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	Commission
September 30, 1996	File No. 33-9390

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.)

2222 Gallows Road, Suite 300	
Dunn Loring, VA	22027
(Address of principal executive offices)	(Zip Code)

(Registrant's telephone number, including area code) (703) 641-0955

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 September 30, 1996:

Common Stock, par value $.01, 460,303 shares

Transitional small business disclosure format.

Yes No x

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
September 30, 1996

ASSETS

Current assets	
Cash and cash equivalents	$ 35,764
Accounts receivable	2,189,059
Employee advances	134,073
Deferred income taxes	95,887
Prepaid expenses	163,411
Other receivables	60,777
Total current assets	2,678,971
Fixed assets	
At cost, net of accumulated depreciation and amortization of $1,169,396	280,289
Equipment under capital leases	
Net of accumulated amortization of $50,762	55,059
Other assets	16,593
Investments	10,000
Goodwill	85,080
Other receivables	157,660

Total assets	$ 3,283,652

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
September 30, 1996

LIABILITIES & STOCKHOLDERS' EQUITY

Current liabilities	
Accounts payable	$ 564,560
Accrued payroll	303,138
Other accrued liabilities	60,125
Note payable - bank	75,000
Current portion of note payable - other	120,300
Current maturities of capital lease obligations	18,229
Income taxes payable	5,317
Deferred rent	3,408
Total current liabilities	1,150,077
Note payable - other	123,172
Capital lease obligations, net of current portion	44,355
Deferred income taxes	19,000
Total liabilities	1,336,604
Common stock, par value $0.01 1,000,000 shares authorized; 627,482 shares issued	6,275
Paid in capital in excess of par value	797,156
Retained earnings	1,997,930
Less treasury stock; 167,179 shares at cost	(854,313)
Total stockholders' equity	1,947,048
Total liabilities and stockholders' equity	$ 3,283,652

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS

<TABLE>
<CAPTION>

	For the nine months ended September 30,	
	1996	1995
<S> <C>		
Sales		
Professional fees	$ 9,343,616	$ 12,016,630
Software sales	339,926	210,911
Total sales	9,683,542	12,227,541
Cost of sales		
Cost of professional fees	7,409,611	9,526,293
Cost of software sales	292,717	183,762
Total cost of sales	7,702,328	9,710,055
Gross profit	1,981,214	2,517,486
Selling, general and administrative expenses	1,895,716	2,314,621

Income from operations	85,498	202,865
Other income and expenses		
Interest income	9,944	6,037
Interest expense	(26,988)	(100,055)
Income before provision for income taxes	68,454	108,847
Provision for income taxes	26,012	41,643
Net income	42,442	67,204
Retained earnings:		
Beginning of period	1,955,488	2,030,121
End of period	$ 1,997,930	$ 2,097,325
Net income per common and common equivalent share	$0.09	$0.14
Weighted average common and common equivalent shares outstanding	463,634	483,467

</TABLE>

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS

<TABLE>
<CAPTION>

	For the three months ended September 30,	
	1996	1995
<S> <C>		
Sales		
Professional fees	$ 2,343,741	$ 3,628,264
Software sales	213,033	96,080
Total sales	2,556,774	3,724,344
Cost of sales		
Cost of professional fees	1,776,587	2,932,978
Cost of software sales	190,629	81,208
Total cost of sales	1,967,216	3,014,186
Gross profit	589,558	710,158
Selling, general and administrative expenses	598,278	714,865
Income (loss) from operations	(8,720)	(4,707)
Other income and expenses		
Interest income	7,159	2,688
Interest expense	(13,005)	(29,415)
Income (loss) before provision for income taxes	(14,566)	(31,434)
Provision (benefit) for income taxes	(2,347)	(11,663)
Net income (loss)	(12,219)	(19,771)
Retained Earnings:		
Beginning of period	2,010,149	2,117,096
End of period	$ 1,997,930	$ 2,097,325
Net income per common and common equivalent share	($0.03)	($0.04)
Weighted average common and common		

equivalent shares outstanding	463,561	481,800

</TABLE>

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>
<CAPTION>

	For the nine months ending September 30,	
	1996	1995
<S> <C>		
Cash flows from operating activities		
Cash received from customers	$ 10,746,126	$ 12,016,657
Cash paid to suppliers and employees	(9,927,705)	(11,099,471)
Interest received	9,944	6,037
Interest paid	(26,988)	(100,055)
Net cash provided by operating activities	801,377	823,168
Cash flows from investing activities		
Loans and advances	(109,449)	5,537
Acquisition of furniture and equipment	(110,310)	(71,941)
Net cash used in investing activities	(219,759)	(66,404)
Cash flows from financing activities		
Net borrowing (payments) under bank revolving line of credit	(475,000)	(688,000)
Principal payments on debt and capital leases	(14,540)	(12,866)
(Repurchase) of common stock	(53,250)	(61,788)
Goodwill associated with purchase of a business	(85,080)	0
Stock issued in purchase of a business	25,000	0
Proceeds from exercise of incentive stock options	0	275
Net cash used by financing activities	(602,870)	(762,379)
Net increase (decrease) in cash and cash equivalents	(21,252)	(5,615)
Cash and cash equivalents at beginning of the period	57,016	35,211
Cash and cash equivalents at end of the period	$ 35,764	$ 29,596
Reconciliation of net income to cash provided by operating activities		
Net income	$ 42,442	$ 67,204
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	119,102	130,856
Changes in operating assets and liabilities		
Accounts receivable	1,062,584	(210,884)
Other receivables and prepaid expenses	(29,312)	72,640
Accounts payable and accrued expenses	(411,783)	729,377
Deferred rent	(7,668)	(7,668)
Income tax liability	26,012	41,643
Net cash provided by operating activities	$ 801,377	$ 823,168

</TABLE>

INFORMATION ANALYSIS INCORPORATED

Notes to Financial Statements

The interim financial statements are furnished without audit; however, they reflect all adjustments which are, in the opinion of management, necessary for the fair statement of the financial position and results of operations for the nine months ended September 30, 1996 and 1995. The financial statements should be read in conjunction with the summary of significant accounting policies and notes to financial statements included in the Company's annual report for the year ended December 31, 1995.

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

Results of Operations

The Company's revenues in the third quarter of 1996 decreased by $1,167,570 , or by 31.0%, to $2,556,774 from $3,724,344 for the third quarter of 1995. This reduction was primarily due to a decrease in revenue from the Company's contract with the U.S. Customs Service ("USCS") which generated $2,546,698 of revenue in the third quarter of 1995, compared with $1,111,774 during the third quarter of 1996. The contract with USCS terminated on September 30, 1996. In the third quarter of 1996, the Company incurred a $12,219 net loss. This represented a $7,552 improvement over the third quarter of 1995 in which the Company incurred a net loss of $19,771.

In the third quarter of 1996, the Company's gross profit percentage increased to 23.1%, compared to 19.0% during the third quarter of 1995. This increase is attributable to the winding-down of the lower margin business which the Company's health care segment previously conducted. Selling, general, and administrative expenses as a percentage of revenue increased to 23.4% during the third quarter of 1996, from 19.0% in the third quarter of 1995. This increase is due to the Company's declining revenue base.

Year-to-date revenues for the Company for the nine months ended September 30, 1996 were $9,683,542 a $2,543,999 or 20.0% decreased from the corresponding nine months of 1995. This decrease was primarily attributed to the winding down of the Company's health care segment which operated through Allied Health and Information Systems, Inc. ("AHISI"). AHISI generated $47,756 of revenue during the first nine months of 1996, as compared to $1,915,909 of revenue generated during the first nine months of 1995. The Company's gross profit percentage decreased slightly by 0.1% from 20.6% during first nine months of 1995, to 20.5% during the first nine months of 1996. Selling, general and administrative expenses as a percentage of revenue increased to 19.6% during the first nine months of 1996, compared to 18.9% during the first nine months of 1995, primarily as a result of the decline in revenue, interest expense decreased by $73,067 during the first nine months of 1996, as compared to the first nine months of 1995. Interest income increased slightly to $9,944 in the first nine months of 1996, from $6,037 in the first nine months of 1995. Net income declined to $42,442 during the first nine months of 1996, compared to net income of $67,204 during the first nine months of 1995.

In an attempt to expand its revenue base, in the third quarter ending September 30, 1996, the Company intensified its efforts to advance the Year 2,000 remediation process it is offering through the use of the

Company's proprietary migration/conversion tool, omputer Aided Software Translator ("CAST"). As has been reported in the press and major trade publications, in the absence of remediation, many businesses face the threat of information systems failure when their systems interpret the year 2000 as the year 1900. The Company is of the opinion that CAST will be a particularly valuable tool in many environments as companies are forced to migrate their systems to current day languages or platforms as they also remedy the Year 2000 problem. Therefore, the Company has increased its marketing initiatives and is seeking to develop strategic alliances with major vendors in order to advance the Year 2000 solution it offers. Currently, the Company is optimistic about its prospects for its Year 2000 solution but no assurances can be provided that the Year 2000 segment of the Company's business will prove successful.

Liquidity and Capital Resources

In the third quarter of 1996, as with the third quarter of 1995, the Company financed its operations from current collections and through advances on its line of credit with its bank. As of September 30, 1996 the outstanding balance on its line of credit was $75,000, as compared to $704,000 as of September 30, 1995. Cash and cash equivalents at September 30, 1996 were $35,764, compared to $29,596 at September 30, 1995.

The Company's renewed its line of credit for $1,500,000 on June 25, 1996. This line of credit represents a $500,000 reduction from the prior line of credit. This reduction is due to the Company's decreased working capital requirements. This line of credit expires June 19, 1997 at which time it is subject to renewal. The line of credit coupled with funds generated from operations is sufficient to meet the Company's operating cash requirements.

The Company has no material commitments for capital expenditures.

PART II - FINANCIAL INFORMATION

Item 5. Other Information

The annual stockholders meeting was held on October 30, 1996. The following directors were elected to serve until the next annual meeting.

Sandor Rosenberg
George T. DeBakey
John D. Sanders
James D. Wester
Bonnie K. Wachtel

The stockholders approved an employee stock option plan, under which the Company may issue up to 250,000 options for shares of stock to employees, directors, and consultants of the Company.

Item 6. Exhibits and Reports on Form 8-K

(b) An amended 8-K was filed by the registrant during the quarter ended September 30, 1996 pertaining to acquisition of International Software Services Corporation on June 5, 1996.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Information Analysis Incorporated
(Registrant)

Date: November 15, 1996 By:______________________
Sandor Rosenberg
Chairman of the Board
and President

Date: November 15, 1996 By:______________________
Richard S. DeRose
Treasurer

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