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, 1999	COMMISSION FILE NO. 0-22405

INFORMATION ANALYSIS INCORPORATED
(Exact name of Registrant as specified in its charter)

VIRGINIA (State or other jurisdiction of incorporation or organization)	54-1167364 (IRS Employer Identification No.)
11240 WAPLES MILL ROAD, #400 FAIRFAX, VA (Address of principal executive offices)	22030 (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 July 30, 1999:

Common Stock, par value $.01, 6,918,673 shares

Transitional small business disclosure format.

Yes No x

INFORMATION ANALYSIS INCORPORATED
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INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<S>	As of June 30, 1999 (UNAUDITED) <C>	As of December 31, 1998 (AUDITED) <C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,927	$ 176,399
Accounts receivable, net	3,288,457	4,419,795
Employee advances	23,265	29,678
Prepaid expenses	112,359	89,629
Other receivables	101,177	56,059
Total current assets	3,541,185	4,771,560
Fixed assets, net	419,557	650,474
Equipment under capital leases, net	18,222	25,743
Capitalized software, net	2,858,174	3,406,522
Other receivables	49,454	50,226
Other assets	59,330	98,275
Total assets	$6,945,922	$9,002,800
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,719,911	$2,323,394
Accrued payroll and related liabilities	467,643	692,778
Other accrued liabilities	619,926	1,091,574
Revolving line of credit	1,781,600	1,796,200
Current maturities of capital lease obligations	10,622	14,995
Total current liabilities	4,599,702	5,918,941
	-	-
Total liabilities	4,599,702	5,918,941
Common stock, par value $0.01, 15,000,000 shares authorized; 8,423,284 and 8,358,784 shares issued, 6,918,673 and 6,854,173 outstanding at June 30, 1999 and December 31, 1998, respectively	84,233	83,588
Additional paid in capital	12,658,794	12,639,666
Retained earnings	(9,542,494)	(8,785,082)
Less treasury stock; 1,504,611 shares at cost	(854,313)	(854,313)
Total stockholders' equity	2,346,220	3,083,859
Total liabilities and stockholders' equity	$6,945,922	$9,002,800

See accompanying notes
</TABLE>

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INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE DATA; UNAUDITED) <S>	Three months ended June 30, 1999 <C>	1998 <C>
Net sales:		
Professional services	$ 1,924,717	$ 3,342,911
Software sales	280,893	2,474,087
Total sales	2,205,610	5,816,998
Cost of goods sold and services provided:		
Cost of professional services	1,580,373	2,377,080
Cost of software sales	361,245	1,037,751
Total cost of goods sold and services provided	1,941,618	3,414,831
Gross margin	263,992	2,402,167
Operating expenses:		
Selling, general and administrative	1,053,716	1,730,716
Research and development	--	391,267
Total operating expenses	1,053,716	2,121,983
Operating (loss) income	(789,724)	280,184
Other (expense) income	(37,872)	50,184

(Loss) income before income taxes	(827,596)	330,368
Provision for income taxes	--	--
Net (loss) income	$ (827,596)	$ 330,368
Earning per common share:		
Basic	($ 0.12)	$ 0.05
Diluted	($ 0.12)	$ 0.04
Weighted average common shares outstanding:		
Basic	6,918,673	6,654,685
Diluted	6,918,673	8,076,235

(IN THOUSANDS, EXCEPT PER SHARE DATA; UNAUDITED)	Six months ended June 30, 1999	1998
Net sales:		
Professional services	$ 5,440,675	$ 5,379,951
Software sales	600,599	4,606,053
Total sales	6,041,274	9,986,004
Cost of goods sold and services provided:		
Cost of professional services	3,675,882	3,969,742
Cost of software sales	736,956	1,612,672
Total cost of goods sold and services provided	4,412,838	5,582,414
Gross margin	1,628,436	4,403,590
Operating expenses:		
Selling, general and administrative	2,240,553	3,416,923
Research and development	72,935	679,020
Total operating expenses	2,313,488	4,095,943
Operating (loss) income	(685,052)	307,647
Other (expense) income	(72,361)	82,224
(Loss) income before income taxes	(757,413)	389,871
Provision for income taxes	--	--
Net (loss) income	$ (757,413)	$ 389,871
Earning per common share:		
Basic	($ 0.11)	$ 0.06
Diluted	($ 0.11)	$ 0.05
Weighted average common shares outstanding:		
Basic	6,906,667	6,586,862
Diluted	6,906,667	8,008,412

See accompanying notes
</TABLE>

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INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)	For the Six Months Ended June 30, 1999	1998
<S>	<C>	<C>
Net (loss) income	$(757,413)	$389,871
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	158,310	165,190
Amortization	10,445	42,279
Software Amortization of Capitalized Software	548,348	517,001
Loss on sale of fixed assets	22,838	-
Changes in operating assets and liabilities		
Accounts receivable	1,131,338	(4,033,605)
Other receivables and prepaid expenses	(21,718)	(300,848)
Refundable income taxes	-	32,681
Accounts payable and accrued expenses	(1,300,266)	1,844,422
Net cash (used) by operating activities	$(208,118)	$(1,343,009)
Cash flows from investing activities		
Acquisition of furniture and equipment	-	(332,536)
Increase in capitalized software	-	(2,048,519)

Proceeds from sale of fixed assets	46,845	-
Net cash provided (used) in investing activities	46,845	(2,381,055)
Cash flows from financing activities		
Net (payments) under bank revolving line of credit	(14,600)	(599,600)
Principal (payments) purchases on capital leases	(4,373)	40,567
Net Proceeds from private placement	-	5,646,685
Proceeds from exercise of stock options and warrants	19,774	397,220
Net cash provided by financing activities	801	5,484,872
Net (decrease) increase in cash and cash equivalents	(160,472)	1,760,808
Cash and cash equivalents at beginning of the period	176,399	363,753
Cash and cash equivalents at end of the period	$15,927	$2,124,561
Supplemental cash flow Information		
Interest paid	$79,426	$8,520

See accompanying notes
</TABLE>

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, 1998 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, 1998 and in other filings with the Securities and Exchange Commission.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION OR PLAN OF OPERATION.

OVERVIEW

Prior to 1997, IAI was primarily dedicated to providing a range of information technology services such as software applications development, software conversions, information systems reengineering and systems integration. In 1996, IAI acquired the rights to a software tool which IAI initially intended to utilize for systems conversion services as companies sought to migrate from mainframe legacy systems to more modern day platforms and environments. After acquiring the rights to this tool, which IAI named UNICAST, IAI recognized that the tool's functionality was capable of being extended to address the Year 2000 problem currently confronting many computer systems. This problem basically prevents certain software applications from recognizing dates and executing transactions involving years subsequent to 1999.

The Company's main focus had been to license the UNICAST product to third-parties who were either engaged in the business of correcting date impacts in other parties' software or undertaking this remediation process for their own software. IAI also sought to perform remediation services in its own large volume production environment, called a solutions factory, in which it could utilize its own automation tools. During the latter part of 1998, IAI began to appreciate that Year 2000 market demand was not developing to the extent which third-parties had projected. Therefore, the Company began to devote greater resources to modernization and conversion services and web based solutions. The downturn in Year 2K software sales, which began to occur in the first quarter 1999, and the reduction in Year 2K professional fees, which became evident in the second quarter 1999, significantly accounts for the changes in software sales and professional services fees to date in 1999 in comparison to the corresponding periods in 1998.

THREE MONTHS ENDED JUNE 30, 1999 VERSUS THREE MONTHS ENDED JUNE 30, 1998

REVENUE

IAI's revenues in the second quarter of fiscal 1999 were $2,205,610, compared to $5,816,998 in the second quarter of fiscal 1998, a decrease of 62%. Professional services revenues were $1,924,717 versus $3,342,717, a decrease of 42%, and product revenues were $280,893 versus $2,474,087, a decrease of 87%.

GROSS MARGIN

Gross margins were $263,992, or 12% of sales, in the second quarter of fiscal 1999 versus $2,402167, or 41% of sales, in the second quarter of fiscal 1998. Of the $263,992 in 1999, 344,344 was attributable to professional services and ($80,352)was due to software sales. Gross margins as a percentage of sales were 18% for professional services and (29%) for software sales. Included in the cost of software sales are royalties the Company pays to Computer Associates International, Inc. for certain products that the Company sells. In the second quarter of 1998, the Company reported gross margins of approximately 29% for professional services and 58% for software.

SELLING, GENERAL & ADMINISTRATIVE (SG&A)

SG&A was $1,053,716, or 48% of revenues, in the second quarter of 1999 versus $1,730,716, or 30% of revenues, in the second quarter of 1998, a decrease of 39%. The dollar decrease is attributable to the scaling back of SG&A expenses through the second quarter of

1999. The increase in SG&A as a percentage of revenue is primarily attributable to the reduction of overall revenue experienced by the Company.

RESEARCH AND DEVELOPMENT (R&D)

R&D expenditures were $0 in the second quarter of fiscal 1999 versus $391,267 in the second quarter of fiscal 1998, as the Company terminated software maintenance expenses.

PROFITS

The Company reported an operating loss of $789,724 in the second quarter of 1999 compared to a profit of $280,184 in the second quarter of 1998. In general, the losses are a combination of the continuing amortization of capitalized software and the reduction of Year 2K services and software sales.

SIX MONTHS ENDED JUNE 30, 1999 VERSUS SIX MONTHS ENDED JUNE 30, 1998

REVENUE

IAI's revenues in the first six months of fiscal 1999 were $6,041,274, compared to $9,986,004 in the first six months of fiscal 1998, a decrease of 40%. Professional services revenues were $5,440,675 versus $5,379,951, an increase of 1%, and product revenues were $600,599 versus $4,606,053, a decrease of 87%.

GROSS MARGIN

Gross margins were $1,628,436, or 27% of sales, in the first six months of fiscal 1999 versus $4,403,590, or 44% of sales, in the first six months of fiscal 1998. Of the $1,628,436 in 1999, $1,764,793 was attributable to professional services and ($136,357) was due to software sales. Gross margins as a percentage of sales were 32% for professional services and (23)% for software sales.

SELLING, GENERAL & ADMINISTRATIVE

SG&A was $2,240,553, or 37% of revenues, in the first half of 1999 versus $3,416,923, or 34% of revenues, in the first half of 1998.

RESEARCH AND DEVELOPMENT

R&D expenditures were $72,935 in the first six months of fiscal 1999 versus $679,020 in the first six months of fiscal 1998. The decrease is due to lower software maintenance expenses in 1999.

PROFITS

The Company reported an operating loss of $685,052 in the first half of 1999 compared to a profit of $307,647 in the first half of 1998. In general, the losses are due to lower software sales combined with a higher level of amortization of capitalized software.

LIQUIDITY AND CAPITAL RESOURCES

Through the first six months of 1999, the Company financed its operations from current collections and through its bank line of credit. Cash and cash equivalents at June 30 ,1999 were $15,927 compared to $175,399 at June 30, 1998. As of June 30, 1999 the Company had an outstanding balance on its line of credit of $1,781,600.

The Company's line of credit of $2,000,000 expired on June 19,1999. The Company signed a forbearance agreement with First Virginia Bank extending the line of credit until September 20, 1999. The Company is in negotiations with various organizations to obtain a new line of credit. The current line of credit, coupled with funds generated from operations, assuming the operations are profitable, should be sufficient to meet the Company's operating cash requirements. The Company, however, may be required from time to time to delay the timely payment of its accounts payable. The Company cannot be certain that there will not be a need for additional working capital at some point in fiscal 1999. It is uncertain whether the Company will be able to obtain such additional working capital.

The Company has no material commitments for capital expenditures.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Other than the class action lawsuit referenced in the Form 10-QSB for the three months ended March 31, 1999, the Company is not a party to any other material legal proceeding. No developments occurred in the class action lawsuit in the quarter ended June 30, 1999.

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.

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, 1999

By:

Sandor Rosenberg, Chairman of the Board and President

By:

Richard S. DeRose, Executive Vice President and Treasurer

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION
27.1	Financial Data Schedule

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE REGISTRANT'S 10-QSB AS FOR THE QUARTER ENDED JUNE 30, 1999 AND IS QUALIFIED BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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