

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, 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      x                      No  
-----                      -----

State the number of shares outstanding of each of the issuer's classes of common stock, as of August 1, 2002:

Common Stock, par value \$0.01, 10,283,515 shares

Transitional small business disclosure format.

Yes                      No      x  
-----                      -----

INFORMATION ANALYSIS INCORPORATED  
FORM 10-QSB

Index

	Page Number
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited)	
Consolidated Balance Sheets as of June 30, 2002 and December 31, 2001 (Audited)	3
Consolidated Statements of Operations for the three months ended June 30, 2002 and June 30, 2001	4
Consolidated Statements of Operations for the six months ended June 30, 2002 and June 30, 2001	5
Consolidated Statements of Cash Flows for the six months ended June 30, 2002 and June 30, 2001	6
Notes to Unaudited Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	7
PART II. OTHER INFORMATION	

Item 6.	Exhibits and Reports on Form 8-K	11
	SIGNATURES	11
	CERTIFICATION UNDER SECTION 906 OF THE SARBANES- OXLEY ACT OF 2002	11
	INDEX TO EXHIBITS	12

2

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

<TABLE>  
<CAPTION>

	June 30, 2002 Unaudited	December 31, 2001 Audited
	-----	-----
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 35,049	\$ 102,640
Accounts receivable, net	1,372,935	1,526,372
Prepaid expenses	63,991	22,255
Note receivable	75,000	75,000
Other receivables	54,226	22,203
	-----	-----
Total current assets	1,601,201	1,748,470
Fixed assets, net	37,078	34,654
Capitalized software, net	208,617	292,065
Other receivables	11,865	31,865
Other assets	58,275	58,275
	-----	-----
Total assets	\$ 1,917,036	\$ 2,165,329
	=====	=====
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Revolving line of credit	\$ 543,000	\$ 596,000
Accounts payable	883,482	1,024,717
Accrued payroll and related liabilities	271,004	294,489
Other accrued liabilities	54,662	175,158
Deferred revenue	73,963	157,882
	-----	-----
Total current liabilities	1,826,111	2,248,246
Long-term liabilities:		
Notes payable	125,001	125,001
	-----	-----
Total liabilities	1,951,112	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 June 30, 2002 and December 31, 2001	117,881	117,881
Additional paid in capital	14,122,019	14,122,019
Retained earnings	(13,419,663)	(13,593,505)
Less treasury stock; 1,504,611 shares at cost	(854,313)	(854,313)
	-----	-----
Total stockholders' equity	(34,076)	(207,918)
	-----	-----
Total liabilities and stockholders' equity	\$ 1,917,036	\$ 2,165,329
	=====	=====

</TABLE>

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

3

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>  
<CAPTION>

For the three months ended  
-----

June 30,		
-----		
	2002	2001
	Unaudited	Unaudited
-----		
<S>	<C>	<C>
Sales		
Professional fees	\$ 1,518,093	\$ 986,666
Software sales	134,524	158,672
	-----	-----
Total sales	1,652,617	1,145,338
Cost of sales		
Cost of professional fees	1,032,428	750,082
Cost of software sales	96,705	193,653
	-----	-----
Total cost of sales	1,129,133	943,735
	-----	-----
Gross profit	523,484	201,603
Selling, general and administrative expenses	477,707	356,134
	-----	-----
Income (loss) from operations	45,777	(154,531)
Other income (expenses), net	2,100	(11,039)
	-----	-----
Income (loss) before provision for income taxes	47,877	(165,570)
Provision for income taxes	--	--
	-----	-----
Net income (loss) before extraordinary item	47,877	(165,570)
Extraordinary gain - settlement of debt with equity	--	120,595
	-----	-----
Net income (loss)	47,877	(44,975)
	=====	=====
Earnings per common share:		
Basic:		
Net Income (loss) before extraordinary Item	\$ 0.00	\$ (0.02)
Extraordinary gain - settlement of debt with equity	0.00	0.01
	-----	-----
Net income (loss)	\$ 0.00	\$ (0.01)
	=====	=====
Diluted:		
Net Income (loss) before extraordinary Item	\$ 0.00	\$ (0.02)
Extraordinary gain - settlement of debt with equity	0.00	0.01
	-----	-----
Net income (loss)	\$ 0.00	\$ (0.01)
	=====	=====
Weighted average common shares outstanding:		
Basic	10,283,515	9,801,522
Diluted	10,962,425	9,801,522

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

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>  
<CAPTION>

For the six months ended		
-----		
June 30,		
-----		
	2002	2001
	Unaudited	Unaudited
-----		
<S>	<C>	<C>
Sales		
Professional fees	\$ 3,357,474	\$ 2,244,744
Software sales	255,706	252,713
	-----	-----

Total sales	3,613,180	2,497,457
Cost of sales		
Cost of professional fees	2,273,372	1,655,740
Cost of software sales	212,313	303,317
	-----	-----
Total cost of sales	2,485,685	1,959,057
	-----	-----
Gross profit	1,127,495	538,400
Selling, general and administrative expenses	948,890	689,901
	-----	-----
Income (loss) from operations	178,605	(151,501)
Other expenses, net	(4,763)	(23,606)
	-----	-----
Income (loss) before provision for income taxes	173,842	(175,107)
Provision for income taxes	--	--
	-----	-----
Net income (loss) before extraordinary item	173,842	(175,107)
Extraordinary gain - settlement of debt with equity	--	120,595
	-----	-----
Net income (loss)	173,842	(54,512)
	=====	=====
Earnings per common share:		
Basic:		
Net Income (loss) before extraordinary Item	\$ 0.02	\$ (0.02)
Extraordinary gain - settlement of debt with equity	0.00	0.01
	-----	-----
Net income (loss)	\$ 0.02	\$ (0.01)
	=====	=====
Diluted:		
Net Income (loss) before extraordinary Item	\$ 0.02	\$ (0.02)
Extraordinary gain - settlement of debt with equity	0.00	0.01
	-----	-----
Net income (loss)	\$ 0.02	\$ (0.01)
	=====	=====
Weighted average common shares outstanding:		
Basic	10,283,515	9,751,774
Diluted	11,078,683	9,751,774

</TABLE>

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

5

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>

<CAPTION>

	For the Six Months Ended	
	June 30,	
	-----	
	2002	2001
	Unaudited	Unaudited
	-----	-----
<S>	<C>	<C>
Net (loss) income	\$ 173,842	\$ (54,512)

Adjustments to reconcile net income to net cash provided by operating activities:

Extraordinary gain	--	(120,595)
Depreciation	21,457	46,578
Amortization of capitalized software	83,448	116,039
Gain on sale of fixed assets	(3,710)	(9,353)
Changes in operating assets and liabilities		
Accounts receivable	153,437	7,096
Other receivables and prepaid expenses	(53,759)	133,769
Accounts payable and accrued expenses	(285,216)	(21,420)

Deferred revenue	(83,919)	--
Net cash provided by operating activities	5,580	97,602
Cash flows from investing activities		
Purchases of fixed assets	(23,881)	--
Proceeds from sale of fixed assets	3,710	9,364
Net cash (used) provided by investing activities	(20,171)	9,364
Cash flows from financing activities		
Net borrowing (payments) under bank revolving line of credit	(53,000)	(88,591)
Net cash used by financing activities	(53,000)	(88,591)
Net (decrease) increase in cash and cash equivalents	(67,591)	18,375
Cash and cash equivalents at beginning of the period	102,640	42,881
Cash and cash equivalents at end of the period	\$ 35,049	\$ 61,256
Supplemental cash flow Information		
Interest paid	\$ 26,256	\$ 23,988
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

</TABLE>

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

6

## 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

#### 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

## Net Income (Loss) 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 Before Extraordinary Item	Extraordinary Item	Net Income	Shares	Per Share Amount
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Basic net income per common share for the three months ended June 30, 2002:					
Income available to common stockholders	\$ 47,877	--	\$ 47,877	10,283,515	\$ 0.00
Effect of dilutive stock options				70,219	--
Effect of dilutive warrants				108,691	--
Effect of dilutive convertible notes	3,750	--	3,750	500,000	--
Diluted net income per common share for the three months ended June 30, 2002:	\$ 51,627	--	\$ 51,627	10,962,425	\$ 0.00
Basic net loss per common share for the three months ended June 30, 2001:					
Income available to common stockholders	\$ (165,570)	120,595	\$ (44,975)	9,801,522	\$ (0.01)
Effect of dilutive stock options and warrants				--	--
Diluted net loss per common share for the three months ended June 30, 2001:	\$ (165,570)	120,595	\$ (44,975)	9,801,522	\$ (0.01)
Basic net income per common share for the six months ended June 30, 2002:					
Income available to common stockholders	\$ 173,842	--	\$ 173,842	10,283,515	\$ 0.02
Effect of dilutive stock options				174,235	--
Effect of dilutive warrants				120,933	--
Effect of dilutive convertible notes	7,500	--	7,500	500,000	--
Diluted net income per common share for the six months ended June 30, 2002:	\$ 181,342	--	\$ 181,342	11,078,683	\$ 0.02
Basic net loss per common share for the six months ended June 30, 2001:					
Income available to common stockholders	\$ (175,107)	120,595	\$ (54,512)	9,751,774	\$ (0.01)
Effect of dilutive stock options and warrants				--	--
Diluted net loss per common share for the six months ended June 30, 2001:	\$ (175,107)	120,595	\$ (54,512)	9,751,774	\$ (0.01)

</TABLE>

## Three Months Ended June 30, 2002 Versus Three Months Ended June 30, 2001

## Revenue

IAI's revenues in the second quarter of fiscal 2002 were \$1,652,617, compared to \$1,145,338 in the second quarter of fiscal 2001, an increase of 44.3%. Professional services revenue was \$1,518,093 versus \$986,666, an increase of 53.9%, and product revenue was \$134,524 versus \$158,672, a decrease of 15.3%.

## Gross Margins

Gross margin was \$523,484, or 31.7% of sales, in the second quarter of fiscal 2002 versus \$201,603, or 17.6% of sales, in the second quarter of fiscal 2001. Of the \$523,484 in 2002, \$485,665 was attributable to services and \$37,819 was attributable to software sales. Gross margin, as a percentage of sales, was 32.0% for professional services and 28.1% for software sales for 2002. In the second quarter of 2001, the Company reported gross margins of approximately

24.0% for professional services and (22.0%) 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 second 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 second quarter of 2002, versus no ICONS sales for the same period of 2001.

#### Selling, General and Administrative

Selling, general and administrative expenses (SG&A) were \$477,707, or 28.9% of revenues, in the second quarter of 2002 versus \$356,134, or 31.1% of revenues, in the second quarter of 2001, an increase in expenses of 34.1%. 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 \$45,777 in the second quarter of 2002 compared to operating loss before other expenses of \$154,531 in the second quarter of 2001. There was a net income of \$47,877 for the second quarter of 2002 versus a net loss before extraordinary gain of \$165,570 for the same period in 2001. In general, the operating profit and net income increases are a result of increased professional service sales and improved sales margins during 2002.

#### Six Months Ended June 30, 2002 Versus Six Months Ended June 30, 2001

##### Revenue

IAI's revenues in the first six months of fiscal 2002 were \$3,613,180, compared to \$2,497,457 in the first six months of fiscal 2001, an increase of 44.7%. Professional services revenues were \$3,357,474 versus \$2,244,744, an increase of 49.6%, and product revenues were \$255,706 versus \$252,713, an increase of 1.2%.

##### Gross Margins

Gross margins were \$1,127,495, or 31.2% of sales, in the first six months of fiscal 2002 versus \$538,400, or 21.6% of sales, in the first six months of fiscal 2001. Of the \$1,127,495 in 2002, \$1,084,102 was attributable to professional services and \$43,393 was due to software sales. Gross margins as a percentage of sales were 32.3% for professional services and 17.0% for software sales for 2002, versus 26.2% for professional services and (20.0)% for software sales in 2001. The increase in professional services gross margin is a result of better margins on some of the Company's newer projects for 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 2002, versus no ICONS sales for the same period of 2001.

##### Selling, General & Administrative

SG&A was \$948,890, or 26.3% of revenues, in the first half of 2002 versus \$689,901, or 27.6% of revenues, in the first half of 2001, an increase in expenses of 37.5%. The increase is largely attributable to the additional services needed to support the increase in sales of professional services.

##### Profit

The Company reported a net operating profit of \$173,842 in the first half of 2002 compared to an operating loss before an extraordinary item of \$175,107 in the first half of 2001. In general, the operating profit and net income increases are a result of increased professional service sales and improved sales margins during 2002.

##### Liquidity and Capital Resources

Through the first six months of 2002, the Company financed its operations from current collections and through its bank line of credit. Cash and cash equivalents at June 30, 2002 were \$35,049 compared to \$61,256 at June 30, 2001. As of June 30, 2002 the Company had an outstanding balance on its line of credit of \$543,000.

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 September 24, 2002. The Company is in negotiations with various organizations to obtain new financing.

The Company believes that if revenue continues at current levels and the current line of credit is maintained, 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,

10

are insufficient to provide the additional working capital that is necessary to repay approximately \$400,000 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 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 12, 2002

- - - - -

By: /S/ Sandor Rosenberg

- - - - -

Sandor Rosenberg, Chairman of the  
Board and President

By: /S/ Richard S. DeRose

- - - - -

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

### CERTIFICATION UNDER SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of Information Analysis Incorporated.

Date: August 12, 2002

- - - - -

By: /S/ Sandor Rosenberg

- - - - -

Sandor Rosenberg, Chairman of the  
Board and President

By: /S/ Richard S. DeRose

- - - - -

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

11