

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
June 30, 1997 File No. 33-9390

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

Virginia 54-1167364
(State or other jurisdiction of (IRS Employer
incorporation or organization) 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

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

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 June 30, 1997:

Common Stock, par value \$.01, 5,839,371 shares

Transitional small business disclosure format.

Yes No

PART I - FINANCIAL INFORMATION

Item 1. 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 six months ended June 30, 1997 and 1996. 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, 1996.

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

Results of Operations

The revenues of Information Analysis Incorporated (the "Company") which were generated in the second quarter of 1997 decreased by \$1,259,298, or by 41.3%, to \$1,787,946 from \$3,047,244 for the second quarter of 1996. This reduction was primarily due to a decrease in revenue from the Company's contract with the U.S. Customs Service ("USCS") which generated \$82,986 of revenue in the second quarter of 1997, compared with \$1,981,024 during the second quarter of 1996. Except for modest extensions of certain tasks performed in a subcontractor capacity to USCS, the Company's principal contract with USCS terminated on September 30, 1996. In the second quarter of 1997, the Company incurred a \$67,835 net loss. This represented a \$21,831 reduction in comparison to the second quarter of 1996 in which the Company incurred a net loss of \$46,004.

In the second quarter of 1997, the Company's gross profit percentage improved to 25.1%, compared to 21.3% during the second quarter of 1996. The reduction in services for the USCS substantially contributed to this improvement since the profit margins on USCS services were generally less in comparison to the margins achieved from other operations of the Company. Selling, general, and administrative expenses as a percentage of revenue increased to 33.4% during the second quarter of 1997, from 23.5% in the second quarter of 1996. This increase is due to the Company's lower revenue base along with the expenses incurred in transitioning the Company from primarily a professional services organization to a product oriented enterprise.

The Company's gross profit percentage increased by 3.1% from 19.5% during the first six months of 1996 to 22.6% during the first six months of 1997. Again, this was primarily the result of the reduction in services provided to the USCS from which lower profit margins were being achieved. Selling, general and administrative expenses as a percentage of revenue increased to 35.8% during the first six months of 1997, compared to 18.2% during the first six months of 1996. Again, this increase was due to the Company's lower revenue base and the additional transition expenses the Company incurred in repositioning its business to a product orientation. Interest expense decreased slightly by \$1,561

during the first six months of 1997, as compared to the first six months of 1996. Interest income increased to \$47,018 in the first six months of 1997, from \$2,785 for the first six months of 1996. This increase was a result of raising \$5 Million in funds from a private placement in the first quarter 1997. Net income declined to a \$252,218 loss during the first six months of 1997, as compared to a net income of \$54,661 during the first six months of 1996.

During the second quarter of 1997, the Company continued to devote substantial resources towards the business surrounding UNICAST, the Company's Year 2000 remediation tool. UNICAST is an acronym for Universal Computer Aided Software Translator. As a single product, the Company's software had originally been named CAST, but in recognition of the capabilities of its growing number of component products, UNICAST was considered a more appropriate name. These efforts included integrating UNICAST with other Year 2000 products, expanding technical support capability and increasing sales, marketing and licensing efforts. In this quarter, 31 additional employees were hired to support the UNICAST business. The Company also capitalized \$1,205,861 of development expenses in the second quarter for certain UNICAST enhancements.

Liquidity and Capital Resources

In the second quarter of 1997, the Company financed its operations from current collections and through proceeds obtained in the first quarter from a \$5,000,000 private placement. As of June 30, 1997 the outstanding balance on the company's line of credit was \$0. Cash and cash equivalents at June 30, 1997 were \$3,618,491, compared to \$93,765 at June 30, 1996.

The Company renewed its line of credit for \$1,500,000 on July 21, 1997. This line of credit expires June 25, 1998 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 - OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Shareholders was held on Monday, June 30, 1997. At the meeting, Sandor Rosenberg, James D. Wester, John D. Sanders, Bonnie K. Wachtel, Brendan J. Dawson, and Charles A May, Jr., were elected as directors to serve until the next annual meeting. Of the total votes cast for directors, 3,631,011 votes were cast in favor of Mr. Rosenberg, 3,631,461 votes were cast in favor of all the other directors, 950 votes were cast against Mr. Rosenberg and 500 votes were cast against all other directors.

In addition, the shareholders voted 2,739,026 in favor of and 350,411 against (with 500 votes abstaining and 542,024 unvoted) the proposal to increase by 325,000 the number of options comprising the Company's stock option plan, thereby increasing from 2,250,000 to 2,575,000 the number of options available under the plan.

The shareholders also voted in favor of increasing by 5,000,000 shares the authorized shares of the Company's Common Stock or from 10,000,000 shares to 15,000,000 shares. 3,625,058 votes were cast in favor of this proposal, 6,403 votes were cast against it, and 500 votes abstained.

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

(b) See the Index to Exhibits attached hereto.

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: July 31, 1997

By: /s/ Sandor Rosenberg

Sandor Rosenberg,
Chief Executive Officer

By: /s/ Richard S. DeRose

Richard S. DeRose, Executive Vice
President and Treasurer

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET June 30, 1997

ASSETS

Current Assets	
Cash and cash equivalents	\$3,618,491
Accounts receivable	1,614,859
Employee advances	23,017
Income taxes receivable	356,063
Deferred income taxes	98,662
Prepaid expenses	192,469
Other receivables	94,736

Total current assets	5,998,297
 Fixed Assets	
At cost, net of accumulated depreciation and amortization of \$1,304,878	559,535
 Equipment under capital leases	
Net of accumulated amortization of \$67,172	61,001
 Capitalized software	1,876,247
Investments	10,000
Goodwill	41,502
Other receivables	226,694
Other Assets	24,980

Total assets	\$8,798,256 =====

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET June 30, 1997

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities	
Accounts payable	\$ 977,493
Accrued payroll	364,426
Other accrued liabilities	107,664
Current portion of long-term debt	120,300
Current maturities of capital lease obligations	98,662 18,229

Total current liabilities	1,588,112
Long-term debt	90,380
Capital lease obligations, net of current portion	30,031
Deferred income taxes	27,020

Total liabilities	1,735,543

Common stock, par value \$0.01	
15,000,000 shares authorized: 7,343,982 shares issued; 5,839,371 outstanding	73,440
Paid in capital in excess of par value	6,299,989
Retained earnings	1,543,597
Less treasury stock; 1,504,611 shares at cost	(854,313)

Total stockholders' equity	\$7,062,713

Total liabilities and stockholders' equity	\$8,798,256
	=====

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended June 30,	
	1997	1996
	-----	-----
Cash flows from operating activities		
Cash received from customers	\$ 3,090,414	\$ 8,000,987
Cash paid to suppliers and employees	(2,923,575)	(7,291,638)
Interest received	47,018	2,785
Interest paid	(12,422)	(13,983)
	-----	-----
Net cash provided by operating activities	201,435	698,151
	-----	-----
Cash flows from investing activities		
Loans and advances	11,306	(9,097)
Acquisition of furniture and equipment	(444,967)	(31,074)
Increase in capitalized software	(1,689,283)	0
	-----	-----
Net cash used in investing activities	(2,122,944)	(40,171)
	-----	-----
Cash flows from financing activities		
Net borrowing (payments) under bank revolving line of credit	0	(500,000)
Principal payments on debt and capital leases	(11,303)	(9,875)
(Repurchase) of common stock	0	(36,750)
Proceeds from private placement	5,000,000	0
Goodwill associated with purchase of a business	0	(99,606)
Stock issued in purchase of a business	0	25,000
Proceeds from exercise of incentive stock options	227,417	0
	-----	-----
Net cash provided (used) by financing activities	5,216,114	(621,231)
	-----	-----
Net increase in cash and cash equivalents	3,294,605	36,749
Cash and cash equivalents at beginning of the period	323,886	57,016
	-----	-----
Cash and cash equivalents at end of the period	\$ 3,618,491	\$ 93,765
	=====	=====
Reconciliation of net income to cash provided by operating activities		
Net (loss) income	\$ (252,218)	\$ 54,661
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Depreciation and amortization	144,562	77,610
Changes in operating assets and liabilities		

Accounts receivable	(259,575)	874,219
Other receivables and prepaid expenses	10,035	(483,406)
Accounts payable and accrued expenses	713,992	151,820
Deferred rent	(852)	(5,112)
Income tax receivable liability	(154,509)	28,359
	-----	-----
Net cash provided by operating activities	\$ 201,435	\$ 698,151
	=====	=====

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS

For the three months ended June 30,

	1997	1996
	-----	-----
Sales		
Professional fees	\$ 1,669,134	\$ 2,946,788
Software sales	128,812	100,456
	-----	-----
Total sales	1,787,946	3,047,244
	-----	-----
Cost of sales		
Cost of professional fees	1,218,601	2,321,967
Cost of software sales	121,281	80,490
	-----	-----
Total cost of sales	1,339,882	2,402,457
	-----	-----
Gross profit	448,064	644,787
Selling, general and administrative expenses	597,098	715,660
	-----	-----
Loss from operations	(149,034)	(70,873)
Other income and expenses		
Interest income	46,149	2,184
Interest expense	(6,479)	(5,880)
	-----	-----
Loss before provision for income taxes	(109,364)	(74,569)
Benefit for income taxes	(41,529)	(28,565)
	-----	-----
Net loss	\$ (67,835)	\$ (46,004)
	=====	=====
Net income per common and common equivalent share	(\$0.01)	(\$0.10)
Weighted average common and common equivalent shares outstanding	6,245,159	461,353

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

For the six months ended June 30,

	1997	1996
	-----	-----
Sales		
Professional fees	\$ 3,157,404	\$ 6,999,875
Software sales	192,585	128,893
	-----	-----
Total sales	3,349,989	7,126,768
	-----	-----
Cost of sales		
Cost of professional fees	2,419,108	5,633,024
Cost of software sales	172,144	102,088
	-----	-----
Total cost of sales	2,591,252	5,735,112
	-----	-----

Gross profit	758,737	1,391,656
Selling, general and administrative expenses	1,200,060	1,297,438
(Loss) income from operations	(441,323)	94,218
Other income and (expenses)		
Interest income	47,018	2,785
Interest expense	(12,422)	(13,983)
(Loss) income before provision for income taxes	(406,727)	83,020
(Benefit) expenses for income taxes	(154,509)	28,359
Net (loss) income	\$ (252,218)	\$ 54,661
(Loss) income per common and common equivalent share	(\$0.04)	\$0.12
Weighted average common and common equivalent shares outstanding	6,177,715	464,499

INDEX TO EXHIBITS

Exhibit No.	Description
27.1	Financial Data Schedule

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE REGISTRANTS 10-QSB AS FOR THE QUARTER ENDED JUNE 30, 1997 AND IS QUALIFIED BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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