
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2004

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number 0-22405

INFORMATION ANALYSIS INCORPORATED

(Exact name of small business issuer as specified in its charter)

Virginia
(State or other jurisdiction
of incorporation or organization)

54-1167364
(IRS Employer
Identification No.)

11240 Waples Mill Road, Suite 201, Fairfax, VA 22030
(Address of principal executive offices)

(703) 383-3000
(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

Common Stock, par value \$0.01, 10,283,515 shares as of May 12, 2004

Transitional Small Business Disclosure Format (Check one): Yes No

**INFORMATION ANALYSIS INCORPORATED
FORM 10-QSB**

Index

	Page Number
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited)	
Balance Sheets as of March 31, 2004 and December 31, 2003 (Audited)	2
Statements of Operations for the three months ended March 31, 2004 and March 31, 2003	3
Statements of Cash Flows for the three months ended March 31, 2004 and March 31, 2003	4
Notes to Unaudited Consolidated Financial Statements	5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	5
Item 3. Controls and Procedures	9
PART II. OTHER INFORMATION	
Item 6. Exhibits and Reports on Form 8-K	9
SIGNATURES	9
Exhibit Index	10

**INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**

	March 31, 2004 Unaudited	December 31, 2003 Audited
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,925	\$ 317,921
Accounts receivable, net	1,386,665	1,520,863
Prepaid expenses	128,213	116,036
Notes receivable	85,000	85,000
Capitalized software, net	41,721	62,583
Other receivables	17,099	16,264
Total current assets	1,661,623	2,118,667
Fixed assets, net	28,615	31,191
Investments	6,000	6,000
Other assets	36,915	36,915
Total assets	\$ 1,733,153	\$ 2,192,773
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Revolving line of credit	\$ 158,341	\$ 689,017
Accounts payable	1,142,958	1,150,947
Other accrued liabilities	311,038	312,469
Accrued payroll and related liabilities	262,044	214,996
Notes payable	125,000	125,000
Deferred revenue	116,191	136,104
Total liabilities	2,115,572	2,628,533
Stockholders' equity:		
Common stock, par value \$0.01, 30,000,000 shares authorized; 11,788,126 shares issued, 10,283,515 outstanding at March 31, 2004 and December 31, 2003	117,881	117,881
Additional paid in capital	14,122,019	14,122,019
Accumulated deficit	(13,762,006)	(13,815,347)
Accumulated other comprehensive income	(6,000)	(6,000)
Treasury stock, 1,504,611 shares at cost	(854,313)	(854,313)
Total stockholders' equity	(382,419)	(435,760)
Total liabilities and stockholders' equity	\$ 1,733,153	\$ 2,192,773

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

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the three months ended March 31,	
	2004 Unaudited	2003 Unaudited
Sales		
Professional fees	\$ 1,990,539	\$ 826,395
Software sales	125,862	93,490
Total sales	<u>2,116,401</u>	<u>919,885</u>
Cost of sales		
Cost of professional fees	1,660,813	621,877
Cost of software sales	66,605	83,988
Total cost of sales	<u>1,727,418</u>	<u>705,865</u>
Gross profit	388,983	214,020
Selling, general and administrative expenses	328,109	400,817
Income (loss) from operations	60,874	(186,797)
Other expenses, net	(7,533)	(4,009)
Income (loss) before provision for income taxes	53,341	(190,806)
Provision for income taxes	—	—
Net income (loss)	<u>\$ 53,341</u>	<u>\$ (190,806)</u>
Earnings per common share:		
Basic:		
Net income (loss)	<u>\$ 0.01</u>	<u>(\$ 0.02)</u>
Diluted:		
Net income (loss)	<u>\$ 0.01</u>	<u>(\$ 0.02)</u>
Weighted average common shares outstanding:		
Basic	10,283,515	10,283,515
Diluted	10,944,470	10,283,515

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

INFORMATION ANALYSIS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three months ended March 31,	
	2004 Unaudited	2003 Unaudited
Cash flows from operating activities:		
Net income (loss)	\$ 53,341	\$ (190,806)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	5,030	5,004
Amortization of capitalized software	20,862	20,862
Gain on sale of fixed assets	(415)	—
Changes in operating assets and liabilities		
Accounts receivable	134,198	184,315
Other receivables and prepaid expenses	(13,012)	10,545
Accounts payable and accrued expenses	37,628	13,350
Deferred revenue	(19,913)	19,689
Net cash provided by operating activities	<u>217,719</u>	<u>62,959</u>
Cash flows from investing activities:		
Purchases of fixed assets	(3,504)	(559)
Proceeds from sale of fixed assets	1,465	—
Net cash used by investing activities	<u>(2,039)</u>	<u>(559)</u>
Cash flows from financing activities:		
Net payments under revolving line of credit	(530,676)	(80,000)
Net cash used by financing activities	<u>(530,676)</u>	<u>(80,000)</u>
Net decrease in cash and cash equivalents	(314,996)	(17,600)
Cash and cash equivalents at beginning of the period	<u>317,921</u>	<u>80,502</u>
Cash and cash equivalents at end of the period	<u>\$ 2,925</u>	<u>\$ 62,902</u>
Supplemental cash flow Information		
Interest paid	<u>\$ 7,027</u>	<u>\$ 14,396</u>

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

PART I**Item 1. Financial Statements.****INFORMATION ANALYSIS, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. 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, 2003 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, 2003 and in other filings with the Securities and Exchange Commission.

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.

	<u>Net Income</u>	<u>Shares</u>	<u>Per Share Amount</u>
Basic net income per common share for the three months ended March 31, 2004:			
Income available to common stockholders	\$ 53,341	10,283,515	\$ 0.01
Effect of dilutive stock options	—	94,479	—
Effect of dilutive warrants	—	66,476	—
Effect of dilutive convertible notes	3,750	500,000	—
Diluted net income per common share for the three months ended March 31, 2004:	\$ 57,091	10,944,470	\$ 0.01
Basic net loss per common share for the three months ended March 31, 2003:			
Income available to common stockholders	\$ (190,806)	10,283,515	(\$ 0.02)
Effect of dilutive stock options, warrants, and convertible notes	—	—	—
Diluted net loss per common share for the three months ended March 31, 2003:	\$ (190,806)	10,283,515	(\$ 0.02)

Three Months Ended March 31, 2004 Versus Three Months Ended March 31, 2003*Revenue*

IAI's revenues in the first quarter of fiscal 2004 were \$2,116,401, compared to \$919,885 in the first quarter of fiscal 2003, an increase of 130.0%. Professional services revenue was \$1,990,539 versus \$826,395, an increase of 140.9%, and product revenue was \$125,862 versus \$93,490, an increase of 34.6%. The increase in professional services revenue is due primarily to new contracts on which work began during the second half of fiscal 2003 and the first quarter of 2004. Revenues in fiscal 2003 increased from first to second quarter by 28.6%, from second to third quarter by 25.4%, and from third to fourth quarter by 20.2%. Revenues increased from fourth quarter 2003 to first quarter 2004 by 18.7%. The increase in product revenue is primarily due to sales of the Company's ICONS suite of conversion tools in first fiscal quarter 2004 versus no sales of ICONS in the first fiscal quarter of 2003.

Gross Margins

Gross margin was \$388,983, or 18.4% of sales, in the first quarter of fiscal 2004 versus \$214,020, or 23.3% of sales, in the first quarter of fiscal 2003. Of the \$388,983 in 2004, \$329,726 was attributable to professional services and \$59,257 was attributable to software sales. Gross margin, as a percentage of sales, was 16.6% for professional services and 47.1% for software sales for first quarter 2004. In the first quarter of 2003, the Company reported gross margins of 24.7% for professional services and 10.2% for software sales. The decrease in professional services gross margin as a percentage of sales is attributed to the increased use of subcontractors versus employees on contracts that were added since the first quarter of fiscal 2003. Management's use of subcontractors has allowed the Company to utilize specialized skill sets of those employed elsewhere in order to win both broad-based and specialized contracts, and has allowed the Company to win short-term contracts without carrying employees on overhead when contracts end. The increase in software sales gross margin and gross margin as a percentage of sales is attributed to the addition of contracts under which the Company collects licensing fees for its ICONS suite of conversion software.

Selling, General and Administrative

Selling, general and administrative expenses (SG&A) were \$328,109, or 15.5% of revenues, in the first fiscal quarter of 2004 versus \$400,817, or 43.6% of revenues, in the first fiscal quarter of 2003, a decrease in expenses of 18.1%. The Company continues to control expenses and reduce them wherever practical, and believes that only marginal increases in SG&A will result from even significant increases in the number of contracts under which it operates.

Profits

The Company generated an operating income before other expenses of \$60,874 in the first fiscal quarter of 2004 compared to an operating loss before other expenses of \$186,797 in the first fiscal quarter of 2003. There was net income of \$53,341 for the first fiscal quarter of 2004 versus a net loss of \$190,806 for the same period in 2003. The change in profitability is directly related to the overall increase in contract revenues related to new contracts as explained in the Revenue section above.

Liquidity and Capital Resources

Through the first three months of 2004, the Company financed its operations from current collections and through its bank line of credit. Cash and cash equivalents at March 31, 2004 were \$2,925 compared to \$317,921 at December 31, 2003. As of March 31, 2004 the Company had an outstanding balance on its line of credit of \$158,341 versus an outstanding balance of \$689,017 at December 31, 2003.

The Company has a revolving line of credit with a bank providing for demand or short-term borrowings of up to \$525,000. The line of credit is callable on demand, and next expires on June 5, 2004. Management believes the line of credit will be renewed at substantially equivalent terms. Should the lender demand payment, or fail to renew the credit facility upon expiration, the Company may not be able to repay the credit facility or borrow sufficient funds from another financial institution to refinance it. The Company is in negotiations with various organizations to obtain a new line of credit or alternative sources of financing.

The Company has outstanding convertible notes in the amount of \$125,000 that come due on September 30, 2004. The Company believes that it will be able to retire the notes on the due date. The Company is confident that at least 80% of the outstanding notes will be able to be reissued at substantially equal terms if it is unable to retire the notes on the due date.

The current line of credit, or a similar new credit facility, when coupled with funds generated from operations, assuming the operations are cash flow positive, should be sufficient to meet the Company's operating cash requirements. The Company, however, may periodically be required to delay timely payments of its accounts payable. Cash flow from operations may not be sufficient to provide additional working capital necessary to repay approximately \$156,000 of past due payables.

The Company cannot state with certainty that it will not need additional cash resources at some point in fiscal 2004. 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.

Item 3. Controls and procedures

(a) Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this report, with the participation of the Company's management, the Company's principal executive officer and principal financial officer conducted an evaluation (as required by paragraph (b) of Rule 13a-15 or Rule 15d-15 under the Exchange Act) of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act). Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC reports. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

(b) Changes in Internal Control over Financial Reporting. There has been no significant change in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 under the Exchange Act that occurred during the Company's last fiscal quarter that has materially affected, or is reasonably likely to affect, the Company's internal control over financial reporting. There have been no significant changes subsequent to the date of the evaluation, nor were there any significant deficiencies or material weaknesses in the Company's internal controls. Accordingly, no corrective actions were required or undertaken.

PART II – OTHER INFORMATION**Item 6. Exhibits and Reports on Form 8-K**

(a) (2) Exhibits:

See Exhibit Index on page 12.

(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: May 12, 2004

By: /s/ Sandor Rosenberg

Sandor Rosenberg, Chairman of the Board,
Chief Executive Officer, and President

By: /s/ Richard S. DeRose

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

Exhibit Index

<u>Exhibit No.</u>	<u>Description</u>	<u>Location</u>
31.1	Certification by Chief Executive Officer under Rule 13a-14(a) or Rule 15d-14(a) under the Exchange Act	Filed with this Form 10-QSB, page 11
31.2	Certification by Chief Financial Officer under Rule 13a-14(a) or Rule 15d-14(a) under the Exchange Act	Filed with this Form 10-QSB, page 12
32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed with this Form 10-QSB, page 13
32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed with this Form 10-QSB, page 14

EXHIBIT 31.1

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Sandor Rosenberg, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Information Analysis Incorporated;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) (paragraph omitted in accordance with SEC Transition Period allowance.)
 - (c) evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: May 12, 2004

By: /s/ Sandor Rosenberg

Sandor Rosenberg, Chairman of the Board,
Chief Executive Officer and President

A signed original of this written statement required by Section 302 has been provided to Information Analysis Incorporated and will be retained by Information Analysis Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 31.2

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Richard S. DeRose, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Information Analysis Incorporated;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) (paragraph omitted in accordance with SEC Transition Period allowance.)
 - (c) evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: May 12, 2004

By: /s/ Richard S. DeRose

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

A signed original of this written statement required by Section 302 has been provided to Information Analysis Incorporated and will be retained by Information Analysis Incorporated and furnished to the Securities and Exchange Commission or its staff upon request

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), I, Sandor Rosenberg, Chief Executive Officer of Information Analysis Incorporated, a Virginia corporation (the "Company"), do hereby certify, to the best of my knowledge, that:

- 1 the Company's Quarterly Report on Form 10-QSB for the three months ended March 31, 2004, as filed with the Securities and Exchange Commission on the date hereof, (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2 the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company for the periods presented therein.

Date: May 12, 2004

By: /s/ Sandor Rosenberg

Sandor Rosenberg, Chairman of the
Board, Chief Executive Officer, and President

A signed original of this written statement required by Section 906 has been provided to Information Analysis Incorporated and will be retained by Information Analysis Incorporated and furnished to the Securities and Exchange Commission or its staff upon request

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), I, Richard S. DeRose, Chief Financial Officer of Information Analysis Incorporated, a Virginia corporation (the "Company"), do hereby certify, to the best of my knowledge, that:

- * the Company's Quarterly Report on Form 10-QSB for the three months ended March 31, 2004, as filed with the Securities and Exchange Commission on the date hereof, (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- * the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company for the periods presented therein.

Date: May 12, 2004

By: /s/ Richard S. DeRose

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

A signed original of this written statement required by Section 906 has been provided to Information Analysis Incorporated and will be retained by Information Analysis Incorporated and furnished to the Securities and Exchange Commission or its staff upon request