
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, 2016

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

(703) 383-3000

(Registrant's telephone number, including area code)

Not applicable

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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 5, 2016, 11,201,760 shares of common stock, par value \$0.01 per share, of the registrant were outstanding.

**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, 2016 (Unaudited) | December 31, 2015 (see Note 1) |
|--|---------------------------------|--------------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,362,125 | \$ 2,167,928 |
| Accounts receivable, net | 1,143,134 | 1,298,029 |
| Prepaid expenses and other current assets | 212,665 | 603,340 |
| Notes receivable, current | 4,541 | - |
| Total current assets | <u>3,722,465</u> | <u>4,069,297</u> |
| Property and equipment, net | 36,445 | 42,039 |
| Other assets | 6,281 | 6,281 |
| Total assets | <u>\$ 3,765,191</u> | <u>\$ 4,117,617</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 615,502 | \$ 64,599 |
| Commissions payable | 872,116 | 959,052 |
| Accrued payroll and related liabilities | 220,722 | 261,202 |
| Deferred revenue | 166,594 | 581,102 |
| Other accrued liabilities | 63,622 | 74,472 |
| Total liabilities | <u>1,938,556</u> | <u>1,940,427</u> |
| Stockholders' equity: | | |
| Common stock, par value \$0.01, 30,000,000 shares authorized; 12,844,376 shares issued, 11,201,760 shares outstanding as of June 30, 2016 and December 31, 2015 | 128,443 | 128,443 |
| Additional paid-in capital | 14,627,824 | 14,622,352 |
| Accumulated deficit | (11,999,421) | (11,643,394) |
| Treasury stock, 1,642,616 shares at cost | (930,211) | (930,211) |
| Total stockholders' equity | <u>1,826,635</u> | <u>2,177,190</u> |
| Total liabilities and stockholders' equity | <u>\$ 3,765,191</u> | <u>\$ 4,117,617</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, | |
| | 2016 | 2015 |
| Revenues: | | |
| Professional fees | \$ 928,464 | \$ 997,435 |
| Software sales | 894,230 | 312,438 |
| Total revenues | <u>1,822,694</u> | <u>1,309,873</u> |
| Cost of revenues: | | |
| Cost of professional fees | 492,332 | 592,259 |
| Cost of software sales | 804,616 | 281,411 |
| Total cost of revenues | <u>1,296,948</u> | <u>873,670</u> |
| Gross profit | 525,746 | 436,203 |
| Selling, general and administrative expenses | 505,601 | 434,274 |
| Commissions expense | <u>168,262</u> | <u>100,193</u> |
| Loss from operations | (148,117) | (98,264) |
| Other income | <u>2,360</u> | <u>2,615</u> |
| Loss before provision for income taxes | (145,757) | (95,649) |
| Provision for income taxes | <u>-</u> | <u>-</u> |
| Net loss | <u>\$ (145,757)</u> | <u>\$ (95,649)</u> |
| Comprehensive loss | <u>\$ (145,757)</u> | <u>\$ (95,649)</u> |
| Net loss per common share: | | |
| Basic | <u>\$ (0.01)</u> | <u>\$ (0.01)</u> |
| Diluted | <u>\$ (0.01)</u> | <u>\$ (0.01)</u> |
| Weighted average common shares outstanding: | | |
| Basic | <u>11,201,760</u> | <u>11,201,760</u> |
| Diluted | <u>11,201,760</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, | |
| | 2016 | 2015 |
| Revenues: | | |
| Professional fees | \$ 1,769,501 | \$ 2,112,531 |
| Software sales | 1,521,519 | 673,465 |
| Total revenues | <u>3,291,020</u> | <u>2,785,996</u> |
| Cost of revenues: | | |
| Cost of professional fees | 1,040,725 | 1,235,543 |
| Cost of software sales | 1,366,876 | 629,995 |
| Total cost of revenues | <u>2,407,601</u> | <u>1,865,538</u> |
| Gross profit | 883,419 | 920,458 |
| Selling, general and administrative expenses | 1,022,571 | 866,368 |
| Commissions expense | <u>221,665</u> | <u>239,664</u> |
| Loss from operations | (360,817) | (185,574) |
| Other income | <u>4,790</u> | <u>5,094</u> |
| Loss before provision for income taxes | (356,027) | (180,480) |
| Provision for income taxes | <u>-</u> | <u>-</u> |
| Net loss | <u>\$ (356,027)</u> | <u>\$ (180,480)</u> |
| Comprehensive loss | <u>\$ (356,027)</u> | <u>\$ (180,480)</u> |
| Net loss per common share: | | |
| Basic | <u>\$ (0.03)</u> | <u>\$ (0.02)</u> |
| Diluted | <u>\$ (0.03)</u> | <u>\$ (0.02)</u> |
| Weighted average common shares outstanding: | | |
| Basic | <u>11,201,760</u> | <u>11,201,760</u> |
| Diluted | <u>11,201,760</u> | <u>11,201,760</u> |

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, | |
| | 2016 | 2015 |
| Cash flows from operating activities: | | |
| Net loss | \$ (356,027) | \$ (180,480) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 15,301 | 15,360 |
| Stock-based compensation | 5,472 | 5,714 |
| Bad debt expense | 1,811 | 107 |
| Forgiveness of notes receivable | - | 7,863 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 153,084 | 173,535 |
| Prepaid expenses and other current assets | 390,675 | 419,615 |
| Accounts payable, accrued payroll and related liabilities, and other accrued liabilities | 499,573 | 3,736 |
| Commissions payable | (86,936) | (65,823) |
| Deferred revenue | (414,508) | (422,535) |
| Net cash provided by (used in) operating activities | <u>208,445</u> | <u>(42,908)</u> |
| Cash flows from investing activities: | | |
| Acquisition of property and equipment | (9,707) | (9,134) |
| Increase in notes receivable - employees | (5,768) | - |
| Payments received on notes receivable - employees | 1,227 | 1,135 |
| Net cash used in investing activities | <u>(14,248)</u> | <u>(7,999)</u> |
| Net increase (decrease) in cash and cash equivalents | 194,197 | (50,907) |
| Cash and cash equivalents, beginning of the period | <u>2,167,928</u> | <u>2,450,006</u> |
| Cash and cash equivalents, end of the period | <u>\$ 2,362,125</u> | <u>\$ 2,399,099</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
NOTES TO FINANCIAL STATEMENTS

1. Basis of Presentation

Organization and Business

Founded in 1979, Information Analysis Incorporated (“We”, the “Company”), 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 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, cyber security applications, 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, 2015 included in the Annual Report on Form 10-K filed by the Company with the SEC on March 29, 2016 (the “Annual Report”). The accompanying December 31, 2015 financial information was derived from our audited financial statements included in the Annual Report. The results of operations for any interim period 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, 2016 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, 2015 that was filed with the SEC on March 29, 2016.

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, 2016, there have been no material changes to the Company’s uncertain tax position disclosures as provided in Note 7 of the Annual Report. The Company does not anticipate that total unrecognized tax benefits will significantly change prior to June 30, 2017.

2. Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (“FASB”), or other standard setting bodies that the Company adopts as of the specified effective date.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “*Revenue from Contracts with Customers (Topic 606)*” (“ASU 2014-09”). This new standard will supercede nearly all existing revenue recognition guidance in U.S. GAAP. The core principle of the ASU is that an entity should recognize revenue for the transfer of goods or services equal to the amount it expects to receive for those goods and services. The standard defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The standard allows entities to apply either of two adoption methods: (a) retrospective application to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (b) retrospective application with the cumulative effect of initially applying the standard recognized at the date of initial application and providing certain additional disclosures as defined per ASU 2014-09. In August 2015, the FASB issued ASU 2015-14, “*Revenue from Contracts with Customers: Topic 606*” (“ASU 2015-14”), which defers the effective date for ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is evaluating the impact of adopting this new standard on its financial statements and the method of adoption.

There have been three new ASUs issued amending certain aspects of ASU 2014-09. ASU 2016-08 *Principal versus Agent Considerations (Reporting Revenue Gross Versus Net)*, was issued in March, 2016 to clarify certain aspects of the principal versus agent guidance in ASU 2014-09. In addition, ASU 2016-10 *Identifying Performance Obligations and Licensing* issued in April 2016, amends other sections of ASU 2014-09 including clarifying guidance related to identifying performance obligations and licensing implementation. Finally, ASU 2016-12, *Revenue from Contracts with Customers - Narrow Scope Improvements and Practical Expedients* provides amendments and practical expedients to the guidance in ASU 2014-09 in the areas of assessing collectability, presentation of sales taxes received from customers, noncash consideration, contract modification and clarification of using the full retrospective approach to adopt ASU 2014-09. With its evaluation of the impact of ASU 2014-09, the Company will also consider the impact related to the updated guidance provided by these three new ASUs.

In February 2016, the FASB issued ASU 2016-02, *Leases: Topic 842*, which provided updated guidance on lease accounting. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that annual period, with early adoption permitted. The Company is evaluating the impact of adopting this new standard on its financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09") which simplifies several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The update is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, with early adoption permitted. An entity that elects early adoption must adopt all of the amendments in the same period. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. Amendments related to the presentation of employee taxes paid on the statement of cash flows when an employer withholds shares to meet the minimum statutory withholding requirement should be applied retrospectively. Amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement and the practical expedient for estimating expected term should be applied prospectively. An entity may elect to apply the amendments related to the presentation of excess tax benefits on the statement of cash flows using either a prospective transition method or a retrospective transition method. The Company is required to adopt ASU 2016-09 in the first quarter of 2017, and is currently assessing the impact of this pronouncement on its financial statements.

3. Stock-Based Compensation

During the three months and six months ended June 30, 2016, the Company had three stock-based compensation plans. The 1996 Stock Option Plan was adopted in 1996 ("1996 Plan") and had options granted under it through May 29, 2006. The last of the options granted under the 1996 Plan expired on May 18, 2016. 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.

Total compensation expense related to these plans was \$4,806 and \$2,843 for the quarters ended June 30, 2016 and 2015, respectively, none of which related to options awarded to non-employees. Total compensation expense related to these plans was \$5,472 and \$5,714 for the six months ended June 30, 2016 and 2015, respectively, none of which related to options awarded to non-employees. The Company estimates the fair value of options granted using a Black-Scholes valuation model to establish the expense. When stock-based compensation is awarded to employees, the expense is recognized ratably over the vesting period. When stock-based compensation is awarded to non-employees, the expense is recognized over the period of performance.

The fair values of option awards granted in the three months and six months ended June 30, 2016 and 2015, were estimated using the Black-Scholes option pricing model using the following assumptions:

| | Three Months ended June 30, | | Six Months ended June 30, | |
|-------------------------|-----------------------------|---------------|---------------------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| Risk free interest rate | 0.70% - 1.73% | 1.61% - 1.97% | 0.70% - 1.73% | 1.61% - 1.97% |
| Dividend yield | 0% | 0% | 0% | 0% |
| Expected term | 2-10 years | 5-10 years | 2-10 years | 5-10 years |
| Expected volatility | 35.9% - 50.4% | 41.2% - 54.2% | 34.9% - 50.4% | 41.2% - 54.2% |

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, 2016, there were no options yet issued under the 2016 Plan.

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. The maximum number of shares for which equity awards could be granted under the 2006 Plan was 1,950,000. Options under the 2006 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. There were 1,200,500 and 956,500 unexpired exercisable options remaining from the 2006 Plan at June 30, 2016 and 2015, respectively.

1996 Stock Option Plan

The 1996 Plan provided for the granting of options to purchase shares of our common stock to key employees, including officers and directors. The maximum number of shares for which options could be granted under the 1996 Plan was 3,075,000. Options expired no later than ten years from the date of grant or when employment ceases, whichever came first, and vested over periods determined by the Board of Directors. There were zero and 108,000 unexpired exercisable options remaining from the 1996 Plan at June 30, 2016 and 2015, respectively.

The status of the options issued as of June 30, 2016 and changes during the six months ended June 30, 2016 and 2015 were as follows:

| | Options outstanding | |
|------------------------------|---------------------|---|
| | Number of shares | Weighted average exercise price per share |
| Balance at December 31, 2015 | 1,193,000 | \$ 0.24 |
| Options granted | 50,000 | 0.14 |
| Options exercised | - | - |
| Options expired or forfeited | (3,000) | 0.70 |
| Balance at March 31, 2016 | 1,240,000 | \$ 0.24 |
| Options granted | 235,000 | 0.26 |
| Options exercised | - | - |
| Options expired or forfeited | (145,000) | 0.45 |
| Balance at June 30, 2016 | 1,330,000 | \$ 0.22 |

| | Options outstanding | |
|------------------------------|---------------------|---|
| | Number of shares | Weighted average exercise price per share |
| Balance at December 31, 2014 | 1,264,000 | \$ 0.26 |
| Options granted | 20,000 | 0.20 |
| Options exercised | - | - |
| Options expired or forfeited | (1,000) | 0.24 |
| Balance at March 31, 2015 | 1,283,000 | \$ 0.26 |
| Options granted | - | - |
| Options exercised | - | - |
| Options expired or forfeited | (5,000) | 0.52 |
| Balance at June 30, 2015 | 1,278,000 | \$ 0.25 |

The following table summarizes information about options at June 30, 2016:

| Options outstanding | | | | Options exercisable | | | |
|---------------------|---------------------------------|--|---------------------------|---------------------|---------------------------------|--|---------------------------|
| Total shares | Weighted average exercise price | Weighted average remaining contractual life in years | Aggregate intrinsic value | Total shares | Weighted average exercise price | Weighted average remaining contractual life in years | Aggregate intrinsic value |
| 1,330,000 | \$ 0.22 | 5.63 | \$ 22,628 | 1,220,500 | \$ 0.23 | 5.23 | \$ 18,368 |

Nonvested option awards as of June 30, 2016 and changes during the six months ended June 30, 2016 were as follows:

| | Nonvested | |
|------------------------------|------------------|--|
| | Number of shares | Weighted average grant date fair value |
| Balance at December 31, 2015 | 49,500 | \$ 0.07 |
| Granted | 50,000 | 0.04 |
| Vested | (5,000) | 0.08 |
| Expired before vesting | - | - |
| Balance at March 31, 2016 | 94,500 | \$ 0.05 |
| Granted | 235,000 | 0.03 |
| Vested | (165,000) | 0.08 |
| Expired before vesting | (35,000) | 0.15 |
| Balance at June 30, 2016 | 129,500 | \$ 0.06 |

As of June 30, 2016 and 2015, unrecognized compensation cost associated with non-vested share-based compensation totaled \$4,235 and \$3,958, respectively, which are expected to be recognized over weighted average periods of four months and five months, respectively.

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

| | <u>Net Loss</u> | <u>Shares</u> | <u>Per Share Amount</u> |
|--|---------------------|-------------------|-------------------------|
| Basic net loss per common share for the three months ended June 30, 2016: | | | |
| Loss available to common stockholders | \$ (145,757) | 11,201,760 | \$ (0.01) |
| Effect of dilutive stock options | - | - | |
| Diluted net loss per common share for the three months ended June 30, 2016 | <u>\$ (145,757)</u> | <u>11,201,760</u> | \$ (0.01) |
| | | | |
| Basic net loss per common share for the three months ended June 30, 2015: | | | |
| Loss available to common stockholders | \$ (95,649) | 11,201,760 | \$ (0.01) |
| Effect of dilutive stock options | - | - | |
| Diluted net loss per common share for the three months ended June 30, 2015 | <u>\$ (95,649)</u> | <u>11,201,760</u> | \$ (0.01) |
| | | | |
| | <u>Net Loss</u> | <u>Shares</u> | <u>Per Share Amount</u> |
| Basic net loss per common share for the six months ended June 30, 2016: | | | |
| Loss available to common stockholders | \$ (356,027) | 11,201,760 | \$ (0.03) |
| Effect of dilutive stock options | - | - | |
| Diluted net loss per common share for the six months ended June 30, 2016 | <u>\$ (356,027)</u> | <u>11,201,760</u> | \$ (0.03) |
| | | | |
| Basic net loss per common share for the six months ended June 30, 2015: | | | |
| Loss available to common stockholders | \$ (180,480) | 11,201,760 | \$ (0.02) |
| Effect of dilutive stock options | - | - | |
| Diluted net loss per common share for the six months ended June 30, 2015 | <u>\$ (180,480)</u> | <u>11,201,760</u> | \$ (0.02) |

5. Financial Instruments

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or be paid to transfer a liability in the principal or most advantageous market in an orderly transaction. To increase consistency and comparability in fair value measurements, the FASB established a three-level hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of fair value measurements are:

- Level 1—Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2—Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.
- Level 3—Unobservable inputs that are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

The inputs used in measuring the fair value of cash and cash equivalents are considered to be Level 1 in accordance with the three-tier fair value hierarchy. The fair market values are based on period-end statements supplied by the various banks and brokers that held the majority of the Company's funds. The fair value of short-term financial instruments (primarily cash and cash equivalents, accounts receivable, accounts payable, and other current assets and liabilities) approximate their carrying values because of their short-term nature.

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, 2015 ("2015 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;
- changes in the way the U.S. federal government contracts with businesses;
- terms specific to U.S. federal government 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;
- our failure to adequately integrate businesses we may acquire;
- fluctuations in our results of operations and the resulting impact on our stock price;
- the limited public market for our common stock;
- changes in the economic health of our non U.S. federal government customers; 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 2015 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, developing electronic forms, and performing consulting services to government and commercial organizations. We have performed software conversion projects for over 100 commercial and government customers, including Computer Sciences Corporation, IBM, Computer Associates, Sprint, Citibank, U.S. Department of Homeland Security, U.S. Treasury Department, U.S. Department of Agriculture, U.S. Department of Education, U.S. Department of Energy, U.S. Army, U.S. Air Force, U.S. Department of Veterans Affairs, and the Federal Deposit Insurance Corporation. 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.

Over the last fifteen months, to improve our prospects for growth, we have added (i) two members to our board of directors, William Pickle and Mark Krial, (ii) one additional sales person, and (iii) the Neo4j graph database software to our General Services Administration Schedule 70 contract.

In the three months ended June 30, 2016, our prime contracts with U.S. government agencies generated 75.3% of our revenue, subcontracts under federal procurements generated 12.1% of our revenue U.S. government and 12.6% of our revenue came from commercial contracts. The terms of these contracts and subcontracts vary from single transactions to five years. Within the group of prime contracts with U.S. government agencies, two individual contracts generated 33.3% and 18.0% of our total revenue, respectively. One commercial customer generated 9.0% of our revenue.

In the same period in 2015, our prime contracts with U.S. government agencies generated 57.8% of our revenue, subcontracts under federal procurements generated 27.3% of our revenue, 14.7% of our revenue came from commercial contracts, and 0.2% of our revenue came from state and local government contracts. The terms of these contracts and subcontracts varied from single transactions to five years. Within the group of prime contracts with U.S. government agencies, two individual contracts generated 27.7% and 13.3% of our revenue, respectively. One subcontract generated we possess accounted for 13.6% of our revenue.. One commercial customer generated 13.0% of our revenue.

In the six months ended June 30, 2016, our prime contracts with U.S. government agencies generated 71.6% of our revenue, subcontracts under federal procurements generated 14.6% of our revenue, and 13.8% of our revenue came from commercial contracts. The terms of these contracts and subcontracts vary from single transactions to five years. Within this group of prime contracts with U.S. government agencies, two individual contracts generated 18.4% and 20.0% of our revenue, respectively. One commercial customer generated 9.7% of our revenue.

In the same period in 2015, our prime contracts with U.S. government agencies generated 59.0% of our revenue, subcontracts under federal procurements generated 28.2% of our revenue, 12.7% of our revenue came from commercial contracts, and 0.1% of our revenue came from state and local government contracts. The terms of these contracts and subcontracts varied from single transactions to five years. Within this group of prime contracts with U.S. government agencies, two contracts generated 25.5% and 13.6% of our revenue, respectively. One subcontract we possess accounted for 13.8% of our revenue. One commercial customer accounted for 11.8% of our revenue.

Three Months Ended June 30, 2016 versus Three Months Ended June 30, 2015

Revenue

Our revenues in the second quarter of 2016 were \$1,822,694 compared to \$1,309,873 in the corresponding quarter in 2015, an increase of \$512,821, or 39.2%. Professional fees revenue was \$928,464 versus \$997,435, a decrease of 6.9%, and software revenue was \$894,230 versus \$312,438, an increase of 186.2%. There were several offsetting increases and decreases in activity under continuing professional fees contracts, as well as new and expiring prime contracts and subcontracts. The decreases in our professional fees revenue exceeded the increases by \$68,971. The increase in our software revenue in 2016 versus the same period in 2015 is primarily due to one larger U.S. federal government agency order for Adobe licenses and an increase in referral fees earned for facilitating sales directly from our suppliers to customers we introduced. Software sales and associated margins are subject to considerable fluctuation from period to period, based on the product mix sold and referral fees earned.

Gross Profit

Gross profit was \$525,746, or 28.8% of revenue in the second quarter of 2016 versus \$436,203, or 33.3% of revenue in the second quarter of 2015. For the quarter ended June 30, 2016, \$436,132 of the gross profit was attributable to professional fees at a gross profit percentage of 47.0%, and \$89,614 of the gross profit was attributable to software sales at a gross profit percentage of 10.0%. In the same quarter in 2015, we reported gross profit for professional fees of \$405,176, or 40.6%, of professional fee revenue, and gross profit of \$31,027, or 9.9% of software sales.. Gross profit from professional fees increased due to the timing of revenue recognition versus the accumulation of direct costs on certain fixed price contracts. In the second quarter of 2015 we had a fixed price contract that was affected negatively by timing, accumulating direct costs without certainty of achieving billable deliverables. That revenue was ultimately recognized in the fourth quarter of 2015. Gross profit on software sales increased in terms of dollars due to an increase in the second quarter of 2016 over the second quarter of 2015 in referral fees for facilitating third-party sales, for which there were no direct costs incurred by us, and due to one 2016 order for which we recognized \$606,842 in revenue. Software product sales and associated margins are subject to considerable fluctuation from period to period, based on the product mix sold and referral fees earned.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, exclusive of sales commissions, were \$505,601, or 27.7% of revenues, in the second quarter of 2016 versus \$434,274, or 33.2% of revenues, in the second quarter of 2015. These expenses increased \$71,327, or 16.4%, over the second quarter of 2015. Since the second quarter of 2015, we have added an additional member to our sales staff, we have incurred expenses for training our staff on the latest developments in supporting the third party software we sell and in programming, we have experienced increases in legal expenses with regard to contracts, we have experienced increases in the costs of providing health insurance and other fringe benefits to our employees, and we have utilized more labor in developing our bids and proposals for new contracts.

Commission expense was \$168,262, or 9.2% of revenues, in the second quarter of 2016 versus \$100,193, or 7.6% of revenues, in the second quarter of 2015. This increase of \$68,069, or 67.9%, is due to increases in gross profits on commissionable professional services contracts, which drive commission earned at varying rates for each salesperson, and an increase in referral fees earned for facilitating sales directly from our suppliers to customers we introduced, for which there are little to no direct costs.

Net loss

Net loss for the three months ended June 30, 2016, was \$145,757, or 8.0% of revenue, versus net loss of \$95,649, or 7.3% of revenue, for the same period in 2015.

Six months Ended June 30, 2016 versus Six months Ended June 30, 2015

Revenue

Our revenues in the first six months of 2016 were \$3,291,020 compared to \$2,785,996 in 2015, an increase of \$505,024, or 18.1%. Professional fees revenue was \$1,769,501 versus \$2,112,531, a decrease of 16.2%, and software revenue was \$1,521,519 versus \$673,465, an increase of 125.9%. The decrease in our professional fees revenue is primarily due to the expiration of two U.S. federal government prime short-term contracts and several subcontracts that were active in the first six months of 2015. In addition, there were several offsetting increases and decreases in activity under continuing contracts. The increase in our software revenue in 2016 versus the same period in 2015 is primarily due to a few larger U.S. federal government agency orders for Adobe licenses and software maintenance, and an increase in referral fees earned for facilitating sales directly from our suppliers to customers we introduced. Software sales and associated margins are subject to considerable fluctuation from period to period, based on the product mix sold and referral fees earned.

Gross Profit

Gross profit was \$883,419, or 26.8% of revenue in the first six months of 2016 versus \$920,458, or 33.0% of revenue in the first six months of 2015. For the six months ended June 30, 2016, \$728,776 of the gross profit was attributable to professional fees at a gross profit percentage of 41.2%, and \$154,643 of the gross profit was attributable to software sales at a gross profit percentage of 10.2%. In the same six months in 2015, we reported gross profit for professional fees of \$876,988, or 41.5% of professional fees revenue and \$43,470, for software sales, or 6.5% of software sales. Gross profit as a percentage of sales from professional fees remained consistent between the two years presented. Gross profit on software sales increased in terms of dollars and as a percentage of revenue due to a larger portion of the 2016 revenue having come from referral fees for facilitating third-party sales, for which there were no direct costs incurred by us. There has been considerable downward pressure on margins for software sales over the last few years due to the use by U.S. federal government agencies of new bidding processes such as reverse auctions. Software product sales and associated margins are subject to considerable fluctuation from period to period, based on the product mix sold and referral fees earned.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, exclusive of sales commissions, were \$1,022,571, or 31.1% of revenues, in the first six months of 2016 versus \$866,368, or 31.1% of revenues, in the first six months of 2015. These expenses increased \$156,203, or 18.0%. Since the first six months of 2015, we have added an additional member of our sales staff, we have experienced increases in the costs of providing health insurance and other fringe benefits to our employees, we have incurred expenses for training our staff on the latest developments in supporting the third party software we sell and in programming, we have experienced increases in legal expenses with regard to contracts, we have utilized more labor in developing our bids and proposals for new contracts, and we have increased certain aspects of our business insurance coverage.

Commission expense was \$221,665, or 6.7% of revenues, in the first six months of 2016 versus \$239,664, or 8.6% of revenues, in the first six months of 2015. This decrease of \$17,999, or 7.5%, is due to the decreases in volume of commissionable professional services contracts, which drive commission earned at varying rates for each salesperson.

Net loss

Net loss for the six months ended June 30, 2016, was \$356,027, or 10.8% of revenue, versus net loss of \$180,480, or 6.5% of revenue, for the same period in 2015.

Liquidity and Capital Resources

Our cash and cash equivalents balance, when combined with our cash flow from operations during the first six months of 2016, were sufficient to provide financing for our operations. Our net cash provided by the combination of our operating, investing, and financing activities in the first six months of 2016 was \$194,197. This net cash provided, when added to a beginning balance of \$2,167,928 yielded cash and cash equivalents of \$2,362,125 as of June 30, 2016. Prepaid expenses and other current assets decreased \$390,675 due to the allocation over time of prepaid expenses associated with the maintenance contracts on software sales. Deferred revenue decreased \$414,508 due to the recognition of revenue over time from maintenance contracts on software sales. Accounts payable, accrued payroll and accrued expenses increased \$499,573, and commissions payable decreased \$86,936. We had no non-current liabilities as of June 30, 2016.

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 became effective December 20, 2005, and expires on May 31, 2017. As of June 30, 2016, no amounts were outstanding under this line of credit.

Given our current cash position and operating plan, we anticipate that we will be able to meet our cash requirements for the next twelve months.

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, 2016 (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, 2016 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, 2015 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, 2015.

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

| Exhibit Number | Description |
|-----------------------|--|
| 10.14 | Modification Agreement regarding Line of Credit Agreement with TD Bank, N.A., successor to Commerce Bank, N.A., dated May 25, 2016 |
| 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 11, 2016

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

Date: August 11, 2016

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

MODIFICATION AGREEMENT

This MODIFICATION AGREEMENT entered into as of **May 25, 2016**, between **Information Analysis Incorporated, a Virginia corporation**, with an address of **11240 Waples Mill Road, Fairfax, Virginia 22030** (the "Borrower") and TD Bank, NA, a National Association with an address of 1919 Gallows Road, 2nd floor, Vienna, Virginia 22182 (the "Bank").

WHEREAS, the Bank established a revolving line of credit (the "Revolving Loan") for Borrower which matures on **May 31, 2016** (the "Maturity Date") respecting which Bank agreed to Lend to Borrower upon Borrower's request, but subject to the terms and conditions set forth in various loan documents, of up to **One Million Dollars and Zero Cents (\$1,000,000.00)** (the "Revolving Loan Amount");

WHEREAS, the Revolving Loan is evidenced by that certain Promissory Note, dated **December 20, 2005** (as previously amended, modified or supplemented, the "Note"), by the Borrower in favor of the Bank in the face amount of the Revolving Loan Amount;

WHEREAS, in connection with the Revolving Loan, Borrower entered into that certain Loan Agreement, dated **December 20, 2005** (as previously amended, modified or supplemented, the "Loan Agreement");

WHEREAS, the Loan Agreement and the Note and all other documents and instruments executed in connection with or relating to the Loan are referred to herein, collectively, as the "Loan Documents"; and all collateral granted to the Bank to secure the Loan is referred to herein, collectively, as the "Collateral";

WHEREAS, the Borrower and the Bank have agreed to modify the Loan and the Loan Documents in accordance with the terms of this Agreement.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Bank and the Borrower mutually agree as follows:

1. MODIFICATION

1.1 Recitals and Representations Accurate. The above recitals are hereby made a part of this Agreement and the Borrower acknowledges and agrees that each of the recitals is true and correct.

1.2 Ratification. All of the terms, covenants, provisions, representations, warranties, and conditions of the Loan Documents, as amended or modified hereby, are ratified, acknowledged, confirmed, and continued in full force and effect as if fully restated herein.

1.3 Financial Statements. The following financial statements are hereby changed in the Loan Agreement dated December 20, 2005

(a) The borrowing base certificate, accounts receivable aging and accounts payable aging are due annually, 15 days after fiscal year end.

(b) The compliance certificate is due annually, 45 days of fiscal year end.

(c) The contract backlog is due annually, 45 days of fiscal year end.

1.4 Amended and Restated Note. The Note shall be amended and restated in the form attached hereto as Exhibit A (the "Amended Note").

1.5 Representations and Warranties. The Borrower hereby represents and warrants to the Bank that:

(a) The person executing this Agreement is duly authorized to do so and to bind the Borrower to the terms hereof;

(b) Each of the Loan Documents is a valid and legal binding obligation of the Borrower, enforceable in accordance with its terms, and is not subject to any defenses, counterclaims, or offsets of any kind;

(c) All financial statements delivered to the Bank were true, accurate and complete, in all material respects, as of the date of delivery to the Bank;

(d) Since the date of the Loan Documents there has been no material adverse change in the condition, financial or otherwise, of the Borrower, except as disclosed to the Bank in writing;

(e) There exists no action, suit, proceeding or investigation, at law or in equity, before any court, board, administrative body or other entity, pending or threatened, affecting the Borrower or its property, wherein an unfavorable decision, ruling or finding would materially adversely affect the business operations, property or financial condition of the Borrower; and

(f) There exists no event of default, or other circumstance that with the passage of time or giving of notice or both will become an event of default, under any of the Loan Documents.

1.6 Interest, Fees, Costs and Expenses. The Borrower shall, simultaneously with the execution of this Agreement, pay to the Bank all accrued interest owing on the Loan as of the date of this Agreement together with all fees, costs and expenses due and owing to the Bank by the Borrower under the Loan Documents.

2. MISCELLANEOUS

2.1 Set-Off. The Borrower hereby grants to the Bank a continuing lien and security interest in any and all deposits or other sums at any time credited by or due from the Bank to the Borrower and any cash, securities, instruments or other property of the Borrower in the possession of the Bank, whether for safekeeping or otherwise, or in transit to or from the Bank (regardless of the reason the Bank had received the same or whether the Bank has conditionally released the same) as security for the full and punctual payment and performance of all of the liabilities and obligations of the Borrower to the Bank and such deposits and other sums may be applied or set off against such liabilities and obligations of the Borrower to the Bank at any time, whether or not such are then due, whether or not demand has been made and whether or not other collateral is then available to the Bank.

2.2 Release of the Bank. The Borrower hereby confirms that as of the date hereof it has no claim, set-off, counterclaim, defense, or other cause of action against the Bank including, but not limited to, a defense of usury, any claim or cause of action at common law, inequity, statutory or otherwise, in contract or in tort, for fraud, malfeasance, misrepresentation, financial loss, usury, deceptive trade practice, or any other loss, damage or liability of any kind, including, without limitation, any claim to exemplary or punitive damages arising out of any transaction between the Borrower and the Bank. To the extent that any such set-off, counterclaim, defense, or other cause of action may exist or might hereafter arise based on facts known or unknown that exist as of this date, such set-off, counterclaim, defense and other cause of action is hereby expressly and knowingly waived and released by the Borrower. The Borrower acknowledges that this release is part of the consideration to the Bank for the financial and other accommodations granted by the Bank in this Agreement.

2.3 Costs and Expenses. The Borrower shall pay to the Bank on demand any and all costs and expenses (including, without limitation, reasonable attorneys' fees and disbursements, court costs, litigation and other expenses) incurred or paid by the Bank in establishing, maintaining, protecting or enforcing any of the Bank's rights or any of the obligations owing by the Borrower to the Bank, including, without limitation, any and all such costs and expenses incurred or paid by the Bank in defending the Bank's security interest in, title or right to, the Collateral or in collecting or attempting to collect or enforcing or attempting to enforce payment of the Loan.

2.4 Indemnification. The Borrower shall indemnify, defend and hold the Bank and its directors, officers, employees, agents and attorneys (each an "Indemnitee") harmless against any claim brought or threatened against any Indemnitee by the Borrower or any guarantor or endorser of the obligations of the Borrower to the Bank, or any other person (as well as from attorneys' fees and expenses in connection therewith) on account of the Bank's relationship with the Borrower, or any guarantor or endorser of the obligations of the Borrower to the Bank (each of which may be defended, compromised, settled or pursued by the Bank with counsel of the Bank's election, but at the expense of the Borrower), except for any claim arising out of the gross negligence or willful misconduct of the Bank. The within indemnification shall survive payment of the obligations of the Borrower to the Bank, and/or any termination, release or discharge executed by the Bank in favor of the Borrower.

2.5 Severability. If any provision of this Agreement or portion of such provision or the application thereof to any person or circumstance shall to any extent be held invalid or unenforceable, the remainder of this Agreement (or the remainder of such provision) and the application thereof to other persons or circumstances shall not be affected thereby.

2.6 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be an original, but all of which shall constitute but one agreement.

2.7 Complete Agreement. This Agreement and the other Loan Documents constitute the entire agreement and understanding between and among the parties hereto relating to the subject matter hereof, and supersedes all prior proposals, negotiations, agreements and understandings among the parties hereto with respect to such subject matter.

2.8 Binding Effect of Agreement. This Agreement shall be binding upon and inure to the benefit of the respective heirs, executors, administrators, legal representatives, successors and assigns of the parties hereto, and shall remain in full force and effect (and the Bank shall be entitled to rely thereon) until released in writing by the Bank. The Bank may transfer and assign this Agreement and deliver the Collateral to the assignee, who shall thereupon have all of the rights of the Bank; and the Bank shall then be relieved and discharged of any responsibility or liability with respect to this Agreement and the Collateral. Except as expressly provided herein or in the other Loan Documents, nothing, expressed or implied, is intended to confer upon any party, other than the parties hereto, any rights, remedies, obligations or liabilities under or by reason of this Agreement or the other Loan Documents.

2.9 Further Assurances. The Borrower will from time to time execute and deliver to the Bank such documents, and take or cause to be taken, all such other further action, as the Bank may request in order to effect and confirm or vest more securely in the Bank all rights contemplated by this Agreement (including, without limitation, to correct clerical errors) or to vest more fully in or assure to the Bank the security interest in the Collateral or to comply with applicable statute or law and to facilitate the collection of the Collateral (including, without limitation, the execution of stock transfer orders and stock powers, endorsement of promissory notes and instruments and notifications to obligors on the Collateral). To the extent permitted by applicable law, the Borrower authorizes the Bank to file financing statements, continuation statements or amendments without the Borrower's signature appearing thereon, and any such financing statements, continuation statements or amendments may be signed by the Bank on behalf of the Borrower, if necessary, and may be filed at any time in any jurisdiction. The Bank may at any time and from time to time file financing statements, continuation statements and amendments thereto which contain any information required by the Virginia Uniform Commercial Code, Titles 8.1-8.10 Code of Virginia as amended from time to time (the "Code") for the sufficiency or filing office acceptance of any financing statement, continuation statement or amendment, including whether the Borrower is an organization, the type of organization and any organization identification number issued to the Borrower. The Borrower agrees to furnish any such information to the Bank promptly upon request. In addition, the Borrower shall at any time and from time to time take such steps as the Bank may reasonably request for the Bank (i) to obtain an acknowledgment, in form and substance satisfactory to the Bank, of any bailee having possession of any of the Collateral that the bailee holds such Collateral for the Bank, (ii) to obtain "control" (as defined in the Code) of any Collateral comprised of deposit accounts, electronic chattel paper, letter of credit rights or investment property, with any agreements establishing control to be in form and substance satisfactory to Bank, and (iii) otherwise to insure the continued perfection and priority of the Bank's security interest in any of the Collateral and the preservation of its rights therein. The Borrower hereby constitutes the Bank its attorney-in-fact to execute, if necessary, and file all filings required or so requested for the foregoing purposes, all acts of such attorney being hereby ratified and confirmed; and such power, being coupled with an interest, shall be irrevocable until this Agreement terminates in accordance with its terms, all obligations of the Borrower to the Bank are irrevocably paid in full and the Collateral is released.

2.10 Amendments and Waivers. This Agreement may be amended and the Borrower may take any action herein prohibited, or omit to perform any act herein required to be performed by it, if the Borrower shall obtain the Bank's prior written consent to each such amendment, action or omission to act. No delay or omission on the part of the Bank in exercising any right hereunder shall operate as a waiver of such right or any other right and waiver on any one or more occasions shall not be construed as a bar to or waiver of any right or remedy of the Bank on any future occasion.

2.11 Terms of Agreement. This Agreement shall continue in force and effect so long as any obligation of the Borrower to Bank shall be outstanding and is supplementary to each and every other agreement between the Borrower and Bank and shall not be so construed as to limit or otherwise derogate from any of the rights or remedies of Bank or any of the liabilities, obligations or undertakings of the Borrower under any such agreement, nor shall any contemporaneous or subsequent agreement between the Borrower and the Bank be construed to limit or otherwise derogate from any of the rights or remedies of Bank or any of the liabilities, obligations or undertakings of the Borrower hereunder, unless such other agreement specifically refers to this Agreement and expressly so provides.

2.12 Notices. Any notices under or pursuant to this Agreement shall be deemed duly received and effective if delivered in hand to any officer or agent of the Borrower or Bank, or if mailed by registered or certified mail, return receipt requested, addressed to the Borrower or Bank at the address set forth in this Agreement or as any party may from time to time designate by written notice to the other party; notwithstanding the foregoing notices to the Bank with respect to accounting and collateral release and notices to the Trustee pursuant to a Deed of Trust shall be sent to the Bank as follows: Attention: VP Loan Servicing, Loan Services, 6000 Atrium Way, Mt. Laurel NJ 08054.

2.13 Virginia Law. This Agreement shall be governed by the laws of the Commonwealth of Virginia without giving effect to the conflicts of laws principles thereof.

2.14 Reproductions. This Agreement and all documents which have been or may be hereinafter furnished by Borrower to the Bank may be reproduced by the Bank by any photographic, photostatic, microfilm, xerographic or similar process, and any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made in the regular course of business).

2.15 Venue. Borrower irrevocably submits to the nonexclusive jurisdiction of any Federal or state court sitting in Virginia, over any suit, action or proceeding arising out of or relating to this Agreement. Borrower irrevocably waives to the fullest extent it may effectively do so under applicable law, any objection it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court and any claim that the same has been brought in an inconvenient forum. Borrower irrevocably appoints the Secretary of State of the Commonwealth of Virginia as its authorized agent to accept and acknowledge on its behalf any and all process which may be served in any such suit, action or proceeding, consents to such process being served (i) by mailing a copy thereof by registered or certified mail, postage prepaid, return receipt requested, to Borrower's address shown above or as notified to the Bank and (ii) by serving the same upon such agent, and agrees that such service shall in every respect be deemed effective service upon Borrower.

2.16 **JURY WAIVER. BORROWER AND BANK EACH HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY, AND AFTER AN OPPORTUNITY TO CONSULT WITH LEGAL COUNSEL, WAIVE (A) ANY AND ALL RIGHTS TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING IN CONNECTION WITH THIS AGREEMENT, THE OBLIGATIONS, ALL MATTERS CONTEMPLATED HEREBY AND DOCUMENTS EXECUTED IN CONNECTION HEREWITH AND (B) AGREE NOT TO SEEK TO CONSOLIDATE ANY SUCH ACTION WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CAN NOT BE, OR HAS NOT BEEN WAIVED. THE BORROWER CERTIFIES THAT NEITHER THE BANK NOR ANY OF ITS REPRESENTATIVES, AGENTS OR COUNSEL HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT THE BANK WOULD NOT IN THE EVENT OF ANY SUCH PROCEEDING SEEK TO ENFORCE THIS WAIVER OF RIGHT TO TRIAL BY JURY.**

Executed under seal on this day May 25, 2016.

Borrower:

Information Analysis Incorporated

By: _____
Sandor Rosenberg, Chief Executive Officer

Accepted: TD Bank, N.A.

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 11, 2016

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 11, 2016

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, 2016, 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 11, 2016

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, 2016, 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 11, 2016

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.
