15, 2008. These non-financial items include assets and liabilities such as non-financial assets and liabilities assumed in a business combination, reporting units measured at fair value in a goodwill impairment test and asset retirement obligations initially measured at fair value. The Company adopted the provisions of SFAS No. 157 for financial assets and liabilities recognized at fair value on a recurring basis effective January 1, 2008. The partial adoption of SFAS No. 157 did not have a material impact on the Company’s Financial Statements. The Company does not expect the adoption of the remaining provisions of SFAS 157 to have a material effect on the Company’s Financial Statements. This standard requires that a Company measure its financial assets and liabilities using inputs from the three levels of the fair value hierarchy. A financial asset or liability classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The three levels are as follows:

Level 1 – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 – Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 – Unobservable inputs reflect the Company's judgments about the assumptions market participants would use in pricing the asset or liability since limited market data exists. The Company develops these inputs based on the best information available, including the Company's own data.

Financial assets accounted for at fair value on a recurring basis at December 31, 2008 include cash equivalents of $741,477.

In October 2008, the FASB issued FASB Staff Position 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*, ("FSP 157-3"). FSP 157-3 clarifies the application of SFAS 157 in a market that is not active and provides key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The guidance emphasizes that determining fair value in an inactive market depends on the facts and circumstances and may require the use of significant judgments. FSP 157-3 is effective upon issuance, including prior periods for which financial statements have not been issued, and therefore was effective for us at September 30, 2008. The adoption of FSP 157-3 did not have a material impact on the Company's results of operations or financial position.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS No. 141(R)"). SFAS 141(R) requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition–date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to disclose to investors and other users all of the information needed to evaluate and understand the nature and financial effect of the business combination. SFAS No. 141(R) applies to all transactions or other events in which the Company obtains control of one or more businesses, including those sometimes referred to as "true mergers" or "mergers of equals" and combinations achieved without the transfer of consideration, for example, by contract alone or through the lapse of minority veto rights. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51" ("SFAS No. 160"). SFAS No. 160 requires reporting entities to present noncontrolling (minority) interests as equity (as opposed to as a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. SFAS No. 160 applies prospectively as of January 1, 2009, except for the presentation and disclosure requirements which will be applied retrospectively for all periods presented.

In March 2008, the FASB issued SFAS 161, "Disclosures About Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133". SFAS 161 expands the disclosure requirements in SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, regarding an entity's derivative instruments and hedging activities. SFAS 161 is effective for fiscal years beginning after November 1, 2008. We do not expect the adoption of SFAS 161 to have a material effect on our financial statements.

In May 2008, the FASB issued FASB Staff Position APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)". FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate on the instrument's issuance date when interest cost is recognized in subsequent periods. FSP APB 14-1 will be effective for financial statements issued for fiscal years beginning after December 15, 2008 and the interim periods within those fiscal years, and would be applied retrospectively to all periods presented. Early adoption is not permitted. We do not expect the adoption of FSP APB 14-1 to have a material effect on our financial statements.

In May 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles,” which has been established by the FASB as a framework for entities to identify the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with US GAAP. SFAS No. 162 is not expected to result in a change in current practices. SFAS No. 162 is effective 60 days following the Securities and Exchange Commission’s (“SEC”) approval of the Public Company Accounting Oversight Board’s (“PCAOB”) amendments to AU Section 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.” Accordingly, we will adopt SFAS No. 162 within the required period.

In June 2008, the FASB issued FASB Staff Position EITF 03-6-1,*Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, (“FSP EITF 03-6-1”). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore need to be included in the computation of earnings per share under the two-class method as described in FASB Statement of Financial Accounting Standards No. 128, *“Earnings per Share.”* FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning on or after December 15, 2008 and earlier adoption is prohibited. All prior-period earnings per share (“EPS”) data presented shall be adjusted retrospectively (including interim financial statements, summaries of earnings and selected financial data) to conform to the provisions of this Staff Position. We are in the process of evaluating the impact of the provision to be adopted in 2009.

In November 2008 EITF 08-7, *Accounting for Defensive Intangible Assets*(“EITF 08-7”) was issued. This Issue clarifies the accounting for acquired intangible assets in situations in which the acquirer does not intend to actively use the asset but intends to hold (lock up) the asset to prevent its competitors from obtaining access to the asset (a defensive intangible asset). Under EITF 08-7 defensive intangible assets will be treated as a separate asset recognized at fair value and assigned a useful life in accordance with FAS 142. EITF 08-7 is effective for intangible assets acquired on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, or January 1, 2009. We will apply the guidance in EITF 08-7 prospectively to intangible assets acquired after the effective date of EITF 08-7. We do not expect the adoption of EITF 08-7 to have a material impact on our consolidated financial statements.

***Liquidity and Capital Resources***

In 2008, we experienced operating and net losses. Our beginning cash and cash equivalents balance, when combined with our cash flow from operations, including more timely billing and collections and an increase in deferred revenue from sales of maintenance contracts, were sufficient to provide financing for our operations. For 2008, net cash provided by operating, investing and financing activities was $326,593, which when added to a beginning balance of $1,222,742 yielded cash and cash equivalents of $1,549,335 at December 31, 2008. Our accounts receivable balances decreased $438,321, due to a combination of a decrease in billing and our concerted efforts to get invoices billed more timely and to collect balances on them in a more timely way. Our deferred revenue balance increased $208,739 due largely to the more timely renewals of maintenance contracts for products sold in prior years.

We have a revolving line of credit with a bank providing for demand or short-term borrowings of up to $1,000,000. The line became effective December 20, 2006, and expires on August 1, 2009. As of December 31, 2008, no amounts were outstanding under this line of credit. At December 31, 2008, our allowable borrowings were limited to $932,000 based on our outstanding accounts receivable. We experienced an event of default at December 31, 2008, based on our covenant not to record an annual net loss. Given our strong cash position, and lack of borrowings under the line of credit, we believe we can satisfactorily renegotiate our terms and covenants or secure a temporary waiver of the defaulted covenant.

We expect the bank to renew our line of credit. If it does not, we still anticipate that we will be able to meet our cash requirements for at least twelve months, based on our current operating plan.

We presently lease our corporate offices on a contractual basis with certain timeframe commitments and obligations. We believe that our existing offices will be sufficient to meet our foreseeable facility requirement. Should we need additional space to accommodate increased activities, management believes we can secure such additional space on reasonable terms.

We have no material commitments for capital expenditures.

***Contractual Obligations***

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** | **Total** | **Less than 1 year** | **1-3 years** | **3-5 years** | **More than 5 years** |
| [Long-Term Debt Obligations] | — | — | — | — | — |
| [Capital Lease Obligations] | — | — | — | — | — |
| [Operating Lease Obligations] Lease of Principal Offices | 125,684 | 100,400 | 25,284 | — | — |
| [Purchase Obligations] | — | — | — | — | — |
| [Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet under GAAP] | — | — | — | — | — |
| **Total** | 125,684 | 100,400 | 25,284 | — | — |

***Off-Balance Sheet Arrangements***

We do not have any off balance sheet arrangements that have or are likely to have a material current or future effect on our financial condition, or changes in financial condition, liquidity or capital resources or expenditures.

***Critical Accounting Policies and Estimates***

Our significant accounting policies are described in Note 1 to our accompanying financial statements. We consider the accounting policies related to revenue recognition to be critical to the understanding of our results of operations. Our critical accounting policies also include the areas where we have made what we consider to be particularly difficult, subjective or complex judgments in making estimates, and where these estimates can significantly impact our financial results under different assumptions and conditions. We prepare our financial statements in conformity with accounting principles generally accepted in the United States. As such, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods presented. Actual results could be different from these estimates.

***Revenue Recognition***

We generally recognize revenue when a contract has been executed, the contract price is fixed and determinable, delivery of services or products has occurred, and collectability of the contract price is considered probable and can be reasonably estimated. We earn revenue under time and materials and fixed price contracts. For sales of third party software products, we recognize revenue upon delivery.

We recognize revenue on time and materials contracts based on direct labor hours expended at contract billing rates and adding other billable direct costs.

For fixed price contracts that are based on unit pricing, we recognize revenue for the number of units delivered in proportion to total expected units to be delivered in any given reporting period.

For fixed price contracts in which we are paid a specific amount to be available to provide a particular service for a stated period of time, we recognize revenue ratably over the service period. We apply this method of revenue recognition to sales of maintenance contracts on third party software products, as on Adobe and Micro Focus software, for which we are responsible for “first line support” to the customer and for serving as a liaison between the customer and the third party maintenance provider for issues we are unable to resolve.

Sales of third party software products such as Adobe and Micro Focus products are reported on a gross basis with IAI as a principal under guidance from the Financial Accounting Standards Board Emerging Issues Task Force (EITF) Abstract 99-19. This determination was based on the following: 1) We have inventory risk as suppliers are not obligated to accept returns, 2) we have reasonable latitude, within economic constraints, in establishing price, 3) we, in our marketing efforts, frequently aid the customer in determining product specifications, 4) we have physical loss inventory risk as title transfers at the shipping point, 5) we bear full credit risk, and 6) the amount we earn in the transaction is neither a fixed dollar amount nor a fixed percentage.

Our contracts with agencies of the government are subject to periodic funding by the respective contracting agency. Funding for a contract may be provided in full at inception of the contract or ratably throughout the contract as the services are provided. In evaluating the probability of funding for purposes of assessing collectability of the contract price, we consider our previous experiences with our customers, communications with our customers regarding funding status, and our knowledge of available funding for the contract or program. If funding is not assessed as probable, we defer revenue recognition until realization is deemed probable.

Payments received in advance of services performed are recorded and reported as deferred revenue. Services we perform prior to invoicing customers are recorded as unbilled accounts receivable and are presented on our balance sheets in the aggregate with accounts receivable.

***Effects of Inflation***

In the opinion of management, inflation has not had a material effect on our operations.

Table of Contents



**I tem 8. Financial Statements and Supplementary Data.**

PART F/S

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Information Analysis Incorporated

We have audited the accompanying balance sheets of Information Analysis Incorporated as of December 31, 2008 and 2007, and the related statements of operations and comprehensive income, changes in stockholders' equity, and cash flows for the years then ended. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company has determined that it is not required to have, nor were we engaged to perform, an audit of its internal controls over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Information Analysis Incorporated as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Reznick Group, P.C.

Vienna, Virginia
March 31, 2009

**INFORMATION ANALYSIS INCORPORATED**
**BALANCE SHEETS**

| | December 31, 2008 | December 31, 2007 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 1,549,335 | $ 1,222,742 |
| Accounts receivable | 1,121,709 | 1,560,030 |
| Prepaid expenses | 469,785 | 462,802 |
| Other assets | 1,028 | 4,300 |
| Other receivables | — | 2,630 |
| Total current assets | 3,141,857 | 3,252,504 |
| Fixed assets, net of accumulated depreciation and amortization of $527,445 and $491,565 | 55,653 | 79,145 |
| Other assets | 6,281 | 8,782 |
| Total assets | $ 3,203,791 | $ 3,340,431 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities | | |
| Accounts payable | $ 801,782 | $ 720,830 |
| Deferred revenue | 602,713 | 393,974 |
| Accrued payroll and related liabilities | 213,830 | 257,649 |
| Other accrued liabilities | 31,292 | 45,585 |
| Income taxes payable | 1,971 | 3,500 |
| Total liabilities | 1,651,588 | 1,421,538 |
| Stockholders' equity | | |
| Common stock, $0.01 par value, 30,000,000 shares authorized, 12,839,376 issued, 11,196,760 outstanding as of December 31, 2008 and 2007 | 128,393 | 128,393 |
| Additional paid-in capital | 14,550,067 | 14,545,367 |
| Accumulated deficit | (12,196,046) | (11,824,656) |
| Treasury stock, 1,642,616 shares at cost at December 31, 2008 and 2007 | (930,211) | (930,211) |
| Total stockholders' equity | 1,552,203 | 1,918,893 |
| Total liabilities and stockholders' equity | $ 3,203,791 | $ 3,340,431 |

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

**INFORMATION ANALYSIS INCORPORATED**
**STATEMENTS OF OPERATIONS AND**
**COMPREHENSIVE INCOME**

| | For the years ended December 31, 2008 | 2007 |
|---|---|---|
| Sales | | |
| Professional fees | $ 4,950,619 | $ 7,042,254 |
| Software sales | 1,742,834 | 2,911,030 |
| Total sales | 6,693,453 | 9,953,284 |
| Cost of sales | | |
| Cost of professional fees | 3,668,835 | 5,361,205 |
| Cost of software sales | 1,348,239 | 2,300,561 |
| Total cost of sales | 5,017,074 | 7,661,766 |
| Gross profit | 1,676,379 | 2,291,518 |
| Selling, general and administrative expenses | 2,068,983 | 2,100,118 |
| (Loss) income from operations | (392,604) | 191,400 |
| Other income (expenses) | 21,214 | (3,565) |
| (Loss) income before provision for income taxes | (371,390) | 187,835 |
| Provision for income taxes | — | 3,500 |
| Net (loss) income | $ (371,390) | $ 184,335 |
| Comprehensive (loss) income | $ (371,390) | $ 184,335 |
| Earnings per common share – basic | $ (0.03) | $ 0.02 |
| Earnings per common share – diluted | $ (0.03) | $ 0.02 |
| Weighted average common shares outstanding | | |
| Basic | 11,196,760 | 11,196,760 |
| Diluted | 11,196,760 | 11,398,180 |

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

## INFORMATION ANALYSIS INCORPORATED
## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

| | Shares of Common Stock Issued | Common Stock | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Treasury Stock | Total |
|---|---|---|---|---|---|---|---|
| Balances, December 31, 2006 | 12,839,376 | $ 128,393 | $ 14,485,770 | $ (12,008,991) | $ — | $ (930,211) | $ 1,674,961 |
| Net Income | — | — | — | 184,335 | — | — | 184,335 |
| Comprehensive income | — | — | — | — | — | — | 184,335 |
| Stock option compensation | — | — | 59,597 | — | — | — | 59,597 |
| Balances, December 31, 2007 | 12,839,376 | $ 128,393 | $ 14,545,367 | $ (11,824,656) | $ — | $ (930,211) | $ 1,918,893 |
| Net Income | — | — | — | (371,390) | — | — | (371,390) |
| Comprehensive income | — | — | — | — | — | — | (371,390) |
| Stock option compensation | — | — | 4,700 | — | — | — | 4,700 |
| Balances, December 31, 2008 | 12,839,376 | $ 128,393 | $ 14,550,067 | $ (12,196,046) | $ — | $ (930,211) | $ 1,552,203 |

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

**INFORMATION ANALYSIS INCORPORATED**
**STATEMENTS OF CASH FLOWS**

| | For the years ended December 31, 2008 | 2007 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net (loss) income | $ (371,390) | $ 184,335 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | |
| Stock option compensation | 4,700 | 59,597 |
| Depreciation and amortization | 35,880 | 34,248 |
| Reserve for uncollectible note receivable | — | 30,550 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 438,321 | 197,476 |
| Notes receivable | — | 85,000 |
| Other assets and prepaid expenses | 1,420 | (76,910) |
| Accounts payable and accrued expenses | 22,840 | 62,212 |
| Deferred revenue | 208,739 | (119,548) |
| Income taxes payable | (1,529) | 3,500 |
| Net cash provided by operating activities | 338,981 | 460,460 |
| Cash flows from investing activities: | | |
| Acquisition of furniture and equipment | (12,388) | (46,076) |
| Net cash used in investing activities | (12,388) | (46,076) |
| Cash flows from financing activities: | | |
| Net cash provided by financing activities | — | — |
| Net increase in cash and cash equivalents | 326,593 | 414,384 |
| Cash and cash equivalents, beginning of the year | 1,222,742 | 808,358 |
| Cash and cash equivalents, end of the year | $ 1,549,335 | $ 1,222,742 |
| Supplemental cash flow information | | |
| Interest paid | $ — | $ — |
| Income taxes paid | $ 1,529 | $ — |

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

**INFORMATION ANALYSIS INCORPORATED**
**NOTES TO 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. The Company provides services to customers throughout the United States, with a concentration in the Washington, D.C. metropolitan area.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**Revenue Recognition**

Generally the Company recognizes revenue when a contract has been executed, the contract price is fixed and determinable, delivery of services or products has occurred, and collectability of the contract price is considered probable and can be reasonably estimated. Revenue is earned under time and materials and fixed price contracts. For sales of third party software products, revenue is recognized upon delivery.

Revenue on time and materials contracts is recognized based on direct labor hours expended at contract billing rates and adding other billable direct costs.

For fixed price contracts that are based on unit pricing, the Company recognizes revenue for the number of units delivered in proportion to total expected units to be delivered in any given reporting period.

For fixed price contracts in which the Company is paid a specific amount to be available to provide a particular service for a stated period of time, revenue is recognized ratably over the service period. The Company applies this method of revenue recognition to resale of maintenance contracts on third party software sales, as on Adobe and Micro Focus software, for which the Company is responsible for “first line support” to the customer and for serving as a liaison between the customer and the third party maintenance provider for issues the Company is unable to resolve.

**INFORMATION ANALYSIS INCORPORATED**
**NOTES TO FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies (continued)**

Sales of third party software products such as Adobe and Micro Focus products are reported on a gross basis with the Company as a principal under guidance from the Financial Accounting Standards Board Emerging Issues Task Force (EITF) Abstract 99-19. This determination was based on the following: 1) the Company has inventory risk as suppliers are not obligated to accept returns, 2) the Company has reasonable latitude, within economic constraints, in establishing price, 3) the Company, in its marketing efforts, frequently aids the customer in determining product specifications, 4) the Company has physical loss inventory risk as title transfers at the shipping point, 5) the Company bears full credit risk, and 6) the amount the Company earns in the transaction is neither a fixed dollar amount nor a fixed percentage.

The Company's contracts with agencies of the government are subject to periodic funding by the respective contracting agency. Funding for a contract may be provided in full at inception of the contract or ratably throughout the contract as the services are provided. In evaluating the probability of funding for purposes of assessing collectability of the contract price, the Company considers its previous experiences with its customers, communications with its customers regarding funding status, and the Company's knowledge of available funding for the contract or program. If funding is not assessed as probable, revenue recognition is deferred until realization is deemed probable.

Payments received in advance of services performed are recorded and reported as deferred revenue. Services performed prior to invoicing customers are recorded as unbilled accounts receivable and are presented on the Company's balance sheets in the aggregate with accounts receivable.

**Segment Reporting**

In accordance with Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*, the Company has concluded that it operates in one business segment, providing products and services to modernize client information systems.

**Government Contracts**

The Company's 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 renegotiation 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. Since the Company has entered into no cost plus fixed fee contracts since 1997, management is of the opinion that any disallowance of costs for subsequent fiscal years by government auditors, other than amounts already provided, will not materially affect the Company's financial statements.

**INFORMATION ANALYSIS INCORPORATED**
**NOTES TO FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies (continued)**

**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 federally insured limits, but management does not consider this to be a significant concentration of credit risk.

**Accounts Receivable**

Accounts receivable consist of trade accounts receivable and do not bear interest. The allowance for doubtful accounts is the Company’s best estimate of the amount of probable credit losses in the Company’s existing accounts receivable. The Company reviews its allowance for doubtful accounts monthly. Accounts with receivable balances past due over 90 days are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance sheet credit exposure related to its customers. The Company has recorded an allowance for doubtful accounts of $9,229 and $0 at December 31, 2008 and 2007, respectively.

**Fixed Assets**

Fixed assets are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Furniture and fixtures are depreciated over the lesser of the useful life or five years, off-the-shelf software is depreciated over the lesser of three years or the term of the license, custom software is depreciated over the least of five years, the useful life, or the term of the license, and computer equipment is depreciated over three years. Leasehold improvements are amortized over the estimated 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.

**INFORMATION ANALYSIS INCORPORATED**
**NOTES TO FINANCIAL STATEMENTS**

## 1. Summary of Significant Accounting Policies (continued)

### Stock-Based Compensation

On January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123R ("SFAS 123R), using the modified prospective transition method.

At December 31, 2008, the Company had the stock-based compensation plans described in Note 10 below. Total compensation expense related to these plans was $4,700 and $59,597 for the years ended December 31, 2008 and 2007, respectively, of which $0 and $6,015, respectively, related to options awarded to non-employees.

### Earnings Per Share

The Company's earnings per share calculations are based upon the weighted average number of shares of common stock outstanding. The dilutive effect of stock options, warrants and other equity instruments 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 such equity instruments would be antidilutive.

### Recent Accounting Pronouncements adopted for 2008

In September 2006, FASB issued SFAS No. 157, Fair Value Measurements ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 does not impose fair value measurements on items not already accounted for at fair value; rather it applies, with certain exceptions, to other accounting pronouncements that either require or permit fair value measurements. Under SFAS No. 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market. The standard clarifies that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In February 2008, the FASB issued FASB Staff Position No. 157-2, Effective Date of FASB Statement No. 157 ("FSP FAS 157-2"), which delays the effective date of SFAS No. 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal years beginning after November 15, 2008. These non-financial items include assets and liabilities such as non-financial assets and liabilities assumed in a business combination, reporting units measured at fair value in a goodwill impairment test and asset retirement obligations initially measured at fair value. The Company adopted the provisions of SFAS No. 157 for financial assets and liabilities recognized at fair value on a recurring basis effective January 1, 2008. The partial adoption of SFAS No. 157 did not have a material impact on the Company's Financial Statements. The Company does not expect the adoption of the remaining provisions of SFAS 157 to have a material effect on the Company's Financial Statements. This standard requires

**INFORMATION ANALYSIS INCORPORATED**
**NOTES TO FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies (continued)**

that a Company measure its financial assets and liabilities using inputs from the three levels of the fair value hierarchy. A financial asset or liability classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The three levels are as follows:

Level 1 – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 – Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 – Unobservable inputs reflect the Company's judgments about the assumptions market participants would use in pricing the asset or liability since limited market data exists. The Company develops these inputs based on the best information available, including the Company's own data.

Financial assets accounted for at fair value on a recurring basis at December 31, 2008 include cash equivalents of $741,477.

In October 2008, the FASB issued FASB Staff Position 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*, ("FSP 157-3"). FSP 157-3 clarifies the application of SFAS 157 in a market that is not active and provides key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The guidance emphasizes that determining fair value in an inactive market depends on the facts and circumstances and may require the use of significant judgments. FSP 157-3 is effective upon issuance, including prior periods for which financial statements have not been issued, and therefore was effective for us at December 31, 2008. The adoption of FSP 157-3 did not have a material impact on the Company's results of operations or financial position.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS No. 159"), which provides companies with an option to report selected financial assets and liabilities at fair value. SFAS No. 159's objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. Generally accepted accounting principles have required different measurement attributes for different assets and liabilities that can create artificial volatility in earnings. SFAS No. 159 helps to mitigate this type of accounting-induced volatility by enabling companies to report related assets and liabilities at fair

**INFORMATION ANALYSIS INCORPORATED**
**NOTES TO FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies (continued)**

value, which would likely reduce the need for companies to comply with detailed rules for hedge accounting. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of the company's choice to use fair value on its earnings. SFAS No. 159 also requires companies to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. SFAS No. 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in SFAS No. 157 and SFAS No. 107. SFAS No. 159 is effective for the Company as of January 1, 2008. The adoption of SFAS No. 159 did not have any impact on the Company's results of operations or financial position.

**Recent Accounting Pronouncements not yet adopted**

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS No. 141(R)"). SFAS 141(R) requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition–date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to disclose to investors and other users all of the information needed to evaluate and understand the nature and financial effect of the business combination. SFAS No. 141(R) applies to all transactions or other events in which the Company obtains control of one or more businesses, including those sometimes referred to as "true mergers" or "mergers of equals" and combinations achieved without the transfer of consideration, for example, by contract alone or through the lapse of minority veto rights. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51" ("SFAS No. 160"). SFAS No. 160 requires reporting entities to present noncontrolling (minority) interests as equity (as opposed to as a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. SFAS No. 160 applies prospectively as of January 1, 2009, except for the presentation and disclosure requirements which will be applied retrospectively for all periods presented.

**INFORMATION ANALYSIS INCORPORATED**
**NOTES TO FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies (continued)**

In March 2008, the FASB issued SFAS 161, "Disclosures About Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133". SFAS 161 expands the disclosure requirements in SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, regarding an entity's derivative instruments and hedging activities. SFAS 161 is effective for fiscal years beginning after November 1, 2008. We do not expect the adoption of SFAS 161 to have a material effect on our financial statements.

In May 2008, the FASB issued FASB Staff Position APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)". FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate on the instrument's issuance date when interest cost is recognized in subsequent periods. FSP APB 14-1 will be effective for financial statements issued for fiscal years beginning after December 15, 2008 and the interim periods within those fiscal years, and would be applied retrospectively to all periods presented. Early adoption is not permitted. We do not expect the adoption of FSP APB 14-1 to have a material effect on our financial statements.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles," which has been established by the FASB as a framework for entities to identify the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with US GAAP. SFAS No. 162 is not expected to result in a change in current practices. SFAS No. 162 is effective 60 days following the Securities and Exchange Commission's ("SEC") approval of the Public Company Accounting Oversight Board's ("PCAOB") amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." Accordingly, we will adopt SFAS No. 162 within the required period.

In June 2008, the FASB issued FASB Staff Position EITF 03-6-1,*Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, ("FSP EITF 03-6-1"). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore need to be included in the computation of earnings per share under the two-class method as described in FASB Statement of Financial Accounting Standards No. 128, *"Earnings per Share."* FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning on or after December 15, 2008 and earlier adoption is prohibited. All prior-period earnings per share ("EPS") data presented shall be adjusted retrospectively (including interim financial statements, summaries of earnings and selected financial data) to conform to the provisions of this Staff Position. We are in the process of evaluating the impact of the provision to be adopted in 2009.

**INFORMATION ANALYSIS INCORPORATED**
**NOTES TO FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies (continued)**

In November 2008 EITF 08-7, *Accounting for Defensive Intangible Assets* (“EITF 08-7”) was issued. This Issue clarifies the accounting for acquired intangible assets in situations in which the acquirer does not intend to actively use the asset but intends to hold (lock up) the asset to prevent its competitors from obtaining access to the asset (a defensive intangible asset). Under EITF 08-7 defensive intangible assets will be treated as a separate asset recognized at fair value and assigned a useful life in accordance with FAS 142. EITF 08-7 is effective for intangible assets acquired on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, or January 1, 2009. We will apply the guidance in EITF 08-7 prospectively to intangible assets acquired after the effective date of EITF 08-7. We do not expect the adoption of EITF 08-7 to have a material impact on our consolidated financial statements.

**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.

In July 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes: an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity’s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement principles for financial statement disclosure of tax positions taken or expected to be taken on a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of the provisions of FIN 48 did not have a material effect on our financial statements.

**Fair Market Value of Financial Instruments**

The Company’s financial instruments include trade receivables, notes receivable, 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.

**INFORMATION ANALYSIS INCORPORATED**
**NOTES TO FINANCIAL STATEMENTS**

**2. Receivables**

Accounts receivable at December 31, 2008 and 2007, consist of the following:

| | 2008 | 2007 |
|---|---|---|
| Billed-federal government | $ 1,027,324 | $ 1,313,940 |
| Billed-commercial and other | 103,614 | 143,564 |
| Total billed | 1,130,938 | 1,457,504 |
| Unbilled | — | 102,526 |
| Less: allowance for doubtful accounts | (9,229) | — |
| Accounts receivable, net | $ 1,121,709 | $ 1,560,030 |

Billed receivables from the federal government include amounts due from both prime contracts and subcontracts where the federal government is the end customer. Unbilled receivables are for services provided through the balance sheet date that are expected to be billed and collected within one year.

At December 31, 2008 and 2007, there are notes receivable from a former employee in the amounts of $28,550 and $2,000. At December 31, 2008 and 2007, the notes were reserved, as we have determined they are uncollectible. The notes originally bore interest at a rate of 6% and were due September 20, 2008. In 2007, we ceased accruing interest, and fully reserved for accrued interest previously recognized.

**3. Fixed Assets**

A summary of fixed assets and equipment at December 31, 2008 and 2007, consist of the following:

| | 2008 | 2007 |
|---|---|---|
| Furniture and equipment | $ 175,481 | $ 172,140 |
| Computer equipment and software | 407,617 | 398,570 |
| Subtotal | 583,098 | 570,710 |
| Less: accumulated depreciation and amortization | (527,445) | (491,565) |
| Total | $ 55,653 | $ 79,145 |

Depreciation expense for the years ended December 31, 2008 and 2007, were $35,880 and $34,248, respectively.

**4. Other Accrued Liabilities**

Other accrued liabilities at December 31, 2008 and 2007, consist of the following:

| | 2008 | 2007 |
|---|---|---|
| Accrued payables | $20,297 | $28,405 |
| Commissions payable | 10,995 | 17,180 |
| Total other accrued liabilities | $31,292 | $45,585 |

**INFORMATION ANALYSIS INCORPORATED**
**NOTES TO FINANCIAL STATEMENTS**

**5. Revolving Line of Credit**

On December 20, 2005, the Company entered into a revolving line of credit agreement with Commerce Bank providing for demand or short-term borrowings up to $1,000,000. In July 2008, the credit agreement was modified to reflect the name of a successor bank, TD Bank, N.A, to lower the interest rate index to 0.25% above the Wall Street Journal Prime Rate, to amend certain covenants, and to modify the fee structure. The line of credit expires on August 1, 2009. Draws against the line are limited by varying percentages of the Company's eligible accounts receivable balances. The bank is granted a security interest in all company assets if there are borrowings under the line of credit. Interest on outstanding amounts is payable monthly at the Wall Street Journal Prime Rate plus 0.25% effective August 1, 2008 (3.5% at December 31, 2008) and was payable monthly at the Wall Street Journal Prime Rate plus 0.75% prior (8.00% at December 31, 2007). The bank has a first priority security interest in the Company's receivables and a direct assignment of its U.S. government contracts. There was no outstanding balance on the line at December 31, 2008 or 2007.

The Company is required to meet a financial covenant whereby positive net income for any annual reporting period must be maintained. For the year ended December 31, 2008, the Company recorded an annual net loss and was not in compliance with this financial covenant. Given its strong cash position, and lack of borrowings under the line of credit, the Company believes it can satisfactorily renegotiate its terms and covenants or secure a temporary waiver of the defaulted covenants.

**6. Commitments and Contingencies**

**Operating Leases**

The Company leases facilities under long-term operating lease agreements. Rent expense was $99,145 and $99,145 for the years ended December 31, 2008 and 2007, respectively.

The future minimum rental payments to be made under long-term operating leases are as follows:

| | |
|---|---|
| Year ending December 31, 2009 | 100,400 |
| 2010 | 25,284 |
| Total minimum rent payments | $ 125,684 |

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

**INFORMATION ANALYSIS INCORPORATED**
**NOTES TO FINANCIAL STATEMENTS**

## 7. Income Taxes

The tax effects of significant temporary differences representing deferred tax assets and deferred tax liabilities at December 31, 2008 and 2007, are as follows:

| | 2008 | 2007 |
|---|---|---|
| Deferred tax assets (liabilities): | | |
| Net operating loss carryforward | $ 6,049,100 | $ 5,905,300 |
| Accrued vacation and commissions | 32,000 | 46,200 |
| AMT tax credit carryforward | 6,600 | 6,600 |
| Allowance for doubtful accounts | 3,500 | — |
| Other | 3,600 | 2,500 |
| Fixed assets | (102,700) | (102,200) |
| Subtotal | 5,992,100 | 5,858,400 |
| Valuation allowance | (5,992,100) | (5,858,400) |
| Total | $ — | $ — |

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

| | December 31, 2008 | December 31, 2007 |
|---|---|---|
| Income before taxes | $(371,390) | $ 187,835 |
| Income tax (benefit) expense on above amount at federal statutory rate | (126,300) | 63,900 |
| State income tax (benefit) expense, net of federal benefit | (14,800) | 7,500 |
| Permanent differences | 7,300 | 24,600 |
| Other | 100 | 4,400 |
| Change in valuation allowance | 133,700 | (96,900) |
| Provision for income taxes | $ — | $ 3,500 |

There is no federal income tax liability reflected on the balance sheet.

Income tax for the years ended December 31, 2008 and 2007 consists of the following:

| | December 31, 2008 | December 31, 2007 |
|---|---|---|
| Current income taxes | $— | |
| Federal | — | $ 93,900 |
| State | — | 11,000 |
| Alternative minimum tax | — | — |
| Benefit from utilization of net operating losses | — | (101,400) |
| | — | 3,500 |
| Deferred taxes | — | — |
| | $— | $ 3,500 |

**INFORMATION ANALYSIS INCORPORATED**
**NOTES TO FINANCIAL STATEMENTS**

**7. Income Taxes (continued)**

The Company has recognized a valuation allowance to the full extent of its net deferred tax assets which the Company determined to be not more likely than not realizable. The Company has net operating loss carryforwards of approximately $15.8 million, which expire, if unused, between the years 2012 and 2028.

The Company may have been deemed to have experienced changes in ownership which may impose limitations on its ability to utilize net operating loss carryforwards under Section 382 of the internal Revenue Code. However, this deferred tax asset is fully offset by a valuation allowance.

The Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (“FIN 48”), as of January, 1, 2007. This standard modifies the previous guidance provided by SFAS No. 5, *Accounting for Contingencies*, and SFAS No. 109, *Accounting for Income Taxes*, for uncertainties related to the Company’s income tax liabilities. The Company has analyzed its income tax positions using the criteria required by FIN 48 and concluded that there is no cumulative effect relating to the adoption of FIN 48. In addition, the company determined that as of December 31, 2008 and 2007, it has no material uncertain tax positions and no interest or penalties have been accrued. The Company has elected to recognize its estimated penalties and interest on its income tax liabilities as a component of its provision for income taxes.

**8. Major Customers and Major Suppliers**

The Company’s prime contracts and subcontracts with agencies of the federal government accounted for 88% and 91% of the Company’s revenues during 2008 and 2007, respectively. The Company’s prime contracts with one federal government agency accounted for 29% and 21% of the Company’s 2008 and 2007 revenue, respectively.

The Company sold third party software and maintenance contracts under agreements with three major suppliers. These sales accounted for 26% and 28% of total revenue in 2008 and 2007, respectively. Resale of third party software is recognized upon delivery. Revenue on third party software sales was recognized on a gross, as opposed to a net, basis using the principles set forth in EITF 99-19 as explained in the Revenue Recognition section of Note 1 above.

**INFORMATION ANALYSIS INCORPORATED**
**NOTES TO FINANCIAL STATEMENTS**

## 9. Retirement Plans

The Company has a Cash or Deferred Arrangement Agreement (CODA), which satisfies the requirements of section 401(k) of the Internal Revenue Code. This defined contribution retirement plan covers substantially all employees. Participants can elect to have up to the maximum percentage allowable of their salaries reduced and contributed to the plan. The Company may make matching contributions equal to a discretionary percentage of a discretionary percentage of the participants' elective deferrals. In 2008 and in 2007, the Company matched 25% of the first 6% of the participants' elective deferrals. The Company may also make additional contributions to all eligible employees at its discretion. The Company did not make additional contributions during 2008 or 2007. Matching contributions for the year ended December 31, 2008 and 2007 were $27,095 and $33,198, respectively.

## 10. Stock Options and Warrants

The Company uses the Black-Scholes model to estimate grant date fair value. Under the modified prospective transition method adopted by the Company, the Company did not recognize any stock-based compensation expense for 2008 or 2007 relating to option awards granted prior to January 1, 2006, as all of these option grants were 100% vested. Stock-based compensation expense for all share-based payment awards granted after December 31, 2005 is based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. The Company recognizes these compensation costs only for those shares expected to vest on a straight-line basis over the requisite service period of the awards, generally, the option vesting term of six months to two years.

The Company evaluated the model input assumptions used in estimating grant date fair value. The Company concluded that its historical realized volatility, calculated using historical stock prices of the Company over the five years preceding the issue, is an appropriate measure of expected volatility. In addition, the Company also examined its historical pattern of option exercises in an effort to identify a discernable pattern and concluded that the expected term for options awarded in 2008 and in 2007 is estimated to be five years, with the exception of non-statutory stock options, which have an expected term equal to the term of the option, since these do not expire when employment ceases. The interest rate used in the pricing model is based on the U.S. Treasury yield curve in effect at the time of the grant on issues with remaining terms equal to the estimated expected term used in the model. In addition, the Company has estimated a forfeiture rate based on historical data and current assumptions.

**INFORMATION ANALYSIS INCORPORATED**
**NOTES TO FINANCIAL STATEMENTS**

**10. Stock Options and Warrants (continued)**

During the years ended December 31, 2008 and 2007, the Company granted options to certain employees to purchase an aggregate of 41,500 and 215,250 shares, respectively, of the Company's common stock, with a per share weighted average fair value of $0.13 in 2008 and $0.25 in 2007. During the year ended December 31, 2008, the Company did not grant any options to non-employee directors and consultants, and in 2007, the Company granted options to non-employee directors and consultants to purchase 18,500 shares of the Company's common stock, with a per share fair value of $0.33 in 2007 at the measurement date. The fair values of option awards granted in 2008 and 2007 were estimated using the Black-Sholes option pricing model under the following assumptions:

| | 2008 | 2007 |
|---|---|---|
| Risk free interest rate | 2.78% – 3.49% | 3.67% – 5.03% |
| Dividend yield | 0% | 0% |
| Expected term | 5 years | 5-10 years |
| Expected volatility | 61.2 – 64.4% | 65.3 – 73.5% |

The Company had a stock option plan, which became effective June 25, 1996, and expired May 29, 2006 (the "1996 Plan"). The plan provided for the granting of stock options to employees and directors. The maximum number of shares for which options could be granted under the 1996 Plan was 3,075,000. 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. There were 726,000 unexpired exercisable options remaining from the 1996 Plan at December 31, 2008.

The Company has a stock incentive plan, which became effective May 18, 2006, and expires May 17, 2016 (the "2006 Plan"). The 2006 Plan provides for the granting of equity awards to employees and directors. The maximum number of shares for which equity awards may be granted under the 2006 Plan is 950,000. Options under the 2006 Plan 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 to employees under the 2006 Plan in the years ended December 31, 2008 and 2007, was eighteen months and seven months, respectively. The exercise price of each option equals the quoted market price of the Company's stock on the date of grant.

**INFORMATION ANALYSIS INCORPORATED**
**NOTES TO FINANCIAL STATEMENTS**

**10. Stock Options and Warrants (continued)**

Option activity under the foregoing option plans as of December 31, 2008, and changes during the years ended December 31, 2008 and 2007, were as follows:

| | Options outstanding | |
|---|---|---|
| | Number of shares | Weighted average price per share |
| Balance at December 31, 2006 | 955,800 | $ 1.28 |
| Options granted | 233,750 | 0.40 |
| Options exercised, expired or forfeited | 80,550 | 10.76 |
| Balance at December 31, 2007 | 1,109,000 | $ 0.41 |
| Options granted | 41,500 | 0.24 |
| Options exercised, expired or forfeited | 61,500 | 1.26 |
| Balance at December 31, 2008 | 1,089,000 | 0.35 |

The following table summarizes information about options at December 31, 2008:

| Options outstanding | | | | Options exercisable | | | |
|---|---|---|---|---|---|---|---|
| Total shares | Weighted average exercise price | Weighted average remaining contractual life in years | Aggregate intrinsic value | Total shares | Weighted average exercise price | Weighted average remaining contractual life in years | Aggregate intrinsic value |
| 1,089,000 | $ 0.35 | 5.10 | $ 0 | 1,043,000 | $ 0.36 | 4.92 | $ 0 |

Nonvested stock awards as of December 31, 2008 and changes during the year ended December 31, 2008 and 2007, were as follows:

| | Nonvested | |
|---|---|---|
| | Number of shares | Weighted average grant date fair value |
| Balance at December 31, 2006 | 35,000 | $ 0.44 |
| Granted | 233,750 | 0.40 |
| Vested | 236,750 | 0.40 |
| Expired before vesting | 6,500 | 0.56 |
| Balance at December 31, 2007 | 25,500 | $ 0.49 |
| Granted | 41,500 | 0.13 |
| Vested | 17,500 | 0.39 |
| Expired before vesting | 3,500 | 0.24 |
| Balance at December 31, 2008 | 46,000 | 0.14 |

As of December 31, 2008 and 2007, unrecognized compensation cost associated with non-vested share based employee and non-employee compensation approximated $2,901 and $2,537, respectively, which is expected to be recognized over a weighted average period of 7 months and 6 months, respectively.

**INFORMATION ANALYSIS INCORPORATED**
**NOTES TO FINANCIAL STATEMENTS**

### 10. Stock Options and Warrants (continued)

The Board of Directors has also granted warrants to directors, employees and others. There were no warrants issued in 2008 or 2007. There were no warrants exercised in 2008 or in 2007. As of December 31, 2008 and 2007, outstanding warrants were 12,000, none of which expire within 1 year. The purchase price for shares issued upon exercise of these warrants is $0.01 per share. These warrants are immediately exercisable.

### 11. Earnings Per Share

Earnings per share are presented in accordance with SFAS No. 128,*Earnings Per Share*. This statement requires dual presentation of basic and diluted earnings per share on the face of the income statement. Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, except for periods when the Company reports a net loss because the inclusion of such items would be antidilutive.

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

| | Net Income | Shares | Per Share Amount |
|---|---|---|---|
| Basic net loss per common share for the year ended December 31, 2008: | | | |
| Income available to common stockholders | $ (371,390) | 11,196,760 | $ (0.03) |
| Effect of dilutive stock options and warrants | | — | — |
| Diluted net loss per common share for the year ended December 31, 2008: | $ (371,390) | 11,196,760 | $ (0.03) |
| Basic net income per common share for the year ended December 31, 2007: | | | |
| Income available to common stockholders | $ 184,335 | 11,196,760 | $ 0.02 |
| Effect of dilutive stock options | | 189,740 | — |
| Effect of dilutive warrants | | 11,680 | — |
| Diluted net income per common share for the year ended December 31, 2007: | $ 184,335 | 11,398,180 | $ 0.02 |

**Item 9A(T). Controls and Procedures.**

***Evaluation of Disclosure Controls and Procedures***

Our management, under the supervision and with the participation of our Chief Executive Office and Chief Financial Officer, and people performing similar functions, has evaluated the effectiveness of the design and operation of our controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period reported in this annual report (the “Evaluation Date”). Based upon this evaluation, our Chief Executive Office and Chief Financial Officer have concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act was recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and that such information required to be disclosed was accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure**.**

***Changes in Internal Controls***

There were no changes in our internal controls over financial reporting during the quarter ended December 31, 2008 that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

***Management’s Annual Report on Internal Control over Financial Reporting***

Management is responsible for establishing and maintaining adequate internal control over financial reporting. A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including the Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of our internal control over financial reporting as of the Evaluation Date, based on the criteria for effective internal control described in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its assessment, management concluded that our internal control over financial reporting was effective as of the Evaluation Date.

This Annual Report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the our independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management’s report in this Annual Report.

This report shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liabilities of that section, and is not incorporated by reference into any filing of Information Analysis Incorporated, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance.

*(The information required by this Item is incorporated by reference from the corresponding sections and subsections of our Definitive Proxy Statement pursuant to Section 14(a) of the Securities Exchange Act of 1934.)*

### Item 11. Executive Compensation.

*(The information required by this Item is incorporated by reference from the corresponding sections and subsections of our Definitive Proxy Statement pursuant to Section 14(a) of the Securities Exchange Act of 1934.)*

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

*(The information required by this Item is incorporated by reference from the corresponding sections and subsections of our Definitive Proxy Statement pursuant to Section 14(a) of the Securities Exchange Act of 1934.)*

### Item 13. Certain Relationships and Related Transactions, and Director Independence.

*(The information required by this Item is incorporated by reference from the corresponding sections and subsections of our Definitive Proxy Statement pursuant to Section 14(a) of the Securities Exchange Act of 1934.)*

### Item 14. Principal Accounting Fees and Services.

*(The information required by this Item is incorporated by reference from the corresponding sections and subsections of our Definitive Proxy Statement pursuant to Section 14(a) of the Securities Exchange Act of 1934.)*

## PART IV

### Item 15. Exhibits, Financial Statement Schedules.

(a) (1) Financial Statements

## 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
(Registrant)

By: /s/ Sandor Rosenberg
Sandor Rosenberg, President
March 31, 2009

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Sandor Rosenberg and Richard S. DeRose, jointly and severally, his attorney-in-fact, each with the full power of substitution, for such person, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might do or could do in person hereby ratifying and confirming all that each of said attorneys-in-fact and agents, or his substitute, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange 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 |
|---|---|---|
| By /s/ Sandor Rosenberg<br>Sandor Rosenberg | Chairman of the Board, Chief Executive Officer and President | March 31, 2009 |
| By /s/ Charles A. May, Jr.<br>Charles A. May | Director | March 31, 2009 |
| By /s/ Bonnie K. Wachtel<br>Bonnie K. Wachtel | Director | March 31, 2009 |
| By /s/ James D. Wester<br>James D. Wester | Director | March 31, 2009 |
| By /s/ Richard S. DeRose<br>Richard S. DeRose | Chief Financial Officer, Secretary and Treasurer | March 31, 2009 |
| By /s/ Matthew T. Sands<br>Matthew T. Sands | Controller | March 31, 2009 |

**Exhibit Index**

| Exhibit No. | Description | Location |
|---|---|---|
| 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 |
| 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 (now ING). | 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 | 1996 Stock Option Plan | Incorporated by reference from the Registrant's Form S-8 filed on June 25, 1996 |
| 10.4 | Modification of Office Lease to 12,345 square feet at 11240 Waples Mill Road, Fairfax, Virginia 22030 | Incorporated by reference from the Registrant's Form 10-QSB for the period ended March 31, 2001 and filed on May 11, 2001 |
| 10.5 | Second Modification of Lease, dated February 10, 2004, to 4,434 square feet at 11240 Waples Mill Road, Fairfax, Virginia 22030 | Incorporated by reference from the Registrant's Form 10-KSB for the period ended December 31, 2003, and filed on March 30, 2004 |
| 10.6 | Termination and/or change in control arrangement for Richard S. DeRose dated June 18, 1997 | Incorporated by reference from the Registrant's Form 10-KSB for the year ended December 31, 2004, and filed on March 30, 2005 |
| 10.7 | Line of Credit Agreement with TD Bank, N.A. (formerly Commerce Bank, N.A.) | Incorporated by reference from the Registrant's Form 10-KSB for the year ended December 31, 2005, and filed on March 31, 2006 |
| 10.8 | Third Modification of Lease, dated November 8, 2006, to extend term of lease three years. | Incorporated by reference from the Registrant's Form 10-KSB for the period ended December 31, 2006, and filed on April 2, 2007 |
| 10.9 | Modification Agreement regarding Line of Credit Agreement with TD Bank, N.A., successor to Commerce Bank, N.A., dated July 18, 2008. | Filed with this Form 10-K |
| 23.1 | Consent of Independent Registered Public Accounting Firm, Reznick Group, P.C. | Filed with this Form 10-K |
| 31.1 | Rule 13a-14(a) / 15a-14(a) Certification by Chief Executive Officer | Filed with this Form 10-K |
| 31.2 | Rule 13a-14(a) / 15a-14(a) Certification by Chief Financial Officer | Filed with this Form 10-K |
| 32.1 | Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Filed with this Form 10-K |
| 32.2 | Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Filed with this Form 10-K |

**MODIFICATION AGREEMENT**

This MODIFICATION AGREEMENT entered into as of July 18, 2008, between Information Analysis Incorporated, a Virginia corporation, with an address of 11240 Waples Mill Road, Suite 201, Fairfax, Virginia 22030 (the "Borrower") and TD Bank, NA, a National banking association with an address of 2070 Chain Bridge Road, Vienna, Virginia 22182 (the "Bank"), successor to Commerce Bank, NA ("PREDECESSOR").

WHEREAS, the Bank established a revolving line of credit (the "Revolving Loan") for Borrower which matures on August 1, 2008 (the "Maturity Date") respecting which Bank agreed to Lend to Borrower upon Borrower's request, but subject to the terms and conditions set forth in various loan documents, of up to One Million Dollars and Zero Cents ($1,000,000.00) (the "Revolving Loan Amount");

WHEREAS, the Revolving Loan is evidenced by that certain Promissory Note, dated December 20, 2005 (as previously amended, modified or supplemented, the "Note"), by the Borrower in favor of the Bank in the face amount of the Revolving Loan Amount;

WHEREAS, in connection with the Revolving Loan, Borrower entered into that certain Commercial Security Agreement, dated December 20, 2005 (as previously amended, modified or supplemented, the "Security Agreement");

WHEREAS, pursuant to the Commercial Security Agreement, Borrower granted the Bank a first priority security interest in and lien on the personal property described therein (the "Personalty");

WHEREAS, the Commercial Security Agreement and the Promissory Note and all other documents and instruments executed in connection with or relating to the Loan are referred to herein, collectively, as the "Loan Documents"; and the Personalty and all other collateral granted to the Bank to secure the Loan is referred to herein, collectively, as the "Collateral";

WHEREAS, the Bank is the successor in interest to PREDECESSOR with respect to the Loan and the Loan Documents, is the owner and holder of the Loan and the Loan Documents and, as such, the Borrower is indebted to the Bank therefor and thereunder;

WHEREAS, the Borrower has requested and the Bank has agreed to amend certain of the covenants applicable to the Loan;

WHEREAS, the Borrower and the Bank have agreed to modify the interest rate(s) applicable to the Loan;

WHEREAS, the Borrower and the Bank have agreed to modify the Loan and the Loan Documents in accordance with the terms of this Agreement.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Bank and the Borrower mutually agree as follows:

**1. MODIFICATION**

1.1 Recitals and Representations Accurate. The above recitals are hereby made a part of this Agreement and the Borrower acknowledges and agrees that each of the recitals is true and correct.

1.2 Ratification. All of the terms, covenants, provisions, representations, warranties, and conditions of the Loan Documents, as amended or modified hereby, are ratified, acknowledged, confirmed, and continued in full force and effect as if fully restated herein.

1.3 Collateral. The Borrower confirms and ratifies its continuing mortgage, pledge, assignment, and/or grant of security interest in and lien on the Collateral to and in favor of the Bank as set forth in the Loan Documents.

1.4 Interest Rate. The Borrower and the Bank agree that notwithstanding anything to the contrary in the Note as of the effective date of this Agreement, the outstanding principal balance of the Note, as modified hereby, shall bear interest at a per annum rate equal to One-Quarter Percent (0.25%) above the Wall Street Journal Prime Rate (as hereinafter defined).

1.5 Index. Wall Street Journal Prime Rate means the highest rate published from time to time by the Wall Street Journal as the Prime Rate, or, in the event the Wall Street Journal ceases publication of the Prime Rate, the base, reference or other rate then designated by the Bank, in its sole discretion, for general commercial loan reference purposes, it being understood that such rate is a reference rate, not necessarily the lowest, established from time to time, which serves as the basis upon which effective interest rates are calculated for loans making reference thereto.

1.6 Amendment to Covenants. Notwithstanding anything to the contrary contained in the Loan Documents, the Borrower will not at any time or during any fiscal period (as applicable) fail to be in compliance with any of the financial covenants set forth in Schedule 1.6, attached hereto (the "Amended Covenants").

1.7 Principal Balance. The Borrower acknowledges and agrees that the current outstanding principal balance of the Note as of the date hereof is $0.00.

1.8 Amended and Restated Note. The Note shall be amended and restated in the form attached hereto as Exhibit A (the "Amended Note").

1.9 Representations and Warranties. The Borrower hereby represents and warrants to the Bank that:

(a) The person executing this Agreement is duly authorized to do so and to bind the Borrower to the terms hereof;

(b) Each of the Loan Documents is a valid and legal binding obligation of the Borrower, enforceable in accordance with its terms, and is not subject to any defenses, counterclaims, or offsets of any kind;

(c) All financial statements delivered to the Bank were true, accurate and complete, in all material respects, as of the date of delivery to the Bank;

(d) Since the date of the Loan Documents there has been no material adverse change in the condition, financial or otherwise, of the Borrower, except as disclosed to the Bank in writing;

(e) There exists no action, suit, proceeding or investigation, at law or in equity, before any court, board, administrative body or other entity, pending or threatened, affecting the Borrower or its property, where in an unfavorable decision, ruling or finding would materially adversely affect the business operations, property or financial condition of the Borrower; and

(f) There exists no event of default, or other circumstance that with the passage of time or giving of notice or both will become an event of default, under any of the Loan Documents.

1.10 Interest. Fees. Costs and Expenses. The Borrower shall, simultaneously with the execution of this Agreement, pay to the Bank all accrued interest owing on the Loan as of the date of this Agreement together with all fees, costs and expenses due and owing to the Bank by the Borrower under the Loan Documents.

1.11 Modification. Effective August 1, 2008 the Commercial Line of Credit shall be renewed for a period of twelve (12) months to mature on August 1, 2009.

Effective August 1, 2008 the Interest rate being charged on this Commercial Line of Credit shall be changed from Wall Street Journal Prime plus 0.75% to Wall Street Journal Prime plus 0.25%.

As further consideration for this Modification Borrower agrees to pay to the Bank, upon execution of this Modification, the following fees: Commitment Fee $4,000.00, Documentation Prep Fee $200.00, Certificate of Good Standing $42.50, Judgement Search Fee $21.50.

## 2. MISCELLANEOUS

2.1 Set-Off. The Borrower hereby grants to the Bank a continuing lien and security interest in any and all deposits or other sums at any time credited by or due from the Bank to the Borrower and any cash, securities, instruments or other property of the Borrower in the possession of the Bank, whether for safekeeping or otherwise, or in transit to or from the Bank (regardless of the reason the Bank had received the same or whether the Bank has conditionally released the same) as security for the full and punctual payment and performance of all of the liabilities and obligations of the Borrower to the Bank and such deposits and other sums may be applied or setoff against such liabilities and obligations of the Borrower to the Bank at any time, whether or not such are then due, whether or not demand has been made and whether or not other collateral is then available to the Bank.

2.2 Release of the Bank. The Borrower hereby confirms that as of the date hereof it has no claim, set-off, counterclaim, defense, or other cause of action against the Bank including, but not limited to, a defense of usury, any claim or cause of action at common law, inequity, statutory or otherwise, in contract or in tort, for fraud, malfeasance, misrepresentation, financial loss, usury, deceptive trade practice, or any other loss, damage or liability of any kind, including, without limitation, any claim to exemplary or punitive damages arising out of any transaction between the Borrower and the Bank. To the extent that any such set-off, counterclaim, defense, or other cause of action may exist or might hereafter arise based on facts known or unknown that exist as of this date, such set-off, counterclaim, defense and other cause of action is hereby expressly and knowingly waived and released by the Borrower. The Borrower acknowledges that this release is part of the consideration to the Bank for the financial and other accommodations granted by the Bank in this Agreement.

2.3 Costs and Expenses. The Borrower shall pay to the Bank on demand any and all costs and expenses (including, without limitation, reasonable attorneys' fees and disbursements, court costs, litigation and other expenses) incurred or paid by the Bank in establishing, maintaining, protecting or enforcing any of the Bank's rights or any of the obligations owing by the Borrower to the Bank, including, without limitation, any and all such costs and expenses incurred or paid by the Bank in defending the Bank's security interest in, title or right to, the Collateral or in collecting or attempting to collect or enforcing or attempting to enforce payment of the Loan.

2.4 Indemnification. The Borrower shall indemnify, defend and hold the Bank and its directors, officers, employees, agents and attorneys (each an "Indemnitee") harmless against any claim brought or threatened against any Indemnitee by the Borrower or any guarantor or endorser of the obligations of the Borrower to the Bank, or any other person (as well as from attorneys' fees and expenses in connection therewith) on account of the Bank's relationship with the Borrower, or any guarantor or endorser of the obligations of the Borrower to the Bank (each of which may be defended, compromised, settled or pursued by the Bank with counsel of the Bank's election, but at the expense of the Borrower), except for any claim arising out of the gross negligence or willful misconduct of the Bank. The within indemnification shall survive payment of the obligations of the Borrower to the Bank, and/or any termination, release or discharge executed by the Bank in favor of the Borrower.

2.5 Severability. If any provision of this Agreement or portion of such provision or the application thereof to any person or circumstance shall to any extent be held invalid or unenforceable, the remainder of this Agreement (or the remainder of such provision) and the application thereof to other persons or circumstances shall not be affected thereby.

2.6 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be an original, but all of which shall constitute but one agreement.

2.7 Bank's Predecessor(s). All references in the Loan Documents to Bank and Commerce Bank, N.A. shall hereafter mean TD Bank, N.A., its successors and assigns. The Bank's address, for all purposes, shall be as set forth in the first paragraph of this Agreement.

2.8 Complete Agreement. This Agreement and the other Loan Documents constitute the entire agreement and understanding between and among the parties hereto relating to the subject matter hereof, and supersedes all prior proposals, negotiations, agreements and understandings among the parties hereto with respect to such subject matter.

2.9 Binding Effect of Agreement. This Agreement shall be binding upon and inure to the benefit of the respective heirs, executors, administrators, legal representatives, successors and assigns of the parties hereto, and shall remain in full force and effect (and the Bank shall be entitled to rely thereon) until released in writing by the Bank. The Bank may transfer and assign this Agreement and deliver the Collateral to the assignee, who shall thereupon have all of the rights of the Bank; and the Bank shall then be relieved and discharged of any responsibility or liability with respect to this Agreement and the Collateral. Except as expressly provided herein or in the other Loan Documents, nothing, expressed or implied, is intended to confer upon any party, other than the parties hereto, any rights, remedies, obligations or liabilities under or by reason of this Agreement or the other Loan Documents.

2.10 Further Assurances. The Borrower will from time to time execute and deliver to the Bank such documents, and take or cause to be taken, all such other further action, as the Bank may request in order to effect and confirm or vest more securely in the Bank all rights contemplated by this Agreement (including, without limitation, to correct clerical errors) or to vest more fully in or assure to the Bank the security interest in the Collateral or to comply with applicable statute or law and to facilitate the collection of the Collateral (including, without limitation, the execution of stock transfer orders and stock powers, endorsement of promissory notes and instruments and notifications to obligors on the Collateral). To the extent permitted by applicable law, the Borrower authorizes the Bank to file financing statements, continuation statements or amendments without the Borrower's signature appearing thereon, and any such financing statements, continuation statements or amendments may be signed by the Bank on behalf of the Borrower, if necessary, and may be filed at any time in any jurisdiction. The Bank may at any time and from time to time file financing statements, continuation statements and amendments thereto which contain any information required by the Virginia Uniform Commercial Code, Titles 8.1-8.10 Code of Virginia as amended from time to time (the "Code") for the sufficiency or filing office acceptance of any financing statement, continuation statement or amendment, including whether the Borrower is an organization, the type of organization and any organization identification number issued to the Borrower. The Borrower agrees to furnish any such information to the Bank promptly upon request. In addition, the Borrower shall at any time and from time to time take such steps as the Bank may reasonably request for the Bank (i) to obtain an acknowledgment, in form and substance satisfactory to the Bank, of any bailee having possession of any of the Collateral that the bailee holds such Collateral for the Bank, (ii) to obtain "control" (as defined in the Code) of any Collateral comprised of deposit accounts, electronic chattel paper, letter of credit rights or investment property, with any agreements establishing control to be in form and substance satisfactory to Bank, and (iii) otherwise to insure the continued perfection and priority of the Bank's security interest in any of the Collateral and the preservation of its rights therein. The Borrower hereby constitutes the Bank its attorney-in-fact to execute, if necessary, and file all filings required or so requested for the foregoing purposes, all acts of such attorney being hereby ratified and confirmed; and such power, being coupled with an interest, shall be irrevocable until this Agreement terminates in accordance with its terms, all obligations of the Borrower to the Bank are irrevocably paid in full and the Collateral is released.

2.11 Amendments and Waivers. This Agreement may be amended and the Borrower may take any action herein prohibited, or omit to perform any act herein required to be performed by it, if the Borrower shall obtain the Bank's prior written consent to each such amendment, action or omission to act. No delay or omission on the part of the Bank in exercising any right hereunder shall operate as a waiver of such right or any other right and waiver on any one or more occasions shall not be construed as a bar to or waiver of any right or remedy of the Bank on any future occasion.

2.12 Terms of Agreement. This Agreement shall continue in force and effect so long as any obligation of the Borrower to Bank shall be outstanding and is supplementary to each and every other agreement between the Borrower and Bank and shall not be so construed as to limit or otherwise derogate from any of the rights or remedies of Bank or any of the liabilities, obligations or undertakings of the Borrower under any such agreement, nor shall any contemporaneous or subsequent agreement between the Borrower and the Bank be construed to limit or otherwise derogate from any of the rights or remedies of Bank or any of the liabilities, obligations or undertakings of the Borrower hereunder, unless such other agreement specifically refers to this Agreement and expressly so provides.

2.13 Notices. Any notices under or pursuant to this Agreement shall be deemed duly received and effective if delivered in hand to any officer of agent of the Borrower or Bank, or if mailed by registered or certified mail, return receipt requested, addressed to the Borrower or Bank at the address set forth in this Agreement or as any party may from time to time designate by written notice to the other party; notwithstanding the foregoing notices to the Bank with respect to accounting and collateral release and notices to the Trustee pursuant to a Deed of Trust shall be sent to the Bank as follows: Attention: VP Loan Servicing, Loan Services, 6000 Atrium Way, Mt. Laurel NJ 08054.

2.14 Virginia Law. This Agreement is intended to take effect as a sealed instrument and has been executed or completed and is to be performed in Virginia, and it and all transactions thereunder or pursuant thereto shall be governed as to interpretation, validity, effect, rights, duties and remedies of the parties thereunder and in all other respects by the laws of Virginia without giving effect to the conflicts of laws principles thereof.

2.15 Reproductions. This Agreement and all documents which have been or may be hereinafter furnished by Borrower to the Bank may be reproduced by the Bank by any photographic, photostatic, microfilm, xerographic or similar process, and any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made in the regular course of business).

2.16 Venue. Borrower irrevocably submits to the nonexclusive jurisdiction of any Federal or state court sitting in Virginia, over any suit, action or proceeding arising out of or relating to this Agreement. Borrower irrevocably waives to the fullest extent it may effectively do so under applicable law, any objection it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court and any claim that the same has been brought in an inconvenient forum. Borrower irrevocably appoints the Secretary of State of the Commonwealth of Virginia as its authorized agent to accept and acknowledge on its behalf any and all process which may be served in any such suit, action or proceeding, consents to such process being served (i) by mailing a copy thereof by registered or certified mail, postage prepaid, return receipt requested, to Borrower's address shown above or as

Notified to the Bank and (ii) by serving the same upon such agent, and agrees that such service shall in every respect be deemed effective service upon Borrower.

2.17 JURY WAIVER. BORROWER AND BANK EACH HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY, AND AFTER AN OPPORTUNITY TO CONSULT WITH LEGAL COUNSEL, WAIVE (A) ANY AND ALL RIGHTS TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING IN CONNECTION WITH THIS AGREEMENT, THE OBLIGATIONS, ALL MATTERS CONTEMPLATED HEREBY AND DOCUMENTS EXECUTED IN CONNECTION HEREWITH AND (B) AGREE NOT TO SEEK TO CONSOLIDATE ANY SUCH ACTION WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE, OR HAS NOT BEEN WAIVED. THE BORROWER CERTIFIES THAT NEITHER THE BANK NOR ANY OF ITS REPRESENTATIVES, AGENTS OR COUNSEL HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT THE BANK WOULD NOT IN THE EVENT OF ANY SUCH PROCEEDING SEEK TO ENFORCE THIS WAIVER OF RIGHT TO TRIAL BY JURY.

Executed under seal as of the date written above.

Borrower:

Information Analysis Incorporated

By: ______________________________
Sandor Rosenberg, Chief Executive Officer

By: ______________________________
Richard S. DeRose, Executive Vice President

Accepted: TD Bank, NA

By: ______________________________
Name: Philip J. Ayoub, Commercial Lending Officer

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements (Form S-8 No. 333-05136 and No. 333-138836) pertaining to the 1996 Stock Option Plan and the 2006 Stock Incentive Plan of Information Analysis Incorporated and in the related prospectuses of our report dated March 30, 2009 with respect to the 2008 and 2007 financial statements of Information Analysis Incorporated included in this Annual Report (Form 10-K).

/s/ Reznick Group, P.C.

Vienna, Virginia
March 31, 2009

**RULE 13a-14(a) / 15d-14(a) Certification**

I, Sandor Rosenberg, certify that:

1. I have reviewed this annual report on Form 10-K of Information Analysis Incorporated;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: March 31, 2009

By: /S/ Sandor Rosenberg
Sandor Rosenberg, Chairman of the Board,
Chief Executive Officer and President

A signed original of this written statement required by Section 302 has been provided to Information Analysis Incorporated and will be retained by Information Analysis Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.

**RULE 13a-14(a) / 15d-14(a) Certification**

I, Richard S. DeRose, certify that:

1. I have reviewed this annual report on Form 10-K of Information Analysis Incorporated;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: March 31, 2009

By: /S/ Richard S. DeRose
Richard S. DeRose, Executive Vice
President, Treasurer, Chief Financial Officer

A signed original of this written statement required by Section 302 has been provided to Information Analysis Incorporated and will be retained by Information Analysis Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO SECTION 906**
**OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), I, Sandor Rosenberg, Chief Executive Officer of Information Analysis Incorporated, a Virginia corporation (the "Company"), do hereby certify, to the best of my knowledge, that:

1 the Company's Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the Securities and Exchange Commission on the date hereof, (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2 the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company for the periods presented therein.

Date: March 31, 2009

By: /S/ Sandor Rosenberg
Sandor Rosenberg, Chairman of the
Board, Chief Executive Officer, and President

A signed original of this written statement required by Section 906 has been provided to Information Analysis Incorporated and will be retained by Information Analysis Incorporated and furnished to the Securities and Exchange Commission or its staff upon request

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), I, Richard S. DeRose, Chief Financial Officer of Information Analysis Incorporated, a Virginia corporation (the "Company"), do hereby certify, to the best of my knowledge, that:

1 the Company's Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the Securities and Exchange Commission on the date hereof, (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2 the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company for the periods presented therein.

Date: March 31, 2009

By: /S/ Richard S. DeRose
Richard S. DeRose, Executive
Vice President, Treasurer, and
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Information Analysis Incorporated and will be retained by Information Analysis Incorporated and furnished to the Securities and Exchange Commission or its staff upon request