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 SEPTEMBER 30, 1997	COMMISSION 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.)
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 x No _____

State the number of shares outstanding of each of the issuer's classes of common stock, as of September 30, 1997:

Common Stock, par value $.01, 5,990,819 shares

Transitional small business disclosure format.

Yes _____ No x

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 nine months ended September 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.

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, Earnings per Share, which is required to be adopted on December 31, 1997. At that time, the Company will be required to change the method currently used to compute earnings per share and to restate all prior periods. Under the new requirements for calculating primary earnings per share, the dilutive effect of stock options will be excluded. The impact of Statement No. 128 on the calculation of basic earnings per share and fully diluted earnings per share for these quarters is not expected to be material.

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

The quarterly and annual operating results for Information Analysis Incorporated ("IAI" or the "Company") are affected by a wide variety of factors that could materially and adversely affect revenue and profitability including transitioning from primarily a services orientation to a product focus; the timing of customer orders for the Company's new products; introduction of new products; market acceptance of the Company's new products and its competitors' products; and the maturation of the market for the Company's products. As a result of these factors, among others, IAI may experience material fluctuations in operating results which, in turn, could adversely affect its business, financial condition and stock prices.

This quarterly report contains certain forward-looking statements and information relating to IAI that are based on the beliefs of management and assumptions made by and information currently available to management. When used in this report, the words "believe", "anticipate", "expect," and words or phrases of similar import, as they relate to IAI, its subsidiaries or its management, are intended to identify forward-looking statements. These statements reflect the current risks, uncertainties and assumptions related to certain factors including, without limitation, competitive factors, general economic conditions, product introductions and acceptance, changes in industry practices, and one-time events. Based upon changing conditions, should any one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those described herein. IAI does not intend to update these forward-looking statements.

Results of Operations

During 1997 the Company began to devote substantial resources towards the business surrounding UNICAST(TM), the Company's Year 2000 remediation tool. UNICAST is an acronym for Universal Computer Aided Software Translator. These efforts included integrating UNICAST with other Year 2000 products, expanding technical support capability and increasing sales, marketing and licensing efforts. In the third quarter, IAI has made a significant investment in a management team and infrastructure to support future commercial product revenue growth.

The results for the first nine months of 1997 reflect a minimal amount of Year 2000 based revenue. The Company is optimistic about the prospects for its UNICAST product line, but no assurances can be provided that the Year 2000 segment of the Company's business will prove successful.

The revenues of IAI generated in the third quarter of 1997 decreased by $740,351, or by 29.0%, to $1,816,423 from $2,556,774 for the third quarter of 1997. This reduction was primarily due to a decrease in revenue from the Company's contract with the U.S. Customs Service ("USCS") and reflects managements' decision to focus more efforts towards building its UNICAST product line. The USCS contract generated $71,110 of revenue in the third quarter of 1997, compared with $1,111,774 during the third quarter of 1996. Except for modest extensions of certain tasks performed in a subcontractor capacity to USCS, the Company's principal contract with USCS was completed on September 30, 1996. In the third quarter of 1997, the Company incurred a $404,485 net loss, as compared to a net loss of $12,219 in the third quarter of 1996.

In the third quarter of 1997, the Company's gross profit percentage improved to 24.6%, compared to 23.1% during the third 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 63.2% during the third quarter of 1997, from 23.4% in the third quarter of 1996. This increase reflects the lower revenue base and the additional transition expenses the Company incurred in repositioning its business to a product orientation.

The Company's gross profit percentage increased by 2.8% from 20.5% during the first nine months of 1996 to 23.3% during the first nine months of 1997. 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 45.4% during the first nine months of 1997, compared to 19.6% during the first nine months of 1996. This increase was due to the Company's lower revenue base and its investment in its commercial product line. Interest expense decreased slightly by $6,255 during the first nine months of 1997, as compared to the first nine months of 1996. Interest income increased to $103,631 in the first nine months of 1997, from $9,944 for the first nine 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 $656,703 loss during the first nine months of 1997, as compared to a net income of $42,442 during the first nine months of 1996. The Company also capitalized $1,220,958 of development expenses in the third quarter for certain UNICAST enhancements.

Liquidity and Capital Resources

Since transitioning to primarily a product orientation as opposed to its traditional services focus, the Company has principally relied upon the proceeds from its private placement completed in the first quarter, along with current collections from service engagements. The Company also maintains a $1.5 million line of credit for working capital, which expires in June, 1998. As of September 30, 1997, the Company's cash and cash equivalents totaled $1,498,317, compared to $35,764 at September 30, 1996. The outstanding balance on the line of credit as of September 30, 1997 was $0.

The Company intends to meet its long term working capital needs from the revenues which it anticipates it will earn from UNICAST, including license fees, maintenance fees and Year 2000 engagements. Because IAI cannot predict with reasonable certainty when Year 2000 revenue will materialize for it and other companies similarly situated, the Company anticipates that it will require an infusion of additional capital to continue to operate at the same staffing levels it employed as of the end of the third quarter and the additional staffing levels it will require to meet the demands the company expects it will contront for Year 2000 engagements. As of September 30, 1997, the Company had initiated preliminary discussions with third parties towards raising this additional capital by the end of the year. The Company believes that capital will be available to it upon acceptable terms, but no assurances can be provided in this regard.

The Company has no material commitments for capital expenditures.

PART II - OTHER INFORMATION

ITEM 5. OTHER INFORMATION

In July, Brendan J. Dawson, a Director of the Company, was appointed as President and Chief Operating Officer. Prior to joining the Company, Mr Dawson had been CEO and president of MAXM Systems Corporation, a privately held software and services company which specialized in providing integrated operations management solutions. Mr Dawson had earlier served as Executive Vice President and COO at Legent Corporation.

In August 1997, Information Analysis appointed Mr. Kevin Coyne as Senior Vice President to oversee development and support of its product line. Mr. Coyne, formerly Vice President at Computer Associates, had responsibility for its Discovery 2000 family of products.

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: November 7, 1997

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

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

September 30, 1997

ASSETS

	As Of 9/30/97	As Of 12/31/96
Current assets		
Cash and cash equivalents	$1,498,317	$ 323,886
Accounts receivable	1,537,129	1,355,284
Employee advances	85,040	34,323
Income taxes receivable	603,970	201,554
Deferred income taxes	98,662	98,662
Prepaid expenses	184,313	104,554
Other receivables	102,034	192,686
Total current assets	4,109,465	2,310,949
Fixed assets		
At cost, net of accumulated depreciation and amortization of $1,369,037	682,682	241,311
Equipment under capital leases		
Net of accumulated amortization of $73,648	56,354	49,768
Capitalized software	3,097,205	186,964
Investments	10,000	10,000
Goodwill	26,976	70,554
Other receivables	226,042	226,694
Other assets	24,980	24,980
Total assets	$8,233,704	$3,121,220

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

LIABILITIES & STOCKHOLDERS' EQUITY

	As Of 9/30/97	As Of 12/31/96
Current liabilities		
Accounts payable	$ 618,474	$ 413,942
Accrued payroll	503,562	262,754
Other accrued liabilities	93,374	58,896
Current portion of long-term debt	37,045	120,300
Current maturities of capital lease obligations	18,229	18,229
Deferred rent	0	852
Total current liabilities	1,270,684	874,973
Long-term debt	90,380	90,380
Capital lease obligations, net of current portion	25,244	41,334
Deferred income taxes	27,020	27,020
Total liabilities	1,413,328	1,033,707
Common stock, par value $0.01 15,000,000 shares authorized;7,495,430 shares issued; 5,990,819 outstanding	74,954	6,772
Paid in capital in excess of par value	6,460,623	1,139,240
Retained earnings	1,139,112	1,795,814
Less treasury stock; 1,504,611 shares at cost	(854,313)	(854,313)
Total stockholders' equity	6,820,376	2,087,513
Total liabilities and stockholders' equity	$ 8,233,704	$ 3,121,220

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the nine months ended September 30, 1997	1996
Sales		
Professional fees	$ 4,800,563	$ 9,343,616
Software sales	365,849	339,926
Total sales	5,166,412	9,683,542
Cost of sales		
Cost of professional fees	3,636,708	7,409,611
Cost of software sales	324,338	292,717
Total cost of sales	3,961,046	7,702,328
Gross profit	1,205,366	1,981,214
Selling, general and administrative expenses	2,347,383	1,895,716
(Loss) income from operations	(1,142,017)	85,498
Other income and (expenses)		
Interest income	103,631	9,944
Interest expense	(20,733)	(26,988)
(Loss) income before provision for income taxes	(1,059,119)	68,454
(Benefit) expenses for income taxes	(402,416)	26,012
Net (loss) income	$ (656,703)	$ 42,442
(Loss) income per common and common equivalent share	($0.11)	$0.01
Weighted average common and common equivalent shares outstanding *	6,243,887	4,172,706

* Dilutive effects of Common Stock equivalents were immaterial

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the three months ended September 30, 1997	1996
Sales		
Professional fees	$ 1,643,159	$ 2,343,741
Software sales	173,264	213,033
Total sales	1,816,423	2,556,774
Cost of sales		
Cost of professional fees	1,217,600	1,776,587
Cost of software sales	152,194	190,629
Total cost of sales	1,369,794	1,967,216
Gross profit	446,629	589,558
Selling, general and administrative expenses	1,147,323	598,278
(Loss) income from operations	(700,694)	(8,720)

Other income and (expenses)		
Interest income	56,613	7,159
Interest expense	(8,311)	(13,005)
(Loss) income before provision for income taxes	(652,392)	(14,566)
(Benefit) expenses for income taxes	(247,907)	(2,347)
Net (loss) income	$ (404,485)	$ (12,219)
(Loss) income per common and common equivalent share	(0.06)	(0.00)
Weighted average common and common equivalent shares outstanding *	6,376,232	4,172,049

* Dilutive effects of Common Stock equivalents were immaterial

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>
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	For the nine months ended September 30, 1997	1996
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Cash flows from operating activities		
Cash received from customers	$ 4,985,215	$ 10,746,126
Cash paid to suppliers and employees	(5,669,600)	(9,927,705)
Interest received	103,631	9,944
Interest paid	(20,733)	(26,988)
Net cash (used) provided by operating activities	(601,487)	801,377
Cash flows from investing activities		
Loans and advances	(50,717)	(109,449)
Acquisition of furniture and equipment	(636,603)	(110,310)
Increase in capitalized software	(2,910,241)	0
Net cash used in investing activities	(3,597,561)	(219,759)
Cash flows from financing activities		
Net borrowing (payments) under bank revolving line of credit	0	(475,000)
Principal payments on debt and capital leases	(16,090)	(14,540)
(Repurchase) of common stock	0	(53,250)
Proceeds from private placement	5,000,000	0
Goodwill associated with purchase of a business	0	(85,080)
Stock issued in purchase of a business	0	25,000
Proceeds from exercise of incentive stock options	389,569	0
Net cash provided (used) by financing activities	5,373,479	(602,870)
Net increase in cash and cash equivalents	1,174,431	(21,252)
Cash and cash equivalents at beginning of the period	323,886	57,016
Cash and cash equivalents at end of the period	$ 1,498,317	$ 35,764
Reconciliation of net income to cash provided by operating activities		
Net (loss) income	$ (656,703)	$ 42,442
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Depreciation and amortization	232,224	119,102
Changes in operating assets and liabilities		

Accounts receivable	(181,197)	1,062,584
Other receivables and prepaid expenses	10,893	(29,312)
Accounts payable and accrued expenses	396,564	(411,783)
Deferred rent	(852)	(7,668)
Income tax receivable liability	(402,416)	26,012
Net cash (used) provided by operating activities	$ (601,487)	$ 801,377

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INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION
10.1	Employment Contract for Brendan J. Dawson
27.1	Financial Data Schedule

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			(703) 383-3000
[INFORMATION ANALYSIS LOGO]	Information Analysis Incorporated	11240 Waples Mill Road, Suite 400, Fairfax, Virginia 22030	(800) 829-7614 Fax:(703) 293-7979 E-Mail: www.infoa.com

</TABLE>

Exhibit No. 10.1

June 30, 1997

Brendan J. Dawson
9402 Turnberry Drive
Potomac, MD 20854

Dear Brendan:

I am pleased to offer you the position of President and Chief Operating Officer with Information Analysis Incorporated (IAI) reporting to me. In that role you will be responsible for the day to day operations of the company. Your annualized rate of pay will be $200,000 and your start date will be as mutually agreed to.

Additional terms of this offer are:

Stock Options
- -------------

You will be granted 100,000 Information Analysis Incorporated incentive stock options. The exercise price for each option will be the current fair market value of an IAI share of Common Stock on the date your employment commences. 25,000 of these options will become exercisable on each of the first four quarter anniversaries succeeding the date your employment commences. (For purposes hereof, options which are exercisable are hereafter referred to as "vested".) If your employment terminates prior to all of the options being vested, you will only have the right to exercise that number of options which were vested as of the date of termination. Notwithstanding the foregoing, if prior to the time all your options are vested, a change of control occurs or IAI transfers all or substantially all of its assets, then upon any such event, all of the options will become vested.

Optional Compensation
- ---------------------

You will have the right to receive up to an additional $300,000 (hereafter "Optional Compensation") for serving as president and chief operating officer for a period of one year from your employment commencement date. You will have 15 months from your employment date to decide whether to receive the Optional Compensation. Against the potential obligation of the Company to pay you the Optional Compensation, upon commencement of your employment, the Company will advance you the sum of $50,000. To secure the Company's contingent obligation to pay the remaining Optional Compensation to you, the Company will deposit into a segregated account for your benefit $100,000 on January 1, 1998.

Subject to the further provisions hereof, after the one year anniversary of your employment you will have the right to receive payment of the Optional Compensation by providing written notice to the Company. Upon receipt of such notice, you will receive within ten business days $100,000. The remaining $150,000 will be paid to you on or before January 1, 1999. In addition, upon receipt of such notice, your rights in and to any of the stock options not previously exercised will terminate and you will be deemed to have forfeited all of the remaining options. In the event that any options have been exercised prior to such notice, the fair market value of the IAI stock received upon and as of the date of exercise of the option less the aggregate prices paid upon such exercise will be totaled. This total amount will be subtracted from the Optional Compensation ($300,000), and the positive difference, if any, will be due you in accordance with the time frames set out in this paragraph. The initial $50,000 advance upon commencement of employment will become due and payable to the Company to the extent that such advance exceeds the Optional Compensation then payable to you. If notice is not received within the 15 months of your employment date, the right to receive the Optional Compensation will terminate and the initial $50,000 of Optional Compensation will be due the Company based on a mutually agreeable plan of repayment within 12 months, but you will retain the rights to all of your options.

Termination
- -----------

If your employment terminates other than for cause within the first year of your employment, you will have the option of receiving a prorated sum of the Optional Compensation (i.e., for 9 months you can receive 75% of the $300,000) or the Company stock options vested to date. If at any time IAI terminates your employment other than for cause, you will be entitled to receive one year's severance pay of $200,000, payable in normal payroll increments. If the Company is acquired and you are terminated, you may elect to receive the severance pay in one lump sum. You are also entitled to terminate your employment if you are assigned duties that are substantially changed from your responsibilities in effect immediately prior to the Change of Control of the Company. If the Company terminates you for cause all Optional Compensation will be forfeited.

As a member of the IAI staff, you will receive twenty (20) paid vacation days per year, nine (9) paid holidays per year, and five (5) paid sick days per year. In lieu of using IAI's insurance plan, IAI will pay 20% co-pay of your existing IBM medical plan up to a maximum of $10,000. Please review the attached summary of benefits for further information.

Additionally, you will be eligible to participate in the company sponsored 401K Profit Sharing Plan. Eligibility is after completion of 1,000 hours worked and entry into the plan would be the following January or July.

The IAI Policy & Procedures Manual contains further information on company procedures and policies and should be referred to for additional information.

Brendan, I know that in joining IAI you will be making a major advancement in your career, and that you will make a significant contribution to the growth and well being of the company.

We at IAI look forward to your joining us, as we are confident that you will have both a rewarding and a most enjoyable experience at IAI. Please indicate your acceptance by signing and dating below.

Sincerely,

/s/ Sandor Rosenberg
- ----------------------
Sandor Rosenberg
President

Accepted: Brendan J. Dawson Date: 6/30/97

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