

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, 2001

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 August 1, 2001:

Common Stock, par value \$.01, 9,958,567 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, 2001 (unaudited) ----- <C>	As of December 31, 2000 (audited) ----- <C>
<S>		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 61,256	\$ 42,881
Accounts receivable, net	1,066,845	1,073,941
Prepaid expenses	88,969	174,875
Other receivables	9,937	57,800
	-----	-----
Total current assets	1,227,007	1,349,497
Fixed assets, net	56,267	96,139
Equipment under capital leases, net	--	6,717
Capitalized software, net	375,513	491,552
Other receivables	18,142	18,142
Other assets	58,275	58,275
	-----	-----
Total assets	\$ 1,735,204	\$ 2,020,322
	=====	=====
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Revolving line of credit	\$ 510,000	\$ 598,591
Accounts payable	1,286,788	1,517,897
Accrued payroll and related liabilities	209,982	211,866
Other accrued liabilities	169,389	208,976
	-----	-----
Total current liabilities	2,176,159	2,537,330
	-----	-----
Total liabilities	2,176,159	2,537,330
Common stock, par value \$0.01, 30,000,000 shares authorized; 11,463,178 and 11,206,084 shares issued, 9,958,567 and 9,701,473 outstanding at June 30, 2001 and December 31, 2000, respectively	114,632	112,061
Additional paid in capital	14,043,696	13,915,702
Accumulated deficit	(13,744,970)	(13,690,458)
Less treasury stock; 1,504,611 shares at cost	(854,313)	(854,313)
	-----	-----
Total stockholders' equity	(440,955)	(517,008)
	-----	-----
Total liabilities and stockholders' equity	\$ 1,735,204	\$ 2,020,322
	=====	=====

</TABLE>

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

Information Analysis Incorporated and Subsidiaries
Consolidated Statements of Operations

<TABLE>
<CAPTION>

	Three months ended June 30, 2001 ----	2000 ----
(unaudited)		
<S>	<C>	<C>

Net sales:		
Professional services	\$ 986,666	\$ 1,407,926
Software sales	158,672	139,426
	-----	-----
Total sales	1,145,338	1,547,352
Cost of goods sold and services provided:		
Cost of professional services	750,082	999,697
Cost of software sales	193,653	143,646
	-----	-----
Total cost of goods sold and services provided	943,735	1,143,343
Gross margin	201,603	404,009
Operating expenses:		
Selling, general and administrative	356,134	439,082
	-----	-----
Total operating expenses	356,134	439,082
Operating loss	(154,531)	(35,073)
Other expense	(11,039)	(4,502)
	-----	-----
Loss before income taxes	(165,570)	(39,575)
Provision for income taxes	-	-
	-----	-----
Net loss before extraordinary item	(165,570)	(39,575)
Extraordinary gain - settlement of debt with equity	120,595	-
	-----	-----
Net loss	\$ (44,975)	\$ (39,575)
	=====	=====
Earnings per common share:		
Basic:		
Loss from continuing		
operations before extraordinary gain	(\$0.02)	(\$0.00)
Extraordinary gain on settlement of debt with equity	\$ 0.01	(\$0.00)
	-----	-----
Basic net income per common share	(\$0.01)	(\$0.00)
	=====	=====
Diluted:		
Loss from continuing		
operations before extraordinary gains	(\$0.02)	(\$0.00)
Extraordinary gains on settlement of debt with equity	\$ 0.01	(\$0.00)
	-----	-----
Diluted net income per common share	(\$0.01)	(\$0.00)
	=====	=====
Weighted average common shares outstanding:		
Basic	9,801,522	9,581,473
Diluted	9,801,522	9,581,473

</TABLE>

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

Information Analysis Incorporated and Subsidiaries
Consolidated Statements of Operations

<TABLE>		
<CAPTION>		
(unaudited)	Six months ended June 30,	
	2001	2000
	----	----
<S>	<C>	<C>
Net sales:		
Professional services	\$ 2,244,744	\$ 2,629,731
Software sales	252,713	605,938
	-----	-----
Total sales	2,497,457	3,235,669
Cost of goods sold and services provided:		
Cost of professional services	1,655,740	1,938,851
Cost of software sales	303,317	288,160
	-----	-----
Total cost of goods sold and services provided	1,959,057	2,227,011
Gross margin	538,400	1,008,658
Operating expenses:		
Selling, general and administrative	689,901	999,626
	-----	-----
Total operating expenses	689,901	999,626
Operating (loss) income	(151,501)	9,032
Other expense	(23,606)	(6,705)
	-----	-----
(Loss) Income before income taxes	(175,107)	2,327
Provision for income taxes	--	--

Net (loss) income before extraordinary item	(175,107)	2,327
Extraordinary gain - settlement of debt with equity	120,595	--
Net (loss) income	<u>\$ (54,512)</u>	<u>\$ 2,327</u>
Earnings per common share:		
Basic:		
Loss from continuing		
operations before extraordinary gain	\$ (0.02)	\$ 0.00
Extraordinary gain on settlement of debt with equity	\$ 0.00	\$ 0.00
Basic net income per common share	<u>\$ (0.01)</u>	<u>\$ 0.00</u>
Diluted:		
Loss from continuing		
operations before extraordinary gains	\$ (0.02)	\$ 0.00
Extraordinary gain on settlement of debt with equity	\$ 0.00	\$ 0.00
Diluted net income per common share	<u>\$ (0.01)</u>	<u>\$ 0.00</u>
Weighted average common shares outstanding:		
Basic	9,751,774	9,508,508
Diluted	9,751,774	9,808,201

</TABLE>

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

Information Analysis Incorporated and Subsidiaries
Consolidated Statements of Cash Flows

<TABLE>

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	Six Months Ended June 30,	
	2001	2000
(unaudited)		
<S>	<C>	<C>
(Loss) net income	\$ (54,512)	\$ 2,327
Adjustments to reconcile net loss to net cash provided by operating activities:		
Extraordinary gain	(120,595)	--
Depreciation	44,160	110,020
Amortization	2,418	2,418
Amortization of capitalized software	116,039	77,274
Gain on sale of fixed assets	(9,353)	--
Changes in operating assets and liabilities		
Accounts receivable	7,096	306,798
Other receivables and prepaid expenses	133,769	19,856
Accounts payable and accrued expenses	(21,420)	(805,519)
Net cash used by operating activities	<u>\$ 97,602</u>	<u>\$ (286,826)</u>
Cash flows from investing activities		
Increase in capitalized software	--	(134,889)
Proceeds from sale of fixed assets	9,364	--
Net cash provided (used) in investing activities	<u>9,364</u>	<u>(134,889)</u>
Cash flows from financing activities		
Net (payments) borrowing under bank revolving line of credit	(88,591)	231,291
Principal payments on capital leases	--	(3,645)
Net Proceeds from private placement	--	125,000
Proceeds from exercise of stock options and warrants	--	31,626
Net cash provided by financing activities	<u>(88,591)</u>	<u>384,272</u>
Net increase (decrease) in cash and cash equivalents	18,375	(37,443)
Cash and cash equivalents at beginning of the period	42,881	133,468
Cash and cash equivalents at end of the period	<u>\$ 61,256</u>	<u>\$ 96,025</u>
Supplemental cash flow Information		
Interest paid	\$ 23,988	\$ 25,208

Non-Cash Financing Activity:		
Issuance of common stock to settle debt	\$ 130,565	\$ --
	=====	=====
Non-Cash Operating Activity:		
Reduction of accounts payable through issuance of equity	\$ 251,160	\$ --
	=====	=====

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

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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, 2000 included in the Company's annual report on Form 10-KSB. Results for interim periods are not necessarily indicative of the results for any other interim period or for the full fiscal year.

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

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, 2000 and in other filings with the Securities and Exchange Commission.

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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 Before Extraordinary Item	Extraordinary Item	Net Income	Shares	Per Share Amount
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
(dollars in thousands except per share amounts)					

Basic net income per common share for the six months ended June 30, 2001:									
Income available to common stockholders	\$	(175)	\$	120	\$	(55)	9,751,774	\$	(0.01)
Effect of dilutive stock options									
Diluted net income per common share for the six months ended June 30, 2001:	\$	(175)	\$	120	\$	(55)	9,751,774	\$	(0.01)
Basic net income per common share for the six months ended June 30, 2000:									
Income available to common stockholders	\$	2	\$	000	\$	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	\$	000	\$	2	9,808,201	\$	0.0
Basic net income per common share for the three months ended June 30, 2001:									
Income available to common stockholders	\$	(165)	\$	120	\$	(45)	9,801,522	\$	(0.01)
Effect of dilutive stock options									
Diluted net income per common share for the three months ended June 30, 2001:	\$	(165)	\$	120	\$	(45)	9,801,522	\$	(0.01)
Basic net income per common share for the three months ended June 30, 2000:									
Income available to common stockholders	\$	(40)	\$	000	\$	(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)	\$	000	\$	(40)	9,581,473	\$	0.0
</TABLE>									

</TABLE>

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Three Months Ended June 30, 2001 Versus Three Months Ended June 30, 2000

Revenue

IAI's revenues in the second quarter of fiscal 2001 were \$1,145,338, compared to \$1,547,352 in the second quarter of fiscal 2000, a decrease of 26.0%. Professional services revenues were \$986,666 versus \$1,407,926, a decrease of 29.9%, and product revenues were \$158,672 versus \$139,426 an increase of 13.8%.

Gross margin

Gross margins were \$201,603 or 17.6% of sales, in the second quarter of fiscal 2001 versus \$404,009, or 26.1% of sales, in the second quarter of fiscal 2000. Of the \$201,603 in 2001, \$236,584 was attributable to professional services and (\$34,981) was due to software sales. Gross margins as a percentage of sales were 24.0% for professional services and (22.0%) for software sales. In the second quarter of 2000, the Company reported gross margins of approximately 29.0% for professional services and (3.0%) for software. The decrease in percentages for gross margins in the second quarter of fiscal 2001 is primarily attributable to a one time increase in amortization expense related to capitalized software during the second quarter of fiscal 2001 as compared to the same quarter in 2000.

Selling, General & Administrative (SG&A)

SG&A was \$356,134, or 31.1% of revenues, in the second quarter of 2001 versus \$439,082, or 28.4% of revenues, in the second quarter of 2000, a decrease in expenses of 18.9%. The decrease is attributable to the Company's continued effort to reduce SG&A expenses.

Profit

The Company reported an operating loss of \$165,570 before an extraordinary gain in the second quarter of 2001 compared to an operating loss of \$39,575 in the second quarter of 2000.

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Six Months Ended June 30, 2001 Versus Six Months Ended June 30, 2000

Revenue

IAI's revenues in the first six months of fiscal 2001 were \$2,497,457, compared to \$3,235,669 in the first six months of fiscal 2000, a decrease of

22.8%. Professional services revenues were \$2,244,744 versus \$2,629,731, a decrease of 14.6%, and product revenues were \$252,713 versus \$605,938, a decrease of 58.3%. The decrease in software sales was mainly attributable to no sales of the Company's ICONS software tool for the first six months of 2001, versus the first six months of 2000. ICONS is a software toolset that is used in connection with conversions and migrations from mainframe legacy systems.

Gross margin

Gross margins were \$538,400 or 21.6% of sales, in the first six months of fiscal 2001 versus \$1,008,658, or 31.2% of sales, in the first six months of fiscal 2000. Of the \$538,400 in 2001, \$589,004 was attributable to professional services and (\$50,604) was due to software sales. Gross margins as a percentage of sales were 26.2% for professional services and (20.0%) for software sales for 2001, versus 26.3% for professional services and 52.4% for software sales in 2000. The decrease in gross margins as a whole is attributable to no sales of the Company's ICONS software tool and, a one time increase in amortization expense during the first six months of fiscal 2001 as compared to the same six month period during 2000.

Selling, General & Administrative

SG&A was \$689,901, or 27.6% of revenues, in the first half of 2001 versus \$999,626, or 30.9% of revenues, in the first half of 2000, a decrease in expenses of 31.0%. The decrease is attributable to the Company's continued commitment to align SG&A costs to the level of its professional services and software business.

Profit

The Company reported a net operating loss of \$175,107 before an extraordinary gain in the first half of 2001 compared to an operating profit of \$2,327, in the first half of 2000. In general, the net operating loss is a result of lower software sales during the first six months of 2001.

Liquidity and Capital Resources

Through the first six months of 2001, the Company financed its operations from current collections and through its bank line of credit. Cash and cash equivalents at June 30, 2001 were \$61,256 compared to \$96,025 at June 30, 2000. As of June 30, 2001 the Company had an outstanding balance on its line of credit of \$510,000.

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 \$800,000 to August 29, 2001. The Company is in negotiations with various organizations to obtain new financing.

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 currently operate the business. Any material reduction in revenue could have a material adverse effect on the Company's operational capabilities. Current operations, however, are insufficient to provide the additional working capital that is necessary to repay approximately seven hundred fifty thousand dollars of past due payables. The Company is in the process of negotiating with past due creditors to obtain concessions on their claims. Certain creditors accepted 257,094 shares of common stock in satisfaction of their claims in the amount of \$205,725. The Company may require additional cash resources during 2001 to support its operations and to satisfy its debts. Accordingly, the Company may from time to time

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

The Company has no material commitments for capital expenditures.

PART II - OTHER INFORMATION

Item 2. Changes in Securities

Throughout the period ending June 30, 2001 the Company issued 257,094 shares of common stock to certain trade creditors to satisfy their claims in the aggregate amount of \$205,725. The Company relied upon section 4(2) in issuing these securities without registration under the Securities Act.

Item 6. Exhibits and Reports on Form 8-K

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

SIGNATURES

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

Information Analysis Incorporated

(Registrant)

Date: August 13, 2001

By: /S/

Sandor Rosenberg, Chairman of the
Board and President

By: /S/

Richard S. DeRose, Executive Vice
President and Treasurer