

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

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

For the Quarter Ended
March 31, 2002

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, Suite 400, Fairfax, VA -----	22030 -----
(Address of principal executive offices)	(Zip Code)
(Registrant's telephone number, including area code)	(703) 383-3000 -----

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

Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
-----		-----	

State the number of shares outstanding of each of the issuer's classes of common stock, as of May 8, 2002:

Common Stock, par value \$.01, 10,283,515 shares

Transitional small business disclosure format.

Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
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INFORMATION ANALYSIS INCORPORATED
FORM 10-QSB

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INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

		March 31, 2002	
		Unaudited	
December 31, 2001			
Audited			
-----		-----	
<S>		<C>	
ASSETS		<C>	
Current assets:			
Cash and cash equivalents		\$ 181,160	\$
102,640			
Accounts receivable, net		1,591,396	
1,526,372			
Prepaid expenses		70,521	
22,255			
Note receivable		75,000	
75,000			
Other receivables		27,607	
22,203			
-----		-----	
Total current assets		1,945,684	
1,748,470			
Fixed assets, net		42,654	
34,654			
Capitalized software, net		250,341	
292,065			
Other receivables		31,865	
31,865			
Other assets		58,275	
58,275			
-----		-----	
Total assets		\$ 2,328,819	\$
2,165,329			
=====		=====	
LIABILITIES & STOCKHOLDERS' EQUITY			
Current liabilities:			
Revolving line of credit		\$ 800,000	\$
596,000			
Accounts payable		997,161	
1,024,717			
Accrued payroll and related liabilities		292,713	
294,489			
Other accrued liabilities		56,223	
175,158			
Deferred revenue		139,674	
157,882			
-----		-----	
Total current liabilities		2,285,771	
2,248,246			
Long-term liabilities:			
Notes payable		125,001	
125,001			
-----		-----	
Total liabilities		2,410,772	
2,373,247			
-----		-----	
Stockholders' equity:			
Common stock, par value \$0.01, 30,000,000 shares authorized;			
11,788,126 shares issued, 10,283,515 outstanding			
at March 31, 2002 and December 31, 2001		117,881	
117,881			
Additional paid in capital		14,122,019	
14,122,019			
Retained earnings		(13,467,540)	

(13,593,505)		
Less treasury stock; 1,504,611 shares at cost	(854,313)	
(854,313)		
-----	-----	----
Total stockholders' equity	(81,953)	
(207,918)		
-----	-----	----
Total liabilities and stockholders' equity	\$ 2,328,819	\$
2,165,329		
=====	=====	
</TABLE>		

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

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INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

	For the three months	
ended	March 31,	
-----	-----	
2001	2002	
Unaudited	Unaudited	
-----	-----	----
<S>	<C>	<C>
Sales		
Professional fees	\$ 1,839,381	\$
1,258,078		
Software sales	121,182	
94,041		
-----	-----	----
Total sales	1,960,563	
1,352,119		
Cost of sales		
Cost of professional fees	1,240,944	
905,658		
Cost of software sales	115,608	
109,664		
-----	-----	----
Total cost of sales	1,356,552	
1,015,322		
Gross profit	604,011	
336,797		
Selling, general and administrative expenses	471,183	
333,767		
-----	-----	----
Income from operations	132,828	
3,030		
Other expenses, net	(6,863)	
(12,567)		
-----	-----	----
Income (loss) before provision for income taxes	125,965	
(9,537)		
Provision for income taxes	0	
0		

-----	-----	-----
Net income (loss) (9,537)	\$ 125,965	\$
=====	=====	
Earnings per common share:		
Basic 0.00	\$ 0.01	\$
=====	=====	
Diluted 0.00	\$ 0.01	\$
=====	=====	
Weighted average common shares outstanding:		
Basic 9,701,473	10,283,515	
=====	=====	
Diluted 9,701,473	11,107,596	
=====	=====	
</TABLE>		

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

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	For the Three Months Ended March 31,	
--	-----	-----
	2002 Unaudited	2001 Unaudited
<S>	-----	-----
	<C>	<C>
Net (loss) income	\$ 125,965	\$ (9,537)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,692	27,939
Amortization	1,209	1,209
Amortization of capitalized software	41,724	38,637
Gain on sale of fixed assets	(1,125)	(9,353)
Changes in operating assets and liabilities		
Accounts receivable	(65,024)	(145,032)
Other receivables and prepaid expenses	(53,670)	(9,153)
Accounts payable and accrued expenses	(148,267)	87,192
Deferred revenue	(18,208)	--
Net cash used by operating activities	(107,704)	(18,098)
	-----	-----
Cash flows from investing activities		
Purchases of fixed assets	(18,901)	--
Proceeds from sale of fixed assets	1,125	9,364
Net cash (used) provided by investing activities	(17,776)	9,364
	-----	-----
Cash flows from financing activities		
Net borrowing (payments) under bank revolving line of credit	204,000	(6,591)
Net cash provided (used) by financing activities	204,000	(6,591)
	-----	-----
Net increase (decrease) in cash and cash equivalents	78,520	(15,325)

Cash and cash equivalents at beginning of the period	102,640	42,881
	-----	-----
Cash and cash equivalents at end of the period	\$ 181,160	\$ 27,556
	=====	=====
Supplemental cash flow Information		
Interest paid	\$ 11,458	\$ 12,640
	=====	=====

</TABLE>

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 accounting principles generally accepted in the United States 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, 2001 included in the Company's annual report on Form 10-KSB. Results for interim periods are not necessarily indicative of the results for any other interim period or for the full fiscal year.

Item 2. Management's Discussion and Analysis of Financial Condition or Plan of Operation and 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, 2001 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, 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 income per common share.

<TABLE>
<CAPTION>

Income	Shares	Per Share Amount
--------	--------	------------------

<S>	----- <C>	----- <C>	----- <C>
Basic net income per common share for the three months ended March 31, 2002:			
Income available to common stockholders	\$ 125,965	10,283,515	\$ 0.01
Effect of dilutive stock options		202,403	--
Effect of dilutive warrants		121,678	--
Effect of dilutive convertible notes	3,750	500,000	--
Diluted net income per common share for the three months ended March 31, 2002:	\$ 129,715	11,107,596	\$ 0.01
Basic net (loss) per common share for the three months ended March 31, 2001:			
Income available to common stockholders	\$ (9,537)	9,701,473	\$ 0.00
Effect of dilutive stock options and warrants		--	--
Diluted net (loss) per common share for the three months ended March 31, 2001:	\$ (9,537)	9,701,473	\$ 0.00

</TABLE>

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Three Months Ended March 31, 2002 Versus Three Months Ended March 31, 2001

Revenue

IAI's revenues in the first quarter of fiscal 2002 were \$1,960,563, compared to \$1,352,119 in the first quarter of fiscal 2001, an increase of 45.0%. Professional services revenue was \$1,839,381 versus \$1,258,078, an increase of 46.2%, and product revenue was \$121,182 versus \$94,041, an increase of 28.9%. The increase in software sales was mainly attributable to new sales of the Company's ICONS software tool for the first quarter of 2002, versus no ICONS sales for the first quarter of 2001. ICONS is a software toolset that is used in connection with conversions and migrations from mainframe legacy systems.

Gross Margins

Gross margin was \$604,011, or 30.8% of sales, in the first quarter of fiscal 2002 versus \$336,797, or 24.9% of sales, in the first quarter of fiscal 2001. Of the \$604,011 in 2002, \$598,437 was attributable to services and \$5,574 was attributable to software sales. Gross margin, as a percentage of sales, was 32.5% for professional services and 4.6% for software sales for 2002. In the first quarter of 2001, the Company reported gross margins of approximately 28.0% for services and (16.6%) for software sales. The increase in professional services gross margin is a result of better margins on some of the Company's newer projects for the first quarter of 2002 that were not present during the same period for 2001. The increase in software sales gross margin was mainly attributable to sales of the Company's ICONS software tool for the first quarter of 2002, versus no sales of the same for the first quarter of 2001.

Selling, General and Administrative

Selling, general and administrative expenses (SG&A) were \$471,183, or 24.0% of revenues, in the first quarter of 2002 versus \$333,767, or 24.7% of revenues, in the first quarter of 2001, an increase in expenses of 41.2%. The increase is largely attributable to the additional services needed to support the increase in sales of professional services.

Profits

The Company generated an operating profit before other expenses of \$132,828 in the first quarter of 2002 compared to \$3,030 in the first quarter of 2001. There was a net income of \$125,965 for 2002 versus a net loss of \$9,537 in 2001. In general, the operating profit and net income increases are a result of increased professional service sales and sales margins during the first quarter of 2002.

Liquidity and Capital Resources

Through the first three months of 2002, the Company financed its operations from current collections and through its bank line of credit. Cash and cash equivalents at March 31, 2002 were \$181,160 compared to \$27,556 at March 31, 2001. As of March 31, 2002 the Company had an outstanding balance on its line of credit of \$800,000.

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 May 21, 2002. The Company is in negotiations with the bank to extend the forbearance

agreement. The bank has consistently approved the Company's requests to

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continue the forbearance, and it is anticipated that that the agreement will be extended for at least one hundred twenty days.

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. Current operations, however, are insufficient to provide the additional working capital that is necessary to repay approximately \$500,000 of past due payables. The Company cannot be certain that there will not be a need for additional cash resources at some point in fiscal 2002. Accordingly, the Company may from time to time consider additional equity offerings to finance business expansion. The Company is uncertain that it will be able to raise additional capital.

The Company has no material commitments for capital expenditures.

PART II - OTHER INFORMATION

Item 2. Changes in Securities

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: May 9, 2002

By: /s/ Sandor Rosenberg

Sandor Rosenberg, Chairman of the
Board and President

By: /s/ Richard S. DeRose

Richard S. DeRose, Executive Vice
President and Treasurer

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