

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

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

For the Quarter Ended
June 30, 2000

Commission
File No. 0-22405

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

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

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

Yes ☒ No ☐

State the number of shares outstanding of each of the issuer's classes of common stock, as of July 30, 2000:

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

Transitional small business disclosure format.

Yes ☐ No ☒

INFORMATION ANALYSIS INCORPORATED
FORM 10-QSB

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Information Analysis Incorporated and Subsidiaries
Consolidated Balance Sheets

<TABLE>			
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	As of June 30, 2000 (unaudited -----	As of December 31, 1999 (audited) -----	
<S>	<C>	<C>	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 96,025	\$ 133,468	
Accounts receivable, net	1,595,446	1,902,244	
Employee advance	--	6,230	
Prepaid expenses	118,504	129,995	
Other receivables	95,165	97,299	
	-----	-----	
Total current assets	1,905,140	2,269,236	
Fixed assets, net	169,766	279,787	
Equipment under capital leases, net	9,135	11,553	
Capitalized software, net	521,268	463,653	
Other receivables	28,992	28,992	
Other assets	58,275	58,275	
	-----	-----	
Total assets	\$ 2,692,576	\$ 3,111,496	
	=====	=====	
LIABILITIES & STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 1,278,476	\$ 1,491,179	
Accrued payroll and related liabilities	278,865	276,871	
Other accrued liabilities	133,094	727,904	
Revolving line of credit	732,791	501,500	
Current maturities of capital lease obligations	3,291	6,936	
	-----	-----	
Total current liabilities	2,426,517	3,004,390	
	--	--	
	-----	-----	
Total liabilities	2,426,517	3,004,390	
Common stock, par value \$0.01, 30,000,000 shares authorized; 11,086,084 and 10,723,284 shares issued, 9,581,473 and 9,218,673 outstanding at June 30,2000 and December 31, 1999, respectively			
	110,861	107,233	
Additional paid in capital	13,916,902	13,763,904	
Retained earnings	(12,907,391)	(12,909,718)	
Less treasury stock; 1,504,611 shares at cost	(854,313)	(854,313)	
	-----	-----	
Total stockholders' equity	266,059	107,106	
	-----	-----	
Total liabilities and stockholders' equity	\$ 2,692,576	\$ 3,111,496	
	=====	=====	
</TABLE>			

See accompanying notes

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Information Analysis Incorporated and Subsidiaries
Consolidated Statements of Operations

<TABLE>			
<CAPTION>			
		Three months ended June 30,	
(unaudited)		2000	1999
		----	----
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Net sales:			
Professional services	\$	1,407,926	\$ 1,924,717
Software sales		139,426	280,893

Total sales	1,547,352	2,205,610
Cost of goods sold and services provided:		
Cost of professional services	999,697	1,580,373
Cost of software sales	143,646	361,245
Total cost of goods sold and services provided	1,143,343	1,941,618
Gross margin	404,009	263,992
Operating expenses:		
Selling, general and administrative	439,082	1,053,716
Research and development	--	--
Total operating expenses	439,082	1,053,716
Operating (loss)	(35,073)	(789,724)
Other (expense)	(4,502)	(37,872)
(Loss) before income taxes	(39,575)	(827,596)
Provision for income taxes	--	--
Net (loss)	\$ (39,575)	\$ (827,596)
Earnings per common share:		
Basic	(\$ 0.00)	\$ (0.12)
Diluted	(\$ 0.00)	\$ (0.12)
Weighted average common shares outstanding:		
Basic	9,581,473	6,918,673
Diluted	9,581,473	6,918,673

<CAPTION>

	Six months ended June 30,	
(unaudited)	2000	1999
	----	----
<S>	<C>	<C>
Net sales:		
Professional services	\$ 2,629,731	\$ 5,440,675
Software sales	605,938	600,599
Total sales	3,235,669	6,041,274
Cost of goods sold and services provided:		
Cost of professional services	1,938,851	3,675,882
Cost of software sales	288,160	736,956
Total cost of goods sold and services provided	2,227,011	4,412,838
Gross margin	1,008,658	1,628,436
Operating expenses:		
Selling, general and administrative	999,626	2,240,553
Research and development	--	72,935
Total operating expenses	999,626	2,313,488
Operating income (loss)	9,032	(685,052)
Other (expense)	(6,705)	(72,361)
Income (loss) before income taxes	2,327	(757,413)
Provision for income taxes	--	--
Net income (loss)	\$ 2,327	\$ (757,413)
Earnings per common share:		
Basic	\$ 0.00	\$ (0.11)
Diluted	\$ 0.00	\$ (0.11)
Weighted average common shares outstanding:		
Basic	9,508,508	6,906,667
Diluted	9,808,201	6,906,667

</TABLE>

Information Analysis Incorporated and Subsidiaries
Consolidated Statement of Cash Flows

<TABLE>

<CAPTION>

	For the Six Months Ended June 30,	
	-----	-----
<S>	<C>	<C>
Net income (loss)	\$ 2,327	\$ (757,413)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	110,020	158,310
Amortization	2,418	10,445

Amortization of Capitalized Software	77,274	548,348
Loss on sale of fixed assets	--	22,838
Changes in operating assets and liabilities		
Accounts receivable	306,798	1,131,338
Other receivables and prepaid expenses	19,856	(21,718)
Accounts payable and accrued expenses	(805,519)	(1,300,266)
	-----	-----
Net cash used by operating activities	\$ (286,826)	\$ (208,118)
	-----	-----
Cash flows from investing activities		
Increase in capitalized software	(134,889)	--
Proceeds from sale of fixed assets	--	46,845
	-----	-----
Net cash (used) provided in investing activities	(134,889)	46,845
	-----	-----
Cash flows from financing activities		
Net borrowing (payments) under bank revolving line of credit	231,291	(14,600)
Principal payments on capital leases	(3,645)	(4,373)
Net Proceeds from private placement	125,000	--
Proceeds from exercise of stock options and warrants	31,626	19,774
	-----	-----
Net cash provided by financing activities	384,272	801
	-----	-----
Net decrease in cash and cash equivalents	(37,443)	(160,472)
Cash and cash equivalents at beginning of the period	133,468	176,399
	-----	-----
Cash and cash equivalents at end of the period	\$ 96,025	\$ 15,927
	=====	=====
Supplemental cash flow Information		
Interest paid	\$ 25,208	\$ 79,426

</TABLE>

See accompanying notes

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PART I

Item 1. Financial Statements.

INFORMATION ANALYSIS, INCORPORATED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Basis of Presentation

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

Cautionary Statement Regarding Forward-Looking Statements

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

Common Stock and Common Stock Options

In the second quarter of 2000, the Stockholders approved a vote to amend the articles of incorporation to increase the authorized shares of the Company's Common Stock to 30,000,000. The Stockholders also approved a vote to increase the authorized shares in the present Stock Option Plan to 3,075,000 during the second quarter of 2000.

Commitments and Contingencies

In March 1997, the Company entered into an agreement with Computer Associates International, Inc. (CA). As part of the agreement, royalties are paid to CA based upon sales of the UNCAST licensing fees collected by the Company. In the second quarter the Company settled its outstanding royalties obligation to CA in the amount of \$232,485. The Company does not expect to incur any additional royalty expenses from its agreement with CA.

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Net Income Per Share

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

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

<TABLE>
<CAPTION>

	Income -----	Shares -----	Per Share Amount -----
(dollars in thousand)			
<S>	<C>	<C>	<C>
Basic net income per common share for the six months ended June 30, 2000:			
Income available to common stockholders	\$ 2	9,508,508	\$ 0.0
Effect of dilutive stock options		299,693	
Diluted net income per common share for the six months ended June 30, 2000:	\$ 2	9,808,201	\$ 0.0
Basic net income per common share for the six months ended June 30, 1999:			
Income available to common stockholders	\$ (757)	6,906,667	\$ (0.11)
Effect of dilutive stock options			
Diluted net income per common share for the six months ended June 30, 1999:	\$ (757)	6,906,667	\$ (0.11)
Basic net income per common share for the three months ended June 30, 2000:			
Income available to common stockholders	\$ (40)	9,581,473	\$ 0.0
Effect of dilutive stock options			
Diluted net income per common share for the three months ended June 30, 2000:	\$ (40)	9,581,473	\$ 0.0
Basic net income per common share for the six months ended June 30, 1999:			
Income available to common stockholders	\$ (827)	6,918,673	\$ (0.12)
Effect of dilutive stock options			
Diluted net income per common share for the six months ended June 30, 1999:	\$ (827)	6,918,673	\$ (0.12)

</TABLE>

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

Overview

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

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

Revenue

IAI's revenues in the second quarter of fiscal 2000 were \$1.5 million, compared to \$2.2 million in the second quarter of fiscal 1999, a decrease of

29.8%. Professional services revenues were \$1.4 million versus \$1.9 million, a decrease of 26.9%, and product revenues were \$0.1 million versus \$0.3 a decrease of 50.4%. The decrease in revenue for services and product is a result of diminished sales across the board for Year 2K related projects during the second quarter of fiscal 2000 as compared to the same quarter in 1999.

Gross margin

Gross margins were \$0.4 million or 26.1% of sales, in the second quarter of fiscal 2000 versus \$0.3 million, or 12.0% of sales, in the second quarter of fiscal 1999. Of the \$0.4 million in 2000, \$0.4 million was attributable to professional services and (\$0.0 million) was due to software sales. Gross margins as a percentage of sales were 29.0% for professional services and (3.0%) for software sales. In the second quarter of 1999, the Company reported gross margins of approximately 17.9% for professional services and (28.6%) for software. The increase in percentages for gross margins in the second quarter of fiscal 2000 is primarily attributable to Year 2K fixed price contracts in 1999 that no longer exist, which contained overall lower margins.

Selling, General & Administrative (SG&A)

SG&A was \$0.4 million, or 28.4% of revenues, in the second quarter of 2000 versus \$1.1 million, or 47.8% of revenues, in the second quarter of 1999, a decrease in expenses of 58.3%. The decrease is attributable to the Company's elimination of its marketing and support expenses associated with Year 2K services and product.

Profit

The Company reported an operating loss of \$0.04 million in the second quarter of 2000 compared to an operating loss of \$0.8 million in the second quarter of 1999. The primary cause of the improvement was a combination of higher gross margin percentages, lower SG&A and the discontinued amortization of UNICAST capitalized software which was fully written-off by year-end 1999.

Six Months Ended June 30, 2000 Versus Six Months Ended June 30, 1999

Revenue

IAI's revenues in the first six months of fiscal 2000 were \$3.2 million, compared to \$6.0 million in the first six months of fiscal 1999, a decrease of 46.4%. Professional services revenues were \$2.6 million versus \$5.4 million, a decrease of 51.7%, and product revenues were \$0.606 million versus \$0.601 million, an increase of 0.9%. The decrease in revenues for professional services is a result of diminished sales for Year 2K related projects.

Gross margin

Gross margins were \$1.0 million or 31.2% of sales, in the first six months of fiscal 2000 versus \$1.6 million, or 27.0% of sales, in the first six months of fiscal 1999. Of the \$1.0 million in 2000, \$0.7 million was attributable to professional services and \$0.3 million was due to software sales. Gross margins as a percentage of sales were 26.3% for professional services and 52.4% for software sales for 2000, versus 32.4% for professional services and (22.7%) for software sales in 1999. The increase in gross margins as a whole is attributable to the discontinuation of Year 2K related projects which contained lower overall margins.

Selling, General & Administrative

SG&A was \$1.0 million, or 30.9% of revenues, in the first half of 2000 versus \$2.2 million, or 37.1% of revenues, in the first half of 1999, a decrease in expenses of 55.4%. The decrease is attributable to the Company's elimination of its marketing and support expenses associated with Year 2K services and product.

Research and Development

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

Profit

The Company reported a profit of \$0.002 million in the first half of 2000 compared to an operating loss of \$0.8 million, in the first half of 1999. In general, the Company experienced a slight profit through the second quarter of 2000. The improvement is a combination of higher gross margin percentages, lower SG&A and the discontinued amortization of UNICAST capitalized software which was fully written-off by year-end 1999.

Liquidity and Capital Resources

Through the first six months of 2000, the Company financed its operations from current collections and through its bank line of credit. Cash and cash equivalents at June 30, 2000 were \$96,025 compared to \$15,927 at June 30, 1999. As of June 30, 2000 the Company had an outstanding balance on its line of credit of \$732,791.

The Company is in default with its line of credit with First Virginia Bank as a result of the Company's failure to meet certain financial tests. However, a forbearance agreement between the Company and First Virginia Bank is in effect

which effectively extends the line of credit of \$1,000,000 to August 29, 2000. The Company is in negotiations with various organizations to obtain a new line of credit.

If revenue continues at current levels the Company believes that it will derive sufficient cash flow to continue to pay all essential expenses which are required to operate the business. Any material reduction in revenue could have a material adverse effect on the Company's operational capabilities. The Company cannot be certain that there will not be a need for additional cash resources at some point in fiscal 2000. Accordingly, the Company may from time to time consider

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additional equity offerings to finance business expansion. The Company is uncertain that it will be able to raise additional capital.

The Company has no material commitments for capital expenditures.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 2. Changes in Securities

In the second quarter of 2000, the Stockholders approved a vote to amend the articles of incorporation to increase the authorized shares of the Company's Common Stock to 30,000,000.

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

IAI held its Annual Meeting of Shareholders on May 21, 2000. At that meeting, shareholders cast votes for the Board of Directors for the coming year, for ratification of the Board's selection of Rubino & McGeehin Chartered as outside auditors, to increase the number of shares in the stock option plan to 3,075,000, and to amend the Articles of Incorporation to increase the authorized shares of the company's common stock to 30,000,000. Messrs. Rosenberg, May and Ms Wachtel each received 9,123,747 votes in favor of their serving on the Board: with 226,375 votes withheld. Mr. Wester received 9,122,547 votes in favor of his serving on the Board with 227,575 votes withheld. Rubino & McGeehin was ratified with 9,300,776 votes in favor, and 28,246 votes against. The increase in number of shares in the option plan received 5,068,846 votes in favor, and 143,179 against. The amendment to the Articles of Incorporation received 9,175,704 votes in favor, and 166,551 against.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit 27.1, "Financial Data Schedule" is attached.

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

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SIGNATURES

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

Information Analysis Incorporated

- _____
(Registrant)

Date: August 13, 2000

By: _____
Sandor Rosenberg, Chairman of the
Board and President

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

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INDEX TO EXHIBITS

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

<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

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

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