

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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2019 or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 000-22405

Information Analysis Incorporated

(Exact name of registrant as specified in its charter)

Virginia

(State or other jurisdiction of incorporation or organization)

54-1167364

(I.R.S. Employer Identification No.)

**11240 Waples Mill Road
Suite 201
Fairfax, Virginia 22030**

(Address of principal executive offices, Zip Code)

(703) 383-3000

(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
N/A	N/A	N/A

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 the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

11,211,760 shares of common stock, par value \$0.01 per share, as of August 13, 2019.

INFORMATION ANALYSIS INCORPORATED
FORM 10-Q

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

**INFORMATION ANALYSIS INCORPORATED
BALANCE SHEETS**

	June 30, 2019 (Unaudited)	December 31, 2018 (Note 1)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,535,934	\$ 1,963,956
Accounts receivable, net	690,277	652,839
Prepaid expenses and other current assets	50,575	393,533
Contract assets	40	-
Total current assets	<u>2,276,826</u>	<u>3,010,328</u>
Right-of-use operating lease asset	196,877	-
Property and equipment, net of accumulated depreciation and amortization of \$298,661 and \$294,424	10,241	7,147
Other assets	6,281	6,281
Total assets	<u>\$ 2,490,225</u>	<u>\$ 3,023,756</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 192,636	\$ 25,294
Commissions payable	252,886	508,083
Accrued payroll and related liabilities	244,075	217,751
Contract liabilities	67,146	318,552
Operating lease liability - current	99,562	-
Other accrued liabilities	55,892	81,485
Total current liabilities	<u>912,197</u>	<u>1,151,165</u>
Operating lease liability - non-current	98,956	-
Total liabilities	<u>1,011,153</u>	<u>1,151,165</u>
Stockholders' equity		
Common stock, \$0.01 par value, 30,000,000 shares authorized, 12,854,376 shares issued, 11,211,760 shares outstanding as of June 30, 2019, and 12,844,376 shares issued, 11,201,760 shares outstanding as of December 31, 2018	128,543	128,443
Additional paid-in capital	14,681,842	14,676,006
Accumulated deficit	(12,401,102)	(12,001,647)
Treasury stock, 1,642,616 shares at cost at June 30, 2019, and December 31, 2018	(930,211)	(930,211)
Total stockholders' equity	<u>1,479,072</u>	<u>1,872,591</u>
Total liabilities and stockholders' equity	<u>\$ 2,490,225</u>	<u>\$ 3,023,756</u>

The accompanying notes are an integral part of the financial statements

INFORMATION ANALYSIS INCORPORATED
STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)

	For the three months ended June 30,	
	2019	2018
Revenues		
Professional fees	\$ 761,629	\$ 1,104,148
Software sales	2,942,788	2,603,671
Total revenues	<u>3,704,417</u>	<u>3,707,819</u>
Cost of revenues		
Cost of professional fees	434,858	580,761
Cost of software sales	2,912,798	2,571,704
Total cost of revenues	<u>3,347,656</u>	<u>3,152,465</u>
Gross profit	356,761	555,354
Selling, general and administrative expenses	528,575	439,535
Commissions expense	39,815	124,686
Loss from operations	(211,629)	(8,867)
Other income	3,027	2,985
Loss before provision for income taxes	(208,602)	(5,882)
Provision for income taxes	-	-
Net loss	<u>\$ (208,602)</u>	<u>\$ (5,882)</u>
Comprehensive loss	<u>\$ (208,602)</u>	<u>\$ (5,882)</u>
Net loss per common share - basic	<u>\$ (0.02)</u>	<u>\$ -</u>
Net loss per common share - diluted	<u>\$ (0.02)</u>	<u>\$ -</u>
Weighted average common shares outstanding		
Basic	<u>11,207,804</u>	<u>11,201,760</u>
Diluted	<u>11,207,804</u>	<u>11,201,760</u>

The accompanying notes are an integral part of the financial statements

INFORMATION ANALYSIS INCORPORATED
STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)

	For the six months ended June 30,	
	2019	2018
Revenues		
Professional fees	\$ 1,523,747	\$ 2,317,795
Software sales	3,359,493	2,784,500
Total revenues	4,883,240	5,102,295
Cost of revenues		
Cost of professional fees	881,726	1,253,342
Cost of software sales	3,321,914	2,743,178
Total cost of revenues	4,203,640	3,996,520
Gross profit	679,600	1,105,775
Selling, general and administrative expenses	1,014,027	910,029
Commissions expense	70,761	240,560
Loss from operations	(405,188)	(44,814)
Other income	5,733	5,656
Loss before provision for income taxes	(399,455)	(39,158)
Provision for income taxes	-	-
Net loss	\$ (399,455)	\$ (39,158)
Comprehensive loss	\$ (399,455)	\$ (39,158)
Net loss per common share - basic	\$ (0.04)	\$ -
Net loss per common share - diluted	\$ (0.04)	\$ -
Weighted average common shares outstanding		
Basic	11,204,799	11,201,760
Diluted	11,204,799	11,201,760

The accompanying notes are an integral part of the financial statements

INFORMATION ANALYSIS INCORPORATED
STATEMENTS OF CASH FLOWS
(Unaudited)

	For the six months ended June 30,	
	2019	2018
Cash flows from operating activities:		
Net loss	\$ (399,455)	\$ (39,158)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,871	5,569
Stock option compensation	4,936	15,656
Changes in operating assets and liabilities:		
Accounts receivable and contract assets	(37,478)	(176,020)
Prepaid expenses and other current assets	334,205	300,437
Accounts payable	167,342	(15,424)
Commissions payable	(255,197)	(94,379)
Contract liabilities	(251,406)	(253,527)
Accrued payroll and related liabilities and other accrued liabilities	11,125	(381,036)
Net cash used in operating activities	<u>(423,057)</u>	<u>(637,882)</u>
Cash flows from investing activities		
Acquisition of property and equipment	(5,965)	(2,902)
Payments received on notes receivable	-	1,719
Net cash used in investing activities	<u>(5,965)</u>	<u>(1,183)</u>
Cash flows from financing activities		
Issuance of stock from exercise of options	1,000	-
Net cash provided by financing activities	<u>1,000</u>	<u>-</u>
Net decrease in cash and cash equivalents	(428,022)	(639,065)
Cash and cash equivalents, beginning of the period	1,963,956	2,731,510
Cash and cash equivalents, end of the period	<u>\$ 1,535,934</u>	<u>\$ 2,092,445</u>
Supplemental cash flow Information		
Interest paid	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements

INFORMATION ANALYSIS INCORPORATED
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

For the six months ended June 30, 2019:

	Common stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Total
Balances at December 31, 2018	\$ 128,443	\$ 14,676,006	\$ (12,001,647)	\$ (930,211)	\$ 1,872,591
Net loss	-	-	(190,853)	-	(190,853)
Stock option compensation	-	4,454	-	-	4,454
Balances at March 31, 2019	128,443	14,680,460	(12,192,500)	(930,211)	1,686,192
Net loss	-	-	(208,602)	-	(208,602)
Stock option compensation	-	482	-	-	482
Issuance of stock from exercise of options	100	900	-	-	1,000
Balances at June 30, 2019	\$ 128,543	\$ 14,681,842	\$ (12,401,102)	\$ (930,211)	\$ 1,479,072

For the six months ended June 30, 2018:

	Common stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Total
Balances at December 31, 2017	\$ 128,443	\$ 14,646,406	\$ (11,950,613)	\$ (930,211)	\$ 1,894,025
Net loss	-	-	(33,276)	-	(33,276)
Stock option compensation	-	6,288	-	-	6,288
Balances at March 31, 2018	128,443	14,652,694	(11,983,889)	(930,211)	1,867,037
Net loss	-	-	(5,882)	-	(5,882)
Stock option compensation	-	9,368	-	-	9,368
Balances at June 30, 2018	\$ 128,443	\$ 14,662,062	\$ (11,989,771)	\$ (930,211)	\$ 1,870,523

The accompanying notes are an integral part of the financial statements

INFORMATION ANALYSIS INCORPORATED
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Organization and Business

Founded in 1979, Information Analysis Incorporated (the "Company", "we"), to which we sometimes refer as IAI, is in the business of developing and maintaining information technology (IT) systems, modernizing client information systems, and performing professional IT services to government and commercial organizations. We presently concentrate our technology, services and experience to developing web-based and mobile device solutions (including electronic forms conversions), data analytics, and legacy software migration and modernization for various agencies of the federal government. We provide software and services to government and commercial customers throughout the United States, with a concentration in the Washington, D.C. metropolitan area.

Unaudited Interim Financial Statements

The accompanying unaudited financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions for Form 10-Q and Article 8-03 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). In the opinion of management, the unaudited financial statements include all adjustments necessary (which are of a normal and recurring nature) for the fair and not misleading presentation of the results of the interim periods presented. These unaudited financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2018 included in the Annual Report on Form 10-K filed by the Company with the SEC on April 1, 2019 (the "Annual Report"), as amended. The accompanying December 31, 2018, balance sheet was derived from our audited financial statements included in the Annual Report. The results of operations for any interim periods are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year.

There have been no changes in the Company's significant accounting policies as of June 30, 2019, as compared to the significant accounting policies disclosed in Note 1, "Summary of Significant Accounting Policies" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, that was filed with the SEC on April 1, 2019, as amended, except as described in Note 3 herein.

Use of Estimates and Assumptions

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results can, and in many cases will, differ from those estimates.

Income Taxes

As of June 30, 2019, there have been no material changes to the Company's uncertain tax position disclosures as provided in Note 8 of the Annual Report. Through the filing of its 2018 federal income tax return, the Company has net operating loss carryforwards of approximately \$7.4 million, of which \$5.0 million will expire, if unused, on December 31, 2019.

2. Revenue from Contracts with Customers

Revenue is recognized when all of the following steps have been taken and criteria met for each contract:

- **Identification of the contract, or contracts, with a customer** - A contract with a customer exists when (i) the Company enters into an enforceable contract with a customer that defines each party's rights regarding the goods or services to be transferred and identifies the payment terms related to these goods or services, (ii) the contract has commercial substance and the parties are committed to perform and, (iii) it determines that collection of substantially all consideration to which the Company will be entitled in exchange for goods or services that will be transferred is probable based on the customer's intent and ability to pay the promised consideration.
- **Identification of the performance obligations in the contract** - Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the goods or service either on its own or together with other resources that are readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the goods or services is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised goods or services, the Company applies judgment to determine whether promised goods or services are capable of being distinct and distinct in the context of the contract. If these criteria are not met, the promised goods or services are accounted for as a combined performance obligation.
- **Determination of the transaction price** - The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring goods or services to the customer adjusted for estimated variable consideration, if any. The Company typically estimates the transaction price impact of discounts offered to the customers for early payments on receivables or rebates based on sales target achievements. Constraints are applied when estimating variable considerations based on historical experience where applicable.
- **Allocation of the transaction price to the performance obligations in the contract** - If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price basis. The Company determines standalone selling price by taking into account available information such as historical selling prices of the performance obligation, geographic location, overall strategic pricing objective, market conditions and internally approved pricing guidelines related to the performance obligations.
- **Recognition of revenue when, or as, the Company satisfies performance obligations** - The Company satisfies performance obligations either over time or at a point in time as discussed in further detail below. Revenue is recognized at or over the time the related performance obligation is satisfied by transferring a promised good or service to a customer.

Nature of Products and Services

The Company generates revenue from the sales of information technology professional services, sales of third-party software licenses and implementation and training services, sales of third-party support and maintenance contracts based on those software products, and incentive payments received from third-party software suppliers for facilitating sales directly between that supplier and a customer introduced by the Company. The Company sells through its direct relationships with end customers and under subcontractor arrangements. The Company accounts for its performance obligations in accordance with ASC 606, and all related interpretations.

Professional services are offered through several arrangements – through time and materials arrangements, fixed-price-per-unit arrangements, fixed-price arrangements, or combinations of these arrangements within individual contracts. Revenue under time and materials arrangements is recognized over time in the period the hours are worked or the expenses are incurred, as control of the benefits of the work is deemed to have passed to the customer as the work is performed. Revenue under fixed-price-per-unit arrangements is recognized at a point in time when delivery of units have occurred and units are accepted by the customer or are reasonably expected to be accepted. Generally, revenue under fixed-price arrangements and mixed arrangements is recognized either over time or at a point in time based on the allocation of transaction pricing to each identified performance obligation as control of each is transferred to the customer. For fixed-price arrangements for which the Company is paid a fixed fee to make itself available to support a customer, with no predetermined deliverables to which transaction prices can be estimated or allocated, revenue is recognized ratably over time.

Third-party software licenses are classified as enterprise server-based software licenses or desktop software licenses, and desktop licenses are further classified by the type of customer and whether the licenses are bulk licenses or individual licenses. The Company's obligations as the seller for each class differ based on its reseller agreements and whether its customers are government or non-government customers. Revenue from enterprise server-based sales to either government or non-government customers is usually recognized in full at a point in time based on when the customer gains use of the full benefit of the licenses, after the licenses are implemented. If the transaction prices of the performance obligations related to implementation and customer support for the individual contract is material, these obligations are recognized separately over time, as performed. Revenue for desktop software licenses for government customers is usually recognized in full at a point in time, based on when the customer's administrative contact gains training in and beneficial use of the administrative portal. If the transaction prices of the performance obligations related to implementing the government administrator's use of the administrative portal and administrator support for the individual contract are material (rare), these obligations are recognized separately over time, as performed. Revenue for bulk desktop software licenses for non-government customers is usually recognized in full at a point in time, based on when the customer's administrative contact gains training in and beneficial use of the administrative portal. For desktop software licenses sold on an individual license basis to non-government customers, where the Company has no obligation to the customer after the third-party makes delivery of the licenses, the Company has determined it is acting as an agent, and the Company recognizes revenue upon delivery of the licenses only for the net of the selling price and its contract costs.

Third-party support and maintenance contracts for enterprise server-based software include a performance obligation under the Company's reseller agreements for it to be the first line of support (direct support) and second line of support (intermediary between customer and manufacturer) to the customer. Because of the support performance obligations, and because the amount of support is not estimable, the Company recognizes revenue ratably over time as it makes itself available to provide the support.

Incentive payments are received under reseller agreements with software manufacturers and suppliers where the Company introduces and court a customer, but the sale occurs directly between the customer and the supplier or between the customer and the manufacturer. Since the transfer of control of the licenses cannot be measured from outside of these transactions, revenue is recognized when payment from the manufacturer or supplier is received.

Disaggregation of Revenue from Contracts with Customers

Contract Type	3 Months ended 06/30/2019		3 Months ended 06/30/2018	
	Amount	Percentage	Amount	Percentage
Services Time & Materials	\$ 577,779	15.6%	\$ 728,940	19.6%
Services Fixed Price	95,235	2.6%	329,585	8.9%
Services Combination	40,364	1.1%	39,053	1.1%
Services Fixed Price per Unit	48,251	1.3%	6,570	0.2%
Third-Party Software	2,789,648	75.3%	2,455,719	66.2%
Software Support & Maintenance	149,290	4.0%	145,053	3.9%
Incentive Payments	3,850	0.1%	2,899	0.1%
Total Revenue	\$ 3,704,417		\$ 3,707,819	

Contract Type	6 Months ended 06/30/2019		6 Months ended 06/30/2018	
	Amount	Percentage	Amount	Percentage
Services Time & Materials	\$ 1,174,530	24.1%	\$ 1,526,136	29.9%
Services Fixed Price	214,398	4.4%	659,444	12.9%
Services Combination	72,648	1.5%	122,145	2.4%
Services Fixed Price per Unit	62,171	1.3%	10,070	0.2%
Third-Party Software	3,057,367	62.5%	2,483,133	48.7%
Software Support & Maintenance	298,152	6.1%	294,013	5.8%
Incentive Payments	3,974	0.1%	7,354	0.1%
Total Revenue	\$ 4,883,240		\$ 5,102,295	

Contract Balances

Accounts Receivable

Trade accounts receivable are recorded at the billable amount where the Company has the unconditional right to bill, net of allowances for doubtful accounts. The allowance for doubtful accounts is based on the Company's assessment of the collectability of accounts. Management regularly reviews the adequacy of the allowance for doubtful accounts by considering the age of each outstanding invoice, each customer's expected ability to pay and collection history, when applicable, to determine whether a specific allowance is appropriate. Accounts receivable deemed uncollectible are charged against the allowance for doubtful accounts when identified.

Contract Assets

Contract assets consist of assets typically resulting when revenue recognized exceeds the amount billed or billable to the customer due to allocation of transaction price. There were contract assets balances of \$40 at June 30, 2019, and no contract assets balance at December 31, 2018.

Contract Liabilities

Contract liabilities, to which the Company formerly referred as deferred revenue, consist of amounts that have been invoiced and for which the Company has the right to bill, but that have not been recognized as revenue because the related goods or services have not been transferred. Contract liabilities balances were \$67,146 and \$318,552 at June 30, 2019, and December 31, 2018, respectively. For the three months and six months ended June 30, 2019, revenue was recognized from previous contract liabilities balances in the amounts of \$148,862 and \$298,151, respectively.

Costs to Obtain or Fulfill a Contract

When applicable, the Company recognizes an asset related to the costs incurred to obtain a contract only if it expects to recover those costs and it would not have incurred those costs if the contract had not been obtained. The Company recognizes an asset from the costs incurred to fulfill a contract if the costs (i) are specifically identifiable to a contract, (ii) enhance resources that will be used in satisfying performance obligations in the future, and (iii) are expected to be recovered. There were \$1,160 and \$3,480 of such assets at June 30, 2019, and December 31, 2018, respectively. These costs are amortized ratably over the periods of the contracts to which those costs apply.

Financing Components

In instances where the timing of revenue recognition differs from the timing of invoicing, the Company has determined its contracts do not include a significant financing component. The primary purpose of the Company's invoicing terms is to provide customers with simplified and predictable ways of purchasing its products and services, not to receive financing from its customers or to provide customers with financing. Examples include invoicing at the beginning of a software support and maintenance term with revenue recognized ratably over the contract period.

Deferred Costs of Revenue

Deferred costs of revenue consist of the costs of third-party support and maintenance contracts for enterprise server-based software. These costs are reported under the prepaid expenses caption on the Company's balance sheets. The Company recognizes these direct costs ratably over time as it makes itself available to provide its performance obligation for software support, commensurate with its recognition of revenue. Deferred costs of revenue balances included in prepaid expenses were \$11,306 and \$294,115 at June 30, 2019, and December 31, 2018, respectively.

3. Recently-Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board issued ASU 2016-02, "Leases: Topic 842," that requires lessees to recognize assets and liabilities on the balance sheet for most leases including operating leases, and followed it up with ASUs No. 2018-10, No. 2018-11, No. 2018-20, and No. 2019-01 (collectively "Topic 842"), which clarified certain aspects of the new leases standard and provided an optional transition method.

We adopted Topic 842 on January 1, 2019, and elected the optional transition method to initially apply the standard at the January 1, 2019, adoption date. As a result, we applied the new lease standard prospectively to our leases existing or commencing on or after January 1, 2019. Comparative periods presented were not restated upon adoption. Similarly, new disclosures under the standard were made for periods beginning January 1, 2019, and not for prior comparative periods. Prior periods will continue to be reported under guidance in effect prior to January 1, 2019. In addition, we elected the package of practical expedients permitted under the transition guidance within the standard, which among other things, allowed us to not reassess contracts to determine if they contain leases, lease classification and initial direct costs. The standard did not impact our statements of operations and had no impact on our cash flows.

We have an operating lease which is a real estate lease for our headquarters in Fairfax, Virginia. This lease has a fixed lease term of 49 months. We determine if an arrangement is a lease at inception. Operating leases are included in right-of-use operating lease assets, other current liabilities, and operating lease liabilities in our balance sheets as of June 30, 2019. As of June 30, 2019, we do not have any sales-type or direct financing leases.

Our operating lease assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. Since our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The operating lease asset also includes any lease payments made and excludes lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term. Our lease agreement includes rental payments escalating annually for inflation at a fixed rate. These payments are included in the initial measurement of the operating lease liability and operating lease asset. We do not have any rental payments which are based on a change in an index or a rate that can be considered variable lease payments, which would be expensed as incurred.

We have lease agreements which may contain lease and non-lease components, which are accounted for as a single performance obligation to the extent that the timing and pattern of transfer are similar for the lease and non-lease components and the lease component qualifies as an operating lease. We do not recognize lease liabilities and operating lease assets for leases with a term of 12 months or less. We recognize these lease payments on a straight-line basis over the lease term.

Upon adoption of Topic 842 on January 1, 2019, the Company recorded a Right-to-use operating lease asset of \$244,877 and a lease liability of \$242,696.

Our lease agreements do not contain any material residual value guarantees or material restrictions or covenants.

We do not sublease any real estate to third parties.

The following table provides supplemental balance sheet information related to IAI's operating leases:

Balance Sheet Classification	June 30, 2019
Assets:	
Right-to-use operating lease asset	\$ 196,877
Liabilities:	
Operating lease liability - current	\$ 99,562
Operating lease liability - non-current	98,956
Total lease liabilities	\$ 198,518

The following table reconciles the undiscounted cash flows to the operating lease liabilities recorded in our balance sheet.

	June 30, 2019
Remainder of 2019	\$ 54,096
2020	110,086
2021	46,433
Total lease payments	210,615
Less: discount	(12,097)
Present value of lease liabilities	\$ 198,518

As of June 30, 2019, our operating lease had a weighted average lease term of approximately 2.0 years. The discount rate of our lease is equal to our incremental borrowing rate at the measurement date of the lease agreement. The weighted average discount rate of our operating lease is approximately 5.5%. For the six months ended June 30, 2019, we incurred \$52,244 of expense related to our operating leases. Rent expense for the six months ended June 30, 2018 was \$52,244. For the six months ended June 30, 2019, there were no short-term leases with a term less than 12 months.

4. Stock-Based Compensation

The Company has two shareholder-approved stock-based compensation plans. The 2006 Stock Incentive Plan was adopted in 2006 ("2006 Plan") and had options granted under it through April 12, 2016. On June 1, 2016, the shareholders ratified the IAI 2016 Stock Incentive Plan ("2016 Plan"), which had been approved by the Board of Directors on April 4, 2016.

The Company recognizes compensation costs only for those shares expected to vest on a straight-line basis over the requisite service period of the awards. Such options generally vest over periods of six months to two years. Fair values of option awards granted in the three months and six months ended June 30, 2018, were estimated using the Black-Scholes option pricing model under the following assumptions:

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Risk-free interest rate	2.31%	2.71% - 2.92%	2.31%	2.65% - 2.92%
Dividend yield	0%	0%	0%	0%
Expected term (in years)	5	5	5	5
Expected volatility	57.9%	49.5% - 51.3%	57.9%	49.0% - 51.3%

2016 Stock Incentive Plan

The 2016 Plan became effective June 1, 2016, and expires April 4, 2026. The 2016 Plan provides for the granting of equity awards to key employees, including officers and directors. The maximum number of shares for which equity awards may be granted under the 2016 Plan is 1,000,000. Options under the 2016 Plan expire no later than ten years from the date of grant or when employment ceases, whichever comes first, and vest over periods determined by the Board of Directors. The minimum exercise price of each option is the quoted market price of the Company's stock on the date of grant. At June 30, 2019, there were unexpired options for 373,500 shares issued under the 2016 Plan, of which 344,500 were exercisable.

2006 Stock Incentive Plan

The 2006 Plan became effective May 18, 2006, and expired April 12, 2016. The 2006 Plan provides for the granting of equity awards to key employees, including officers and directors. Options under the 2006 Plan were generally granted at-the-money or above, expire no later than ten years from the date of grant or within three months of when employment ceases, whichever comes first, and vest over periods determined by the Board of Directors. The number of shares subject to options available for issuance under the 2006 Plan could not exceed 1,950,000. There were 978,000 unexpired options remaining from the 2006 Plan at June 30, 2019, all of which were exercisable.

The status of the options issued under the foregoing option plans as of June 30, 2019, and changes during the three months and six months ended June 30, 2019, were as follows:

Incentive Options	Shares	Options outstanding		Weighted average remaining contractual term	Aggregate intrinsic value
			Weighted average exercise price per share		
Outstanding at January 1, 2019	1,376,500	\$	0.23		
Options granted	-		-		
Options exercised	-		-		
Options expired	(4,500)		0.13		
Options forfeited	-		-		
Outstanding at March 31, 2019	1,372,000	\$	0.23		
Options granted	3,000		0.21		
Options exercised	(10,000)		0.10		
Options expired	(11,000)		0.08		
Options forfeited	(2,500)		0.46		
Outstanding at June 30, 2019	1,351,500	\$	0.23	4 years, 4 months	\$ 33,783
Exercisable at June 30, 2019	1,322,500	\$	0.23	4 years, 3 months	\$ 33,783

There were 3,000 options granted during the three months and six months ended June 30, 2019, of which none were granted to non-employees. There were 30,000 options and 160,000 granted during the three months and six months ended June 30, 2018, respectively, of which none were granted to non-employees. The weighted-average grant date fair values of options granted during the three months and six months ended June 30, 2019, was \$0.11. There were 10,000 options exercised during the three months and six months ended June 30, 2019, and no options exercised during the three months and six months ended June 30, 2018. As of June 30, 2019, there was \$1,877 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the stock incentive plans; that cost is expected to be recognized over a weighted-average period of six months.

Total compensation expense related to these plans was \$482 and \$9,368 for the three months ended June 30, 2019 and 2018, respectively, of which \$0 and \$218, respectively, related to options awarded to non-employees. Total compensation expense was \$4,936 and \$15,656 for the six months ended June 30, 2019 and 2018, respectively, of which \$0 and \$218, respectively, related to options awarded to non-employees.

Nonvested option awards as of June 30, 2019 and changes during the three months and six months ended June 30, 2019 were as follows:

	Nonvested	
	Shares	Weighted average grant date fair value
Nonvested at January 1, 2019	148,500	\$ 0.20
Granted	-	-
Vested	(107,500)	0.21
Forfeited	-	-
Nonvested at March 31, 2019	41,000	\$ 0.17
Granted	3,000	0.11
Vested	(12,500)	0.17
Forfeited	(2,500)	0.21
Nonvested at June 30, 2019	29,000	\$ 0.16

5. Revolving Line of Credit

The Company has a revolving line of credit with a bank providing for demand or short-term borrowings of up to \$1,000,000. The line expires on May 31, 2020. As of June 30, 2019, no amounts were outstanding under this line of credit. The Company did not borrow against this line of credit in the last twelve months.

6. Loss Per Share

Basic loss per share excludes dilution and is computed by dividing loss available to common shareholders by the weighted-average number of shares outstanding for the period. Diluted earnings (loss) 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 antidilutive effect of 185,234 shares and 540,462 shares from stock options were excluded from diluted shares for the three months ended June 30, 2019 and 2018, respectively, and the antidilutive effect of 229,741 shares and 559,498 shares from stock options were excluded from diluted shares for the six months ended June 30, 2019 and 2018, respectively.

The following is a reconciliation of the amounts used in calculating basic and diluted net loss per common share:

	Net loss	Shares	Per share amount
Basic net loss per common share for the three months ended June 30, 2019:			
Loss available to common shareholders	\$ (208,602)	11,207,804	\$ (0.02)
Effect of dilutive stock options	-	-	-
Diluted net loss per common share for the three months ended June 30, 2019	<u>\$ (208,602)</u>	<u>11,207,804</u>	<u>\$ (0.02)</u>
Basic net loss per common share for the three months ended June 30, 2018:			
Loss available to common shareholders	\$ (5,882)	11,201,760	\$ -
Effect of dilutive stock options	-	-	-
Diluted net loss per common share for the three months ended June 30, 2018	<u>\$ (5,882)</u>	<u>11,201,760</u>	<u>\$ -</u>
Basic net loss per common share for the six months ended June 30, 2019:			
Loss available to common shareholders	\$ (399,455)	11,204,799	\$ (0.04)
Effect of dilutive stock options	-	-	-
Diluted net loss per common share for the six months ended June 30, 2019	<u>\$ (399,455)</u>	<u>11,204,799</u>	<u>\$ (0.04)</u>
Basic net loss per common share for the six months ended June 30, 2018:			
Loss available to common shareholders	\$ (39,158)	11,201,760	\$ -
Effect of dilutive stock options	-	-	-
Diluted net loss per common share for the six months ended June 30, 2018	<u>\$ (39,158)</u>	<u>11,201,760</u>	<u>\$ -</u>

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

Cautionary Statement Regarding Forward-Looking Statements

This Form 10-Q contains forward-looking statements regarding our 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 our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 ("2018 10-K") and in other filings with the Securities and Exchange Commission.

We operate in a rapidly changing environment that involves a number of risks, some of which are beyond our control. This list highlights some of the risks which may affect future operating results. These are the risks and uncertainties we believe are most important for you to consider. Additional risks and uncertainties, not presently known to us, which we currently deem immaterial or which are similar to those faced by other companies in our industry or business in general, may also impair our business operations. If any of the following risks or uncertainties actually occurs, our business, financial condition and operating results would likely suffer. These risks include, among others, the following:

- changes in the funding priorities of the U.S. federal government;
- temporary or extended budget-related shutdowns of the U.S. federal government;
- terms specific to U.S. federal government contracts;
- opportunities for repeat business for some electronic forms customers are declining;
- over half of our revenue is concentrated among a few a small number of contracts;
- our failure to keep pace with a changing technological environment;
- intense competition from other companies;
- inaccuracy in our estimates of the cost of services and the timeline for completion of contracts;
- non-performance by our subcontractors and suppliers;
- our dependence on third-party software and software maintenance suppliers;
- fluctuations in our results of operations and the resulting impact on our stock price;
- the limited public market for our common stock; and
- our forward-looking statements and projections may prove to be inaccurate.

In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expect," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "intends," "potential" and similar expressions intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. We discuss many of these risks in greater detail under the heading "Risk Factors" in Item 1A of our 2018 10-K. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this report. Except as required by law, we assume no obligation to update any forward-looking statements after the date of this report.

Our Business

Founded in 1979, IAI is in the business of modernizing client information systems, developing and maintaining information technology systems and programs, developing Section 508-compliant electronic forms and smart forms, and performing consulting services to government and commercial organizations. We have performed software modernization and electronic forms conversion projects for over 100 commercial and government customers, including, but not limited to, Department of Agriculture, Department of Defense, Department of Education, Department of Energy, Department of Homeland Security, Department of the Treasury, U.S. Small Business Administration, U.S. Army, U.S. Air Force, Department of Veterans Affairs, Citibank, and General Dynamics Information Technology (formerly Computer Sciences Corporation, CSRA). Today, we primarily apply our technology, services and experience to legacy software migration and modernization for commercial companies and government agencies, and to developing web-based solutions for agencies of the U.S. federal government. IAI also provides services through its GSA IT Schedule 70 contract (47QTC A18D0080) and maintains Reseller and/or Solution Partner relationships with firms such as Adobe Systems, HPE Micro Focus, and Heirloom Computing (additional information on IAI may be viewed at its website located at www.infoa.com.)

IAI has earned an ISO 9001:2015 Management System certification for the provisioning and management of certain services and product delivery to its customers. Many government agencies are now requiring this certification as a basis for participating in designated contract solicitations. ISO 9001:2015 is a process-based certification recognizing organizations that can link business objectives with operating effectiveness and institutionalize continual improvement in its operations. In order to achieve and maintain certification, IAI is required to demonstrate through external audit our ability to consistently provide products and services that meet customer and applicable statutory and regulatory requirements set forth in the referenced ISO 9001:2015 standard. Companies that achieve such certification have demonstrated effective implementation of documentation and records management, top management's commitment to their customers, establishment of clear policy, good planning and implementation, good resource management, efficient process control, as well as measurement and analysis.

In the three months ended June 30, 2019, our prime contracts with U.S. government agencies generated 85.2% of our revenue, subcontracts under federal procurements generated 14.7% of our revenue, and commercial contracts generated 0.1% of our revenue. The terms of these contracts and subcontracts vary from single transactions to five years. Among prime contracts with U.S. government agencies, two software sales contracts generated 52.1% and 18.4% of our revenue, respectively. One professional services subcontract under a federal procurement generated 11.7% of our revenue.

In the three months ended June 30, 2018, our prime contracts with U.S. government agencies generated 81.6% of our revenue, subcontracts under federal procurements generated 16.0% of our revenue, and 2.4% of our revenue came from commercial contracts. The terms of these contracts and subcontracts varied from single transactions to five years. Among prime contracts with U.S. government agencies, two software sales contracts generated 49.3% and 16.4% of our revenue, respectively. One professional services subcontract under a federal procurement generated 13.4% of our revenue.

In the six months ended June 30, 2019, our prime contracts with U.S. government agencies generated 77.8% of our revenue, subcontracts under federal procurements generated 22.1% of our revenue, and commercial contracts generated 0.1% of our revenue. The terms of these contracts and subcontracts vary from single transactions to five years. Among prime contracts with U.S. government agencies, two software sales contracts generated 39.6% and 14.0% of our revenue, respectively. One professional services subcontract under a federal procurement generated 17.3% of our revenue.

In the six months ended June 30, 2018, our prime contracts with U.S. government agencies generated 72.3% of our revenue, subcontracts under federal procurements generated 24.1% of our revenue, and 3.6% of our revenue came from commercial contracts. The terms of these contracts and subcontracts vary from single transactions to five years. Among prime contracts with U.S. government agencies, two software sales contracts generated 35.8% and 11.9% of our revenue, respectively, and one professional services contract generated 12.9% of our revenue. One professional services subcontract under a federal procurement generated 20.2% of our revenue.

At June 30, 2019, accounts receivable balances related to one subcontract under a federal procurement represented 40.8% of our outstanding accounts receivable, and balances related to two prime contracts represented 13.8% and 13.7% of our outstanding accounts receivable, respectively.

We sold third-party software and maintenance contracts under agreements with one major supplier. These sales accounted for 79.3% of total revenue in the second quarter of 2019 and 70.2% of revenue in the second quarter of 2018, and 68.6% of total revenue in the first six months of 2019 and 54.6% of revenue in the first six months of 2018.

Three Months Ended June 30, 2019 versus Three Months Ended June 30, 2018

Revenue

Our revenues in the second quarter of 2019 were \$3,704,417 compared to \$3,707,819 in the corresponding quarter in 2018, a decrease of \$3,402, or 0.1%. Professional fee revenue was \$761,629 in the second quarter of 2019 versus \$1,104,148 in the corresponding quarter in 2018, a decrease of \$342,519, or 31.0%, and software revenue was \$2,942,788 in the second quarter of 2019 versus \$2,603,671 in the second quarter of 2018, an increase of \$339,117, or 13.0%. Revenue from professional fees decreased due primarily to the completion or expiration of certain contracts since the second quarter of 2018, as well as variations in the levels of activity on several other continuing contracts. The increase in our software revenue in 2019 versus the same period in 2018 is due to the non-recurring nature of many of our software sales transactions, as well as the timing of recurring orders. Software sales are subject to considerable fluctuation from period to period, based on the product mix sold and referral fees earned.

Gross Profit

Gross profit was \$356,761, or 9.63% of revenue in the second quarter of 2019 versus \$555,354, or 15.0% of revenue in the second quarter of 2018. For the quarter ended June 30, 2019, \$326,771 of the gross profit was attributable to professional fees at a gross profit percentage of 42.9%, and \$29,990 of the gross profit was attributable to software sales at a gross profit percentage of 1.0%. In the same quarter in 2018, we reported gross profit for professional fees of \$523,387, or 47.4%, of professional fee revenue, and gross profit of \$31,967, or 1.2% of software sales. Gross profit from professional fees decreased primarily due to the completion or expiration of certain contracts, and fluctuations in activity on continuing contracts, since the second quarter of 2018. Gross profit on software sales decreased due to a decrease in incentive payments earned, for which there are few associated costs. Software product sales and associated margins are subject to considerable fluctuation from period to period, based on the product mix sold and incentive payments earned. Increases and decreases in our software sales, excluding incentive payments, generally do not have a material effect on our gross profit, as the gross profit percentage on software sales averages less than 3.0%.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, exclusive of sales commissions, were \$528,575, or 14.3% of revenues, in the second quarter of 2019 versus \$439,535, or 11.9% of revenues, in the second quarter of 2018. These expenses increased \$89,040, or 20.3%, from the second quarter of 2018. These increases are from increases in the costs of non-billable labor and the fringe benefits associated with that labor. In anticipation of the commencement of services on a subcontract award that has been protested, we have hired and have other employees whose labor hours are currently only partially billable. The costs associated with these employees, to the extent not billable, are included in our administrative costs.

Commissions expense was \$39,815, or 1.1% of revenues, in the second quarter of 2019 versus \$124,686, or 3.4% of revenues, in the second quarter of 2018. Commissions are driven by varying factors and are earned at varying rates for each salesperson. The expiration of some higher-margin contracts contributed significantly to the decline in commissions earned.

Net loss

Net loss for the three months ended June 30, 2019, was \$208,602, or 5.6% of revenue, versus \$5,882, or 0.2 of revenue, for the same period in 2018. We expect to continue to incur quarterly operating losses until we increase our professional fees revenue.

Six Months Ended June 30, 2019 versus Six Months Ended June 30, 2018

Revenue

Our revenues in the first six months of 2019 were \$4,883,240 compared to \$5,102,295 in the corresponding period in 2018, a decrease of \$219,055, or 4.3%. Professional fee revenue was \$1,523,747 in the first six months of 2019 versus \$2,317,795 in the corresponding period in 2018, a decrease of \$794,048, or 34.3%, and software revenue was \$3,359,493 in the first six months of 2019 versus \$2,784,500 in the first six months of 2018, an increase of \$574,993, or 20.6%. Revenue from professional fees decreased due primarily to the completion or expiration of certain contracts since the first six months of 2018, as well as variations in the levels of activity on several other continuing contracts. The increase in our software revenue in 2019 versus the same period in 2018 is due to the non-recurring nature of many of our software sales transactions, as well as the timing of recurring orders. Software sales are subject to considerable fluctuation from period to period, based on the product mix sold and referral fees earned.

Gross Profit

Gross profit was \$679,600, or 13.9% of revenue in the first six months of 2019 versus \$1,105,775, or 21.7% of revenue in the first six months of 2018. For the six months ended June 30, 2019, \$642,021 of the gross profit was attributable to professional fees at a gross profit percentage of 42.1%, and \$37,579 of the gross profit was attributable to software sales at a gross profit percentage of 1.1%. In the same period in 2018, we reported gross profit for professional fees of \$1,064,453, or 45.9%, of professional fee revenue, and gross profit of \$41,322, or 1.5% of software sales. Gross profit from professional fees decreased primarily due to the completion or expiration of certain contracts, and fluctuations in activity on continuing contracts, since the first six months of 2018. Gross profit on software sales decreased due to a decrease in incentive payments earned, for which there are few associated costs. Software product sales and associated margins are subject to considerable fluctuation from period to period, based on the product mix sold and incentive payments earned. Increases and decreases in our software sales, excluding incentive payments, generally do not have a material effect on our gross profit, as the gross profit percentage on software sales averages less than 3.0%.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, exclusive of sales commissions, were \$1,014,027, or 20.8% of revenues, in the first six months of 2019 versus \$910,029, or 17.8% of revenues, in the first six months of 2018. These expenses increased \$103,998, or 11.4%, from the first six months of 2018. These increases are from increases in the costs of non-billable labor and the fringe benefits associated with that labor, partially due to carrying salaried employees during the government shutdown. Additionally, in anticipation of the commencement of services on a subcontract award that has been protested, we have hired and have other employees whose labor hours are currently only partially billable. The costs associated with these employees, to the extent not billable, are included in our administrative costs.

Commissions expense was \$70,761, or 1.4% of revenues, in the first six months of 2019 versus \$240,560, or 4.7% of revenues, in the first six months of 2018. Commissions are driven by varying factors and are earned at varying rates for each salesperson. The expiration of some higher-margin contracts contributed significantly to the decline in commissions earned.

Net loss

Net loss for the six months ended June 30, 2019, was \$399,455, or 8.2% of revenues, versus \$39,158, or 0.8% of revenue, for the same period in 2018. We expect to continue to incur quarterly operating losses until we increase our professional fees revenue.

Liquidity and Capital Resources

Our cash and cash equivalents balance, when combined with our cash flow from operations during the first six months of 2019, were sufficient to provide financing for our operations. Our net cash used in the combination of our operating, investing, and financing activities in the first six months of 2019 was \$428,022. This net cash, when subtracted from a beginning balance of \$1,963,956, yielded cash and cash equivalents of \$1,535,934 as of June 30, 2019. Accounts receivable and contract assets increased \$37,478. Prepaid expenses decreased \$334,205 due primarily to the recognition of deferred expenses related to maintenance contracts on software sales, which are recognized over the terms of the maintenance contracts. Accounts payable increased \$167,342 due to the timing of payments to our supplier for software sales. Commissions payable decreased \$255,197 due to payouts of existing commissions payable balances occurring faster than new commissions were incurred. Contract liabilities decreased \$251,406, due primarily to the recognition of revenue related to maintenance contracts on software sales that had previously been deferred.

We have a revolving line of credit with a bank providing for demand or short-term borrowings of up to \$1,000,000. The line expires on May 31, 2020. As of June 30, 2019, no amounts were outstanding under this line of credit. We did not borrow against this line of credit in the last twelve months.

Given our current cash position and operating plan, we anticipate that we will be able to meet our cash requirements for twelve months from the date of filing of this Form 10-Q.

We presently lease our corporate offices on a contractual basis with certain timeframe commitments and obligations. We believe that our existing offices will be sufficient to meet our foreseeable facility requirement. Should we need additional space to accommodate increased activities, management believes we can secure such additional space on reasonable terms.

We have no material commitments for capital expenditures.

We have no off-balance sheet arrangements.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, and people performing similar functions, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of June 30, 2019 (the "Evaluation Date"). Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Controls over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Because of the inherent limitations in all control systems, no control system can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of a person, by collusion of two or more people or by management override of the control. The design of any system of controls also 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. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected. Notwithstanding these limitations, we believe that our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives.

PART II - OTHER INFORMATION**Item 1. Legal Proceedings**

None.

Item 1A. Risk Factors

“Item 1A. Risk Factors” of our annual report on Form 10-K for the year ended December 31, 2018, as amended, includes a discussion of our risk factors. There have been no material changes from the risk factors described in our annual report on Form 10-K for the year ended December 31, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

- 31.1 [Certification of Chief Executive Officer Pursuant to Rules 13a-14\(a\) and 15d-14\(a\) of the Securities Exchange Act of 1934](#)
- 31.2 [Certification of Chief Financial Officer Pursuant to Rules 13a-14\(a\) and 15d-14\(a\) of the Securities Exchange Act of 1934](#)
- 32.1 [Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 32.2 [Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)

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 14, 2019

By: /s/ Sandor Rosenberg
Sandor Rosenberg, Chairman of the Board,
Chief Executive Officer, and President

Date: August 14, 2019

By: /s/ Richard S. DeRose
Richard S. DeRose, Executive Vice
President, Treasurer, and Chief Financial
Officer

CERTIFICATIONS

I, Sandor Rosenberg, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Information Analysis Incorporated;
2. Based on my knowledge, this 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 registrant as of, and for, the periods presented in this report;
4. The registrant'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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant 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 registrant, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: August 14, 2019

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.

CERTIFICATIONS

I, Richard S. DeRose, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Information Analysis Incorporated;
2. Based on my knowledge, this 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 registrant as of, and for, the periods presented in this report;
4. The registrant'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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant 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 registrant, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: August 14, 2019

By: /s/ Richard S. DeRose
Richard S. DeRose, Executive Vice President,
Treasurer, 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-Q for the period ended June 30, 2019, 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: August 14, 2019

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:

- 1 the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2019, 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: August 14, 2019

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.